CENTRAL BANK OF KENYA

Remarks by

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at the

CONVENING ON LONG-TERM SUSTAINABLE FINANCE IN KENYA

Norfolk Hotel, Nairobi
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Dr. Achim Steiner, Executive Director, UNEP;
Mr. Manuel Moses, Regional Head, IFC Africa;
CEOs and Senior Executives of financial institutions in Kenya;
Distinguished Guests;
Ladies and Gentlemen:

I am pleased to join Dr. Steiner in welcoming you to this important forum on long-term sustainable finance in Kenya. Let me at the outset appreciate my co-hosts, Dr. Steiner, Mr. Manuel Moses and their teams at UNEP and IFC for arranging this meeting.

Ladies and Gentlemen: No business can pride itself as being successful if it does not consider the environmental and social impact of its activities. Sustainability has therefore assumed increasing importance in modern-day business. Businesses prosper as the society and the environment they operate in sustains their activities. Similarly, as countries strive to attain and sustain economic growth, real per capita growth and development, they have to embrace effective sustainable finance policies. The environment for financial sustainability is thus crucial for sustainable development.

Ladies and Gentlemen: Allow me to briefly highlight some of the actions that CBK has taken in recent years to promote sustainable finance in Kenya.

First, stability of domestic prices creates an environment of certainty. The market formulates long term solutions based on this certainty. When there is uncertainty, the market develops a waiting option and slows down economic activity. A waiting option is not sustainable.

Ladies and Gentlemen: Second, we can only talk about financial sustainability when the financial markets are accessible. Financial inclusion will lead to financial development and open discussions about policies for financial sustainability.

Several initiatives in Kenya for financial inclusion include:

- introduction of mobile phone financial services,
- introduction of the Agency Banking Model and Currency Centres to lower the cost of doing business for banks,
- licensing of microfinance banks, which target lower-income segments, and expanding institutional branch network countrywide,
- allowing banks to introduce Shariah compliant (or participatory) banking products, and
- the Credit Information Sharing mechanism to build Information Capital to solve information asymmetry problems in the financial sector. But also a mechanism that can develop templates for ratings either for individuals or projects – where sustainability can be an indicator.

The evidence so far indicates that these reforms and initiatives have had an appreciable impact in expanding financial access. The level of Kenyans accessing formal financial services has increased from 26% in 2006 to 67% in 2013. Conversely the proportion of the adult population totally excluded from financial services has declined progressively from 38.4% in 2006 to 32.7% in 2009 and 25.4% in 2013, according to the National Financial Access (*FinAccess*) Surveys. Further, according to Geospatial Surveys conducted in 2013, Kenya was ranked ahead of peer countries, Tanzania, Uganda and Nigeria. Most fundamentally, 76.7% of Kenyans live within 5 kilometres of a financial services touch point compared to 47.3%, 42.7% and 35.1% for Nigeria, Uganda and Tanzania respectively.

Ladies and Gentlemen: Third, the CBK mandate of financial stability where the overarching goal is to promote existence of strong banks. Without strong banks, we cannot talk about long term and sustainable finance. In this regard, CBK has adopted a flexible risk management framework for the banking sector, which can accommodate, among other areas, the management of environmental and societal concerns. CBK has also embraced the Financial Stability Board's Principles for Effective Compensation by requiring banks to link staff compensation to the long term outcomes of risks taken today. The design of compensation for banks is important to deter short term taking of risks that are not supportive of the institutions long term sustainability. Short term risk taking that was compensated with hefty bonuses and pay packages was one of the main contributors to the global financial crisis whose epicentre was in Europe and USA.

As Kenya and other East African Community (EAC) member states progress towards a monetary union, the Partner States Central Banks have adopted a common approach in strengthening their banking sector legal and regulatory frameworks. In this regard, CBK and the other EAC Central Banks have adopted the international best practices such as the Basel Capital Accords and financial stability standards as promulgated by the global standard setting bodies (Basel Committee on Banking Supervision and Financial Stability Board).

Ladies and Gentlemen: Fourth, since 2009, the Kenya Government through the CBK as its fiscal agent has issued 7 long-term infrastructure bonds. Proceeds have been used to fund sustainable infrastructural solutions including clean and renewable energy plants, like the geo-thermal power generation. The deployment of these funds towards eco-friendly projects serves as a benchmark for private sector institutions in their project appraisal and implementation decisions. The success registered in the issuance of government infrastructure bonds has acted as a benchmark for corporates to emulate. For instance, the Kenya Energy Generation Company Ltd (KenGen) has followed the Government's path to issue a long-term infrastructure bond to support its renewable energy generation projects.

Ladies and Gentlemen: Finally, for sustainability to be realized, the financial sector will require a longer time horizon in its investment decisions, through more effective partnerships with project promoters, value addition and greater efficiency in project operation. There are many unexploited business opportunities that financial institutions can tap into and advance sustainable finance. This is mainly through product development for financing of solar energy, low cost housing, organic farming, recycling and waste management.

With the Government having put in place a Public Private Partnership framework, financial institutions should seize the opportunity by participating in public private partnership projects by investing in "green bonds" for financing infrastructure development such as geothermal and wind energy. However, it should be appreciated that financial institutions still require support in terms of product development, structuring and risk management. That is why the coming together of UNEP and IFC to encourage sustainable finance in Kenya is a move worthy of praise.

Ladies and Gentlemen: As I conclude, let me emphasize that sustainable development is quite important in this region. The sustainable development agenda therefore constitutes both a challenge and an opportunity for the financial sector. I urge you all, as players in the sector, to take up this challenge by joining hands with the Government and other players to realize the agenda. The Central Bank will keenly listen to the proceedings today to identify specific policy options, regulatory barriers and other opportunities it can use to promote and enhance sustainable finance in Kenya.

With these remarks, **Ladies and Gentlemen**, I look forward to fruitful deliberations.

Thank You.