

FinTech: Government bonds in Kenya

Introduction: FinTech⁵⁸ has a widespread potential to enhance efficiencies, reduce costs, and facilitate access to financial services. As an interesting case study, [Kenya](#) has recently launched a Government bond leveraging mobile phone technology to promote financial inclusion.

M-Akiba Government Bond at a glance

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|----------------|------------------------------------|
| Issuer: | Republic of Kenya |
| Size: | KES 150 million [€1.25 million] |
| Coupon: | 10% (semi-annual) |
| Min. Amount: | KES 3000 [€25] |
| Value date: | 6 April 2017 |
| Maturity date: | 6 April 2020 |
| Listed on: | Nairobi Securities Exchange (NSE) |

Following a period of testing since 2015 and initial complications linked to interest rate [volatility](#), the launch of the bond was completed successfully in April 2017. The equivalent of €1.25 million (KES 150 million) was raised by issuing a three-year “mobile” [bond](#), enabling investors to purchase Government debt exclusively via mobile phones. The so-called “M-Akiba” bond, which has a 10% semi-annual coupon, was aimed at retail investors and could be purchased in sizes from €25 and up to a daily maximum of €1200 per investor (approximate equivalent values).

Since Kenya has a high level of mobile phone coverage, estimated at 88%⁵⁹, the bond is considered by the Government as a means to promote financial inclusion,

incentivise higher savings, and diversify investment opportunities for retail investors. The proceeds of the bond are used for infrastructure investments.

Primary market: During a two-week window starting from 23 March 2017, retail investors were able to place orders for the bond on their mobile phone which was issued at par and allocated on a “first come first served basis”. The targeted issuance volume was reached on 5 April.

In [practical terms](#), investors could dial a specified code on their mobile phone, and follow the instructions to place a bid for the M-AKIBA Government bond using the provider’s mobile platform. The bond was subsequently credited to the investor’s account while the payment was deducted from the investor’s “mobile wallet”. Coupon payments are also credited to the holder’s wallet and the principal is returned to the same wallet at maturity.

Secondary market: The mobile Government bond is listed on the Nairobi Securities Exchange (NSE) where it is tradable on the secondary market. The Commercial Bank of Africa (CBA) was designated as [liquidity provider](#). Buy or sell orders are placed exclusively via mobile devices and are processed in real-time, and there are no restrictions in terms of volume. A transaction fee of 0.535% is applied on orders on the secondary market, and other charges of the network provider may apply.

Benefits and challenges: It is noteworthy that a smartphone is not a pre-requisite. The registration

process including Know-Your-Customer (KYC) requirements and regulatory guidelines are verified in a few [steps](#). As an additional incentive, interest income on this bond is exempt from tax.

However, a number of challenges remain. From a technical point of view, a majority of retail investors use basic mobile phones that do not support downloading the bond’s disclosure documentation. In addition, [technical](#) glitches caused initial disruption of trading activity following the launch.

The M-Akiba Bond is primarily designed to be held to maturity as a savings instrument. This may not be suitable for investors who require instant access to cash, and the return may be lower than the initial investment if the bond is sold, including the effect of transaction fees. Also, the average bid [size](#) suggested that the Government debt was purchased by larger investors rather than retail investors.

Conclusion: The issuance process of a further [tranche](#) of the M-AKIBA bond was [initiated](#) on 30 June 2017. While the initial target volume was €8.5 million (KES 1bn), it is foreseen potentially to issue an additional €32.5 million (KES 3.85bn) depending on demand. The scheduled closing of the offer is on 21 July 2017. It will be interesting to follow the evolution of this novel way of issuing and trading bonds, which could perhaps serve as an example for other markets.

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58. A term broadly used to describe innovation in financial services enabled by technology.

59. Capital Markets Soundness Report, Kenya Capital Markets Authority (CMA), Volume II, p. 7.