Patrick Njoroge: Developing robust and sustainable strategies for microfinance in Kenya

Opening remarks by Dr Patrick Njoroge, Governor of the Central Bank of Kenya, at the Microfinance Training Course for Policy and Development 2016, organised by the Alliance Forum Foundation, held at the Kenya School of Monetary Studies, Nairobi, 24 February 2016.

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Distinguished Guests;

Ladies and Gentlemen:

On behalf of the Central Bank of Kenya, let me join my colleagues in welcoming you to this workshop aimed at developing a strategy to enhance financial inclusion in the COMESA region. The strategy will be underpinned by an enabling regulatory and supervisory framework for Microfinance Institutions. I understand that the strategy is based on the draft proceedings of Microfinance Training Course for Policy and Development, which was held in December 2014 in Lusaka. At the outset, let me commend the COMESA Monetary Institute, the African Development Bank and the Alliance Forum Foundation, for the work done so far.

Establishing a financially inclusive ecosystem that does not marginalize people on the basis of income or geographical location has become a policy concern for many countries in the world, including COMESA member countries. Financial inclusion has gained traction over the recent years as a priority area for policymakers and regulators within the financial services sector.

The various initiatives that have been undertaken by different stakeholders, to enhance access and usage of formal financial services, have led to a significant reduction in the global population that is financially excluded. The Global Findex Report (2014), spearheaded by the World Bank, estimates that between 2011 and 2014, the number of adults without a bank account dropped by 20 percent, to 2 billion. The enhanced access is attributed largely to a significant growth in account penetration and innovations in technology, especially mobile money and agency banking. However, it is time now to shift the focus away from access and towards quality breadth of services.

In Kenya, the outcomes of the various initiatives, some of which will be highlighted in this workshop, have been remarkable. Noteworthy progress includes, the increase in the banked population from 24 percent to 67 percent between 2006 and 2013 as highlighted by the FinAccess Surveys conducted by FSD Kenya between 2006 and 2013. A Geospatial Survey that was conducted in 2013 also estimates that 76.7 percent of the Kenyan population is within a 5km radius of a financial access point. However, despite the noticeable progress in recent years, 25 percent of the Kenyan population still remains unbanked.

The existence of national strategies that promote financial inclusion are critical to enhancing access to a diverse range of financial products to the unbanked in Kenya, the mandate of the Government to enhance the deepening of financial markets by fostering access, efficiency and stability is captured under Kenya's Vision 2030.

The Central Bank's approach to achieving its role under Vision 2030, is centered on the promotion of an enabling legal and regulatory framework that fosters the development of a diverse range of financial service providers, while guaranteeing its dual mandate of financial stability and financial integrity. Central to this objective has been the licensing and regulation of microfinance banks. The first microfinance bank in Kenya was licensed in May, 2009. This paved the way for 11 other microfinance banks which have been licenced to date.

The 12 licenced microfinance banks have made a significant contribution to financial inclusion in Kenya. This is evidenced by the number of active deposit and loan accounts as at December 2015 which was 931,585 and 342,481 respectively. In value terms, this represented

Ksh.40.5 billion in deposits and Ksh.46.9 billion in advances. Further, Microfinance Banks had a footprint of 109 branches and 1,154 agents as at December 2015.

While commendable achievements have been made in the past 6 years, the microfinance sector in Kenya still has considerable opportunities and challenges that institutions need to tackle in order to realize their full potential. Key amongst these challenges include the high cost of credit, inadequate products and services, and weak consumer protection frameworks.

Microfinance institutions must be willing to make a difference if the full benefits of microfinance and financial inclusion are to be realized. Microfinance institutions must be prepared to employ innovative delivery channels to reduce their operational costs, and thereby enhance their reach and efficiency. An essential element in this process is recognizing the characteristics of the customers of these institutions and tailoring lending mechanisms to meet their situations.

Policymakers, on their part, should support the development of appropriate support infrastructure to facilitate the last mile delivery of suitable financial services. Therefore, the development of proportionate, risk-based, regulations by policymakers is critical to guaranteeing the development of a dynamic, robust and sustainable microfinance framework for a country.

The starting point towards this collaborative structure is a consultative process to developing a forward-looking framework for regulation and supervision of microfinance institutions. Developing laws and regulations that facilitate financial inclusion and the involvement of diverse institutions in the microfinance sector will go a long way to enhance provision of diversified microfinance services in a sustainable basis for the economically active poor and low income households.

As I conclude, my expectation is that the ideas to be presented and discussed over the next few days will form the basis for development of robust and sustainable national strategies for microfinance. I hope that by the end of this workshop, you will have come up with a Model COMESA Strategy for Microfinance Regulation and Supervision that will enhance financial inclusion in the region.

Such a model strategy will not only provide a yardstick for microfinance regulation and supervision but will also go a long way in the harmonization and convergence of these practices, and ultimately contribute to monetary integration in the COMESA region. You have an opportunity to share experiences and assess a range of novel policy interventions that allow the unlocking of the benefits of financial services innovations.

I wish you fruitful deliberations over the next few days and I look forward to the outcomes of your deliberations.

Thank you.