Njuguna Ndung'u: Reflections on inclusive business in Africa

Keynote speech by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the G20 Inclusive Business Workshop in Africa, Nairobi, 30 October 2013.

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Representatives of the German and Saudi Arabian Governments who are the Co-Facilitators;

The G20 Challenge Partners;

Distinguished Guests;

Ladies and Gentlemen:

It is my honour and pleasure to join you this morning at this very important Workshop where we reflect on Inclusive Business in Africa. Before making my remarks, let me express my gratitude to the G20 Challenge Partners, the Conveners of this workshop, for the invitation and choice of Nairobi as the venue for the Workshop. May I also take this early opportunity to welcome our distinguished guests from all over the world to this beautiful land of Kenya, which enjoys a diversity of stunning and captivating landscape, wildlife and culture? I kindly urge you to take part of your time during your stay to enjoy this diversity and to always come back to enjoy it.

Ladies and Gentlemen: The timing of this workshop could not have come at a better time for our continent. Africa is composed of developing economies with untapped wealth, a youthful population and low volume of trade with itself due to infrastructure gaps. The binding constraints that the infrastructure gaps have created has not turned around the rich potential that exists in Africa. But most of its economies are developing into a class of frontier and emerging economies.

The G20 Challenge on Inclusive Business Innovation is a global entity that promotes employment through innovative, scalable and commercially viable ways of working with low-income people in developing countries. This development should be appreciated in this region.

Ladies and Gentlemen: Building inclusive businesses holds the key to unlocking Africa's potential. This will integrate the poor into the businesses value chains in various capacities whether as producers, distributors, suppliers or employees. When the challenges of scaling and replicating the businesses are overcome, profitable and sustainable ways of engaging with the low-income segments of the population create sustainable livelihoods and contribute to sustainable poverty reduction. Inclusive business models, as is said, aim to "do well by doing good" through creation of more stable jobs that provide sustainable income flows, build technical skills and local capacity at the bottom of the pyramid. If we achieve this we will not only have created inclusive businesses, but also inclusive growth and shared prosperity. This is the dream for Africa on shared growth that will support endogenous growth and strong institutions.

Ladies and Gentlemen: Kenya's Vision 2030 development plan and the new Constitution aim to promote shared growth for the youthful population. The Government recognizes that her youthful population is a resource and has therefore been implementing various targeted interventions to harness this resource. These initiatives include:

- ***Basic primary education – free and mandatory:*** To boost school enrollment and literacy levels and continue to lay proper ground for skills and local capacity development for inclusive businesses.

- ***Targeted interventions:*** Funds like the Women Enterprise Fund and Youth Enterprise Fund to enable the youth and women engage in profitable business ventures.
- ***Policy on Procurement:*** The Government has reserved 30% of public procurement for small enterprises owned by the youth, women and the disadvantaged to include them as suppliers of businesses.
- Development and promotion of ***financial inclusion and use of mobile phones and Agency banking*** has created a market and reduced costs of doing business. This has created a favourable environment and enhanced access in the financial sector as well as creating opportunities for the youth who are more versatile with technology.

Ladies and gentlemen: Let me share with you some of the initiatives we have undertaken to tap the potential of the bottom pyramid by developing a market and creating market access:

- ***Innovative delivery channels for financial products*** beyond traditional brick and mortar models, e.g. mobile-phone financial services (MFS). The number of mobile phone money agents has increased from 307 when M-Pesa was launched in March 2007 to a network of small business units of more than 50,000. These businesses have become more inclusive and created thousands of stable formal sector jobs that pay regular incomes to Kenyans.
- ***Agency Banking Model***, which has turned non-bank outlets into financial service providers, using technology to enable third parties to offer limited financial services. It is a low-cost delivery channel that reduces both the fixed costs of setting up and maintaining bank branches and the high variable costs of small transactions and enables financial institutions to reach the unbanked and underserved segments of the population. Since its inception in 2010, nearly 20,000 agents have been appointed. Not only has financial inclusion been expanded through this model to capture the excluded, most of who are poor, but new and sustainable formal sector jobs created paying sustainable incomes making banking business more inclusive. A principal Agent Model gives the regulator less challenges and encourages growth.
- ***Credit Reference Bureaus*** have been introduced to enhance access to credit based on financial identity through building information capital, which has benefited many low-income households and enterprises that lack traditional tangible collateral. Demand for tangible assets to secure loans has for many years locked out the bottom pyramid from the more affordable credit market. Opening up this market to them enables them join the formal sector and engage in more inclusive businesses that generate better and sustainable incomes and benefit from inclusive growth.
- ***Expansion of bank branches and MFIs to reach the lower pyramid*** due to lower barriers to entry, enhanced competition and declining costs of maintaining accounts. The numbers of branches have consequently increased exponentially from 534 in 2005 to 1272 in 2012. The expansion in bank branches is not only enhancing financial inclusion, but also funding more inclusive businesses.

Ladies and gentlemen: the innovation that spurred most of these developments has ensured increased financial inclusion, which is a sure way of tapping potential in the lower pyramid into inclusive businesses through creation of stable formal sector employment opportunities that pay sustainable incomes, reduce cost of operations, enhance inclusive growth and reduce poverty sustainably. The Bank will therefore continue to work with market players and stakeholders, including the G20 Challenge Partners to enhance financial inclusion and build inclusive businesses that employ the poor.

Thank you very much for your kind attention.