Efficient Securities Markets Institutional Development Initiative

Global Capital Markets Development Department

Securities Markets Group
• Introduction
• Bond Markets in East Africa
• ESMID
• Africa’s housing & infrastructure financing needs are enormous
  - US$93 billion or 15% of GDP

• Bulk of infrastructure undertaken by public sector using foreign currency loans
  – Funding inadequate to meet all requirements
  – Currency risk passed on to consumers

• Private Sector can contribute in bridging the financing gap

• Capital Markets can raise long-term local currency financing for infrastructure and housing
  – Kenya Government raised US$240 million through bond market for infrastructure
  – Kenya Electricity Generating Company - KenGen raised US$330 million in 10-yr bond for power generation projects
Benefits of Well Functioning Local Currency Bond Markets

Better risk management for borrowers:
• Lower interest rates
• Reduced foreign currency risks
• Reduced refinancing risks
• Longer tenors

Improved yields for institutional investors

Improved ability to deal with financial crises

Financial sector diversification

Accelerated private sector development

Expanded housing and infrastructure finance

This generates growth and reduces poverty
Ingredients for a Vibrant Bond Market

Enabling Environment
- Macro Economic Environment
- Legal & Regulatory
  - Issuance Process
  - Market Rules
- Tax Regimes

Market Place
- Trading, Clearing, Settlement, Depository infrastructure
- Pre-trade and post-trade transparency
- Bond Market Structure

Capacity
- Bankable Projects & Sponsors
- Informed Intermediaries
- Informed Investors
Bond Markets in East Africa
<table>
<thead>
<tr>
<th>Country</th>
<th>Longest Treasury Bond</th>
<th>Longest Corporate Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rwanda*</td>
<td>3 Years</td>
<td>10 Years</td>
</tr>
<tr>
<td>Uganda</td>
<td>10 Years</td>
<td>10 Years</td>
</tr>
<tr>
<td>Tanzania</td>
<td>10 Years</td>
<td>10 Years</td>
</tr>
<tr>
<td>Kenya</td>
<td>20 Years</td>
<td>10 Years</td>
</tr>
</tbody>
</table>

* Floating Rate instruments
Treasury Yield Curves Uganda, Tanzania & Kenya as at 30 June 2010

Tenors have extended and yields have recently declined

Source: Standard Chartered Bank Kenya
Kenya has had record issuance of US$500 million in 2009, over 90% infrastructure related KenGen (US$330 million) and Safaricom (US$100 million).

“The results clearly show that we can raise most of the funds needed to realise the goals of Vision 2030 through our own capital markets,” Kenya’s Prime Minister Mr Raila Odinga on the issue of KenGen bond.
<table>
<thead>
<tr>
<th>Corporate Bond Issues - Kenya</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kenya</strong></td>
</tr>
<tr>
<td>East African Development Bank (EADB)</td>
</tr>
<tr>
<td>Faulu Kenya</td>
</tr>
<tr>
<td>PTA Bank</td>
</tr>
<tr>
<td>Athi River Mining</td>
</tr>
<tr>
<td>Shelter Afrique</td>
</tr>
<tr>
<td>CFC Stanbic Bank (Private Placement)</td>
</tr>
<tr>
<td>PTA Bank</td>
</tr>
<tr>
<td>Barclays Bank of Kenya</td>
</tr>
<tr>
<td>Barclays Bank of Kenya</td>
</tr>
<tr>
<td>Sasini Tea &amp; Coffee</td>
</tr>
<tr>
<td>Mabati Rolling Mills</td>
</tr>
<tr>
<td>Mabati Rolling Mills</td>
</tr>
<tr>
<td>I &amp; M Bank (Private Placement)</td>
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<tr>
<td>Zain Kenya (Private Placement)</td>
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<td>Shelter Afrique</td>
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<tr>
<td>KenGen</td>
</tr>
<tr>
<td>Safaricom</td>
</tr>
<tr>
<td>TPS Serena (Private Placement)</td>
</tr>
<tr>
<td>Athi River Mining (Private Placement)</td>
</tr>
</tbody>
</table>

**53,546**
## Corporate Bond Issues - Uganda, Tanzania and Rwanda

<table>
<thead>
<tr>
<th>Country</th>
<th>USD</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>653.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Uganda</td>
<td>58.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>45.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Rwanda</td>
<td>1.7</td>
<td>0.1</td>
</tr>
</tbody>
</table>

East Africa

| Broad range of sector have tapped the bond market |
| Nongovernment bond markets in East Africa are relatively small |
| ....but potential is significantly large |

#### Uganda

<table>
<thead>
<tr>
<th>Company</th>
<th>UGX</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda Telecom</td>
<td>24,000</td>
<td>10.5</td>
</tr>
<tr>
<td>East African Development Bank</td>
<td>20,000</td>
<td>8.8</td>
</tr>
<tr>
<td>Standard Chartered Bank Uganda</td>
<td>23,000</td>
<td>10.1</td>
</tr>
<tr>
<td>Housing Finance Bank</td>
<td>35,000</td>
<td>15.4</td>
</tr>
<tr>
<td>Stanbic Bank</td>
<td>30,000</td>
<td>13.2</td>
</tr>
<tr>
<td>PTA Bank</td>
<td>10,000</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>132,000</td>
<td>58.0</td>
</tr>
</tbody>
</table>

#### Tanzania

<table>
<thead>
<tr>
<th>Company</th>
<th>TSh</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>East African Development Bank</td>
<td>9,000</td>
<td>7</td>
</tr>
<tr>
<td>PTA Bank</td>
<td>6,000</td>
<td>4</td>
</tr>
<tr>
<td>Barclays Bank Tanzania</td>
<td>24,600</td>
<td>18</td>
</tr>
<tr>
<td>Standard Chartered Bank Tanzania</td>
<td>8,000</td>
<td>6</td>
</tr>
<tr>
<td>ALAF</td>
<td>15,070</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>62,670</td>
<td>45</td>
</tr>
</tbody>
</table>

#### Rwanda

<table>
<thead>
<tr>
<th>Company</th>
<th>Rfw</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banque Commercial Rwanda (BCR)</td>
<td>1,000</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,000</td>
<td>2</td>
</tr>
</tbody>
</table>
Kenya Pension Funds Investments

Size of Industry estimated at Ksh 272 billion

Pension funds are natural investors in long-term assets

Diversification in last 7 years has been into equities...and recently into corporate bonds

Pension Funds Investments % in Assets Classes 2001-2008

Data Source, RBA – Excludes NSSF
Challenges to Bond Market Development – East Africa

**Weak Regulatory Environment**
- Issuance process
- Tax regimes
- Investment requirements
- Market rules
- Licensing framework

**Inadequate Market Infrastructure**
- Trading, clearing, settlement, and depository
- Transparency - information collection and dissemination
- Rating agencies

**Lack of Capacity**
- Regulators
- Market participants
- Project Preparation gap

**Small and Fragmented Markets**
- Lack of critical mass of issuers and investors
- Inability to take advantage of economies of scale
Lessons/Issues - East Africa

- Approval process is still long (average 6 months)
- Merit based process applied
- Not much differentiation with equity issues
- No recognition of sophisticated institutional investor base
- There is a growing institutional investor base - seeking avenues to diversify and enhance returns
ESMID Africa

**ESMID:**
- Efficient
- Securities
- Markets
- Institutional
- Development

**A partnership between:**
- Swedish International Development Cooperation Agency (Sida)
- International Finance Corporation (IFC)
- World Bank

Foster development of well functioning securities markets to:
- Broaden availability of local-currency investment instruments
- Enable private sector development
- Improve financing for housing & infrastructure
- Create jobs and improve livelihoods

**INITIAL FUNDING**
USD 5.5 million from Sida
ESMID Africa largely works with clusters of countries where changes have the potential to reverberate across several nations, i.e. East Africa.
ESMID - Comprehensive Approach

Supports all layers of a securities market

Regulators

MOF, Securities Commissions, Central Banks, Pension Regulators

- Regulatory advice (issuance, investment, new products)
- Institutional capacity building (training, process improvement)

Market Infrastructure

Exchanges, OTC Trading System, Clearing & Settlement System, Rating Agencies

- Advice on market structure and institutional arrangements
- Institutional capacity building (code of conduct, process)

Market Participants

Issuers, Intermediaries, Investors

- Capacity Building (trainings, licensing program)
- Transaction support (structuring, approvals, etc.)
ESMID East Africa Components

Legal & Regulatory Assistance
- Primary issuance framework for non-government bonds
- Asset Backed Securities
- Bond Market Structure

Strengthening the Market Place
- Market Infrastructure
- Pre-trade and post-trade transparency
- Bond Market Structure

Capacity Building
- Certification & Licensing framework
- Securities Training Modules
- Regional Training Provider

Regionalization
- Regulatory Framework
- Market Infrastructure
- Issuers & Investors

Transactions Support
ESMID East Africa Components

**Legal & Regulatory Framework**
- Improve approval process
- Reduce costs
- Framework for new products

**Transactions Support**
- Active support to issuers and intermediaries for replicable transactions
- Introduce new & innovative products

**Market Infrastructure**
- Market Structure
- Clearing & Settlement
- Transparency & Information Dissemination

**Capacity Building**
- Certification/Licensing
  - Training
  - Develop regional provider

**Regionalization**
- Broadening & deepening efficient capital markets
- Cross border issues
**East Africa - Achievements**

**ACHIEVEMENTS**

- Comprehensive diagnostics and roadmaps completed
- Strong relationships with and buy-in from stakeholders
- Regional Institute and training curriculum
  - Establishment of Institute
  - Development of course material
  - Pilot of courses & training of trainers

**ACHIEVEMENTS**

- Buy-in for OTC market model for bonds
  - Market structure
  - Legal & regulatory framework
- Buy-in for regionalization strategy
  - Legal & Regulatory framework
  - Market Infrastructure
  - Issuers & Investors
- Supported closing of a US$22 million equity linked note in Kenya
- Strong Transactions pipeline  US$ 600 million.
ESMID Africa Pilot - Achievements

**Buy In**
- Strong relationships with and buy-in from stakeholders - reached over 1,000 stakeholders
- Comprehensive diagnostics and roadmaps completed
- Buy-in for full disclosure primary marker framework and OTC Bond Market Structure
- Buy-in for Regionalization Strategy & Roadmap

**Training**
- Developed and piloted regional training program – over 550 participants and 67 trainers trained
- Securities Industry Training Institute (SITI) established by the exchanges with ESMID’s support
- SITI is now rolling out courses across East Africa

**Transactions**
- Support for closing of US$22 million equity linked note in Kenya
- Monitoring and/or supporting pipeline of over US$600 million
- Support to promising issuers in infrastructure, housing and microfinance
- Leveraged US$1.1 million to support upstream transactions work

**Implementation**
- A recognized authority on capital market development, playing a key role in policy dialogue on financial sector reforms
- Collaboration with EAC Secretariat on regional market infrastructure project
- Members Bond Market Steering Committee – Kenya

Partnerships with other programs and close coordination with WB policy work
“ESMID has been very instrumental in coming up with a framework that we can follow in the coming future...” — Pierre Celestin Rwabukumba, Capital Markets Advisory Council of Rwanda, Nov 2008

“We at the NSE support this initiative. We know it will broaden the reach of our members in common competence and standards of dealings in the markets.” — James Wangunyu, Chairman, Nairobi Stock Exchange, Sep 2008

“ESMID has come in and provided a diagnostic on the situation on the ground...it is an independent and objective diagnostic. It is a collaborative process... they have come and brought all stakeholders on...” — Simon Rutega, CEO, Uganda Securities Exchange, Nov 2008

“The [ESMID] project comes at a time when Kenya and other African countries are grappling with the needs of their growing economies and the need to improve infrastructure.” — East African Standard, Sep 2007
THANK YOU