Njuguna Ndung'u: The Kenyan money market and other key developments in the financial sector

Foreword message by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, for the Kenya National Chamber of Commerce, Mombasa Branch Chronicle, "Business Financing Edition", June 2007 issue.

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I am honoured and privileged for the opportunity to share the Central Bank's thoughts on the Kenyan money market specifically and other key developments in the financial sector generally. It is important to underscore at the onset, the mandate of the CBK which is principally to foster, price, monetary and financial stability, supervision of efficient and effective payment, clearing and settlement systems. Currently the ambit of the Central Bank supervision extends to commercial banks, mortgage finance companies and non bank financial institutions licensed under the Banking Act. Deposit Taking Microfinance Institutions are also expected to come under the purview of the CBK once the Microfinance Act, 2006 is operationalized by the Minister of Finance.

Money markets play a key role in providing a channel for savings which can be mobilised to fund productive ventures in the economy. It is generally agreed that there are positive linkages between mobilisation of savings, channelling them to productive investments and poverty reduction. This is important especially when poverty is caused by lack of access to credit and productive investment.

The Banking Sector currently offers an array of products that can be considered as channels of deposits and savings. They range from savings accounts to fixed deposit accounts. They offer a return by way of periodic interest on amounts saved or on maturity for fixed deposits. There has however been public outcry on the returns received on these products which are considered meagre in comparison to the rates charged on loans and also the charges on these products. From an analytical point of view, most of these products have negative returns in real terms. The CBK in a bid enhance the competitiveness of these products, embarked on publication of charges in the print media in 2003. This initiative was expected to reduce the charges on the products thus increasing their "net return" The publications which had been suspended in 2005 are being reviewed to sharpen their effectiveness in promoting market discipline. It is also noteworthy that the Banking Act was recently amended to restrict charges on savings accounts.

In its role as fiscal agent of the government, the CBK also raises funds for the government through Treasury Bills and Bonds. These instruments offer a secure investment vehicle with the Bills being of a short term maturity of up to six months. Bonds are offered over longer tenors of up to 15 years. These instruments can be discounted at the Central Bank and bonds are tradeable on the Nairobi Stock Exchange.

It is also useful to highlight other critical investment products that fall under the purview of the Capital Markets Authority (CMA). Of particular interest are equity securities and unit trusts. The Nairobi Stock Exchange (NSE) offers equity (shares) and fixed income (debt) securities. There are over 50 companies in diverse sectors that are currently listed on the NSE. The shares of these companies provide an investment opportunity based on one's risk preferences and investment horizon. Recent Initial Public Offers (IPO) such as the Kengen one have elicited substantial interest among Kenyan investors. This trend is expected to continue with forthcoming IPO's in line with the Government's ongoing privatization programme. On the fixed income segment, the NSE offers bonds, commercial paper and notes that tend to target institutional investors.

I regard Unit Trusts as a form of "collective investment scheme" that provide an opportunity for small investors to access the capital markets. They involve the pooling of funds from various investors by market players licensed by the CMA. The pooled funds are invested in diverse investment vehicles primarily shares based on among other factors, the investors risk appetite and liquidity preference. The returns are then proportionately shared among the investors. Unit Trusts particularly offer small investors the benefits of professional investment management, economies of scale and portfolio risk diversification.

Turning to recent significant developments in the financial sector, I will focus on Micro-Finance and Credit Reference Bureaus. Microfinance involves the provision of diversified financial services and products to the un-banked and underserved segments of the population by different financial service providers, mainly to the low-income households and micro enterprises. Microfinance plays a vital role in poverty alleviation in empowering the underserved and un-banked economically active and underprivileged social constituencies in contributing more effectively to wealth creation and economic development.

The recently enacted Microfinance Act, 2006 provides a legal, regulatory and supervisory framework for deposit-taking microfinance business aimed at creating an enabling environment that will promote performance and sustainability of deposit-taking microfinance institutions, while at the same time protecting depositors' interests.

One of the key hindrances to access to financial services and products by the vast majority of the Kenyan populace engaged in the informal/small and medium enterprise sectors has been the lack of a "credit track history". Further, this information asymmetry problem has also been a contributory factor to the high levels of non-performing loans in the Kenyan Banking Sector. It is in this regard that the CBK teamed up with the Kenya Bankers Association and other players to develop a credit information sharing mechanism. The mechanism will entail the licensing and oversight of Credit Reference Bureaus by the CBK. The Bureaus will act as depositories of credit information to be used by banks in their lending decisions. Regulations for the Bureaus are expected to be gazetted by the Minister of Finance in the second half of 2007. One of the challenges facing us now is the presence of Pyramid Schemes that are not only fraudulent but also not known until one falls victim. Information asymmetry makes such a business thrive. Information provided by these bureaus will be long-term and sustainable solution and promote undeterred development in the financial sector.

In closing, let me extend my thanks once again to the Mombasa Branch of the Kenya National Chamber of Commerce and Industry for this opportunity. I wish the branch well in its endeavours to achieve its mandate of acting as a forum for business people to share their experiences and forge solutions that will create a conducive business environment. To the readers, may you have an enjoyable and fruitful read and direct innovative ideas to us in CBK.