Njuguna Ndung'u: Sustainable finance initiatives across the Kenyan financial sector

Remarks by Professor Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Technical Experts Convening on Long-Term Sustainable Finance in Kenya, Nairobi, 11 February 2015.

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Dr. Achim Steiner, Executive Director, UNEP;

Mr. Manuel Moses, Regional Head, IFC Africa;

Distinguished Participants;

Ladies and Gentlemen:

It is my pleasure to welcome you to this convening together with my co-host, Dr Achim Steiner. My thanks go to Dr. Steiner and Mr. Manuel Moses for putting together this forum. Our meeting today follows yesterday's convening with Chief Executive Officers and leaders of regulatory agencies from the financial sector.

Ladies and Gentlemen: I was impressed at the level of enthusiasm and ownership of sustainable finance by the CEOs at yesterday's convening. We should also be proud of the already budding sustainable finance initiatives across the Kenyan financial sector ranging from banking, insurance, capital markets, retirement benefits and asset management. These initiatives will be shared with you in the course of today. My key takeaway from yesterday's convening is that there is high level support at CEO level for sustainable finance in the institutions represented here today.

Ladies and Gentlemen: Wearing my dual hats as a central banker and regulator, let me underscore that sustainability lies at the heart of our decision making. As a central bank, we take the view that we need to go beyond our traditional mandate of price and financial stability. In emerging economies such as Kenya, it is imperative that Central Banks also act as market development agents. In this role, Central Banks support development of financial infrastructure, strong institutions and a conducive policy environment. It is this underlying philosophy that has guided us in execution of our mandates that I will now turn to.

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. 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.

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.

Ladies and Gentlemen: It is not in doubt that there is a case for sustainable finance in Kenya. Kenya has ambitious plans to transition to a green economy. This comes with tremendous financing opportunities for both domestic and foreign financiers. For instance, the substantial financing required in scaling up Kenya's renewable energy output requires imaginative solutions. The banking sector alone cannot meet these needs and other emerging opportunities as Kenya goes green. We must therefore seek solutions that straddle the banking, insurance, pension funds and capital markets spheres.

As we design a roadmap this morning, we should take cognisance of the enormous opportunities that sustainable finance offers. Working in silos as is the case currently will not scale up sustainable finance. We should therefore come up with a holistic roadmap that incorporates the financial sector players, regulators, development partners and the Government. Let us also formulate clear deliverables, performance indicators and a roadmap that will facilitate Kenya's aspiration of being a green economy.

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

Thank you.