CAPITAL MARKETS AUTHORITY

STRATEGIC PLAN

2009 – 2012

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

Motto

Promoting Capital Markets Integrity
'Kuimarisha uadilifu wa soko la mitaji'

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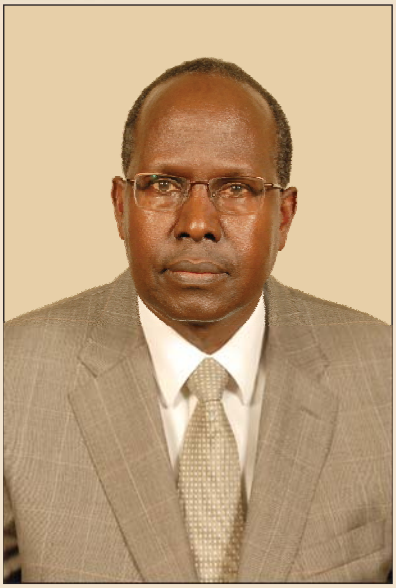
Acronyms

ATS	:	Automated Trading System
BPO	:	Business Process Outsourcing
CBK	:	Central Bank of Kenya
CDS	:	Central Depository System
CIS	:	Collective Investment Scheme
CMA	:	Capital Markets Authority
COMESA	:	Common Market for Eastern and Southern Africa
DSE	:	Dar es Salaam Stock Exchange
EAC	:	East African Community
EASRA	:	East African Securities Regulatory Authorities
EPA	:	Economic Partnership Agreement
ERS	:	Economic Recovery Strategy
EU	:	European Union
GoK	:	Government of Kenya
GDP	:	Gross Domestic Product
HR	:	Human Resources
ICT	:	Information Communication Technology
IOSCO	:	International Organisation of Securities Commission
IT	:	Information Technology
M & E	:	Monitoring and Evaluation
MMOU	:	Multilateral Memorandum of Understanding
MOU	:	Memorandum of Understanding
MTP	:	Medium Term Plan
NEPAD	:	New Partnership for Africa Development
NSE	:	Nairobi Stock Exchange
OTC	:	Over the Counter
PESTEL	:	Political, Economic, Social, Technological, Ecological and Legal
PPP	:	Public Private Partnerships
RBA	:	Retirement Benefits Authority
REITS	:	Real Estate Investment Trust Schemes
SACCO	:	Savings and Credit Cooperative
SME	:	Small and Medium Enterprise
SRO	:	Self Regulatory Organization
SWOT	:	Strengths Weaknesses Opportunities and Threats
USE	:	Uganda Stock Exchange
US-SEC	:	United States Securities and Exchange Commission
WTO	:	World Trade Organization

FOREWORD



The revision of Capital Markets Authority's Strategic Plan 2009 - 2012 comes at a critical time when the domestic financial market is recovering from the challenges posed by the global financial crisis and corporate governance issues.

The reform agenda has necessitated review of the Authority's strategic plan so as to position itself to effectively performing its mandate based on new emerging issues, particularly implementation of the East African Common Market Protocol which came into force in July 2010, the New Constitutional dispensation and recommendations by a team of experts from the United States Securities Commission on assessment of the enforcement capacity of the Authority.

The protocol specifically, calls for Capital market development programs and a conducive environment for free movement of capital within the East African Community (EAC); harmonized capital markets policies on cross border listing, foreign portfolio investors, taxation of capital market transactions, accounting, auditing and financial reporting standards, commissions and other charges; the establishment of a regional stock exchange within the EAC with trading floors in each of the Partner States; adherence by the appropriate national authorities to harmonized stock trading systems, and permitting residents of the Partner States to freely acquire and negotiate monetary instruments within the EAC.

It is our conviction that once this is done, the Authority will be able to provide leadership in capital markets development, in line with our core mission which is to promote market confidence, investor protection and access to financial services within capital markets in Kenya and the region through effective regulation and innovation. This will also contribute to the important role of capital markets in Kenya's development agenda as the Government strives to transform the country to a middle income status by the year 2030. The economy is projected to grow at 10% by 2012 and sustain this growth rate over the next 18 years. The Medium Term Plan 2008 - 2012 targets to increase gross national savings from 16.2% of Gross Domestic Product (GDP) to 27.7% of GDP. Similarly, investments as a percentage of GDP are projected to increase from 23.2% to 32.6% over the same period.

Capital Markets as key drivers for long-term resource mobilization will play a central role in raising savings and investments levels. For the economy to grow at the desired GDP rate of 10%, equity and bond market capitalization will be expected to increase from 50 and 16% to 90% and 30% of GDP respectively by 2012.

The strength of securities markets that make them focal points of economic growth hinges on their ability to: mobilize long-term savings for financial intermediation; improve efficiency of resource allocation; provide capital and facilitate broad ownership of firms. A market economy like ours requires capital markets to mobilize both domestic and foreign capital to meet the increasing financing needs of our enterprises. This strategic plan provides a clear blueprint for Capital Markets Authority (CMA) to position the capital markets in Kenya to efficiently mobilize and allocate the required resources.

The following agenda will define the Authority's strategic direction:

- ***Facilitating development of capital market products and services;***
- ***Establishing a robust, facilitative, legal and regulatory framework that conforms to international best standards;***
- ***Enhance Market Infrastructure, Capacity and Institutional arrangements***
- ***Strengthening Institutional Capacity***
- ***Promoting investor education and public awareness;***

The above objectives have been formulated with a view to ensuring that the capital markets remain efficient, competitive, and dynamic. Besides focusing on reforms in the domestic market, CMA will also pursue opportunities created through the regional integration initiatives and other strategic alliances. Signing of the common market protocol which came into effect from 1st July 2010 will provide a solid platform for further capital market development.

The formation of a deep and vibrant capital market calls for concerted efforts by all stakeholders -the regulator, market players, issuers and investors. The CMA is committed to play its part in spearheading the reforms outlined in this strategic plan.

Micah Cheserem
Chairman

3. PREFACE

The Capital Market Authority's Strategic Plan 2009 - 2012 is a comprehensive plan of activities presenting the strategic direction within our broad mandate of regulating and facilitating the development of our capital markets for the next four years. In developing the current plan, CMA took stock of the remarkable growth of the market over the past as well as the challenges witnessed in the recent past particularly the need to enhance investor confidence.

A situation analysis was carried out to identify emerging opportunities with a view to laying a strong foundation to enable the capital markets play a stronger and more effective role in supporting financing and investment needs of our country. It is appreciated that successful implementation of this plan will depend on commitment from major stakeholders and availability of resources. The Authority will work in close collaboration with all key stakeholders to ensure the planned activities are achieved within the limited resources available.

CMA is committed to achieving the vision of a large, liquid and efficient capital market that permits diversification of risks and greater and more efficient allocation of resources. There is a compelling need to provide strategic certainty and a clear blueprint for action for the Kenyan capital market that would preserve and enhance its position as the Region's Financial Hub. This Plan therefore takes into account the need to restore investor confidence as well as address the challenges brought about by the global financial crisis for the capital markets to attract long term resources and provide investors with a safe and diversified portfolio options. Broadly, the plan has focused on the need to deepen and broaden the market, develop a robust and facilitative legal and regulatory framework and strengthen the infrastructure and institutions involved in the operations of the capital markets.

Review of this plan took into consideration continued contributions and suggestions from various stakeholders including Government ministries and market operators obtained through the various modes of engagement of the Authority with its stakeholders during implementation. It was also informed by the emerging issues in the operating environment mainly the promulgation of the new constitution and coming into force of the common market protocol. It also took into account recommendations from a team of experts from the United States, Securities and Exchange Commission (US SEC).

I wish to register my appreciation to the CMA Board for policy guidance as well as the management of the Authority for the effort in putting together this document.

I would like to reiterate our determination to make CMA a world-class regulator of a vibrant capital market over the plan period and beyond. Towards this end, we will continue to actively participate in the regional and international arena to benchmark with the best international standards and practices from organizations such as International Organization of Securities Commissions (IOSCO).

To ensure timely implementation of the strategic plan, the dedicated Strategy Team will continue monitoring and evaluating the progress in implementation of the planned activities.

Stella Kilonzo, MBS
Chief Executive

4. BACKGROUND

4.1 Economic Recovery Strategy Achievements and Challenges

Kenya's economy for a long time witnessed a downward trend in real Gross Domestic Product (GDP), with the trend being reversed as a result of the implementation of the Economic Recovery Strategy for Wealth and Employment Creation. The reform programme saw GDP edge upward from 1.8% in 2003 to 7% in 2007. As a result of this strong growth, real per-capita income increased at an annual growth rate of 3% per annum while poverty declined from 56.8% to 46%.

Despite the achievements made in reviving economic growth and meeting many of the Economic Recovery Strategy (ERS) targets, the country is still confronted with major developmental challenges. These include low level of job creation to address the high unemployment; the large number of Kenyans still living in poverty; high inequality in income distribution; considerable disparities in development among the different regions of the country; low savings and investment rates; insecurity; corruption and weak governance; poor infrastructure; and reliance on agriculture and export of primary products.

Among the emerging issues and challenges in the financial services sector are resource mobilization and access to financial services. Currently, the penetration level of banking services is limited particularly in rural areas and does not link with production activities in agriculture and small business communities. The existing banks are mainly concentrated in urban areas. The low ICT infrastructure in rural areas inhibits increased coverage while the current cost of finance remains high.

There is inadequate legislative and regulatory framework to support the growth of the insurance and capital markets in the country including Quasi-banking and SACCO sectors. Additional challenges include overcapacity and price competition; corruption and fraud; poor corporate governance; low levels of awareness and use of Information Technology.

From the Kenyan capital markets perspective, challenges include:

- Underutilised capacity of the market to raise funds through equity and bond issues. Market size is small with only 55 listed companies, low turnover, low capitalisation and low liquidity compared to other emerging markets, especially in Asia;
- Narrow range of market products and services. The Authority has recently facilitated the issuance of new products such as infrastructure bonds. However, there is need to introduce other products to cater for the wide interests of issuers and investors.
- Inadequate legal and regulatory regime and ensuring compliance and enforcement of rules and regulations;
- Low Numbers of Kenyans investing in the stock market. It is estimated that less than 4% of adult Kenyans own shares compared to other markets where this ratio averages over 50%;
- Underdeveloped market infrastructure and systems to meet increasing challenges of technology and globalization.
- Corporate governance weaknesses that negatively impact on the integrity of the market.

4.2 The Development Agenda

The Government of Kenya aims to transform the economy into a modern, globally competitive, middle income country offering a high quality of life for its citizens by the year 2030. To achieve this goal, the Government intends to put in place measures that will raise the national GDP growth rate to 10% by 2012; create more employment opportunities; and bring more equitable development in all regions of the country.

The First Medium Term Plan (MTP) of the Kenya Vision 2030 identifies the key policy actions and reforms as well as programmes and projects that the Government intends to implement in the period 2008 - 2012. In order to achieve the growth targets, the Government has identified six priority sectors namely financial services, tourism, agriculture, livestock and fishing, wholesale and retail trade, business process outsourcing (BPO) and manufacturing where most of the resources will be concentrated.

The Financial Services sector is expected to play a key role in mobilizing the savings and investments required to implement the Medium Term Plan. Among the financial service strategies to be implemented will be the reorganization of the National Social Security and Pension system; Insurance and Banking sectors as well as SACCOs and capital markets with a view to facilitating higher savings and investments.

The projects and programmes to be pursued in the medium term for the various components of the financial sector will aim at creating a vibrant and competitive financial sector driving high levels of savings and financing the country's investment needs. They will be anchored on the flagship projects for the sector, namely:

- Consolidation of the banking sector through enhanced capital base;
- Increase financial access through formalisation of microfinance;
- Deepening the capital markets by expanding the bond and equity markets; and
- Leveraging remittances and long term capital inflows.

4.3 The Role of Capital Markets in the Development Agenda

4.3.1 Mobilizing resources through the capital markets

The overriding objective is to raise savings and investment rates to 25-30% of GDP. However, the country is currently characterized by a low National Savings Rate of less than 16%. Capital markets provide a key opportunity to encourage savings by investing in financial assets.

The role of CMA will therefore be to effectively facilitate mobilization of savings in order to realize the target of raising stock market capitalization from 50% to 90% of GDP by 2012 and bond capitalization as a share of GDP from 16% to 30% by 2012.

4.3.2 Access to Financial Services

In this regard the Authority will be expected to facilitate increased access to capital market products and services as well as widening outreach across the various regions of the country. The Authority will also support the development of Collective Investment Schemes as convenient investment vehicles for the retail investors.

4.3.3 Infrastructure Development

Another key role of the capital markets in line with vision 2030 is promoting long-term investments particularly in infrastructure development. This is clearly spelt out in the Medium Term Plan whose broad goals include accelerating ongoing infrastructure development focusing on quality, aesthetics and functionality of the services developed; building infrastructure development to support identified flagships to ensure contribution to the economic growth and social equity goals.

The strategic objective is 'strengthening the institutional framework for infrastructure development and accelerating speed of completion. The Capital Markets has been singled out as the best avenue for alternative financing through the issuance of infrastructure bonds.

5. SITUATION ANALYSIS

5.1 Achievements, Challenges and Lessons in implementing the Strategic Plan 2009- 2012

5.1.1 Achievements

The Authority has been implementing its strategic plan 2009-2012 and several objectives set out in the Plan have already been achieved.

Facilitation of the development of capital market products and services

The market has been characterized by few financial products and low liquidity, which inhibits savings mobilization for long-term investments. The Authority had set out to broaden the range of products and services.

The Authority introduced venture capital and asset backed securities regulations. Although no issuer has come to the market to offer these products, the policy and regulatory framework is now in place. Further, the range of tradable securities was expanded through IPOs, Rights issues and treasury and corporate bond listings. The Authority also developed a policy framework for OTC bond trading and is in the process of implementing it. The government granted additional incentives to encourage more investors and issuers into the capital market.

The Authority faced challenges of delayed gazettement of the regulations and low interest in the new products, low investor education and public awareness.

Enhancement of capital market infrastructure and institutional arrangement

A robust market infrastructure is critical to maintaining a well functioning capital market. Modernization of the capital markets' infrastructure is a priority to the Authority. In November 2009 automated bond trading was launched and as of April 2010 all bonds traded at the stock exchange can be traded through the automated system. This has opened up the bond market thus enhancing its performance with bond turnover rising to a historical high of Kshs 476 billion by the close of 2010. An automated trading system for bonds was introduced at the NSE. This system has also increased efficiency and transparency in price discovery.

On June 2010 through the Finance Act, Deputy Prime Minister and Minister for Finance directed that the CMA Act be amended to facilitate demutualisation of the exchange effective January 2011. Further within three years, the exchange is expected to self list to enable the public have a stake and ensure enhanced corporate governance.

Capital market institutions, particularly market intermediaries, are the anchors of the market. The Authority undertook to strengthen the institutions in range, numbers and professional capacity. Towards this end, the law was amended to provide for higher capital requirements and guidelines issued on various aspects of law and operations. The major challenge has been resistance by the players to implement the proposed requirements.

The Authority further carried out assessment of risk profiles on the intermediaries and has been conducting risk based supervision. The Authority together with market players is also in the process of implementing the broker back office solution. This is expected to enhance risk management by the market surveillance department of the Authority.

Establishment of a robust, facilitative, legal and regulatory framework that conforms to international best practice

A robust, facilitative legal and regulatory environment is critical for the maintenance of investor confidence and investor protection. The Authority undertook to review the existing legal and regulatory framework and establish new regulations.

Several amendments to the Capital Markets Act and regulations were effected through the Finance Acts of 2009 and 2010, notably amendments to facilitate demutualisation of the NSE. There were also regulations to improve corporate governance and hence promote market confidence. The comprehensive review of the legal framework is underway. The project however faces delays due to the nature of legislative reform process.

International co-operation has become a matter of great priority in critical sectors such as the financial markets. The Authority maintained its engagement at the regional and international level through East African Securities Regulators Association (EASRA) and IOSCO. Further, CMA successfully submitted its application to sign the IOSCO Multilateral Memorandum of Understanding (IOSCO MMOU) which facilitates sharing information and cooperation with other signatories. The Authority has also been spearheading integration of the East African capital markets. To remain fully engaged with these and other international and regional organizations, substantial resources will be required.

Promoting investor education and public awareness

Investor education is paramount to the development of capital markets. The Authority developed a comprehensive investor education and public awareness programme. This programme has been implemented targeting issuers, investors and the general public leading to increased participation in the market.

Strengthening the institutional capacity

To perform efficiently and effectively, the Authority must have systems that ensure the best possible use of resources, facilitate the exploitation of synergies and manage risk. Policies and systems have been enhanced and the Authority achieved ISO9001:2008 certification in December 2009. The Authority is implementing an automated workflow system. The Authority expanded its revenue base through technical assistance from development partners and continues to explore new sources of revenue.

The key input in the business of regulation and development is intellectual capital. The quality and motivation of the human resource pool has a significant impact on the output of the Authority. The Authority reviewed its organization structure and recruited additional staff and has put measures in place to attract, retain and motivate the highest quality of human resources at all levels.

The Authority also established a fraud unit to facilitate investigation of capital markets malpractices in order to restore investor confidence.

5.1.2 Challenges

i) The Authority faced challenges of delayed gazettement of the regulations to allow introduction of new products and services and low interest in the new products, low investor education and public awareness.

ii) Limited Stakeholder buy-in and inadequate funding continue to pose a big challenge in review of regulatory framework

iii) Inadequate human and financial resources especially in 2009 when the market was recovering from the global financial crisis hence low activity in the market which resulted to low revenue flows.

iv) Another key challenge has been low financial literacy in Kenya and limited investor education and public awareness.

v) Retention of staff remains has also been a challenge in a competitive market especially due to a limited resource base and guidelines relating to state corporations on compensation.

5.1.3 Lessons learnt

As part of its mandate to promote, regulate and facilitate the development of an orderly, fair and efficient Capital Markets in Kenya, the Authority organized an evaluation process that was conducted by the United States Securities and Exchange Commission in August 2010. The evaluation focused on key areas of market development such as ways to raise capital through the capital markets, a model for Self Regulating Organizations (SROs) and an (Over the Counter) (OTC) Trading platform for bonds and equities in the Kenyan market.

In strengthening her democratic processes, Kenya promulgated a new constitution on 27th August 2010. According to the new dispensation Kenya retains a presidential system of governance but with clearer separation of powers. Also, there shall be devolution of power and resources to the county level.

On July 2010, the East African Common Market Protocol came into force to allow free movement of people, goods, services and capital. The protocol calls for Capital market development programs and a conducive environment for the movement of capital within the EAC; harmonized capital markets policies on cross border listing, foreign portfolio investors, taxation of capital market transactions, accounting, auditing and financial reporting standards, commissions and other charges; the establishment of a regional stock exchange within the EAC with trading floors in each of the Partner States; adherence by the appropriate national authorities to harmonized stock trading systems, and permitting residents of the Partner States to freely acquire and negotiate monetary instruments within the EAC.
It is in the wake of the recommendations from the SEC report and the new developments within the operating environment of the Authority such as the common market protocol and the promulgation of the new constitution that informed the review of the Authority's strategic plan.

Key lessons that have guided the review of the plan include:

i) The current range of financial products is not broad enough to meet the potential needs of stakeholders. Similarly the available products are not liquid enough as per international standards.

ii) The legal and regulatory framework is not robust and facilitative enough in relation to international best practice.

iii) There is need for greater enforcement of laws and regulations to enhance investor confidence and market integrity.

iv) The need for increased promotion of corporate governance among licensees and the need for adopting a risk based supervision approach.

v) Acquisition of adequate human and financial resources to successfully implement the identified strategies is crucial. Further there is need to improve the performance management system, which goes together with the formulation of reward systems to enhance staff morale and consolidate efficiency in work performance.

vi) There is need for closer consultation and strengthening of strategic alliances with stakeholders for enhanced ownership.

vii) Although the Authority is utilising ICT, the level of utilisation is still low in relation to the increasing sophistication in the market.

viii) There is greater opportunity to develop the market presented by the coming into force of the common market protocol and at the same time increased competition for capital within the region.

6. STRATEGIC DIRECTION

The strategic direction of the Authority comprises the mandate, vision, mission, values, objectives and corresponding strategies.

6.1 Mandate of CMA

The Capital Markets Authority (CMA) was established in 1989 through the Capital Markets Authority Act, Cap 485A Laws of Kenya. The overall mandate of the Authority is to regulate and facilitate development of all aspects of capital markets.

The principal objectives of CMA as set out in the Act are:

i) The development of all aspects of the capital markets with particular emphasis on the removal of impediments to, and the creation of incentives for, longer term investments in productive enterprises;

ii) The facilitation of the existence of a nationwide system of stock market and brokerage services so as to enable wider participation of the general public in the stock market;

iii) The creation, maintenance and regulation of a market in which securities can be issued and traded in an orderly, fair and efficient manner, through the implementation of a system in which the market participants are self regulatory to the maximum practicable extent;

iv) The protection of investor interests;

v) Facilitation of a compensation fund to protect investors from financial loss arising from the failure of a licensed broker or dealer to meet the contractual obligations; and

vi) The development of a framework to facilitate the use of electronic commerce for the development of capital markets in Kenya.

6.2 Vision

To be a world-class regulator of a vibrant capital market.

6.3 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.

6.4 Motto

Promoting Capital Markets Integrity

"Kuimarisha uadilifu wa soko la mitaji"

6.5 Core Values

- To fulfil its mandate, pursue the vision and accomplish its mission the Authority will be guided by the following values:

- **Integrity** - committed to acting at all times with honesty, fairness, accountability, transparency, ethically and above board in all our operations;

- **Responsiveness** - sensitive to and will deal with issues and situations affecting all our customers in proactive and timely manner, using flexible decision making processes.

- **Collaboration and Teamwork** - committed to teamwork within the Authority and collaboration with our partners in the provisions of our services.

- **Fairness** - we treat our colleagues, clients and stakeholders equally and as we would like them to treat us.

- **Commitment** - we perform our duties with the highest level of professionalism, dedication and always exceed the expectations of our clients and stakeholders.

- **Innovation and Continuous learning** - we endeavour to provide the market with new products and services through continual learning and improvement.

6.6 Critical Issues, Objectives and Strategies

Critical Issue 1: Development of Financial Products and Services

The Kenya capital market is characterized by few financial products and low liquidity, which inhibits savings mobilization for long-term investments. Development of a vibrant, efficient and effective capital market requires existence of a broad spectrum of financial instruments. The strength of securities markets as a pillar of economic growth lies in the ability to mobilize long-term resources for financing of long-term development.

Objective 1: To facilitate the development of capital market products and services
The objective will be achieved through the following strategies:

- Restructure the Market to accommodate different categories of investors and issuers
- Diversify the range of capital market products
- Increase market liquidity and capitalization
- Strengthen trading, settlement, clearing and reporting systems
- Promote integration of the EAC capital markets
- Create an enabling policy framework for deepening and broadening the Capital Markets

Critical Issue 2: Market Infrastructure and Institutional Arrangement

A robust market infrastructure is key to maintaining a well functioning capital market. It enhances efficiency, reduces systemic risk, lowers cost of doing business, and promotes investor confidence that is the bedrock of securities markets. As a result, modernization of the capital markets infrastructure is a priority to the Authority.

On the other hand, Capital market institutions, particularly market intermediaries are the anchors of the market. They create a stable and reliable framework for mobilization of savings. Without effective intermediaries, markets cannot grow. The Authority will encourage and support the strengthening of institutions in range, numbers and professional capacity. The more sophisticated the market, the greater the degree of specialization and the wider the range of intermediaries needed.

The Authority will implement specific measures to re-organize and strengthen the institutional arrangement and enhance capacity and promote new vehicles to mobilize savings in financial assets.

Objective 2: To enhance capital market infrastructure, capacity and institutional arrangements

The strategies for achieving this objective are:

- *Enhance the market structure*
- *Implement Risk Based Supervision*

Critical Issue 3: Legal and Regulatory Framework

A robust, facilitative legal and regulatory environment is critical for the maintenance of investor confidence and investor protection. Regulatory framework that lags behind development in the financial markets hinders economic growth and presents opportunities for market players to commit financial crimes. The legal and regulatory framework needs to be reviewed to make it comprehensive, consistent and user friendly. The framework also needs to be brought into compliance with international best practices including the IOSCO principles of securities regulation.

The Authority has in this regard been implementing far-reaching reform measures to strengthen the legal and regulatory framework, which is critical to underpin further development of the capital markets. For emerging markets like Kenya to adapt to changing financial environment and to promote financial stability, the legal and policy framework must be properly harmonized.

Objective 3: To establish a robust, facilitative, legal and regulatory framework that conforms to international best practice.

The strategies for achieving this objective are:

- *To have in place a facilitative Legal Framework through review of existing framework and establishment of new regulations*
- *To have a strengthened prosecution capacity*

Critical Issue 4: Investor Education and Public Awareness

Investor education is key to the development of capital markets. The Authority will develop and implement investor education programmes. Public understanding of capital markets will be enhanced through regular awareness programmes.

Objective 4: To promote investor education and public awareness.

The strategies for achieving this objective are:

- *Empower investors and issuers to make informed decisions.*
- *Enhance Investor protection*
- *Enhance corporate image*
- *Empower Capital markets service providers*
- *Enhance public understanding of capital markets.*

Critical Issue 5: Institutional Capacity and Corporate Image

Capital markets are very dynamic and thrive on intellectual capital. The Authority will proactively seek to attract, retain and motivate the highest quality of human resources at all levels. To promote positive organizational culture, the Authority will greatly improve communication and undertake regular team building programmes.

Objective 5: To strengthen the institutional capacity and corporate image of the Authority.

This objective will be accomplished by implementing the following strategies:

- Enhance organizational efficiency
- Strengthen the Authority's financial base
- Develop and implement streamlined policies and procedures across the Authority
- Build an enabling working environment
- Implement a culture of high performance and staff engagement
- Ensure that goals identified in the plan are actioned through a change management process

7. IMPLEMENTATION FRAMEWORK

	Strategy	Activity	Key Performance Indicator	Time Frame
	Facilitate development of capital market products and Services			
1.	Restructure the Market to accommodate different categories of investors and issuers	Introduce OTC trading for bonds	Operational OTC trading of bonds	Mar 2011
		Develop policy framework for alternative market segment to cater for SMEs	A policy framework catering for SME segment	June 2011
		Develop policy framework for OTC market for equities	A policy framework catering for trading of OTC equities market	June 2011
		Demutualize NSE	A demutualised NSE	March 2011
		Self list demutualized NSE	A listed demutualised NSE	Dec 2013
2.	Diversify the range of capital market products	Review and enhance policy framework for Credit Rating	Number of credit rating agencies and credit rated companies in Kenya	Mar 2011
		Carry out a study and develop policy framework for Sukuk bonds	A study and policy framework in place	Dec 2011
		Carry out a study and develop policy framework for Shariah compliant mutual funds	A study and policy framework in place	Dec 2011
		Review and enhance policy framework for Asset Backed Securities	Reviewed policy framework in place	Dec 2011
		Review and enhance policy framework for Venture Capital Funds	Reviewed policy framework in place	Dec 2011
		Carry out a study and develop policy framework for exchange traded funds	A study and policy framework in place	Mar 2012

		Carry out a study and develop policy framework for derivatives market	A study and policy framework in place	Dec 2010
3.	Increase market liquidity and capitalization	Develop policy framework to facilitate short-selling of securities	Short selling of government bonds to take place	Dec 2010
		Carry out a study and develop the policy framework to facilitate margin trading	A study and policy framework in place	Dec 2010
		Carry out a study to inform review of market fees and commissions	A final study	June 2011
		Form a taskforce jointly with the Privatization Commission to fast track privatizations through the capital markets	A task force in place	June 2011
		Develop a policy framework for incubating potential issuers in preparation for listing	A study and a policy framework in place	Dec 2011
		Formulate policies to increase the free float and additional equity financing by listed companies	Policy proposals to increase free float	Dec 2011
		Carry out a study and formulate policies to attract Diaspora and Foreign Direct Portfolio investments	A study and Policy proposals to attract diaspora and foreign direct investment	Dec 2011
4.	Strengthen trading, settlement, clearing and reporting systems	Develop policy framework for online trading	Policy framework for online trading	June 2011
		Dvlp policy framework for creating one Central Securities Depository (CSD) for Kenya	One CDS in Kenya	Dec 2012

5.	Promote integration of the EAC capital markets	Harmonize policy framework governing investors and issuers within the EAC to facilitate cross-border investments and listings	A comprehensive policy framework in place	June 2012
		Develop policy framework for clearing and settlement of securities within the EAC	A comprehensive policy framework in place	Dec 2012
6.	Create an enabling policy framework for deepening and broadening the Capital Markets	Develop policy proposals to remove impediments and create incentives for capital market products and services	A memorandum of policy proposals to Treasury	Annually
		Develop proposals on the capital markets chapter for inclusion in the policy framework for making Nairobi an International Financial Centre	Policy and fiscal proposals submitted to the taskforce on making Nairobi an International Financial Centre	June 2011

Enhance Market Infrastructure, Capacity and Institutional arrangements

1.	Enhance the market structure	Introduce online reporting system	Licensees able to file electronic returns to the Authority	Jan 2011
		Remove entry barriers to licensing of stockbrokers and broker-dealers	Better standards of service delivery Free entry, increased competition, efficiency and deepened market	March 2011
		Develop monitoring mechanism for internet trading	Authority's supervision staff able to monitor trading done via the Internet	July 2011
		Acquisition of a robust surveillance system	State of the art market surveillance system in place	Sept 2011

		Shorten the settlement circle and achieve DVP	• DVP Settlement of securities • Reduced settlement cycle to T+3	Sept 2012
2.	Implement RBS	Carry a study on impact of suspension and relicensing of market intermediaries	A study in place	Dec 2012
		Carry out Quantitative Impact Study on the market	Report on quantitative impact study	March 2011
		Develop a capital markets industry paper on risk based capital adequacy and subject it to the stakeholders for adoption	Industry buy in A stable and well capitalized market	Jun 2011
		Acquire and implement an appropriate Risk Assessment System	Enhanced risk assessment	Dec 2011
		Implement risk based capital adequacy requirements	A strong, stable and resilient market	Jan 2012
		Develop CDSC net settlement with margin collection	Effective risk management at CDSC	Jun 2012
		Require all licensees to develop Risk Management Programs	Risk management culture instilled in the market Improved risk management	May 2012
		Encourage capacity building in risk management by market players	Effective risk managementInvestor Protection	May 2012 Dec 2012
		Facilitate the adoption of adequate structures, policies and operational procedures on risk mgmt by licensees		

Establishment of a Robust, Facilitative, Legal and Regulatory Framework that conforms to International Best Practice

1.	To enhance CMA operational autonomy	Develop and submit proposals for the attainment of greater operational autonomy for the Authority from Treasury	Legal framework that allows the Authority to be more responsive to market needs	Oct 2010
2.	To have in place a facilitative Legal Framework	Submit to the Ministry of Finance amendments to the Finance Bill 2010/2011 to provide for Demutualization of the NSE and introduction of Self Regulatory Organizations (SROs)	Recognition of demutualized exchanges under the regulatory framework that will allow for re-licensing of NSE as a demutualized exchange.	Oct 2010
		Submit to the Ministry of Finance Amendments to the CM Act and Regulations to remove barriers to OTC trading of listed bonds	Regulatory framework that has no barriers in respect of OTC Trading of listed securities.	Dec 2010
		Submit to the Minister of Finance proposed amendments to the Capital Markets Act to restructure the ICF	Sufficiently funded and more responsive ICF.	June 2011
		Submit to the Minister of Finance Regulations on Short selling of Bonds and Margin Trading	Enhanced liquidity in secondary trading of bonds.	June 2011
		Submit the Capital Markets Authority Act to the Ministry of Finance	Capital Markets Authority Act that sufficiently empowers the Authority to execute its mandate in line with best practices.	June 2011
		Submit the Securities Industry Act to the	Securities Industry Act that clearly defines the	June 2011

		Minister of Finance	scope of regulation of the securities industry in line with best practices.	June 2011
		Submit the amended CDS Act	Amended Central Depositories Act that includes provisions for fit and proper requirements for licensed persons and their representatives.	June 2011
		Submit Regulations to MOF to repeal the annual licensing regime to allow for one off licensing of market intermediaries	More effective approvals and licensing regimes	June 2011
		• Submit amendments to the MOF for Disclosure Based Regulatory Regime • Submit amendments to the MOF for Shelf Registration	Amended Disclosure Based Regulatory regime and Self Registration regulations in place	Dec 2011
		Submit to the Ministry of Finance Internet Trading Regulations	Regulated internet trading of securities.	Dec 2011
		Submit to the Ministry of Finance amendments to the CMA Act and regulations to provide for OTC trading of equities	Robust regulatory framework for OTC Bond Trading	Dec 2011
		Submit SRO Regulations to MOF	Recognition of players in the capital markets sector with first-line regulatory responsibilities.	Dec 2012
		Submit amendments to the law to the MOF for Islamic Capital Markets (Sukuk Bonds and Islamic CIS)	Framework for Sharia compliant capital markets	Dec 2012

		Submit amendments to the law to the MOF for the Licensing /Registration of Agents	Regulation / licensing regime for agents	Dec 2012
3.	To have a strengthened and prosecution capacity	Develop legal framework for civil procedure for a special tribunal to have jurisdiction to try offences committed in the financial sector	Operationalisation of the Tribunal	Dec 2012

Promote Investor Education and Public Awareness

1.	Empower investors	Undertake a study on effectiveness of the current investor education strategies	Study report on investor education with gaps in the current strategy clearly identified	Jan 2011
		Develop and implement a comprehensive and focused investor education program targeting issuers , investors and market practitioners	A comprehensive investor education program in place	Continuous
2.	Enhance Investor protection	Develop customized programs to disseminate information on capital market developments including policies, new products and regulatory changes	A comprehensive customized program on capital markets development in place	March 2011
3.	Enhance corporate image	Develop a Corporate Social Investment (CSI) policy and implement a and implement CSI programs targeting specific activities in the society	Enhanced corporate image	March 2011
4.	Empower Capital markets service providers	Implement certification program for all professionals within the Kenya Capital Markets	Improved standards of service delivery	June 2011

5.	Enhance understanding of capital markets	Work with learning institutions to incorporate securities market courses in various curricula including Universities, Colleges, schools and other training organizations	An informed public on securities market Increased savings and investments ratios	June 2012

Strengthen the Institutional Capacity

1.	Enhance organizational efficiency	Implement a delegation / authorization matrix	Fully implemented delegation matrix	Dec 2010
		Review organizational structure ensuring that it positions the Authority to effectively deliver on strategic objectives. The job descriptions will be reviewed to reflect the new structure	Revised structure Revised Job descriptions	Dec 2010
		Ensure positions identified in the structure are recruited and optimal staff numbers are maintained	Full staff compliment	Dec 2010
		Undertake a Business Process Re-engineering and embrace ICT solutions (e.g. ERP, E-Procurement, E-Commerce)	A more efficient and responsive organization , reduced lead times etc	Dec 2011
2.	Strengthen the Authority's financial base	Review the fee structure and submit to the Treasury for approval	A reviewed fee structure	June 2011
		Diversify grants and technical assistance	Diversified sources of funding for the Authority	Continuous
3	Develop and implement streamlined policies and procedures across the	Review, Develop and Implement policies across all functions	Updated policies and procedures	Dec 2011

	Authority	within the Authority that are reflective of best practice and the law		
4.	Build an enabling working environment	Upgrade equipment and infrastructure to facilitate efficiency and effectiveness	ICT equipment and infrastructure upgraded	Dec 2010
		Provide a more conducive working environment with adequate space and open plan as required by Government	Motivated and engaged team	Jun 2011
5.	Implement a culture of high performance and staff engagement	Strengthen the performance management system to the Authority's strategic objectives and develop a reward mechanism for performance	Employee efforts harnessed towards the common objectives of the Authority	June 2011
		Strengthen the training and development policy to ensure that it is structured and focused on aspects that will add value to attainment of strategic goals	A well structured staff training & development system	Sep 2011
6.	Ensure that goals identified in the plan are actioned through a change management process	Establish an action plan/dashboard with regular reviews	Quarterly updates to the Board on the implementation status of the strategy	Nov 2010
		Development and implementation of a communication strategy	Fully implemented delegation matrix Internal Newsletter	Nov 2010
		Manage change process (through corrective action and acknowledgements)	Monitoring and Evaluation of change process conducted	Continuous

8. MONITORING, EVALUATION AND REPORTING

8.1 Strategies for Monitoring and Evaluation

Monitoring the implementation of the strategic plan constitutes systematic tracking of activities and actions to assess progress. Progress will be measured against specific targets and schedules included in the plan. Regular reporting at all levels will be maintained for follow-up and record keeping.

Strategy Implementation Team

A Corporate Strategy Implementation Team has been identified to ensure that strategies are implemented; performance is measured; progress reports are made and discussed; and corrective action is taken where necessary.

Cascading the Plan to all Staff

The strategic plan must translate to work. The Plan will therefore be cascaded downwards to the lowest positions. This will help each member of staff to understand and plan for their respective roles.

Departmental and Individual Annual Work Plans

Detailed work plans with clear performance indicators and responsibility for their achievement will be developed. Key indicators that will inform management decision making will be identified and the frequency of reporting on these indicators will be determined. This will form the foundation of the M&E system.

Data and Information Collection Procedures

Elaborate data and information collection templates and procedures will be developed to measure performance as per the indicators and report to management. These procedures will be incorporated into existing ISO and functional operating manuals so that they are part of routine work.

Regular Meetings

Monthly Review Meetings at the Departmental level will be scheduled to ensure implementation is on track. At least quarterly review meetings at Management level will be scheduled to get and give feedback. The Strategic Plan and its implementation is a responsibility of the Board of Directors. Therefore, quarterly progress reporting will be an Agenda Item in Board Meetings.

8.2 Linking Implementation to Annual Performance Contracts

The Authority's corporate objectives (targets) will therefore be translated into departmental objectives. The Performance Contract will be derived from the strategic plan and other government policy documents and progress reported quarterly.

Performance Indicators for National Monitoring and Evaluation
Equity and Bond market capitalization

OUTPUT (Target for 5 years cumulated)	Output indicator	Unit	Baseline year	Baseline Value	Prov. 09/10	Target 10/11	Target 11/12	Target 12/13
90%	Percentage of stock market capitalization to GDP	%	2008/2009	39	43.015	70	80	90
30%	Percentage of bonds to GDP	%	2008/2009	16	17.925	24	27	30

**Prov GDP Kshs 2.713 Trillion (BOPA 2011)*
**market cap Kshs 1.167 trillion*
**bond turnover Kshs 486 billion*

Savings and investment levels

GOAL: Raise Savings and Investment rates from 14% to between 25% to 30% of GDP

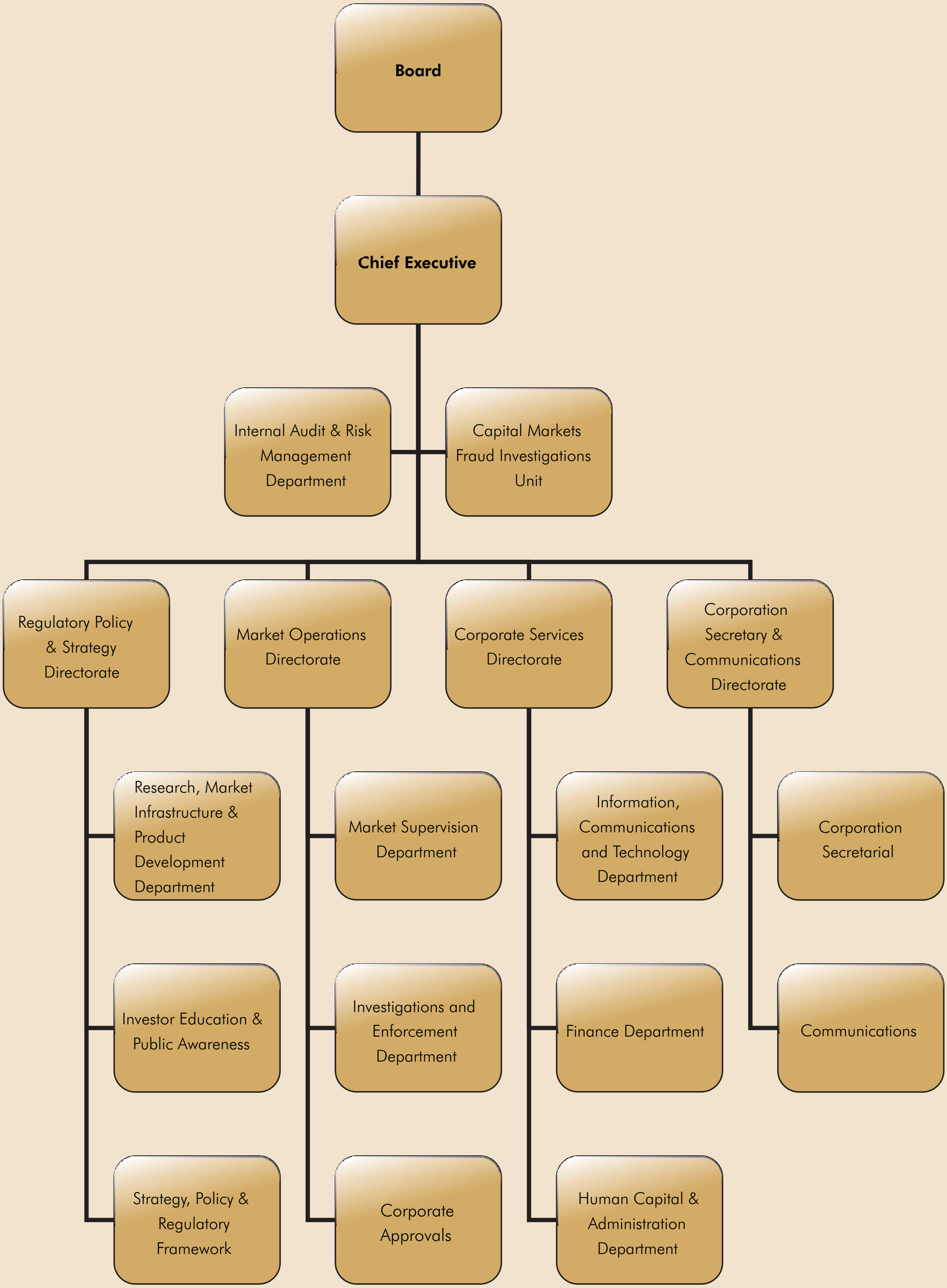
OUTCOME: increased access to financial services

OUTCOME INDICATOR: no. of new investors at NSE

OUTPUT (Target for 5 years cumulated)	Output indicator	Unit	Baseline year	Baseline Value	Prov 09/10	Target 10/11	Target 11/12
34%	Gross investment/GDP	%	2007/2008	23.2	22.2	29.7	32.6
30%	Gross savings/GDP	%	2007/2008	16.2	15.6	24.4	27.7

Source BOPA 2011

CMA ORGANIZATIONAL STRUCTURE



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