# Capital Markets Master Plan 2014-2023

3rd Edition 30th March 2022

KENYA VISION 2030

THE BIG 4
EMPOWERING THE NATION

CAPITAL MARKETS AUTHORITY
*Promoting the Integrity and Growth of the Capital Markets*

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MARKETS AUTHORITY
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# Capital Markets Master Plan
## 2014-2023

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## MESSAGE FROM THE CABINET SECRETARY

The ever-changing geo-political and socio-economic environment and the dynamism of the capital markets, in general, has necessitated the review of Kenya's ten-year Capital Markets Master Plan, launched in 2014, seven years later. The Master Plan was included in the 2nd Medium Term Plan as a Vision 2030 Flagship project and subsequently in the third Medium Term Plan (MTP III) as the first comprehensive roadmap, formulated in collaboration with all stakeholders to chart the development of the capital market for ten years. This was in light of the envisaged catalytic role that the capital markets play as an important enabler of attracting international capital by facilitating the raising of capital by corporates and public agencies in Kenya and internationally. This is through regional comparative advantage in terms of efficient capital market infrastructure, robust policy and regulatory frameworks, capital markets intermediaries, diverse capital markets products, tax incentives, compliance, and enforcement mechanisms, market-based county financing, and corporate governance. Notably, the capital markets are expected to mobilize savings and investments to fund Vision 2030 Flagship projects.

While there have been significant milestones achieved to date, a review of the Plan was necessary to among other factors: rebound the capital markets industry and its players from the dilapidating effects of the Covid-19 Pandemic, align it with Kenya's Economic Recovery Strategy, as well as, align it with emerging issues in long term financing such as alternative finance and green finance. I am glad to note that the reviewed Master Plan is a product of broad consultation with internal and external stakeholders, including international benchmarking with jurisdictions that had instituted financial sector reform strategies, attained International Financial Centre (IFC) and/or Gateway status, or developed diversified and sophisticated capital market products and services.

I am confident that the new far-reaching reforms introduced in this Master Plan will put Kenya back on track in supporting the projected annual 10% growth in GDP, necessary to achieve our aspirations to be a middle-income economy. It will further reinforce the establishment of Nairobi as an International Financial Centre (IFC), thus opening Kenya as an attractive and accessible destination for long term international and regional fund flows

I commend the Capital Markets Authority Board and staff and the industry for this important initiative. I would like therefore to sincerely thank the Capital Markets Authority, the Capital Markets Master Plan implementation committee, and the Financial Sector Deepening Africa for working together in reviewing the master plan.

The success of the implementation of this reviewed document that seeks to consolidate the gains made so far and further make progress in the implementation of the remaining deliverables calls for intentional collaboration and commitment by all concerned, particularly market participants and the relevant capital market institutions, to ensure that Kenya's capital markets continue to emerge as a center of excellence and a gateway for regional and international capital flows. I, therefore, hope to see all capital markets industry players aligning their operations and strategies with this plan. I want to assure all of you that the National Treasury will continue to prioritize and support the implementation of this Plan and call on each of us who have a role in this Plan to do the same.

The hallmarks of this policy were built around adhering to corporate governance frameworks; safeguarding professionalism and accountability in the management of institutions; enhancing the operational capacity of capital markets institutions; setting up compliance and enforcement mechanisms; enhancing capital markets infrastructure and market deepening.

**HON. (AMB.) Ukur Yatani, E.G.H.**
Cabinet Secretary, The National Treasury and Planning

# MESSAGE FROM THE CHAIRMAN

The capital markets Master Plan envisaged that by 2023, Kenya will be transformed into the choice market for domestic, regional, and international issuers and investors looking to invest in and realize their investments in Kenya, within East Africa, and across Middle Africa. It covered a ten-year time horizon (2014 - 2023) with an ambitious set of activities to undertake.

There have been significant achievements towards its implementation, including fully opening up the Kenyan capital markets to foreign investors; demutualization and self-listing of the Nairobi Securities Exchange, the introduction of day trading, domestication of five (5) EAC Council Directives on capital markets; removal of Kenya from the Financial Action Task Force (FATF) grey list; reduction of NSE platform access fees from KES 250 million to KES 25 million, the introduction of Green bond financing, launch and trading of derivatives; establishment of a Financial Law Review Panel, development of a Code of Corporate Governance Practices for Issuers of Securities, and the establishment of a highly successful regulatory sandbox to support innovators in the FinTech space, to name but a few.

It is however noteworthy that several important developments have taken place at a global and local level, many of which have significantly impacted the outlook of capital markets in Kenya and therefore the way we should put in place necessary interventions to move the capital markets to the next phase of its development. In addition, key lessons have been learned in relation to the implementation of the CMMP. For instance, while Covid-19 has had an adverse impact on the Kenyan capital markets space, there are other factors at play such as re-prioritization of the Kenyan Development Agenda towards the "Big 4", alignment between the CMA and the Nairobi International Financial Center Authority (NIFCA) as far as promotion versus regulation of the capital markets is concerned, the global repercussions of the evolving relationship between the USA and China, Brexit, global natural disasters, shifting foreign economic policies towards protectionism, increased global focus on sustainability and technology, and most recently evolving conflicts and escalation of the same, such as the ongoing war between Russia and Ukraine, among others.

Consequently, a review of the Plan became an inevitable imperative to be able to respond to current challenges and exploit emerging opportunities to ensure that the CMMP remains a key enabler within the country's broader developmental agenda.

Building from the achievements of my predecessor as Chairman, I am committed to focusing on what is achievable within the current remaining timeframe, cognizant of global and local developments, whilst ensuring the efficient and smooth implementation of the remaining activities.

In addition, the new structure has shifted its focus as far as implementation is concerned, by utilizing an RCI (Responsible, Consulted, and Informed) framework for each action. The aim behind this approach is to delegate responsibility on a more granular basis (under the oversight of the Steering Committee and Implementation Committee) to streamline implementation, rather than through the utilization of general working groups, where certain inefficiencies were noted during stakeholder engagements. The bilateral approach implies that every action has a specific stakeholder responsible for its execution, whilst ensuring that relevant parties are kept informed of changes as they occur. This approach streamlines the implementation approach substantially by ensuring that responsibility is clearly defined. It also makes provision for more complex actions where several stakeholders are responsible for implementation.

The anticipated outcomes envisaged in the Capital Markets Master Plan aspire to generate a transformative shift in the overall growth of the capital markets Nationally and at the County level and have a positive impact on the financial sector which, in turn, will contribute to pushing the overall growth of the economy to the desired levels.

I wish to thank the Cabinet Secretary for the National Treasury for his support in the launch of the revised Capital Markets Master Plan and the continued facilitation of the capital markets industry by the Kenyan Government.

**Mr. Nicholas Nesbitt, EBS, OGW**
Chairman, Capital Markets Authority

# MESSAGE FROM THE CEO

Following the launch of the Capital Markets Master Plan in November 2014, the Authority, in collaboration with relevant stakeholders, embarked upon the significant task of implementing the recommendations.

The initial plan focused on supporting the development and economic transformation, the infrastructure of the markets, and the legal and regulatory environment. To this end, there have been significant milestones achieved thus far including, but not limited to:

1. Enhanced consumer education and literacy.

2. Supporting regional financial market linkages and development of new products and services including derivatives and spot commodity markets.

3. The establishment of the regulatory sandbox to support fintech innovations, as well as the introduction of REITs, ETFs, and Shariah Compliant Products, including significant improvements to the legal framework.

4. Upgrading of market infrastructure to international standards and facilitation of market intermediaries and issuers to deepen the market; and

5. Strengthening of corporate governance practices as well as the institutional capacity of the Authority.

Going forward and based on global and local developments since the launch of the plan, it was important to undertake a comprehensive review to reprioritize activities into those that can be achieved within the remaining timeframe (based on achievability and importance) and those that can be moved to a subsequent CMMP.

The new structure is anchored around an overarching impact, namely "supporting Kenya's economic transformation through capital markets development underpinned by strong legal and regulatory market oversight" and is focused on impacts and outcomes, rather than simply outputs. Realizing that a good plan is as good as how it is implemented, we have assigned more responsibility and accountability with the assistance of Relationship Managers drawn from the Authority's staff and who will coordinate engagements towards fast-tracking of deliverables of the Master Plan.

As a result, it is anticipated that these actions will result in tangible outcomes including, but not limited to: supporting devolution financing needs; enhancing food security; increasing retail investor participation in the markets; growth in Shariah-compliant financing as well as general infrastructure financing; enhancing market liquidity; market deepening through support for issuances for SME's and large corporates, and ultimately, increasing our competitiveness in the global markets as depicted in various international rankings.

I wish to thank the Cabinet Secretary for the National Treasury & Planning, the Capital Markets Masterplan Steering and Implementation Committees and the Board and staff of the Authority for their continued support, guidance, and effort toward the implementation of the CMMP.

I, therefore, call upon all our partners and stakeholders to unwaveringly continue to provide their support towards the successful implementation of the reviewed master plan contributing to the aspiration of developing Kenya as a regional and international financial centre and the heart of African capital markets.

**FCPA Wyckliffe Shamiah**
CHIEF EXECUTIVE OFFICER

# ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| AELP | African Exchange Linkage Project |
| AG | Attorney General |
| AfCFTA | African Continental Free Trade Area |
| CBI | Climate Bond Initiative |
| CBK | Central Bank of Kenya |
| CCP | Central Counter Party |
| CDSC | Central Depository and Settlement Corporation |
| CMA | Capital Markets Authority |
| CMMP | Capital Markets Master Plan |
| COG | Council of Governors |
| CPSS | Committee on Payment and Settlement Systems |
| CSD | Central Securities Depository |
| DTA | Double Taxation Agreement |
| DMO | Debt Market Office |
| DVP | Delivery Versus Payment |
| EAC | East African Community |
| ESG | Environmental, Social and Governance |
| EU | European Union |
| EUGBS | European Green Bond Standard |
| FDI | Foreign Direct Investment |
| FMA | Fund Managers Association |
| GDP | Gross Domestic Product |
| GEMS | Growth and Enterprise Market Segment (GEMS) |
| GFCI | Global Financial Centres Index |
| GoK | Government of Kenya |
| IC | Implementation Committee |
| ICMA | International Capital Markets Association |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| IMF | International Monetary Fund |
| IOSCO | International Organisation of Securities Commissions |
| IPO | Initial Public Offering |
| IRA | Insurance Regulatory Authority |

| | |
|---|---|
| **KASIB** | Kenya Association of Stockbrokers and Investment Banks |
| **KBA** | Kenya Bankers Association |
| **KOMEX** | Kenya National Multi Commodity Exchange |
| **KRA** | Kenya Revenue Authority |
| **LLP** | Limited Liability Partnership |
| **MMOU** | Multilateral Memorandum of Understanding (MMOU) |
| **MOA** | Ministry of Agriculture |
| **MOT** | Ministry of Trade |
| **MSCI** | Morgan Stanley Capital International |
| **NIFCA** | Nairobi International Financial Centre Authority |
| **NSE** | Nairobi Securities Exchange |
| **NT&P** | National Treasury and Planning |
| **OECD** | Organisation for Economic Co-Operation and Development |
| **OTC** | Over the Counter |
| **PE** | Private Equity |
| **PRI** | Principles for Responsible Investment |
| **RAK** | REITs Association of Kenya |
| **RBA** | Retirement Benefits Authority |
| **REIT** | Real Estate Investment Trust |
| **RTGS** | Real Time Gross Settlement |
| **SACCO** | Savings and Credit Co-operative |
| **SASRA** | SACCO Societies Regulatory Authority |
| **SLB** | Securities Lending and Borrowing |
| **SRO** | Self-Regulatory Organisation |
| **STP** | Straight-Through-Processing |
| **TCFD** | Task Force on Climate - Related Disclosures |
| **TNFD** | Task Force for Nature-Related Financial Disclosures |
| **TRACE** | Treaty Relief and Compliance Enhancement |
| **TWG** | Technical Working Group |
| **UN** | United Nations |
| **USP** | Unquoted Securities Platform |
| **VC** | Venture Capital |
| **WRSC** | Warehouse Receipt System Council |

# EXECUTIVE SUMMARY

## Introduction and context

Capital markets play an important role in modern markets, specifically, in connecting those who supply capital with those who require it, thereby allowing funds to flow to the points in the economy where they are most needed. Consequently, they provide an important means of financing for both private sector and public sector players, as well as providing a destination for savings for retail and institutional investors. Given Kenya's status as a developing country, it has a number of ambitious goals that it will need to achieve to meet its development agenda. Therefore, building and maintaining well-functioning capital markets are of importance to the country, as the capital markets will play an important role in ensuring that these developmental goals attract the financing that they require.

Kenya's maiden CMMP covered a ten-year time horizon (2014 - 2023) with an ambitious set of 109 activities to complete. A number of these activities have been completed, with 46 complete, 12 redundancies and 51 remaining for completion. At this point in time, it was instructive to review the plan to consider whether any amendments to the CMMP are required in order to position it for the remainder of its original time frame. This included considering:

i. Whether any new actions are required in light of global and local developments, and conversely, whether any actions had become redundant
ii. Whether the original structure of the CMMP and its implementation approach are still appropriate
iii. Whether the outcomes envisaged for the plan remain appropriate

This document therefore outlines the remaining actions required to achieve maximum development impact for Kenya's capital market within the current CMMP and at the same time outline activities that will need to be carried forward to the next CMMP. This document is an addendum to the current CMMP and is meant to guide and streamline the remaining implementation of the plan for the next two years (2022-2023).

This addendum has been informed by an extensive and consultative process with market regulators, market participants, the CMMP implementation committee, working groups and other relevant stakeholders (see appendix for a full list) and an extensive desktop market assessment and benchmarking of the Kenyan capital market.

**Global and local trends for consideration**

A number of important developments have taken place at a global and local level, several of which have potential consequences for Kenya, its capital markets and therefore the focus of the CMMP during its remaining time frame. These include:

- **Vision 2030 and the Big 4 Agenda** - Kenya's policy environment is underpinned by Vision 2030, split across economic, social and political pillars, as well as the Big 4 Agenda, which targets the country's most pressing development needs. The Government will need to leverage the capital market to fund and support its development actions and policies and therefore increasing the need of an efficient capital market.
- **Covid-19** - has had a profound impact on Kenya's local context, as it has done across the globe. The pandemic has slowed economic growth, and the substantial financing that will be required to respond to its impacts have highlighted Kenya's growing debt burden. The pandemic will impact the flow of funds to most developing countries across the globe as developed nations battle the virus in their countries.
- **Private markets** (including private equity and private debt) - continue to gain traction as alternative asset classes for investor funds, therefore increasing the need to nurture and support their development through clear rules and policies.
- **Nairobi International Financial Centre Authority (NIFCA)** - will play a key role in presenting Kenya as an attractive investment destination in the coming years, including from a capital markets perspective, and has already attracted at least one anchor client.

- **Environmental, social and governance (ESG) reporting** - this has become an ever-larger consideration for investors in recent years, as well as the continued expansion of green finance across the globe. The Kenyan capital market will need to keep pace with these changes to ensure its relevance and attractiveness to investors with changing investment interests.
- **Islamic, or participatory, finance** - has continued its global growth.
- **Capital markets technology** - has undergone a number of technological disruptions since the original CMMP was implemented. From a capital markets perspective, a number of firms have been introduced to the CMA's regulatory sandbox with the aim of enhancing access to capital markets through innovative new services. Within the Kenyan market, fintech is likely to disrupt the capital markets in a number of areas, including through the introduction of new investment technologies (such as Mali, a mobile based money market fund, or M-Akiba, a programme involving the sale and trading of retail bonds via mobile phones), artificial intelligence, greater digitisation throughout the trading process and the greater role of alternative funding sources, such as crowdfunding. This move towards more digital capital markets has been further accelerated by the COVID-19 pandemic, which has necessitated a shift to more digital processes in capital markets and society at large, such as virtual annual general meetings and the use of electronic signatures in more use cases. The role of technology in the capital markets is most likely going increase over the next decade and the Kenyan capital markets will have to further support, nurture and anticipate these technology innovations through guiding rules and regulations.
- **Global geopolitical shifts and economic events** – over the past decade there have been several exogenous shocks and events that could and may impact the Kenyan capital market, some of these include:
    - **Brexit** – the withdrawal of Britain from the European Union (EU) may affect Kenya both positively and negatively i.e. Britain may increase its bilateral trade ties since severing its trade relationship with the EU, at the same time it may cut foreign direct investment as it adopts a more nationalistic and/or protectionist approach to economic growth and development.
    - **Ongoing China and US tensions** – the tensions arising from the US and China competing to be the dominant superpower may divide countries, in this instance, Kenya is a key partner to both countries for trade, investment, debt and other financial support and this ongoing tension may result in Kenyan having to choose sides. The impact of this could imply diminished support from either partner thereby affecting the growth of the capital markets and flow of capital.
    - **Natural disasters** – across the globe there have been increased instances of natural disasters with most linking this to the ongoing debate on climate change. The impact of these disasters is not apparent on the Kenyan economy but may affect the economy as far as FDI is concerned, as other countries focus on managing natural disasters rather than investing in countries such as Kenya.
    - **Foreign economic policies** - rising inflation and job losses in the developed world may impact investment into Kenya as countries such as the US raise interest rates to curb inflation and at the same time focus on spending in their countries to boost employment. All these policies may affect the flow of capital from the developed world into Kenya.
    - **Debt crises** – Since 2014, countries like Zambia and Mozambique have been faced with debt crises which has impacted the confidence of international investors and this has the potential to impact Kenya as its debt burden increases.

The impact of all these factors has the potential to affect the public and private equity/debt markets as investors take a cautious stance in light of these shifts and events.

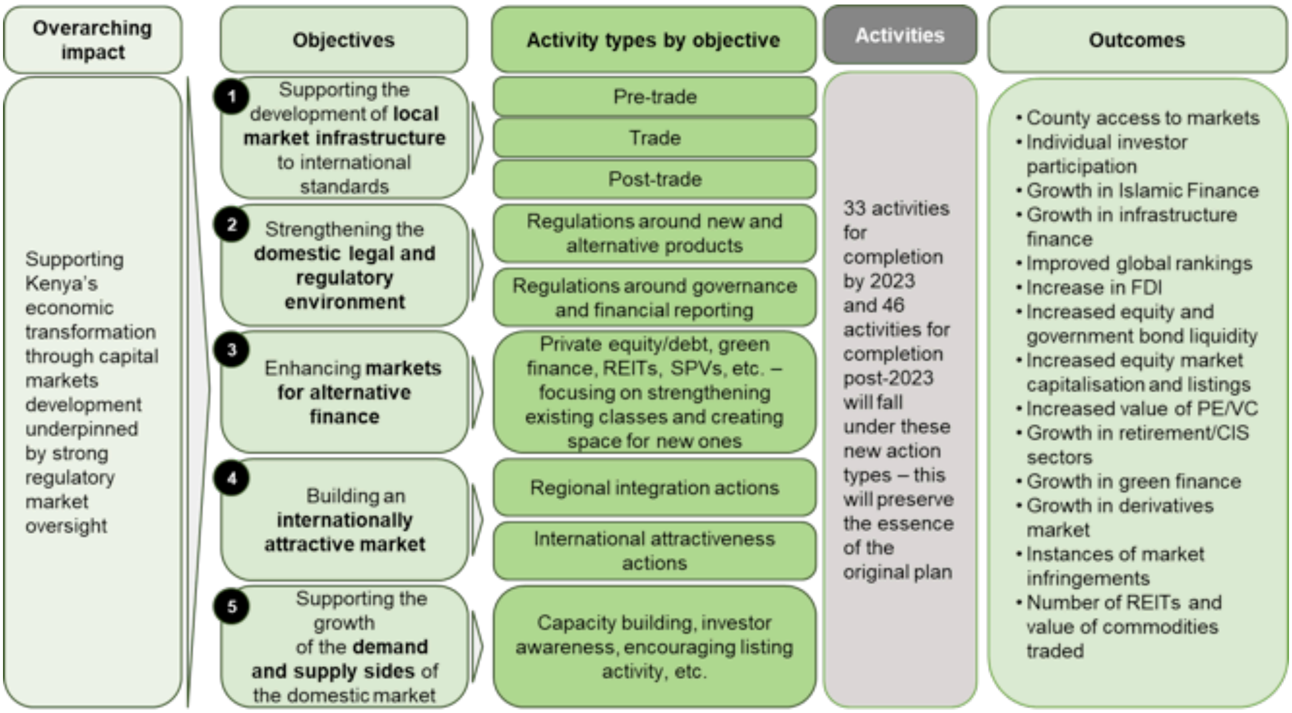
- **African Exchange Linkage Project (AELP) and the African Continental Free Trade Area (AfCFTA)** - have the possibility of creating greater linkages between the financial sectors and real economies of countries on the continent.

The number of global and local shift factors are ever increasing and can have a fundamental impact on the CMMP, however, there is a need to recognise that the current CMMP has only two years of implementation left. It is thus imperative for the CMMP to focus on what is achievable with the current remaining timeframe – while considering which global or local factors need to be considered into the plan.

**CMMP structure, objectives and actions**

The CMMP's original structure was comprehensive, however, given the remaining timeframe it was necessary to simplify it to ensure efficient and smooth implementation of the key remaining activities. Consequently, the structure has been updated to represent an updated vision - **supporting Kenya's economic transformation through capital markets development underpinned by strong legal and regulatory market oversight** – supported by five objectives, as shown in the figure below.

**Figure 1: Addendum to the CMMP structure**




- **Supporting the development of the local market's structure to international standards** – aims to make the market infrastructure more robust and aligning it to best practice. Key actions include the establishment of an OTC platform for government bond trading in order to enhance liquidity within the bond market. In addition, it includes efforts to ensure that market infrastructure is brought up to and maintained at international standards, particularly for both the CDSC and CBK central securities depositories, as well as ensuring greater automation of securities exchange transactions in order to create a more accessible environment for investors.

- **Strengthening the domestic legal and regulatory environment** – aims to ensure oversight, guidance and protection for market participants. Key actions include, the continued promotion of good corporate governance within Kenya and the alignment on the roles of the CMA and NIFCA as far the promotion and regulation of the capital markets are concerned. In addition, there is an emphasis on ensuring consumer protection through strong regulatory oversight, while also making the market more accessible to small and family-owned businesses, possibly through a set of tailored corporate governance requirements for these players. Furthermore, the merits of the introduction of self-regulating organisations (SROs) into the market will be explored, given that these may have efficiency benefits for the market.
- **Enhancing markets for alternative finance** – aims to support the development of alternative finance markets. Key actions include, to encourage a greater role for private market financing, including in private equity/venture capital, private debt, and special purpose vehicles. In addition, it discusses the need to research the prospects for a green taxonomy for Kenya (mainly a focus for the next CMMP), similar to the one launched in European Union and the one being worked on by South Africa. Furthermore, this objective targets the continued promotion of asset classes such as real estate investment trusts, asset-backed securities, and commodities.
- **Building an internationally attractive market** – aims to attract more capital to the Kenyan market. Key actions include ensuring that the country has an adequate corporate and personal income tax framework, including possible non-tax incentives to promote the market, as well as monitoring Kenya's position within international rankings. Furthermore, it includes room for exploring possible regional integration, provided that there are clear benefits for Kenya, as well as making the market more accessible through exploring the establishment of depository receipts.
- **Supporting the growth of the demand and supply sides of the market** - aims to improve the enabling environment to spur demand for- and supply of- capital. Key actions include enhancing national financial education amongst consumers, as well as broad-based capacity building across the capital markets, spanning regulators, stockbrokers, institutional investors, traders and fund managers, auditors, legal professionals, and education for potential new public issuers. Furthermore, the possibility of enhancing the demand for capital by exploring way in which the public market's various segments can be streamlined is explored. Further to this, the possibility of attracting a larger number of family-owned businesses to list is to be explored, potentially through the creation of dual-class shares and different free float level requirements, as well as a general review of listing requirements. In addition, opening access to the capital markets to entities such as SACCOs, county-level organisation and limited liability partnerships through possible listings will be explored.

The five objectives above include a total of 79 actions (51 retained from the original CMMP and 28 new). Given the short time frame available for completion, the 79 activities were separated into two classes. The first of these pertains to 33 actions that should be completed by 2023, based on a combination of their importance and achievability in the time that remains. The remaining 46 actions are likely to be completed post-2023, potentially as part of a second CMMP.

### Outcomes of the CMMP

The current CMMP was identified as being heavily outputs focused, with relatively little focus on ensuring that the actions were linked to measurable outcomes or impacts. Therefore, this addendum provides an outcomes-based view of the CMMP whereby the actions above are mapped to a variety of outcomes by which success can be measured. These include, amongst others, the liquidity of the equity and government bonds markets, the size of the retirement and fund management sectors and the number of firms listed on the NSE to name a few. The outcomes are summarised in the table below.

**Table 1: Addendum to CMMP outcomes**

| Outcome name | 2014 | 2020 (or most recent) | Original 2023 outcomes | Adjusted 2023 outcome | Rationale | Associated action numbers |
|---|---|---|---|---|---|---|
| Share of total annual county revenue raised through capital markets | 0% | 0% | 30% | Pilot issuance – diversification of county financing sources | Unlikely to progress beyond pilot issuance | 2.1.3, 5.1.18 |
| Share of local NSE individual investors relative to banked population | 13.9% | 13.2% | - | 14% | Aim to return to pre-COVID levels | 5.1.1, 5.1.2, 5.1.21, 5.1.24 |
| Value of Islamic Finance assets | 0 USD | USD 1 bn (estimated) | - | USD 1.6 billion | Based on estimated size of banking sector and takaful assets – growth aligned to IMF nominal GDP growth projections of 11.2% per annum – no additional growth in other Islamic assets (e.g. sukuk) expected. | 2.1.2, 5.1.3, 5.1.4 |
| Value of infrastructure finance raised | KES 77.6 billion | KES 593 billion | KES 1.3 trillion | KES 815 billion | Based IMF nominal GDP growth projections of 11.2% per annum | No specific barriers |
| MSCI market classification | Frontier | Frontier | Emerging | Frontier | Market capitalisation and liquidity require further growth. | 4.1.4 |
| Ranking in GFCI rankings | - | 106 | 50 | 96 | Aim to return to previous high of 96th | 2.2.5, 2.3.5, 4.1.4 |
| Ranking in World Competitiveness Report Rankings | 96 | 95 | - | 90 | Aim to continue improvement | 2.2.1, 2.2.2, 2.2.3, 2.2.4, 2.2.5, 4.1.4 |
| Annual net FDI inflows | USD 0.8 bn | USD 1.3 bn | - | USD 2 bn | FDI varies in size – NIFCA to aid in aligning to national development policy sectors | 2.3.5, 4.1.1, 4.1.2, 4.1.3, 4.1.5, 4.1.6, 4.1.7, 4.1.8, 4.1.10, 4.1.11 |
| Equity market liquidity as measured by share turnover ratio | 8% | 6% | - | 8% | Currently 6% - aim to return to pre-Covid level | 1.1.1, 1.2.3, 1.2.5, 1.3.1, 1.3.4, 1.3.6, 1.3.7, 1.3.8, 1.3.9, 1.3.10, 1.3.11, 2.2.1, 2.2.2, 2.2.3, 2.2.4, 2.2.7, 2.3.1, 4.1.8, 4.1.10, 5.1.5, 5.1.6, 5.1.16, 5.1.24 |
| Treasury bond turnover percentage as share of total government debt | 55% | 31% | - | 35% | Currently 31% - market making arrangement would improve over time, as would an electronic OTC bond trading platform. | 1.2.1, 1.2.4, 1.2.6, 1.2.7, 1.3.4, 1.3.6, 1.3.10, 1.3.12, 5.1.5, 5.1.16, 5.1.24, 5.1.25 |

| Outcome name | 2014 | 2020 (or most recent) | Original 2023 outcomes | Adjusted 2023 outcome | Rationale | Associated action numbers |
|---|---|---|---|---|---|---|
| Equity market capitalisation | KES 2.3 trillion | KES 2.6 trillion | KES 10.4 trillion | KES 3.2 trillion | Based on attracting more listings. | 2.2.6, 2.3.1, 4.1.8, 4.1.10, 5.1.7, 5.1.8, 5.1.9, 5.1.17, 5.1.22, 5.1.23, 5.1.26, 5.1.27 |
| Equity market capitalisation as share of GDP[1] | 42.6% | 24.7% | - | 24.7% | Market capitalisation growth in line with IMF projected nominal GDP growth of 11.2% per annum | 2.2.6, 2.3.1, 4.1.8, 4.1.10, 5.1.7, 5.1.8, 5.1.9, 5.1.17, 5.1.22, 5.1.23, 5.1.26, 5.1.27 |
| Number of listings on NSE | 64 | 66 | - | 68 | One listing per year | 2.2.6, 2.3.1, 4.1.8, 4.1.10, 5.1.7, 5.1.8, 5.1.9, 5.1.17, 5.1.22, 5.1.23, 5.1.26, 5.1.27 |
| Number of GEMS listings | 1 | 5 | 39 | 7 | One listing per year | 5.1.9, 5.1.23 |
| Annual value of PE/VC | USD 216 million (average from 2014 - 2019) | USD 216 million (average from 2014 - 2019 | - | USD 376 million | Based on a 14.9% growth rate, based on average growth in total deal value across Africa between 2014 and 2019. | 3.1.1 |
| Value of retirement savings | KES 0.8 trillion | KES 1.4 trillion | - | KES 1.9 trillion | IMF projected nominal GDP growth of 11.2% is assumed– RBA strategic plan identifies growth lower than 10% as a risk but this was pre-pandemic. | 2.3.3, 2.3.4, 5.1.19, 5.1.20, 5.1.21 |

[1] Market capitalisation has greatly declined as a share of GDP as growth has been driven largely by the public sector rather than the private sector. To that end, the outcome has been held stable at 24.7% for 2023, but the focus should rather lie on the previous, absolute target of KES 3.2 trillion, rather than the relative, percentage target.

| Outcome name | 2014 | 2020 (or most recent) | Original 2023 outcomes | Adjusted 2023 outcome | Rationale | Associated action numbers |
|---|---|---|---|---|---|---|
| Value of CIS AUM | - | KES 106 billion | KES 244 billion | KES 150 billion | Growth has exceeded 20% in recent years, targets have been set based on a 11.2 % IMF-projected nominal GDP growth rate and adjusted upwards slightly in line with short term strategy | 1.2.2, 2.1.1, 2.3.3, 2.3.4, 5.1.21 |
| Cumulative of green finance issuance | - | KES 4.3 billion | - | At least one additional issuance | Size of issuance is uncertain. | 3.1.2 |
| Turnover of derivatives contracts | - | KES 45.7 million | - | KES 65 million | Market in infancy | 5.1.10 |
| Instances of market infringements for online foreign exchange and offers to public | - | - | - | 0 | Aim to close regulatory gaps | 2.1.4, 2.1.5 |
| Number of REITs within industry | - | 1 | - | 2 | One additional REIT | 3.1.3 |
| Volume of commodities traded | - | - | - | 680,000 tonnes | Based on Ethiopia Commodities Exchange[2] | 3.1.3 |

[2] The Ethiopian Commodities Exchange is estimated to trade over 680,000 tonnes of commodities during its 2021/2022 fiscal year (https://ethiopianmonitor.com/2021/05/19/ecx-says-traded-36-5bln-birr-worth-of-commodities-this-fy-so-far/). Given that Kenya enjoys a similarly strong position in terms of tea production that Ethiopia does for coffee, and is of similar economic size, a comparable outcome for Kenya's own commodity market has been set.

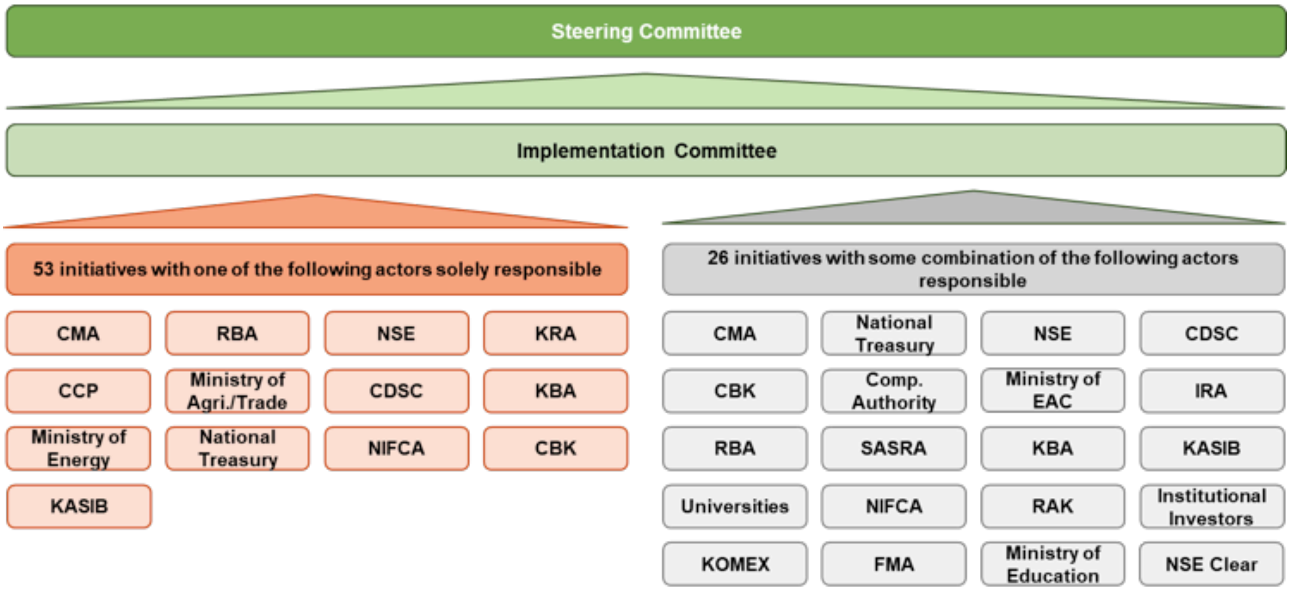
### Implementation approach

The original CMMP made use of a working group structure (with four working groups), each of which included a large number of stakeholders. While some success was achieved through this approach, there were certain inefficiencies that were noted during stakeholder discussions which included

- The presence of certain stakeholders that were not relevant within the working groups, which led to a lack of contribution from some members.
- In addition, not all organisations within working groups were represented by individuals with the authority required to commit their organisation to large changes.

In order to address these issues, it was decided to retain the Steering Committee and Implementation Committee, but to replace the working groups with bilateral/trilateral engagements. The bilateral approach maps each action into an RCI (Responsible, Consulted, Informed) framework. This means that every action has a specific stakeholder responsible for its execution, while it should consult with other stakeholders and ensure that certain stakeholders are kept informed of changes as they occur. This approach streamlines the implementation approach substantially by ensuring that responsibility is clearly defined. It also makes provision for more complex actions where a mixture of stakeholders are responsible for implementation.

**Figure 2: High-level implementation structure for addendum to CMMP**



# 1. INTRODUCTION AND OBJECTIVES

The capital markets play an important role in modern, interconnected markets, a function they fulfil by connecting the providers of capital to those who require it, therefore acting as a source of finance and a destination for savings. This is achieved via a complex combination of participants, including, but not limited to, fund managers, companies, private equity funds, market infrastructure providers, brokers and so on. In order to fulfil their function of effectively channelling capital to where it is most needed within the economy, the capital markets need to be as efficient, cost-effective and transparent as possible. If this is achieved, the capital markets have the potential to contribute significantly to the achievement of a country's key development goals.

Kenya is a developing country, and consequently has a number of key development goals that it will need to achieve if the country is to become a "newly-industrialising, upper middle income country providing high quality of life to all its citizens by 2030", which is the overarching aim of the country's Vision 2030 agenda[3]. In addition, in the medium term, the country seeks to meet a number of ambitious development plans across four key areas – manufacturing, food and nutrition security, universal healthcare and affordable housing. Collectively, this group of focus areas is known as the Big 4 agenda. Kenya's capital markets have a role to play in meeting these development areas. The capital markets will be required to effectively channel the country's resources to its most critical development areas – including, amongst others, manufacturing, agriculture, the provision of infrastructure, housing, health care, and so on. If this is to be achieved, the linkages that link the supply of and demand for capital must operate as effectively as possible, necessitating the development of the capital markets as a source of financing. In addition to this, as the country makes the investments necessary to sustain its long-term development, this will lead to the development of investable securities for both individual and institutional investors. Well-developed capital markets can contribute to the development of a savings and investment culture, growing the country's overall wealth over time. Overall, Kenya's capital markets will represent an important facilitator of economic development, growth and increased wealth for its citizens.

Kenya's current capital markets master plan (CMMP) covers a decade-long period (2014 to 2023) with an ambitious set of actions for the various capital markets stakeholders to take in order to drive the market's development over this period. Given the changes that have occurred in the global and Kenyan context since the CMMP's introduction, it is an opportune time to review the progress made thus far, the actions outstanding, and the need to revise, add or remove actions for the final three years of the plan. This would ensure that the CMMP remains in step with the country's broader agenda and would allow for targets in terms of the capital markets to be revised as appropriate, given the country's current context, its development goals and its efforts to adapt most effectively to a changing, post-COVID world. In addition, a number of developments have taken place within the global capital markets environment that were not included in the original plan, or were not given particular prominence. As the market has changed, the relevance of these aspects of the markets has changed in conjunction.

Against this background, this document has set out to update the CMMP in order to adapt it to the factors mentioned above. Therefore this document represents the culmination of an extensive market assessment, which included a review of the level of implementation of the original plan, a qualitative and quantitative international benchmarking exercise and an array of stakeholder interviews, including, amongst others, regulators and policy makers, fund managers, brokers, custodians and infrastructure providers. The insights received across all of these aspects were combined into a detailed market assessment report which sets out where Kenya is positioned on its capital markets development journey. The findings across this process

[3] http://vision2030.go.ke/#:~:text=The%20Kenya%20Vision%202030%20aims,a%20clean%20and%20secure%20environment.

are what informs the current document and provides the background for the suggested additions, revisions and deletions to the original CMMP set out later. In addition, the substantial level of implementation of the original CMMP achieved thus far, as well as the level of progress achieved on the outstanding actions have also been taken into account. Furthermore, the original CMMP is a nationally-recognised document that feeds into Kenya's broader development policies and which was created with the buy-in of an array of stakeholders.

In light of the above, the key objective of this document is to update and refine the original CMMP in order to ensure that it remains fit for purpose in providing a roadmap for Kenya's capital markets development journey, taking into account the country's current context. As mentioned above, this addendum to the CMMP is built upon a thorough market assessment report. At a more granular level, updating the CMMP entails:

- Suggesting improvements to the overall structure that grounds the CMMP
- Identifying actions in the original CMMP that have become redundant and should be removed or deprioritised in the addendum to the CMMP
- Identifying relevant, new actions based on capital market development in recent years and Kenya's needs
- Suggesting any required changes to the implementation approach of the plan, i.e. working groups structures and how to maximise buy-in
- Setting revised outcomes for the market relative to its context and updating the implementation plan in order to allow the market to meet these

In creating this addendum to the master plan, it was important to retain sight of the fact that the CMMP is aspirational in nature, and represents an ambitious set of actions for completion by design. Indeed, the original CMMP contained a total of 109 activities for implementation. Since the launch of the plan, substantial progress towards completion has been made, with a total of 46 activities completed, while 51 activities remaining outstanding, with 12 redundancies. In addition, as shown in section 4 of this document, amongst those that remain outstanding, many have demonstrated substantial progress. At the same time as acknowledging the progress made thus far, there is a need to be practical that the remaining time frame for completion of the activities is only slightly more than two years. In addition, the continued impacts of Covid-19 and the upcoming general election in 2022 pose risks to the implementation. In addition, based on market developments since the launch of the original plan, 28 additional activities have been added for implementation. Taking the above factors into account, the 79 remaining and new activities have been split into those that can be achieved within the remaining timeframe (based on achievability and importance) and those that can be moved to a subsequent CMMP.

The remainder of this document is set out as follows: Section 2 discusses the key forces shaping the Kenyan and global capital markets, many of which were first identified in the market assessment report. Section 3 discusses a new structure for the CMMP, aimed at ensuring more efficient implementation. Section 4 contains the amendments to the original CMMP, focussing on the recommended amendments, redundancies and additions, split by the five objectives that underpin the addendum to the CMMP structure. Section 5 sets updated outcomes for the capital markets with a view of 2023 in mind, based on the market's prevailing context. Section 6 contains an implementation matrix for the additional recommended actions, with key milestones and their linkages to the updated targets identified. Section 7 is the annex.

# 2. KEY FORCES SHAPING KENYAN AND GLOBAL CAPITAL MARKETS

The market assessment report brought a number of key factors shaping global and local markets to light, suggesting, in turn, that these same forces would influence the Kenyan capital markets. In addition, stakeholder discussions revealed the changing needs of the Kenyan market. These forces are set out in more detail below. While all of these forces are relevant and have had or will have an impact on the Kenyan capital markets, not all of them can be fully controlled, nor can all of them be addressed within the two years that remain in the CMMP's time frame.

### Kenya's policy environment – Vision 2023 and the Big 4 Agenda

Kenya's policy environment has changed in recent years. The country's economic development is underpinned by Vision 2030, which is in turn broken up into a number of medium-term plans, each spanning five years. A number of sectors are earmarked for development under this policy, namely agriculture and livestock, manufacturing, tourism, trade, business process outsourcing/information technology enabled services, financial services (including the capital markets), oil and other natural resources and the blue economy. Beyond the economic pillar, Vision 2030 also emphasises a social pillar, as well as a political pillar. The social pillar includes priorities such as providing globally competitive education, a quality health care system, improved access to water and sanitation, environmental sustainability, housing and urbanisation, resource distribution towards gender, youth and vulnerable groups, and finally, a focus on equity and poverty elimination. The infrastructure required to underpin these developments will require financing, which is where the country's capital markets can play a role. Finally, the political pillar underpins Kenya's commitment to the supremacy of its constitution, the sovereignty of its people, and the equality of all citizens, amongst others. This includes areas such as adherence to the rule of law, which includes ensuring a good business environment, In addition, an emphasis on transparency and accountability, while mentioned from a political viewpoint, could equally apply to the private sector. The development of the capital markets is therefore of interest as far as these two areas under the political pillar are concerned.

In addition, the launch of the Big 4 Agenda in 2017 has prioritised addressing the country's most pressing needs, i.e. food and nutrition security, affordable housing, manufacturing and healthcare. Furthermore, the devolution process has given rise to 47 counties, which are funded partially through funds distributed by the central government and partially through the collection of their own revenue. Based on this devolution, there may be additional scope for counties to tailor their expenditure more closely to their own development agendas, including in the areas of infrastructure and social investments. This may be underpinned through the counties' raising their own capital market finance by issuing securities where possible, with the process to facilitate this for certain counties already having begun through an analysis of the counties' financing needs and the assignment of shadow credit ratings.

In addition to the overarching policies mentioned above, Kenya is also gearing up for its next general elections in 2022, which may affect implementation of the CMMP, particularly if there are policy changes implemented after the election.

### Covid-19

The unforeseeable impact of the COVID-19 pandemic led to a reversal in the country's GDP growth, which was particularly strong between 2015 and 2019. In addition, the country's government debt has grown relative to GDP, reaching 64% as of June 2020, up from approximately 57% in 2014. Kenya and the International Monetary Fund (IMF) have subsequently entered into discussions in order to address these twin concerns. In April 2021, the IMF approved a USD 2.3 billion disbursement under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF), in order to allow the country to address the impact of the pandemic and ensure the government's long-term fiscal sustainability by allowing for a reduction in the country's annual budget deficit[4]. While Kenya's debt burden was not unsustainable before the pandemic, it was entering concerning territory. Of course, the unforeseeable and dramatic impact of the pandemic would have further exacerbated this burden had there not been intervention. Overall, the ECF/EFF arrangements will assist the country in stabilising its debt situation, but Kenya will still need to exercise prudent fiscal discipline in order to ensure that debt remains at a sustainable level while still allowing for borrowing in order to aid the country's development. The challenging macroeconomic environment has posed a challenge as far as capital markets development is concerned, given the crowding-out effect that high government debt levels have had on the market. Specifically, given the growth of government debt, this has create a relatively risk-free means for investors to generate returns, crowding out the possibility of capital flowing to other asset classes, such as public equity. Furthermore the need to finance Kenya's recovery from the effects of the Covid-19 pandemic necessitates increased government spending, and given the growth the debt levels, this means that an adequate level of taxation will be required. These factors are likely to influence the ambitions of the plan, given that the need to respond to the pandemic and the government's financing needs may take precedence over the need to create a more attractive investment environment by reducing tax rates, for example. Based on these broader economic factors, the addendum to the CMMP needs to contribute to an environment that encourages economic growth and does not place undue stress on the government's finances as it navigates a post-COVID world.

### Developments in private markets

Though the usual route of development for a business growing in size has traditionally been a public listing on a securities exchange, this trend has been changing in recent years, with more businesses opting to stay private for longer. The number of publicly-listed companies in Kenya has declined slightly to 66 from a high of 67 in 2017, but the country is hardly alone in this regard, with even developed markets undergoing this process. By way of indication, The United States of America (USA) currently has only half as many listed companies as it did in 1976, while in both the UK and Germany, the figure has declined by 37% and 23% respectively[5]. It is clear, therefore, that private sources of capital (including private equity and venture capital, PE/VC) are playing a larger role in providing finance to growing businesses, with a total of USD 385 billion raised globally via private equity investments in 2018[6]. Furthermore, the market for private equity is projected to grow at a double-digit rate through to 2025[7]. Though the majority of PE/VC financing is still targeted at the developed world, developing countries have also seen activity. Indeed, the total value of PE/VC raised by Kenyan companies between 2014 and 2019 was just short of USD 1.3 billion, with the country's telecommunications, media and technology and energy and natural resources sectors the key attractors of private investment.

In addition to the spread of private equity, private debt has also expanded as an asset class in recent years, with the total AUM of USD 848 billion in 2020, up from USD 451 billion in 2014, an annual growth rate of 11% per year[8]. Through to 2025, it is expected that private debt will maintain strong single-digit growth, expanding at 9% per year to an AUM of USD 1,456 billion. In a survey accompanying the research, 62% of private fund managers respondents suggested that private debt fund would play a "more important role"

[4] https://www.imf.org/en/News/Articles/2021/04/02/pr2198-kenya-imf-executive-board-approves-us-billion-ecf-and-eff-arrangements
[5] https://www.worldfinance.com/markets/the-slow-death-of-global-stock-markets
[6] https://www.mckinsey.com/~/media/mckinsey/industries/private%20equity%20and%20principal%20investors/our%20insights/private%20markets%20come%20of%20age/private-markets-come-of-age-mckinsey-global-private-markets-review-2019-vf.ashx
[7] https://www.businesswire.com/news/home/20200807005444/en/Global-Private-Equity-Market-to-2025---Growth-Trends-and-Forecast---ResearchAndMarkets.com#:~:text=The%20Global%20Private%20Equity%20market,USD%20456%20billion%20in%202018.
[8] Preqin, 2020. Future of Alternatives, 2025. Available: https://www.preqin.com/insights/research/blogs/future-of-alternatives-2025-private-debts-spectacular-rise-will-continue

or a "significantly more important role" in providing debt financing over the next five years, with a relatively smaller role for commercial banks. While the largest share of private debt AUM has historically been found in North America(61% of the total in 2020) recent years has seen expansion in Europe (30% in 2020), with the rest of the world (including Africa and Asia) accounting for USD 86 billion, up from USD 45 billion in 2016.9Beyond private debt and equity, private markets also include real estate, infrastructure and natural resources (real assets). Together, these asset classes grew to just under USD 2 trillion in 2020, up from USD 1.6 trillion in 2016, with the share outside Europe and North America amounting to USD 358 billion, up from USD 168 billion in 2016[9].

In May 2021, the Nairobi Securities Exchange (NSE) launched the Unquoted Securities Platform (USP) in order to allow for the issuance and trading of securities in unquoted companies. The key aim behind the USP is to allow for companies to access capital through private placements and restricted offers. This is positive in the sense that it opens up an additional avenue of capital to a number of businesses, which should fuel their expansion. In addition, the USP may act as a stepping-stone to an eventual listing on the NSE Main Investment Market Segment (MIMS) for privately-owned companies. The true impact of the USP on the Kenyan market and its influence will likely only become clear over time.

The positive aspect of attracting sizable PE/VC financing is that capital is being allocated to sectors that require it. However, there are some considerations to take note of - namely, that the avoidance of a public listing removes businesses from the scrutiny and discipline provided by the public markets in terms of reporting and governance. In addition, given the high costs of due diligence associated with investing in private businesses, PE/VC effectively excludes Kenya's fund managers, pension/retirement schemes and individual investors. This in turn narrows the number of investment opportunities for both institutional and retail investors in the country, who are largely left to invest in the country's comparatively low number of listed companies, as well as government debt. In addition, the possible risks around this asset class have been felt prominently by the Kenyan market, including in the ongoing investigation concerning an unregulated real estate fund operated by a fund manager[10]. The investigation followed allegations of non-payment of funds due to investors from the fund's real estate investments. The fund in question had marketed its capital-raising activities as a private placement, rather than a general offer to the public, which would have meant that they did not fall under the ambit of the CMA[11]. However, the fund had since raised capital from over 3,000 investors, far beyond the limit of 100 allowed under a private placement approach. There is therefore a need to close regulatory gaps related to such investments.

Based on the above, while PE/VC is an area of strength for Kenya and should therefore be further encouraged, it may also be beneficial to consider ways in which these investments could be made more accessible to the above-mentioned players, leading to wider sources of funding for private businesses while also providing more investment opportunities for more market participants, while also ensuring that investors are protected appropriately. One of the aims of the addendum to the CMMP is to offer some recommendations for how this might be achieved, which is explored in more detail in section 4.

### NIFCA

In addition to the above, the implementation of the Nairobi International Financial Centre (NIFCA) initiative has the potential to act as a "one-stop shop" of sorts as far as investing in the Kenyan market is concerned, providing access to work visas, expertise on taxation and incentives for NIFC businesses. Indeed, NIFCA

[9] McKinsey, Private markets reviews, 2017 and 2021. Available: https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/mckinseys-private-markets-annual-review

[10] https://citizentv.co.ke/business/cma-probe-cytonns-unregulated-fund-11972024/

[11] https://www.businessdailyafrica.com/bd/markets/capital-markets/cma-faces-probe-over-defaults-in-sh13-5bn-cytonn-funds-3448346

has already attracted a key anchor client from abroad.[12] Furthermore, it has signed a Memorandum of Understanding (MoU) with TheCityUK, which promotes the financial and professional services industry of the United Kingdom.[13] This MoU includes, amongst other things, closer collaboration with the London Stock Exchange, aimed at attracting more international investment into Kenya. This MoU was signed alongside a GBP 132 million investment commitment from the UK into Kenya, covering a variety of aspects, including the building of 10,000 green affordable homes, an investment into Kenyan manufacturing, the development of a digital customs system to enhance international trade, funding towards green energy and infrastructure investment. The above developments follow the CMA's previous engagements with TheCityUK, which included a MoU aimed at facilitating Nairobi's development as an international financial centre.[14] The MoU includes developing closer links in areas of mutual interest, such as the development of securities and derivatives markets, legal and regulatory frameworks for public private partnerships, dispute resolution, and education and training programmes for financial services. Given the above, it will be necessary for the CMA and NIFCA to align carefully on their respective roles in terms of the execution of the MoU with TheCityUK.

Based on the above, NIFCA has the potential to lead to greater investment inflows into Kenya, including in the capital markets, as well as positioning the country as the pivot point towards the broader East Africa region. In addition, NIFCA will seek to promote green finance and fintech, driving capital markets development, promoting development within Kenya, but also setting a standard for the East African region as a whole. This will be especially key given Nairobi's efforts to establish itself more strongly as an international financial centre and the ambitions it has in terms of the Africa Exchange Linkage Project (AELP), discussed below. Overall, NIFCA's mandate is broader than only focusing on the capital markets. However, there is likely to be scope for NIFCA and the CMA to coordinate how to best promote the capital markets. Regardless, the CMA and other financial sector regulators will need to work in harmony with NIFCA, to ensure that their regulatory framework and operations are aligned with international best practice.

### ESG reporting

A key factor shaping global markets in recent years has included a greater emphasis on environmental, social and governance (ESG) considerations. This has been an area of attention for listed companies in particular, given that investors have grown ever more concerned around, for example, the environmental impact and practices of companies, aspects such as gender equality and fair trade practices and ethical labour practices and strong governance practices. More than half of global asset owners now consider ESG in their investment decisions.[15] The United Nations' (UN) launch of their Principles for Responsible Investment (PRI) has certainly contributed to this trend, with the signatories to these representing a cumulative total of USD 81.7 trillion in assets under management (AUM) in 2018.

[16] Furthermore, 60% of the world's 100 largest public companies are reporting their operations in line with the Task Force on Climate - Related Disclosures (TCFD), or support the TCFD. Indeed, support for the TCFD now covers over 1,340 companies globally, with a combined market capitalisation of USD 12.6 trillion, as well as fund managers with AUM of over USD 150 trillion.[17] Further to this, as of January 2021, the UK has made TCFD reporting mandatory. The UK is leading a new Task Force for Nature-Related Financial Disclosures (TNFD), which will complement TCFD on bio-diversity related disclosures. Kenya's Retirement Benefits

[12] https://www.fsdafrica.org/news/fsd-africa-celebrates-key-milestones-announced-during-the-president-of-kenyas-visit-to-london-in-july-2021/
[13] https://www.fsdafrica.org/news/prudential-signals-intent-to-join-the-worlds-newest-international-financial-centre-in-nairobi/
[14] CMA Forum newsletter, July to September 2012. Available: https://www.cma.or.ke/index.php?option=com_phocadownload&view=category&id=52:newsletters&Itemid=145
[15] https://hbr.org/2019/05/the-investor-revolution
[16] https://www.unpri.org/pri/about-the-pri
[17] TCFD Status Report, 2020

Authority is a member of this task force. The growing momentum of a desire for greater ESG reporting and the support of large public companies and fund managers, as well as likely increases in government attention make this an important force affecting capital markets globally. Consequently, given the increased attention given to ESG by investors worldwide, it will be important for this aspect of the capital markets to form part of Kenya's capital markets going forward, if Kenya hopes to attract global ESG-focused investors.

### Green finance

Linked to the topic of ESG considerations is a general movement towards green financing. This includes the well-known aspect of green bonds, which continue to grow in cumulative issuance on a global scale, both from developed and developing countries. However, green finance extends beyond green bonds, and includes environmental reporting (part of the "E" in ESG, mentioned above), as well as classification systems for the sustainability of a whole host of economic activities, i.e. a green taxonomy, such as the one developed by the European Union (EU).[18] It extends beyond climate finance to natural capital /biodiversity conservation. A green taxonomy sets out to classify the economic activities across a country in terms of their contribution to sustainable development in line with certain objectives, such as climate change mitigation or adaptation, or the protection of marine resources, for example. It therefore sets out a blueprint for how sustainability can be enhanced throughout the entire economy and additionally, whether a given activity becomes more sustainable in its own right, or how it contributes to greater sustainability elsewhere. Consequently, such a taxonomy clarifies the definition of what is considered "green" and ensures that the economy moves towards true sustainability and removes much of the room for potential greenwashing.[19]

Further to the above, recent sustainability innovations discussed in more detail in the market assessment report include blue bonds (similar to green bonds but with a focus on the maritime sector and blue economy), conservation bonds, natural capital protocols and even debt-for-nature swaps, designed to assist in both debt relief and the promotion of sustainability.

Climate change and biodiversity loss are considered global existential challenges. Consequently, there is concerted effort globally between the public and private sectors to address green finance. Many of the approaches include public-private partnerships leveraging global climate funds to mobilize international and domestic capital. Innovations going forward would include carbon credit-linked and Payment for Ecological Services (PES) linked-green bonds.

### Islamic finance developments

Islamic finance has become a more popular form of finance in recent years, with the global value of Islamic finance assets reaching USD 2.9 trillion in 2019, and forecast to grow to USD 3.7 trillion by 2024. Innovations in the Islamic finance space have included Shariah-compliant challenger banks, Islamic fintech (including savings products aimed at the financially excluded and crowdfunding platforms), as well as a greater push towards sustainability. In addition, a total of six countries globally have comprehensive regulatory frameworks covering accounting, Islamic banking, governance, takaful (insurance), sukuk (Islamic bonds) and Islamic funds, while the number of countries with regulations covering at least one of these sectors has grown to 46. As highlighted by the growth in the industry mentioned above, Islamic finance is not only of value for Muslims, but also for any individuals who wish to conduct finance along certain ethical lines or wish to make sustainability a key consideration in their financial activities.

[18]https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en

[19]Greenwashing refers to behaviour whereby an organisation conveys a false impression of its environmental practices in order to appear more environmentally friendly and ecologically responsible.

## Capital markets technology

The Kenyan financial services sector has undergone a number of technological disruptions since the original CMMP was implemented. From a capital markets perspective, a number of firms have been introduced to the CMA's regulatory sandbox with the aim of enhancing access to capital markets through innovative new services. Within the Kenyan market, fintech is likely to disrupt the capital markets in a number of areas, including through the introduction of new investment technologies (such as Mali, an investment tool, or M-Akiba, a programme involving the sale of retail bonds via mobile phones), artificial intelligence, greater digitisation throughout the trading process and the greater role of alternative funding sources, such as crowdfunding. This move towards more digital capital markets has been further accelerated by the Covid-19 pandemic, which has necessitated a shift to more digital processes in capital markets and society at large, such as virtual annual general meetings and the use of electronic signatures in more use cases. Furthermore, stakeholder discussions revealed substantial prospects for growth as far as collective investment schemes offered to retail investors by innovative technology fintechs is concerned, which could further aid in developing a savings culture, particularly amongst the youth. This is therefore an area worth supporting further.

## Global geopolitical shifts and economic events

The factors mentioned above have played a role in shaping global markets in recent years. Additionally, the United Kingdom's decision to withdraw from the European Union (Brexit) has changed the relationship between two large geopolitical players, which will in turn have an impact on both the global real economy, as well as financial markets. In addition, the global geopolitical landscape has continued to undergo changes since 2014, with the traditional post-1945 global order facing upheaval, driven largely by the continued emergence and influence of China as a great power. The continued rivalry between China and the USA has uncertain connotations for the rest of the world. On the one hand, the two largest economies on the planet will need to cooperate on aspects such as climate change and global security. On the other hand, increased competition in areas such as human rights, political influence and governing ideology, geopolitical power (both soft and hard power) and economic growth is likely. There is the real risk that a 21st-century Cold War could develop between these two nations, effectively dividing the global community into a "USA-bloc" and a "China-bloc". If such an event were to occur, it may have an extensive impact on the flow of capital and investment on a global scale, further affecting, amongst others, Kenya's capital markets. The uncertainty around the evolving relationship between these two nations may promote a more conservative approach from global investors, with potential implications for capital flows to developing nations, such as Kenya. At the same time, given China's role as a sizable infrastructure investor in African countries (including in Kenya), it is possible that shifts in the USA/China relationship will influence Kenya's own geopolitical, strategic and policy calculations. In addition, the role that China plays in financing in Kenya may substitute local capital-raising demand by the government. There are also other factors that could impact Kenya's capital markets such as:

- **Natural disasters** – across the globe there have been increased instances of natural disasters with most linking this to the ongoing debate on climate change. The impact of these disasters is not apparent on the Kenyan economy but may affect the economy as far as FDI is concerned, as other countries focus on managing natural disasters rather than investing in countries such as Kenya.
- **Foreign economic policies** - rising inflation and job losses in the developed world may impact investment into Kenya as countries such as the US raise interest rates to curb inflation and at the same time focus on spending in their countries to boost employment. All these policies may affect the flow of capital from the developed world into Kenya.
- **Debt crises** – Since 2014, countries like Zambia and Mozambique have been faced with debt crises which has impacted the confidence of international investors and this has the potential to impact Kenya as its debt burden increases.

The impact of all these factors has the potential to affect the public and private equity/debt markets as investors take a cautious stance in light of these shifts and events.

### Regional capital markets developments

In addition to the above, there have been capital markets developments from a regional perspective. The AELP is driven by the African Securities Exchanges Association (ASEA) and the African Development Bank (AfDB) and seeks to link seven African capital markets.[20] These exchanges represent more than 90% of Africa's total equity market capitalisation, with the aim being to ensure greater liquidity and market depth across the continent, more cross-border trading activity and initial public offerings (IPOs) and to develop capacity between the exchanges through collaboration between the respective countries' regulators, central banks and central depositories.[21] The AELP is an ambitious project with strong potential benefits (enhanced liquidity, capacity building and cross-border collaboration) spanning the continent's largest and most liquid exchanges, suggesting that playing a full role in this project should be a priority for the Kenyan market. In addition, these market linkages could go hand-in-hand with efforts to integrate the African continent from a trade perspective through the African Continental Free Trade Area (AfCFTA) with possible progression towards a continental-wide capital markets union. In addition, it may change the relationship between its member states and their trading relationships with each other and the remainder of the world. Such an ambitious free trade agreement at continental level could serve as a precursor for a capital markets union, with Kenya well positioned to act as a pivot between East African and the rest of the continent.

In addition to the above, there have been a number of milestones achieved by the East Africa Securities Regulatory Authorities (EASRA) and the East African Community (EAC) Capital Markets Implementation Committee. These include the strengthening of capacity at EASRA, the development and adoption of a joint financial literacy strategy across the EAC, as well as the introduction of regional training programmes across the region, such as those offered by the Chartered Institute for Securities and Investment (CISI). In addition to this, there has been widespread regional council directives covering areas including, but not limited to, collective investment schemes, public offers of both debt and equity, asset backed securities, corporate governance and investor education and protection. Finally, there has been continued regional engagement the International Organisation of Securities Commissions (IOSCO), with Uganda signing the commission's Multilateral Memorandum of Understanding (MMOU), which serves as an international benchmark for combatting cross-border fraud and misconduct.[22] Additionally, Rwanda's Capital Market Authority has been confirmed as an associate member of IOSCO.

[20] The countries in question are the Bourse Régionale des Valeurs Mobilières, Casablanca Stock Exchange, the Egyptian Exchange, Johannesburg Stock Exchange, Nairobi Securities Exchange, the Nigerian Stock Exchange and the Stock Exchange of Mauritius.

[21] https://africanexchangeslink.com/about-aelp/

[22] http://www.africancapitalmarketsnews.com/3284/uganda-capital-markets-authority-joins-iosco-mmou-appendix-a/

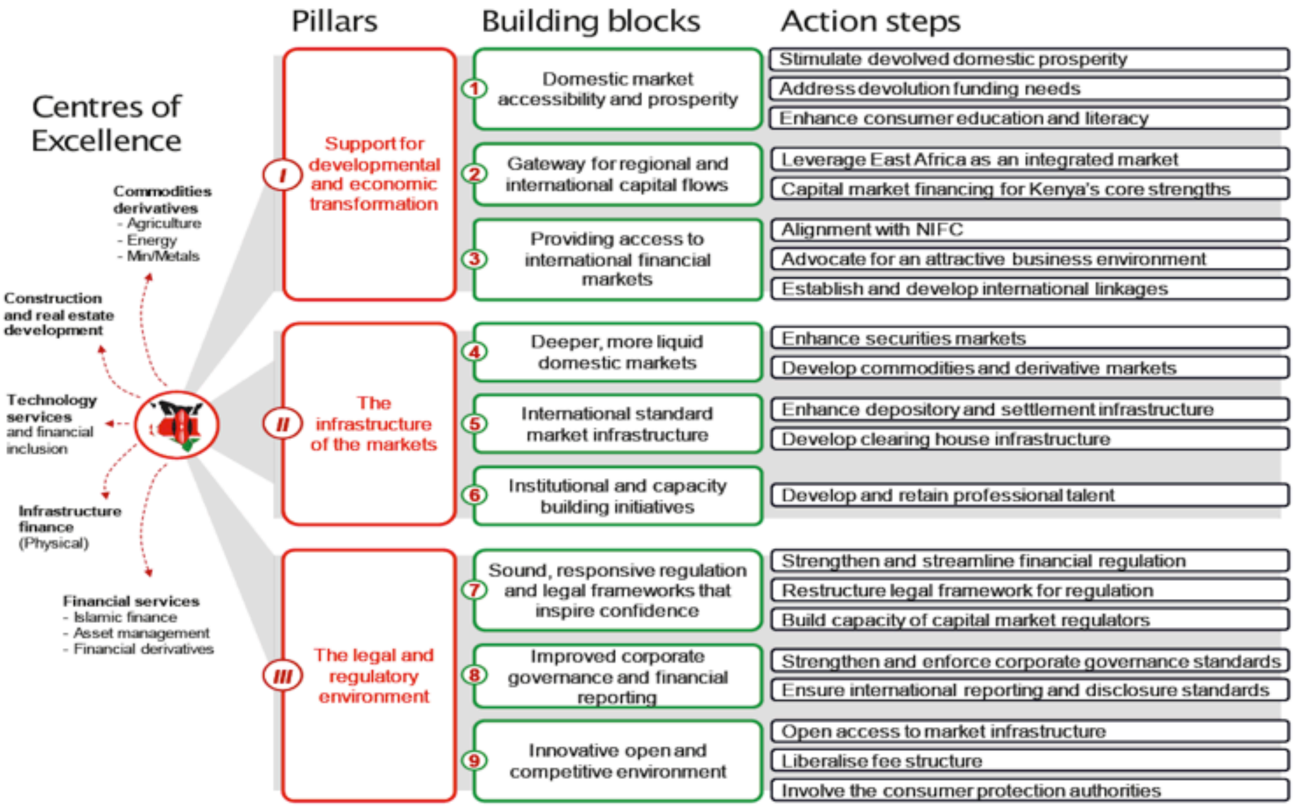
**Table 2: Impact of key factors and CMMP response**

| Factor | Impact on Kenya capital markets | Actions added to address |
|---|---|---|
| Vision 2030 and Big 4 Agenda | Positive | Ensure greater ease in raising financing across key sectors |
| Covid-19 | Negative | Ways of working will change and will require additional digitisation, increased need to attract foreign investment – hence need to create an attractive international market and automation |
| Private markets | Positive | Facilitate greater capital flows via private markets |
| NIFCA | Positive | Harmonise mandates between CMA and NIFCA |
| ESG reporting | Negative if not implemented | Promote ESG reporting within market and research of green taxonomy to attract green capital through more transparent environmental reporting |
| Green finance | Negative if not implemented | Expand green finance framework within market e.g. research of green taxonomy to attract green capital |
| Capital markets technology | Positive | Various regulatory reviews accommodate for innovative products |
| Global geopolitical shifts | Mixed | Ensuring an attractive market to attract international capital |
| Regional capital markets developments | Positive to mixed | Promote continued integration where this is in Kenya's best interest |

# 3. A NEW STRUCTURE FOR THE CMMP

As shown in the figure, below, the original CMMP was developed around a structure comprising three pillars and nine building blocks.

**Figure 3: Original CMMP structure**



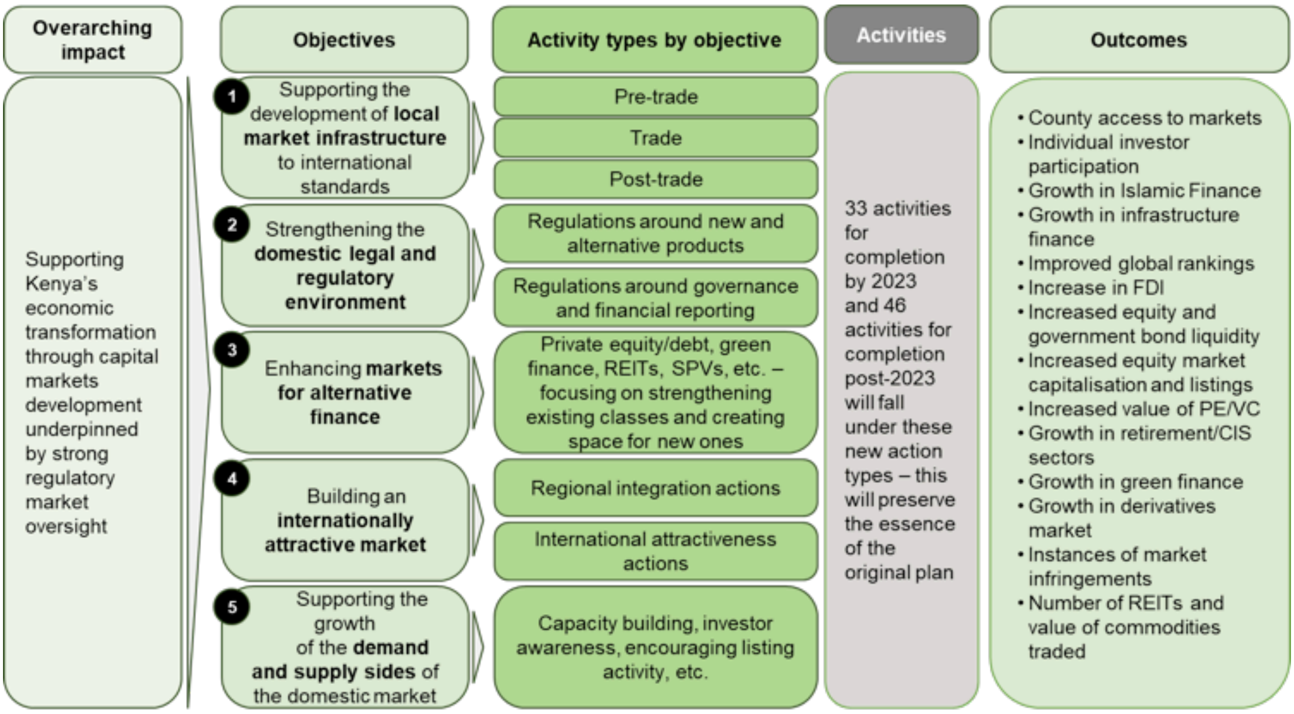

The above structure was comprehensive and allowed for all aspects of the market to be considered, but was somewhat unwieldy in its nature. Specifically, it created areas of overlap in terms of the different building blocks. In addition, the structure resulted in a large number of working groups whereby some stakeholders did not provide input into areas that did not directly affect them, which acted as a brake on implementation.

As a result of the above, there is scope for a new structure to be put in place in order to streamline the implementation of the CMMP as it enters its final stretch. The new structure is anchored around an overarching impact, namely **"supporting Kenya's economic transformation through capital markets development underpinned by strong legal and regulatory market oversight"**.

The new structure is focused on impacts and outcomes, rather than simply outputs. In order to achieve this impact, five objectives have been developed, each of which is underpinned by a number of actions. It is important to note that these actions remain as they were in the original plan, with the exception of those that have been achieved, or are redundant, or are new and therefore added in. In other words, the existing (and new) actions have been distributed across a streamlined structure that aims to simplify implementation. Overall, the original three pillars have been collapsed in the above-mentioned overarching impact, while the nine building blocks have been collapsed into the five objectives – the details of the original structure have, however, been retained.

In addition, the new structure has shifted its focus as far as implementation is concerned by utilising a RCI (Responsible, Consulted and Informed) framework for each action. The aim behind this is to delegate responsibility on a more granular basis (under the oversight of the Steering Committee and Implementation Committee) in order to streamline implementation, rather than through the utilisation of general working groups. How actions have been assigned in terms of responsibility is discussed in more detail in Section 4 below. The new CMMP structure is shown in the figure below.

**Figure 4: Addendum to CMMP implementation structure**




As mentioned above, the new CMMP structure revolves around five objectives.

- The **first** of these pertains to the strengthening and development of the local market's infrastructure across the pre-trade, trade and post-trade aspect of the value chain, for all securities, including equities, bonds, derivatives, commodities, and so on.
- **Secondly,** the domestic market will need to be underpinned by a strong legal and regulatory environment. This will require the regulatory and legal environment to serve both the product side (new, existing and alternative products, including for example, foreign exchange and commodities market, private equity, REITs, etc.) as well as the corporate governance and financial reporting side (e.g. ESG reporting, auditing, and so on).
- **Thirdly,** the market for alternative finance should be strengthened to accommodate instruments such as REITs, private equity and private debt, special purpose vehicles, and so on, as necessary.
- **Fourthly,** from an international perspective, the Kenyan market needs to be attractive to investors and participants, both at a regional and global level.
- **Fifthly** and finally, the demand and supply sides of the domestic market need to be strengthened, which entails ensuring that capacity is built across the capital markets, that listings are encouraged and that investors are suitably aware of the markets and incentivised to participate in them.

Given the redistribution of existing initiatives from nine building blocks into five objectives, there have been changes to the numbering system associated with existing, or retained, actions. In order to avoid confusion, the old and the new numbering is cross-referenced in the subsections that follow. Furthermore, the addendum to the CMMP has a list of new outcomes for the market to aspire to, and to which the different actions underpinning the five objectives have been linked. The new outcomes are set out in section 5.

# 4. RECOMMENDED ACTIONS FOR THE ADDENDUM TO THE CMMP

In light of the points mentioned above, the addendum to the CMMP incorporates a number of proposed changes to the original CMMP. This section focuses on discussing how actions have been distributed in terms of the new structure, with a particular focus on discussing the RCI framework as it pertains to the new actions in the CMMP. For each objective and its associated sub-sections, the list of actions, along with their old and new numbers, priority levels, current status, the responsible stakeholder, consulted and informed stakeholders is shown, along with the outputs and outcomes of the action. Where needed, important actions are re-emphasised, while redundant actions (of which there are three in total) have also been identified.

It should be noted that not every action is mapped to an outcome. This does not mean that such an action is not important – rather, it may represent a structural change within the market, or a policy change that does not lead to the achievement of a measurable outcome in and of itself, but will still benefit the market. For new actions, a discussion is included in order to set out their importance and the parties responsible for completing them.

Given the short time frame remaining in the CMMP and the number of activities still outstanding, it was necessary to prioritise those that are most likely to have the largest impact on the market, as well as those that can realistically be completed by the 2023 horizon. These actions represent 33 actions, out of the total of 79. The remaining 46 actions have seen some progress, but may be difficult to complete by 2023. Consequently, while all possible progress around their completion should be made, in practice, it is more likely that they will be fully completed as part of a potential second CMMP. The division between these actions, split across the five objectives, is shown in the table below. For those actions slated for completion by 2023, a table in the annex summarises their expected outputs, timelines and dependencies amongst each other.

**Table 3: List of actions divided by time frame**

| 2023 completion | Post-2023 completion |
|---|---|
| **Objective 1: Supporting the development of local market infrastructure to international standards** | |
| 1. Implement electronic OTC trading platform for the bond market. This is to be achieved through a new CSD with capabilities to process OTC trades.<br>2. Automation of securities exchange transactions through adoption of an appropriate messaging system<br>3. Introduce market making arrangements for the Government bond market. The new CSD will support OTC and REPO transactions which are pre-requisite for market making. The market making framework is however yet to be developed.<br>4. Put in place necessary technical arrangements to allow for Securities Lending and Borrowing (SLB) for both equities, corporate bonds and Government securities<br>5. CDSC to develop services to support the introduction of Securities Lending<br>6. Review of CDSC CSD affirmation process<br>7. Complete CBK CSD upgrade process | 1. Remove the requirement for pre-funding[23]<br>2. Review infrastructure, policy, legal and regulatory requirements to support access to capital markets by retail investors through Collective Investment Schemes<br>3. Operationalise Kenyan repo market as well as the establishing of a repo platform. CBK is implementing a new CSD system that will deliver capabilities for REPOs with full transfer of title.<br>4. Introduce arrangements for market making in the equities market<br>5. Explore additional methods of increasing government bond market liquidity<br>6. A central counterparty for cash securities to be established<br>7. Establish a CCP for commodity derivative products<br>8. All CCPs should carry out regular reviews to ensure compliance with CPSS-IOSCO principles<br>9. CDSC to set its own financial policy<br>10. CDSC to achieve full compliance with the CPSS-IOSCO Principles for Financial Markets Infrastructures<br>11. Explore links with other EAC depositories<br>12. CDSC should aim to build bilateral connections with Euroclear and Clearstream<br>13. Explore harmonisation of CSD processes across CDSC and CBK |

[23] This was a concern raised during stakeholder consultations – consequently, there should be engagement with the market in order to determine what the practical changes are required.

| 2023 completion | Post-2023 completion |
|---|---|
| **Objective 2: Strengthening the domestic legal and regulatory environment** | |
| 1. Examine the tax structure of collective investment scheme products<br>2. Regulatory oversight of online foreign exchange market to be maintained[24]<br>3. Explore regulatory amendments to ensure that there is no regulatory gap between public and private markets[25]<br>4. Existing work programme on corporate governance covering both the corporate governance code and education in good corporate governance to be continued<br>5. Review the different ways in which good corporate governance can be achieved in practice and act on findings<br>6. Review the introduction of tailored corporate governance requirements for family-owned businesses<br>7. Align on the respective roles of CMA and NIFCA going forward in terms of capital markets promotion | 1. Develop a separate policy, legislative and regulatory framework for Islamic products and services<br>2. Develop an adequate legal and regulatory framework in order to promote financial sector growth at county level<br>3. Develop a corporate governance social responsibility and sustainability index<br>4. Develop international standard ESG frameworks and monitoring and evaluation mechanisms<br>5. Grant NSE freedom on fee structure<br>6. CDSC to achieve self-regulation organisation status and move to an outcome-based approach<br>7. Liberalise fee-setting policies for financial firms and infrastructure providers<br>8. Ensure that appropriate frameworks for Consumer Protection are put in place<br>9. Complete self-regulation organisation process NSE in line with international principles |
| **Objective 3: Enhancing markets for alternative finance** | |
| 1. Continued promotion of the markets for REITs, asset-backed securities and commodities, including periodic amendments to regulations and policy as needed | 1. Encourage PE/VC and private debt through partnerships with DFI-backed funds or through SPV's formed from the funds of local institutional investors<br>2. Research the need for a green taxonomy for Kenya |

[24] The CMA should explore the regulations required to ensure that consumer protection is maintained as far as online foreign exchange trading is concerned.

[25] It will be necessary for the CMA to clarify what constitutes an offer to the public (where such offers would fall under its supervision) versus what constitutes a private offer (which would not fall under its supervision).

| 2023 completion | Post-2023 completion |
|---|---|
| **Objective 4: Building an internationally attractive market** | |
| 1. Establish a process for monitoring progress in international rankings<br>2. Review the adequacy of the corporate and personal tax framework for financial services<br>3. NIFCA to continue to promote FDI investment in Kenya | 1. Support government agenda on regional financial integration<br>2. Develop creative products (e.g. EAC depository receipts) that promote investor comfort in regional products<br>3. Support regional financial market infrastructure linkages (e.g. for trading, settlement and clearing infrastructure)<br>4. Extend Kenya's network of Double Taxation Agreements while managing risks of investment practices such as transfer pricing<br>5. Ensure standards for information exchange on taxes are in line with requirements of OECD Global Forum on Transparency and Exchange of Information for Tax Purposes<br>6. Promote listing of international depository receipts through discussions with investment banks<br>7. Consider GDRs and GDNs for both equity and debt issues to make them more accessible to international investors<br>8. Create KDRs as a potential alternative to creating CSD linkages |
| **Objective 5: Supporting the growth of the demand side and supply side of the local market** | |
| 1. Implement a national consumer financial education policy and strategy, including capital markets content<br>2. CMA to continue its own education programme<br>3. Regulators to change their investment guidelines to permit SLB<br>4. Industry (CMA, NSE and KASIB) to promote the benefits of listing to potential issuers<br>5. Streamline listing application procedure and communicate to market<br>6. Educate traders and investors on derivatives trading<br>7. Undertake study of where Kenya has an opportunity to be the international price formation centre (e.g. Coffee could be a candidate)<br>8. Promote warehouse receipt schemes across the country<br>9. Provide broad-based capacity building and training for capital markets participants<br>10. Provide education to new potential issuers<br>11. Implement county financing strategy, including capacity building for counties on the practicalities of accessing capital markets<br>12. Review the various market segments and explore ways to streamline the same<br>13. After streamlining market segments as necessary, review listing requirements, free float requirements and different classes of shares in order to promote listings on NSE Main Board and GEMS<br>14. Review free of payment transfer processes and regulations for government bonds<br>15. Explore amending regulations to allow limited liability partnerships to raise capital publicly | 1. Leverage existing relationships to develop Islamic finance expertise<br>2. Identify and make policy proposals to facilitate development of Islamic finance in the annual Memorandum of Policy Proposals to the National Treasury and implement programmes through industry coordination and relevant partnerships<br>3. Regulations allowing margin trading to be introduced<br>4. Promote benefits of listing to small firms, once market segments have been streamlined as necessary<br>5. Develop pool or spot market arrangements for the power sector<br>6. Review the case for amending the law formally to put in place "no-action" arrangements<br>7. Support the development of financial expertise in the courts and support the establishment of an integrated Financial Services Sector Tribunal<br>8. Raise tax-free limits for retirement schemes<br>9. Explore the establishment of umbrella retirement schemes<br>10. Develop licensing arrangements for individual financial advisors and certified financial planners<br>11. Adjust regulations to allow savings groups to invest in capital markets<br>12. Explore possibility of allowing SACCOs and county level organisations to list on the Unquoted Securities Platform or other appropriate platform |
| **Total** | **Total** |
| 33 | 46 |

The section that follows discusses the 79 actions above in greater detail, including by showing their associated outputs and outcomes. The actions include the expected timelines in the output/date column of each table, allowing the actions to be cross-referenced relative to the table above. Where the action is slated for completion by 2023, the precise year (i.e. 2021, 2022 or 2023) is provided, whereas post-2023 actions are simply designated with "post-2023".

## 4.1. Supporting the development of local market structure to international standards

The aim of this objective is to ensure that the domestic market's structure is built to international standards, acting as a foundation for the development of new instruments, regulations and policy, and so on. The new and retained infrastructure interventions cover the pre-trade, trade and post-trade aspects of infrastructure.

### 4.1.1. Domestic market structure: pre-trade

It is necessary to ensure that the market's pre-trade infrastructure is fit for purpose and meets international standards. There is only one retained action in this regard, which relates to the current need for pre-funding.

**New focus areas**

None.

**Redundancies**

None.

**Re-emphasised actions**

There were no new focus areas specifically outlined for the pre-trade aspect of the domestic market's infrastructure. The remaining action, which involves the removal of the pre-funding requirement in order to better accommodate international investors, is therefore re-emphasised.

**Table 4: Pre-trade domestic market structure activities**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 1.1.1 | 4.1.7 | Remove the requirement for pre-funding | Less important | In progress (not on target) | CMA | Institutional investors | - | Pre-funding requirement removed (post-2023) | Improved equity market liquidity as measured by share turnover ratio |

### 4.1.2. Domestic market structure: trade

The aim of this sub-section is to ensure that the required trading infrastructure is in place as far the domestic market is concerned, including in areas such as government bonds, equities, repurchase agreements and collective investment schemes. There are a total of seven actions (four retained and three new) that seek to aid in completing this.

**New focus areas**

There are three new actions under the trade aspect of domestic market structure, namely 1.2.2, 1.2.3 and 1.2.4.

- Action 1.2.2 relates to reviewing the infrastructure, policy, legal and regulatory requirements to support access to capital markets by retail investors through collective investment schemes without being required to assess a variety of different providers. This will allow investors to better compare the different options available in this regard, which will in turn improve confidence and participation, as well as leading to growth in the asset management industry. Given its role as the representative for the providers of CIS products, it is envisaged that the Fund Managers Association (FMA) will hold ultimate responsibility for this action, along with the CMA in its role as regulator, with the broader market needing to be informed of the progress in this regard.

- Action 1.2.3 deals with a concern raised during stakeholder engagements, namely the level of manual work involved in the processing of securities exchange transactions. Consequently, it will be necessary to automate the flow of securities exchange transactions through the use of an appropriate messaging system, such as that offered by the Society for Worldwide Interbank Financial Telecommunications (SWIFT) or the Financial Information eXchange (FIX) or any other provider in order to move the market towards straight-through processing (STP). The Kenyan Association of Stockbrokers and Investment Banks (KASIB) will lead in this regard, consulting with institutional investors (fund managers, commercial banks, pension schemes, etc.) in order to ensure that the needs of the market are met, with the fund management industry and commercial banks at large needing to be informed of progress.

Stakeholders shall agree on the legal framework to cover the REPO market and supporting legal documents. In addition, the process of upgrading the CBK CSD was identified as an important driver in this regard. This process should be driven by the CBK given its control over the repo market, though the Kenyan Banker's Association should be consulted, with the broader market kept informed of progress. CBK is implementing a Central Securities Depository (CSD) system to enhance efficiency of domestic debt operations and to further develop the market. The envisioned CSD system at the Central Bank of Kenya is crucial for monetary policy implementation. The system will promote public interest, financial stability, financial market development and support supervision and monitoring of financial institutions to safeguard national interest. The system will support market's needs for liquidity provisioning in the RTGS system for the settlement of primary and secondary market operations, open market operations of the Central Bank and intraday liquidity operations providing guarantee that the principles of DVP and STP are respected. The system will contribute to addressing the constraints within liquidity distribution in the interbank money market by enabling full transfer of collateral for repo transactions, facilitate marking to market of collateral used for repo interbank market transactions and accommodate the selected mode of collateral maintenance.

In addition, the system will also provide high agility (online and mobile centricity), availability and scalability to meet ever changing market dynamics in primary market issuance as well as secondary market. The modernization of CSD will allow for integration with all major financial market infrastructure platforms. The CSD will facilitate the introduction of new instruments to the markets and enable CBK to collect consolidated market data efficiently.

Also, it is expected that the CSD will provide both domestic and foreign investors greater access to the Kenyan capital market and promote confidence amongst the market participants due to improved market liquidity for a range of debt instruments. It will provide key market infrastructure to enable the conditions to build on for local currency debt market. The CSD will help manage systemic risks, improve operational procedures and automate current operations. The project implementation is expected to be completed in May 2022.

**Redundancies**

None.

**Re-emphasised actions**

Outstanding actions that require additional emphasis include those related to the government bond market (specifically 1.2.1 and 1.2.7 in the table that follows).

- Specifically, enhancing liquidity in the market for government bonds will be crucial in order to underpin Kenya's debt markets. The CSD will provide key market infrastructure to enable the conditions to build on for local currency debt markets.
- Importantly, strong market infrastructure is needed, including well-functioning CSDs and the existence of delivery versus payment (DvP). The importance of these actions is therefore re-emphasised.

The activities for the trade sub-section of the domestic market infrastructure objectives are shown in the table below.

**Table 5: Trade domestic market structure activities**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 1.2.1 | 4.1.10 | Implement electronic OTC trading platform for the government bond market | Important | In progress (not on target) | Commercial banks (KBA) | CBK | CMA and market | Electronic OTC bond trading platform established and operational (2022) | Increased treasury bond turnover percentage as share of total government debt |
| 1.2.2 | New | Review infrastructure, policy, legal and regulatory requirements to support access to capital markets by retail investors through Collective Investment Schemes | Less important | Not started | FMA, CMA | - | Broader market | Review complete and acted on (post-2023) | Increased value of CIS AUM |
| 1.2.3 | New | Automation of securities exchange transactions through adoption of an appropriate messaging system | Important | Not started | KASIB | Institutional investors | Fund managers and commercial banks | Contract notes processes automated (2022) | Increased equity market liquidity as measured by share turnover ratio |
| 1.2.4 | New | Operationalise Kenyan repo market, as well as the establishing a repo platform | Less important | Not started | CBK | KBA | Broader market | Kenya repo market platform finalised and launched (post-2023) | Increased treasury bond turnover percentage as share of total government debt |
| 1.2.5 | 4.1.1 | Introduce arrangements for market making in the equities market | Less important | In progress (not on target) | NSE | Institutional investors | - | Market making for equities launched (post-2023) | Increased equity market liquidity as measured by share turnover ratio |
| 1.2.6 | 4.1.11 | Explore additional methods of increasing government bond market liquidity | Important | Not started | CBK | - | Institutional investors | Methods to increase government bond market liquidity implemented (post-2023) | Increased treasury bond turnover percentage as share of total government debt |

### 4.1.3. Domestic market structure: post-trade

Following a trade, clearing and settlement take place via central counterparty clearing houses, counterparties and CSDs. That these functions are conducted at international levels represents a key, foundational aspect in ensuring the development of the domestic market. To that end, a total of 12 actions (nine retained and three new) have been included in order to ensure international-level market infrastructure.

#### New focus areas

There are three new actions introduced as part of the post-trade section of the domestic market structure objective, namely actions 1.3.10, 1.3.11 and 1.3.12.

- The first of these (action 1.3.10) reflects the deferral of integration between the two CSDs (see next heading). With the two CSDs likely to continue in parallel for the foreseeable future, harmonisation of processes between the CBK and CDSC CSDs receives higher priority. During the market assessment process, international investors raised the point that the two CSDs provide different experiences to investors, with a suggestion that it should be possible to follow similar account opening procedures in both CSDs, for example, and that timelines around account dormancy could be harmonised. To that end, while the market will benefit from the upgrades made to the CBK and CDSC CSDs, the greatest benefits may be obtained if these two provide a seamless and consistent experience to investors, including across aspects such as account opening and dormancy procedures and policies. The CBK and CDSC are responsible for this action, given that they are the operators of the two CSDs in the market, necessitating their close collaboration in this regard. Institutional investors and central depository agents (CDAs) may be consulted in order to ensure that the needs of the market as far as a harmonised CSD process is taken into account, while the broader market need simply be informed of the changes.
- Secondly (action 1.3.11), in the case of CDSC, stakeholders raised the point that use of a negative affirmation process exposes custodian banks and brokers to risk in the event of a client backing out of a trade. By contrast, it was suggested that a positive affirmation process could be implemented in which a client must positively accept a trade for it to be settled. Given the technical nature of this point, it may be beneficial to explore whether this is a material concern within the Kenyan market before taking any definitive action. CDSC should take responsibility in this regard, consulting with KASIB as well as the CDAs in order to understand to what extent the current affirmation process is a barrier and if so, how best to address this, with institutional investors being kept informed as this process progresses.
- The third action relates to the completion of the upgrade process to the CBK CSD. Substantial work has been done in this area with the CSD expected to be operational at an international standard in the first half of 2022. Given the foundational role of CSDs in any capital market, this is a welcome move, while the upgrades will also facilitate the achievement of actions 1.2.4 and 5.1.25, which deal with the launch of the Kenyan repo market and the review of free of payment transfer processes, respectively. Responsibility for this action is assigned to the CBK.

#### Redundancies

There is one action that has become redundant owing to developments within the market. This is the action originally numbered 5.1.8, which relates to the integration of the market's two CSDs, namely the one maintained by the CBK and the one operated by the CDSC. Though there is a general preference for developing countries to maintain a single CSD in order to avoid a duplication of costs and systems, it was well understood during the market assessment process that such a move is unlikely to materialise in Kenya in the foreseeable future. Both the CBK (in progress) and CDSC (completed) have made efforts to upgrade their respective CSDs, with the upgrades expected to operate on a lifespan of a decade or longer. Given this reality, CSD integration is unlikely during this time frame, rendering this action unrealistic within the time horizon of the CMMP.

## Re-emphasised actions

- An area that would benefit from re-emphasis relates to the introduction of central counterparty clearing houses (CCP) for cash securities and commodity derivative products, i.e. actions 1.3.1 and 1.3.2. CCPs provide a risk management function by reducing counterparty risk for buyers and sellers in a transaction.[26] In addition, CCPs also facilitate anonymous trading, which may be desirable to certain market participants. The CMA undertook a survey in early 2021 on the market's readiness for a CCP. The reaction was generally positive, with a majority of market participants responding to the survey being in favour of introducing a CCP within one year. To that end, it is recommended that progress made thus far in this regard be carried through to completion.
- An area that warrant further some clarification are actions 1.3.4 and 1.3.6, which relative to securities lending and borrowing (1.3.4) and the achievement of compliance with CPSS-IOSCO Principles for Financial Markets Infrastructures (1.3.6). In the case of the former, responsibility has been allocated to the CDSC, CBK, KBA, National Treasury and Planning and the CMA. Action 1.3.6 includes the same stakeholders, as well as NSE Clear. Given the CBK's role as the CSD for government bonds, and the KBA and National Treasury and Planning's role in the development of an electronic OTC platform for government bonds, the government bond component of these two actions are assigned to them, i.e. ensuring that lending and borrowing of government bonds is possible and that the infrastructure around them meets international best practice standards. Similarly, the equities component of the above actions are the responsibility of CDSC, as well as NSE Clear for activity 1.3.6. In both cases, the CMA is also allocated responsibility in its role as capital markets regulator. It should be noted, however, that action 1.3.4 is slated for completion by 2022, while action 1.3.6 is a post-2023 action, driven by the fact that CDSC is not a full CCP, which may make alignment to the afore-mentioned CPSS-IOSCO principles challenging in the short term.
- The question of integration of Kenya's market infrastructure with those of other members of the EAC (action 1.3.8) also warrants some further discussion. Given the realities around the project and the progress made thus far, it was suggested during stakeholder discussions that substantial political guidance would be required in order to ensure the project's success. In addition, such a move should be explored only if it demonstrates a clear ability to bring clear benefits to the Kenyan market. Overall, a number of stakeholders, including CDSC, the CBK, National Treasury and the Ministry of East African Community and Regional Development will need to take responsibility for providing guidance around this action. In addition, the post-2023 nature of this action means that the merit in retaining it can be assessed in greater detail at the end of the current plan's horizon, for potential inclusion as part of a second CMMP.

[26] https://www.be-tse.it/central-counterparty-clearing-reduces-market-risk/

**Table 6: Post-trade domestic market structure activities**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 1.3.1 | 5.1.12 | A central counterparty for cash securities to be established | Less important | In progress (on target) | NSE, CDSC | Institutional investors, KASIB | Broader market | CCP established (post-2023) | Increased equity market liquidity as measured by share turnover ratio |
| 1.3.2 | 5.2.3 | Establish a CCP for commodity derivative products | Less important | In progress (on target) | CMA | NSE | Broader market | CCP established (post-2023) | N/A |
| 1.3.3 | 5.2.6 | All CCPs should carry out regular reviews to ensure compliance with CPSS-IOSCO principles | Important | In progress (on target) | CCP (when implemented) | CMA | CMA and market | Ongoing reviews conducted and reported on (Post-2023) | N/A |
| 1.3.4 | 4.1.6 | Put in place necessary technical arrangements to allow for Securities Lending and Borrowing (SLB) for both equities, corporate bonds, and Government securities | Less important | In progress (on target) | CDSC, CBK, KBA, NT&P, CMA, FMA | Institutional investors | Broader market | Technical arrangements for SLB implemented (2022) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased treasury bond turnover percentage as share of total government debt |
| 1.3.5 | 5.1.3 | CDSC to set its own financial policy | Less important | Not started | CMA | CDSC | Broader market | CDSC sets its own financial policy (post-2023) | N/A |
| 1.3.6 | 5.1.7 | CDSC to achieve full compliance with the CPSS-IOSCO Principles for Financial Markets Infrastructures | Less important | In progress (on target) | CDSC, CBK, KBA, NT&P, NSE Clear, CMA | External experts | Broader market | CDSC infrastructure at full compliance with CPSS-IOSCO Principles (Post-2023) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased treasury bond turnover percentage as share of total government debt |
| 1.3.7 | 5.1.9 | CDSC to develop services to support the introduction of Securities Lending | Less important | In progress (on target) | CDSC | Institutional investors | Broader market | CDSC introduces securities lending (2021) | Increased equity market liquidity as measured by share turnover ratio |

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 1.3.8 | 5.1.11 | Explore linkages with other EAC depositories | Less important | In progress (not on target) | CDSC, NT&P, CBK, Ministry of EAC | Central Depository Agents | Broader market | CDSC linkages with other EAC depositories formed (post-2023) | Increased equity market liquidity as measured by share turnover ratio |
| 1.3.9 | 5.1.13 | CDSC should aim to build bilateral connections with Euroclear and Clearstream | Less important | In progress (not on target) | CDSC | Central Depository Agents | Broader market | CDSC linkages with Euroclear and Clearstream established (post-2023) | Increased equity market liquidity as measured by share turnover ratio |
| 1.3.10 | New | Explore harmonisation of CSD processes across CDSC and CBK | Important | Not started | CBK,CDSC | Institutional investors and Central Depository Agents | Broader market | Harmonisation of processes across the two CSDs complete (post-2023) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased treasury bond turnover percentage as share of total government debt |
| 1.3.11 | New | Review of CDSC CSD affirmation process | Less important | Not started | CDSC | KASIB, Central Depository Agents | Institutional investors | Possibility of altering CDSC affirmation process reviewed (2021) | Increased equity market liquidity as measured by share turnover ratio |
| 1.3.12 | New | Complete CBK CSD upgrade process | Important | In progress (on target) | CBK | - | Broader market | CBK CSD upgrade process complete (2022) | Increased treasury bond turnover percentage as share of total government debt |

## 4.2. Strengthening the domestic legal and regulatory environment

The second objective focuses on ensuring a strong domestic legal and regulatory environment for the capital markets. Firstly, this concerns the product side of the market, i.e. ensuring that current products are well regulated, that there is scope for the introduction of new products as and when necessary and that alternative products are accommodated. Secondly, it is necessary to ensure that regulation is fit and proper from a financial reporting and governance perspective, and thirdly, that regulatory structures (in terms of self-regulating organisations, fee structure liberalisation, etc.) are fit for the market.

### 4.2.1. Regulations around existing, new and alternative products

The focus of this sub-section lies in ensuring that the regulatory and legal environment are developed in order to be conducive to the success of the new, existing and alternative asset classes. There are five actions (three retained and two new) that fall under this heading.

**New focus areas**

- Stakeholder discussions revealed that there has been increased interest in the online foreign exchange market since the launch of the original CMMP. Consequently, it is recommended that the CMA, as regulator, maintains its oversight of the online foreign exchange market, ensuring that its regulatory structure remains fit for purpose and that investors remain protected.
- In addition, stakeholder discussions revealed the need to ensure investor protection by ensuring that there is no regulatory gap between public and private investment classes. Consequently, it will be necessary for the CMA to clarify what separates an offer to the public (where such offers would fall under its supervision) from a private offer (which would not fall under CMA oversight). This will ensure that members of the public are not taken advantage off by being offered products that exist in a regulatory gap, removing them (strictly speaking) from the oversight of CMA and hence removing a key layer of investor protection. Responsibility for this action is assigned to the CMA, with the broader market needing to be informed.

**Redundancies**
None.

**Re-emphasised actions**

- The need to accommodate Islamic, or participatory finance, should be reemphasised (action 2.1.2. Global evidence suggests that participatory finance can be accessible to a broader group of entities or individuals than only those who follow the Islamic faith. Indeed, the growth in participatory finance from a global perspective suggests that there is broad demand for it. Progress has been made in terms of discussions around participatory finance in the Kenyan context, with the country's REIT regulations making provision for Shariah-REITs, but broader formal implementation, possibly led by the government's issuance of a sukuk, is a goal worth pursuing. At the same time, however, it is acknowledged that government sukuk issuance may not occur within a predictable timeline, though it would open up a new avenue for government to raise financing for the Big 4 agenda's implementation. Consequently, there should also be a focus on further demystifying Islamic finance for the population as a whole (with a view to establish Shariah-compliant collective investment schemes, for example) and to create greater awareness of this form of finance.

The actions associated with this sub-section are shown in the table below.

**Table 7: Regulations are existing, new and alternative productions actions**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 2.1.1 | 2.2.4 | Examine the tax structure of collective investment scheme products | Less Important | In progress (not on target) | CMA, KRA, FMA, NIFCA | FMA | Broader market | Tax structure of CIS reviewed (2022) | Increased value of CIS AUM |
| 2.1.2 | 2.2.6 | Develop a separate policy, legislative and regulatory framework for Islamic products and services | Less Important | In progress (on target) | NT&P | Islamic experts within the market, institutional investors, CMA, RBA, IRA, CBK, SASRA | Broader market | Islamic capital markets regulations, policy and legislation developed (Post-2023) | Increased value of Islamic Finance assets |
| 2.1.3 | 1.2.2 | Develop an adequate legal and regulatory framework in order to promote financial sector growth at county level | Less important | In progress (on target) | CMA, NT&P | Council of Governors | Broader market | Adequate legal and regulatory framework for county-level financial sector developed (Post-2023) | Increased share of total annual county revenue raised through capital markets |
| 2.1.4 | New | Regulatory oversight of online foreign exchange market to be maintained | Less important | Not started | CMA | - | Broader market | Online foreign exchange market oversight maintained by CMA (2021) | Reduced instances of market infringements for online foreign exchange and offers to public |
| 2.1.5 | New | Explore regulatory amendments to ensure that there is no regulatory gap between public and private markets | Less important | Not started | CMA | - | Broader market | Regulatory amendments made (2022) | Reduced instances of market infringements for online foreign exchange and offers to public |

### 4.2.2. Regulations around corporate governance and financial reporting

This set of actions is concerned with ensuring that the corporate governance and financial reporting aspects of the market are fit for purpose, with a focus on transparency and sustainability. These factors are important in ensuring investor confidence, safety and protection as they interact with the market, as well as greater access to capital for companies. There are seven actions (five retained and two new) in this particular sub-section.

#### New focus areas

There are two new actions around corporate governance, namely action 2.2.6 and action 2.2.7.

- Against the general need for strong corporate governance in the market, it is important to consider the needs of family-owned businesses in particular. This refers in part to the concerns around loss of control that these businesses have, as well as to the fact that there is no separation of ownership and management in a family-owned business, which is a differentiator compared to other listed firms. To that end, action 2.2.6 recommends that corporate governance requirements could be tailored for these and other small business in order to provide a smoother listing experience. This would aid in facilitating the capital inflows required to allow these firms to expand and, in the case of manufacturing firms, play a larger role in meeting the country's Big 4 agenda.
- At the same time, the importance of good corporate governance and transparency should be emphasised to these businesses, with more education around the same acting as a driver of confidence. The CMA and NSE should drive this process in order to ensure that corporate governance regulations are adapted for these businesses as far as is viable while still meeting the needs of investors and ensuring their protection. Consultations should take place with the Institute of Certified Secretaries (in order to ensure that strong corporate governance requirements are still maintained), institutional investors (to ensure that investor needs remain met) and family-owned businesses (to ensure that the tailored corporate governance requirements are sufficiently tailored to their needs). Changes to the corporate governance requirements for family-owned businesses can then be communicated to the market.
- Action 2.2.7 seeks to take greater account of the importance of sustainability in modern capital markets, and indeed, the world as a whole. Stakeholder discussions revealed the need for Kenya to ensure that its capital markets are fit for purpose in this regard. To that end, it is recommended that the market introduces a roadmap for ESG reporting for listed companies. At this point, it is not envisaged that these requirements would be legally binding, but rather that they would be tied to incentives for listed firms in order to facilitate the eventual adoption of ESG reporting across all listed companies. This is especially so given the cost implications of implementing ESG reporting. While the specific cost would vary on a case-by-case basis, it is understood that the burden may be comparatively heavier for smaller or medium-sized companies that do not have sustainability-related departments within their organisations, given that these would have to be established, appropriate processes developed, and staff hired.[27]
- Reporting around ESG principles has become an ever-larger consideration in modern markets as sustainability becomes a point of emphasis for investors. Indeed, the AUM of ESG-minded investors has grown to an impressive figure, with the world's largest companies similarly moving to disclose their ESG contexts more clearly. It is highly likely, therefore, that such reporting standards will be an important determinant of the Kenyan market's attractiveness going forward, not merely in the short term, but beyond the horizon of the CMMP. Overall, the CMA should take responsibility for driving this action, consulting with the Institute of Certified Secretaries and institutional investors in order to ensure that best practice is maintained, before informing the broader market of the changes.

**Redundancies**

None.

**Re-emphasised actions**

None.

[27] https://investor-update.com/esg-what-will-it-cost

The list of actions for the financial reporting and corporate governance aspect of the new structure is shown in the table below.

**Table 8: Regulations around corporate governance and financial reporting actions**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 2.2.1 | 8.1.1 | Existing work programme on corporate governance covering both the corporate governance code and education in good corporate governance to be continued | Important | In progress (on target) | CMA | Institute of Certified Secretaries | Broader market | Continued improvements in corporate governance as measured by the World Economic Forum's Global Competitiveness Report (2022) | Increased equity market liquidity as measured by share turnover ratio<br><br>Improvement in Global Competitiveness Report rankings |
| 2.2.2 | 8.1.2 | Review the different ways in which good corporate governance can be achieved in practice and will act on findings | Less Important | In progress (on target) | CMA | Institute of Certified Secretaries | Broader market | Continued improvements in corporate governance as measured by the World Economic Forum's Global Competitiveness Report (2021) | Increased equity market liquidity as measured by share turnover ratio<br><br>Improvement in Global Competitiveness Report rankings |
| 2.2.3 | 8.1.3 | Develop a corporate governance social responsibility and sustainability index | Less important | In progress (not on target) | NSE | Institute of Certified Secretaries | Broader market | Corporate governance social responsibility and sustainability index developed (post-2023) | Increased equity market liquidity as measured by share turnover ratio<br><br>Improvement in Global Competitiveness Report rankings |
| 2.2.4 | 8.2.2 | Explore the possible establishment of an independent Kenyan auditor oversight regulator in adherence to the Core Principles of the International Forum of Independent Regulators | Important | In progress (not on target) | CMA, NT&P | ICPAK | Broader market | Independent Kenyan Oversight Regulator Established (post-2023) | Increased equity market liquidity as measured by share turnover ratio<br><br>Improvement in Global Competitiveness Report rankings[28] |
| 2.2.5 | 6.1.1 | Include financial services education in university law courses | Less important | In progress (not on target) | CMA, universities, Ministry of Education | Financial services experts | - | Financial services education introduced into university law courses (post-2023) | Improvement in Global Competitiveness Report Rankings<br><br>Improvement in GFCI rankings |
| 2.2.6 | New | Review the introduction of tailored corporate governance requirements for family-owned businesses | Less important | Not started | CMA, NSE | Institute of Certified Secretaries, institutional investors, family-owned businesses | Broader market | Corporate governance requirements for family-owned business reviewed and adapted as necessary (2023) | Increased number of listings on NSE<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP |

[28] Auditing falls under the corporate governance aspect of the Global Competitiveness Rankings

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 2.2.7 | New | Research and develop international standard ESG frameworks and monitoring and evaluation mechanisms | Important | Not started | CMA | Institute of Certified Secretaries, institutional investors | Broader market | ESG framework and M&E mechanisms developed (post-2023) | Increased equity market liquidity as measured by share turnover ratio |

### 4.2.3. Interventions around regulatory structure

This set of actions is concerned with the regulatory structure of the capital markets, with a particular focus on the roles that various players fulfil as far as regulation is concerned. This includes aspects such as the liberalisation of fee structures for certain service providers, the possibility of certain service providers becoming self-regulating organisations, as well as considerations of how the roles of market promotion versus market regulation should be divided. There are a total of six actions (four retained and two new) in this particular set of actions.

#### New focus areas

The two new actions are numbered 2.3.5 and 2.3.6.

- Action 2.3.5 is concerned with the promotion of the capital markets versus their regulation. It became clear from market discussions that the Nairobi International Financial Centre Authority (NIFCA) will be playing an important role in promoting Kenya's merits as an investment destination, with a mandate broader than a purely capital markets focus. Indeed, as noted in section 2, it has already attracted an anchor client, while additional investment has been slated to flow into Kenya. As a result, it will be important for the CMA to engage with NIFCA in order to align on how the respective bodies work together and in particular, where NIFCA falls on the spectrum of capital markets regulator versus capital markets promoter. This is especially key given the MoU between NIFCA and TheCityUK, which was mentioned earlier.

  In Kenya, international firms are authorised and operate under the same regulatory and legal regime as local firms. As a result, there is no sharp divide between local and international firms. This model is different from that of other, self-contained financial centres, particularly in the Gulf states, which have established separate financial centres operating in English with a different legal and regulatory regime from the local market. This was necessary to ease access for international firms unfamiliar with local laws and language. However, as English is already used in Kenya and the legal system is derived from English common law, there is no obvious need to develop a financial centre with a parallel legal and regulatory structure. The integrated model, already being used, appears the most appropriate model for Kenya to follow in the Nairobi International Financial Centre.

  At global level, it is generally best practice to have a clear delineation between regulation and promotion of the capital markets. This is especially important considering that NIFC businesses will still be regulated by the current financial sector regulators in Kenya, including the CMA. Consequently, the role of NIFCA should be to promote Kenya as an investment destination and ensure ease of access to the Kenyan market for, amongst others, capital markets players, who will then be regulated by the CMA in their role as capital markets regulator. Therefore, as NIFCA matures and its role becomes more clearly defined, it is envisaged that the role of capital markets promoter might fall under its mandate, with regulation remaining the focus of the CMA. The box below discusses how NIFCA may fit in as part of the broader promotion and regulation framework, drawing on experience from a similar integrated financial centre model, namely London.

**An integrated international financial centre: the London model**

London is one of the leading international financial centres and presents a model for the successful separation of the roles of regulation and promotion.

In the UK, financial regulation is the responsibility of a number of official bodies – Bank of England, Prudential Regulation Authority, Financial Conduct Authority, Financial Reporting Council. As the UK is an integrated financial centre, the same regulatory regimes apply both to firms operating purely domesticallay in the UK and to those using the UK as a base for international business. Through a number of MOUs with regulatory authorities in other countries, in many cases authorisation in the UK permits a firm to carry on some types of business in another centre.

Within government, responsibility for maintaining the competitiveness of the financial sector rests with the finance ministry (HM Treasury). Promotion of London and the UK generally as a financial centre is the responsibility of the private sector and is co-ordinated through The City UK, which represents financial and related professional services firms. Through its research programme it identifies and proposes areas for regulatory or legislative change to support the financial sector. Finally, the City of London, as the local government body for the principal financial district, works to provide a supportive physical environment for the financial services sector.

NIFCA's mandate in promoting the Kenyan market could aid in attracting foreign investment in, amongst others, sectors such as manufacturing, which the Big 4 agenda seeks to ensure grows to a size equivalent to 20% of GDP. The responsibility for determining how the mandates of capital market promotion and regulation complement each other is assigned to the CMA and NIFCA, in consultation with the National Treasury, after which the broader market should be informed of how the question of promotion and regulation has been settled.

- The other new focus area is captured in action 2.3.6, which is concerned with the ability of NSE to become a self-regulating organisation (SRO), in conjunction with the same process taking place for CDSC (which is a retained action from the original CMMP). Work has been undertaken to establish an oversight framework for the supervision of self-regulatory organisations (SROs) in Kenya, with a number of candidates identified for SRO status, including the NSE. The CMA has already undertaken a consultancy to advise in this regard.

  There are a number of potential benefits around the use of SROs.[29] These include the fact that the organisations are experts in their own fields, which can in turn allow them to make their expertise available to their members, as well as reacting more quickly to developments in the market. Secondly, SROs can establish higher ethical and business practice conduct standards within their own spheres, which may raise confidence in the markets. Finally, the approach of funding the SRO from within the industry itself may lead to additional supervision since the industry is effectively dependent on itself for financing. These benefits have the potential to allow for SROs to be established as allies to the CMA, lending their expertise and oversight to ensuring the efficient, dynamic and ethical functioning of the capital markets. Consequently, it is recommended that the current SRO processes be followed to completion, retaining awareness of the principles that underpin an effective SRO, based on global practice.[30] These include, for example, securing buy-in from members based on a feeling of mutual benefit, industry and public representation, cost efficiency as far as complying with self-imposed regulations are concerned, high transparency requirements (including as far as enforcement is concerned), adequate oversight from statutory regulators, independence from the market being regulated, adequate funding and an independent board.

[29] https://corporatefinanceinstitute.com/resources/knowledge/other/self-regulatory-organization-sro/

[30] CFA Institute, 2013. Self-regulation in the securities markets. Available: https://www.cfainstitute.org/-/media/documents/article/position-paper/self-regulation-in-securities-markets-transitions-new-possibilities.ashx

However, there are a number of conditions that should be put in place in order to ensure that SROs function as anticipated.[31] These include the need for SROs to be well-funded, to have an adequate level of technological advancement, to be held accountable for there to be government oversight, to avoid conflicts of interest and to ensure that the SROs act within their authority. Failing these, there are a number of risks involved with SROs.[32] These include cartelisation – a situation where industry members reduce competition and raise their own profits, for example, by creating regulations that deliberately hamper competitors. Risks also include regulatory capture, where the SRO acts entirely in the interests of the industry rather than the public, or a culture of lax enforcement, where issues are left undealt with if they could reduce profits. Alternatively, SROs may become involved in illusory activity – giving the appearance of effort in dealing with investor protection concerns, for example, without actually making any substantial changes. As a result, Kenya should balance the question of SRO benefits against the potential risks involved and the conditions required to ensure effective functioning.

Responsibility for completing the SRO process as far as the NSE is concerned should be assumed by the CMA and NSE, with appropriate consultations on the key users of the NSE's facilities, such as KASIB and institutional investors.

### Redundancies

There are a number of redundancies in this sub-objective, particularly the actions originally numbered 7.1.1, 7.1.2, 7.2.1, 7.2.4, 7.2.5 and 9.3.1.

- Actions 7.1.1, 7.1.2 and 7.2.1 referred to actions to be undertaken in conjunction with the implementation of the Financial Sector Authority Bill. However, stakeholder discussions revealed that the Bill is not a priority for the market at present, making actions related to it redundant.
- Actions 7.2.4 relates to ensuring that capital markets legislation is properly considered – in practice, this is already being achieved through CMA's annual proposal to National Treasury and Planning.
- Action 7.2.5 relates to the possibility of exempting subsidiary financial services from the requirements of the Statutory Instruments Act – discussions in this regard have stalled somewhat and are unlikely to yield concrete results by the end of the CMMP time frame.
- Action 9.3.1 refers to keeping consumer protection authorities advised of moves to liberalise markets – this is already being done in practice.

### Re-emphasised actions

- The question of fee structures and SRO status for certain market players requires some further discussion (actions 2.3.1, 2.3.2, 2.3.3, 2.3.6). Though it is envisaged that liberalised fee structures would lead to a more competitive market environment (to the benefit of investors), stakeholder discussions revealed a concern that investors could be taken advantage of due to low levels of awareness within the market. Consequently, there will be a need to discuss these actions with policy-makers in-depth in order to ensure that these concerns are addressed.

[31] Voss, J., 2014. Self-regulation in the financial markets. Available: https://blogs.cfainstitute.org/marketintegrity/2014/06/24/self-regulation-in-the-financial-markets/

[32] Edwards, BP., 2017. The Dark Side of Self-Regulation. Available: https://scholars.law.unlv.edu/cgi/viewcontent.cgi?article=2141&context=facpub

The actions comprising this sub-section are contained in the table below.

**Table 9: Interventions around regulatory structure actions**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output/ date | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 2.3.1 | 4.1.16 | Grant NSE freedom on fee structure | Less Important | Not started | NT&P | NSE and Market participants: KASIB, KBA, FMA | Broader market | NSE has freedom to set fee structure (post-2023) | Increased number of listings on NSE<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP<br><br>Increased equity market liquidity as measured by share turnover ratio (to the extent that trading fees are liberalised) |
| 2.3.2 | 5.1.6 | CDSC to achieve self-regulation organisation status and move to an outcome-based approach | Less Important | In progress (on target) | CMA | CDSC | Broader market | CDSC achieves SRO status (post-2023) | N/A |
| 2.3.3 | 9.2.1 | Liberalise fee-setting policies for financial firms and infrastructure providers | Important | Not started | NT&P | Institutional investors, KASIB, CDSC, Central Depository Agents | - | Financial firms and infrastructure providers are free to set own fees (post-2023) | Increased value of CIS AUM<br><br>Increased value of retirement savings |
| 2.3.4 | 9.3.2 | Ensure that appropriate frameworks for Consumer Protection are put in place | Less important | In progress (not on target) | CMA, Competition Authority | - | - | Consumer protection frameworks are in place (post-2023) | Increased value of CIS AUM<br><br>Increased value of retirement savings |
| 2.3.5 | New | Align on the respective roles of CMA and NIFCA going forward in terms of capital markets promotion | Important | Not started | CMA,NIFCA | NT | Broader market | Alignment between CMA and NIFCA on their roles as far as capital markets promotion is concerned (2022) | Increased annual net FDI inflows<br><br>Improvement in GFCI rankings |
| 2.3.6 | New | Complete self-regulation organisation process for NSE in line with international principles | Less important | Not started | CMA, NSE | KASIB, Institutional investors | Broader market | Continued dialogue on NSE and CDSC operating as SROs (post-2023) | N/A |

## 4.3. Enhancing markets for alternative finance

The third objective relates to promoting alternative sources of finance in the Kenyan market, including private equity/debt, green finance and instruments such as REITs and asset-backed securities. There are three actions housed under this objective, all of which are new.

**New focus areas**

The three actions are numbered 3.1.1, 3.1.2, and 3.1.3.

- Given the relative strength of PE/VC within the Kenyan context, the focus of action 3.1.1 is to encourage greater activity in this area by making this asset class more accessible to asset managers, retirement schemes and the general investor base. The intention behind this is to benefit both investors and the businesses that attract private equity investments. From the investor side, the aim is to create a larger number of accessible investment vehicles. At the same time, access to a larger investor base would lead to larger capital inflows into businesses that require financing. Encouraging PE/VC activity in Kenya may include, for example, working with development finance institutions (DFI)-backed funds to offer local institutional investors access to Kenyan private equity and debt investments. An example of this approach is the ILX fund that seeks to provide private credit in emerging markets in conjunction with DFIs and backed by institutional investors.[33] In this way, a broader pool of securities would be made available to domestic investors, while at the same time providing additional sources of capital for promising private businesses.
- Furthermore, the possibility of allowing special purpose vehicles (SPVs) to pool together institutional funds in order to invest in large infrastructure projects could be considered. In addition, the comprehensive recommendations made in the study undertaken by the East African Venture Capital Association (EAVCA) should be reviewed, considered and implemented where applicable. The CMA should take responsibility (as far as regulation is concerned) in this regard, consulting with DFIs, institutional investors, PE/VC funds and EAVCA to ensure that the needs of all players are met.
- Action 3.1.2 involves researching the need for a green taxonomy for Kenya, similar to the one created by the EU.

**Green bond guidelines versus a green taxonomy**

Kenya's current Green Bond Guidelines, set out in alignment with the Climate Bond Initiative (CBI) taxonomy, sets out how the proceeds from a green bond are to be used and managed, how issuers will report to investors and how projects for financing are to be identified. Indeed, the current guidelines identify a number of sectors to be prioritised for investment.

A green taxonomy represents a deeper step on the path to sustainability. It is concerned not only with ensuring that investments flow into green activities (e.g. through green bonds), but by defining sustainability criteria for all areas of the economy, i.e. defining which practices are considered sustainable. Consequently, a green taxonomy will represent a step-change not only in terms of designating where green financing should flow to, but also in driving sustainability across the entire economy.

The development of such a taxonomy would be a lengthy, complex undertaking give that it requires analysis of the entire economy. Given the global trend towards sustainability, and the focus of other players (such as the EU, as well as South Africa) in developing similar taxonomies, it may stand Kenya in good stead to begin this process, with a view to completion as part of a second master plan. The development of a Green Taxonomy would require economy-wide consultation given the scale of the undertaking, though responsibility should be shouldered chiefly by National Treasury and the CMA, as well as NIFCA.

[33] https://www.ilxfund.com/

- Action 3.1.3 encourages the continued promotion of instruments such as real estate investment trusts (REITs), asset backed securities and commodities, especially given the significance of, for example, real estate in meeting Kenya's Big 4 housing goal, which will require one million new homes to be built. This is especially true in light of the country's development objectives, such as promoting housing and further developing its manufacturing sector. To that end, it will be necessary to ensure that these instruments are supported through regulatory adjustments and incentives as necessary. The REITs Association of Kenya and KOMEX should lead in this regard, informing institutional and retail investors of their progress. There are regulatory considerations to be taken into account as far as the regulation of alternative finance is concerned, in order to ensure that regulatory authority is delegated appropriately. In the case of REITs, for example, regulation in the USA (the world's largest REIT market) resides with the country's Security and Exchange Commission for public REITS, both traded and non-traded.[34] In South Africa, REITs must meet the JSE's listing requirements, making the JSE (as a SRO) the regulator of this asset class.[35] Similarly, in the United Kingdom, REITs must be listed, but do not appear to be directly regulated by the Financial Conduct Authority (FCA). In Brazil, they are subject to regulation by the Brazilian Securities Exchange Commission. Globally, green bonds are underpinned by guiding principles, such as the International Capital Market Association (ICMA's) Green Bond Principles, while the EU has proposed a European Green Bond Standard (EUGBS), in line with EU Taxonomy, which it seeks to position as the "gold standard" in this regard, under the oversight of the European Securities and Markets Authority (ESMA).[36] From a securitisation perspective, regulations differ across different markets.[37] In South Africa, securitisation is regulation under the country's South African Banks Act, with a set of regulations (The Securitisation Notice) promulgated under the same. In the USA, given the size of the market, there are a number of laws and regulations for securitisation transactions to comply with, including the Securities Act (if the transaction will be funded by securities offered to the public), as well as certain rules (which act as exemptions) within the US Investment Company Act. Finally, in Brazil, there are no specific regulations around securitisation, but instead supported by individual statute laws supporting each step of the process, with overall oversight performed by the Brazilian Securities Exchange Commission and the Central Bank of Brazil.

Overall, it is clear that there are an array of regulatory approaches as far as alternative investments are concerned, with it sometimes being unclear if any regulation around a given asset class exists in a given jurisdiction. Consequently, it is unlikely that the CMA will be able to regulate all forms of alternative finance within the market.

The actions associated with this objective are shown in the table below.

**Table 10: Enhancing markets for alternative finance**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 3.1.1 | New | Encourage PE/VC and private debt through partnerships with DFI-backed funds or through SPV's formed from the funds of local institutional investors | Important | Not started | CMA | DFIs, Institutional investors, PE/VC funds, EAVCA | - | Greater PE/VC activity in line with targets (post-2023) | Increased annual value of PE/VC[38] |

[34] https://guides.loc.gov/real-estate-industry-sources/investment-trusts
[35] https://www.pwc.com/gx/en/asset-management/assets/pdf/worldwide-reit-regimes-nov-2019.pdf
[36] https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_3406
[37] https://www.bakermckenzie.com/-/media/files/insight/publications/2020/12/global-securitisation-guide-dec-2020_151220.pdf
[38] Data on the size of the private debt market in Kenya was not readily available.

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 3.1.2 | New | Research the need for a green finance taxonomy for Kenya | Important | Not started | NT&P, CMA, NIFCA | Economy-wide stakeholders | Broader market | Green taxonomy review undertaken in preparation for development (post-2023) | Increased cumulative value of green finance raised |
| 3.1.3 | New | Continued promotion of the markets for REITs, asset-backed securities and commodities, including periodic amendments to regulations and policy as needed | Less important | Not started | REITs Association of Kenya, KOMEX | - | Institutional and retail investors | REITs, asset-backed securities and commodities promoted within the market (2023) | Additional REIT launch[39]<br><br>Increased value of commodities traded |

## 4.4. Building an internationally attractive market

The fourth objective is concerned with the building of an internationally attractive market. This includes such aspects as regional integration activity, ensuring that Kenya progresses upwards in international rankings, the development of regional products, ensuring an adequate taxation framework, and so on. There are a total of eleven actions in this objective (one new and ten retained), with three redundancies.

**New focus areas**

The new action area within this objective relates to NIFCA's continuing efforts to promote FDI in Kenya. As mentioned previously, NIFCA has already established a connection with TheCityUK, and has drawn in an anchor client in the form of Prudential. Based on stakeholder consultations, the CMA will have an important role to play in ensuring that Prudential has smooth access to the Kenyan market, such as in the provision of the necessary licenses. As a result, as NIFCA's efforts continue to attract investment to Kenya, it will be necessary for it to consult closely with the CMA in order to ensure that the firms that NIFCA attracts find an attractive and accessible environment within Kenya.

**Redundancies**

The three redundancies are the activities originally numbered 3.2.3, 3.2.5 and 3.3.1.

- Action 3.2.3 sought to ensure that Kenya adopted the OECD's Treaty Relief and Compliance Enhancement (TRACE) standards. However, stakeholder discussions revealed that the Kenya Revenue Authority (KRA) is not part of TRACE, rendering this action redundant.
- In addition, action 3.2.5 sought to ensure that personal and corporate tax rates are attractive to internationally mobile employers and employees. Given the developments in Kenya's macroeconomic situation as far as government debt is concerned, coupled with the impact of the Covid-19 pandemic, it is unlikely that material cuts in taxation will be feasible within the horizon of the current master plan.
- Action 3.3.1 was concerned with the CMA putting in place regulatory MoUs to allow for the exchange of confidential information – stakeholder discussions revealed that this is an ongoing action and that there are no challenges in this area.

[39] It is not envisaged that there will be any asset-back securities launched by 2023.

**Re-emphasised actions**

- Action 4.1.5, which recommends the expansion of Kenya's double taxation agreement (DTA) network warrants some discussion. It was understood from discussions with stakeholders that Kenya's DTA network is based on diplomatic considerations, which is entirely appropriate. Additionally, however, it would be beneficial to apply some weight to the question of which markets are most likely to invest in Kenya if properly incentivised, given that this is likely to lead to greater economic benefits accruing to the population. Of course, such a consideration would also aid in the strengthening of diplomatic ties, suggesting that investment and diplomacy considerations need not be mutually exclusive or in competition with each other. In terms of DTA impact, academic evidence is somewhat mixed as far as developing countries are concerned.[40] While there is some evidence of increase FDI flows into developing countries that sign DTAs, it is not clear that is always sufficiently sizable to compensate for potential reductions in tax revenue. Consequently, while the expansion of diplomatic and international economic relations is advisable, Kenya should assess potential DTAs on a case-by-case basis to ensure that the benefit-cost relationship is appropriate for its own goals, and where relevant, ensure ease of access for those countries that could provide investment that enhance Big 4 agenda projects. This action is assigned to National Treasury and Planning, who should consult with NIFCA and CMA where necessary in order to ensure that any DTAs represent a benefit to Kenya from an investment perspective.
- Action 4.1.7 pertains to the need to ensure an adequate corporate and personal tax framework for financial services, to ensure that these are comfortably accommodated in the tax code. In addition, the action has been recast to include the possibility of non-tax incentives, which is especially significant given that the impact of the Covid-19 pandemic may make substantial changes to the tax framework unfeasible. These may include, for example, offering workforce training programmes in order to ensure that new business entrants have and maintain access to a competitive labour supply.[41] In addition, where relevant and beneficial, commitments in terms of infrastructure investment may be offered, in order to provide a compelling infrastructure environment in terms of, for example, transportation. Furthermore, new business entrants may be offered fast-tracked registration processes (while ensuring due process is followed) in order to ensure that bureaucracy around entering the market does not become unattractive.

The list of actions covered by objective four is shown in the table below.

**Table 11: Building an internationally attractive market actions**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 4.1.1 | 2.1.1 | Support government agenda on regional financial integration | Less important | In progress (not on target) | CMA, NT&P, CBK | CDSC, NSE, Institutional Investors | Broader market | Regional integration discussions proceed as envisaged with market support (post-2023) | Increased annual net FDI inflows |

[40] Quak and Timmis, 2018. Double Taxation Agreements and Developing Countries. Available: https://assets.publishing.service.gov.uk/media/5b3b610040f0b645fd592202/Double-Taxation-Treaties_and_Developing_Countries.pdf
[41] McKinsey and Company, 2019. How state and local governments win at attracting companies. Available: https://www.mckinsey.com/industries/public-and-social-sector/our-insights/how-state-and-local-governments-win-at-attracting-companies

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 4.1.2 | 2.1.2 | Develop creative products (e.g. EAC depository receipts) that promote investor comfort in regional products | Less important | In progress (on target) | FMA, REITs Association of Kenya, Institutional investors, KASIB | - | Broader market | Frameworks for appropriate regional products in place (post-2023) | Increased annual net FDI inflows |
| 4.1.3 | 2.1.3 | Support regional financial market infrastructure linkages (e.g. for trading, settlement and clearing infrastructure) | Less important | In progress (not on target) | CDSC, CBK, NSE | CMA, EASRA | Broader market | Regional integration discussions proceed as envisaged with market support (post-2023) | Increased annual net FDI inflows |
| 4.1.4 | 3.1.1 | Establish a process for monitoring progress in international rankings | Less important | In progress (not on target) | NIFCA | CMA, NT&P, CBK | Market participants | Kenya's position in international rankings is consistently monitored (2021) | MSCI market classification<br><br>Ranking in GFCI rankings<br><br>Improved ranking in Global Competiveness Report rankings |
| 4.1.5 | 3.2.2 | Extend Kenya's network of Double Taxation Agreements while managing risks of investment practices such as transfer pricing | Less important | In progress (not on target) | NT&P | NIFCA, CMA | Broader market | DTAs agreed with countries on a case-by-case basis in line with priorities as far as attracting investment (post-2023) | Increased annual net FDI inflows |
| 4.1.6 | 3.2.4 | Ensure standards for information exchange on taxes are in line with requirements of OECD Global Forum on Transparency and Exchange of Information for Tax Purposes | Less important | In progress (on target) | KRA | NT&P | Broader market | Information exchange on taxes maintained at OECD standards (post-2023) | Increased annual net FDI inflows |

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 4.1.7 | 3.2.6 | Review the adequacy of the corporate and personal tax framework for financial services and explore non-tax incentives | Less important | In progress (not on target) | NT&P | CMA, Market participants | Broader market | Adequate corporate and personal tax framework reviewed, non-tax incentives explored (2022) | Increased annual net FDI inflows |
| 4.1.8 | 4.1.12 | Promote listing of international depository receipts through discussions with investment banks | Less important | In progress (not on target) | NSE | CMA, commercial banks | Broader market | International DRs able to be listed on NSE (post-2023) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP<br><br>Increased number of listings on NSE<br><br>Increased annual net FDI inflows |
| 4.1.9 | 4.1.23 | Consider GDRs and GDNs for both equity and debt issues to make them more accessible to international investors | Less important | In progress (on target) | CMA | Large listed firms on NSE, e.g. Safaricom | - | GDRs and GDNs introduced for large Kenyan listed companies (post-2023) | N/A |
| 4.1.10 | 4.1.24 | Create KDRs as a potential alternative to creating CSD linkages | Less important | In progress (on target) | CMA, NSE, KBA | - | - | KDRs able to be listed on NSE (post-2023) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased equity market capitalisation<br>Increased equity market capitalisation as a share of GDP<br><br>Increased number of listings on NSE<br><br>Increased annual net FDI inflows |
| 4.1.11 | New | NIFCA to continue to promote FDI investment in Kenya | Important | Not started | NIFCA | CMA | Broader market | NIFCA continues promotion activities (2021) | Increased annual net FDI inflows |

## 4.5. Supporting the growth of the demand side and supply side of the local market

The fifth and final objective of the addendum to the CMMP is concerned with ensuring the growth of both the supply and demand side of the Kenyan capital markets, where supply and demand in this case refers to the supply and demand for capita. This includes an array of actions, including on capacity building (for institutional investors, counties, consumers, and potential security issuers), a more conducive environment for public listings, the development of a savings culture amongst retail investors, and so on. There are a total of 27 actions under this objective, of which 12 are new and 15 retained from the original plan, and two redundancies.

**New focus areas**

As mentioned, there are 12 new focus areas under this action, numbered 5.1.16 to 5.1.27.

- Action 5.1.16 places emphasis on capacity building across the capital markets, with a focus on institutional capacity in particular. This includes ensuring that capacity is built across a variety of players, including, but not limited to, regulators, pension and retirement schemes, fund managers and the National Social Security Fund (NSSF), as well as the building of debt management capacity should be built within the National Treasury. Furthermore, additional capacity building will be required across the legal system, including amongst policymakers, lawyers and judges. From a legal perspective, capacity will be required in order to ensure a thorough review of the RBA and IRA Acts as part of the scale up of the National Hospital Insurance Fund (NHIF), which is part of the healthcare component of the Big 4 agenda. Indeed, capacity was a key concern raised nearly unanimously across the wide array of stakeholders that were interviewed. Responsibility for this capacity-building will fall on the key associations and regulators in the market, including the CMA, RBA, IRA, National Treasury, the Law Society of Kenya, the National Social Security Fund (NSSF), KASIB and FMA, in consultation with relevant external experts, such as the Chartered Institute for Securities and Investment (CISI).
- Action 5.1.17 recommends to efforts to provide capacity building to potential issuers in order to maximise their prospects of listing. This would aid in improving market liquidity and offering a larger set of assets available for investment to local investors. In addition, increased access to capital markets financing would aid in the expansion of these smaller businesses, increasing their contributions to GDP, including in areas such as the manufacturing sector, which, as mentioned earlier, is a key pillar of the Big 4 agenda. Responsibility for this is activity is assigned to the NSE.
- Action 5.1.18 stresses the importance of continuing the progress made so far in allowing counties to access the capital markets, specifically, including that capacity be built within counties in order to ensure that they understand the process of issuing potential county bonds. This may involve conducting a readiness assessment amongst the counties before continuing with capacity building to address any gaps as far as those counties most likely to issue bonds are concerned. Responsibility in this regard should be assumed by National Treasury, consulting with the Council of Governors and institutional investors in order to ensure that county bonds are issued and accessible to investors.
- In order to improve capital markets accessibility, it would be beneficial to consider a higher threshold for tax-free contribution limits for retirement schemes (action 5.1.19), which were found to be comparatively low. This should, of course, be measured against the country's need to maintain a strong fiscal position.

- Moreover, the market may benefit from efforts to allow for umbrella retirement funds (action 5.1.20), rather than having a vast number of small schemes that invest only in vanilla securities.[42] Indeed, such a move would allow for the existing capacity in the market to be utilised across a larger pool of funds and lead to economies of scale and is achievable based on the frameworks that the RBA already has in place, making it the ideal regulator to take responsibility for both of these actions.
- Stakeholder discussions led to the point that the current investment advisory licenses require an overhaul to make provision for both individuals to act as advisors, as well as for certified financial planners to be introduced into the market, which is the recommendation behind action 5.1.21. The intention behind these is to expand access to investment advice (in the case of financial advisors) and broader financial life advice (in the case of the financial planners). The expansion of accessibility in this area is intended to improve access to the market for retail investors over time in the pursuit of a stronger savings and investment culture throughout Kenya.
- Stakeholder discussions revealed a proliferation of market segments for listed firms to consider, which is addressed by action 5.1.22. The Main Investment Market Segment (MIMS) and Alternative Investment Market Segment (AIMS) allow for capital raising through initial public offerings (albeit with varying requirements) while the Growth and Enterprise Market Segment (GEMS) is aimed at small firms and allows for capital to be raised via private placements. In addition to this, the launch of the USP has provided a further outlet for listing by private placement. There is a need for these various segments to be streamlined and to ensure that the options and requirements for listing are clarified and effectively communicated, with appropriate provision for additional platforms or segments as or when the market allows or additional providers step forward. Consequently, it may be recommended that, for example, AIMS and MIMS could be merged together, while GEMS-listed firms should be allowed to list via IPOs and Ibuka should serve as an incubator with an exit to the GEMS market. In addition, the possibility of providing flexible corporate governance requirements for SMEs could be explored, though these should still remain robust in order to ensure investor protection – investors will be less likely to invest in firms where corporate governance is seen as weak. In short, it is important to clarify which securities are listed on which platform, and what the associated criteria for doing so are. This is true both for current segments/platforms and for those that may exist in future. The above would, of course, require a review a review of the Public Offers, Listing and Disclosures framework. As Kenya's equities exchange, the NSE should take responsibility for this action, consulting with the CMA and current and potentially listed companies in order to best serve the market, before communicating any changes to the market as a whole.
- The need to make listing more attractive was frequently raised during the market assessment process, a topic addressed by action 5.1.23. Suggestions around how this could be achieved included offering dual-class share structures (DCSS) to allow family-owned businesses to list (provided of course that there are no clashes with the Companies Act) while ensuring that the owners retain a substantial level of control, as well as lower free float requirements or altered listing requirements. These interventions may be particularly significant for Kenya, given that loss of control of a family-owned business was raised as a sizable impediment to listing. It should be noted at this time that such an effort is dependent on the completing of action 5.1.22 above, i.e. ensuring that the market is streamlined in terms of the segments it offers before developing additional incentives to list on the resulting segments. Similar to action 5.1.22, responsibility for this process falls on the NSE, in consultation with the CMA as regulator, institutional investors (since the needs of investor still need to be considered) and family-owned businesses in general.

[42] An umbrella fund is a collective retirement vehicle that pools contributions from various employers and employees together in order to take advantage of cost savings. They are usually backed by a large financial institution, which may in turn suggest that the capacity offered by the institution can be of benefit to a large number of employers/employees. (Sanlam, 2021).

- On the topic how best to encourage listings for small businesses, work done by the World Federation of Exchanges may prove instructive. There is no simple "one-size-fits-all" approach that guarantees that small business will list – but international lessons may prove useful for Kenya as it tries to channel capital towards these businesses. Firstly, the majority of SME exchanges set lower minimum free float requirements than required by their main boards.[43] Most commonly, this minimum requirement is 10% - 25% of share capital, which is used as a means of balancing the need for liquidity with the need to avoid loss of control by the business owners. Furthermore, SME exchanges tend to allow for lower initial and ongoing costs for their listed companies than on the main board. As a practical example, the annual fee for being listed on Bombay Stock Exchange SME Board is the higher of INR 25,000 (USD 336) or 0.01% of market capitalisation, compared to the Main Board, which begins at INR 250,000 (USD 3,360).[44] In South Korea, the KOSDAQ Board, while quite tech-focused, is the country's SME Board of preference, compared to the larger KOSPI Board. In both cases, the initial listing fee for companies with a market capitalisation of KRW 50 billion (USD 43 million) is KRW 1 million (USD 868). For a company of that size, however, the annual fee to remain listed would be KRW 1.4 million (USD 1,250) on the KOSPI Board, compared to KRW 400,000 (USD 347) on the KOSDAQ Board, representing a substantial difference. Of course, the precise differences in listing fees should be considered relative to the sizes of companies with Kenya's own context, i.e. the figures above serve as a means of illustration rather than an absolute recommendation. This is especially true given the fact that there is no universal definition of how large an SME is, i.e. the perception of which businesses count as SMEs will differ by market.
- Beyond the measures listed above, SME exchanges also includes other forms of market outreach and promotion, such as providing training on listing requirements, creating a dedicated index for SME companies, ensuring that research covers SME companies (such as through the BSE's use of an independent research house which it subsidises to provide research on listed SMEs), using market makers to ensure liquidity of SME securities and arranging frequent sessions on corporate governance, investor relations and financial literacy. Furthermore, EnterNext (the SME Board of the pan-European EuroNext group) takes a holistic view of SME listings, including providing pre and post-listing services, co-organising roadshows between SMEs ad investors, creating a support ecosystem for SMEs such as banks, lawyers, auditors, venture capitalists, analysts, and so on.
- In order to further enhance capital markets access, action 5.1.24 recommends that regulations be amended to allow for savings groups (chamas) to invest in markets directly. At present, these groups cannot access the capital markets if they are not registered as a limited liability company, which means that a large number of them are effectively excluded. The most common response is to buy land as a form of speculative investment, channelling funds that could contribute to the size and liquidity of the capital markets. Of course, any regulatory changes would need to ensure the protection of members of the savings groups in order to ensure that their share of any capital markets earnings are sufficiently protected within the group. In addition, making such a move successful would require substantial capacity building, as a lack of awareness around the capital markets was also reported to be a concern as far as savings groups are concerned. This will likely require market-wide engagement to address, such as for example, fund managers making clearer how savings groups could benefit from the capital markets, the development of appropriate products, and so on. In order to facilitate this, a review of any regulations impeding the chamas' participation in the capital markets should be undertaken by the relevant working group so that these can be revisited and updated as necessary. Responsibility for this action lies with the CMA as the capital markets regulator, consulting with the FMA and chamas more generally.

[43] World Federation of Exchanges, 2018. Overview of SME Market Report. Available: https://www.world-exchanges.org/storage/app/media/research/Studies_Reports/2018/WFE%20Overview%20of%20SME%20Markets%20Report%20October%202018.pdf

[44] https://www.bseindia.com/Static/about/listing_fees.aspx

- Action 5.1.25 addresses market engagements that revealed some concerns around the processes surrounding the free of payment (FOP) transfer of government securities for the usage of security as part of a transaction. At present, this process involves seeking explicit written approval from the CMA for the transfer for any transfer exceeding KES 1 million. In addition, it requires confirmation from the CBK that the client in question holds the securities so that they can be held in place until the transfer is completed. Based on market feedback, it was suggested that these processes take a substantial amount of time, far in excess of the five business days often associated with a private transfer.[45] This lengthy process makes it difficult for clients to effectively lodge government securities as collateral. Consequently, a review of the current process against international best practices, to consider whether explicit approval and confirmation from the CMA and CBK, respectively, are truly needed, or whether these act as a hindrance to the market. Stakeholder discussions revealed that the upgraded CBK CSD will allow for any changes in this regard to be implemented. Furthermore, it may be worth exploring the establishment of a collateral registry or collateral management system of sorts to keep records of the total value of securities pledged as collateral as part of a transaction, without explicitly requiring time-consuming approval processes, and to ensure that the functionality for this exists within the CBK CSD. Responsibility for this action is assigned to the CMA and CBK, who should consult with institutional investors, KASIB and NSE as the other stakeholders in the process.
- The market may benefit (in terms of access to capital) if micro-listings for savings and credit cooperatives (SACCOs) and county-level organisations were allowed to list – this may take place via conventional means, or potentially through the new USP as a more accessible approach. This is the recommendation for Action 5.1.26, which is the responsibility of the NSE in consultation of the Council of Governors and a group of larger SACCOs.
- Stakeholder discussions revealed that there has been a growing interest from businesses structured as limited liability partnerships (LLPs) to issue securities by listing. At present, Kenyan law does not allow for this and is geared towards the traditional structure of a limited company as far as aspects like corporate governance is concerned. Consequently, action 5.1.27 recommends exploring options for how LLPs may be better accommodated as far as raising capital is concerned, though it should be noted that, at a global level, LLPs do not generally raise equity, unless they convert into a company for this exact purpose. This action should be driven by the CMA and National Treasury, consulting with LLPS and the Attorney General before communicating any changes to the market.

**Redundancies**

- The first redundant action was previously numbered 1.2.1 and related to hosting forums on county financing needs. The process of enabling counties to access the capital markets has since progressed beyond this stage and have reached a point where the practicalities of such a move can be discussed. As a result, this action has been removed, while the progress made thus far is encapsulated in activity 5.1.18 (new numbering).
- The second redundant action was previously numbered 7.3.5 and related to ensuring access to external expert advice as and when needed – this is already being achieved in practice.

**Re-emphasised actions**

None.

[45] https://ibkr.info/article/1002#:~:text=Transfer%20requests%20are%20typically%20completed%20within%20five%20business%20days.

**Table 12: Supporting the growth of the demand side and supply side of the local market**

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 5.1.1 | 1.3.1 | Implement a national consumer financial education policy and strategy, including capital markets content | Important | In progress (on target) | NT&P | FMA and Ministry of Education | Broader market | National consumer financial education policy and strategy implemented (2023) | Increased share of local NSE individual investors relative to banked population |
| 5.1.2 | 1.3.2 | CMA to continue its own education programme | Important | In progress (on target) | CMA | - | Broader market | CMA education programme continued (2021) | Increased share of local NSE individual investors relative to banked population |
| 5.1.3 | 2.2.7 | Leverage existing relationships to develop Islamic finance expertise | Less important | In progress (not on target) | CMA | Islamic experts in Kenya | Market participants | Islamic finance expertise developed and Islamic products launched (post-2023) | Increased value of Islamic Finance assets |
| 5.1.4 | 2.2.8 | Identify and make policy proposals to facilitate development of Islamic finance in the annual Memorandum of Policy Proposals to the National Treasury and implement programmes through industry coordination and relevant partnerships | Less important | In progress (on target) | CMA | NT&P, Islamic finance experts in Kenya | - | Appropriate Islamic finance policy proposals submitted to NT (post-2023) | Increased value of Islamic Finance assets |
| 5.1.5 | 4.1.5 | Regulators to change their investment guidelines to permit SLB | Less important | Not started | CMA, IRA and RBA | Institutional investors | Broader market | SLB permitted and introduced into market (2021) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased treasury bond turnover percentage as share of total government debt |

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 5.1.6 | 4.1.13 | Regulations allowing margin trading to be introduced | Less important | Not started | CMA | Institutional investors, KASIB | Broader market | Margin trading introduced into market (post-2023) | Increased equity market liquidity as measured by share turnover ratio |
| 5.1.7 | 4.1.19 | Industry (CMA, NSE and KASIB) to promote the benefits of listing to potential issuers | Less important | In progress (on target) | CMA, NSE, KASIB | - | - | Workshops, forums and seminars held around benefits of listing (2023) | Increased number of listings on NSE<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP |
| 5.1.8 | 4.1.20 | Streamline listing application procedure and communicate to market | Less important | In progress (on target | NSE | - | Broader market and especially firms likely to list | Streamlined listing requirements communicated to the market (2022) | Increased number of listings on NSE<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP |
| 5.1.9 | 4.1.25 | Promote benefits of listing to small firms, once market segments have been streamlined as necessary | Less important | In progress (not on target) | NSE | - | - | GEMS listing more actively promoted in the market (post-2023) | Increased number of listings on NSE<br><br>Increased number of GEMS listings<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP |
| 5.1.10 | 4.2.5 | Educate traders and investors on derivatives trading | Important | In progress (not on target) | NSE and members | Investors and traders | - | Traders and investors educated on derivatives trading (2022) | Increased turnover of derivatives contracts |

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 5.1.11 | 4.2.6 | Undertake study of where Kenya has an opportunity to be the international price formation centre (e.g. Coffee could be a candidate) | Less important | In progress (on target) | KOMEX and its shareholders (NSE and banks) | CMA | - | Study complete (2022) | N/A |
| 5.1.12 | 4.2.7 | Promote warehouse receipt schemes across the country | Less important | In progress (on target) | Ministry of Agriculture and Trade | Komex | - | WRS schemes launched in Kenya (2023) | N/A |
| 5.1.13 | 4.2.10 | Develop pool or spot market arrangements for the power sector | Less important | Not started | Ministry of Energy | - | - | Multiple sources of electricity available in the market (post-2023) | N/A |
| 5.1.14 | 7.1.5 | Review the case for amending the law formally to put in place "no-action" arrangements | Less important | In progress (not on target) | CMA | Attorney General | Broader market | CMA allows for "no action" arrangements (post-2023) | N/A |
| 5.1.15 | 7.2.7 | Support the development of financial expertise in the courts and support the establishment of an integrated Financial Services Sector Tribunal | Less important | In progress (on target) | CMA | Law Society of Kenya | - | Greater financial expertise in legal system (post-2023) | N/A |
| 5.1.16 | New | Provide broad-based capacity building and training for capital markets participants | Important | Not started | CMA, RBA, IRA, NT&P, SASRA | Law Society of Kenya, NSSF, FMA, KASIB, CISI | - | Broad-based capacity built across the capital markets (2022) | Increased equity market liquidity as measured by share turnover ratio<br><br>Increased treasury bond turnover percentage as share of total government debt |
| 5.1.17 | New | Provide education to new potential issuers | Important | Not started | NSE | - | - | Greater capacity built within firms ahead of listing (2022) | Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP<br><br>Increased number of listings on NSE |

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 5.1.18 | New | Implement county financing strategy, including capacity building for counties on the practicalities of accessing capital markets | Less important | Not started | NT&P | Council of Governors, institutional investors | - | Counties prepared to access capital markets as necessary (2023) | Increased share of total annual county revenue raised through capital markets |
| 5.1.19 | New | Raise tax-free limits for retirement schemes | Less important | Not started | RBA | - | Broader market | Tax-free limits for retirement schemes raised (post-2023) | Increased value of retirement savings |
| 5.1.20 | New | Explore the establishment of umbrella retirement schemes | Less important | Not started | RBA | Institutional investors | Broader market | Umbrella retirement schemes established (post-2023) | Increased value of retirement savings |
| 5.1.21 | New | Develop licensing arrangements for individual financial advisors and certified financial planners | Less important | Not started | CMA | External experts | Broader market | Regulation for individual financial advisors and certified financial planners introduced (post-2023) | Increased share of local NSE individual investors relative to banked population<br><br>Increased value of CIS AUM<br><br>Increased value of retirement savings |
| 5.1.22 | New | Review the various market segments and explore ways to streamline the same | Important | Not started | NSE | CMA, listed companies | Broader market | Market segment review complete and segments streamlined as necessary (2022) | Increased number of listings on NSE<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP |

| # (new) | # (old) | Action | Priority | Status | Responsible | Consulted | Informed | Output | Outcome |
|---|---|---|---|---|---|---|---|---|---|
| 5.1.23 | New | After streamlining market segments as necessary, review listing requirements, free float requirements and different classes of shares in order to promote listings on NSE Main Board and GEMS | Important | Not started | NSE | CMA, institutional investors, family owned businesses | Broader market | Review of listing requirements complete (2023) | Increased number of listings on NSE<br><br>Increased number of GEMS listings<br><br>Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP |
| 5.1.24 | New | Adjust regulations to allow savings groups to invest in capital markets | Less important | Not started | CMA | Chamas and FMA | Broader market | Regulations amended (post-2023) | Increased market liquidity as measured by share turnover ratio<br><br>Increased Treasury Bond Turnover as measured by share turnover ratio<br><br>Increased share of local NSE individual investors relative to banked population |
| 5.1.25 | New | Review free of payment transfer processes and regulations for government bonds | Less important | Not started | CMA, CBK | Institutional investors, KASIB, NSE | Broader market | Review of FOP processes complete (2022) | Increased treasury bond turnover percentage as share of total government debt |
| 5.1.26 | New | Explore possibility of allowing SACCOs and county level organisations to list on the Unquoted Securities Platform or other appropriate platform | Less important | Not started | NSE | Council of Governors, large SACCOs | Broader market | Regulations amended to allow for SACCO's and county level organisations to list (post-2023) | Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP<br><br>Increased number of listings on NSE |
| 5.1.27 | New | Explore amending regulations to allow limited liability partnerships to raise capital publicly | Less important | Not started | CMA, NT&P | LLPs, Attorney General | Broader market | Completed review of LLP ability to raise funds in capital markets and adjusted where possible (2023) | Increased equity market capitalisation<br><br>Increased equity market capitalisation as a share of GDP<br><br>Increased number of listings on NSE |

The table below presents a summary of the number of actions to be completed by objective, taking into account the manner in which actions have been distributed across the objectives, as well as the new additions per objective.

**Table 13: Summary of number of actions for addendum to the CMMP**

| Objective | Number of actions assigned from original CMMP | Additions | Total actions for the remainder of the CMMP |
|---|---|---|---|
| 1 | 14 | 6 | 20 |
| 2 | 12 | 6 | 18 |
| 3 | 0 | 3 | 3 |
| 4 | 10 | 1 | 11 |
| 5 | 15 | 12 | 27 |
| Total | 51 | 28 | 79 |

# 5. UPDATED OUTCOMES FOR KENYA'S CAPITAL MARKETS

**Theory of change**

The actions detailed above, both new and retained, represent an input as part of a broader theory of change for the Kenyan capital markets. The inputs are directly linked to certain outputs, related to the actual execution of the actions. In turn, these outputs, which represent changes in the market, are envisaged as leading to measurable outcomes, whether that be in regard to liquidity, market capitalisation, or the number of listings, for example. The outcomes that follow in this section are therefore linked to the completion of the actions, leading to the achievement of certain outputs, which in turn lead to the achievement of the outcomes. It should be noted that while every outcome has action(s) assigned to it, not every action is necessarily mapped to an outcome – this is because certain actions represent hygiene factors that are especially important in terms of laying the foundations of the market, but will not lead to, for example, increased liquidity in and of themselves.

**Outcomes for the Kenyan market**

As mentioned in the market assessment report, the overall development of the market is linked to the achievement of a variety of outcomes, which may be thought of as quantitative targets. It is an opportune time to revisit the targets originally set, as the market context has changed and the original outcomes came across as too aggressive. In light of this, the list of outcomes has been amended, including either updates to the existing outcomes or the development of new outcomes. It should be noted that these targets are open to change, subject to additional guidance from stakeholders.

The new outcomes have been developed with a view to pivoting the CMMP from an outputs-based plan to an outcomes-based plan, underpinned by a number of quantitative outcomes. In other words, the focus has shifted from simply completing certain activities (an output) to what the resulting outcome of the action is intended to be in terms of, for example, enhancing market liquidity or growing the value of retirement savings in the market. Consequently, the actions in the preceding section have been mapped against the outcomes in the table below, with the intentions being that the completion of certain actions (i.e. outputs) would drive certain outcomes (i.e. quantifiable targets, so that they can be more easily measured).

To that end, the table below also includes the numbers of the actions that contribute to that outcome being met in order to ensure that there is a linkage between the accomplishment of the actions and tangible outcomes. Some outcomes have a number of actions that drive their achievement. In addition, some actions contribute to more than one outcome. However, not every action is necessarily assigned to an outcome. This is because there are a number of actions that are foundational to the success of the market – they may not drive a particular quantitative outcome, but remain crucial in terms of the market's overall development.

Table 14: Addendum to the CMMP outcomes

| Outcome name | 2014 | 2020 (or most recent) | Original 2023 outcomes | Adjusted 2023 outcome | Rationale | Associated action numbers |
|---|---|---|---|---|---|---|
| Share of total annual county revenue raised through capital markets | 0% | 0% | 30% | Pilot issuance – diversification of county financing sources | Unlikely to progress beyond pilot issuance | 2.1.3, 5.1.18 |
| Share of local NSE individual investors relative to banked population | 13.9% | 13.2% | - | 14% | Aim to return to pre-COVID levels | 5.1.1, 5.1.2, 5.1.21, 5.1.24 |
| Value of Islamic Finance assets | 0 USD | USD 1 bn (estimated) | - | USD 1.6 billion | Based on estimated size of banking sector, Shariah-CIS and takaful assets – growth aligned to IMF nominal GDP growth projections of 11.2% per annum – no additional growth in other Islamic assets (e.g. sukuk) expected. | 2.1.2, 5.1.3, 5.1.4 |
| Value of infrastructure finance raised | KES 77.6 billion | KES 593 billion | KES 1.3 trillion | KES 815 billion | Based IMF nominal GDP growth projections of 11.2% per annum | No specific barriers |
| MSCI market classification | Frontier | Frontier | Emerging | Frontier | Market capitalisation and liquidity require further growth. | 4.1.4 |
| Ranking in GFCI rankings | - | 106 | 50 | 96 | Aim to return to previous high of 96th | 2.2.5, 2.3.5, 4.1.4 |
| Ranking in Global Competitiveness Report Rankings | 96 | 95 | - | 90 | Aim to continue improvement | 2.2.1, 2.2.2, 2.2.3, 2.2.4, 2.2.5, 4.1.4 |
| Annual net FDI inflows | USD 0.8 bn | USD 1.3 bn | - | USD 2 bn | FDI varies in size – NIFCA to aid in aligning to national development policy sectors | 2.3.5, 4.1.1, 4.1.2, 4.1.3, 4.1.5, 4.1.6, 4.1.7, 4.1.8, 4.1.10, 4.1.11 |
| Equity market liquidity as measured by share turnover ratio | 8% | 6% | - | 8% | Currently 6% - aim to return to pre-Covid level | 1.1.1, 1.2.3, 1.2.5, 1.3.1, 1.3.4, 1.3.6, 1.3.7, 1.3.8, 1.3.9, 1.3.10, 1.3.11, 2.2.1, 2.2.2, 2.2.3, 2.2.4, 2.2.7, 2.3.1, 4.1.8, 4.1.10, 5.1.5, 5.1.6, 5.1.16, 5.1.24 |

| Outcome name | 2014 | 2020 (or most recent) | Original 2023 outcomes | Adjusted 2023 outcome | Rationale | Associated action numbers |
|---|---|---|---|---|---|---|
| Treasury bond turnover percentage as share of total government debt | 55% | 31% | - | 35% | Currently 31% - market making arrangement would improve over time, as would an electronic OTC bond trading platform. | 1.2.1, 1.2.4, 1.2.6, 1.2.7, 1.3.4, 1.3.6, 1.3.10, 1.3.12, 5.1.5, 5.1.16, 5.1.24, 5.1.25 |
| Equity market capitalisation | KES 2.3 trillion | KES 2.6 trillion | KES 10.4 trillion | KES 3.2 trillion | Based on attracting more listings. | 2.2.6, 2.3.1, 4.1.8, 4.1.10, 5.1.7, 5.1.8, 5.1.9, 5.1.17, 5.1.22, 5.1.23, 5.1.26, 5.1.27 |
| Equity market capitalisation as share of GDP[46] | 42.6% | 24.7% | - | 24.7% | Market capitalisation growth in line with IMF projected nominal GDP growth of 11.2% per annum | 2.2.6, 2.3.1, 4.1.8, 4.1.10, 5.1.7, 5.1.8, 5.1.9, 5.1.17, 5.1.22, 5.1.23, 5.1.26, 5.1.27 |
| Number of listings on NSE | 64 | 66 | - | 68 | One listing per year | 2.2.6, 2.3.1, 4.1.8, 4.1.10, 5.1.7, 5.1.8, 5.1.9, 5.1.17, 5.1.22, 5.1.23, 5.1.26, 5.1.27 |
| Number of GEMS listings | 1 | 5 | 39 | 7 | One listing per year | 5.1.9, 5.1.23 |
| Annual value of PE/VC | USD 216 million (average from 2014 - 2019) | USD 216 million (average from 2014 - 2019) | - | USD 376 million | Based on a 14.9% growth rate, based on average growth in total deal value across Africa between 2014 and 2019 | 3.1.1 |
| Value of retirement savings | KES 0.8 trillion | KES 1.4 trillion | - | KES 1.9 trillion | IMF projected nominal GDP growth of 11.2% is assumed– RBA strategic plan identifies growth lower than 10% as a risk but this was pre-pandemic. | 2.3.3, 2.3.4, 5.1.19, 5.1.20, 5.1.21 |
| Value of CIS AUM | - | KES 106 billion | KES 244 billion | KES 150 billion | Growth has exceeded 20% in recent years, targets have been set based on a 11.2 % IMF-projected nominal GDP growth rate and adjusted upwards slightly in line with short term strategy | 1.2.2, 2.1.1, 2.3.3, 2.3.4, 5.1.21 |

[46] Market capitalisation has greatly declined as a share of GDP as growth has been driven largely by the public sector rather than the private sector. To that end, the outcome has been held stable at 24.7% for 2023, but the focus should rather lie on the previous, absolute target of KES 3.2 trillion, rather than the relative, percentage target.

| Outcome name | 2014 | 2020 (or most recent) | Original 2023 outcomes | Adjusted 2023 outcome | Rationale | Associated action numbers |
|---|---|---|---|---|---|---|
| Cumulative of green finance issuance | - | KES 4.3 billion | - | At least one additional issuance | Size of issuance is uncertain. | 3.1.2 |
| Turnover of derivatives contracts | - | KES 45.7 million | - | KES 65 million | Market in infancy | 5.1.10 |
| Instances of market infringements for online foreign exchange and offers to public | - | - | - | 0 | Aim to close regulatory gaps | 2.1.4, 2.1.5 |
| Number of REITs within industry | - | 1 | - | 2 | One additional REIT | 3.1.3 |
| Volume of commodities traded | - | - | - | 680,000 tonnes | Based on Ethiopia Commodities Exchange[47] | 3.1.3 |

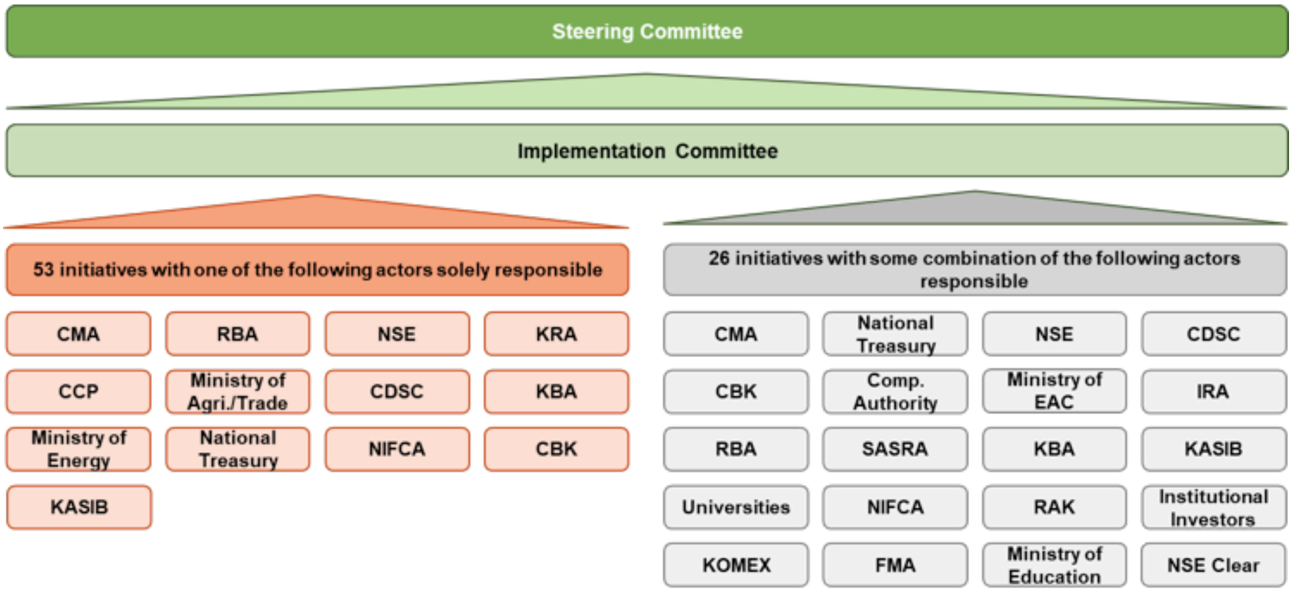
[47] The Ethiopian Commodities Exchange is estimated to trade over 680,000 tonnes of commodities during its 2021/2022 fiscal year (https://ethiopianmonitor.com/2021/05/19/ecx-says-traded-36-5bln-birr-worth-of-commodities-this-fy-so-far/). Given that Kenya enjoys a similarly strong position in terms of tea production that Ethiopia does for coffee, and is of similar economic size, a comparable outcome for Kenya's own commodity market has been set.

# 6. IMPLEMENTATION APPROACH AND KEY RISKS

As mentioned earlier, the addendum to the CMMP involves a shift in terms of how implementation of the various actions is viewed, specifically through the use of a RCI framework. The original CMMP was anchored around the idea of working groups, each of which was formed of a variety of stakeholders, some of which were highly relevant, and some of which were less so. While working well in some aspects, the working groups also contained areas of inefficiency, such as some organisations not sending individuals with sufficient authority to commit their organisations to a given action, or the presence of stakeholders that were not relevant to the completion of a given action and therefore did not contribute to the discussion. As a result, the original approach of a series of working groups has been replaced by more bilateral engagement, with responsibility clearly delegated to those best placed to oversee execution of the action. In some cases, an action is sufficiently complex to require the oversight of two or even three key parties, usually apex policymakers and regulators such as the National Treasury, CMA or CBK. These parties continue to report in to the Implementation Committee and Steering Committee, which should have frequent meetings, e.g. every three months, to ensure that progress is being made and to aid those responsible in addressing any bottlenecks. The Steering Committee in particular, needs to be re-staffed in order to ensure that it provides the necessary strategic leadership to the implementation of the CMMP.

The figure below shows a high-level view of the new implementation approach. There are 53 actions that have one stakeholder solely responsible for its implementation. These stakeholders are shown in the bottom left of the figure. In addition, there are 26 actions that have more than one responsible stakeholder, with these stakeholders shown in the bottom right. Therefore, a stakeholder appearing in the bottom left of the figure means that it is solely responsible for at least one action in the addendum to the CMMP. Similarly, a stakeholder appearing in the bottom right of the figure means that it is responsible for the implementation of one or more actions in conjunction with one or more other stakeholders in the bottom right of the figure, e.g. the CMA and CBK may be responsible for an action, or the CDSC and CBK.

**Figure 5: High level implementation structure for addendum to CMMP**



The table below shows the number of actions assigned to each actor above, both for their sole responsibility (left column) and in conjunction with other actors (right column).

**Table 15: Number of actions by responsible stakeholder or group of responsible stakeholders**

| Single stakeholders | 2023 | Post-2023 | Group of stakeholders | 2023 | Post-2023 |
|---|---|---|---|---|---|
| CMA | 5 | 14 | CMA, NT&P | 1 | 2 |
| NSE | 4 | 5 | CMA, NSE | 1 | 1 |
| CDSC | 2 | 1 | CBK, CDSC | 0 | 1 |
| National Treasury and Planning | 3 | 4 | CDSC, CBK, NSE | 0 | 1 |
| CBK | 2 | 2 | CMA, CBK | 1 | 0 |
| RBA | 0 | 2 | CMA, Competition Authority | 0 | 1 |
| CCP (when implemented) | 0 | 1 | CMA, IRA and RBA | 1 | 0 |
| KBA | 1 | 0 | CMA, NSE, KBA | 0 | 1 |
| KASIB | 1 | 0 | CMA, NSE, KASIB | 1 | 0 |
| KRA | 1 | 1 | CMA, NT&P, CBK | 0 | 1 |
| Ministry of Agriculture and Trade | 1 | 0 | CMA, RBA, IRA, NT&P, SASRA | 1 | 0 |
| Ministry of Energy | 0 | 1 | CMA, universities, Ministry of Education | 0 | 1 |
| NIFCA | 2 | 0 | CMA,NIFCA | 1 | 0 |
| | | | FMA, REITs Association of Kenya, Institutional investors, KASIB | 0 | 1 |
| | | | KOMEX and its shareholders (NSE and banks) | 1 | 0 |
| | | | NSE, CDSC | 0 | 1 |
| | | | NT&P, CMA, NIFCA | 0 | 1 |
| | | | REITs Association of Kenya, KOMEX | 1 | 0 |
| | | | NSE and members | 1 | 0 |
| | | | CDSC, CBK, NT&P, Ministry of EAC | 0 | 1 |
| | | | CDSC, CBK, KBA, NT&P, CMA | 1 | 0 |
| | | | CDSC, CBK, KBA, NT&P, CMA, NSE Clear | 0 | 1 |
| | | | FMA, CMA | 0 | 1 |

There are a number of risks that could negatively impact the implementation of the CMMP to achieve the outcomes envisaged in the previous section. Some of these risks relate to the specific objectives of the CMMP, while others are more general in nature and apply across the Kenyan context. Consequently, it will be important to be cognisant of these risks and ways to mitigate their potential impacts. The table below shows some of the possible risks associated with the CMMP and possible mitigation approaches.

Table 16: Implementation risk matrix

| Objective | Key risk factors | Mitigation |
|---|---|---|
| Supporting the development of local market infrastructure to international standards | • Key stakeholders driving infrastructure development do not buy into need for infrastructure development<br>• Development of infrastructure takes place too slowly, causing a lag behind international standards | • Remain abreast of international developments in order to ensure that development meets the correct standards – engage in expert consultations as necessary<br>• More streamlined implementation structure ensures efficient implementation |
| Strengthening the domestic legal and regulatory environment | • Policy proposals and legislative changes progress too slowly, are not duly considered or otherwise hamper the needed reforms<br>• Slow liberalisation and self-regulating organisation efforts stymie growth<br>• Lack of capacity to enforce regulatory changes | • Proactive engagement with policy makers in order to stress the requirement for legal and regulatory changes as needed<br>• Ongoing consultation with relevant stakeholders in order to stress the benefits of self-regulating organisation status and liberalised fee structures<br>• Capacity building for regulatory staff as new regulations are developed in order to ensure effective enforcement |
| Enhancing markets for alternative finance | • Market resistance to introduction of green taxonomy | • Capacity building and consultation on the benefits of the green taxonomy from a sustainability viewpoint and in terms of creating an attractive market |
| Building an internationally attractive market | • Challenges or delays in creating international linkages<br>• Slow progress in adopting international standards causes poor perception of market, or lack of awareness from international community as far as changes are concerned | • Proactive consultations with international stakeholders accompanied by clear timelines for implementation of linkages<br>• Ensure that changes are communicated to the international community as and when they occur<br>• Ensure strong capacity building across the market in areas such as oversight, professionalism, corporate governance, etc. |
| Supporting the growth of the demand side and supply side of the local market | • Insufficient demand limits growth of demand side, e.g. listings and asset uptake<br>• Lack of regulatory impetus to change guidelines limits growth<br>• Limited capacity on supply side limits availability of products | • Continued investor education programmes, as well as capacity building for potential listings<br>• Capacity building and engagement with regulators in order to stress the importance of proposed changes<br>• Capacity building for supply side actors in order to ensure a broader product suite |

| Objective | Key risk factors | Mitigation |
| --- | --- | --- |
| General | • Unfavourable political changes and/or policy changes as a result of national election<br>• Economic challenges (e.g. GDP growth and debt sustainability questions) and impact of Covid-19 pandemic limits capacity of key stakeholders to prioritise CMMP<br>• Slow implementation of activities due to lack of coordination | • Proactive engagement with policymakers to highlight the role of capital markets and provide advice as necessary<br>• Ensure products are appropriate for a variety of economic contexts in order to provide investors with options<br>• Re-assess feasibility of actions as necessary in light of changes in the Kenyan context<br>• Steering Committee to meet frequently and to be resourced adequately to ensure activities are implemented in a timely manner |

# 7. ANNEX

| Category | Stakeholders |
|---|---|
| Regulators and government agencies | Capital Markets Authority, National Treasury, Central Bank of Kenya, Nairobi International Financial Centre Authority, State Department of Devolution, State Department of Trade, Retirement Benefits Authority, Commission on Revenue Allocation, Insurance Regulatory Authority |
| CMMP Governance structure | CMMP Implementation Committee, CMMP working groups, CMMP Secretariat |
| Associations | Kenya Association of Investment Groups, Kenya Association of Stockbrokers and Investment Banks, Custodian Association, Association of Retirement Benefits Schemes, Fund Managers Association, East Africa Venture Capital Association, Kenya Bankers Association, East African Securities Exchange Association, REITs Association of Kenya, Council of Governors |
| Market infrastructure providers (exchanges and CSDs) | Nairobi Securities Exchange, KOMEX, Central Depository and Settlement Corporation, Nairobi Coffee Exchange |
| Market participants (investors, funds, banks, etc.) | Amalgamated Chama, Fechim Investments Limited, National Social Security Fund, Islamic finance representative, Genghis Capital |
| Donors and DFIs | Financial Sector Deepening Kenya, Financial Sector Deepening Africa |
| Professional bodies | League of Young Professionals, Institute of Certified Secretaries |

| # | Action | Responsible | Consulted | Informed | Output | Timeline | Dependencies |
|---|---|---|---|---|---|---|---|
| **Objective 1: Supporting the development of local market structure to international standards** | | | | | | | |
| 1.2.1 | Implement electronic bond trading platform for the government bond market | Commercial banks (KBA) | CBK | CMA and market | Electronic OTC bond trading platform established and operational | 2022 | N/A |
| 1.2.3 | Automation of securities exchange transactions through adoption of an appropriate messaging system | KASIB | Institutional investors | Fund managers and commercial banks | Securities transactions notes processes automated | 2022 | N/A |
| 1.3.4 | Put in place necessary technical arrangements to allow for SLB for both equities and government bonds | CDSC, CBK, KBA, NT&P, CMA, FMA | Institutional investors | Broader market | Technical arrangements for SLB implemented | 2022 | Actions 5.1.5, 1.3.12 |
| 1.3.7 | CDSC to develop services to support the introduction of securities lending | CDSC | Institutional investors | Broader market | CDSC introduces securities lending | 2021 | Action 5.1.5 |
| 1.3.11 | Review of CDSC CSD affirmation process | CDSC | KASIB, Central Depository Agents | Institutional investors | Possibility of altering CDSC affirmation process reviewed | 2021 | N/A |

| # | Action | Responsible | Consulted | Informed | Output | Timeline | Dependencies |
|---|---|---|---|---|---|---|---|
| **Objective 1: Supporting the development of local market structure to international standards** | | | | | | | |
| 1.3.12 | Complete CBK CSD upgrade process | CBK | - | Broader market | CBK CSD upgrade complete | 2022 | N/A |
| 1.3.13 | Modernization of market infrastructure | CDSC, NSE, CBK | CMA | Broader market | Modernized market infrastructure | 2022 | N/A |
| **Objective 2: Strengthening the domestic legal and regulatory environment** | | | | | | | |
| 2.1.1 | Examine the tax structure of collective investment scheme products | KRA | FMA | Broader market | Tax structure of CIS reviewed | 2022 | N/A |
| 2.1.4 | Regulatory oversight of foreign exchange market to be maintained | CMA | - | Broader market | Foreign exchange market oversight maintained by CMA | 2021 | N/A |
| 2.1.5 | Explore regulatory amendments to ensure that there is no regulatory gap between public and private markets | CMA | - | Broader market | Regulatory amendments made | 2022 | N/A |
| 2.2.1 | Existing work programme on corporate governance covering both the corporate governance code and education in good corporate governance to be continued | CMA | Institute of Certified Secretaries | Broader market | Continued improvements in corporate governance as measured by the World Economic Forum's Global Competitiveness Report | 2022 | N/A |
| 2.2.2 | Review the different ways in which good corporate governance can be achieved in practice and act on findings | CMA | Institute of Certified Secretaries | Broader market | Continued improvements in corporate governance as measured by the World Economic Forum's Global Competitiveness Report | 2021 | N/A |
| 2.2.6 | Review the introduction of tailored corporate governance requirements for family-owned businesses | CMA, NSE | Institute of Certified Secretaries, institutional investors, family-owned businesses | Broader market | Corporate governance requirements for family-owned business reviewed and adapted as necessary | 2023 | Action 2.2.2 |

| # | Action | Responsible | Consulted | Informed | Output | Timeline | Dependencies |
|---|---|---|---|---|---|---|---|
| 2.3.5 | Align on the respective roles of CMA and NIFCA going forward in terms of capital markets promotion | CMA,NIFCA | NT&P | Broader market | Alignment between CMA and NIFCA on their roles as far as capital markets promotion is concerned | 2022 | N/A |
| **Objective 3: Enhancing markets for alternative finance** | | | | | | | |
| 3.1.3 | Continued promotion of the markets for REITs, asset-backed securities and commodities, including periodic amendments to regulations and policy as needed | REITs Association of Kenya, KOMEX | - | Institutional and retail investors | REITs, asset-backed securities and commodities promoted within the market | 2023 | Action 2.1.5 |
| **Objective 4: Building an internationally attractive market** | | | | | | | |
| 4.1.4 | Establish a process for monitoring progress in international rankings | NIFCA | CMA, NT&P, CBK | Market participants | Kenya's position in international rankings is consistently monitored | 2021 | N/A |
| 4.1.7 | Review the adequacy of the corporate and personal tax framework for financial services and explore non-tax incentives | NIFCA, NT& P, KRA | CMA, Market participants | Broader market | Adequate corporate and personal tax framework reviewed, non-tax incentives explored | 2022 | N/A |
| 4.1.11 | Promote FDI investment in Kenya | NIFCA, KASIB | CMA | Broader market | NIFCA, KASIB continues promotion activities | 2022 | N/A |
| | Promotion of Kenya as an International Financial Services centre extending beyond just capital markets | NIFCA | CMA | Broader market | Kenya promoted as an International Financial Centre | 2022 | N/A |
| **Objective 5: Supporting the growth of the demand side and supply side of the local market** | | | | | | | |
| 5.1.1 | Implement a national consumer financial education policy and strategy, including capital markets content | CMA, CBK, IRA, RBA, SASRA, NIFCA, NT&P | FMA and Ministry of Education | Broader market | National consumer financial education policy and strategy implemented | 2023 | N/A |
| 5.1.2 | CMA to continue its own education programme | CMA | - | Broader market | CMA education programme continued | 2021 | N/A |

| # | Action | Responsible | Consulted | Informed | Output | Timeline | Dependencies |
|---|---|---|---|---|---|---|---|
| 5.1.5 | Regulators to change their investment guidelines to permit SLB | CMA, IRA and RBA | Institutional investors | Broader market | SLB permitted and introduced into market | 2021 | N/A |
| 5.1.7 | Industry (CMA, NSE and KASIB) to promote the benefits of listing to potential issuers | CMA, NSE, KASIB | - | - | Workshops, forums and seminars held around benefits of listing | 2023 | Action 5.1.8, 5.1.22, 5.1.23 |
| 5.1.8 | Streamline listing application procedure and communicate to market | NSE | - | Broader market and especially firms likely to list | Streamlined listing requirements communicated to the market | 2022 | Action 5.1.22 |
| 5.1.10 | Educate traders and investors on derivatives trading | NSE and members | Investors and traders | - | Traders and investors educated on derivatives trading | 2022 | N/A |
| 5.1.11 | Undertake study of where Kenya has an opportunity to be the international price formation centre (e.g. Coffee could be a candidate) | KOMEX and its shareholders (NSE and banks) | CMA | - | Study complete | 2022 | N/A |
| 5.1.12 | Promote warehouse receipt schemes across the country | Ministry of Agriculture and Trade, WRSC, WRS TWG | Komex | - | WRS schemes launched in Kenya | 2023 | N/A |
| 5.1.13 | Public sensitization on KOMEX | KOMEX, COG, MOT, MOA | - | - | Sensitizations undertaken | 2022 | N/A |
| 5.1.16 | Provide broad-based capacity building and training for capital markets participants | CMA, RBA, IRA, NT&P, SASRA, LSK, FMA, KASIB, NSE, NIFCA | Law Society of Kenya, NSSF, FMA, NSSF, KASIB, CISI | - | Broad-based capacity built across the capital markets | 2022 | N/A |
| 5.1.17 | Provide education to new potential issuers | NSE, CMA, NIFCA | - | - | Greater capacity built within firms ahead of listing | 2022 | 5.1.22 |
| 5.1.18 | Implement county financing strategy, including capacity building for counties on the practicalities of accessing capital markets | NT&P CMA, CoG, CRA, State Department of Devolution | Council of Governors, institutional investors | - | Counties prepared to access capital markets as necessary | 2023 | N/A |
| 5.1.19 | Implement commodity derivatives | KOMEX, NSE, CMA, MOA, COG | - | - | Increased turnover of derivatives contracts | 2022 | N/A |

| # | Action | Responsible | Consulted | Informed | Output | Timeline | Dependencies |
|---|---|---|---|---|---|---|---|
| 5.1.22 | Review the various market segments and explore ways to streamline the same | NSE | CMA, listed companies | Broader market | Market segment review complete and segments streamlined as necessary | 2022 | N/A |
| 5.1.23 | After streamlining market segments as necessary, review listing requirements, free float requirements and different classes of shares in order to promote listings on NSE Main Board and GEMS | NSE | CMA, institutional investors, family-owned businesses | Broader market | Review of listing requirements complete | 2023 | Action 5.1.22 |
| 5.1.25 | Review free of payment transfer processes and regulations for government bonds | CMA, CBK | Institutional investors, KASIB, NSE | Broader market | Review of FOP processes complete | 2022 | Action 1.3.12 |
| 5.1.27 | Explore amending regulations to allow limited liability partnerships to raise capital publicly.<br><br>Explore the possibility of having a licensing regime for LLPs that are predominantly involved in capital market activities | CMA, NT&P, AG | LLPs, Attorney General | Broader market | Completed review of LLP ability to raise funds in capital markets and adjusted where possible | 2023 | N/A |

## 2021-23 CMMP IMPLEMENTATION MODEL (ALL IMPLEMENTERS)

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| Supporting the development of local market infrastructure to international standards (Objective 1) | Put in place necessary technical arrangements to allow for Securities Lending and Borrowing (SLB) for both equities, corporate bonds and [48]Government securities | CDSC to finalize implementation of screen based SLB model;<br>[49]CBK to sensitize banks & other players on benefits of SLB for Government bonds | CDSC, NSE, CBK, FMA, NT&P | CSDC and CBK to take lead and responsibility of reporting to IC | Increased equity market liquidity as measured by share turnover ratio; Increased Treasury bond turnover as a percentage of total Government debt | 2022 |
| | CDSC to develop services to support the introduction of securities lending | The modernized CDSC infrastructure under implementation will support Securities Lending and Borrowing | CDSC | CSDC to incorporate in internal work plan | Increased equity market liquidity as measured by turnover ratio | 2021 |
| | Review of CDSC CSD affirmation Process | Enable full delivery versus payment (DVP) settlement in real time; Enhanced system architecture | CDSC, CMA | | | 2022 |

[48] Technical arrangements will be put in place for all the named securities, but CBK will advise on timing of actual implementation of SLB of Government securities

[49] The first stage is sensitization. Implementation will be subject to success with the Repo Global Master Repurchase Agreement

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | Complete CBK CSD upgrade process | Operationalize the new system | CBK, CMA | Technical Committee exists between CMA & CBK. CBK to be reporting to IC. | Increased equity market liquidity as measured by share turnover ratio;<br>Increased Treasury bond turnover as a percentage of total Government debt | 2022 |
| | Modernization of market infrastructure | Modernise systems to enable straight-through-processing using international standard messages;<br>Proposed systems to be subjected to continuous analysis of capacity and scalability in light of products such as Securities Lending and Borrowing | CMA, CDSC, NSE, CBK, KASIB | CSDC and NSE and CBK to take lead and responsibility of reporting to IC | Increased market liquidity | 2022 |
| | Implement electronic bond trading platform for the Government bond market | Ensure that market infrastructure components are up-to-scratch;<br>Greater engagements between key stakeholders including: National Treasury, CBK, CMA, KBA, KASIB and Authorized Securities Dealers (ASDs); Facilitative regulation be in place | KBA, CBK, KASIB, NT& P (DMO), | KBA to take lead and responsibility of reporting to IC | Electronic OTC bond trading platform established and operational | 2022 |
| | Automation of securities exchange transactions through adoption of an appropriate messaging system | Initiate the process of automating the contract notes processes;<br>Enhanced ATS | KASIB, NSE | KASIB to take lead and responsibility of reporting to IC | Contract notes processes automated | 2022 |

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| **Strengthening the domestic legal and regulatory environment (Objective 2)** | Examine the tax structure of collective investment scheme Products | Tax exemptions or tax neutrality measures to be explored | KRA, FMA, CMA, NIFCA | CMA to take lead and responsibility of reporting to IC | Increased value of CIS AUM | 2022 |
| | Regulatory oversight of online foreign exchange market to be maintained | Strengthen the legal and regulatory underpinnings | CMA | To be incorporated in CMA's work plan and the Authority to engage any relevant stakeholders e.g., FMA, ICS. | Reduced instances of market infringements for online foreign exchange and offers to public | 2021 |
| | Explore regulatory amendments to ensure that there is no regulatory gap between public and private markets | Review the legal and regulatory underpinnings | CMA | | Reduced gaps & overlaps deeper capital markets | 2022 |
| | Existing work programme on corporate governance covering both the corporate governance code and education in good corporate governance to be continued | Continued awareness & education programs on corporate governance;<br>Continued reporting on corporate governance practices by issuers;<br>Continued improvements in corporate governance as measured by the World Economic Forum's Global Competitiveness Report (2022) | CMA | | Increased equity market liquidity as measured by share turnover ratio;<br>Improvement in Global Competitiveness Report rankings | 2022 |
| | Review the different ways in which good corporate governance can be achieved in practice and act on findings. | Review the Corporate governance code for Issuers and establish a tailor-made SME specific Code;<br>Provide clear guidelines on Group Companies seconding staff to the intermediaries and how they can become signatories;<br>CMA to provide guidance on outsourcing functions i.e. internal audit | CMA | To be incorporated in CMA's workplan and the Authority to engage any relevant stakeholders e.g., FMA, ICS. | Increased equity market liquidity as measured by share turnover ratio;<br>Improvement in Global Competitiveness Report rankings | 2021 |

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | Review the introduction of tailored corporate governance requirements for family-owned businesses | Undertake feasibility assessments with prospective SMEs;<br><br>Initiate roll out of SME specific corporate governance requirements | CMA | To be incorporated in CMA's workplan and the Authority to engage any relevant stakeholders e.g., FMA, ICS | Increased number of listings on NSE;<br>Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP | 2023 |
| | Align on the respective roles of CMA and NIFCA going forward in terms of capital markets promotion | Continuous engagements between CMA and NIFCA; Explore the regulatory architecture to enable the industry achieve deeper capital markets | CMA, NIFCA, NT&P | CMA, NIFCA to establish a bilateral arrangement on this with support of NT& P. | Increased annual net FDI inflows<br><br>Improvement in GFCI rankings | 2022 |
| | Work collaboratively with CMA to improve the legal and regulatory environment with the aim of making Kenya an internationally competitive financial services centre | Harmonization of regulatory requirements | CMA, NIFCA | NIFCA to take lead and responsibility of reporting to IC | Nairobi becomes an International Financial Centre | 2023 |
| **Enhancing markets for alternative finance (Objective 3)** | Continued promotion of the markets for REITs, asset-backed securities and commodities, including periodic amendments to regulations and policy as needed | Promotion of REITs, asset-backed securities and commodities within the market through: enhanced investor education & awareness to increase update;<br>Reviewing the regulatory & policy underpinnings;<br>Greater county level engagements | RAK, KOMEX | RAK/ KOMEX to implement their planned promotion initiatives as per their work plans | Additional REIT launch<br><br>Increased value of commodities traded | 2023 |
| **Building an internationally attractive market (Objective 4)** | Establish a process for monitoring progress in international rankings | Consistently monitor Kenya's position in international rankings;<br>Kenya's Ease of doing business be improved<br>Identify outstanding gaps hindering Kenya's upscale on GFCI;<br>Conduct periodic assessments to market access, competitiveness and business environment related factors;<br>Have in place a dashboard enunciating Kenya's progress towards achieving favourable MSCI and GFCI ratings including Kenya's Ease of Doing business parameters for broad access to all including international investors | NIFCA, CMA, NT&P, CBK | CMA, NIFCA to establish a bilateral arrangement on this with support of NT& P. | MSCI market classification;<br>Ranking in GFCI rankings;<br>Improved ranking in Global Competitiveness Report rankings | 2021 |

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | Review the adequacy of the corporate and personal tax framework for financial services and explore non-tax incentives | Review of the tax framework underpinnings and make proposals to National Treasury for necessary amendments | NT& P, NIFCA, CMA, KRA | NIFCA to take lead and report to IC | Increased annual net FDI inflows | 2022 |
| | Promote FDI investment in Kenya<br><br>Promotion of Kenya as an International Financial Services centre extending beyond just capital markets | Make proposals to Government on how to improve Kenya's Ease of doing business<br>Increased efforts to attract institutional investors<br>Accelerate efforts for Nairobi to become an international financial centre;<br>Greater synergies and collaboration with the Financial Sector regulators on various fronts;<br>Sell Nairobi as a choice market to international investors | NIFCA, KASIB | NIFCA, KASIB to incorporate in respective work plans. NIFCA to report to IC<br>NIFCA to incorporate in internal work plan and report to IC | Increased annual net FDI inflows | 2022 |
| **Supporting the growth of the demand side and supply side of the local market (Objective 5)** | i) Coordinate the development of National consumer financial literacy policy and strategy<br><br>ii) Implement a national consumer financial education policy and strategy, including capital markets content | Establish a National Treasury led taskforce to consolidate whitepapers from the financial sector regulators and develop a single holistic financial sector whitepaper;<br>Implementation of the recommendations in the developed Whitepaper on the establishment of a National consumer financial literacy policy and strategy;<br>Roll out of the National consumer financial literacy policy and strategy;<br>Continued engagements with relevant stakeholders | CMA , CBK, IRA, RBA, SASRA, NIFCA, NT&P | NT&P to take responsibility and lead role and report to IC | Increased share of local NSE individual investors relative to banked population | 2022<br><br>2023 |

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | CMA to continue its own education programme | Retool the CMA public education and awareness and strategy to facilitate retail investors to fully leverage technological platforms to invest directly or through pooled vehicles like Collective Investments Schemes (CIS) in the primary and secondary capital markets;<br>Increased county engagements on capital markets products;<br>Continued implementation of certification programs and CPDs;<br>Increased awareness creation of CMA's mobile App | CMA | CMA to incorporate in work plan | Increased share of local NSE individual investors relative to banked population | 2021 |
| | Regulators to change their investment guidelines to permit SLB | Robust legal and regulatory frameworks;<br>Review and harmonize regulations; | CMA, IRA, RBA | CMA to engage through the JFSR policy and technical committee | Increased equity market liquidity as measured by share turnover ratio;<br>Increased treasury bond turnover percentage as share of total government debt | 2021 |
| | Industry (CMA, NSE and KASIB) to promote the benefits of listing to potential issuers | Undertake joint education and awareness initiatives | CMA, NSE, KASIB | To utilize the working group established in (i) | Increased number of listings on NSE;<br>Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP | 2023 |

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | Streamline listing application procedure and communicate to market | Review existing listing requirements;<br>Undertake benchmarks with leading jurisdictions | NSE | To incorporate in NSE's work plan. NSE to report to IC | Increased number of listings on NSE;<br>Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP | 2022 |
| | Educate traders and investors on derivatives trading;<br>Education and certification of traders;<br>Educate investors on all NSE products and processes. | Structured and targeted sensitization forums;<br>Structured Certification programs and Continuous professional Development programs | NSE | To incorporate in NSE's work plan. NSE to report to IC | Increased number of listings on NSE;<br>Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP | 2022 |
| | Undertake capacity building initiatives on KOMEX potential benefits to farmers | Targeted sensitization forums;<br>Increased county engagements with farmers;<br>Identify farmers who will double up as champions to push the Agenda forward, upon training | KOMEX, COG, MOT | KOMEX to take lead and include in its Strategic Plan and report to IC | Increased awareness | 2022 |
| | Undertake study of where Kenya has an opportunity to be the international price formation center (e.g. Coffee could be a candidate | Undertake price data validation and benchmarks | KOMEX, CMA, MOA, COG | CMA & KOMEX to partner through the existing task force. KOMEX to take lead and report to IC | | 2022 |
| | Public sensitization on KOMEX | Roll out sensitization forums;<br>Create awareness on existence of KOMEX and opportunities for commodities marketing | KOMEX, COG, MOT, MOA | KOMEX to take lead and report to IC | Increased awareness | 2022 |

| Strategic Objective | Initiatives | Activities | Implement-ers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | Implement commodity derivatives | Commodities Exchange be in place; Increased sensitization of commodities trading to farmers; Explore specific products that can be traded i.e. coffee, tea, minerals | KOMEX, NSE, CMA, MOA, COG | CMA & KOMEX to partner through the existing task force. CMA to take lead and report to IC | Increased turnover of derivatives contracts | 2022 |
| | Promote warehouse receipt schemes across the country | Strengthen the legal and regulatory underpinnings as required; Sensitization; Implementation of WRS | Ministry of Agriculture, WRSC, WRS TWG | To incorporate in their work plans. CMA as a member of the TWG to report to IC | Increased liquidity of agricultural trade | 2023 |
| | Provide broad-based capacity building and training for capital markets participants | Roll out of broad, structured, and targeted capacity building and training initiatives | CMA, RBA, IRA, NT&P, SASRA, LSK, FMA, KASIB NSE, NIFCA | Utilize already existing partnerships. CMA to report to IC | Increased equity market liquidity as measured by share turnover ratio; Increased treasury bond turnover percentage as share of total government | 2022 |
| | Provide education to new and potential issuers;<br><br>Provide induction program for new issuers | Implement education programs to potential issuers;<br><br>Develop and execute Director and senior management program for new issuers | NSE, CMA , NIFCA | Utilize already existing partnerships. NSE to report to IC | Increased equity market capitalisation; Increased equity market capitalisation as a share of GDP; Increased number of listings on NSE | 2022 |
| | Implement county financing strategy, including capacity building for counties on the practicalities of accessing capital markets | Undertake bi-quarterly engagements with counties; Greater engagements with county governments | CMA, CoG, CRA, NT&P , State Department of Devolution | CMA to continue with existing partnerships with CRA with support of CoG & Devolution. CMA to report to IC | Increased share of total annual county revenue raised through capital markets | 2023 |

| Strategic Objective | Initiatives | Activities | Implementers | Implementation model | Outcomes | Timelines |
|---|---|---|---|---|---|---|
| | Review the various market segments and explore ways to streamline the same | Initiate review to identify gaps and overlaps | NSE, CMA | Incorporate in NSE work plan. NSE to report to IC | Increased number of listings on NSE;<br>Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP | 2022 |
| | After streamlining market segments as necessary, review listing requirements, free float requirements and different classes of shares in order to promote listings on NSE Main Board and GEMS | Initiate review of the market segments with an aim of making entry to market less onerous but balanced with sound corporate governance | NSE, CMA | Incorporate in NSE work plan. NSE to report to IC | Increased number of listings on NSE;<br>Increased number of GEM S listings;<br>Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP | 2023 |
| | Review free of payment transfer processes and regulations for government bonds | Review the legal and regulatory framework underpinnings and system architecture; | CMA, CBK | CBK& CMA to work bilaterally on this. CBK to lead and report to IC | Increased treasury bond turnover percentage as share of total government debt | 2022 |
| | Explore amending regulations to allow limited liability partnerships to raise capital publicly.<br>Explore the possibility of having a licensing regime for LLPs that are predominantly involved in capital market activities | Initiate review of LLP ability to raise funds in the capital markets and the case to develop licensing requirements for LLPs that have activities that are predominantly in the Capital Markets space. The review will make adjustments where possible | CMA, NT&P, AG | CMA to make proposals through NT & P and AG to support. CMA to report to IC | Increased equity market capitalisation;<br>Increased equity market capitalisation as a share of GDP;<br>Increased number of listings on NSE | 2023 |

# CAPITAL MARKETS MASTER PLAN (CMMP) STEERING COMMITTEE

### Chairperson

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|---|---|
| 1. **Cabinet Secretary** | National Treasury and Planning |

### Members

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| 2. **Chief Executive Officer** | Capital Markets Authority |
| 3. **The Attorney-General** | |
| 4. **Cabinet Secretary** | Agriculture, Livestock and Fisheries |
| 5. **Cabinet Secretary** | Petroleum and Mining |
| 6. **Secretary/CEO** | Commission on Revenue Allocation |
| 7. **The Governor** | Central Bank of Kenya |
| 8. **Executive Director/CEO** | Privatization Commission |
| 9. **Chairman** | Nairobi International Financial Centre Authority |
| 10. **Director-General** | Communications Authority of Kenya |
| 11. **Director-General** | Kenya Vision 2030 Delivery Secretariat |

# CMMP REVIEW FUNDERS

## Financial Sector Deepening Africa (FSDA)

"A refresh of the Kenya Capital Market Master Plan is timely as it enables market stakeholders to re-align their efforts towards capital market development with a focus on economic resilience and sustainable growth. The Master Plan also anchors the role of the Nairobi International Financial Centre in capital market promotion and development as well as green finance and regulatory reform initiatives that are critical to support economic growth in Kenya and within the region".

***~Mr. Mark Napier, Chief Executive Officer at FSD Africa***

## CMMP CONSULTING TEAM

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| **Mr. Raymond Sabbah** | Senior Consultant |

### Genesis Analytics (Pty) Ltd

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| **Mr. Shezaad Sunderji** | Project Lead |
| **Mr. Adriaan Slabbert** | Senior Consultant |

# CMMP SECRETARIAT

| | |
|---|---|
| 1. **Mr. Luke Ombara** | Chairman |
| 2. **Mr. Abubakar Hassan** | Member |
| 3. **Mr. James Kivuva** | Member |
| 4. **Mr. Jairus Muaka** | Member |
| 5. **Mr. Joseph Mwenda** | Member |
| 6. **Ms. Margaret Awino** | Member |
| 7. **Mr. Antony Mwangi** | Co-opted Member (Corporate Communications) |
| 8. **Mr. John Njoroge** | Co-opted Member (Finance) |
| 9. **Ms. Leah Muli** | Co-opted Member (Corporate Communications) |
| 10. **Mr. Jeremiah Yego** | Co-opted Member (Supply Chain) |

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Bond Markets Association

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Central Bank of Kenya

Central Depository and Settlement Corporation

Commission on Revenue Allocation

Communication Authority of Kenya

Consumer Federation of Kenya

Council of Governors

Custodian Association of Kenya

East Africa Venture Capital Association

East African Securities Exchange Association

Fechim Investment Ltd

Financial Sector Deepening Africa

Financial Sector Deepening Kenya

Fund Managers Association

GenAfrica Asset Managers Limited

I&M Bank Limited

ICEA-Lion Group

Institute of Certified Public Accountants of Kenya

Institute of Certified Public Secretaries of Kenya

Insurance Regulatory Authority

International Finance Corporation

KenGen

Kenya Association of Stockbrokers and Investment Banks

Kenya Bankers Association
Kenya National Multi Commodities Exchange Limited
Kenya Private Sector Alliance
Kenya Revenue Authority
Law Society of Kenya
League of Young Professionals
Microsoft Research
Ministry for Devolution and Planning
Ministry of Agriculture, Livestock, Fisheries and Co-operatives
Ministry of Energy and Petroleum
Ministry of Land, Housing and Urban Development
Ministry of Mining
Nairobi Coffee Exchange
Nairobi International Financial Centre Authority
Nairobi Securities Exchange
National Social Security Fund
National Treasury and Planning
Office of the Attorney General and Department of Justice
Office of the Controller of Budget
Privatisation Commission of Kenya
REITs Association of Kenya
Retirement Benefits Authority
Sacco Societies Regulatory Authority
Safaricom Limited
Salihin Shariah Advisory Kenya
Stanbic Bank Kenya Limited
State Department for Trade and Enterprise Development
State Department of Devolution
Vision 2030 Delivery Secretariat

CAPITAL
MARKETS AUTHORITY

*Promoting the Integrity and Growth of the Capital Markets*


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