

Jacinta Mwatela: Regulation of microfinance in Kenya

Speech by Mrs Jacinta Mwatela, Deputy Governor of the Central Bank of Kenya, at the Stakeholders Forum on the Deposit-Taking Microfinance Regulations issued under the Microfinance Act, Kenya School of Monetary Studies, Nairobi, 12 May 2008.

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The Chairperson, the Association of Microfinance Institutions (AMFI);
The Chief Executive Officer, AMFI;
Microfinance Practitioners;
Development Partners;
Distinguished Guests and Participants;
Ladies and Gentlemen;

It gives me great pleasure to be with you this morning during this important stakeholders' forum on the Deposit-Taking Microfinance Regulations, 2008 issued under the Microfinance Act, 2006 (Act No. 19 of 2006). These Regulations set the stage for the implementation of the Microfinance Act and are expected to usher in a new dawn in the development of the microfinance industry in Kenya as an integral part of the financial system.

Let me also take this opportunity to thank the Association of Microfinance Institutions (AMFI), all industry players and stakeholders for their collaboration, input and patience. I am aware that the delay in the completion of the drafting of the regulations and the appointment of the commencement date of the Microfinance Act has caused concern in the industry. The work on the regulations has been a considerable one and the challenges mammoth. However, good things, they say, come to those who wait. I therefore congratulate AMFI and the entire microfinance fraternity for keeping the faith and staying the course and urge them to continue to be patient as the appointment of the commencement date and regulations are with the Attorney General's Chambers for gazette. This will be out shortly.

Ladies and Gentlemen; as you are aware the legal, regulatory and supervisory regime, spelt out under the Act and Regulations, will allow regulated deposit-taking microfinance institutions to offer a variety of financial services and products including savings mobilization, credit facilities and domestic money transfer, among others to Kenyans. I expect that many microfinance institutions and potential investors will take the opportunity to establish deposit-taking business in order to enhance access to financial services and products by Kenyans. According to the *Finaccess* study conducted in 2006, about 38 per cent of adult Kenyans are un-served by our financial system indicating a huge market potential for the microfinance industry. The study shows that only 19 per cent of Kenyans are served by formal financial sector, namely commercial banks and the Kenya Post Office Savings Bank, while 8 per cent are served by semi-formal financial service providers such as microfinance institutions (MFIs) and Savings and Credit Co-operatives societies (SACCOs) and the remaining 35 per cent are served by informal financial service providers ranging from Accumulating and Rotating Savings and Credit Associations (ASCAs and ROSCAs) to shopkeepers and money lenders. This indicates a big gap in access to financial services by Kenyans that I expect deposit-taking microfinance institutions (MFIs) to play a major role in filling it by expanding access. Given this scenario the microfinance deposit taking institutions will be playing a major role in narrowing the service gap.

Ladies and Gentlemen, the former UN Secretary-General, Kofi Annan stated that *"Sustainable access to microfinance helps alleviate poverty by generating income and wealth, creating jobs, allowing children to go to school, enabling families to obtain health care and empowering people to make the choices that best serve their needs. ...The great challenge before us is to address the constraints that exclude people from full participation in the financial sector."*

I couldn't agree more and this is the challenge before us. A financial system that serves only a minority of a country's people is biased and unacceptable. All inclusive financial system that provides access for the majority is the central goal of the development of our financial system as envisaged by Vision 2030. The government, as envisaged in Vision 2030, will strengthen alternative financial service providers including MFIs and SACCOs, among others, to play a major role in savings mobilization and wealth creation, thus contributing to poverty reduction and economic growth.

Ladies and Gentlemen, we expect that when the Act and Regulations are fully implemented, it will bring, in the not too distant future, a new breed of microfinance institutions, the deposit-taking MFIs, which will enable these institutions to mobilise savings from the general public. Thus, the Act and Regulations will set in a new era in the growth and development of the microfinance industry by integrating the industry to the formal financial sector, thereby promoting competition, efficiency and access. Through this, we expect the microfinance industry to play a pivotal role in deepening financial markets by expanding access of affordable, appropriate and innovative financial services and products to majority of Kenyans. These include cellular phone banking, alternative, low cost outlets e.g. agencies, and mobile banking, among others.

Ladies and Gentlemen, once the Act is fully implemented, it will promote an orderly growth and development of a sound and stable microfinance industry. The regime will also embrace microfinance industry corporate governance, accountability and transparency, performance standards and benchmarking, deposit protection, efficiency and effectiveness, among others.

As you are aware that the policy underpinning the regime is based on a three tiered approach to regulation and supervision of the microfinance industry, with the deposit-taking MFIs and non-deposit taking MFIs falling under the Act. Informal microfinance institutions will remain unregulated. The deposit-taking MFIs are categorized into two: the community MFIs and the nationwide MFIs with a minimum capital requirement of KSh.20 and KSh.60 million, respectively. The nationwide MFIs will operate countrywide, while the community MFIs will operate with one Government Administrative District or Division if operating in a City.

Ladies and Gentlemen, let me also urge the industry to move fast and develop a self-regulatory mechanism in addition to the current regime provided under the Act and Regulations to provide for a self-regulating mechanism including a code of conduct, oversight, disciplinary and dispute resolution mechanism, and minimum reporting and performance standards. This should cover all practicing microfinance practitioners – ranging from deposit-taking MFIs, non-deposit taking MFIs and informal microfinance entities.

You will note that in the recent past, the Central Bank of Kenya made press statements in the print media warning the public on the illegal operations of pyramid schemes in Kenya. The building of an all inclusive financial system including the strengthening of alternative financial service providers and public education and awareness campaign is expected to stem off the mushrooming of pyramid schemes and similar schemes. The Central Bank of Kenya will continue to educate the public and will publish licensed deposit-taking MFIs in the Kenya Gazette and once in a year print media with national circulation. Anyone taking deposit from the public without a license from the Central Bank will be committing an offence under the Banking Act and Microfinance Act except those exempted under the respective legislations. I, therefore, strongly advise the general public not to risk losing money by depositing or placing the same in unregulated institutions like the pyramid schemes.

Ladies and Gentlemen, let me highlight some key silent regulatory and supervisory requirements for deposit-taking MFIs which include licensing requirements; corporate governance; performance and accounting standards; accountability and transparency; deposit protection; dissolution mechanisms and supervision by the Central Bank. The legislation further specifies limits on lending to ensure that MFIs retain their core business of extending services to the poor, low-income households and SMEs as their core market segments and minimize dealings with insiders.

Ladies and Gentlemen, I expect institutions to use innovative delivery channels and methodologies and reduce entry barriers resulting in increased efficiency and competition, hence reduction in costs and increased access in the near future. The ability to create new innovations and harness their potential will directly impact our market share and prosperity. Through new ideas, best practices, innovative delivery channels and approaches, we can stimulate new thinking and, critically, new action. Unleashing home-grown capital can create a pool of resources for local entrepreneurs to set up small business and diversify their economic base. Microfinance, a new pillar of development, is yet another instrument to unleash the ideas and energies of local entrepreneurs with a potential to grow, to forge linkages with other businesses that will drive national savings and investments.

Ladies and Gentlemen, the Central Bank, on its part, will continue to ensure macroeconomic stability and to provide an enabling regulatory environment for the financial sector growth and development. The supervisory and regulatory capacity of the Central Bank of Kenya is strong and is continually being enhanced to cope with market dynamics and new skills and knowledge. We continue to be grateful to the development partners who have collaborated with us in building adequate skills and capacity in the field of microfinance. We shall also continue to work closely with the Government ministries and microfinance practitioners in the development of the industry.

Ladies and Gentlemen, we all would like to thank the Attorney General's Chambers and the Treasury who have tirelessly worked hand in hand with the Central Bank team in the preparation of the Regulations and look forward to a speedy gazettelement of the same to effect the Act into operation.

Before I conclude, Ladies and Gentlemen, let me once again take this opportunity to assure the AMFI, microfinance industry players and key stakeholders of the Central Bank's continued commitment, collaboration and partnership in the development of the industry.

Finally, it is my pleasure to now declare the Forum on the Deposit-taking Microfinance Regulations 2008 officially opened and wish you fruitful deliberations.

Thank you.