BUDGET PROPOSALS FOR THE FISCAL YEAR 2007/08

The Minister for Finance in his budget speech of the fiscal year 2007/08 whose theme is **“Vision 2030 – Working together, on the Path to Prosperity”** emphasized the important role of the capital markets in supporting the accelerated development in the ambitious strategy that required a radical transformation of our economic, social, and political systems.

In laying the foundation for the economic pillar of the Vision, the Minister underscored the need to build an enabling environment for the private sector in order to fully unlock its potential and to become globally competitive. Achieving this in the medium term required:

- Continued maintenance of a stable macroeconomic environment underpinned by prudent fiscal and monetary management, supported by key structural reforms;

- Accelerated rehabilitation and expansion of our infrastructure and basic amenities;

- Development of quality human capital to raise our productivity and to enhance our global competitiveness ;

- Maximizing economic opportunities for all Kenyans and ensure that they continue to benefit from the fruits of higher economic growth through targeted programs to reduce inequality and poverty; and

- Encouraging growth of business through improved governance and reduce he cost of doing business.

The following are the key proposals pronounced by the Minister of Finance that have a direct bearing on the deepening and broadening of the capital markets in Kenya:

1. ENCOURAGING REGIONAL INTEGRATION

The treatment of citizens of the three East African Member States of Kenya, Uganda and Tanzania as citizens for purposes. In this regard:

As a demonstration of the Government’s commitment to the EAC Regional

Integration in accordance with the East African Community Protocol, the Minister propose to treat all citizens of the East African Community Partner States who invest in the Nairobi Stock Exchange and earn dividend income as residents .This implies that they will pay withholding tax at the rate of 5% just like Kenyans. He further proposed to amend the Capital Markets Act to increase the percentage of IPOs reserved for Kenyans from 25% to 40% and treat citizens of other East African Partner States as local investors.

2. STRENGTHENING THE CMA'S SUPERVISORY CAPACITY.

In order to protect the integrity of the stock exchange and to protect the small investors from unscrupulous market players, there is a compelling need to empower the Capital Markets Authority to effectively regulate the Capital Markets. In order to achieve this, the Minister proposed amendments to the Capital Markets Act to give the Authority power to levy financial penalties among other penalties depending on the nature and magnitude of offences. The penalties have also been enhanced to make them more deterrent.

3. ENCOURAGING PRIMARY DEALERSHIP

Realizing further reforms to deepen the money and capital markets can only happen if legal impediments caused by the Internal Loans Act are addressed. The Act currently does not recognize dematerialized/paperless securities, thus keeping the government bond market behind technological developments. In this regard, the Minister proposed to make necessary amendments to the Internal Loans Act, a move that will go along way to facilitate implementation of a primary dealership system in the Capital Markets.

4. PRIVATIZATION

To institutionalize transparency and accountability in the privatization process, the Privatization Commission is to be made fully operational before end 2007. In addition, preparations for the sale of the Telkom Kenya shares to a strategic partner, has now been completed and Request for Proposals will be released to the prospective investors shortly. Additional shares of KENGEN will also be floated once the Government is satisfied that the market price reflects the fundamentals of the company and that the taxpayer will get fair return. In addition the Government intends to sell part of its shares in Safaricom through an Initial Public Offer (IPO) on the Nairobi Stock Exchange, as well as part of its and NSSF's shares in NBK. Towards this end the Government plans to finance its overall fiscal deficit through net privatization receipts amounting to Ksh.36.1 billion.

The Minister added that one of the objectives of privatization was for the Government to attract more financial and management resources from the private sector. In this regard, the necessary framework was being put in place to allow active Government participation in the stock exchange to take advantage of favourable market conditions to offer shares in already listed companies without necessarily having to go through a second offer.

5. PENSION FUNDS – Creating demand for capital markets instruments

In recognition of the invaluable contribution that senior citizens have given in the development of this country, the Minister proposed to exempt the monthly pension granted to these persons from tax.

In order to expand coverage by NSSF, he further proposed to amend the NSSF Act to allow individuals to contribute voluntarily to NSSF as is the case with NHIF and an amendment to the NSSF Act to provide that the monthly 5 per cent of total wages of casual workers paid to NSSF by employers be declared as surplus benefits whenever an actuarial valuation of the Fund is carried out and used to augment the benefits of voluntary individual accounts. This will now allow casuals and the self-employed to voluntarily join and benefit from the NSSF.

The Minister also proposed amendments to the Retirement Benefits Act to provide for establishment of a Trust Fund within the Retirement Benefits Authority for receiving pension funds together with the accrued investment earnings of the pension benefits of scheme members that cannot be traced when the schemes are wound-up. This will safeguard the benefits of the scheme members that are eroded over time by liquidation costs since the liquidators are unable to discharge their duty until the amounts are completely depleted or the member turns up.