

PRESENTATION TO THE KENYA DIASPORA INVESTMENT EXPO 2010 (UNITED KINGDOM)

“INVESTMENT OPPORTUNITIES IN KENYA”

Presentation by

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October 3, 2010

PRESENTATION OUTLINE

- **About CMA**
- **Principle objectives of CMA**
- **Role of capital markets in an economy's development agenda**
- **Capital Markets Product and Institutional Structure**
- **Current investment climate**
- **Investment opportunities-Capital Markets products and services available to the Kenyan Diaspora**
- **On-Going Reforms and Initiatives**

CMA'S VISION, MISSION & MANDATE

- **CMA was established in 1989 through an Act of Parliament as an independent public agency mandated to promote, regulate, and facilitate development of an orderly, fair and efficient Capital Markets in Kenya**
- **Mission** – To promote market confidence, investor protection and access to financial services within capital markets in Kenya and the region through effective regulation and innovation
- **Vision** – To be a world-class regulator of a vibrant capital market

THE PRINCIPLE OBJECTIVES OF CMA

- ▣ **To develop all aspects of capital markets with particular emphasis on removal of impediments**
- ▣ **To facilitate the existence of a nationwide system of stock brokers and brokerage services to enable wider participation of the public**
- ▣ **To create, maintain and regulate the market in an orderly, fair, and efficient manner**
- ▣ **To protect the investor interests**

THE PRINCIPLE OBJECTIVES OF CMA Cont.

- /// To facilitate a compensation fund to protect investors from financial loss**
- /// To develop a framework to facilitate the use of electronic commerce.**

ROLE OF CAPITAL MARKETS IN THE ECONOMY

- Provides long-term capital through equity and debt
- Facilitates broader ownership of productive assets
- Encourages participation of the private sector in productive investments
- Diffuse stresses on the banking system by matching long-term investments with long term capital.
- Gateway for Foreign Direct Investments (FDI)
- Leverages Government financing sources essential for socio-economic development
- Provides investment opportunities increasing domestic savings with emphasis on capital formation over consumerism.
- Improves efficiency of capital allocation through competitive price discovery and valuation of entities.

ROLE IN KENYA'S DEVELOPMENT AGENDA

- ▶ **The government is striving to transform the country to middle income status within the next 20 years, as unveiled in the Vision 2030**
 - **GDP is projected to grow at 10 % by 2012**
 - **Gross national savings from 16.2% to 27.7% of GDP by 2012**
 - **Gross national investments from 23.2% to 32.6% of GDP by 2012**

ROLE IN KENYA'S DEVELOPMENT AGENDA Cont.

- ▶ Expected to play a critical role in achieving the growth targets through:
 - *Raise bonds as a share of GDP from 16% to 30% by 2012*
 - *Increase market cap from 50% to 90% of GDP by 2012*
- ▶ Provide funds for infrastructure development
- ▶ The potential for Kenyan capital markets is enormous. The KENGEN and Safaricom were subscribed by 340% and 463% translating to subscription of USD 333 million and USD 2.8 billion respectively

ROLE IN KENYA'S DEVELOPMENT AGENDA

Cont.

- **Four infrastructure bonds issued by the Government over the past 2 years have been hugely oversubscribed raising nearly USD 1 billion.**

IMPORTANCE OF KENYAN DIASPORA

- **Diaspora remits more than USD 600 million per year in Kenya with 75% going to consumption**
- **The promulgation of the New Kenyan Constitution allows Dual Citizenship by Kenyan Diaspora-benefits include being treated as and enjoying full benefits East African Investors**
- **There is abundant opportunity to invest in capital markets products or set up business of capital markets service provision**

PRODUCT STRUCTURE IN KENYA

Equity market

Debt market

Derivatives market

✓ • Ordinary Shares

- ✓ • Treasury Bonds
- ✓ • Corporate Bonds
- ✓ • Commercial Paper
- Municipal Bonds
- Asset Backed Securities
- Mortgage Backed Securities

- Futures and Options
- Swaps
- Commodities
- Forward Contracts
- Currency Dealing
- Arbitrage

Primary and
Secondary Market

Secondary Market

CAPITAL MARKETS INSTITUTIONAL STRUCTURE

	Licensed/approved Institutions	December 2007	March 2008	December 2009
1	Securities Exchange (NSE)	1	1	1
2	Central Depositories (CDSC)	1	1	1
3	Investment Banks	12	17	19
4	Stockbrokers	11	8	7
5	Investment advisers	19	20	23
6	Fund Managers	15	16	16
7	Collective Investment Schemes	10	11	11
8	Authorized depositories/Custodians	10	11	12
9	Credit Rating Agencies	1	1	1
10	Venture Capital Companies	1	1	1
	Total	81	87	92

CURRENT INVESTMENT CLIMATE

- **Withholding tax on dividend income has been reduced from a high of 15% to 10% (for foreign investors) and 5% (for local investors) and made a final tax.**
- **Investment ceiling by retirement benefits schemes in fixed income securities (e.g. bonds and commercial papers) has been raised from 15% to 30%.**
- **Registered and approved venture capital funds enjoy a 10-year tax holiday.**
- **Income accruing to registered collective investment schemes is tax-free.**

CURRENT INVESTMENT CLIMATE

- **Stamp duties payable for retail share transactions quoted in the stock exchange for both individual and institutional investors were abolished**
- **Investments by Insurance companies on listed securities exempted from tax arising out of capital gains on sale of shares**
- **To encourage savings, collective investment schemes set up by employers on behalf of employees to invest in listed shares, are exempt from income tax.**
- **Interest income accruing from all listed bonds (targeting infrastructure development) with at least a maturity period of three years tax-exempt.¹⁴**

CAPITAL MARKET PERFORMANCE

YEAR	2005	2006	2007	2008	2009
Share volume (mn)	874.2	1,450	1,920	5,856	3169.12
Equities Turnover (US\$ mn)	506.9	1,319	1,364	1,250	502.2
T. Bonds Turnover (US\$ mn)	194.4	777.8	1,336	1,221.8	2,533.4
Index(points)	3973	5646	5445	3521	3247
Market Cap (US\$ bn)	5.92	11.00	12.8	10.95	10.98
No. of listed companies	48	52	54	55	55

OPPORTUNITIES IN THE CAPITAL MARKETS-PRODUCTS

- **Investment in the Treasury bonds (Primary Market):**
 - **Normal Treasury Bonds**
 - **Infrastructure Bonds**
- **Corporate Bonds (Primary Market);**
 - **Normal Corporate bonds**
 - **Infrastructure bonds**
- **Secondary market for bonds**
- **Initial Public Offers (IPOS)**
- **Secondary market for equities**
- **Commercial paper**

Unexploited Opportunities

- **Asset Backed Securities**
- **Mortgage Backed Securities**
- **Venture Capital/Private Equity**
- **Commodities**
- **Islamic Capital Markets products (Sukuks and Islamic Mutual Funds)**
- **Municipal bonds**
- **Futures and Options**
- **Swaps**
- **Forward Contracts**
- **Currency Dealing**
- **Arbitrage**

OPPORTUNITIES IN THE CAPITAL MARKETS- SERVICES

- **Investment Banking**
- **Stock-broking services**
- **Asset/ Fund Management**
- **Custodial Services**
- **Agency Services**
- **Dealership**
- **Investment Advisory Services**
- **Venture Capital**
- **Credit Rating Service**

Unexploited Opportunities

- **Primary Dealership**
- **Private Equity Companies**
- **Alternative Securities Exchange**
- **Over the Counter (OTC) trading Platform**
- **Diaspora Collective Investment Schemes**

ON-GOING REFORMS TO EXPAND INVESTMENT OPPORTUNITIES

	REFORM MEASURE	OBJECTIVE	EXPECTED OUTPUT
1	<i>Demutualization of Nairobi Stock Exchange</i>	Aims at separating ownership from management to	The initiative is expected to improve governance at the NSE
2	<i>Robust legal and regulatory framework</i>	To have in place a legal and regulatory framework that conforms to international standards	The reform measure will enhance the investor protection as well as create an enabling environment for the development of capital

ON-GOING REFORMS TO EXPAND INVESTMENT OPPORTUNITIES

	REFORM	OBJECTIVE	EXPECTED OUTPUT
3	<i>Corporate Governance for market intermediaries</i>	To enhance corporate governance and professionalism among market participants.	Improved investment climate as well as enhanced public confidence in the intermediaries.
4	<i>Risk –Based Supervision Program</i>	To strengthen supervision of the market and ensure high level compliance.	Reduced systemic risks among intermediaries.

ON-GOING REFORMS TO EXPAND INVESTMENT OPPORTUNITIES

	REFORM MEASURE	OBJECTIVE	EXPECTED OUTPUT
5	<i>Certification program for market players</i>	To strengthen the knowledge, skills and capabilities of market operators	High level of integrity and professionalism amongst market players
6	<i>Bond Market reforms</i>	To deepen the bond market	A liquid and vibrant bond market
7	<i>Real Estate Investment Trusts</i>	Mobilize resources for real estate development.	Increased number of retail investors in the real estates

OTHER INITIATIVES

- Modernization of market infrastructure and practices– Broker back office and Online trading
- Regional integration initiatives – opportunities for cross listing and business expansion
- Investor education and awareness campaigns – untapped potential
- Establishment of Capital Markets Fraud Investigations Unit (CMFIU)

CMA WEBSITE

www.cma.or.ke

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THANK YOU