Njuguna Ndung'u: Increasing the level of financial inclusion in Kenya

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the African Rural and Agricultural Credit Association (AFRACA) International Exposure Visit to Kenya, Kenya School of Monetary Studies, Nairobi, 5 May 2014.

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Mr. Saleh Usman Gashua, the Secretary General, AFRACA;

Mr. Isaac Awuondo, Group CEO, Commercial Bank of Africa;

Distinguished Participants;

Ladies and Gentlemen:

It is my honour to extend a warm welcome to all of you to Nairobi and specifically to the Kenya School of Monetary Studies (KSMS). I note with satisfaction the continued partnership that the African Rural and Agricultural Credit Association (AFRACA) and KSMS have established. As AFRACA aspires to promote quality financial services to the rural and agricultural communities in Africa, it is complemented by KSMS's vision of being a world class research based capacity building institution for the financial sector in Africa.

Ladies and Gentlemen: In an effort to confront poverty, that currently afflicts more than 1 billion people in the World, most of whom are in the developing countries, financial inclusion has been seen as one of the channels that can significantly reduce poverty sustainably. This is because access to financial services by the poor provides a safe haven for their savings and widens their economic opportunities through savings-investment cycles. However, in Africa and other developing countries in Asia and Latin America, 90% of the population do not have access to financial services. Closer home, 80% of the adult population in Sub-Saharan Africa do not have access to financial services (CGAP, 2011). In this regard, for the World and Africa in particular to catapult the efforts to reduce poverty, concerted action to increase access, uptake and use of financial services should be rolled out.

Ladies and Gentlemen: Several reasons have been put forward to account for the low level of financial inclusion in Africa. Key among these reasons are poverty, irregular income flows, high levels of financial illiteracy, high financial costs, social and cultural beliefs, and underdeveloped financial markets. Acknowledging the important role that financial inclusion plays in economic development, none of the cited barriers to financial inclusion is insurmountable. What is required is for financial service providers, the Government and its agencies as well as the consumers to jointly contribute in eliminating the barriers to financial inclusion that are within their purview.

I note with appreciation the continued role of AFRACA in promoting capacity building and knowledge exchanges among its members as one of the avenues of promoting financial inclusion in the rural and agricultural sectors in Africa.

Ladies and Gentlemen: The efforts to increase the level of financial inclusion in Africa have started to bear fruit. This is largely attributed to advancements in mobile phone technology. Rollout of Mobile Phone Financial Services (MFS) has proved a very useful tool in enhancing financial inclusion. Africa has over the last few years, experienced one of the highest mobile phone penetration rates. Mobile phone technology provides an effective and convenient communication channel. As a result, leveraging on mobile phone technology as a channel for financial services not only overcomes the distance barrier but also presents convenience as well as cost effective platforms for financial services.

Africa has continued to witness increased competition and diversity in the MFS space. More mobile phone operators are launching mobile money products whereas financial institutions are increasingly partnering and integrating with the telecommunication companies' platforms to offer financial services. The number of MFS products as well as the increasing rate of adoption has significantly lowered unit costs of financial services. A good example for the poor is operating bank accounts via mobile phones like the M-Shwari product.

Ladies and Gentlemen: Agency banking is the other initiative adopted to overcome some of the barriers to financial inclusion. Agency banking involves use of third party agents by financial service players to provide financial services. Agency banking was introduced to take financial services to the populace in areas deemed uneconomical for brick and mortar branches to be established. Agency banking complements mobile phone financial services since most of the agents use mobile phones in executing transactions for their clients.

Ladies and Gentlemen: Allow me now to share with you the outcomes of Kenya's adoption of mobile phone financial services platform and completed by agency banking. According to the FinAccess Survey, 2013, 11.5 million adult Kenyans use mobile financial services as compared to only 5.4 million who use banks. This confirms the unprecedented opportunity to enhance formal financial inclusion through mobile financial services as compared to other channels.

Following rollout of MFS in Kenya in 2007, the level of the population which is financially excluded has declined from 38% in 2006 to 33% in 2009 and now 25% in 2013. Similarly, the size of the population using informal financial services had dropped from 35% in 2006 to 27% in 2009 and now stands at 8% in 2013. More significantly, 2 in 3 Kenyans have access to formal financial services. This is an impressive trend, which if replicated across Africa will poise the continent for unprecedented growth.

As regards agency banking, which was rolled out in 2010, 14 Kenyan commercial banks and one microfinance bank have established agency networks. As at March 2014, the 14 banks had appointed 24,645 agents, who have executed over 92.61 million transactions valued at over Kshs 498.97 billion (USD 5.77 billion) since 2010.

Ladies and Gentlemen: In 2013, Geospatial Surveys to map financial access points were undertaken in Kenya, Nigeria, Uganda and Tanzania. The survey results indicate that Kenya is ahead of the other countries in terms of financial access. This is evident through the following indicators:

- 76.7% of the Kenyan population is now within 5 kilometres of a financial service touch point as compared to 47.3%, 42.7% and 35.1% in Nigeria, Uganda and Tanzania respectively.
- Kenya has 65,353 financial service touch points as compared to 21,206; 20,229 and 17,212 financial touch points in Uganda, Tanzania and Nigeria respectively.
- Kenya has 161.9 financial access touch points serving 100,000 people as compared to 63.1, 48.9 and 11.4 financial access touch points serving 100,000 people in Uganda, Tanzania and Nigeria respectively.

Kenya's leadership position in financial access is mainly attributable to the positive development in the financial sector, introduction of mobile financial services and agency banking, which have taken financial services to the door steps of most Kenyans. In addition, completing the financial infrastructure no doubt has driven its growth and dynamism.

Ladies and Gentlemen: Having appreciated the important role that financial sector development has on the economy, it is worth noting that the financial sector can live up to its expectation only when regulators assume more than a regulatory role. Regulating an underdeveloped financial market will not contribute its fair share to economic development. As a result, regulators must balance their regulatory role with a developmental role. It is with this in mind that the concept of ***smart and better regulation*** as opposed to ***more regulation*** was coined. Smart and better regulation is flexible and accommodative to innovative financial products, through which financial development is registered.

Ladies and Gentlemen: Having seen the diversity of activities in the agenda of your visit, I note that you will not only gain extensive knowledge on how Kenya has utilised both Mobile Financial Services and Agency Banking in addition to credit reference for information capital to enhance financial inclusion but you will also be able to sample, from your field visits, how Kenya is promoting rural and agricultural finance. This will be insightful as examples that can be replicated anywhere in Africa.

To conclude, ***Ladies and Gentlemen***, I would like to reassure AFRACA of CBK's continued support and commitment. It is now my pleasure and honour to officially declare the 2014 Technical Cooperation among Developing Countries Programme on Mobile and Agency Banking officially opened. I wish you all fruitful deliberations.

Thank you.