

**HIGHLIGHTS AND ANALYSIS OF CAPITAL MARKETS
ISSUES RAISED IN THE BUDGET SPEECH FOR FISCAL
YEAR 2005/2006 (1ST JULY, 2005 TO 30TH JUNE, 2006)
BY THE HON. MINISTER FOR FINANCE**

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Theme: “Frameworks for the future, laying the building blocks”

I. REFORMS IN THE CAPITAL MARKETS

The Government continued to demonstrate its commitment to the development of the capital markets an alternative window for raising of capital for productive enterprise by proposing four reform measures aimed at increasing the supply and demand of securities in the market by attracting more listings.

The Minister for Finance made the following proposals:

- With the strengthening of the bond market, the Government and large infrastructural corporations will increasingly rely on the domestic but predictable sources of funding to achieve our medium—term development objectives. In the coming months, the Government will encourage parastatals with financing needs backed by good cash flows to issue bonds, as a further step to develop our bond market. He therefore proposed to exempt from income tax interest income earned by investors who buy listed bonds as asset backed securities for purposes of developing the infrastructure.
- The minister noted that in 1995, the Government made the legal costs and other incidental costs relating to the initial public offer of shares, income tax deductible. He therefore proposed to extend this incentive to companies, which list on the securities exchange without raising additional capital (i.e. by introduction), in order to deepen the growth of stock market.
- To help deepen the bond market and provide an avenue to mobilize resources for development of our infrastructure,, he proposed to exempt from income tax interest income accruing from all listed bonds used to raise funds for infrastructure and social services,, provided that the bonds shall have a maturity of at least three years..
- To encourage ownership of enterprise or business jointly between employer and employee in order to not only improve corporate governance butt also to create incentives for productivity among employees.. In order to encourage employers to establish employee share ownership plans ((ESOPS)), he therefore proposed

to introduce legal provisions to determine how the benefits accruing to employees by exercising the option to own shares shall be brought to charge

- It was noted that a number of companies hold huge amounts of unclaimed dividends attributed to various reasons, including change of addresses of the beneficiaries, and closure of bank accounts,, among others.. To ensure that the beneficiaries do not lose their benefits according to the limitation of Actions Act after seven years, the Minister proposed to amend the Capital Markets Act to approve that the dividends that remain unclaimed for more than seven years, be paid to the Capital Markets Investors Compensation Fund where the beneficiary will be able to access or claim if he//she resurfaces.
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II. PRIVATIZATION OF PUBLIC ENTERPRISES

On privatization the Minister observed that acceleration of privatization and restructuring of public enterprises is vital,, for efficient service delivery and strengthening of economic growth.. In this regard, the Government intended to build on the recent highly successful partial divestiture of KENGEN,, which has created unprecedented interest in the capital markets and provided an impetus for further divestitures. Specific privatizations lined up for 2006//07 include:: the restructuring and subsequent privatization off Telkom and National Bank off Kenya (NBK), and further offers for sale of part of government shares in Mumias Sugar Company and Kenya Re, among others.