CBK Newsletter

Keeping you Informed

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BANKI KUU YA KENYA

CENTRAL BANK OF KENYA

PROSPECTUS FOR THE

-OPENING OF TREASURY BOND

30 YEAR

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ISSUE NO. SDB 1/201

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Role of Central Bank in Government Securities

- East African **Payments System** "Goes Live"
- Cheque Clearing Cycle Reduced to **One Day**

CENTRAL BANK OF KENYA

VISION

A World Class Modern Central Bank

PRINCIPAL OBJECTIVES

The Principal objectives of the Central Bank of Kenya (CBK) are:

1. To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
2. To foster the liquidity, solvency and proper functioning of a stable, market- based, financial system;
3. Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth, and employment.

Without prejudice to the generality of the above, the Bank shall:

- Formulate and implement foreign exchange policy;
- Hold and manage its foreign exchange reserves;
- License and supervise authorized foreign exchange dealers;
- Formulate and implement such policies as best to promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
- Act as banker and adviser to, and as fiscal agent of, the Government; and
- Issue currency notes and coins.

In this Issue

CBK NEWSLETTER
Keeping you informed

The Editor welcomes comments and articles from readers and stakeholders.
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Economic Management Tools for Macroeconomic Stability

Monetary and fiscal policies are the main drivers of economic management in any economy. In Kenya, the Central Bank of Kenya (CBK) has a variety of tools with which it implements policy. First, since the core policy mandate of the CBK is price stability, there is a combination of direct and indirect tools to deliver the Central Bank objectives that are consistent with the Government's price stability target and growth objectives. Price stability is a cornerstone for growth and enterprise development. A stable price environment (or low and predictable inflation) allows firms to plan their production and commercial activities with certainty. The current price stability target requires that the 12-month overall inflation rate should be 5 percent with a fluctuating band of 2.5 percent on either side.

Second, given that the effectiveness and efficiency of monetary policy transmission to the real sector is predicated on the level of financial development and stability, the CBK uses its supervisory and regulatory policy with respect to the banking sector to achieve this objective. A developed, strong and vibrant banking sector will support an effective and efficient monetary policy transmission mechanism. Specifically, the CBK uses its licensing and supervision tools, while creating new initiatives as an agent of financial development to ensure that the banking system is solvent and efficient. The adoption of risk-based supervision, in line with international best practice, has also been core to financial sector stability. Continued reforms in the financial sector have seen the sector expand to become more inclusive while maintaining stability, efficiency and integrity. In particular financial inclusion, supported by the mobile phone financial services platforms as well as the agency banking model, are now driving the growth of the banking sector through increased mobilisation of deposits by financial intermediaries, thus increasing access to financial services. The regular interaction between the CBK and commercial banks has also supported the stability of the banking sector as it has provided a platform for obtaining feedback from the sector as well as a forum for moral suasion. The CBK is also working with the Kenya Bankers Association (KBA) on coordinated initiatives to complete ongoing financial infrastructure developments and lower the cost of financial services.

Third, the CBK has been working closely with stakeholders in the financial sector to develop a well functioning and stable National Payments System (NPS). This is critical to the stability of the financial sector and macro economy. Since 2008, the CBK, in conjunction with KBA, has initiated and implemented various programmes to modernise the NPS. These include cheque truncation, value capping, and the GPay Project. These initiatives have mitigated the risks and increased the system's efficiency and effectiveness. The payments system infrastructure has been further expanded to include the East African Payment System (EAPS) that went live on 25th November, 2013. This new system will facilitate trade in the region using local currencies.

Finally, as a fiscal agent of the Government, the CBK contracts domestic debt in the market on behalf of The National Treasury to cover the financing requirements of the Government's budget. Since a well developed financial market is critical to achieving and maintaining stability in the debt market, the CBK has been working closely with The National Treasury and other players in the financial sector to deepen the financial market via the bond market and the development of a yield curve. This has resulted in a notable increase in the average maturity of the government's outstanding securities since 2003, when it was about four years, to stand currently at about eight years. Furthermore, the market is well diversified with benchmark and infrastructure bonds. A key outcome of all these is that the Government's domestic borrowing programme has supported the deepening of the financial sector with a variety of instruments. It has also enhanced monetary policy transmission and the coordination of monetary and fiscal policies.

These drivers of economic management have provided the base for the resilient economic performance witnessed in the country in recent years through sustained macroeconomic stability that presents a strong foundation for future growth.

Prof. Njuguna Ndung'u, CBS

News

Kenya – **ready for take-off!**

A high level conference showcasing Kenya's economic achievements and highlighting the country's future economic potential was held at Fairmont Norfolk Hotel, Nairobi from 17-18th September, 2013. This conference , on "Kenya's Economic Successes, Prospects and Challenges" focused on policy priorities that would enable Kenya achieve sustained and inclusive growth as part of its quest to reach emerging market status over the next decade.

The Conference, was themed 'Kenya - Ready for Take-Off' and was co-hosted by the National Treasury, the Central Bank of Kenya, and the International Monetary Fund and brought together about 200 participants from the Kenyan private sector, the international business community, civil society, the government and international institutions.

"Kenya has a strong economy, which is modern in many aspects, but with even greater potential for expansion. We aim to strengthen and re-balance the economy by building all our strengths in traditional sectors while growing new sectors", his Excellency, Hon. Uhuru Kenyatta told participants as he officially opened the conference.

On her part, the Director of the African Department at the IMF, Ms Antoinette Sayeh in her opening remarks, lauded Kenya on her economic gains over the past few years, particularly coming as they have in a context of global weakness and uncertainty. "Africa is moving forward, and the world is taking note of its dynamism. Kenya is one of the countries where Africa's recent progress is evident and where the opportunities for economic transformation and growth are manifest", she said.

Others who addressed the conference were Cabinet Secretary, National Treasury, Henry Rotich; Cabinet Secretary, Energy and Petroleum, Davis Chirchir; CBK Governor, Prof. Njuguna Ndung'u; Safaricom CEO, Bob Collymore; CBK Deputy Governor, Dr. Haron Sirima; Director, International Mining Centre, Ian Satchwell among others. Mr Rotich noted that Kenya has implemented sound economic reforms that had delivered huge pay-offs. On his part Prof. Ndung'u emphasized the need to match policy transformations and reforms with dynamics of the market.

The conference was embedded on several sub- themes among them "The Private Sector Poised to Lead the Way" in which Kenya's remarkable progress and regional leadership in the ICT sector was acknowledged. The theme on "Harnessing Natural Resources for Growth" underscored the great potential and challenges presented by recent discoveries in natural resources. It was agreed that there is need for Kenya to choose appropriate fiscal regimes for mining and the petroleum sector.

His Excellency, President Uhuru Kenyatta (centre) arrives at the Fairmont Norfolk Hotel, to open the High Level Conference, accompanied by National Treasury Cabinet Secretary, Henry Rotich (left) and Principal Secretary, National Treasury, Dr. Kamau Thugge.

The sub-theme on "Fiscal Priorities to Support Growth" observed that Kenya has successfully managed its public debt in line with international best practices. However, the critical issue will be to ensure that the efficiency of public expenditure was increased and expenditure priorities remain pro-growth and pro-poor.

The sub-theme on "Anchoring a Stable Monetary and Financial Outlook", discussed the monetary policy framework in Kenya which had changed from targets on monetary aggregates to those based on Net Domestic Assets and Net International Reserves as an intermediate step to inflation targeting. It was also acknowledged that the current monetary policy framework had achieved the desired results of maintaining price stability within the Government target band. It was clearly demonstrated that monetary policy in Kenya works. However, it was noted that supply side shocks remain a challenge and necessary measures including enhanced buffers of food are critical, including the need for institutional reforms to ensure a smooth transition towards inflation targeting.

Under the theme "The Financial Sector: Shifting Gears" It was noted that financial innovation has increased inclusion and sustainable poverty reduction. There is need to build on this through consumer protection and financial education as well as expediting the development of Nairobi as an International Financial Centre. There was consensus that Kenya is ready to issue a Sovereign Euro Bond in the international markets but it is important to keep an eye on movements in yields in the international markets and ensure the timing and the size of the issue is right.

In sum, the discussions emphasized that Kenya was a shining example of the continent's market-driven economic dynamism and that it is ready to take off toward a middle income status by the year 2030.

EA Payments System "Goes Live"

Representatives from Burundi, Kenya, Rwanda, Tanzania and Uganda during one of the Technical Sub-committee meetings to prepare for the EAPS Go-Live.

The East African Payment System (EAPS), a project that is part of the East Africa's payments modernization efforts spearheaded by the EAC central bank Governors to enhance cross border payments across the EAC region, went live on 25th November, 2013.

EAPS will enable the public to pay as well as receive payments on real time basis. The implementation of EAPS addresses deficiencies in the current cross-border payment methods, through enhanced efficiency and risk controls. EAPS integrates the partner states' Real Time Gross Settlement Systems to facilitate real time settlement for intra-EAC payments for goods and services in EAC currencies. It is therefore integrated with RTGS systems of Kenya, Uganda and Tanzania that utilize internationally recognized SWIFT messaging network for safe and secure delivery of payment and settlement messages. All the commercial banks in Kenya, Tanzania and Uganda are participants in the systems. Commercial banks in Rwanda and Burundi are expected to join later.

EAPS is an EAC project which integrates the partner states' Real Time Gross Settlement Systems

The launch follows several months of pre-go-live UAT (User Acceptance Tests) in order to ensure that systems were working in the respective countries prior to the go-live. EAPS go-live brings many benefits to the payments ecosystem within the region. These benefits include; real time transfer of funds across the EAC borders; transfer of large value transfers in the region; enhanced safety through use of the SWIFT infrastructure; increased accessibility as it is available in all the commercial banks; same day settlement; increased reliability through integration with RTGS; and improved risk control mechanisms. Transactions can also be carried out in any of the EAC local currencies.

AKCP holds first AGM

The evolution of the Credit Information Sharing (CIS) mechanism is rapidly gaining momentum in Kenya. The number of credit providers sharing information is now expanding from the traditional lenders, mainly banks, to include non-banks and later to introduce utility service providers and telcos. The expansion of this mechanism has resulted in the establishment of the Association of Credit Providers (AKCP).

On 19th November, 2013 AKCP held its first annual general meeting to elect the Governing Council, Executive Committee and Trustees. This meeting brought together the members of AKCP, including Kenya Bankers Association (KBA), the Association of Microfinance Institutions (AMFI), Higher Education Loans Board (HELB), several Development Finance Institutions, the two Unions that represent the SACCO movement (KUSCCO and KERUSSU), two regulators (SASRA and CBK), the two licensed CRBs (Transunion and Metropol),Nairobi Water and Sewerage Company and the two funding agencies (FSD Kenya and USAID FIRM).

In his keynote speech CBK Governor, Prof. Njuguna Ndung'u urged AKCP to focus on observing best practices in Credit Reporting. "Good quality data will guarantee that the risk management tools and models developed from the shared information are robust and reliable", he said.

CBK Governor, Prof. Ndung'u unveiling a plaque for the new AKCP offices at Kenya School of Monetary Studies. With him are Acting CEO, IDB, Timothy Tiampati and CEO, KBA, Habil Olaka.

The interim CEO of AKCP, Jared Getenga expressed appreciation at the high turnout of credit providers to the first AGM, which signals the intention of the credit market to embrace reforms that will enhance market efficiency, stability and access.

AKCP is a non-profit Association whose objective is to promote the growth of CIS under a self-regulatory framework that ensure fair practices in the use of credit information for risk management. The outcome of AKCP's efforts will therefore be seen through a more inclusive financial sector characterized by increased access to credit particularly by market segments that have previously experienced constraints in accessing funding, such as SMEs.

Going forward, AKCP will work towards transforming CIS from merely sharing information on non-performing loans to full-file sharing i.e sharing information on all loans. The current bank-only negative system cannot be used by good borrowers to negotiate better credit terms. Further, the Association will soon set up a dispute resolution mechanism for customer complaint redress and champion other functions such as public awareness, capacity building and research.

Annual Mobile Financial Services Forum

The Central Bank of Kenya in partnership with GSMA (Groupe Speciale Mobile Association) hosted The Mobile Money for the Unbanked (MMU) Leadership Forum from 10th - 11th July, 2013 in Nairobi. The forum is an annual event aimed at promoting dialogue between financial regulators and the mobile telecommunication industry in order to stimulate greater understanding, collaboration as well as provide participants with an environment to forge relationships, expand ideas and foster the growth of mobile money globally. It targets a global audience of GSMA member networks and key players in the mobile financial services (MFS) eco-system.

Mobile Financial Services (MFS) has with time become the leading medium towards digital financial inclusion in Kenya. Cognizant of the great potential and critical role of MFS, the Central Bank of Kenya (CBK) has been at the forefront in embracing the technology and creating an enabling environment for MFS to flourish.

In his opening remarks, the Cabinet Secretary, National Treasury, Mr. Henry Rotich informed participants that the positive progress made by the Kenyan government in implementing solid and sustainable financial sector reforms, coupled with macroeconomic stability and a favourable business and investment environment had created opportunities for the private sector to innovate, pilot ideas and contribute to the country's economic prosperity. "Kenya is in the process of finalizing ideas and commitments for the next five years, in the form of the Medium Term Plan for the Financial Services Sector of our Vision 2030. These reforms seek to solidify access, efficiency, transparency and stability of the financial services sector," he added.

The centre stage of the discussions during the forum was Kenya's journey to digital financial inclusion. CBK senior officials shared their approach and insights on enabling the development of mobile phone money and digital financial services in Kenya and how they simultaneously managed the risks associated with the protection of customer funds, customer due diligence, agent management, and others. They reiterated the need for a strategic coordinated approach between the financial sector authority and the telecommunications regulator to enable providers to offer convenient and safe digital financial products and services.

The two-day forum also had a leadership forum session where matters on policy development for mobile money were discussed. This session, titled 'The Roadmap to Digital Financial Inclusion,' provided participants with the opportunity to engage on technical discussions around different aspects of mobile phone money and the policies that could enable the creation of a digital financial ecosystem.

Outlining the progress of Mobile phone financial services in Kenya, Mr. Rotich informed the group that in 2007, the first service provider was authorized and registered 20,000 subscribers within the first year. This has grown to the current base of over 17 million subscribers. He cited interoperability as a challenge experienced by the various service providers. However, it should not curtail agency network expansion, but should instead support network expansion to enhance financial inclusion, through increasesd reach and reduced

Cognizant of the great potential and critical role of MFS, the Central Bank of Kenya (CBK) has been at the forefront in embracing the technology and creating an enabling environment for MFS to flourish.

costs. He said expansion would also generate employment .

The Governor, Prof. Njuguna Ndung'u told the participants that his vision for Africa is to be cash-lite. "While cash has been viewed as the traditionally appropriate mode of payment, the security, privacy, convenience and lower cost of electronic payments are more desirable. Therefore, a cash-lite economy is critical in unlocking access to financial services for millions of Kenyans, increasing savings and enhancing financial inclusion, economic growth and development," he said. He challenged the participants to aggressively explore new opportunities and enthusiastically support innovations in MFS.

The Governor also emphasized the need to have better regulations for financial services. This would not constrain the market from development but bring down the unit cost of transactions as well as protect the markets and transforming people's lives.

It was the first such meeting to be held in Africa and coincided with the opening of the GSMA Africa office in Nairobi. The forum brought together senior executives from financial services institutions, mobile phone network operators, development organizations and solutions vendors, as well as regulatory and policy makers from across the world.

Governors Promote Monetary and Financial Integration

The East African Community (EAC) Monetary Affairs Committee (MAC) held its 16th Ordinary Meeting at the Common Wealth Speke Resort, Munyonyo in Kampala in May 2013. The meeting was hosted by the Bank of Uganda (BOU) and was attended by Prof. Tumusiime Mutebile, Governor, BOU and the current chair of MAC; Prof. Njuguna Ndungu, Governor, Central Bank of Kenya; Mr. Jean Ciza, Governor National Bank of the republic of Burundi; Mr. John Rwangombwa, Governor , National Bank of Rwanda; and Prof. Benno Ndulu, Governor Bank of Tanzania. The meeting was also attended by Dr. Louis Kasekende, Deputy Governor Bank of Uganda and Mr. Tharcisse Kadede, Director of Planning, EAC Secretariat. Ms. Mary Zephirin from the IMF and Mr. Micheal Fuchs from the World Bank provided updates on national and regional financial sector assessment initiatives in the EAC.

Governors acknowledged the completion of the studies they had commissioned to inform the EAMU negotiation process.

Governors reviewed the status of implementation of previous MAC decisions. The deliberations focused on a range of issues, including; enhancing currency convertibility in the region, progress in implementation of the East African Payment Systems (EAPS), legal and regulatory frameworks particularly with regard to the banking and microfinance sub-sectors, information technology, and building of requisite technical capacity to facilitate effective conduct of monetary policy and support for the East African Monetary Union (EAMU) integration.

Governors acknowledged the completion of the studies they had commissioned to inform the EAMU negotiation process. These studies were forwarded to the High Level Task Force (HLTF) in charge of negotiating the EAMU Protocol. In particular, the studies on "Exchange Rate arrangements in the Transition to the East African Monetary Union " and "Harmonization of Monetary Policy Frameworks in the EAC", contributed to the drafting and negotiation of articles on transitional arrangements,

The deliberations focused on a range of issues, including; **enhancing currency convertibility in the region**

exchange rate arrangements and monetary policy frameworks in the draft EAMU protocol.

Governors underscored the need for 'quick wins' in the areas of East African Payments System (EAPS) and currency convertibility. The EAPS project aims to interlink all the Real Time Gross Settlement Systems in the region to enable efficient processing of cross border transactions , which is essential for boosting intra-regional trade. They undertook to expedite the integration of payment systems by among others actions, identifying initiatives to enhance currency convertibility and thereby facilitate intra-regional trade in the EAC.

In addition, Governors underscored the need to strengthen coordination of macroeconomic policies among the partner states during the transition to EAMU. This is especially important for monetary and exchange rate policies, which will have to become progressively more closely aligned as the EAC economies move towards the implementation of the EAMU. The macro economic convergence criteria to be enshrined in the EAMU Protocol will provide the framework for macroeconomic policy harmonisation.

To tap workers' remittances into the region, EAC central banks have developed a strategy for mobilizing Diaspora resources and addressing the related challenges. The strategy includes a phased approach by facilitating the issuance of Government bonds with a Diaspora component, then eventually facilitating the issuance of explicit Diaspora bonds to the international markets in the medium- to- long term.

Governors also considered the World Bank/IMF EAC Financial Sector Assessment Programme (FSAP) findings related to financial sector stability and underscored the need for strengthening banking efficiency, deepening banking integration, and extending the scope for regional payment integration. The report has recommended deeper engagement with member central banks in three key areas: macro-prudential statistics to help identify and fill the information gaps that currently hinder financial stability analysis; macro-prudential analysis and stress testing to assist in the identification of threats and vulnerabilities and to enhance the stress testing methodologies used by central banks and crisis management to identify the key attributes of a recovery and resolution framework, including deposit insurance arrangements best suited to member countries.

Governors expressed optimism that the EAC region growth prospects remain resilient on the backdrop of strong macroeconomic and structural policies which have been implemented by individual economies in the recent past.

Kenya Government Securities Market and the Role of the Central Bank of Kenya

Government Borrowing

When the annual expenditure of government is more than general revenues, government is spending more than the available resources. In the national budgets, the difference between the general revenues and expenditures is generally referred to as a fiscal deficit. 'Fiscal' denotes activities related to government tax revenues and expenditure. Thus through fiscal operations/activities, government manages to commit to a level of expenditure that is supported by general revenues and borrowing.

Borrowing may be either from domestic (local) economy or from external sources. Government borrowing from domestic market is usually sourced from institutions such as the central bank and the financial markets. External sources of funds include other governments, international banks and financial institutions. The government initiates the domestic borrowing by selling instruments such as bonds and bills, also known as Treasury Securities. A Treasury Bill has a maturity period of less than one year (90 days, 180 days, or 364 days), while a Treasury bond is a security whose maturity is at least one year or more. A sale of a Government Security to a holder binds the Government to pay back the instrument value (principal amount) plus an agreed return (interest) to the buyer/holder of that Security on specified dates.

The main difference between Treasury bonds and Corporate bonds is that Treasury bonds are solely issued by the Government while corporate bonds are issued by private companies. As a result, Treasury bonds are regarded as risk free as they are backed by Government guarantee.

Treasury Securities

Treasury securities are issued for a specified period of time by the Government of Kenya through the Central Bank of Kenya, as a way of borrowing funds to finance government budget deficit (shortfall in the annual government revenue).

A Treasury Bill is a paperless short-term borrowing instrument issued by the Government through the Central Bank of Kenya (as the fiscal agent) to raise money on short term basis – for a period of up to one year. Treasury bills normally have maturity length (tenors) of 91-days, 182-days and 364-days. Treasury bills are sold at a discounted price to reflect investor's expected return and redeemed at face (par) value.

A Treasury Bond on the other hand, is a paperless long term borrowing instrument issued by the Government through the Central Bank of Kenya (as the fiscal agent) to raise money on a longer term basis – at least one year. The current tenors on Kenyan government bonds range from 1-year to 30-year bonds. The common ones have tenors of 2, 5, 10, 15, 20 and even 25 years. In all cases, the coupon (interest) will be paid semi-annually based on the face value of the bond.

Treasury bonds of the tenors indicated above have been referred to as 'Benchmark' Bonds. This means they are issued in high volumes and are commonly traded at the Nairobi Securities Exchange. Other types of Government of Kenya securities include infrastructure bonds and special bonds.

An Infrastructure bond (IFB) is a bond that is issued to finance specified infrastructure projects in different sectors of the economy. The infrastructure bonds programme has been very popular among the investing public with CBK having issued five such bonds since 2009 which were highly oversubscribed. The proceeds were specifically targeted at projects in transport sector, mainly construction of road networks, energy sector mainly generation of geothermal and wind power, and water and irrigation sector involving construction of dams, boreholes and water systems. Interest and discount returns from infrastructure bonds are exempt from taxation for all investors. The incentive package of the IFBs issued so far include an attractive feature of amortization where the life of the bond is structured in a way that short term investors benefit from gains associated with a long term bond investment.

The proceeds from sale of government securities are used for budgetary support in development projects and other expenditures. For some bonds like the Infrastructure bonds, the proceeds are meant for specific projects for instance in roads, water, irrigation and energy sectors of the economy.

The **Role of Central Bank** in issuing Government Securities

The Central Bank of Kenya manages the government's domestic debt through issuance and redemption of Treasury Securities.

Both Treasury Bills and Treasury Bonds are sold by the Central Bank through an auction process on behalf of the National Treasury as provided for in Section 4(A) (1) of the CBK Act Cap 491 which provides that: The Bank shall act as banker and advisor to and as fiscal agent of the Government of Kenya. Further, the provisions of the Internal Loans Act (CAP 420) appointed the Central Bank as an agent of the government. The Central Bank maintains the Domestic Debt Register, issues and redeems government securities on maturity and pays interest on those securities. This is referred to as Domestic Debt management, and constitutes the fiscal agency role of the Central Bank.

Government bonds were first issued in 1985 but it was not until 2001 that the Government bonds programme peaked following a Government policy to restructure domestic debt portfolio from short-term debt (Treasury bills) to Medium & long term debt (Treasury bonds). Since then, the government bond programme has witnessed tremendous growth in the recent past with key milestones being the introduction of the bench mark bond programme in 2007, the introduction of Infrastructure Bonds and adoption of the Automated Trading System (ATS) in 2009. Currently there are more outstanding Treasury bonds than the volume of the Treasury bills.

Proceeds from Bond issuance are used for construction of infrastructure such as roads

INVESTING IN GOVERNMENT SECURITIES

Interested investors can invest in government securities by bidding for the amount of securities and interest rates they prefer. These bids are evaluated and those who bid their amount at reasonable or acceptable interest rates succeed in purchasing the securities.

To invest in Treasury Bills/Bonds, one must open a CBK Central Depository System (CDS) Account. A CBK CDS account is an account for investors holding government securities only. Note that this is a different CDS account from that operated at the Central Depository and Settlement Corporation by investors for trading shares and corporate bonds. The CBK CDS account can be opened at the CBK headquarters, any of its branches, currency centres or through any of the appointed agent banks (National Bank of Kenya, Post Bank, Kenya Commercial Bank, Cooperative Bank or Equity Bank). Investors can open CBK CDS accounts as individuals, joint individuals and institutions (corporates, registered societies etc.). There are different requirements for opening CBK CDS accounts for these different categories. Opening and maintaining a CBK CDS account is free of charge.

Investors can also participate in buying government securities through approved (authorised) financial institutions comprising of commercial banks, investment banks and stock brokers, which will open a CBK CDS nominee (client) account on their behalf. Non-residents and foreigners can invest in Treasury Bills/Bonds either through these authorised agents or directly at the Central Bank. However, foreigners must operate a local commercial bank account.

Resident or non-resident individuals, institutional or corporate bodies must hold an account with a Kenyan commercial bank. Non-residents can invest in government securities as a nominee through commercial bank, stock broker or investment bank in Kenya. Equally, investors, individuals, institutional or corporate bodies who may not have an account with a local commercial bank can participate in securities auction by opening nominees CDS accounts through Kenyan commercial banks, investment banks or financial advisers licensed by the Capital Markets Authority.

Tax on Returns

Returns on long term bonds with a maturity of 10-years and above are subject to a 10% withholding tax as opposed to 15% withholding tax for bonds with a maturity of less than 10-years.

The Auction System

Advertisements for securities on offer are made in the print media and at www.centralbank.go.ke. Auctions for Treasury bills of 91-days and 182-days are issued on weekly basis; while the 364-day Treasury bill is auctioned twice monthly. Treasury bonds are issued once every month.

To participate in these auctions, investors should correctly and completely fill the respective application forms for Treasury bills and bonds. Application forms are available at http://www.centralbank.go.ke/securities/ApplicationForms.

aspx.

Treasury securities are issued through multi-price auctions where investors bid either competitively by quoting a specific price/yield on their investment; or non-competitively by quoting 'average price' subject to a limit of Ksh. 20 million. Non-competitive bids are accepted at the average price/yield of the successful competitive bids for the auction.

Interested investors quote their desired yield/rate of return and amount of investment (the minimum acceptable value is Ksh 50,000 for bonds and Ksh.100,000 for Treasury bills). Any additional amount above the minimum investment MUST be in multiples of Ksh 50,000. Competitive bidders may be successful or rejected at the auction depending on the level of their bid price or bid yield unlike the non-competitive pool which is always successful.

At the time of bidding, it is difficult to tell upfront what the interest rate will be in any auction. Investors may increase the chances of success of their competitive bids in an auction by closely monitoring trends of the relevant interest rates including those of previous auctions of similar instruments and related products, prevailing market conditions and other events in the market, or making use of information from investment advisors. If an investor does not wish to risk rejection of his/her bid at the auction, he/she may put in a non-competitive bid subject to a maximum of Ksh. 20 million per bid per CDS account, in a particular auction. For a non-competitive bid, an investor agrees to purchase securities at the average interest rate or price of the successful competitive bids at that particular auction and therefore does not have to specify a particular interest rate (or price) bid. The average interest rate or price is determined as the weighted average of the successful competitive bids. The Auction Committee accepts all non-competitive bids at that average interest rate. This way the investor is guaranteed success in investing his/her entire bid amount applied for, subject to a maximum of Ksh.20 million per CDS account in any particular auction.

After the deadline for submission of bids, auctions are conducted and general results published in the print media and on the Central Bank website. Investors may also call the Central Bank to receive their individual auction results. Payment for successful bids must be done by the payments deadline (value date); usually the following Monday after the auction date.

Trading in Treasury Bill or Bonds

Investors who do not wish to hold their securities to the maturity date can sell their Treasury Bills or Bonds before maturity date. Currently, only Treasury Bonds can be traded at the Nairobi Securities Exchange (NSE). Treasury bills are not tradable at the NSE but the 364-day Treasury bill may be traded Over-The-Counter (OTC), that is, between two parties. An investor

ADVANTAGES OF INVESTING IN GOVERNMENT SECURITIES

Government securities present a risk free investment opportunity with guaranteed returns. All Kenyan Treasury and infrastructure bonds have a fixed interest rate (coupon) payable semi-annually. Investors in government bonds earn a guaranteed annual fixed interest paid semi-annually on the face value of the amount invested.

Treasury bonds can also be traded at the Nairobi Securities Exchange (NSE) thereby offering investors a chance of liquidating the investment before maturity and also possible capital gains. Alternatively, an investor may get back his/her money by rediscounting (selling at a discount) at the Central Bank, subject to a higher punitive discounting factor, meaning they would receive less money than the prevailing market value.

Additionally, investors can pledge Treasury bills and bonds and infrastructure bonds as collateral (or for lien creation) against credit facilities such as loans. Withholding tax of 15% applies to discount incomes earned from Treasury bills as well as interest and discount incomes from Treasury bonds of maturity up to 9 years at issue. Withholding tax on discount and interest incomes earned from bonds with tenors of 10 years or more at issue is 10%.

Government securities offer an opportunity to investors to play a role in national development as the proceeds of these securities are channelled towards development projects in the country.

can sell his/her Treasury bond to other parties through licensed stock brokers at the Nairobi Securities Exchange (NSE).

To trade in bonds, a holder simply walks into his/her stockbroker or investment bank's offices and instructs the brokers to place a sell or buy order for the bond. The dealer at the broker's offices will, after the necessary paper work, place the order on the Automated Trading System where matching will be done with a prospective buyer/seller. Once the matching has occurred, the bond will be moved from the seller's CDS account to the buyer's CDS account and at the same time funds will be moved from the buyer's account to the seller's account, in a process referred to as Delivery versus Payment.

Government Securities Yield Curve

A yield curve is simply a relationship between the yields (interest rates) or prices of treasury securities against the time remaining to maturity of those securities. It is basically a graphic representation of the prevailing price (or interest rate) of different maturities of bonds. The most recent prices of the 2 year, 5 year, 10 year, 15 year, 20 year, 25 year and 30 year bonds are used to construct the market yield curve for government securities in Kenya.

Under normal circumstances, the shape of the yield curve is such that it trends upwards gradually from left to right, meaning that the interest rates are lower on bonds with shorter maturity and higher on bonds with longer maturity. The longer the tenor of a bond, say 20 years, the higher the interest rate and vice versa. This might indicate that investors are uncertain about the future economic situation of the country and would rather buy bonds that mature in the near future rather than those that will mature much later. By looking at a yield curve, an investor has an idea of the yields (interest rate or rate of return) offered by instruments (financial investments) whose contract time or time to maturity is represented on the yield curve.

A yield curve is useful in providing a basis for pricing of corporate (private sector) securities of similar or related characteristics (features). It is also used to understand conditions in the financial markets with an aim to seeking trading opportunities, be able to calculate expected income/returns on bonds and acting as an indicator for the direction that interest rates and inflation will take. For the government (issuers), the yield curve acts as a benchmark for pricing other financial instruments in the market as well as predicting the yield/prices of future government Treasury bond issuances.

Pricing of Government Securities

Treasury bonds are sold either at Face Value, Discount or at a Premium. When sold at par, it means the investor will pay Ksh.100 for every Ksh.100 bond value. If the investor quotes an interest rate (yield) that is higher than the fixed coupon i.e. 12%, the price will be at a discount corresponding to the level of yield i.e. below Ksh.100 for every Ksh.100 worth of the bond. However, if the quoted interest rate (yield) is lower than the fixed coupon, then the investor will pay at a premium price i.e. more than Ksh. 100 for every Ksh.100 worth of the bond.

Bonds have more than one type of return, that is, they can have a discounted return at purchase from Central Bank, a fixed return (coupon income) throughout its life and can also be sold at the NSE at any time before maturity, earning a capital gain. The increase or decrease of the price of a bond is dependent on the prevailing market interest rate and on the forces of demand and supply. The price of a bond is determined by the time remaining to maturity or coupon rate and quoted yield.

Usually, when the quoted yield is higher than the coupon rate, the resulting bond price is lower than the par value of the unit of the bond (i.e. Ksh.100).

Currently, there are more outstanding Treasury bonds than the volume of Treasury bills.

With the Introduction of the Automated Trading System (ATS) in 2009, the settlement cycle has been reduced to T+3 (transaction day plus 3 days). As a result of these initiatives, the Treasury bonds market has seen the annual secondary trading turnover increase from Ksh. 14 billion in 2001 to more than Ksh. 523 billion in 2012.

Role of the Market Leaders Forum

The Market Leaders Forum (MLF) comprises the representatives from various financial sector stakeholder institutions such as: Commercial Banks represented through Kenya Bankers Association (KBA); Association of Kenya Insurers (AKI); Kenya Association of Stockbrokers and Investment Bankers(KASIB) – Investment Bank or Stockbroker; Fund Managers Association (FMA); Ministry of Finance; Capital Markets Authority (CMA); Nairobi Securities Exchange (NSE); Retirement Benefits Authority (RBA); Central Depository and Settlement Corporation (CDSC); Investment Secretary; Insurance Regulatory Authority (IRA); Association of Micro Finance Institutions (AMFI); Central Bank (Directors from Financial Markets, Research, Banking and MPC Member); Individual Membership.

The role of the MLF is to advise the Central Bank of Kenya on government domestic debt market developments with a view to developing a vibrant domestic bond market. This role of MLF is purely advisory and meetings shall be deemed to be consultative so that decisions made during the meetings shall not be binding on the National Treasury and Central Bank of Kenya. The Central Bank, however, takes into account recommendations made by the Forum in making decisions on policy and other issues relating to the Financial Markets, and more specifically Government Securities Market.

Other specific pursuits of the MLF are:

- Advice on issuance of Government Securities.
- Issues relating to trading of Government Securities in the secondary market.
- Development of efficient financial markets through dissemination of market information.
- Peer influence among stakeholders on policy reforms in their sectors.
- Promote development and harmonization of financial markets and practices in the region.
- Assist in marketing of Government securities and investor education.
- Promote deepening of money and capital markets and efficient functioning of the financial markets.

The government bond programme has benefited a lot from the collaborative efforts of the Central Bank, the MLF, and other financial sector regulators and has witnessed tremendous growth in the recent past. Key milestones include the introduction of the bench mark bond programme in 2007, the introduction of Infrastructure Bonds and adoption of the Automated Trading System (ATS) in November 2009.

Gallery

from the gallery

Their Excellencies, President Uhuru Kenyatta and President Yoweri Museveni (Uganda) acknowledges greetings from Director, Governors' Office, Kennedy Abuga when they visited the CBK Stand at this year's Mombasa International ASK Show.

Launch ceremony of the Association of Kenya Credit Providers (AKCP), from right to left: Prof. Njuguna Ndung'u - Governor CBK, Habil Olaka - Chief Executive Officer KBA, Jeremy Ngunze - Deputy Chair KBA, Mark Rostal - Chief of Party USAID FIRM, David Ferrand - Director Financial Sector Deepening Trust, and Jared Getenga - Interim CEO AKCP.

L-R:
Director African Department, IMF, Ms. Antoinette Sayeh, CBK Deputy Governor, Dr. Haron Sirima and Principal Secretary, National Treasury, Dr. Kamau Thugge share a light moment during the High Level Conference on Kenya's economic successes, prospects and challenges at the Fairmont Norfolk Hotel.

L-R:
Research Manager KNBS, Paul Samoei, FSD Director, David Ferrand and the Governor release the FinAccess Report 2013during the launch.

His Excellency Hon. Uhuru Kenyatta signs vistors book at the Kenya School of Monetary Studies, before officially opening the National Leadership & Integrity Conference where he asserted his committment to fighting corruption.

Financial Sector Regulators namely, CMA, CBK, IRA, RBA and SASRA donate reading materials to Maweni Mixed Secondary School as part CSR.

Relationship between Monetary Policy and the Fiscal Agency Role of the Central Bank of Kenya

The main objective of the Central Bank of Kenya (CBK) is to formulate and implement monetary policy aimed at achieving and maintaining price stability. The CBK conducts monetary policy with the aim of sustaining overall inflation at the Government's medium-term target that is currently 5 percent. Furthermore, monetary policy is designed to support the Government's desired growth in the production of goods and services and employment creation through achieving and maintaining low and stable inflation.

The Central Bank is also the banker, adviser and fiscal agent of the Government. As the Government's fiscal agent, the Central Bank issues and manages domestic debt on the Government's behalf. The question is how the Bank balances its price stability objective with the fiscal agency role . This article seeks to clarify how it plays these roles.

First, the difference between monetary and fiscal policies and their objectives. Monetary policy refers to a set of actions undertaken by the monetary authority (Central Bank) to influence the supply and cost of money. Through monetary policy, interest rates are tied to the amount of money supplied and hence the cost and availability of credit. In this way, monetary policy influences inflation, exchange rates, and economic growth in a country. The main instruments of monetary policy used by the CBK are Open Market Operations, reserve requirements, foreign exchange operations, and standing facilities through the lender of last resort "Window" to commercial banks. In addition, the magnitude and direction of movements in the Central Bank Rate (CBR), which is the policy rate determined and announced by the Monetary Policy Committee, is used to signal the CBK's monetary policy stance. On the other hand, fiscal policy is undertaken by the National Treasury (Ministry of Finance) and involves use of public expenditure and taxes to manage or stabilise the economy.

Fiscal policy relates to Government services and investments in key sectors of the economy including infrastructure, health and education. Public expenditure is funded mainly through taxation. However, borrowing from domestic and/or external sources, sale of public assets through privatisation, overdrafts in banks, or use of fiscal reserves could be required to fund any deficit which may occur. Both monetary and fiscal policies are therefore important in a country's economic management.

Fiscal policy is formulated and implemented through the annual Budget Statement which outlines how the Government intends to finance its planned expenditures to attain its policy objectives for the year. The annual Budget is formulated within the framework of the Government's development plan – Kenya Vision 2030 – which outlines the required policy and institutional reforms, economic growth targets, and timelines for the country to attain a middle-income economy status. The Budget is also formulated within a fiscal framework which ensures consistency between fiscal and monetary policy objectives. In this regard, the domestic borrowing target set in the Budget is consistent with the economic growth and inflation targets for the year.

CBK Fiscal Agency Role

Government domestic borrowing is mainly undertaken through sale of Treasury bills and bonds in the market. Using the domestic borrowing target, the CBK develops and implements a domestic borrowing plan which ensures Government's cash flow requirements and also that interest rates on Government securities remain stable.

In this way, private sector borrowing from banks will not be crowded-out by Government borrowing. The Medium-Term Debt Management Strategy of the Government ensures that the risks associated with public debt, including domestic debt, remain low. This is supported by a diverse investor base comprising of institutional investors such as pension funds and insurance companies, banks and other non-bank investors. The average maturity of domestic debt has also been lengthened over the years through issuance of longer dated Treasury bonds.

Through monetary policy, interest rates are tied to the amount of money supplied and hence the cost and availability of credit.

The CBK Act provides for a limited overdraft facility by the Bank for the Government during periods of mismatches between receipts from budgeted revenues and its payments. Given the adverse implications of excessive use of this form of domestic borrowing, the CBK charges the Government an interest rate equivalent to the CBR. Financing of the deficit through the overdraft at CBK is what is conventionally referred to as "printing money". Since monetisation of the budget deficit can cause or increase inflation, the CBK Act stipulates a cap on the total advances which the CBK can allow the Government at any time through the overdraft facility. The cap currently stands at 5 percent of the total ordinary revenue as published in the Appropriation Accounts for the most recent year that have been audited by the Auditor-General. This measure ensures that the Government does not default on its scheduled payments due to temporary revenue shortfalls whilst ensuring that domestic borrowing does not cause macroeconomic instability.

Monetary and fiscal policies play complementary roles in ensuring sound economic management for any country. The existing close cooperation between the CBK and National Treasury is therefore necessary to ensure that both fiscal and monetary policies continue to play their respective roles while ensuring macroeconomic stability.

Sovereign Bond Issuance

The African continent has long been neglected by global financial markets, largely due to perceived political risk, and weak economic performance. However, during the past decade, Africa has made good progress in improving political and economic governance. Africa now boasts positive economic growth, low debt ratios, abundant natural and human resources, among others. These factors have led to a reassessment of Africa by global investors and opinion-makers in an environment characterized by uncertainty.

Buoyed by this improved outlook, In budget for 2013/14, the Cabinet Secretary for the National Treasury, Mr. Henry Rotich, announced plans to issue a Sovereign bond, to raise about US$ 1.5 Million to pay off maturing obligations as well as provide financing for key Infrastructure projects. This makes Kenya's bond the largest ever debut offering in Sub-Saharan Africa, beating the US$1bn issues by Nigeria and Gabon. Other sovereign issuers, of smaller amounts, include Senegal, Ghana, Rwanda and Zambia.

What is a Sovereign Bond?

A 'Sovereign Bond' also referred to as a 'Eurobond' is a debt instrument issued in International markets that is denominated in a currency different from that of the country issuing it. The bond is issued under foreign law for instance, under New York, English, or Luxembourg law that applies to any matters related to the bond. This is meant to protect investors by ensuring that the issuing government cannot, for example, without legal consequences, forcibly restructure the bond or change the bond contract without the consent of the investors.

Advantages of a Sovereign Bond

As with other forms of external borrowing, the sovereign bond is expected to complement domestic savings by reducing the risk of crowding out domestic private sector borrowers in the domestic market. This will support domestic investment and growth, and help develop the local capital market.

Second, raising financing in international capital markets will reduce Government reliance on external commercial loans and official financing, often associated with conditionality.

Third, issuing a sovereign bond can act as an incentive for maintaining macroeconomic discipline. It also increases transparency in economic management. The offering memorandum of a sovereign bond issue (prospectus) requires disclosure of a substantial amount of data, allowing investors a close look at the current economic situation of the issuing country. This provides a better assessment of the country's prospects for successfully meeting its debt service payments.

Fourth, external issuance may also improve the risk profile of goverment dept and help

CBK Fiscal Agency Role

corporate issuers and parastatals to access external markets. By issuing abroad, a government may also establish an interest rate benchmark, against which corporate issues can be priced.

In essence, the successful issuance of Kenya's sovereign bond will give a signal of approval of current and planned economic policies, and may help maintain a steady momentum in maintaining prudent macroeconomic policies. It also encourages prudence when carrying out critical structural reforms because markets will subject issuing governments to close scrutiny and monitor economic developments on a regular basis.

Over the past decade Kenya has built a record of good economic performance, maintaining a positive medium-term outlook. It has maintained robust growth, kept inflation under control, and ensured that the external current account deficit is financed without any difficulty. Kenya has also adopted prudent fiscal stances and serviced existing public debt without any difficulty. It has made progress in data dissemination, transparency in the conduct of macroeconomic policies, and in carrying out structural reforms. Lastly, Kenya now has a constitutional dispensation that is supportive of the pursuit of appropriate economic policies following the passage of the new constitution in 2010. These are some of the key requirements considered necessary to attract investors. This therefore gives the Government confidence that the Sovereign bond issuance will be a success.

Geothermal project: Sovereign bond proceeds will be used to pay off maturing obligations as well as provide financing for key Infrastructure projects.

Regional Credit Information Sharing Conference

The 2nd Regional Credit Information Sharing (CIS) Conference was held in Nairobi on 24th September 2013 at the Hilton Hotel. The Conference brought together local and international experts to share experiences on credit information sharing and to take stock of developments in other credit markets across Africa.
Credit information sharing has gained prominence in the last few years, thanks to the experiences of the late 1980s and 1990s, which saw Kenya witness unprecedented high levels of non-performing loans (NPLs) leading to the collapse of several banks and loss of money from depositors. It is in light of this crisis that the Central Bank, as regulator of the banking system, together with Kenya Bankers Association (KBA) came up with the credit information sharing framework.

Participants noted the potential inherent in credit information sharing mechanism to unlock affordable credit and growth of the industry due to the confidence it would eventually bolster with shared information. The conference was officially opened by Professor Njuguna Ndungu, Governor of the Central Bank of Kenya. In his address, the Governor underscored the importance of CIS mechanisms as fundamental to the delivery of a more enriched form of information capital that would lead to cheaper credit for all. It would also open doors for credit acquisition and credit rating. Professor Ndungu also emphasized the need to set up sound dispute resolution mechanisms in order to build stronger relationships and put in place KYC mechanisms.

Positive credit history enables borrowers to build information capital, which addresses one of the main barriers to accessing credit by individuals and Small Micro Enterprises (SMEs), lack of physical collateral. This being an information and knowledge era, credit providers should be more willing to accept information collateral in place of or as a complement to physical collateral. This presents an opportunity for individuals and SMEs to access capital to translate their ideas to viable economic activities. As a result, credit information sharing contributes to the on-going efforts of increasing the level of the populace which utilises formal financial services. Further, borrowers with positive credit history are able to negotiate for better credit terms such as longer repayment periods, lower bank charges and interest rates.

CBK Governor, Prof. Njuguna Ndungu (second right) poses with participants who attended the Regional Credit Information Sharing Conference, at the Hilton Hotel.

Credit information sharing will curtail the undesired culture of serial credit defaulting. This will be possible once most of the credit providers are roped into the CIS mechanism. In this regard, the CIS mechanism inculcates a culture of financial discipline on the part of the borrowing public. Once the public know that their credit history is being collated for reference in their future requests for credit, they are naturally expected to embrace good financial management practices to avoid over indebtedness and the resultant defaulting of credits.

As the efforts towards a comprehensive legal framework for the credit market are on-going, most of the non-banking sector credit players have already entered into arrangements with the licensed credit reference bureaus (CRBs) to submit their credit information. This enriches the CRBs databases and credit providers do not have any reason to continue levying high risk premiums.

Regulators and credit providers have undertaken financial education initiatives to enlighten the public on the benefits of credit information sharing. With the sharing of positive and negative credit information expected to be actualised by end of 2013, it is envisaged that credit providers will soon enjoy the resultant risk management benefits by easing credit terms and conditions.

ISO Standards for Financial Services

The Central Bank has secured expert nomination and participation in the International Standards Organization (ISO) Subcommittees on financial services, one of only two African countries serving as a participating member of the International Standards Organization (ISO) Technical Committee (TC) No 68. The other member is South Africa. The technical committee is tasked with developing and maintaining international standards covering the areas of banking, securities, and other financial services.

This places Kenya in a good position to influence the global standards setting process. The Central Bank has previously led the Kenyan delegation to financial services related ISO standards annual meetings; in the USA (2008), Japan (2010) and more recently, Guangzhou, China (May 2013).

Kenya has also participated in the development and/or adopted the following Standards among others; Switching Systems Messaging Protocols, Banking Information Security Guidelines, Codes for the Representation of Currencies and Funds, Numbering of Securities, and Legal Entity Identifier among others. Recognizing that much of business is currently conducted via messaging, Kenya is also keen on the evolution and development of financial messaging and mobile financial services family of standards.

Benefits of ISO Standards for Financial Services.

Standards make an enormous contribution to the Financial Services industry. It provides guidance on fundamental attributes of payment instruments such as the size of a paper cheque, protocols for messaging, electronic security systems, and paperless contracts to name but just a few. These allow interoperability and straight through processing to take place. International Standards also bring technological, economic and societal benefits. Standards aid in harmonizing technical specifications of products and services, making industry more efficient and breaking down barriers to international trade. Conformity to International Standards helps reassure consumers that products are safe, efficient and good for the environment.
Standards development and participation allow companies to be on the cutting-edge of technology and technological developments. Participation in Standard development enhances the universality of and global competitiveness of businesses. Organizations therefore need to include "Standards Participation" as a part of its strategic goals and to devote appropriate resources to their Standards participation. Being part of ISO TC 68 family will also provide Kenya the opportunity to influence standards developments and create new standards that benefit the country in addition to gaining competitive advantages in understanding new ideas, technologies and implementation guidance long before the competition. It will also enable establishment of valuable relationships and exchange ideas among peers in a particular technical discipline.

The adoption of ISO standards provides local companies with regional and global interests, the benefit of dealing with known processes and technical directives. This provides a strategic advantage to businesses in the financial services arena who might otherwise be dealing with unproven technology developed elsewhere.
As Technical Standards become more essential in the financial services industry, more standardization will be required to meet future business challenges and opportunities.
For TC 68 members, participation in the domestic development of Standards also provides the critical access to International Standards Development through Kenya Bureau of Standards, which is the official Secretariat of National Mirror Committee of ISO TC68.

Cheque Clearing Cycle **Reduced to One Day**

The duration of clearing of cheques reduced from two days to one, effectively allowing customers to access their funds a day earlier than before. The development, announced in August, 2013, marks the final phase of the Cheque Truncation System project.

"Today marks another important milestone in the enhancement of the Cheque Clearing Process in the Automated Clearing House", said Central Bank Governor, Prof. Njuguna Ndung'u. The achievement of the one day clearing cycle is a major milestone in the collaborative efforts of the Central Bank and KBA in facilitating and supporting the modernization of the National Payment System in the country.

CBK Governor, Prof. Njuguna Ndung'u (right) with the KBA chairman, Mr. jeremy Awori during a press conference to annouce the reduction of the cheque clearing cycle .

> **"Today marks another important milestone in the enhancement of the Cheque Clearing Process in the Automated Clearing House"**

The payments modernization process started in 1998 with the automation of the Clearing House, through the introduction of the Magnetic Ink Character Recognition (MICR) technology and the Electronic Funds Transfer (EFT) payments. These initiatives resulted in the reduction of clearing time from fourteen (14) days to the current two (2) days. In 2008, the Central Bank of Kenya in conjunction with Kenya Bankers Association (KBA), initiated the modernization of the cheque clearing payments system, which was aimed at mitigating various risks as well as enhancing efficiency, with three key deliverables two of which are the Cheque Truncation system and the Reduction of Cheque clearing cycle to T+2.

The modernization of the payments and settlements systems has contributed tremendously to the significant reduction in cheque-related frauds as well as increasing the efficiency of cheque payments. This in turn has resulted in the country's payment system attaining international standards therefore ensuring that Kenya becomes a financial hub in the region as well as the preferred investment destination.

OPPORTUNITY TO INVEST IN GOVERNMENT BONDS AND BILLS

Did you know you could save and invest in secure high return Kenya Government Bonds and Treasury Bills?

WHO CAN INVEST?

Any individual,corporate body,groups and non-Kenyans can invest in Government securities by opening a Central Depository System (CDS) Account (for Free) with the Central Bank of Kenya directly or through your commercial bank.

STEPS IN OPENING A CDS ACCOUNT

1. Visit the nearest office of the Central Bank of Kenya (Nairobi,Mombasa, Eldoret, Kisumu, Nakuru, Nyeri or Meru) or Kenya Commercial Bank, Equity Bank, National Bank, Cooperative Bank and Kenya Post Office Savings Bank and obtain a CDS opening /mandate card and fill out your details. Note: CDS account application cards for individual and corporate applicants are different.
2. Attach a recently taken coloured passport size photograph and a copy of your National Identity Card(ID) or Passport.
3. Take the filled CDS mandate card to your commercial bank for certification.
4. Your bank will certify your particulars in the completed CDS mandate card by way of appending the bank's stamp and signature of two of their authorized signatories on the space provided.
5. Corporates are required to affix a company seal on the mandate card.
6. Send the filled up mandate card and attachments to the issuing office.
7. Once the CDS account is opened in your name,you will be notified of the CDS account number via the address you have provided on the CDS mandate card. A formal notification letter will also follow.
8. Once you have been allocated and notified of your CDS account number,you can apply(bid)for the Amount of Treasury Bond or Treasury bills you wish to invest in.

GUIDELINES FOR APPLICATION(BID)FOR BONDS AND BILLS

1. Obtain application forms for bonds/bills from any of the Central Bank of Kenya's office in Nairobi, Mombasa, Eldoret, Kisumu, Nakuru, Nyeri or Meru or Download the form from the CBK website:http://www.centralbank.go.ke/securities/ApplicationForms.aspx
2. Fill out the following
   - Bond/Bill Issue Number.
   - Duration/Tenure as provided for in the respective prospectus/advert.
   - Value date .
   - Total face value-Amount you wish to invest(Kenya Shillings).
   - Interest Rate-This is the investor's desired yield.
   - Your details-as per the CDS mandate card.
3. The minimum investible amount in Treasury Bills is Ksh.100,000.00 and 50,000.00 for Treasury bonds.
4. Sign the application form and submit to any CBK office or financial institution specified in 1 above
5. NB.Do not make payments for the Treasury bills and bonds until you confirm with the central Bank of Kenya of the exact amount you will need to pay.

For further information call Central Bank of Kenya (National Debt Office)on:
2863600 or email ndo@centralbank.go.ke

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CBKNewsletter

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