

KEYNOTE ADDRESS BY HENRY ROTICH E.G.H, CABINET SECRETARY, THE
NATIONAL TREASURY AT THE OPENING OF THE 3RD REGIONAL CIS
CONFERENCE 23RD - 24TH FEBRUARY, 2016 AT THE HILTON HOTEL NAIROBI

THE GOVERNOR, CENTRAL BANK OF KENYA,
REPRESENTATIVES OF GOVERNORS OF AFRICAN CENTRAL BANKS
REPRESENTATIVES OF THE WORLD BANK, THE IFC AND FSD KENYA
THE CHAIRMAN, CIS KENYA
DISTINGUISHED GUESTS,
LADIES AND GENTLEMEN

1. It is my honor and pleasure to preside over this official opening of the 3rd Regional Credit Information Sharing (CIS) Conference being held here in Nairobi. Before I proceed further allow me to thank CIS Kenya for inviting me to preside over this event. It is gratifying to see Central Banks Governors' from around Africa and beyond sharing this platform with experts in the financial infrastructure arena to exchange notes on the current state of development in the area of credit information sharing in Kenya and in your respective countries. To all our international guests I say ***Karibu Kenya***.

2. I would also like to appreciate our local stakeholders who have contributed not only to the hosting of this conference, but also played a part in the evolution of this mechanism to date. I wish to single out the Central Bank of Kenya, the World Bank, FSD Kenya, Kenya Bankers Association and CIS Kenya for dedicating their efforts to ensure that we minimize information asymmetry in the credit market through a robust credit information sharing mechanism.

3. **Ladies and Gentlemen**, as a result of implementation of several innovative initiatives and reforms in Kenya's financial sector remarkable improvement have been witnessed in expanding financial inclusion. In the recently published 2016 FinAccess Survey results, formal financial inclusion has nearly trebled over the past ten years, and exclusion is down by more than a half over the same period. Indeed, the recent Brookings Financial and Digital Inclusion Project ranked Kenya number one in the world for leveraging technology to drive inclusion. In this regard, the theme of today's conference "***CIS for Innovation and Financial Inclusion - Mikopo Kisasa***" is not only

extremely timely but also resonates well with our broader financial sector development agenda.

4. Despite our good progress in expanding financial inclusion the current level of private sector credit in Kenya, at about 40% of Gross Domestic Product, is still far below the levels recorded in comparable emerging economies such as Malaysia, South Africa and Mauritius.

5. **Ladies and Gentlemen**, the rate of a country's economic growth is driven by investments and these investments are largely dependent on the ease with which productive enterprises access funding to transform their viable ideas and opportunities into productive ventures. Limited access to credit by the private sector is thus a hindrance to investment and to economic growth.

6. As you may be aware, I chair a High Level Committee established to explore ways of increasing the supply of private sector credit and mortgage finance in Kenya. One of the main factors cited by the Committee as an impediment to private sector credit in Kenya is the high lending rates that have continued to characterise our financial sector. The Government continues to be concerned by these high rates and has been putting in place various measures to address these rates:

- **First**, was the introduction of a transparent pricing mechanism, where all banks price their loans based on a common reference rate, the Kenya Banks' Reference Rate (KBRR). I note with appreciation that discussions are ongoing between the Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA) to make this framework more effective in delivering the transparency that we desire. I also commend the Central Bank for its recent publication of bank specific interest rates which provides an important reference point for borrowers to enable them make informed decisions. We support the enhanced use of market forces to shift consumption demand in favor of lenders who price more favorably.
- **Second**, with support from the World Bank we have launched the Financial Sector Support Project (FSSP) which is designed to

strengthen the legal, regulatory and institutional environment for improved financial stability and improve access to and provision of affordable and long term financing. In particular, under a Component titled *“To Enable Efficient Financial Intermediation”*, USD 6.4 million has been specifically committed to reforms to enable more businesses and individuals have access to affordable credit.

- **Third**, to remove impediments to the lending process, we are developing a new Secured Transactions Law and Electronic Collateral Registry, undertaking reforms to facilitate leasing and factoring and digitizing land registries countrywide.
- **Fourth**, as indicated in the Budget Policy Statement and Medium Term Debt Strategy documents that we have tabled before Parliament, we are reducing the level of Government domestic borrowing in order to avoid crowding out private sector borrowers and drive down interest rates.
- **Fifth**, we will soon be launching the M-Akiba Government Bond which will be the world’s first purely mobile phone based Government security. This savings vehicle, that targets the retail investor, will not only mobilize government funding from ordinary citizens but will also help in lowering the borrowing costs of government debt in the medium to long term while supporting financial inclusion and the effective allocation of national savings.

7. In addition to helping lower interest rates and expand credit to the private sector, these reforms we are undertaking are expected to improve our business environment and further improve our overall ranking in the World Bank Doing Business Report which improved significantly from 129 in 2015 to 108 in 2016. This improvement in our overall ranking was in part as a result of the successful CIS regime we have implemented in Kenya and the continued expansion and improvement of this regime. I must, therefore, take this opportunity to appreciate CIS Kenya and other stakeholders for the work they have done that has contributed to improving Kenya’s ranking.

8. **Ladies and Gentlemen**, notwithstanding these impressive achievements we can still do more in order to reap higher benefit from the CIS Regime in terms of reducing rates and improving the business environment.

9. **Firstly**, commercial banks and microfinance banks have, as a matter of legal requirement, been sharing both positive and negative data for the last two years. Time has come for us to evaluate what impact this initiative has had in the credit market. Every effort must be made to ensure that this mechanism achieves the intended purpose of making credit more affordable, especially for low-risk borrowers. This transformation in pricing must begin with granting preferential rates to the consumers of small amounts of credit granted through the mobile phone, who have shown a consistent history of prompt repayment. I am interested to know how quick wins can be achieved in this segment of the public borrowing that has grown significantly, thanks to innovation.

10. **Second**, we must continue to explore further expansion of the CIS regime to a broader range of credit providers. In this regard, I am pleased to report that a team of consultants that the National Treasury has engaged to prepare a broader Financial Services Authority Bill has been mandated to address this very issue in its terms of reference.

11. **Third**, there is a further opportunity available in our bid to empower the credit consumer. This lies in educating the borrowers to appreciate how the credit reports and scores define them. This way, they would not only strive to improve their credit profile by managing credit more responsibly, but also begin to demand fair treatment by lenders. I therefore expect that the relevant component of FSSP will be used to apply strategies that will empower consumers of credit to interpret their credit reports and use them to negotiate better terms of credit.

12. I wish to conclude my remarks my encouraging continued regional engagements that promote sharing of experiences for the strengthening of our credit markets. These deliberations should also aim to ensure harmonization of practices in the region so that we promote unified approaches to financial sector reform and inter-regional trade. I therefore

challenge the organizers to begin considering how we will achieve cross-border sharing of credit information.

13. With this few remarks, **Ladies and Gentlemen**, it is my humble pleasure to declare the **3rd Regional Credit Information Sharing Conference** officially opened.

Thank you.

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