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Collective Investment Schemes – Kenya case study



fsdafrica



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Content



About FSD Africa

Overview of the fund industry globally and in SSA

Collective investment schemes in Kenya – challenges and opportunities

What can we learn?

About FSD Africa

About us

We work to reduce poverty by strengthening Africa's financial markets.

Established in 2012 and supported by UK aid, FSD Africa is a specialist development agency working to build and strengthen financial markets across sub-Saharan Africa



Our vision

We believe healthy financial markets are the foundation of a fair and thriving economy

We know that healthy financial markets build the foundations for a thriving economy, where funding for basic services is assured, where businesses are able to grow and create jobs, and where people have the freedom to manage their own lives.

We believe that a financial system that is accessible, stable and transparent, can also help to create the conditions for a fair and sustainable future.



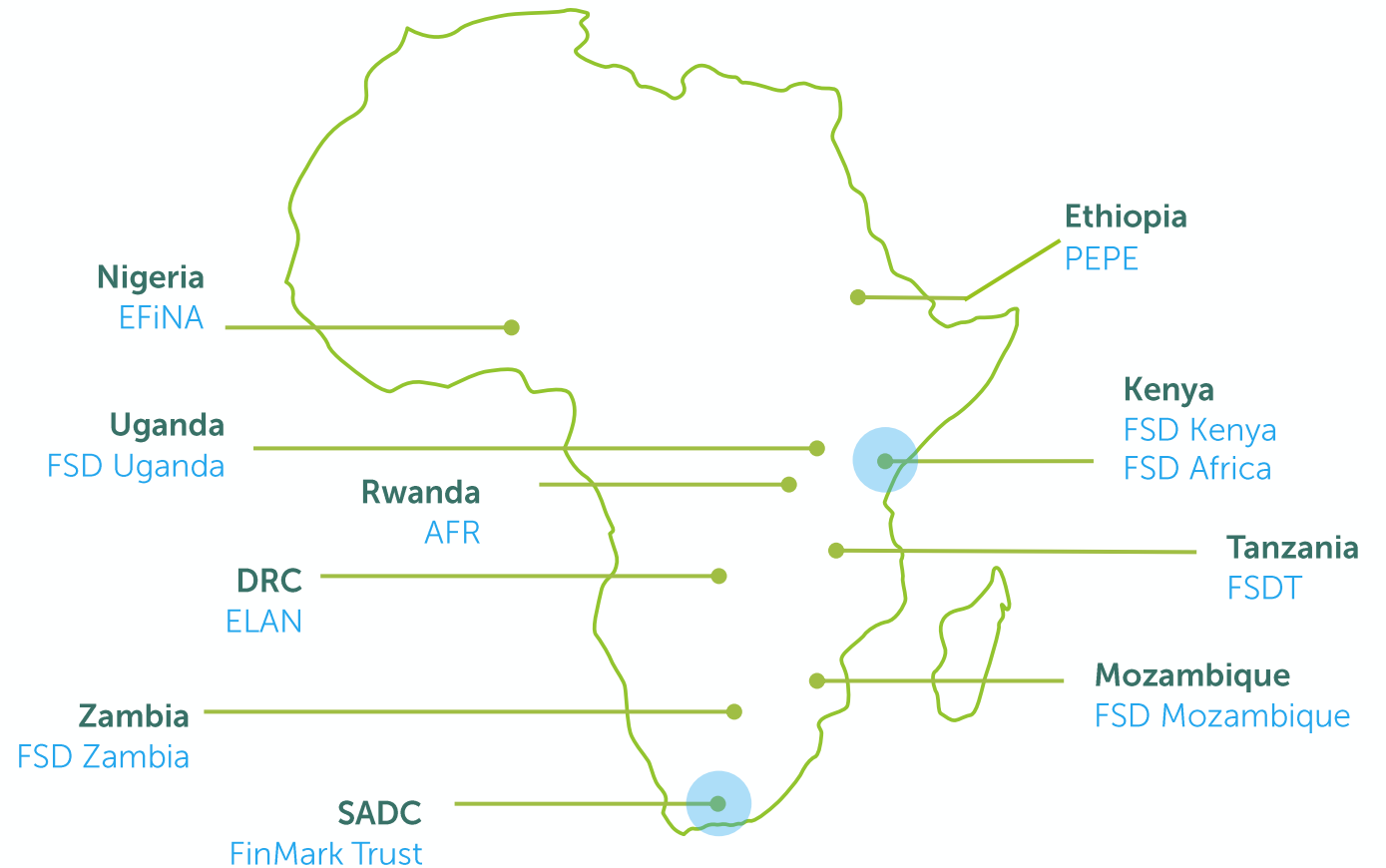
FSD Network

150 + staff members

£50m + investments

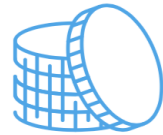
on high potential financial sector development programmes across a number of sectors and themes.

FSD Africa is part of a family of 'financial sector deepening' programmes across sub-Saharan Africa.



Our tools and approaches

“FSD Africa is different because we are an African, neutral, nimble, risk-bearing, hands-on delivery partner”



Delivery tools

Grants: With no expectation of a financial return, grants are reserved for higher risk projects with potential for system-wide impact.

Returnable grants: Returnable grants are an effective way to share risk with our commercial partners and support high-risk projects.

Investment capital: We finance high risk venture operating in the financial sector that have potential for high impact in financing the real economy, and bringing about systemic financial market change.

Technical assistance: We manage technical assistance programmes end-to-end, from intervention design, to procurement and implementation.



Delivery approaches

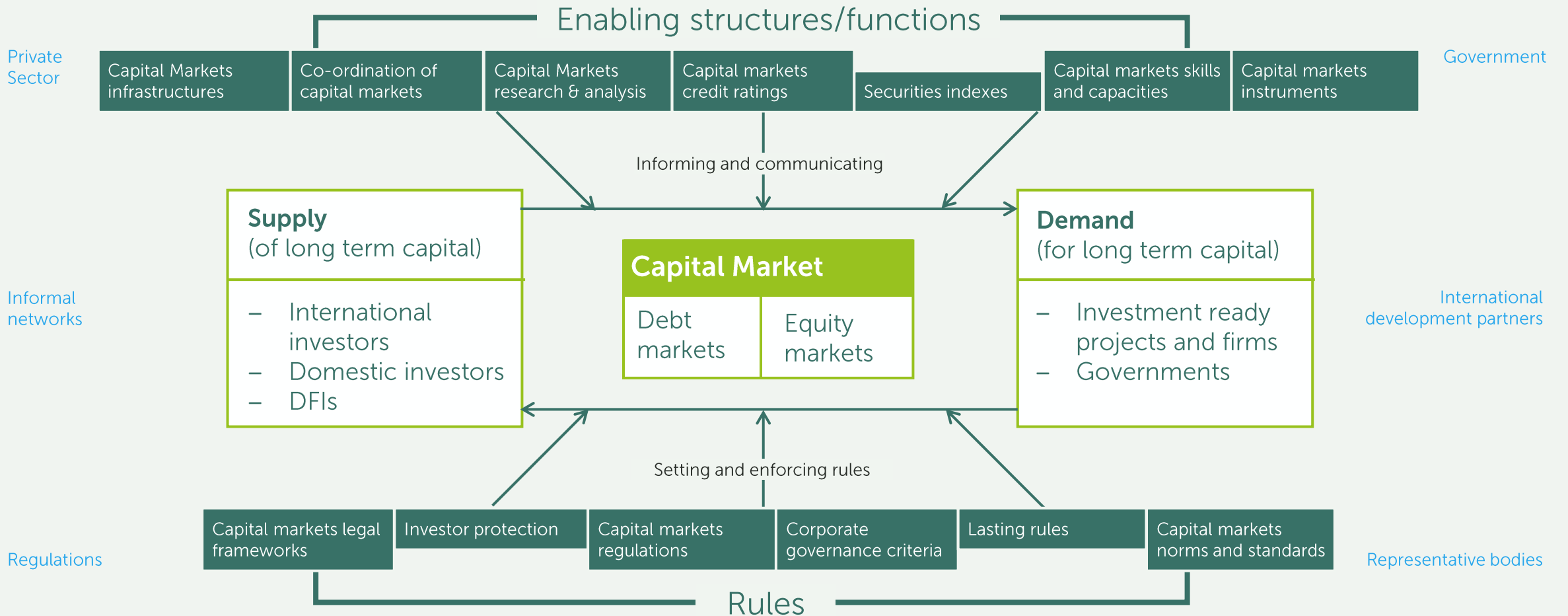
Policy, regulation and systems: We enable markets through policy and regulatory reform and facilitate development of market infrastructure.

Capacity building: We build the capacity of government and private sector players. We also support pioneering models to demonstrate ideas that can work.

Market insights and advocacy: We invest in breakthrough research that provides decision-makers, development actors, investors and FSPs with vital market insights..

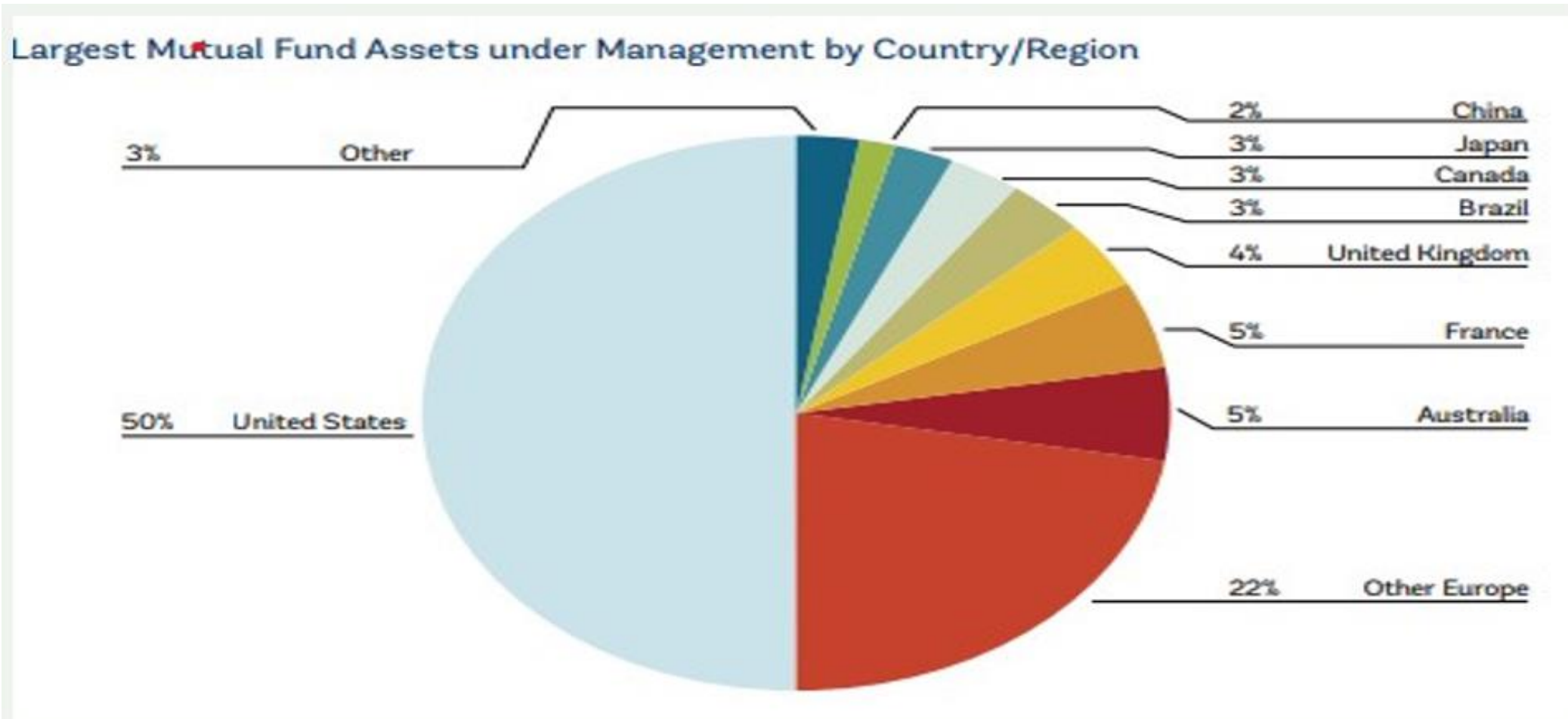
Convening partnerships: With deep networks across the continent and beyond, we create opportunities for key players to convene, share insights and collaborate.

How we work - market system approach



Overview of the funds industry

Overview of the funds industry globally



Source: Mutual Funds in Developing Markets – World Bank, 2015

Funds as a % of GDP

Low (\$1,045 or less)		Lower Middle (\$1,046–4,125)		Upper Middle (\$4,126–12,745)		High (\$12,426 or More)	
Country	Mutual Funds as % GDP	Country	Mutual Funds as % GDP	Country	Mutual Funds as % GDP	Country	Mutual Funds as % GDP
Kenya	0.80	India	4.61	Brazil	46.87	Korea	34.12
		Indonesia	2.19	China	4.65	Russia	0.16
		Morocco	26.92	Costa Rica	3.09	Saudi Arabia	4.50
		Nigeria	0.20	Hungary	11.7	Slovenia	5.00
		Pakistan	1.43	Malaysia	28.31		
				Mexico	8.00		
				Peru	2.79		
				South Africa	30.61		
				Turkey	2.33		

Sources: IOSCO survey, World Bank, case studies.

Comparing funds globally

The diversity of fund sectors also reflects the diversity of environments in which they operate



Peru - the mutual fund sector is virtually 100% retail owned

Morocco- institutional investors own more than 90% of assets under management in mutual funds



In the United Kingdom, the United States, and Zimbabwe, funds developed first and fund-specific law and regulation came later

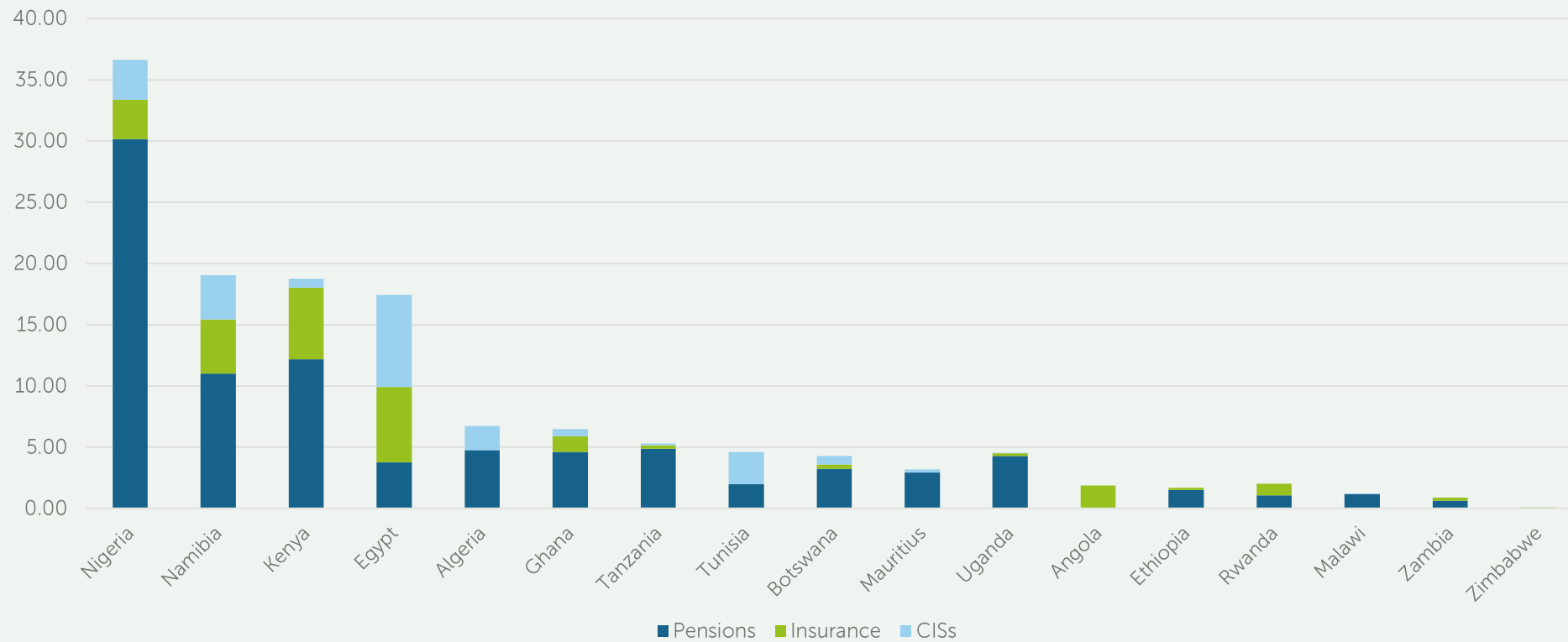
In other cases, such as Kenya, Morocco, or Spain, fund law and regulation were set up before funds were actually created



High MMF exposures in many emerging markets imply that these sectors are as yet failing to mobilize savings into longer-term instruments.

Institutional Investor Asset Base - SSA

Institutional Investor Asset Base USD\$Bn 2020*



Collective Investment Schemes in Kenya

Types of sub funds

Money market fund

low risk fund

Invest in high quality interest bearing investments, fixed deposits, and near cash holdings

Equity fund

High risk

Invests largely in listed equities

Balanced fund

Moderate risk

invests in the stocks of listed companies for growth and in interest bearing instruments for income

Fixed income fund

moderate to medium risk

Invests in a well-diversified portfolio of bonds issued by the Kenyan government and corporation

Shariah compliant funds

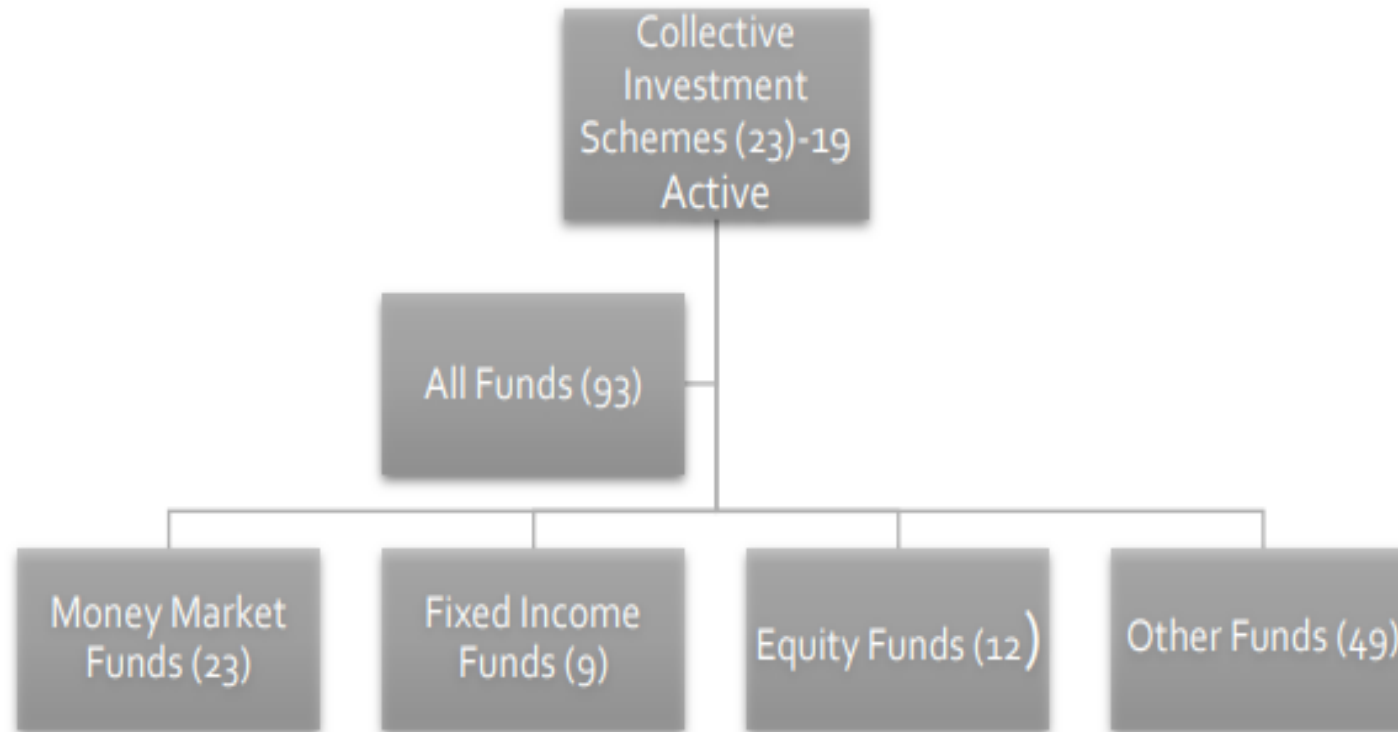
Investment selection complies with shariah principles

Pan Africa funds

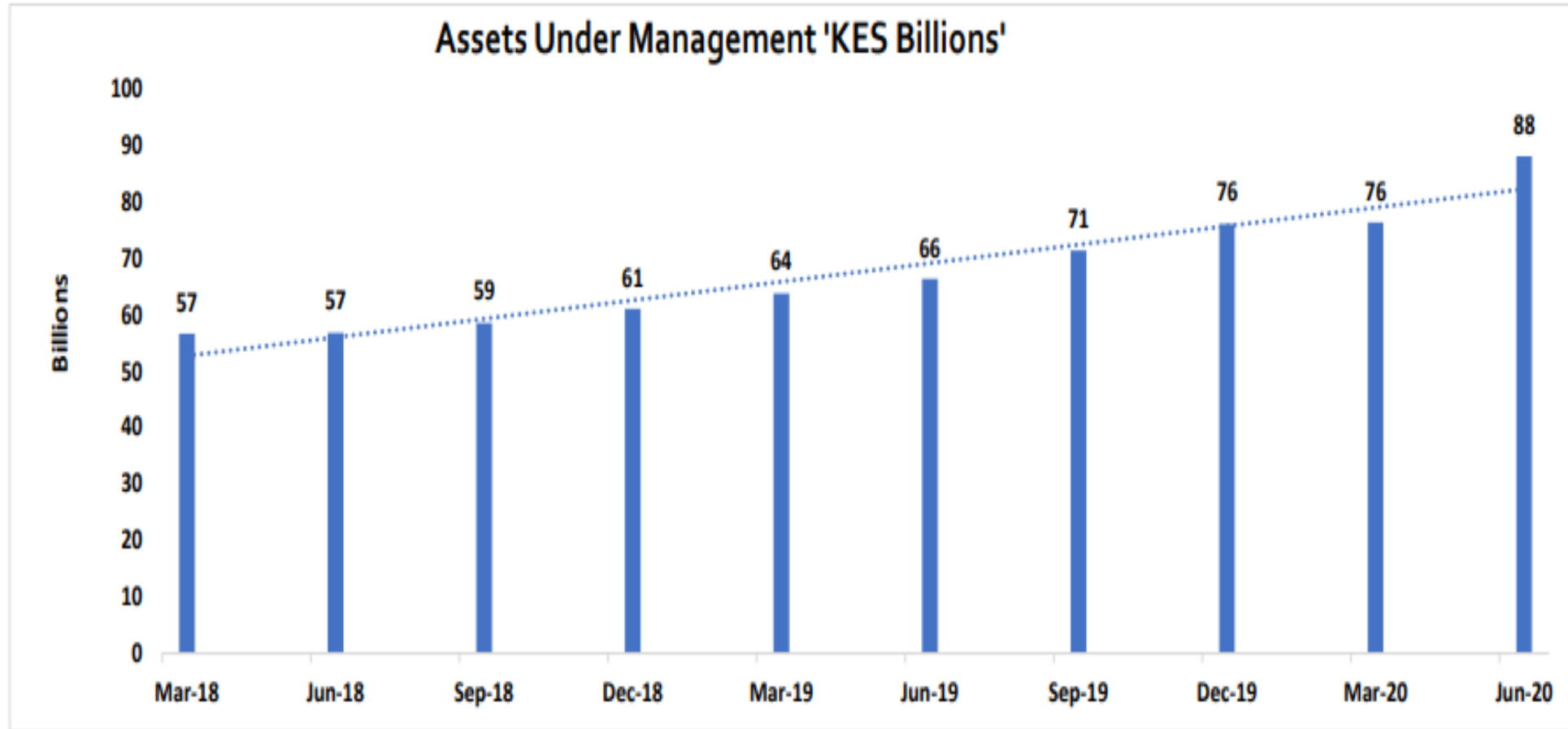
Moderate to high risk

Invests in listed securities within Africa

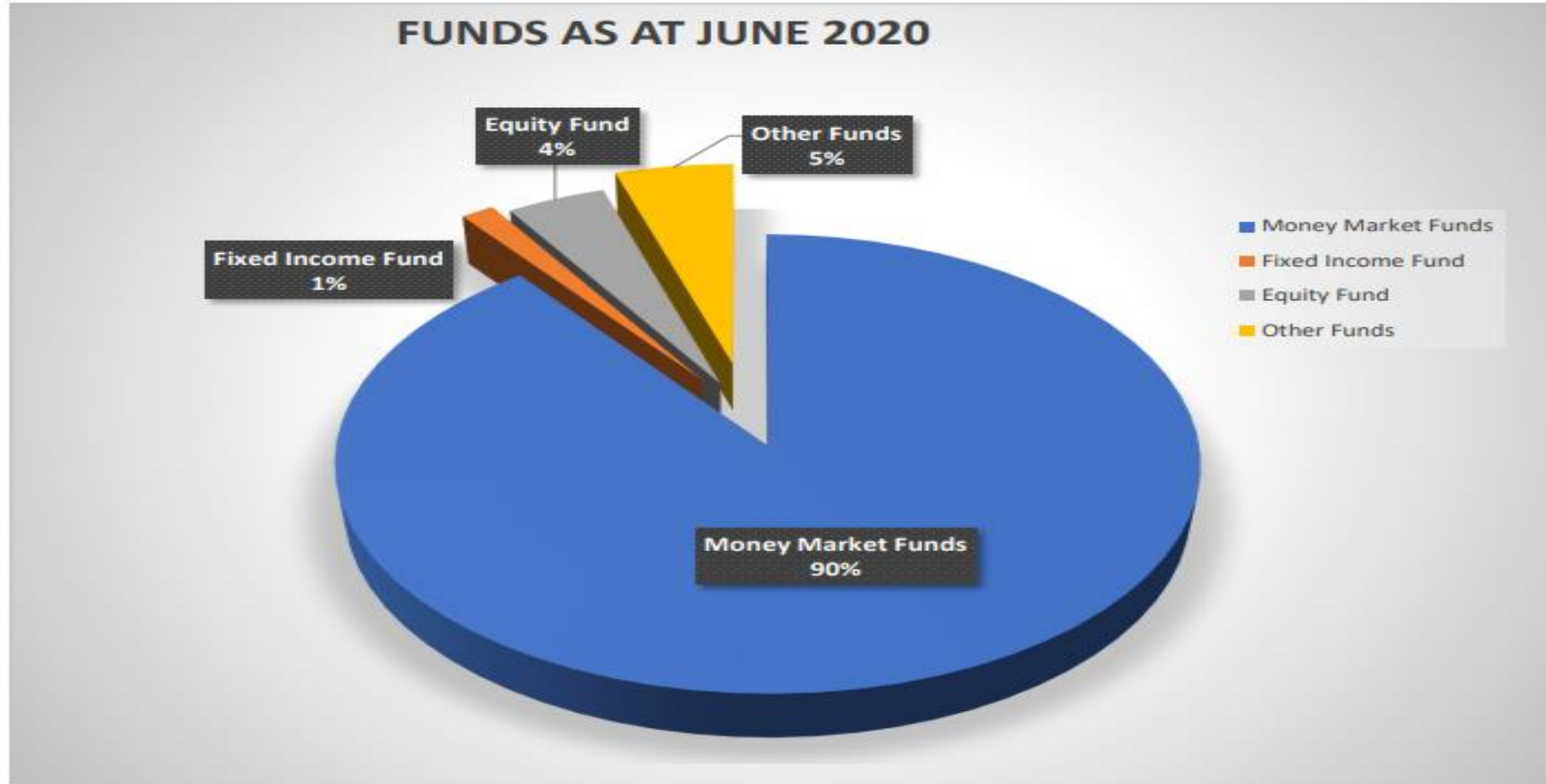
CIS Market Overview - Kenya



CIS Market Overview - Kenya



Market Overview - Kenya



Investment thresholds

Types of investment	Limit
Securities listed on a securities exchange in Kenya	80%
Securities issued by the government of Kenya	80%
Immovable property	25%
Other collective investment schemes	25%
Unlisted securities	25%
Offshore investments	10%

Key challenges experienced

- More flexible investment thresholds required to create innovative funds
- Comparability in performance reporting has been lacking
- Lack of clarity on the constitution of money market funds
- Cumbersome registration process
- Clarity on the role of the fund service providers
- Limited fund options
- Fund-like structures that are not regulated expose investors to losses
- No distinction made for sophisticated investors



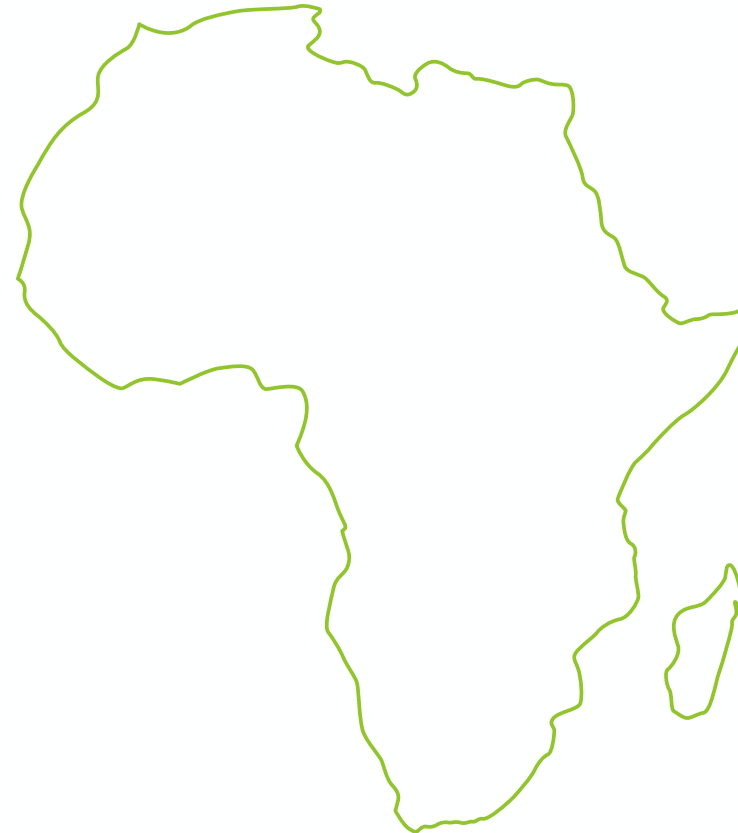
Emerging trends

- ❑ **Fintech and the case for other innovative distribution channels e.g for MAkiba**
- ❑ **Sustainability/ESG issues**
- ❑ **Cross border funds**
- ❑ **Special funds:**
 - REITS
 - Property Funds
 - Infrastructure debt funds
 - Social impact funds
 - Special interest investment funds

The success of the unit trust/mutual fund sector is often a consequence of whether the law permits these funds to play a role in retirement saving

Impediments to collective investment scheme growth in SSA

- Financial literacy and awareness of financial products
- Quality of law, regulation and supervision
- Level of savings
- Tax treatment of funds
- Competition from other savings media/toxic assets
- Stage of development of stock market
- Access to distribution
- Flexibility in marketing funds



Collective investment scheme growth – development opportunities

- Review of existing regulatory framework
- Development of more liquid markets
- Investor education and awareness
- Pension fund participation
- Development of bespoke funds
- Fund management specialisation



Any questions?