CMA Forum

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CAPITAL MARKETS AUTHORITY

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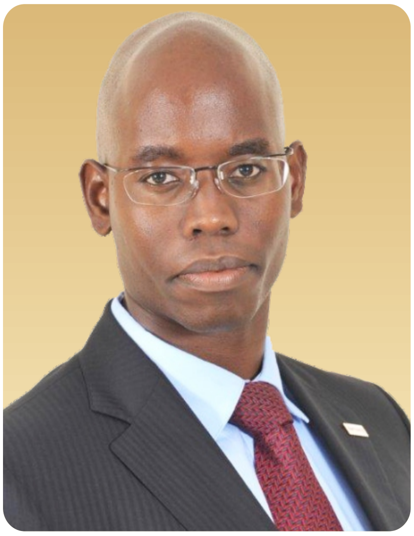
Chief Executive's Message



Mr. Paul Muthaura, Acting Chief Executive

As part of efforts to make Nairobi an International Financial Centre, as envisaged in the Vision 2030 Economic Blueprint,capital market industry stakeholders are taking steps towards putting together the Capital Markets Master Plan (CMMP) under the umbrella of the CMMP Steering Committee. The steering committee comprises of highly experienced local professionals, industry associations, market participants as well as the CEO of the Capital Markets Authority.

By establishing a regional financial centre in Kenya, the East African community will benefit through attracting investments towards innovation and growth such as; sophisticated and modern financial sector services; increase wealth of country and citizens emanating from the investment and employment opportunities that will be created; facilitate regional trade and integration by providing a one-stop-shop for financial services and a strong connection to the wider global network and gains from global trade. The CMMP is expected to be a comprehensive plan mapping the direction of Kenya's capital market over a ten-year period. The plan is expected to ensure that the capital market is well positioned to support national economic growth and to meet future challenges resulting from regional competition and globalization and transform Kenya into the gateway to Africa's capital markets.

To get the process underway, the CMMP Steering Committee recently decided to utilize consultancy services to guide the process of putting together the master plan. To guarantee inclusiveness,extensive consultations are being undertaken with a broad range of market participants, Government Ministries, agencies, academics and independent consultants to ensure that the views of all participants are incorporated in the CMMP blueprint and to tap into the rife creativity and innovativeness in the industry. The CMMP is considered important because effective mobilisation of financial resources is a critical pre-requisite for economic growth and an efficient and competitive capital market is an important pre-condition for the mobilisation of financial resources. Vision 2030 envisions transformation of Kenya into a middle income status by the year 2030 and recognises the capital markets as a key driver for mobilisation of long term resources. Although Kenya's capital markets is more developed than other markets in the East African region, there is still need for further development to ensure it is competitive with other markets in Africa and internationally as the country strives to become the region's financial services hub. Since the thrust of the CMMP will be to support the establishment of Nairobi into an International Financial Centre (IFC), the contribution of the capital markets to this process is to develop the Kenyan securities market into an international securities market by improving access, efficiency, and stability of the market.

Establishment of an international securities market in Kenya will not only benefit the international business community but also the Kenyan economy as a whole. It is a vital step towards making Kenya the premier capital market hub for the region and will support government's recognition of the important role the international business and financial services sector plays in the development of the country. The 10-year plan is expected to position Kenya's capital market as a gateway to African capital markets.

In order to raise the profile of the capital markets, the implementation of the CMMP has been designated as a flagship project for the second Medium Term Plan, 2013-2017. The key areas of focus will be to effectively mobilize and channel investments into key sectors of the economy such as real estate, infrastructure development, health, commodities as well as providing effective hedging tools against foreign exchange, interest rate and world commodity price fluctuations. Some of the proposed programmes to be implemented include: a single National Central Securities Depository, Growth Enterprise Market Segment (GEMS) for improved access to listing opportunities, Nairobi Spot Commodities & Futures Exchange, Integrated EAC Securities Exchange, Integrated EAC Central Securities Depository and Legal framework for Shariah compliant products, CMMP engaged a consultant to carry out a market assessment for the purpose of informing the Master Plan development process.

The market assessment was done in March and April 2013 and the findings and recommendations were exposed to the market stakeholders through round table discussions. Key gaps and weaknesses in the market have been identified in the report and will inform areas of focus when designing and developing the Master Plan. The report has also identified key quick wins in terms of opportunities that could be exploited in the interim.The Market Assessment report will go a long way in informing the second phase of the process which will involve actual preparation of the Master plan.

The process of securing the consultant who will design and develop the master plan has started and the actual work is expected to start by mid August 2013. Once the plan is developed, the overall progress of implementation will be closely monitored by the Authority to ensure that the recommendations are implemented and reviewed on a timely and efficient basis. The CMMP Steering Committee is expected to continue providing independent views and timely advice as necessary. The successful development and implementation of the plan will be a collective responsibility of all industry participants. We therefore urge all our stakeholders to actively participate in this initiative as we rollout the process of putting together the CMMP.

THE AUTHORITY RECEIVES NEW BOARD MEMBERS

The following four new members were appointed to the Board of the Authority to replace members James Waweru, Mohammed Nyaoga, Priscilla Komora and Dr Gituro Wainaina whose terms of appointment had lapsed. The new members join the Authority in exciting times backdropped with a new constitutional dispensation which require devolution of services to the counties as well as hightened levels of integrity for all public officers. The capital markets are also expected to play a pivotal role in raising capital and harnessing higer levels of savings under the Vision 2030. The Board and management of the Authority welcome the new members to join the team in the execution of the capital markets agenda of development and regulation of the capital markets in Kenya.

Board member Jane Joram was appointed as alternate to the Honourable Attorney General to replace Mr James Waweru who has been appointed to serve the country as legal adviser at the United Nations head office in New York. Ms.Joram is an Advocate of the High Court of Kenya, holder of a Bachelors of Laws Degree from the University of Nairobi and currently undertaking a Masters Degree in International Studies at the University of Nairobi. Ms Joram is a Senior Deputy Registrar in the Department of the Registrar General, Attorney General's Chambers. She is the head of the Companies Registry and spearheaded major reforms that have taken place in the Registry, including modernization of the Registry and computerisation.

Mr. Paul Ngugi is an independent member of the board and brings to the board a wealth of experience gained over his working life as a finance expert. He holds a Masters of Social Science (M.Soc.SC) in Development Administration from the University of Birmingham (UK), a Bachelor of Arts from the University of Nairobi and a Diploma of Professional Development in Management with Specialization in Budgeting and Financial Management from the University of Connecticut (USA). He has served as Alternate Director to Permanent Secretary, Ministry of Finance in various boards of state corporations including Kenya Roads Board, Housing Finance, Kenya Meat Commission, National Oil Corporation, among others.

Mrs. Judy Thuo holds a Bachelor of Arts Communications (major) Community Development (minor) from Daystar University College (Messiah University). She is currently a director in City Hopper Limited and Kwani Trust.She has extensive experience in business, transport sector, IT and Telecommunications, Advertising , Integrated Communications among other sectors.

Mrs. Anne Schofield is an independent member of the board and holds a Bachelor degree in Law (LLB Hons Degree) from the University of Nairobi. She has extensive legal professional experience in Kenya, the Caribbean, the Mediterranean and the United Kingdom particularly in the Banking and Trust sector in the Cayman Islands.

INVESTOR EDUCATION

Financial Empowerment through Investor Education

As global nations face increasing debt burdens and companies too face significant cost burdens, there is a clear movement towards individual responsibility for financial planning for wealth creation, retirement and financial well-being in general.

This adjustment is happening at a time when as individuals we are feeling more insecure about the future in the face of declining job security and the increased reluctance of financial institutions to provide credit or providing credit that is costly to the consumer. Further, we face bewildering challenges in navigating the complex landscape of financial products and providers to reach the most efficient solutions for their retirement needs. At the core of this issue is the need to increase individual capability to make financial decisions.

As long as people have relatively low levels of financial education and literacy, they will be prey to problems with either high charges or inappropriate products. The Capital Markets Authority will continue to play its pivotal role in promoting investor education throughout its various programmes through continued collaborations with all stakeholders. As outlined in the last newsletter, the youth are a critical target group of our investor education strategy.

This is evidenced by the various universities that the Authority engaged for the months of February through April 2012. As examples, the Authority held forums for the students and faculty from Bondo University, Maseno University, Mount Kenya University and Nairobi University. In addition, at the invitation of the United States International University (USIU), the Authority held a forum for students during the University's weekly colloquium.

The Authority further recognizes the importance of continued collaborations with stakeholders in achieving its investor education mandate. This is an initiative that cannot be achieved alone. It is in this regard that the Authority and the Association of Chartered Certified Accountants (ACCA) organized a joint media breakfast roundtable to discuss the status of capital markets for select business journalists from key and diverse media houses as well as stakeholders from both CMA and ACCA. Further, the Authority engaged stakeholders at various forums locally and internationally in regards to REITS and the developments and opportunities in capital markets during presentations at the Organisation for Economic Co-operation and Development (OECD) conference, Konza City investors forum, a REITS stakeholders' workshop to government policy makers and market stakeholders and an IFC conference in the Democratic Republic of Congo.

Investor education materials are a key component of the investor education strategy in terms of information dissemination. It is pertinent that the information be presented in a manner that can be understood by all potential and existing investors and intermediaries.

The Authority finalised production of An Outlook of Capital Markets in Kenya brochure, a Rights and Responsibilities of Shareholders Brochure as well as a Key On-going Capital Markets Reforms in Kenya Brochure.

In the continued spirit of effective information dissemination, the Authority has increased capital markets materials both internally in the Resource Centre as well as online. The Authority has embarked on a project of converting financial reports for listed companies into electronic format and availing them online through the corporate website.

Additionally, the Authority is engaged in a continuous selection and acquisition of information resources including, reference materials, periodicals, journals and electronic resources so as to enrich the Resource Centre collection and respond to the growing user information needs on various aspects of capital markets development and products. Examples of publications during the period are 11 resource materials from the Institute of Internal Auditors that are available for reference.

By Konrad Afande, Assistant Manager,
Investor Education and Public Awareness

THE CAPITAL MARKETS OPEN DAY

The Authority in partnership with Capital Markets Industry Stakeholders organized the Capital Markets Open Day and Exhibition from 12th to 14th June 2013 at the Kenyatta International Conference Center (KICC), Tsavo Ballroom. The event was aimed at giving participants an opportunity to get more detailed information on investments in Capital Markets as an avenue for wealth creation. It targeted participants from the business and professional community as well as the General Public within Nairobi and its environs

The Open Day gave participants an opportunity to among other things get information on:How to buy share and bonds; How to protect their investments in shares & bonds;How they can start investing with as low as Kshs. 500.00;Opening and running a CDS account;What they need to know about Unit Trusts (Collective Investment Schemes);Information on new products such as the Growth and Enterprise Markets Segments (GEMS)for facilitated listings, Real Estate Investments Trusts (REITS) and using the Capital Markets for Collective investment in property as well as opportunities from Futures and derivatives markets; Developments in capital markets;The role of intermediaries in facilitating long term savings;Capital markets as an alternative financing option in long term projects;The government's role in promoting investment and security of investment;

Over 400 members of the capital market industry and investors attended the official opening and Launch of the Open Day on Wednesday 12th June 2013. This launch was officiated by Mr. Mutua Kilaka, Financial Secretary to the National Treasury who represented the Cabinet Secretary to the National Treasury, Mr. Henry Rotich. In his official opening speech, read on his behalf by Mr. Kilaka, the Cabinet Secretary appreciated the increased role and complexity of financial markets and their products particularly in developing nations and pointed out that this reinforces the need to improve the capacity of individuals to effectively manage their finances, especially in low and middle income countries where financial inclusion is poor and education levels are low. He also congratulated the Capital Markets Authority for organizing the Open day to demystify the capital market and showcase it as an alternative source of funding and investment for all segments of the economy.

He also urged the media to give the Authority every support to take the message of the opportunities in the capital markets to the public and all stakeholders including policy makers and those in government. He mentioned that the media and the Authority must maintain the momentum for this public education so that at the end of the day the public and all stakeholders will come to accept the capital market as a place for wealth creation and the development and growth and prosperity other country.

The Cabinet Secretary did not forget to applauded the stakeholders who supported the event and assured participants that his Ministry, theGovernment and indeed the general public were not oblivious to what the Authority is doing to make the Capital Market the centerpiece of wealth creation and as a policy tool for the National and County governments to fund infrastructural development and wealth distribution.

Among those who attend the official opening included Board members, the acting chief executive and senior officials of the Authority, Chief Executives Officers and Senior Executives of all the exhibitors, and government officials. Among the exhibitors for the three days included the following 30institutions as shown in the list below;

Name of organization

- Nairobi Securities Exchange
- League of Young Professionals
- Central Depository and Settlement Corporation Limited
- Association of Chartered Certified Accountants,
- Dyer and Blair Investment Bank Limited
- Fusion Capital Asset Management Limited
- AIB Capital Limited
- STANLIB Kenya Limited
- Old mutual Investment Services(K) Limited
- Cannon Asset Managers
- Kingdom Securities Limited
- Synergy Industrial Credit Limited
- ABC Capital Limited
- Kenya Association of Investment Group
- Emerging Africa Capital Limited
- Apollo Asset Management Company Limited
- CIC Asset Management Limited
- Apex Africa Capital Limited
- Equity Bank Limited
- Madison Asset Management Services Limited
- CFC Stanbic Financial services Limited
- Genghis Capital Limited
- Kenya Commercial Bank Limited
- Capital Markets Authority
- British American Asset Managers Limited
- C&R Group
- Kenya Association of Stockbrokers and Investment Banks (KASIB)
- Kenya Accountants and Secretaries National Examinations Board (KASNEB).
- The Profin Group (K) Limited
- Prime Bank

Investors following the proceedings during the official launch of the capital markets open day on June 12th, 2013

Investors visit various stands to learn about the capital markets, products and services, during the capital market open day held between 12th - 14th June 2013.

The event was a huge success and investors were able to meet the market players during the three days. Approximately about 3,000 members of the public visited the Open Day for the 3 days. There was significantly high interest from the investing public on new products.

At the same time a notable number of investors who visited the CMA stand were keen to find out more about the role of capital market in the economy.

Investor took the opportunity to discuss various issues like how to invest in the capital markets, others lodged complaints, others enrolled and started investment in unit trust while a sizeable number opened central depository accounts and commence investing in various shares.

The open day also catered for Structured Groups and Chamas through lectures at the conference room that was part of the open day event. Some of the key issues that defined discussions particularly at the conference room included: Islamic capital markets products;Exchange Traded Funds (ETFs); An Operational framework for regional and international cross listings and mechanisms; An appropriate framework for Diaspora investments;An Operational framework to guide County Governments to utilize the capital market; A framework to facilitate short selling of securities; Margin trading and securities lending and borrowing;The introduction of futures and derivatives market;How to become a market intermediary; Real Estate Investment Trusts (REITs) and how to participate;Growth Enterprise Market Segment (GEMs);

The Authority Ag. Chief Executive made an undertaking that this will be an annual event going forward and requested all stakeholders to continue supporting initiatives by the Authority geared at enhancing financial literacy, investor education and public awareness.

WORKING TOWARD ENVIRONMENTAL SUSTAINABILITY

Corporate Social Responsibility (CSR) in today's economic and social environment is gaining impetus, especially in the business sector. Archie B. Carroll defines CSR as a concept, a challenge to business, a field of practice and an area of academic study. Howard Bowen's first formal definition of CSR in 1953 reflected on literature reviews, interviews and theoretical reasoning so as to define the term more explicitly. According to these authors, the varied definitions make it difficult to precisely define the concept and its practice, albeit 'citizens know it when they see it, or fail to see it'.

CSR is therefore no longer philanthropic, but a key component of the core business strategy for any organization contributing to and operating within the global economy. Bearing the above in mind, the Authority in partnership with Insurance Regulatory Authority (IRA), Retirement Benefits Authority (RBA) and Sacco Societies Regulatory Authority (SASRA) collaborated to plant 1,100 indigenous trees in Ngong Forest. These trees were planted in April 2013 and mark the beginning of the Authority's long-term vision of 'Working towards Environmental Sustainability.' The tree planting activity saw an impressive number of staff come out to plant a tree or two to reduce their carbon foot print.

In the future, the Authority intends to plant many more trees so as to significantly contribute to the national goal of increasing tree cover in Kenya by 10 percent. Currently, the national tree cover stands at 7 percent. Corporate Social Responsibility otherwise referred to as Sustainability or Corporate Responsibility has been observed to be linked to Corporate Governance. Business leaders are therefore prioritizing their comprehension of sustainability as it is perceived to be one of the most important aspects of corporate governance as a risk management tool. Societies have become more inquisitive of an organization's impact to people, planet and profit.

This scrutiny is necessitated by increasing environmental and social degradation. It is therefore important that organizations give sustainability long-term strategic focus as their impact on people and the planet will soon be expected to be reflected in financial statements in addition to the economic and market value, hence determining the longevity of an organization.

Mervyn King in one of his statements notes that there is a gap between the financial and economic value of a company in that the price of any share on any securities exchange in the world is not equivalent to the book value. This, he perceives, is because traditional accounting has failed to take into account intangible (non-financial) aspects. These intangibles include goodwill, brand, reputation, quality of governance, quality of management, human rights record, social and labour issues and a company's relationship with the ecosystem. He observes that in the 21st Century, intangibles are more valuable than the tangibles. The means are beginning to be as important, if not more important, than the end in how organizations achieve their goals. Companies therefore need to seek 'optimum' as opposed to 'maximum' profits. Sustainable development therefore demands a balance between environmental conservation and improved quality of life. This is because organizations today should be able to meet their needs without compromising the ability of future generations to meet their needs. An organization's impact on the planet and people can therefore be reviewed by assessing the balance.Business leaders are therefore called upon to exercise passion and purpose in incorporating sustainability into their organizations long term strategies. In fact, sustainability initiatives should not be presented to boards for approval, rather, they should emanate from boards. Initiatives should not be done in response to regulatory threats, public relations crises, businesses opportunities or risk management. Initiatives should be adopted because an organization and its leaders believe that there is no sense in contributing to an unsustainable world.

By Leah Koyiet,
Corporate Communications

MARSHALLING CAPITAL MARKETS FINANCE TO AID LOCAL ECONOMIC AND COMMUNITY DEVELOPMENT

Part of the uncertainty around the devolved system of government is the question of how the counties as sub-sovereign entities will finance locally-determined community development projects. Several key issues are central to the ability of sub-sovereign finance, including the devolved funds, to leverage community development financing.

These issues, framed as questions here include:

i. Should devolved funds or sub-sovereign finance be used to leverage or seek debt for local economic and community regeneration?
ii. Should there be limitations on what the debt should be used for?
iii. How can we guarantee that borrowed funds are used for public, social and community benefit purposes?
iv. Who should issue the debt?
v. What type of debt is appropriate for purposes of long term capability and asset development finance?
vi. Are there sufficient credit remedies to secure against default and what would be the consequences of failure?
vii. Does there exist a rigorous and sufficient disclosure regime that enables creditors assess and take necessary risks?
viii. In the case of leveraged debt, i.e. debt to other local social enterprise entities leveraged against income to devolved or sub-sovereign entities, is there a predictable and adequate revenue regime to guarantee such intermediation?
ix. What really are the capacities of these funds to take the complex nature of anticipated financial intermediation?

Issuing of the debt

Ideally, debt should be issued by the sub-sovereign entities such as county governments and devolved finance mechanisms themselves, such as the constituency office of the CDF, qualifying social economy organizations—such as well established industrial parks or producer/retail markets—regional development agencies and community or area development corporations. The fact that there does not yet exist such a debt market and that these entities, where they exist, have not participated in issuing such debts raises several issues that would need redress.

Credit remedies against default

Owing to the fact that the market is non-existent, there are no credit remedies available currently for those who may want to invest in such schemes. It would therefore be necessary that such remedies are available for the scheme to work. Since majority income for these schemes will issue from government revenue, and granted that these schemes must aid the government's overall fiscal and expenditure measures, there should not be an expectation that the central government will guarantee their debt. Indeed, the law is clear that the government will not guarantee any sub-sovereign debt.

It is crucial, however, that such remedies are not counter-productive and lead to speculative borrowing or lending with the sole object of effecting private transfer of public goods. The creditor remedy regime should also not have the effect of stifling the emergence of purely market-based solutions to the elimination and mitigation of such risks and realities.

Disclosure regime

Increased sophistication in the local debt market and the need to maintain confidence in the operations of sub-sovereign finance investment schemes calls for sufficient disclosure of critical information by various actors in the debt market.

Revenue regime

An adequate revenue regime will be necessary for sub-sovereign finance investment schemes for which the debt is being secured. A revenue regime can comprise of any combination of assured income from the central government and own income by County authorities. The quality of the revenue regime will be crucial in negotiating interest and income yields of the debt, especially as there are no central government guarantees. A secure and well structured revenue regime will also be a prerequisite to enable secondary trading in the debt through securitization and derivatives.

Capacities for financial intermediation

It will be obvious that many of the devolved authorities do not have the legal, institutional and human resource capacity to carry out the tasks envisaged in structuring these products. It is conceivable that some may need significant investments of technical assistance to bring them up to speed with the new demands and environment.

Equity Finance

Equity finance, whether at individual or community level, is a key form of finance in asset-based development. Without equity participation, very little asset development and accumulation would be realized. Equity also serves to provide a basis for ownership and residency even for basic social infrastructure like a water project, school, polytechnic, market or local hospital.

PROPOSALS

Opening a New Social Investment Floor at the Stock Exchange
In order to open the market to the new institutional asset class envisaged in the social economy, it will be necessary to establish a third tier trading mechanism set up specifically for investors in social enterprise companies and related schema, including the proposed sub-sovereign finance-backed social development bonds.

Equity Participation in Qualifying Social Enterprises

There is no compelling reason why devolved financial schemes should not incorporate trust funds and other investment schemes to enable them take up strategic equity in Social and Community Benefit Enterprise Companies. There should not be much reason, for instance, why a sub-sovereign finance scheme run by the County of Nairobi should not take up equity holding in an entity such as the Nairobi Hospital, Faulu Kenya, or Kenya Women's Finance Trust, if such equity holdings were possible. There is also no reason why juridically competent Constituency Development Committees should not set up permanent trust funds to help start up and invest in the proposed Community Development Finance Institutions.

Social Investment Angel Finance Matching Mechanisms

Duly incorporated sub-sovereign and devolved funding schemes should be required to establish investment matching facilities to enable social angel capital to find appropriate and suitable investments as well as spur a secondary market for trade in the shares of social enterprise organizations and Community Development Finance securities - backed portfolios.

Venture capital trusts

Duly incorporated and self-motivating devolved and sub-sovereign finance schemes present excellent sources of the formation of venture capital trusts, which can be formed directly by the scheme through leveraged finance or assurances provided by a devolved fund scheme.

Alternative public offerings

An Alternative Public Offerings (APOs) is essentially an “ethical” share issue providing social investors with an opportunity to invest in social enterprises or certified ethical stocks that may be listed on a specially-designed counter or in shares of venture capital firms investing in unquoted social enterprises. Social enterprise companies such as the Kenya Women's Finance Trust, Jitegemee Trust and others offer excellent prospects for the issue of such shares. An APO listing would enable investors to invest in a firm without assuming the levels of control that would be typically associated with venture capital and huge business angel finance.

It is conceivable that national universities and polytechnics, regional and national referral hospitals and even health and school districts can be fashioned to list as APOs. It is also conceivable that other social enterprises such as sectoral development corporations may want to issue shares through this new social economy window at the Nairobi Stock Exchange.

Strategic Asset Building and Development Venture Capital

Kenya is unlikely to mature a social economy-based asset development strategy without allowing for seed financing for various asset development schemes. A good example of this is the Higher Education Loans Board (HELB). The loan scheme presents a possible excellent institutional asset class to finance tertiary education and workforce development. The loan scheme is mandated in law to establish a revolving fund scheme for onward disbursement of these recoveries to new cases. In reality, the funds initially invested present some type of long term asset-building and development venture capital, the seed finance necessary to build up the fund base. It is noteworthy that the government continues to take up the financing of initial seed money to this scheme. There exists a lot of room to improvise and modernize the Higher Education Loans Board within the context of community-based and community-specific financial intermediation.

Regional venture capital corporations

To help drive independent/alternative development venture type capital into various regions, it is conceivable that the existing Regional Development Authorities, such as the Tana and Athi River Development Authority, Lake Basin Development Authority and others be converted into Regional Local Economic and Community Development Venture Capital Corporations with the mandate to mobilize long term finance and invest it in viable and qualifying enterprises in communities within their respective jurisdictions. The revitalized corporations will, therefore, work to ensure that enterprises in their respective jurisdictions, regardless of the capital requirements, can get the finance needed for their growth.

The Regional Local Economic and Community Development Venture Capital Corporations would participate in such establishments primarily with a view to maturing them for an IPO at the Nairobi Stock Exchange or other such appropriate exchange.Regional Local Economic and Community Development Venture Capital Corporations (and not Regional Development Authorities) should also be empowered in law to issue bonds on the stock and securities exchange backed by their own income and assets.

These bonds should be issued to enable financing of investments identified in broad consultation, and especially in line with the strategic plan developed by the Regional Development Authorities.

Derivatives, futures, options and community development

With the ongoing consolidation and sophistication of the local capital markets, Kenyan investors will soon be able to explore opportunities offered by options, futures and other derivate markets. The Capital Markets Authority, for instance, recently issued draft rules to enable the development of a securitization industry within the local capital markets. The Nairobi Stock Exchange is also discussing prospects for developing a Commodities Exchange in two years time.

Options market

An option refers to a contract that gives its holder the right to purchase an asset for a specific price—called the exercise or strike price—on or before some specified expiration date. In this scenario, supposing Wakulima Market is a social enterprise organization in which participating traders can purchase farm produce collectively through the market corporation, the market can offer a firm price for beef to a producer market in Marsabit. The contract would specify that Wakulima Market will buy specified quality and quantity of beef at Ksh 50 a kilo in December. This would help beef farmers in Marsabit predict how much their stock will be worth then.

Futures market

Futures and Forwards contracts are similar to options in that they specify purchase or sale of some underlying security at some future date. The key difference is that the holder of an option to buy is not compelled to buy and will not do so if the trade is unprofitable. A futures and forward contract carries the obligation to go through with the agreed upon transaction. A forward contract is thus, essentially, a commitment today to transact in the future.

A futures contract calls for the delivery of a commodity at a specified delivery or maturity date for an agreed upon price, called the futures price, to be paid at contract maturity. The contract specifies precise requirements for the commodity. Delivery of agricultural commodities is made by transfer of warehouse receipts issued by approved warehouses. Thus, a producer market in Marsabit can deliver produce to an approved warehouse in Marsabit and electronically deliver the warehouse receipts to Wakulima Market in Nairobi. The warehouse at Marsabit may be linked or owned by a social enterprise-based abattoir, which may then process the produce for delivery to the market at Wakulima.

In the case of financial futures, delivery may be made by wire transfer while delivery of an indexed future may be accompanied by some cash settlement procedure. As a futures agreement can be traded at an exchange, a group of ranchers in Marsabit can trade their futures contract for cash following certain rules established by the commodities exchange. The ranchers can also approach a bank for credit on the strength of the contract. The bank would, therefore, acquire a charge on the contract. This kind of financing can be crucial to unlocking and deepening agricultural finance institutions such as the Agricultural Finance Corporation (AFC). Potential also exists for this kind of contracting to be used to consolidate and grow service sectors such as tourism as well as the farming of especially export crops such as flowers, fruits, vegetables, as well as tea and coffee. It is conceivable, for instance, that women farmers working through a social enterprise organization or their own cooperative society can be contracted to supply certain types of flowers, fish, eggs or vegetables to a social enterprise company-owned warehouse, which then delivers the flowers to certain markets in Europe or to exporters in Nairobi.

It is also conceivable that women weavers on the shores of Lake Turkana can contract with a textile firm to supply a particular product for export under AGOA at a future price. Once the contract is made, the women through a local Community Development Institution can go to a securities exchange or a bank and liquidate the asset for cash to develop facilities they need today.

Securitization

Securitization refers to the act of pooling loans for various purposes into standardized securities backed by those loans, which can then be traded like any other security at a stock exchange. It is conceivable that the Kenya Women's Finance Trust can securitize various mid-term loans it may make to women groups. It then proceeds to sell this security at the stock exchange and uses the funds so realized to make other loans.

Sub-sovereign finance can play powerful enabling roles in making such securitization possible. Sub-sovereign finance can, for instance, simply offer to buy such securities once offered, thus ensuring that a market exists for the instrument. Sub-sovereign finance can also offer to leverage the security by offering to discount it so that it is issued to the market at a discount.

JOSEPH MWENDA
RESEARCH, MARKET INFRASTRUCTURE & PRODUCT DEVELOPMENT

The Ag. Chief Executive, CMA, Mr. Paul Muthaura giving opening remarks during the official launch of the capital markets open day on June 12th 2013

Mr. Mutua Kilaka, Financial Secretary, National Treasury, reads a key note address on behalf of the Cabinet Secretary Mr. Henry Rotich during the official launch of the open day on June 12th, 2013

Mr. Humphrey Muga, Chair, Technical and Policy Committee of the CMA board gives remarks on behalf of the board Chairman, Mr Kung'u Gatabaki during the official launch of the open day on June 12th, 2013

Mr. Geoffrey Odundo, Chief Executive Officer, Kingdom Securities signs the visitors' book at the CMA stand during the official launch of the capital markets open day on June 12th, 2013

Staff of financial sector regulators enjoy some cheer as they plant trees during the joint CSR activity at Ngong Forest..

Mr. Paul Muthaura, Acting Chief Executive, Capital Markets Authority, plants a tree during the Authority's tree planting activity at Ngong Forest, Kuwinda Grounds in April 2013.

Capital Markets Authority
3rd Floor, Embankment Plaza
Longonot Road, Upperhill
P.O. Box 74800 - 00200, Nairobi
Tel: 2221910/2264900/2221869/2226225
Cell: 0722 207767/ 0734651550
Email: corporate@cma.or.ke
Website; www.cma.or.ke.