

KEYNOTE ADDRESS BY THE CABINET SECRETARY FOR THE NATIONAL TREASURY AND PLANNING, MR. HENRY ROTICH, EGH, DURING THE OFFICIAL LAUNCH OF THE 2018/2023 STRATEGIC PLAN AT THE KENYATTA INTERNATIONAL CONVENTION CENTRE, TSAVO BALLROOM ON WEDNESDAY 18TH JULY, 2018

**My Colleague Cabinet Secretaries,
Chief Administrative Secretaries and Principal Secretaries Present,
The County Government Representatives Present,
The Chairman, Board Members and Chief Executive, Capital Markets Authority,
The Leadership of Financial Sector Regulators and Industry players,
Distinguished Guests,
Ladies and Gentlemen.**

Good Morning,

It gives me great pleasure to be with you today during this launch of the Capital Markets Authority Strategic Plan 2018-2023. As you may be aware, H.E. President Uhuru Kenyatta was expected to be the Chief Guest during this launch but was not able to make it due to other commitments and has requested me to represent him. Let me at the onset, take this opportunity to thank you, stakeholders, for showing solidarity with your regulator by turning out in large numbers this morning.

Ladies and Gentlemen, the vibrancy of our financial sector is recognized globally. Our financial sector has been expanding locally and across the Sub-Saharan region with innovations driving financial inclusion. The rate of adoption of digital financing in Kenya is considered among the highest in Africa. Kenya is now recognized as a world leader in mobile money technology, reaping the benefits that come along with

it. Our capital markets has the largest market capitalization in the East Africa region with a host of products and innovations.

Ladies and Gentlemen, our Vision 2030 identifies financial sector as one of the priority sectors to enable achievement of an annual economic growth rate of 10 per cent. This will be achieved through creation of a vibrant and globally competitive financial sector that will promote high level of savings to finance Kenya's investment needs. Achieving this economic growth will help Kenya make significant progress in the attainment of the UN Sustainable Development Goals. The achievement of this high level economic growth target requires funding of the key Vision 2030 projects. In this respect, the sector is expected to mobilise financial resources and increase investment from both domestic and international sources. We require investment level of 30 per cent of GDP and savings rate of over 25 per cent of GDP to sustain growth of 10 per cent per annum.

Ladies and Gentlemen, as economies develop, capital markets play a bigger role than banking sector. At the moment banking sector assets contributes over 75 percent financing in Kenya while capital markets and other financial sub sectors contribute the remainder. In emerging markets equity play a significant role in funding businesses and enterprises. This is what we should be seeing in Kenya. We should be funding our businesses through equity and bonds under the capital markets as opposed to the loans through the banking sector. I urge the capital markets to aggressively work on this aspect and tilt the share of capital assets in funding business requirements.

To enable the sector play its role, the Government has been undertaking various policy measures and reforms geared towards enhancing financial system **Stability,**

improving **Efficiency**, and expanding financial **Access** in line with the targets set out in the Vision 2030 and the Third Medium Term Plan.

First, with regard to stability, we have taken steps to strengthen the regulatory framework through revisions to legislation, regulation and guidelines alongside steps to strengthen financial oversight and enforcement. Strong progress was made in adopting risk-based supervision across the regulatory structure. In addition we have strengthened our Anti Money Laundering framework.

Further, the Nairobi International Financial Centre Authority was established in 2014 through an Executive Order and an interim secretariat of the NIFCA established at the National Treasury. The Nairobi International Financial Centre will be critical to attracting international capital into the Kenyan market. We will be shortly appointing a Board and interim management team that will spearhead the finalization of technical and operation aspects in readiness for the launch of NIFC later this year.

Second, issues of efficiency have been addressed by implementing the recommendations of the Committee on Enhancing Private Sector Credit and Mortgage Financing which I constituted in 2014. We have implemented measures to improve transparency and competition and we are now working on consumer protection issues in the financial sector. The Moveable Property Security Rights Act, 2017 in place, lenders can now provide credit using moveable properties as collateral.

In addition, we are finalizing the establishment of the Kenya Mortgage Refinance Company (KMRC) which will make it easier for banks to access long-term finance for home loans. The secondary trading of this mortgage asset class will also follow.

Third, Kenya has made tremendous progress in expanding financial access and is now considered a global role model. The FinAccess Survey, 2016 showed that the proportion of the adult population using formal financial services rose to 75.3 percent, up from 66.7 percent in 2013. These achievements have been hinged on an enabling regulatory environment coupled with the adoption of innovative technologies to expand access.

Ladies and Gentlemen, despite these achievements, we should not be complacent. As a matter of fact, now is the time to build on the progress made along the three pillars of stability, efficiency and access. I challenge all financial sector players present and in particular the capital markets players to work on new modalities and reforms that will strengthen financial stability, improve financial efficiency and expand access to financial services. Therefore, in evaluating performance and success in this sector, each of the financial sector players ought to review their contributions around the three pillars. I believe the Strategic Plan that we are launching today satisfies these critical benchmarks.

Let me pose some questions that are worth pondering on around the three pillars. Have we fully strengthened the stability of financial sector and in particular capital markets? Are the markets well regulated? While significant progress has been achieved there are still various market failures that require regulatory attention.

On access, the question to ask is, are capital markets products accessible to the common Mwananchi in Kenya? Are they able to trade in the capital markets? Whereas we have witnessed introduction of new products and innovations in the capital markets, have we exhausted the innovations?

I believe the Strategic Plan is designed in a way to address these concerns.

Ladies and Gentlemen, given this context, today marks an important occasion as our capital markets fraternity comes together to support the implementation of the Strategic Plan of the Capital Markets Authority detailing the role that our markets regulator will play within the markets over the next five years. This Plan serves as a clear commitment of just one, but nonetheless a critical national institution, in executing its role to position Kenya as the Heart of African Capital Markets financing and investments. We believe that this Strategic Plan is in line with the 10 year Capital Markets Master Plan (CMMP).

I wish to laud the Capital Markets Authority for consciously aligning its strategic direction our national development agenda as elaborated in our Third Medium Term Plan (MTP III) of Vision 2030 and the Sustainable Development Goals. This will ensure that Kenya’s capital markets have their desired impact in supporting economic development and empowerment.

In particular, I am pleased to note that the Strategic Plan has been aligned to the Government’s “Big Four” Agenda. Without doubt, the Plan has very clearly and specifically demonstrated how the capital markets are going to support Food Security, Affordable Housing, Manufacturing and Universal healthcare. I urge other public and private sector entities in the country to follow the lead of the Board and Management of the Capital Markets Authority in making a conscious and proactive decision to align their strategic plans to the “Big Four” Agenda.

Given the huge financial outlay of development projects and in particular those of the “Big Four” Agenda, there is need to boost domestic and foreign investments. The level of new investment remains limited with only 66 companies listed on the Nairobi Securities Exchange (NSE). To encourage new listings particularly by local firms at the Nairobi Securities Exchange (NSE), I urge the Capital Markets

Authority to review its regulatory and legal framework to encourage new listings. This will enhance liquidity at the capital market and make our Stock exchange vibrant.

Ladies and Gentlemen, in order to enhance the role of capital markets of providing long term funding critical for economic transformation, it is important that we scale up reforms that will improve corporate governance, enhance uptake of wide range of capital markets products and services, combat money laundering and terrorism financing and encourage uptake of technology innovations.

First, on corporate governance, I welcome the efforts by the CMA in consultations with its stakeholders in establishing a Corporate Governance Code for issuers of securities and implementing a Stewardship Code for Institutional Investors. This will guide the industry on sound corporate governance practices and ensure that institutional investors take up a proactive role in promoting sound governance in listed companies in Kenya.

However, to reap the full benefits of a sound corporate governance, it is vital that the CMA strengthen enforcement of the guidelines to curb cases where listed companies take advantage of any loopholes in the guidelines.

Second, on money laundering and terrorism financing, I laud the joint efforts of the CMA, in consultations with the Financial Reporting Centre and other relevant organs of Government to issue Guidelines to combat Money Laundering and the Financing of Terrorism for capital market intermediaries. Money laundering has devastating economic, security, and social consequences. It diminishes Government tax revenue and therefore directly and indirectly harms honest taxpayers.

Indeed, Kenya cannot afford to have its reputation and financial institutions tarnished by association with money laundering, especially in today's global economy. In my Budget Statement delivered to the National Assembly on 14th June 2018, I proposed amendments to the Proceeds of Crime and Anti-Money Laundering Act and Capital Markets Act in order to curtail money laundering and terrorism financing and address key capital markets malpractices including corporate governance breaches, embezzlement of investor funds, front running, provision of misleading information and effective management of the Investor Compensation Fund. I believe that your Strategic Plan will benefit from these innovative measures.

Third, while capital markets players have introduced new products and services, the available range of products and innovations within the Kenyan capital markets is still low by international standards. I therefore, urge CMA and other capital markets players to go the extra mile and introduce other products and innovations. Availing these products and innovations will incentivize increased participation in the capital markets.

Fourth, on the technology side, while Kenya still enjoys its stature as a hub of innovation, the country's capital markets have sub-optimally utilised the opportunity presented by FinTech innovations to push capital market activity to the next level by broadening product and service offerings, deepening market participation and liquidity, and driving transformative economic development. It is widely anticipated that FinTech will be one of the key hallmarks of competition between Kenya and other jurisdictions globally in terms of new listings, financial access and savings levels.

In walking this path, we however cannot detach FinTech opportunities from cybersecurity threats as the two are intertwined. Without robust cyber-defence

mechanisms, the benefits of FinTech might be lost. This therefore calls for preparedness in several areas, including cyber governance, cybersecurity partnerships, robust infrastructure and the implementation of advanced cybersecurity technologies. I therefore, challenge the CMA to implement explicit standards on cyber resilience owing to the high reliance on technology in the securities and derivatives markets and task of our industry to implement the same fully.

In conclusion, **Ladies and Gentlemen**, I wish to re-emphasize that the existence of a sound financial sector and in particular capital markets is crucial in supporting economic development and serves as an engine of growth in its own right. Therefore, we must strive towards strengthening the resilience of the capital markets sector in order to be able to tackle and surmount risk and challenges in the future.

I also wish to reaffirm the Government's commitment to ensuring that the capital markets are well positioned to support national economic growth and to meet future challenges from regional competition and globalization as Kenya positions itself to be a competitive International Financial Centre.

Once again, let me take this opportunity to congratulate the Board of Capital Markets Authority, Management and Staff and the entire capital markets fraternity for the support leading to the launch of this Capital Markets Strategic Plan. Well done!

It is one thing to launch a Strategic Plan and another to implement. I look forward to effective implementation of this Plan.

With that, **Ladies and Gentlemen**, it is now my pleasure to formally launch the Capital Markets Authority Strategic Plan for the period 2018 - 2023.

Asanteni Sana!