CENTRAL BANK OF KENYA

Remarks by

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at the opening of the

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Program Director, Toronto Centre for Leadership in Financial Supervision, Mr. Chris Cardoza;
Representatives, Consultative Group to Assist the Poor;
Workshop facilitators present;
Ladies and Gentlemen;

I am delighted to be here today to make brief opening remarks at this Microfinance Supervisors' Training Program for the East African Community. But before I make my remarks, I would like to thank the co-organisers of this workshop, Central Bank Staff, Toronto Centre for Leadership in Financial Supervision and the Consultative Group to Assist the Poor (CGAP), for providing a platform to strengthen the skills of regulators and supervisors in this region. I would also like to thank the Financial and Legal Sector Technical Assistance Program (FLSTAP) which has given us financial support towards this Training. Last but not least, I extend a warm welcome to all participants. For those who have never travelled to this part of the East Africa region and for those who have, I hope you will take some time to enjoy Kenya's diverse cultural and tourist attractions- '*Karibuni Sana.*'.

This regional training program has been designed with the aim of strengthening the skills and capacity of supervisory personnel responsible for the regulation and supervision of microfinance in the East African region. In addition, it will accord the participants a forum to discuss and share experiences on fundamental issues cutting across the microfinance sector. It is indeed a laudable initiative that will complement the East African Central Banks' efforts towards upgrading the skills of the region's supervisors. The expected outcomes of this training are quite critical given that EAC member countries are working on the harmonization of the microfinance regulatory and supervisory framework towards further regional integration.

Ladies and Gentlemen, it is a fact that financial inclusion has become a critical factor in the development agenda for the EAC member countries, as is the case in most developing nation's across the globe. Studies over the last few years have shown that the average exclusion rate in the EAC (excluding Burundi which has not carried out any financial access survey) is 50.7%, indicating that slightly over half the East African populace is excluded from accessing financial services. In this regard, we all have to embrace financial inclusion.

Financial inclusion is an essential reality for developing strong financial institutions, fighting poverty sustainably and financing development outcomes. The push towards enhancing financial inclusion is therefore quite critical. Evidence shows that financial inclusion is key in reducing the economic vulnerability of households, promoting economic growth, alleviating poverty and improving the quality of peoples' lives. CGAP has defined it as a *"state in which all people who can are able to have access to a full suite of quality financial* *services, provided at affordable prices, in a convenient manner, and with dignity for the clients".* These financial services are delivered by a range of providers, most of them private and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.

Ladies and Gentlemen, we as financial sector regulators, share common aspirations of making our financial sectors more stable, efficient and accessible. In this regard, while we are charged with the mandates of pursuing policies for inclusive finance, we must continue to encourage strong and efficient financial institutions as a safeguard to ensure continued stability of the financial system. In cognizance of this, the Central Bank of Kenya, jointly with other players, has undertaken several initiatives and reforms aimed at boosting overall inclusion. These include: licensing of deposit taking microfinance institutions (DTMs) and credit reference bureaus (CRBs); and the introduction of shariah compliant banking, mobile phone money transfer services and the agency banking model. I am happy that the DTMs have demanded to be part of information sharing to support the build up of information capital.

These initiatives and reforms have led to the significant decline of barriers to entry into the financial sector, increased financial infrastructure and its distribution and innovative instruments targeting the lower segments of the population. Owing to the above, there have been notable improvements in the levels, reach and depth of access to financial services especially among the lower population segments. Not only have deposit accounts grown tremendously from 2.5 million to over 14 million in just over 5 years, but over 15 million Kenyans have been integrated into the financial system due to the use of mobile money transfer services.

To single out microfinance, the regulated microfinance industry in Kenya has grown tremendously with the licensing of six licensed DTMs with 55 branches, boasting of 1.52 million deposit accounts valued at KSh. 9.9 billion (USD 99 million) and 0.52 loan accounts with an outstanding loan portfolio of KSh. 15.7 billion (USD 157 million) as at the end of September 2011.

Ladies and Gentlemen, while this growth is commendable getting to this point was not without challenges. Prior to the operationalisation of the Microfinance Act, 2006 and Regulations in 2008, the microfinance industry in Kenya was highly segmented. During this time, microfinance business was carried out under nine different Acts of Parliament. Due to this, the industry faced a number of challenges; the major ones being the lack of a specific legal and regulatory framework and appropriate regulatory oversight for microfinance business in Kenya. This had a bearing on a number of other constraints faced by the industry including weak corporate governance and internal controls, unhealthy competition, multi-lending, low scale and outreach, unfavourable image and public confidence and the lack of industry performance standards and accountability. The Act and Regulations therefore came at a critical time to reduce these constraints, while harnessing emerging innovations and stimulating the development of the sector.

Ladies and Gentlemen; the benefits of an adequate regulatory environment are well appreciated and prudential regulation for microfinance institutions has successfully been introduced in all member countries of the EAC. The regulation of the microfinance industry in Kenya, as is the case in the EAC member countries, is expected to promote innovation, growth and development of the industry, set prudential standards, create an enabling environment and act as a road map and catalyst towards achieving the desired objectives of increased outreach and sustainability of MFIs.

To further ensure an effective regulatory framework for the microfinance sector is in place, emphasis should be given towards the implementation of better regulation as opposed to more regulation. Better regulation is characterised by a regulatory framework with ability to:

- readily identify weaknesses and emerging vulnerabilities;
- analyse risks;
- provide appropriate incentives to induce prudent behaviour in the market place; and

- encourage innovations and strong institutions to develop.

The efficiency through which these roles are performed depends very much on the sector and the regulatory technology in place. This clearly spells out the need for regulators to broaden their mandate and play a key role as partners, agents, promoters and advisers to the market to enhance financial sector development and financial inclusion.

Ladies and Gentlemen, Let us seek to be the best supervisors we can be and continually improve the regulatory environment in order to enhance safe innovative solutions to expand financial inclusion through appropriate policies, regulation and supervision. Through this we expect that our growing microfinance industries will develop into integral parts of our financial systems and will play a pivotal role in deepening financial markets by expanding access of affordable financial services and products to majority of our populaces.

As I conclude, I wish to encourage you all to actively participate during this important training workshop. Your input and suggestions will enable us to grow the EAC supervisory skills and capacity to enviable heights and put us at the frontier of microfinance and financial inclusion best practice. With these few remarks, Ladies and Gentlemen, I now declare this workshop officially open and take this opportunity to wish you fruitful deliberations.

Thank you!