

Patrick Njoroge: Kenya's digital transformation

Keynote address by Dr Patrick Njoroge, Governor of the Central Bank of Kenya, at the Barbados Chamber of Commerce and Industry digital conference "Kenya's Digital Transformation", Nairobi, 6 April 2022.

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As prepared for delivery

Good morning! I am delighted to participate in the Barbados Chamber of Commerce and Industry (BCCI) Digital Conference. I am grateful for the invitation to this conference with its bold theme-***Adapt and Change: We Must***. It is also a great honour to have the opportunity to address a second BCCI event. As you may recall, I was privileged to address a BCCI event in September 2019, when I led a Kenyan delegation to Barbados that paved the way for Prime Minister Mia Motley's visit to Kenya three months later.

I wish to note that the Prime Minister's visit to Kenya in December 2019 and President Uhuru Kenyatta's visit to Barbados in October 2021, cemented Kenya's already strong connection to Barbados and indeed the Caribbean people, which has been built over the years. I also wish to express my gratitude to my brother Governor Cleviston Haynes of the Central Bank of Barbados for the warm hospitality he extended us at that occasion.

Over the last two decades, the world has changed drastically. Kenya has changed, Barbados has changed. Globalization on the back of the internet revolution in the 1990s brought markets closer together and opened up distant markets to disparate producers from across the globe. However, over the last two decades the internet revolution shifted to mobile phones with their near ubiquity, and quite literally placed the power of globalization at the fingertips of citizens everywhere. In 2000 mobile phone penetration-measured as mobile phone subscription as a percentage of population-was at 39, 10 and 0.4 percent in the United States, Barbados and Kenya, respectively. By 2020 the mobile phone penetration in all three countries was over 100 percent, with Kenya recording the highest at 114 percent. It is therefore fitting that the focus of my address today is ***Kenya's digital transformation*** and how we can deepen our relationships in addressing the challenges facing our citizenry.

However, I need to acknowledge that not all developments over the last 20 years are to be seen approvingly-I am sure some Barbadians will look back with nostalgia to when the Concorde made regular flights to Barbados, one of only four destinations in the world.

Kenya has had remarkable success in its digital transformation as you have seen in the introductory video clip. Significantly, digital financial services have underpinned Kenya's threefold increase in financial access to 83.7 percent of all adults in 2021, from 26.7 percent in 2006. The seed for this transformation was planted in 2007, with the roll out of mobile phone money transfer services. This was in response to a *send money home* need by Kenyans in urban areas to rural areas. From this basic financial platform that

was powered by mobile phones, an elaborate financial services ecosystem has evolved today, extending beyond money transfer to among others credit, savings, insurance, capital markets and pension products.

How did the incumbent banks respond to these developments? First, with some suspicion, but soon after they saw the possibility of cooperating with the telcos and begun working with them to develop new products and appropriate services. Consequently, the importance of bank-branch channels has reduced while digital channels (mobile phone and internet) have increased in dominance. Mobile phone and internet transactions account for 77.1 percent and 2.3 percent respectively, of the number of bank transactions, and 14.6 percent and 21.9 percent respectively, of the value of bank transactions. With a mobile phone penetration of 132 percent, a large swathe of Kenya's populace now partakes of anytime anywhere financial services.

Advances in technology and innovations have accelerated the pace and raised the potential for digitalization. The COVID-19 pandemic also served to catalyse digitalization not just in financial services but also in other spheres including health, education and entertainment. But much more needs to be done to fully benefit from the digital economy. Digitalization is the next frontier for placing citizens at the heart of any nation's development and more importantly raising their standards of living. In his remarks at this Conference yesterday, Minister Davidson Ishmael highlighted that people expect the delivery of services to not only be effective but also fast, and that there is a huge transformation potential of rebuilding and delivering public services digitally.

It is with this in mind, that Kenya's Digital Economy Blueprint was launched in May 2019. The vision of the blueprint is **a digitally empowered citizenry, living in a digitally enabled society**. We aspire for a Kenya where every citizen, enterprise and organization have digital access and the capability to participate and thrive in the digital economy. To maximize our benefits, we must build ecosystems that facilitate digital transactions nationally, regionally and globally. This is the thinking that informed Kenya's Digital Economy Blueprint that outlines five pillars as the foundation for a thriving digital economy. The pillars are: Digital Government, Digital Business, Infrastructure, Innovation-Driven Entrepreneurship, and Digital Skills and Values.

Against this backdrop, how do we build on the digitalization momentum and put our citizens back on the path to shared prosperity following the ravages of COVID-19 pandemic? Kenya's digital transformation has taken over 15 years, but how can Barbados and indeed the Caribbean region leapfrog in a much shorter period? What do we learn from Kenya's incremental change that would help accelerate Barbados' digital transformation? I will highlight three broad themes from our journey that could hasten the pace for Barbados.

First, we must put people at the centre of the financial system. For both the public and private sector, the key question must be what are the needs of the people particularly in the context of the Sustainable Development Goals (SDGs), and how will digitalization work for them? How do we get citizens to participate for instance in financing the health, education and other social services that are critical for their lives

and livelihoods? We must be clear on what the vision for our citizens is, and then all else will fall in place. I acknowledge that I have benefited immensely from Prime Minister Mia Motley's clarity of vision on these and related matters.

In order to align all stakeholders in Kenya, the Central Bank of Kenya (CBK) recently launched the [National Payments Strategy, 2022-2025](#). The Strategy seeks to realise a vision of "*a secure, fast, efficient and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans.*" The vision will be anchored on core principles of *trust, security, usefulness, choice and innovation*. The Strategy was developed through a consultative process, identifying what the problems are and setting out a roadmap for public and private actors to develop appropriate solutions. I certainly encourage you to look at this Strategy, as there are some elements that are readily applicable to Barbados.

Second, is the courage to act. In 2007, when mobile phone transfer services started in Kenya, we did not have a comprehensive National Payment System (NPS) legislative framework. While a few years earlier, in 2003, the central bank's mandate had been expanded to incorporate the oversight of efficient and effective payments systems, the implementing legislation had yet to be crafted. Our easy choice in 2007, would have been to ask the innovators of mobile money transfer services to wait until we had the NPS Act and Regulations in place. Kenya and Barbados given their common heritage have a fairly similar legislative process that can take years to conclude.

In the circumstances, we took the narrower route laced with risks to allow the innovation to proceed in a controlled environment, a *test-and-learn* approach. This was way before sandboxes came into vogue. We focused on the business model, the risks and what the mitigants were. But more importantly, we were motivated by the problem we had with low financial inclusion levels and inefficient money transfer systems.

Does Barbados have the *courage to act*? Are you waiting for all the pieces to fall in place? As you ponder on this question, I was struck by a comment made last week by the Barbados High Commissioner to Kenya, H.E. William McDonald: "*Barbados may have a population of 300,000, but its ambition is for 60 million.*" And the words of the National Anthem are a faithful reminder of what is possible:

*We have no doubts or fears
Upward and onward we shall go
Inspired, exulting, free
And greater will our nation grow
In strength and unity.*

Third, co-operation and collaboration are key to creating a thriving financial ecosystem. Synergies between regulators, policy makers, financial institutions and other actors are critical to financial services transformation. Traditional adversarial relations between regulators and the regulated, and a race-to-the-bottom by competing financial institutions have no place in this new world. Crucially, do banks see emerging payment service providers and fintechs as fierce competitors out to *eat their lunch*? In the world of *anytime anywhere* financial services, standalone models will not work, and it is the well-coordinated ecosystems that will deliver for our citizens.

There is certainly no room for zero-sum games and we must aim for win-win outcomes. This is why the symbiotic relationship between Kenya and Barbados to grow our respective financial sectors is particularly welcome. Together, we will go far for the benefit of our citizens. In the words of a proverb, *"If you want to go fast, go alone. If you want to go far, go together."*

Incidentally, last week I welcomed to our offices in Nairobi, a delegation from Barbados that was accompanied by the Barbados High Commissioner to Kenya. The delegation was aptly accompanied by representatives from Kenya's largest Payment Service Provider and two young Kenyan fintechs who were part of the Kenyan delegation to Barbados last year. The Kenyan fintechs are looking to work with you in Barbados to resolve problems in the credit unions and insurance spaces. I am delighted that these conversations are taking place and will certainly bear fruit.

Ultimately what matters for our citizens is not who is providing the solution, but are their problems being resolved. Let me allow, a Kenyan business lady to speak to this in the following video clip.

I will finish with a story I have been retelling the last few years. At a regional conference a few years ago, I struck a friendship with an older participant from another country. At one point he told me a story about how he had travelled somewhere and had seen an old man planting coconuts trees. They talked and he remarked to the old farmer, "I really don't think you will eat the fruit from the coconut trees that you are planting." To which the man replied, "Yes, I know. I am planting these coconut trees for another generation, and I eat fruit from this coconut tree that I did not plant." My new friend turned to me and said: "Society is at its best when people plant coconuts that they do not expect to eat from."

Dear friends, we must face the future with hope and courage. Your Kenyan brothers and sisters stand ready to journey with you on the *road towards a digital society*. We have a lot in common and a lot to share for the benefit of our citizens. And yes, let's plant coconuts.

*We write our names on history's page
With expectations great
Strict guardians of our heritage
Firm craftsmen of our fate.*

I wish you fruitful deliberations and look forward to the outcomes of this important conference.

Thank You!