

Patrick Njoroge: Entrepreneurial initiatives in Kenya

Speech by Dr Patrick Njoroge, Governor of the Central Bank of Kenya, at the 4th Annual Citi Micro-Entrepreneurship Awards (CMA), Nairobi, 27 October 2015.

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I am delighted to join you today for this important celebration, the 4th Annual Citi Micro-Entrepreneurship Awards (CMA). I would like to thank the organisers of the Awards ceremony, Citibank N.A. Kenya, and the Association of Microfinance Institutions (AMFI), for providing an appropriate platform to celebrate extraordinary entrepreneurs in Kenya. I also take this opportunity to appreciate all Award nominees and participants of this event. You are all winners as the efforts you individually and collectively make in providing services to your fellow citizens are hallmarks of outstanding service.

I commend Citibank for the concept of the CMA awards, and for consistency in hosting them. The objectives of the Awards are noteworthy – not just celebrating innovative contributions of micro-entrepreneurs in Kenya, but also showcasing the effective role that microfinance plays in supporting poverty alleviation, social empowerment and economic development within the broader context of financial inclusion.

Financial inclusion continues to play a critical role in the global development agenda given that over half of the world adult population does not have access to basic financial services, and is essential for developing strong financial institutions, reducing poverty, and financing broader economic development. In fact, there is ample evidence that financial inclusion is key in reducing the economic vulnerability of households, promoting economic growth, alleviating poverty and improving the quality of peoples' lives. The extraordinary narratives shared today confirm this. I am privileged to have heard the wonderful success stories of transformative growth and development that are being feted today.

With regard to micro-small- and medium-sized enterprises (MSME's), there is a direct correlation between MSME development and financial inclusion efforts. MSMEs represent over 90 percent of private business and contribute more than 50 percent of employment and of GDP in most African countries¹. Nevertheless, MSMEs face several challenges, including access to finance, which is often considered the most significant constraint for this sector. For instance, the World Bank Enterprise Surveys indicate that 41 percent of SMEs in low income countries report that access to finance is a major constraint to their growth and development, compared with 30 percent in middle-income countries, and only 15 percent in high-income countries.²

These constraints are not absent in Kenya despite the increased lending to SMEs. A recent study [by Financial Sector Deepening Trust Kenya (FSD Kenya) and the World Bank in collaboration with the Central Bank of Kenya (CBK)] has established that the share of lending to SMEs by Kenyan banks has grown over the last few years, from 19.5 percent of the total loan portfolio in 2009, to 23.4 percent of the total loan portfolio in December 2013.

This increase is rather impressive, especially when compared to SME lending in other Sub-Saharan African economies like Nigeria (SME lending is 5 percent), South Africa (8 percent), Rwanda (17 percent) and Tanzania (14 percent). However a lot more needs to be done to address the long-standing constraint of financing of MSMEs.

An important channel in Kenya is the microfinance industry, which is playing a larger role in deepening the financial markets, expanding access to affordable and appropriate financial

¹ <http://www.afdb.org/en/topics-and-sectors/sectors/private-sector/activities/>.

² <http://www.worldbank.org/en/results/2013/04/05/msme-finance-expanding-opportunities-and-creating-jobs>.

services and products to MSMEs and low income households. In recognition of this, the Central Bank has initiated and supported numerous reforms to develop a robust and effective microfinance legal, regulatory and supervisory framework that supports innovations to enhance the development of MSME financing and growth, and boost overall inclusion. This is part of CBK efforts towards intentionally developing an all-inclusive financial system that reduces the impediments to accessing finance for majority of Kenyans.

The operationalisation of the Microfinance Act in 2008 and subsequent amendments over the years point to game changing efforts to providing an enabling environment for microfinance banks to grow and develop. Through these efforts, microfinance banks have been able to:

- Expand their footprints to the remote and far flung parts of the country using innovative delivery channels and payment systems;
- Enhance the soundness of their credit appraisals through participation in credit information sharing mechanism;
- Ensure financial integrity; and,
- Offer an expanded and diversified product range to better serve their clients.

These initiatives and reforms have led to an increase and diversification of the financial sector infrastructure and innovative instruments targeting the MSMEs and the lower segments of the population. Microfinance banks have been able to expand their reach and depth cost effectively while ensuring the stability and soundness of the financial system.

As the microfinance sector in Kenya continues to grow and empower more micro-entrepreneurs across Kenya, it is the success stories behind the numbers that prove the power of access to finance to transform and improve lives. It is a pleasure to see tangible proof that our collective public and private sector efforts have a powerful impact on Kenyan households and MSMEs. Therefore, as we celebrate the 4th Annual Citi Micro-Entrepreneurship Award winners today, we celebrate efforts made by the key players in the financial sector in enhancing inclusive financial systems to serve Kenyans with appropriate and sustainable financial services.

In closing, let me salute all the worthy award winners. The recognition today should provide further impetus to deepen your commitment in your entrepreneurial initiatives.

Thank you