Development of Mobile Traded Sovereign Retail Bonds in Kenya:
Understanding Critical Success Factors

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Outline

• Background
• Objectives of M-Akiba Bond
• Critical success factors
• Strategies for Capital Markets in Kenya
Background

• Account registration process was tedious, time consuming and costly.
• The registration process entailed physical presence at CBK and was in large part manual.
• It exposed potential investors to risks associated with manual processes
• Majority of the investors were wholesale owing to their superior knowledge
• The minimum amount to participate in the Government bond market was USD 500.
Objectives of M-Akiba Bond

Democratize access to government securities

- Diversified channels of resource mobilization and promoting a culture of savings.
- Promote financial inclusion and financial literacy: i.e. financial access, usage, quality aspects, poverty reduction, improve incomes.
- Riding on digital finance (mobile money platforms) for greater market access and financial awareness – has increased Kenya’s visibility at the global arena.
M-Akiba is a Government of Kenya retail bond with the following unique characteristics:

- **Purpose**: Infrastructure bond to finance development budget
- **Mobile Traded Bond**: Registration, trading, settlement using mobile money.
- **Target Amount**: Kshs 5 Billion initial target
- **Tenure of Bond**: 3 years
- **Coupon Rate**: 10% p.a. paid semi-annually.
- **Minimum investment amount per account**: Kshs. 3,000
- **Interest return**: Tax-exempt
- **Maximum Investment**: per account / per day – depends on the channel used.
- **Issued first time in 2017**: a world’s first
- **Traded**: at par (factoring in the accrued interest)
### Bond Performance – Primary market

<table>
<thead>
<tr>
<th>Issue</th>
<th>Investors Registered</th>
<th>Target Amount</th>
<th>Performance</th>
<th>Proportion of investors who purchased</th>
</tr>
</thead>
<tbody>
<tr>
<td>MK001 (Pilot)</td>
<td>102,632</td>
<td>150M</td>
<td>150M</td>
<td>100%</td>
</tr>
</tbody>
</table>

**MK001 (Pilot)**

<table>
<thead>
<tr>
<th>No. of investors (Main Issue)</th>
<th>Investors (%)</th>
<th>Amount by range (Ksh)</th>
<th>Total (Ksh)</th>
<th>% of share</th>
</tr>
</thead>
<tbody>
<tr>
<td>3,789</td>
<td>63</td>
<td>3000-10,000</td>
<td>18,376,821</td>
<td>7</td>
</tr>
<tr>
<td>1,290</td>
<td>22</td>
<td>10,001-50,000</td>
<td>36,351,642</td>
<td>15</td>
</tr>
<tr>
<td>908</td>
<td>15</td>
<td>Over 50,000</td>
<td>193,021,537</td>
<td>78</td>
</tr>
<tr>
<td>5,987</td>
<td>100%</td>
<td>Total</td>
<td>247,750,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

The SLO raised Ksh 150,050,000. Total amounts raised is thus Ksh 397, 800, 000.
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</tr>
<tr>
<td>MK002</td>
<td>200,902</td>
<td>1BN</td>
<td>247M</td>
<td>24.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>303,534</td>
<td>397M</td>
<td></td>
<td>13%</td>
</tr>
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Institutional Collaboration

- **M-Akiba** bond is a capital market instrument issued through the mobile money platform to promote access to Government securities.
- Collaboration between private sector and Government
- Key stakeholders in the M-Akiba bond: Investors, TNT, NSE, CDSC, CBK, CMA, MNOs, Pesalink (interbank money platform-digital), CBA,
- Each stakeholder organization has clearly defined roles.
Critical Success factors for M-Akiba bond

• Widespread mobile money transfer platforms eg MPESA: Agency model
• Prior experience with related products eg. M-Shwari
• A large pool of investors-captive market in the retail segment.
• Demographics- average age 34
• Attractiveness of the bond-high yield, tax free, low risk
• Flexible legal framework
• Political willingness/goodwill
Strategies for Capital Markets in Kenya

• A programme of M-Akiba bond issuance developed and published: March, May, July and September 2019.

• Enhanced Customer Journey
• Use of mobile Apps and Wallet
• Increasing market outreach through financial literacy
• Formalizing the informal financial sector through the *chamas (group)* model
• Potential regional integrating factor
• Evolve into other products such as Sukuk bond
Next Steps

• Improve efficiency of service delivery through entities with greater comparative advantage
• Leverage on enhanced investor capabilities
• Greater involvement of MNOs
• Enhance applicability of the issuance framework beyond the current usability
Thank You

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