



Kenya Feel It?

IT'S A LAND OF OPPORTUNITY IF YOU KNOW WHERE TO LOOK.

MARK MOBIUS GETS A FEEL FOR THIS AFRICAN FRONTIER ECONOMY

F RONTIER MARKETS ARE THE MOST exciting investment story today. When we started the first emerging markets fund listed on the New York Stock Exchange in 1987, we were in “frontier” territory since we had to enter markets such as Indonesia, Thailand, Turkey and Brazil, which were previously closed to foreign investors.

Now there are new frontier markets such as Laos, Cambodia, Vietnam, Romania and Saudi Arabia, not to mention the African countries. Kenya is one of the more dynamic African markets, so this trip was designed to explore its opportunities.

What better place to start than Nairobi, the capital founded in 1899 as a rail depot for the Mombasa to Uganda Railway. Of Kenya's 41 million population, more than three million live in Nairobi. Kenya's population is young, with more than 70 per cent below the age of 30.

Nairobi is a cosmopolitan city with a high-rise skyline and boasts the regional headquarters for a number of international firms and organisations, including the UN. It is often called the “safari capital of the world” and I noticed a number of European groups arriving at my hotel on their way to see the stunning wildlife, particularly for the great wildebeest migration from the Serengeti

in Tanzania to Kenya. Tourists can also enjoy snow-capped Mount Kenya and Lake Victoria, the world's second-largest freshwater lake, as well as the Great Rift Valley, created from rich volcanic soil and one of the most fertile areas in the world.

Although tourism and agriculture are big export earners for the country, we were interested in company shares that could be bought on the Nairobi Securities Exchange, the fourth-largest in Africa in terms of trading volume. Communications technology has impacted Kenya in a big way and Safaricom – the telecommunications giant jointly owned by UK-based Vodafone and the government-owned Telkom Kenya in addition to minority stock market investors – is one of Kenya's most profitable firms and the highest taxpayer. The company has an enviable 70 per cent market share with a subscriber base of 17.4 million. Their network consists of more than 2,300 base stations – around one third of which are in Nairobi – and reaches 85 per cent of the population within 25 per cent of the geographical area.

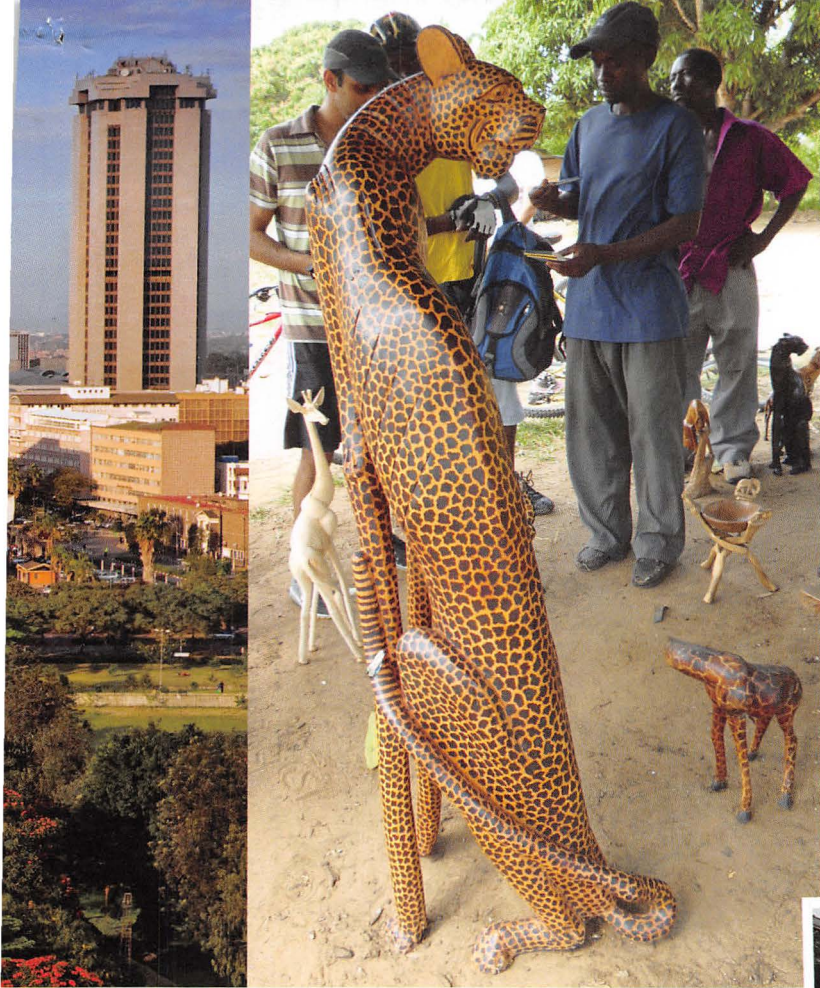
Expansion continues apace with the company adding around 7,000 subscribers every day. Probably the most successful innovation has been the introduction of M-Pesa, a mobile phone money transfer service. M-Pesa users now make up 82 per cent of the subscriber base, which means that

GROWING UP

FROM TOP

Nairobi, the Kenyan capital; Mark Mobius inspects some skilled Kenyan woodwork





The good news is that Kenya is committed to pro-market reforms

block, of which 10 went to the quarry owner. They could do 30 blocks a day so their total pay was around 300 shillings, or US\$3 per day. We learned from all these that Kenyans were not only skilled, but hard-working.

But although the country has rich soil in the highlands, the small farms are not efficient and there are periods of poverty and even starvation, exacerbated by poor roads and railways. And while Kenya is a strong exporter, it is also a big importer, particularly of oil. Kenya recently agreed with the Chinese government to begin exploration for oil, but even if any is found, it will take time to develop the industry. So there remains concern regarding the Kenyan shilling

OUT OF AFRICA

FROM TOP Tourism is thriving in Mombasa, supporting these local wood carvers; Serena Beach Hotel



more than 10 million people are using the service. M-Pesa now accounts for 15 per cent of Safaricom revenue.

Although the telecommunications industry is big in Kenya, tourism is the country's main source of foreign exchange, followed by exports of flowers, tea and coffee. I had initially flown into the city of Mombasa, on Kenya's Indian Ocean coast. Famous as a holiday spot, this was a good opportunity to learn something about one of the important foreign exchange earners for the country. I booked into the palm-shaded Serena Beach Hotel on the white-sand Shanzu Beach. The hotel was a real tropical paradise, designed like a traditional 13th century Swahili town with winding lanes and thatched buildings.

Mombasa has a fascinating history. As early as the first century AD, Arab and Persian traders visited Kenya's coast and founded sultanate city-states along the coast, introducing Islam and Arabic to the area, an influence that remains today. The word Swahili comes from the Arabic word Sawahil, meaning "coastal dwellers".

In the 1400s the famous explorer Vasco da Gama arrived, as did the Ming dynasty mariner and explorer Zheng He. The Portuguese started lucrative spice and ivory trading, but eventually war broke out between the Portuguese and the local Omani sultanate. The British arrived later, and in the late 1800s, control was passed to the British East African Administration. Over the years, British influence was extended into the interior with the building of the Uganda Railway, starting in 1896 from the Mombasa port and eventually extending, in 1931, to Kampala in Uganda.

My group decided to get on some bicycles to escape the city and see what village life was like. On our excursion, we came across a group of wood carvers under a large tree making beautiful objects from fine-grained hardwood. I spotted a large cheetah carving made out of one five-foot piece of wood, beautifully formed and painted. When I asked for the price, I was surprised to learn that the carver was asking only 15,000 Kenyan shilling (around US\$150). As we cycled further, we saw a quarry where workers were expertly chopping uniform blocks of volcanic stone in the hot sun. I found out that they were paid 24 shillings per

weakening, making oil imports more expensive.

In an effort to stem the slide and also hold down inflation, the Central Bank of Kenya has raised interest rates. Bankers were then concerned that the higher rates would result in more defaults. They have also moved more money into high-yielding government bonds and reduced the amount given out in loans.

When I arrived in Kenya, economic growth was running at about 4 per cent, down from 5 per cent in 2010. As with other countries, Kenya's growth had slowed from a high of 7 per cent in 2007 to a 2008 low of less than 2 per cent. Another worry is the increase in inflation, from 4 per cent in 2010 to above 10 per cent in 2011.

The Kenyan shilling has weakened against the greenback, falling from a high of 64 shillings per dollar in 2008 to more than 100 per dollar in 2011, before rising slightly to around 95. The stock market rose from a low in early 2009 of about 60 to a high of 120 in early 2011, but has since weakened to below 80 towards the end of 2011.

The good news is that the government is committed to pro-market reforms including deregulation, privatisation and trade liberalisation. We are quite positive about the country despite its challenges, because we have also seen first-hand how capable and hard-working Kenyans are. ■