# International Financial Centres

In December 2016, Cabinet approved the Nairobi International Financial Centre Bill, which seeks to provide a framework to facilitate and support the development of an efficient and globally competitive financial services sector in Kenya through the establishment of the Nairobi International Financial Centre and the Nairobi International Financial Centre Authority. Kenya's development plan, Vision 2030, hopes to secure the country's middle-income status based on a vibrant and globally competitive financial sector at the heart of which is a plan to turn Nairobi into a finance hub through the establishment of the Nairobi International Financial Centre (NIFC).

**What is an International Financial Centre (IFC)?** It is a concentration of a wide variety of international financial businesses and transactions in one location; typically, a city. IFCs are jurisdictions whose laws and institutions provide optimal conditions for the financial services industry. IFCs share several features: the presence of investment opportunities for foreign capital, low corporate taxes as well as other tax incentives, the infrastructure to facilitate the timely movement of capital in its various forms, all operationalized by a sophisticated regulatory and legislative framework. They have worked in various places the main IFCs including, but not limited to, New York, London, Zurich, Hong Kong, Frankfurt, Johannesburg and Dubai; each centre offering different legal, tax and regulatory environments.

**What are the benefits of an IFC?**

a) **Tax incentives**: An IFC offers low tax rates as well as tax incentives, thus it attracts foreign investment making it easier for finance institutions to do business, which in turn promotes best practices.
b) **Economic growth**: It boosts economic activity and helps the country along the path to becoming a global economy.
c) **Ease of financial transactions**: The concentration of financial services such as banks, wealth and asset management companies and insurance companies in one location allows for easier coordination of financial transactions and creates economies of scale, benefitting investors and other stakeholders.
d) **Foreign investment**: Because IFCs attract foreign investment and host large international lenders, they raise a country’s natural borrowing limit, allowing financing for larger projects.

**What is the Nairobi IFC initiative?** In Kenya, the project came up in order to establish Nairobi as a well-functioning financial hub by accelerating economic growth and consolidating Kenya as a leading financial centre in East and Central Africa. Benefits of the project will include job creation, foreign direct investments as well as an expanded securities market to tap capital. Currently, the only piece of legislation tabled towards the initiative is the Nairobi International Financial Centre Bill, 2016 which provides the functions and roles of the Authority that will manage the centre.

The purpose of this note is to assess whether Kenya can establish such an IFC with Nairobi as its beating heart. In answering this pertinent question, the following observations cannot be ignored:

| Pillars of an IFC | Description | What we need to do | Status |
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| Regulatory environment | Excessive regulation is the most significant risk to financial services. Typically, IFCs have one regulator and the principles of regulation are published and consistent. | ▪ The Role of the various Financial Services regulatory authorities such as the Central Bank of Kenya and possibly the Capital Markets Authority, will have to be considered and for efficiency and ease of administration. The Financial Services Authority Bill 2016, merging the main | **Neutral** |

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| | | regulators would have to be signed and implemented.<br>▪ The Independence of the Financial Services firms vs the autonomy of the IFC will have to be considered. In order to offer the optimal environment for business growth there would have to be a compromise between self-regulation and perceived interference of the financial services regulator.<br>▪ The Capital Markets Authority recently designated the Nairobi Stock Exchange as a Self-Regulatory Organisation, which could be a step in the right direction. | |
| Availability of business infrastructure | In order to have a competitive IFC there is need to have world-class infrastructure in place with various forms of business connectivity around the clock, and around the world. | ▪ Nairobi will have to meet the demand for state-of-the-art infrastructure for the IFC to thrive. This will include provision of information systems, communication, telephony and transport links to maintain and serve the global financial firms and trading platforms that will emerge. | **Unrealised** |
| The legal system | Different IFCs operate under different legal systems. Some like Dubai opting to operate in a different legal system than the rest of the United Arab Emirates at large. | ▪ English law is commonly used alongside international law for international contracts in business and finance. Kenya will obviously need to maintain this since it is very well suited to IFCs. | **In Place** |
| Dispute resolution mechanism | The dispute resolution system will have to offer expeditious and cost effective resolution of all commercial disputes that will arise. | ▪ Kenya has already taken a step in the right direction through the introduction of the Nairobi International Centre for Arbitration, created in 2013, which like the NIFC, was part of Vision 2030 and is a step in the right direction in providing an optimal environment for the NIFC. Of course more needs to be done to give credibility to the centre, since the use of the arbitration centre remains limited; we hope with time and concerted government effort this shall come to be. | **In Place** |

**Conclusion**:

While the Nairobi International Financial Centre (NIFC) is a progressive idea toward the realization of the Vision 2030 goals, there is a lot to be done and even more to be deliberated, to ensure that the NIFC is realized and has a competitive advantage. Will we capitalize on a possible niche to maintain growth like the Frankfurt and Zurich centres - Frankfurt in the derivatives business and Zurich in private banking and asset management? Or will we opt to be a full-service centre like London or New York? The Capital Markets Authority recently joined the Islamic Financial Services Board as an Associate member identifying Islamic Finance as one of the areas that will boost the NIFC. Efforts therefore seem geared towards the enhancement of deep and liquid capital markets.

Whichever model is adopted, the realization of the NIFC objectives will depend, to an extent, on the creation of sound legal systems, sophisticated infrastructure, favourable tax rates and liberal regulation. To a larger extent, the NIFC will have to incorporate innovation as its strategic lever in order to thrive and achieve the overall success it seeks to achieve both in East and Central Africa.