

Njuguna Ndung'u: The role of banking and finance in regional integration

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Banking and Finance Conference, Nairobi, 18 August 2008.

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Chief Executives of Commercial Banks here present;
John Wanyela, Executive Director, Kenya Bankers Association;
Representatives of the East African Business Council and East African Development Bank;
Conference Facilitators;
Distinguished Guests;
Ladies and Gentlemen:

I am delighted to be here this morning and let me hasten to thank the organisers of the conference for the invite. I am informed that the overarching theme of the conference is mainstreaming banking and finance issues in the integration process of the East African Community. This is indeed a subject that is near and dear, not just to the Central Bank of Kenya, but also to our counterparts in the region. I was therefore pleased to be advised that similar forums have already been held in Uganda, Rwanda and Tanzania. I am further informed that a regional forum that will bring together all the East African key banking and finance players is scheduled for Arusha in the course of next month.

The role of banking and finance in regional integration cannot be overemphasised. At the most basic level, banks facilitate trade and flow of funds and investments across the region. However, with the global trends towards regional integration, banks will increasingly play a pivotal role in providing capital that will make this vision come true. I have in mind the move towards private-public partnerships in the financing and implementation of key regional infrastructure projects. We would like to see our banks playing an increased role in such initiatives. Commercial banks must therefore facilitate long term financing projects.

It would be apt at this juncture to commend the Kenyan banking sector that is well represented here today for expanding its footprint across the East African region. Regional banking is a relatively "virgin" service that should be encouraged. Your institutions will, however, require to be well capitalised to take advantage of emerging regional opportunities. In this regard, raising capitalization in the commercial banks will facilitate flexibility and innovations in their market niche.

I would also like to commend Kenyan banks and the Kenya Bankers Association for their efforts in the recent Safaricom IPO. All the banks came out of it unscathed and this self discipline and focus is commendable. Of course, the Central Bank had to walk the path with them.

Allow me to now turn to the experiences of the regional central banks in the East African Community (EAC) integration agenda. As you may be aware, the EAC has mandated the Monetary Affairs Committee (MAC) with the key objective of implementing a monetary union which is a precursor to the full integration of the East African Community. MAC is comprised of the Governors of the five East African central banks. Technical sub-committees of MAC focus on the thematic areas of macroeconomic issues of convergence, bank supervision, payments systems, financial markets, information technology and capacity building. These areas are indeed the building blocks of the envisaged monetary union.

Of particular interest to the banking sector is the harmonisation of regulation and supervision. This is of key importance to the increasingly regional Kenyan banking sector in view of the costs associated with compliance to varying regulatory regimes. Therefore, the harmonization of banking supervision and regulation continues to be at the top of the MAC radar screen.

What has been our score card in this area? Overall, MAC has served as a useful forum to share experiences on topical bank supervision and regulation issues and forge a common way forward. Indeed harmony has been achieved in key regulatory issues such as operational independence of central banks, publication/disclosure of financial statements by commercial banks and business continuity management.

We continue to share supervisory policies and procedures through joint arrangements. The East African central banks are at the moment in active discussions on a draft regional Memorandum of Understanding (MOU). The MOU, which we target to finalise by the end of the year, will enhance information sharing amongst the partner central banks. As you will appreciate, this initiative will facilitate the consolidated supervision of our regional banks. There are however challenges, some of which are legislative in nature as well as the microstructure of our financial system.

Going forward, MAC will continue, relentlessly, to work towards harmonizing the East African banking supervision and regulation regimes. We are acutely aware that a harmonized regulatory regime will reduce compliance cost and spur regional expansion of banks. It is not an easy road, but one that we must tread. Our vision will be ultimately achieved when the partner central banks can issue "East African Banking Licences" valid in all the partner states.

Ladies and Gentlemen: It is my expectation that over the course of this morning, you shall as market players:

- Clearly identify ways in which the banking sector can facilitate regional integration.
- Brainstorm on regulatory and other barriers to regional integration from a banking and finance perspective.
- Make clear, time bound and practical recommendations on how the barriers identified can be overcome.

We look forward to receiving the report of your proceedings this morning and remain open to further consultations on this topical agenda.

It is now my pleasant duty and honour to declare the Banking and Finance Conference officially open. I wish you fruitful deliberations in this Conference.