CENTRAL BANK OF KENYA

Remarks by

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at the

AFRICAN MICROFINANCE PRICING TRANSPARENCY LEADERSHIP FORUM

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Mr. Ives Terracol, Regional Director, Agence Française de Développment;
Mr. Chuck Waterfield, Chief Executive Officer, MicroFinance Transparency;
Distinguished Guests;
Ladies and Gentlemen:

It gives me great pleasure to be with you this morning during this important African Microfinance Pricing Transparency Leadership Forum. Before I make my opening remarks, let me take this opportunity to thank the organizers of this conference, MicroFinance Transparency, for inviting me to share some thoughts on this pertinent topic. I would also like to extend a warm welcome to all the participants who have travelled from other countries to Kenya and to say '*Karibu Sana*'. I hope you will take some time to enjoy our beautiful country with its rich culture and diverse tourist attractions.

Ladies and Gentlemen, financial inclusion has been recognized now in development debates and action across the globe. This is more so in developing and emerging economies, which record the highest poverty levels and constitute majority of the world's unbanked population. The drive to enhance financial inclusion is thus critical given that increasing evidence shows that it is key in reducing the economic vulnerability of households, promoting economic growth, alleviating poverty and sustainably improving the quality of peoples' lives.

The push for financial inclusion is entrenched in Government of Kenya's Development Blueprint, Vision 2030 and lies at the core of the Central Bank of Kenya's strategic actions towards implementing this Vision. It is in this regard that the Central Bank, together with market players, has embraced several initiatives and reforms aimed at enhancing the level of financial inclusion. These include licensing of deposit taking microfinance institutions (DTMs) and credit reference bureaus (CRBs); introduction of shariah compliant banking products, mobile phone money transfer services and the agency banking model. These measures and new institutions help in completing the financial infrastructure picture in Kenya that reflects its market structures as well.

Ladies and Gentlemen, in effect, we have seen a significant decline of barriers to entry into the financial sector, increased infrastructure distribution and innovative instruments targeting the lower segments of the population. These have resulted in tremendous increases in the levels, reach and depth of access to financial services. To highlight a few, bank accounts have grown from 2.5 million to over 14 million in just over 5 years, while mobile money transfer services have led to over 15 million Kenyans being integrated into the financial system. The regulated microfinance industry has also grown tremendously with the licensing of six Deposit Taking Microfinance institutions with 57 branches, 1.5 million deposit accounts valued at Ksh.9 billion and 0.53 million loan accounts with an outstanding loan portfolio of Ksh.15 billion.

Despite these remarkable developments in the Kenyan financial sector, we are cognisant of the fact that there still remains great need within the Kenyan market for appropriate and more affordable financial services. Given that this situation is not unique to Kenya, but applies to most, if not all, African nations represented in this Forum, it is imperative that improving access to financial services remains key in our development agenda. We need to solve costs, barriers to entry, physical distance and market concentration problems.

Ladies and Gentlemen, as we undertake to enhance access to financial services as regulators and policy makers, we must ensure that financial services are provided a competitive market environment. Let us learn from developments in the microfinance sectors in parts of Bosnia and India, that recently experienced crises. The challenges in these countries were instigated by issues such as multiple lending and client over-indebtedness, aggressive competition, erosion of credit quality standards, a lack of transparency in pricing, a weak credit information sharing framework and inadequate regulation. Beyond these challenges, currently the broader issue of transparent and responsible pricing is becoming a concern for the global microfinance industry. Price is an incentive.

Transparent and responsible pricing is essential for stimulating growth, efficiency and effectiveness of the financial sector. It is indeed a key ingredient for incentivising innovation, enhancing informed decision-making by consumers and fostering the development of healthy, vibrant and competitive markets. Transparency in pricing is critical because consumers have the right to know the exact price of products in the market. Conversely, non-transparent (or opaque) pricing, prevents consumers from making informed decisions about borrowing. This ultimately reduces the ability of financial institutions to compete effectively, free market forces to operate properly and the financial sector to develop efficiently and sustainably.

Policies to entrench relevant consumer protection measures, including transparency and truth-in-lending regulations combined with the promotion of competition and efficiency among credit providers, can go a long way toward expanding the reach of sustainable finance, particularly credit, while safeguarding consumer interests. We, as policymakers and regulators, therefore, have to take up the responsibility of stimulating competition in financial institutions and promoting innovation aimed at improving efficiency and lowering prices. We must, however, also endeavour to put in place consumer protection measures to ensure our consumers are not exploited. Financial institutions, on the other hand, should seek to maintain transparency regarding interest rates charged on the borrowers. Further they should adopt new technology to increase productivity and efficiency in their operations to reduce these rates.

It is imperative that concerted efforts be put into educating financial clients. When clients are financially informed they are empowered to demand safe, cost-efficient and quality financial services at fair prices. This makes it necessary for service providers to competitively innovate products suitable for their customers' needs and pockets.

Ladies and Gentlemen: the push to enhance consumer protection is also entrenched in Kenya's Vision 2030 strategy which aims at improving transparency and increasing competition in the financial sector to benefit customers and the overall economy. The Kenyan constitution also has specific provisions on consumer rights. In this regard, the Central Bank has initiated a number of reforms and initiatives including the amendment of the Banking Act and Prudential Guidelines, publication of information on charges and lending rates and the conducting of a series of studies and surveys to foster competition in the banking sector and develop a disclosure regime for consumer interest rates. To complement these efforts, the Bank also actively participates in financial education campaigns to aid consumers in making better and informed financial decisions. In particular, the Bank is a pivotal member of a public private partnership whose aim is to champion the development of a national strategy for Financial Education and Consumer Protection in Kenya.

Effective consumer protection and financial literacy, especially with regards to price disclosure, are key in ensuring that lenders behave responsibly and ethically; and consumers, especially the poor, gain the capacity to use this information to make informed decisions about financial services in order to enhance their economic wellbeing. **Ladies and Gentlemen,** the practice of price transparency ultimately contributes to the health and vibrancy of our financial markets, and enhances the extension of access to, and use of, appropriate financial products and services.

As I conclude, **Ladies and Gentlemen,** I express my confidence that this workshop will present an invaluable platform for African leaders in the microfinance industry and financial sector to share their experiences on pricing transparency in the various jurisdictions represented here. It will also present us with an opportunity to acquaint ourselves with the global best practices on the same. We should remember that PRICE is an incentive and can be a disincentive – it has to be appropriate. With these few remarks, I now declare this workshop officially open and take this opportunity to wish you fruitful deliberations.

Thank you