

REMARKS BY MR. PAUL MUTHAURA MBS, CHIEF EXECUTIVE CAPITAL MARKETS AUTHORITY, DURING THE OFFICIAL OPENING CEREMONY OF “BUILDING AFRICA FINANCIAL MARKETS SEMINAR” ON THURSDAY, 19 APRIL, 2018 AT THE VILLA ROSA KEMPINSKI

**HE William Samoei Ruto, EGH, Deputy President of the Republic of Kenya;
Mr. Oscar N. Onyema, OON, President of African Securities Exchanges Association (ASEA) and Chief Executive Officer of the Nigerian Stock Exchange;
Mr. Sam Kimani, Chairman and the Board Members of the Nairobi Securities Exchange;
Mr. Geoffrey Odundo, The Chief Executive Officer, Nairobi Securities Exchange;
African Securities Exchanges Association members here present;
Distinguished Delegates;
Ladies and Gentlemen;
All Protocols Observed.**

Good Morning.

I wish to take this opportunity to thank and warmly welcome you all to this auspicious capacity-building session. We owe a very special thank you to His Excellency the Deputy President of the Republic of Kenya, HE William Samoei Ruto for gracing this event. We are cognizant of your busy schedule and therefore recognize your presence as a resounding demonstration of the Government of Kenya’s commitment towards the development of robust capital markets both locally and across the African continent.

In the space of only four years, it is truly commendable that the NSE has hosted both the ASEA Annual Conference in November 2014 and now this Building African Financial Markets programme. Those of you that joined us four years ago will likely remember the passion and

clarity of the candid remarks that were delivered by HE the Deputy President at that event, so it is a genuine honour to welcome him into our midst once again.

This conference also comes closely on the heels of the admission of the NSE to the World Federation of Exchanges which acknowledges the trajectory of our markets' growth in recent years and reinvigorates us for the journey ahead as we seek to position the NSE as a globally competitive platform for wealth creation, a global cross roads for investment and risk management and a critical catalyst for economic transformation. I therefore congratulate the Nairobi Securities Exchange for being at the forefront of building more diversified and deeper capital markets in Africa through its active role as a founder member of the African Securities Exchanges Association (ASEA).

As evidenced by the presence of our Deputy President, the central role of deepening capital markets to finance infrastructure, business enterprise and overall economic development is increasingly a key pillar of policy makers agendas in Africa. For instance, the African Union (AU) Agenda 2063, prioritises the development of capital markets on the continent to strengthen domestic resource mobilisation and to double market based financings' contribution to development financing. Similar prioritization is found in several national visions including Nigeria's FSS2020, Zambia's Vision 2030, Rwanda's Vision 2020, Uganda's Vision 2040 and of course the Kenya Vision 2030. Over US\$1 trillion in assets are currently held by pension, insurance and collective investment vehicles across sub-Saharan Africa so the challenge to us in this room remains how are we going to leverage these pools to crowd-in the significantly larger pools of global capital necessary to fund the meteoric rise of this continent.

Ladies and Gentlemen, turning to the theme of the conference "*Adaptive innovation as a lever for the growth and sustainable development of African Financial Markets.*" Looking at the very broad scoping on what I have been asked to cover in my remarks, I may just have to think up a creative regulatory sanction for Geoff... That notwithstanding, it goes without saying that institutions or sectors that do not prioritize innovation are ultimately relegated to stunted

growth, poor-competitiveness and ultimately, redundancy. The very fact that we are all gathered here today affirms that as a continent we are committed to actively deliberating on proactively adapting to emerging innovations. To institutionalize this commitment to constructive innovation at a national level, the Authority was honoured to convene our sector and international partners to put in place the Capital Markets Masterplan (CMMP) – a 10-year strategic policy document that targets to stimulate innovation to broaden product and service offerings, deepen market participation and liquidity, and drive transformative economic development for Kenya and the wider region.

Ladies and Gentlemen: In current times, any conversation on innovation appears inseparable from a deliberation on the global efforts to continuously update business models in line with technological changes cutting across product/services design, infrastructure, access and supervision. To this last point, regulators are increasingly challenged to rethink their supervisory models to align regulatory requirements with market needs in a fast-changing environment.

For some time now, Kenya has been sitting in a unique position as a bustling hub for impactful innovation, ranging from MPESA – a fast and convenient mobile money platform to M-Shwari – a mobile-based savings product. Not to be left behind, Kenya’s capital markets have through various initiatives been angling to put the country on the global innovation map. These initiatives include;

- The recent launch of M-Akiba – a mobile-phone-based retail government bond primary and secondary market investment platform,
- The on-going efforts to establish a Regulatory Sandbox for Kenya’s capital markets to provide an ideal platform for testing of ideas/innovations/products/services etc. before they are rolled-out to the wider market; and
- The development of a wide spectrum of mobile based platforms for securities trading.

- As a regulator cognisant of our dual mandate of regulation as well as development, the Authority has also operationalized principle based approval powers to allow for the accelerated introduction of new products including Exchange Traded Funds, GDR/Ns and Asset Backed Securities.

These efforts notwithstanding, it is critical, particularly given the nascent state of markets on most of the continent, that we do not lose sight of the critical importance to build our markets on the right foundations. In a world where we are eternally competing for highly mobile capital, we must prioritize the development and more critically the transparent enforcement of world class legal and regulatory frameworks; in pursuing innovation, we must not forsake robust market infrastructure that provides pre and post trade transparency and engenders confidence in settlement finality; we must ensure that the products and services being developed are actually relevant and responsive to the economic needs of our environment, resonate with the political priorities of our governments and strengthen the savings and investment habits of our citizenry. We must challenge our governments to provide conducive macro-economic, political and fiscal environments for markets to grow. Difficult as it may be, we must be willing to prioritize market based funding models over traditional government to government and donor funding models. What appears concessionary today, will likely be unsustainable tomorrow where the necessary market dynamics have not been built to support private sector growth and SME business as the engines for long term sustainable economic growth and as a critical source of tax revenue to ensure debt service and sustainability. We must challenge our market intermediaries to raise their operational and technical standards to be able to support responsive product design and ethical practices, all parties need to come together to drive both issuer and investor education on the full spectrum of financing options available to them to ensure the supply side is as dynamic as the demand side's need. We must challenge our domestic institutional investors to make the difficult decisions to diversify into appropriate market based risk products that allow for effective asset-liability matching in place of traditional government debt and needless to say, proactively work with government to consistently lower

government borrowing rates in order to tackle the crowding-out effect all too common with the easy availability of double-digit risk free assets. If we are to deliver robust African capital markets we must deepen the capacity of the complementary professionals, support independent auditor oversight, robust corporate governance and globally benchmarked certification standards.

All of these efforts lay at the core of the 10 year capital markets master plan and the continuing efforts to develop the policy and legal environment.

Allow me to appreciate the responsiveness that we continue to enjoy from the government of a kenya in considering and fast tracking a cross-section of Policy, fiscal as well as regulatory changes to ensure Kenya's financial sector can remain nimble and primed to fuel national and regional economic growth.

With the intro of the Comtinenta Free Trade Area, it is for the capital markets to address pan continental connectivity to allow for the free flow of capital across borders to funding the critical infrastructure necessary to support the free movement of goods and services under the free trade area. The time is now to stop aspiring to building and focus ensuring the african financial markets are actually built.

In conclusion, as the Capital Markets regulator, we are keen on actively playing our role in positioning Kenya as an investment hub for East and middle Africa. By 2023, we envision Kenya as the choice market for domestic, regional and international issuers and investors looking for a safe and secure investment destination. It is on this ground, that we encourage you who are key stakeholders in Africa's financial markets to join us in steering Africa to claim its rightful position on the global financial markets stage. I take comfort in the fact that the potential for Africa to develop its financial market is large, given its growth and development potential and that Seminars like this 7th edition of *Building Africa Financial Markets (BAFM)* seminar will go a long way in buttressing Africa's international standing as a preferred investment destination.



Finally, let me extend my appreciation and wish you fruitful deliberations as you take the first steps towards improving Africa's capacity to attract investment, for a better distributed and more inclusive African economy.

Thank you!