# CENTRAL BANK OF KENYA

Remarks by

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At the

## ANNUAL INTERNATIONAL COOPERATIVE SUMMIT 2014

***"Transformative Development: Harnessing the Cooperative Entrepreneurship in Realizing a Sustainable Economy"***

*Sarova Whitesands Hotel, Mombasa*
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**Mr. Carilus Ademba, Chief Executive Officer, SACCO Societies Regulatory Authority (SASRA);**

**Mr. David Muturi, Chief Executive Officer, Kenya Institute of Management;**

**Mr. Terry MacDonald, Managing Director of the Global Cooperative Group Inc., Mexico/Canada**

**Distinguished Participants;**

**Ladies and Gentlemen:**

It is my pleasure and honour to join you for this important Summit to discuss the role of co-operative societies in both promoting and enabling opportunities for a sustainable economy. Before I make my remarks, let me take this opportunity to thank the organisers of the Summit, Kenya Institute of Management (KIM), for inviting me to contribute to this forum. I would also like to extend a warm welcome to all the participants who have travelled from other countries to our coastal city, Mombasa, and to say '*karibu sana*'. I hope your stay will be fruitful and enjoyable.

Being the inaugural Summit, I would like to commend KIM for this initiative and to encourage you to continue to host such important forums. This Summit will provide an excellent platform to share our experience and learn from global lessons to capitalize on opportunities and curb the challenges encountered not only within the cooperative movement but also in our diverse economic activities. I am aware that you will specifically discuss the critical Role of Financial Cooperatives within the economy, including in the promotion of youth employment, entrepreneurship and income generation within the informal sector, as well as in enhancing social and economic development. I also note that you will discuss corporate governance that is critical to the growth and ability of the cooperative sector to meet the needs of its members, customers, the government and the communities it serves and operates in.

**Ladies and gentlemen:** Financial Cooperatives in Kenya are playing a key role in financial intermediation. I am happy to note that Savings and Credit Cooperative Societies (SACCOs) in Kenya have sustained their strong upward growth over the years. Consequently, the total assets of SACCOs stood at Ksh.335.4 billion (7% of the revised nominal GDP) in December 2013. However, these assets accounted for only 8.2 percent of the total assets of the financial sector. It is important to note that the financial sector has continued to support growth. Specifically, the financial and insurance services sector accounted for 9.2 percent of real GDP growth in 2013.

Why do we emphasize financial sector growth? Because it has direct and indirect channels for inclusive growth. Studies {including Beck et al. (2004) and Honan (2004)} have provided empirical evidence showing that financial development reduces income inequality and absolute poverty levels in developing countries. So growth will be checked if income inequality and pockets of poverty persist. Financial cooperatives in Kenya are therefore playing a key role to support an inclusive growth that reduces inequality and poverty.

**Ladies and Gentlemen:** It is estimated that there are more than 1 billion people in the world afflicted by poverty, and over 218 million people who live in extreme poverty. Most of them are from developing countries, mainly in sub-Saharan Africa. Poverty in Africa is predominantly a rural phenomenon, although the urban poor are a rapidly growing segment of the poor in our countries. In particular, the Eastern and Southern African region has one of the world's highest concentrations of low income and rural poor populations. Closer home, almost half of the Kenyan population (46%) are below the poverty line. Real growth must surpass population growth for effective poverty reduction and supported by targeted interventions.

**Ladies and Gentlemen:** One avenue that has promise in the fight against poverty is the enhancement of financial inclusion and financial sector development that is, market access. It is a fact that the majority of the peoples of Africa are still unbanked and lack access to financial services. In Sub-Saharan Africa, for instance, only 24% of the adult population was reported to have an account at a formal financial institution (World Bank, 2011). It is also a fact that the enhancement of financial inclusion is critical for the sustainable reduction of poverty. Increasing evidence shows that financial inclusion is very important in reducing the economic vulnerability of households via savings for consumption smoothing, promoting economic growth, alleviating poverty and improving the quality of peoples' lives through capital accumulation via savings-investment cycles supported by affordable credit.

Specifically, access to financial services by the low income and poor populaces provides security for their savings and widens economic opportunities through savings-investment cycles. A number of countries have, therefore, made significant strides in enhancing financial inclusion, including Kenya, whose population accessing formal financial services has increased over the years; it stood at 66.7% in 2013 compared to 41.3% in 2009. Similarly, the proportion of the population totally excluded from financial services has declined from 31.4% in 2009 to 25.4% in 2013.

**Ladies and Gentlemen:** These indicators are in line with Kenya's financial sector strategy towards the accomplishment of Vision 2030. The Vision envisages an all inclusive financial system that provides access for the majority of the population as the central goal of the development of our financial system. The strategy is therefore hinged on a three-fold objective of ensuring that the financial system is accessible, yet also stable and efficient. When we talk about efficiency, we also include cost of the financial services. This means that while we pursue policies and innovative solutions for inclusive finance, we continue to encourage strong and efficient financial institutions as a safeguard to ensure continued stability of the financial system. To achieve this, for instance, the Central Bank of Kenya (CBK) has undertaken several initiatives and reforms aimed at boosting overall financial inclusion and financial stability. These include the:

- expansion and diversification of banking and payments infrastructure including bank branches, microfinance banks, shariah compliant banks, credit reference bureaus (CRBs), mobile-phone financial services and agency banking platforms;
- promotion of financial education and consumer protection;
- implementation of a framework to promote transparency in the pricing of credit and mortgages by banks through the Kenya Banks Reference Rate (KBRR); and,
- enhancement of anti-money laundering regimes and deposit protection facilities.

These initiatives and reforms have led to notable improvements in the levels, reach and depth of access to financial services especially among the low income and rural population as well as micro, small and medium enterprises (MSMEs).

**Ladies and Gentlemen:** The strengthening and development of SACCOs, has also been flagged as being pivotal in savings mobilization and wealth creation. In Kenya, the SACCO sub-sector plays an important role in the financial sector, providing a wide range of financial services to Kenyans, including low income households and MSMEs. Given the size of the SACCO sub-sector, and its contributions to financial inclusion and economic growth, the SACCO Societies Regulatory Authority (SASRA) has a key role of providing the requisite oversight over deposit taking SACCOs to ensure the stability, accessibility and efficiency of the sub-sector.

Prior to the establishment of SASRA, SACCOs particularly those with Front Office Operations, were not comprehensively regulated. However, the Cooperative Societies Amendment Act of 2004 sought to introduce some degree of government oversight. The SACCO Societies Act was then enacted in 2008 and operationalised to prudentially regulate and supervise deposit-taking SACCOs. SASRA, which was also established as a result, in 2009, has since executed its mandate as the regulator of SACCOs diligently and with admirable commitment.

**Ladies and Gentlemen:** I am certain that we can attest to the fact that regulation is of great benefit to the SACCOs sub-sector. The benefits of an adequate regulatory environment are well appreciated across the financial system. Not only does regulation and supervision ensure the safety and soundness of institutions, but it also promotes innovation, growth and development of an industry. It also creates an enabling environment and acts as a road map and catalyst towards increased outreach and sustainability. In particular, it increases investor confidence, competitiveness, corporate governance and integrity in leadership as well as safety of member deposits. But I must emphasize in saying this that our goal is not more regulation but better and more targeted regulation to develop the market. In addition, regulation in the financial sector is to manage entry into the market and orderly exit and above all, the regulator is an agent of market development.

Because of our confidence in regulation and supervision, the CBK has supported and will continue to support SASRA and the SACCO sub-sector in its growth and development. To name a few areas of support:

i) CBK played a pivotal role in the technical development of the SACCO Societies Act, 2008. Further, CBK seconded a staff member to the Ministry of Co-operatives in 2009 for 6 months to assist in the development of the SACCO Societies (Deposit Taking SACCO Business), Regulations, 2010 to implement the Act.

ii) CBK has a formal working partnership with SASRA to engage in continuous technical consultations to guide the licensing, regulation and supervision of deposit taking SACCO Societies.

As a result of this, SASRA officers have been attached to the Bank to learn from CBK's licensing and surveillance (off and on-site) of deposit taking microfinance institutions. This learning has informed SASRA's licensing and surveillance of SACCOs.

iii) CBK is a member of the SASRA Board to provide guidance and oversight over the operations of the Authority.

**Ladies and Gentlemen**; although SACCOs are widespread in terms of presence and penetration, the use of SACCOs has decreased since 2006, from 13.5% in 2009 to 9.1% in 2013. From the 2013 FinAccess Survey, the key factors leading to this decline have been established as loss of money and unexplained/unexpected charges levied on customers of SACCOs.

It is critical for SASRA and the key players in the industry to establish the reasons for the decline and mitigate them. This would include perhaps embracing more innovative delivery channels, consumer protection and financial education to enhance access, quality and usage of financial services. More importantly, there is need to better understand customer needs, behaviour and dynamics so as to offer suitable products. The SACCO sector should invest more in consumer research to facilitate the development of customer-centric products. Initiatives such as the recently launched Kenya Financial Diaries are a useful input in this regard. The diaries which tracked the financial lives of over 300 households across Kenya offer useful insights into the financial needs particularly of low income households. But these diaries challenge the financial sector institutions and regulators to develop products that target the poor – it is a market waiting to be discovered.

Finally, **Ladies and Gentlemen,** as the cooperative industry develops, we will continue to witness growth and diversification in infrastructure, client outreach and products. We have already began to witness a number of SACCOs seeking to convert or acquire banking licences. Others have expressed interest in investing in the equity of commercial banks and microfinance banks. Furthermore, several banks have created working partnerships with particular SACCOs to provide members with bank-related advantages. These developments are welcome, however, they should be carefully considered in terms of differentiation, cost and benefits and impact on the vision and mission of the SACCOs, the SACCO sub sector and the Cooperative Movement.

It is worth noting that no single type of institution presents an optimal solution to reaching all market segments with all types of financial services. Therefore the existence of a varied array of financial service providers reaching different niche markets using different financial solutions is inevitable. The development of credit unions in United States of America and Europe is an attestation to the fact that SACCOs have the potential to grow their reach.

With those remarks, **Ladies and Gentlemen**, I wish you all fruitful deliberations.

**Thank you**