

## **Njuguna Ndung'u: Microfinance development in Kenya**

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the Small and Micro Enterprises Programme Deposit Taking Microfinance Limited (SMEP DTM Ltd), Nairobi, 5 April 2011.

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**Mr. Gabriel Kivuti, Chairman, SMEP DTM Ltd;  
Board of Directors, Management and Staff of SMEP DTM Ltd;  
Representatives from National Council of Churches of Kenya here present;  
Distinguished Guests;  
Ladies and Gentlemen:**

It gives me great pleasure to be here today to witness the launch of the Small and Micro Enterprises Programme Deposit Taking Microfinance Limited (SMEP DTM Ltd). I join you in celebrating this milestone that SMEP DTM Ltd has achieved by being the fourth deposit taking microfinance institution to be licensed by the Central Bank of Kenya under the Microfinance Act. It is important to note that the Central Bank has to date licensed five deposit taking microfinance institutions; approved 26 business names; and is processing six applications for licence which are at various stages of review. The launch today provides us with an opportune moment to review the progress made since the operationalisation of the Microfinance Act in 2008. More specifically, today's launch is a great achievement for SMEP DTM Ltd and provides an opportunity for the institution to provide to its clientele more diverse financial products, including savings.

**Ladies and Gentlemen:** The SMEP DTM's commitment to offering financial services to the unbanked populace dates back to 1975 when it started as a small project of the National Council of Churches of Kenya (NCCCK) under the name Small Scale Business Enterprise (SSBE). The project was aimed at providing the poor in a number of slum areas with food and later small business grants. The project was then modified, developed and evolved into a microcredit company that was registered as a company limited by guarantee in 1999. Today, the institution boasts of 87,500 clients and an outstanding loan balance of approximately Ksh.1.1 billion. The transformation into a deposit-taking microfinance institution will enable SMEP DTM offer savings products to its clients in addition to the loan products as well as enlarge its resource base due to the build up of deposits base. This will undoubtedly position SMEP DTM Ltd to enhance financial outreach towards becoming a major player in the microfinance sub-sector in the years ahead.

The microfinance sub-sector has achieved rapid growth. The sector has opened a branch network of 44 branches which had mobilised 0.8 million deposit accounts valued at Ksh.8.59 billion and advanced loans amounting to Ksh.16.6 billion as at 28th February 2011. The licensing of SMEP DTM is therefore another milestone towards the development of an all inclusive financial system in Kenya as envisaged by Kenya's economic blue print Vision 2030.

**Ladies and Gentlemen:** Over the past few years, the Central Bank of Kenya in addition to licensing and regulating Deposit Taking Microfinance Institutions has embraced policy reforms to build an adequate financial infrastructure to support the development and deepening of the financial sector. Innovative models such as agent banking and credit information sharing aimed at scaling up financial inclusion are some recent examples. These initiatives are guided by CBK's resolve as a regulator to advise, form partnerships, develop and regulate the market with an aim of enhancing access and reducing the cost of doing business in financial services.

I am happy to note that according to the FinAccess Report of 2009, access to financial services improved with access to MFIs service doubling from 1.7% in 2006 to 3.4% in 2009,

the picture has changed drastically by now. These improvements, however small, are an indication that financial sector transformations and reforms being undertaken based on the three pillars of stability, efficiency and access are translating into increased financial inclusion and consequently spreading financial services to the poor. Financial inclusion actors globally, like CBK, believe that poverty can be reduced sustainably and consistently with access to finance. Access to finance allows the poor to develop a savings base and enlarge their asset base that supports them to ride over shocks and escape poverty.

**Ladies and Gentlemen:** The licensing of SMEP DTM progresses the financial inclusion initiatives. The Central Bank is focused on addressing entry barriers for unbanked and under-banked Kenyans to access financial services. It is our belief that we will scale up financial inclusion through reducing barriers to entry and lowering transaction costs through these initiatives. In turn, these initiatives continue to support a rolling out of financial services and products as well as increasing the delivery channels. It is expected that Microfinance Institutions will address any entry barriers by focusing on areas that have not been well served by mainstream financial institutions by offering demand-driven, affordable and convenient products.

**Ladies and Gentlemen:** I am happy to assure the microfinance industry that the Central Bank will continue to initiate key reforms and structural changes that are necessary in the sector's legal, regulatory and supervisory frameworks. As you are aware, key among these legislative changes was the specific amendment to the Microfinance Act in January 2011 that introduced agency definition. The amendment anchored agency business in the law and, the Central Bank is in the process of designing guidelines to facilitate the contracting of agents to provide financial services on behalf of deposit taking microfinance institutions. The move will undoubtedly allow microfinance institutions to leverage on additional cost effective distribution channels to offer financial services. This initiative is informed by the need to leapfrog access to financial services to Kenya's bankable who remain totally outside the orbit of these services at affordable cost.

**Ladies and Gentlemen:** Another remarkable initiative in the pipeline is in the area of credit information sharing (CIS) for Microfinance Institutions. As you are aware, the CIS mechanism is already in place for commercial banks. The Central Bank is currently working on modalities of incorporating the Deposit Taking Microfinance Institutions into the CIS mechanism. Indeed, it is the Government's intention to create a framework whereby all financial institutions such as banks, Deposit-Taking Microfinance Institutions, SACCO's and other licensed credit providers will have access to and exchange credit information across the board. It is hoped that the merging of credit information from these various players will provide for a stronger credit market that will improve the pool of credible borrowers, decrease defaults, reduce credit costs and ultimately result in a stable financial sector.

Before I conclude, **Ladies and Gentlemen**, I would like to once again congratulate SMEP DTM for its achievement as a Deposit Taking Microfinance Institution. On its part, the Central Bank would like to assure SMEP and the industry and all the stakeholders of its continued support in the development of the Microfinance Industry and look forward to working collaboratively with the market to increase access to financial services in the country. The Central Bank is out to create strong financial institutions. Indeed, the New Constitution has provided us the wonderful space to create strong institutions. Strong institutions both from the regulator and the regulated will support the market, define appropriate incentives (and for a regulator, define appropriate penalties as well) to encourage prudent behavior in the market. That is the way we can develop and deepen the financial market.

With those few remarks, **Ladies and Gentlemen**, it is now my pleasure to declare SMEP DTM Limited officially launched.

Thank you.