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KENYAN BANKING ENVIRONMENT: CORPORATE GOVERNANCE REFORMS

As at April 2005, the Kenyan Banking system comprise of 49 financial institutions. These include 43 commercial banks, two non-banks financial institutions, two mortgage finance companies and two building societies (Central Bank of Kenya Monthly Economic Review 2005). Only seven (14 %) of these institutions are listed on the Nairobi Stock Exchange. The Kenyan banking system is characterised by a variety of ownership structure: government, foreign, local and privately owned financial institutions.

Economic performance of the financial institutions in Kenya can aptly be described as lack-lustre, with a number of corporate failures experienced in between 1984 to 2005. Several factors are cited as causes of bank failures: ineffective board and management malpractices, high non-performing loans, unsecured insider lending, under capitalisation and violations of Banking Act and Prudential Regulations. A cursory review of these factors depicts eminent governance failures, both at board and ownership levels.

To enhance the stability and soundness of the banking sector through improved corporate performance, the Central Bank of Kenya (CBK) initiated a number of corporate governance reforms. These reforms include: establishment of audit committees, emphasis on majority non-executive directors on bank boards, trilateral meetings between CBK, external auditors and financial institutions among others. In addition, there are proposed changes to the Banking Act with a view to defining, vetting and certifying banks significant shareholders. This is particularly essential as owners are the core of the internal governance mechanisms of any institution including those in the financial sector.

Mergers and acquisitions has been a predominant feature of the Kenyan financial sector, particularly the small and medium sized banks as way of improving efficiency, profitability and stability (Central Bank of Kenya, Bank Supervision Annual Report 2000). The Kenyan Government plans to divest from certain institutions, and privatise others, while other private financial institutions have been merging as basis for enhancing capitalisation and improving earnings.