The Integrity of our Financial System: What is at Stake?

By Dr. Patrick Njoroge

Kenya is at a crossroads. Geographically, it sits almost perfectly between East and West, North and South, which makes for a natural trade and financial hub. Kenya also has some of the most sophisticated financial infrastructure in Africa. Our laws and regulations, and the quality of our people and their constant innovation, make us one of the most attractive destinations for investment. However, these advantages also make Kenya a prime target for criminals, money launderers and terrorists. They seek to take advantage of our attributes, using them to execute their reprehensible deeds.

The tragic terrorist incident on January 15, in which 21 innocent lives were ended, is a stark reminder of what can happen if we let down our guard even briefly. In undertaking grand corruption, the perpetrators seek to circumvent the existing laws and structures in order to move vast amounts of money through our financial system, to enable their malevolent intent. This too has devastating effects.

At this stage, therefore, we should be seeking to tighten the implementation of these laws. We need to be strengthening the structures to make Kenya unattractive to people with criminal aspirations. Kenya is a member of regional bodies affiliated to the Financial Action Task Force (FATF), which is an intergovernmental body established three decades ago. It sets global standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Within this framework, Kenya passed the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) in 2009, and operationalised it in 2010. This is one of the core pillars of our anti-money laundering and countering the financing of terrorism (AML/CFT) framework. The AML/CFT framework also has other elements, including the Prevention of Terrorism Act and Regulations (2013). Acting within its mandate, the Central Bank of Kenya updates its guidelines and regulations to banks. Thus, for example, CBK reminded banks to confirm several details from customers transacting more than KSh 1 million in cash. Most countries have similar requirements in place, and a similar threshold of USD 10,000.

As I said recently in Parliament, more than 99 percent of bank accounts in Kenya hold less than KSh 1 million, so the vast majority of customers do not even encounter this requirement. Even for those who do – in the course of buying and selling land or property, or a motor vehicle – most find the requirement easy to fulfil. The documentation actually provides an extra layer of protection, which customers have said they value. Most find the requirement easy to fulfil. CBK has also been working with banks to innovate and further simplify these processes.

What would happen were Kenya to do away with these requirements? As we said, these and related requirements are aligned to the global AML/CFT framework. As a core member of the global financial system, Kenya would be announcing to the world that we are not interested in countering corruption, terrorism financing, or money laundering and other such crimes. Worse, we would be announcing to the world that we are a haven for criminal networks.

Predictably, the rest of the world would disengage with Kenya and avoid dealing with our financial system. Even simple transactions we take for granted, such as sending and receiving money from abroad, using a credit card or making international payments, would be near-impossible. It would be almost impossible to pay for medical care outside Kenya, or school and university fees. Trade and financial flows would be greatly hampered. For the wider Kenyan economy, the consequences would be even more severe. With the injection of corruption gains and other illicit funds, the economy would simply suffer a seizure. The effect would dwarf that of the Goldenberg scandal, with its record inflation and triple-digit decline in the value of the Kenya shilling.

What then, must we do? We must not relent in the effort to safeguard our financial system from potential and actual attacks. Any legislative, legal or policy effort we make must be to strengthen, and not inadvertently weaken, the system we have worked so hard to build, and which has served Kenyans so well. The alternatives are far too ghastly to contemplate.

Dr. Njoroge is the Governor of the Central Bank of Kenya