

REMARKS BY MR. PAUL MUTHAURA, MBS, CHIEF EXECUTIVE, CAPITAL MARKETS AUTHORITY, DURING THE KENYAN DIASPORA HOMECOMING CONVENTION ON WEDNESDAY DECEMBER 19TH, 2018 AT THE OLE SERENI HOTEL

Chairman of the Kenya Diaspora Alliance, Dr. Shem Ochuodho;

Trustees of the Kenya Diaspora Alliance;

Distinguished Guests;

Ladies and Gentlemen;

All protocols observed:

It is indeed my pleasure to join you this morning to mark yet another event aimed at providing pertinent issues that are of great importance to the diaspora community. The importance of this event is only emphasized by the impact of the diaspora contributions to the economy with Kenyans working and living abroad now sending home four times more cash than a decade earlier underlining their importance in growing national wealth.

Recent data indicates that nearly Sh260.23 billion (\$2.55 billion) was remitted by the diaspora community in 12 months through last August compared to Sh63.42 billion in the same period in 2008. The remittances have been the country's largest source of foreign exchange on international currencies since 2015 when they overtook earnings from tea exports. The diaspora inflows are estimated to be much higher than the official statistics which are based on what is remitted through official channels.

Ladies and Gentlemen; The Capital Markets Authority will continue to play its critical role in supporting key developments under the economic pillar of Vision 2030. The Third Medium Term Plan under Vision 2030 endeavors to move the economy towards a high growth trajectory, with the financial sector being key to its success. I am aware that financial services firms, have in recent years developed savings and investment products such mortgages targeted at the diaspora who have historically favored real estate which is the most popular investment for diaspora clients. Most of you prefer to purchase residential homes or land.

In this regard and with respect to the Big 4 Agenda on housing, I urge you to consider participation in Real Estate Investment Trusts (REITs) on the supply side or as an investor on the demand side. A collective investment scheme in real estate that is structured as a unit trust where an investor owns rights or interest in the assets in the form of units and earns returns from income or capital gains. The property is held by a trustee and professionally managed by a REIT Manager. We have also developed Asset Backed Securities that you can participate in with more on the supply side under consideration.

Ladies and Gentlemen; With respect to Manufacturing, it is no secret that capital markets in a cheaper alternative than bank loans and enables companies to raise capital to sustain long term infrastructure projects. The Authority has several programs aimed at providing more information that you can all benefit from. We are also working towards the issuance of Project Bonds and collaborations with Private Equity.

Further, you will also contribute to job creation towards our Vision 2030 through increased listings. I am aware that Kenyans in the diaspora have disclosed plans to set up their own microfinance bank in the country with an initial start- up of \$10 million.

This is a perfect project that can be achieved through listing at the Nairobi Securities Exchange by raising funds from the public to support the project.

On food security, we are introducing a Derivatives as well as a spot Commodities markets that will allow you to hedge against unforeseen market forces by spreading your risk with other parties. Of interest are Green Bonds in development whose proceeds are used exclusively to fund environmental projects. Given that the County is the backbone of our economy, we are working on the issuance County Bonds similar to "Municipal Bonds" in the USA whose proceeds can also fund infrastructure projects. Last but not least, on Healthcare, Green Bonds and Fintech solutions in the capital markets can be used to finance healthcare projects which are needed in Kenya.

Ladies and Gentlemen; Within the capital spectrum, we have been exploring possible Specific Investment Options for Diaspora Investors that include the following:

i. Diaspora Infrastructure Bond

- Infrastructure bonds are bonds whose proceeds are used to finance infrastructure projects across a country;
- These developments include installations, services, basic facilities and other projects that are needed for running a country or a community. The facilities could include transportation and communication systems, public buildings, public institutions, water and electricity lines;
- The distinction in this case emerges in the sense that the Diaspora Infrastructure bond targets specifically the diaspora community.

ii. Diaspora Investment Fund

- This would entail pooling of funds from the diaspora community under the management of a professional fund manager on behalf of the diaspora investors;
- This will then be invested in different assets to develop a larger, diversified portfolio as opposed to investments by individuals;
- In return for putting money into these funds, the diaspora investor receives shares or units that represent his/her pro-rata share of the pool of fund assets.

iii. Securitization of Diaspora Remittances

- Securitization is a transaction that involves a potential borrower pledging future hard-currency receivables as collateral to a special purpose entity that issues the debt;
- The flow of foreign currency from remittances are used to service the debt;
- Because remittances have become increasingly large and predictable, the benefit of securitizing them is substantial.

Ladies and Gentlemen; The Capital Markets Master Plan, which is a comprehensive plan charting the strategic positioning and future direction of the Kenyan capital markets over the next 10 years was launched on November 21st, 2014. To date we have made significant achievements towards creating a conducive environment for the Diaspora. Allow me to highlight a few examples:

- 75% foreign ownership caps in listed companies was removed and mechanism to impose a cap on entities deemed strategic by the National Treasury introduced;
- Additionally, there has been the removal of the provision in the Companies Act, 2015 on capping of foreign ownership at 70% and the requirement for local boards

of directors for locally registered branches of foreign entities in all circumstances or at minimum;

- Policy Guidance Notes on both Global Depositary Notes/Receipts were issued. The framework caters for both inward and outbound Global Depositary Notes/Receipts;
- The Corporate Governance Blue print as well as draft Corporate Governance and Stewardship codes have been developed and issued. The corporate governance code Strengthens Corporate governance for issuers and intermediaries, including the role of independent directors on an issuer's corporate Board, the protection of minority shareholders, the importance of independent audit committees, and mechanisms to protect against conflicts of interest presented by related-party transactions; The Stewardship Code's empowers institutional investors to play a more proactive role in tracking and pressuring listed companies.
- CMA launched the Securities Industry Certification Program in 2016. All industry practitioners are required to undertake the Introduction to International Securities and Investments as well as the Regulations and Market Practice Modules;
- A Continuous Professional Development program for all industry practitioners to be introduced in 2019;
- The recently launched Incubation and Accelerator Board at the NSE will allow for potential issuers to begin the listing process through a well-structured journey towards an IPO;
- A new robust investor awareness program informed by a Capital Markets Investor Behavioral and Situational Analysis Study that has identified the Diaspora as a key target constituent. As an example, we have been collaborating with the Ministry of Foreign Affairs to train their staff on capital markets so that they can also be our Ambassadors in the various Embassies.

In conclusion, I urge you to be our Ambassadors towards enabling Kenya to be the investment destination of choice in Africa. This can only be achieved through participating in our financial markets which has proven to provide lucrative returns as compared to other markets. Once again, thank you for

Thank you.