

Njuguna Ndung’u: East Africa – focus on risk, corporate governance, anti-money laundering and other challenges

Remarks by Prof Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the East Africa Risk and Governance Summit, Nairobi, 13 May 2014.

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Mr. Pawan Hegde, Managing Director – Governance Risk and Compliance, Thomson Reuters;

Mr. Paul Muthaura, Acting Chief Executive Officer; Capital Markets Authority;

Distinguished Participants;

Ladies and Gentlemen:

I am privileged to be with you this morning for this landmark summit. Let me first convey the best wishes of the Cabinet Secretary, The National Treasury, Mr. Henry Rotich who was supposed to deliver the opening keynote speech today. Due to emerging exigencies, the Cabinet Secretary, The National Treasury has asked me to represent him this morning.

Let me also thank the organisers of this conference Thompson Reuters and the Capital Markets Authority (CMA). Indeed the issues to be discussed at this conference on regional regulatory trends, corporate governance, anti-money laundering, combatting the financing of terrorism and fraud are close to the hearts of governments across the East African region. It is also very apt that the focus is East Africa. This also coincides with the Regional Review Group for Africa and Middle East of the Financial Action Task Force (FATF) doing their On-Site Visit on Kenya.

Ladies and Gentlemen: The East African Community (EAC) Heads of State in November 2013 signed the East African Monetary Union (EAMU) protocol. EAMU will work for more integration and convergence by 2014. EAMU’s success will, to a large extent, be anchored on a seamless, efficient and effective integrated financial services market. To build this market, EAC member states must elevate their supervisory and legal frameworks and embrace global supervisory and regulatory standards that converge. However, global standards must also be customised to cater for our unique East African terrain.

The East African Central Banks are this week meeting here in Nairobi under the auspices of the EAC Monetary Affairs Committee to discuss some of the key building blocks essential for integrated banking, payments and financial market systems. The Central Banks will later this week launch the East African Payments Systems (EAPS). EAPS initially connecting the Real Time Gross Settlement Systems of the EAC countries, this will facilitate cross border trade and investment across the EAC countries. This summit comes at a time when it can offer some insights to this process of integration.

Ladies and Gentlemen: Anti-Money Laundering (AML) and Combatting the Financing of Terrorism remains a challenge to us all. The heavy cash-based nature of the East African economies, civil conflicts and porous borders make the region particularly vulnerable to money laundering and financing of terrorism. However significant progress has been made across the region in strengthening AML/CFT regulatory regimes particularly with the support of the Eastern Africa Anti-Money Laundering Group (ESAAMLG). The growth of mobile phone financial services across the region will also significantly reduce the risk of AML/CFT with the tractability of mobile phone financial transactions and reduction of usage of informal financial services. Let us all agree that it is the informality of financial markets that will allow bad regimes of AML/CFT to thrive – we need then to formalize markets.

Kenya and Tanzania have been incorporated in the Financial Action Task Force (FATF) public list of countries with deficiencies in their AML/CFT legal and regulatory frameworks.

Uganda has recently been added to this list. Significant progress has been made in both Kenya and Tanzania in enacting and implementing the requisite AML/CFT regimes. Nairobi is also this week hosting the FATF Regional Review Group Meeting for Middle East and Africa that will review progress made in Kenya and Tanzania in addressing AML/CFT deficiencies. I am sure that we will continue to strengthen our AML/CFT regimes across the region given the strong political commitment and support from government, the private sector and the general public. I expect that this summit will also generate practical recommendations on how AML/CFT regimes across the region can be strengthened.

Ladies and Gentlemen: As I draw to a close, I urge you to draw from the varied experiences of the high calibre facilitators and participants in this forum to come up with recommendations that will enhance the East African financial markets' Governance, Risk and a Policy Convergence Environment. This will in turn enable our envisaged regional financial markets to attract the capital that is required to finance the EAC's ambitious development agenda and also leave no room for informal financial markets to thrive.

It is now my distinct honour to declare this summit officially open.

Thank you.