

CENTRAL BANK OF KENYA



Keynote Address

BY

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**STANDARD CHARTERED/INTERNATIONAL FINANCE CORPORATION
SME TRAINING PROGRAMME**

CROWNE PLAZA, NAIROBI
Tuesday, October 19, 2010

Mr. Richard Etemesi, Chief Executive Officer, Standard Chartered Bank Kenya Limited;

Mr. Jean Phillippe Prosper, Director, Eastern and Southern Africa, International Finance Corporation; represented by Aida Kimemia, the IFC Eastern and Southern Africa Acting Country Director;

Facilitators;

Distinguished Guests;

Ladies and Gentlemen:

I am greatly honoured to be accorded this opportunity to give a brief keynote address at this important SME training and mentorship programme. Let me start by applauding the Standard Chartered Bank for responding to the United Nations Business Call to Action to engage the private sector in using their core business skills to help advance the Millennium Development Goals. I am informed that this programme was piloted in Pakistan in 2009 and I am delighted that it is being hosted in Kenya today.

The partnership between the International Finance Corporation (IFC) and Standard Chartered Bank to develop the capacity of small and medium sized enterprises (SMEs) is worth commending. As we all appreciate, the potential of SMEs to substantially contribute towards the desired economic growth is immense. Through training and mentorship programmes such as this, SMEs are empowered to unleash their potential. The SME issue is now one of finance and banks should take the lead.

SME Financing has indeed been recognized globally as a critical component of financial sector development. This is in view of the critical role that SMEs can play in wealth and employment creation particularly in developing countries. As you may be aware, the G20 has set up the Financial Inclusion Experts Group to explore the twin themes of innovative access to finance for the poor and the SMEs. The Group is expected to make recommendations on scaling up successful models of SME Financing. These recommendations are expected to be tabled and adopted at the upcoming G20 Seoul Summit next month as part of the Financial Inclusion agenda.

Ladies and Gentlemen: The Vision 2030 envisages the strengthening of SMEs to become the key industries of tomorrow by improving their productivity and innovation. But what constraints do the SMEs face?

- 1) Majority are unbanked
- 2) They are sensitive to costs of finance
- 3) Their faces are not seen – most do not have a corporate identity
- 4) Low investment levels and hence low returns

So we must make them banked and acquire a corporate identity through training and financial inclusion. To this end the Minister for Finance through the Finance Bill for the Fiscal Year 2010/11 reiterated the role of SMEs in promoting Kenya's sustainable development. The Minister established a revolving fund of Ksh.3.8 billion through which the Government will enter into a Credit Facility Agreement with banks to support SMEs. Through this partnership, the Government expects banks to match Ksh.5 at the minimum for every Ksh.1 invested by the Government to expand the Fund five-fold to Ksh.15 billion at the minimum. In this regard, I commend the several banks that have already established departments dedicated to SMEs and launched niche products targeted at SMEs because they will push this agenda forward.

Ladies and Gentlemen: Allow me now to briefly share with you the initiatives, policy and regulatory reforms the Government, the CBK and other players are pursuing, geared towards addressing the challenges experienced by the promoters of SMEs that is, making them banked and to enjoy financial services fully.

- First, the licensing and regulation of Deposit Taking Micro Finance Institutions by the CBK has increased the avenues for financial services and funding to SMEs since these institutions target the lower segments of the market which most promoters of SMEs occupy.
- Second, the CBK has also initiated new banking models such as agent banking which brings banking services closer to the consumers. This solves the physical distances and costs associated with them. So far a total of

5,892 agents have been approved and the number is growing. This model not only lowers the cost of doing business for banks but it also enhances service delivery to SMEs in distant areas.

- Third, the introduction of credit information sharing enables SMEs to build information capital which they can use as collateral for bank facilities. Lack of physical collateral and information asymmetry has constrained SMEs and individuals in accessing credit from banks.
- Finally, we remain open to suggestions and options that can work better for the market.

Ladies and Gentlemen: As I conclude, it is worth reminding the SMEs the potential benefits to be reaped from the larger EAC market. With the operationalisation of the Common Market Protocol in July 2010, it is an opportune moment for SMEs to exploit the business opportunities presented by the free movement of resources. Similarly, I encourage SMEs to take advantage of the investment avenues created by Kenya's New Constitution. The confidence to create strong institutions to develop and protect the market will increase the level of economic activity.

I take this opportunity to assure you that the CBK, as an agent of the Government, and through our partnership with the players in the banking sector, will continue to discharge our mandate towards a safe, efficient, sound and inclusive financial system. To the commercial banks, your success hinges on your ability, flexibility and capacity to satisfy your customers' needs. The challenge of SMEs is one of finance, you can solve this, but SMEs must be financially included. When they are financially included, they will be mentored and receive financial services and more credit through the market mechanism that works and expand/grow their business.

With these few remarks, I now take this opportunity to wish all the participants a fruitful training and mentorship programme and look forward to the increased contribution of SMEs towards making Kenya a middle income country as envisaged in Vision 2030.

Thank You for your attention