COMMODITIES REVIEW

ALY KHAN SATCHU

Transparency key to realising Kenya's debt

The Government of Kenya sold $2b worth of Eurobonds last week. The $1b 10-Year Bond was priced at 7.25% versus an initial price guidance of 7.625% and the $1b 30-Year Bond was priced at 8.25% versus 8.625% initial guidance. Investors placed $14b worth of orders, which was a solid outcome, considering that the Road-show was buffeted by a Moody's downgrade (Moody's downgraded Kenya's debt rating to B2 from B1) and by the news that the IMF had choked off access to a $1.5b facility (the funds, approved by the IMF in March 2016, were available for Kenya to access if it faced "exogenous shocks"). Kenya is the third African Issuer this Year. Egypt and Nigeria each attracted $12 billion of orders when they sold $6.5 billion of debt between them last week. Egypt's 10-Year Bond was sold at 6.59% and Nigeria at 6.5%. There is more to come from the continent with Cote D'Ivoire (expected to sell Euro-denominated debt) Ghana is apparently looking for $2b and South Africa, Senegal and Angola also slated to sell. The flurry of issuance adds to an already-record debt tally for sub-Saharan Africa, which has ballooned to over $200b from less than $30b in 2007, Bank for International Settlements data shows the Government of Kenya might well tap these bonds in short order and sell up to a further $1b. At that point, we will have "maxed" out the Eurobond market.

I am of the view that the net proceeds need to be put to work transparently and effectively. The economy needs an adrenaline shot. Private sector credit growth is still close to zero and the credit crunch is real.

Razia Khan [chief Africa economist at Standard Chartered] told the Financial Times' John Aglionby that the "need for fiscal consolidation is fully realised" at the Finance Ministry.

"Whether this is taken on board by all actors in Kenya is a different matter," she said. "There will have to be a broader buy-in that this is the way to go."

Treasury CS Henry Rotich said he would curb spending and boost revenue to reduce the budget deficit from 8.9 per cent last June to 4 per cent by June 2021 and "come up with a package of reforms that will help us get out of the current (interest rate cap) arrangement so we can extend credit to the private sector." Rotich has to wield the Knife and will have to walk the talk because we are now running out of road. Take a look at Zambia if you want to see what happens when you reach the end of the road.

Jan Mikkelsen, the IMF's Kenya resident representative, said the two reforms were "key" to extending the facility. The IMF has been a solid cheerleader of Kenya Incorporated. We are now boxed in and we cannot afford to lose the IMF precautionary facility. The markets have given us the benefit of the doubt, but to assume it will do so again is a sub-optimal trade.

"We don't need the IMF resources at the moment, but we need a precautionary or insurance arrangement," Rotich said. "So we'd definitely like to continue with the same facility."

Ronak Gopaldas in an article captioned "For vulnerable African countries, a reliance on Chinese financing could pose a threat to sovereignty" speaks to 'debt-trap diplomacy' – a predatory system designed to ensnare countries into a straightjacket of debt servitude. Brahma Chellaney, in a 2017 article for Project Syndicate, explains that Chinese loans are collateralised by strategically important natural assets with high long-term value (even if they lack short-term commercial viability). This is the point, we have surged our borrowing but the assets in which we invested are evidently lacking in short-term viability. We now need to be seized of the need to make our investments viable and quickly.

Aly-Khan is a financial analyst

ISLAMIC FINANCE

Stima Sacco to rollout sharia compliant products by April

CYNTHIA ILAKO/ Stima Sacco plans to introduce sharia-compliant products by April to tap into the country's growing Islamic banking market.

Speaking on the sidelines of the 3rd Annual Sacco Leaders' Convention 2018 held in Mombasa, Stima Sacco CEO Chris Useki said the move will boost business, attracting Muslim clients interested in joining the sacco but lacking products that fit their needs.

Sharia-compliant financing prohibits making huge profits through charging of interest on loans. It also prevents beneficiaries of loans from the Islamic finance institutions from spending that money on goods or services that are considered wrong under Islam.

"This will transform the sacco business and will propel the sacco to have a piece of the ever-growing Islamic banking market share," he said.

Stima Sacco currently has 103,748 members with an asset base of Sh28.6 billion.

"Our loan portfolio is Sh23.1 billion and the Sacco uses a revolutionary product called M-Pawa, where members access a loan of up to Sh120,000 in the comfort of their homes at any given time," Useki said.

Despite the expanding loan portfolio, Useki said loan defaulters still posed the biggest challenge, adding that they were working closely with the Credit Reference Bureaus and doing more background checks before disbursing loans.

"We have revamped our credit appraisal systems to take care of the new challenges as they emerge," he said.

The sacco is also preparing a financial package for all retirees which will include insurance, health cover, loans, and savings consistent with its mission of empowering their members for life.

INVESTOR SENTIMENT

Why Nairobi has become a haven for global firms

Companies looking to expand into Africa have termed the city as the most strategic position to pilot business in a conducive trading environment

Shoppers at Carrefour hypermarket in Karen Mall on September 3, 2017 **/ENOS TECHE**

LEWIS NYAUNDI

@XnyaundiH

A number of International brands are making there way into the continent through Nairobi.

In less than five years, French retailer Carrefour, Chinese construction firm Avic International Holdings and now Lebanese SABIS International School, among others, have entered the Kenyan market as part of expansion into the greater African region.

This is despite the higher cost of living in this country, which, according to the Kenya National Bureau of Statistics, stood at an average 8.02 in 2017. SABIS president Carl Bistany said that having conducted research since 2014, on potential regions in Africa to set up operations, they found that Nairobi was the most strategic position to pilot business in Africa.

"Of course we have our scouts and team which does lengthy researches supported with statistics and Nairobi has always been on top of the chart whenever this is done, we have studied the risks, the expected turnover, the target market and we are convinced it will be a success," Bistany said.

This was reiterated by the Africa director for Chinese construction giant AVIC International Holdings Corporation Huang Hong, adding that Kenya has a conducive business environment. AVIC is currently setting up its headquarters in Nairobi.

Hong said the country further had an expansion capacity as it remains highly under-utilised in resources and manpower. Nairobi has also attracted investors through political and social tranquillity, this according to Centum Investment chief executive officer James Mworia.

"We might have some political discourse in the country, but we are much more stable and welcoming than most of the countries in the continent," he said.

Mworia said in establishing the clientèle, the brands were looking more than just within the country but also high-end clients from countries experiencing instability in the region and seeking world-class services.

"Most often, some people travel to shop abroad, but you notice Nairobi's position is central to East and Central African countries thus by setting up a company there it is easy to pull those clients and save them the long journeys," Mworia said.

Increased retail space in the country has also driven the increase in international investment, pulling in brands from across the globe.

"With the number of malls in this country, international investors see big opportunities mostly because the malls attract high-end clients thus will be a good way to attract them," LC Waikiki country manager Kremena Pencheva said. The Turkish clothing brand plans to open its third store in Mombasa since joining the Kenyan market a year ago.

IMPACT TO LOW-INCOME EARNERS

However, the effect of the city becoming a regional hub may have an effect on low-income households. The cost of living in Nairobi in the last 10 years has greatly gone up hitting low-income earners hard.

According to financial analyst Mike Mute, in a few years the city will be unbearable for low-income earners, forcing them to move into areas or counties near the city.

"For estates that previously did not have big establishments, when the malls sprouted and the road infrastructure and housing went up, some people moved out to farther-away places like Kiambu," Mute said.