



CENTRAL BANK OF KENYA

**IMPACT INVESTMENT FORUM: AFRICAN RURAL AND AGRICULTURAL CREDIT
ASSOCIATION (AFRACA) 40TH ANNIVERSARY**

Kenya School of Monetary Studies, Nairobi

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Ladies and Gentlemen,

Good morning! Forty years is a milestone. Some argue that it is when middle age begins – you look back fondly at the things of your youth, but also look forward to using your experience and wisdom to achieve long-held goals. I am thus glad that you welcomed me to your birthday celebrations, and allowed me to share in such a significant moment.

In 1977 the African Rural and Agricultural Credit Association (AFRACA) was created in response to a request made to the United Nations Food and Agriculture Organisation (FAO), during the 1975 World Food Conference. This request, was that FAO assist developing member countries establish Regional Agricultural Credit Associations (RACAs). The purpose of this RACAs was to promote cooperation and facilitate mutual exchange of information and expertise in the field of rural finance.

Some background research into AFRACA unearths a number of gems that indicate that you have been at the forefront in driving the Rural and Agricultural Finance Agenda in Africa. You have had, and continue to have, a strong desire to turn regional diversity into a powerful driving force and catalyst for exchange, capacity building and cooperation to promote rural finance. I am deeply honoured to be part of this campaign to revolutionize finance for African Agriculture. And we have something in common, for we at the Central Bank of Kenya, share a similar vision, *“of a rural Africa where everyone has access to sustainable financial services that support economic development, while maintaining social and environmental balance”*. That said, the task is enormous—nearly two-thirds of Africa’s population depend on agriculture for their livelihood and the sector contributes over 40 percent of the continent’s GDP.

I am very pleased today to be part of this first Impact Investment Forum commemorating AFRACA's 40th anniversary. The theme of the conference “*unlocking private sector capital to scale up impact investments in African agriculture*” promises to be a story of shifting the reality of agricultural finance as we know it today. Africa has in the past relied largely on Official Development Assistance and domestic public funding to address socio-economic challenges, many of which have few market-based solutions. We all know that these traditional funding flows have been on the decline over the last decade; and this is at a time when huge resources are required for implementation of the Sustainable Development Goals (SDGs) as well as the African Union Commission's 2063 agenda and individual national goals. But as these traditional public funding decline, private financial flows have grown —from 63 percent of total external resources in 2002-06 to over 70 percent in 2010-14. For the African governments to achieve the noble aspirations enshrined in the SDGs, and the AU agenda into realities on the ground, they will need to adopt innovative ways to leverage on the rising private investment to fill the large projected financing gap.

This Forum's focus is on Impact Investment in the context of the agricultural sector; and this is a sector whose importance in our economies cannot be over-emphasized. Apart from its GDP contribution, critical is the high concentration of the poor and those who are financially excluded in rural areas. Many of us engage in agriculture even as we live our lives in the city. Most of us, let's be honest, plan to retire to a life of agriculture, as many have done before us. The efficiency of agriculture is thus of vital, and personal, importance to us. Of more importance to central banks is managing the volatility of food prices. Concerns about price volatility have a huge effect on business decisions and investments. Modernizing agriculture is critical to managing this risk and finance is at the centre.

Despite the great strides made by the African banking sector in digital financial services, the typical offer for financial products and services for the actors in the agricultural sector has been limited. Most agricultural investments, and impact enterprises, in particular, find it challenging to obtain capital from the commercial banking sector due to a number of constraints.

Although Impact Investments are identified today as constituting one of the more promising approaches to the funding of inclusive and green businesses, the field of impact investing is also relatively young. As such, many undertakings have not had time to mature and demonstrate results. There is also a lack of awareness and understanding among banking practitioners on the peculiarities of impact businesses.

So, what strides has Kenya made towards developing market-based solutions to addressing environmental and social challenges? The Kenya Bankers Association (KBA) and the Nairobi Securities Exchange (NSE) partnered with market players to fast-track the Kenya Green Bonds programme. Kenya's green finance initiative was strengthened during the United Nations Conference on Trade and Development (UNCTAD) that took place in Nairobi in July 2016. To progress the initiative, KBA-NSE organized a banking industry engagement where the Climate Bonds Initiative (CBI) shared global experiences and a Green Bond Working Group (GBWG) comprising of market players was formed. The Kenya Green Bond guidelines are being finalized in line with international best practice.

These efforts towards actualising the green finance market in Kenya come in the background of progress in development of the domestic debt market, which I believe is important to catapult the green bond market in the country. The measures we have undertaken are aimed at lengthening the maturity of the debt, diversifying the investor base and developing a vibrant secondary market to achieve a reliable benchmark yield curve. Developing the capital markets has been a dynamic process that has involved regulatory reform, strengthening financial sector regulators and improvements to the market infrastructure including payment and settlement systems.

Kenya is ripe for green investments. The stable macroeconomic and market environment coupled with economic diversification and stability of the currency are just but a few strengths that demonstrate our capacity. Capital market investors can leverage on the digital transformation story and success in financial inclusion to enter the market.

As I conclude, ladies and gentlemen, I would like to thank AFRACA and the World-Wide Fund for Nature (WWF) who have convened this first Impact Investment Forum targeting financial institutions in Africa. I am glad to learn that one of the main objectives of the conference is to leverage on the knowledge of the great minds gathered here to create more awareness and understanding on the concept, with the overall goal of shifting Impact Investment Funds to agriculture.

We are very keen to encourage practices that promote inclusive and sustainable businesses. This discussion is supportive of this. I wish you a very fruitful Conference and look forward to the action points for moving this topic forward as AFRACA marches on.

I thank you for your attention, and wish you a happy birthday.