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INVESTMENT GUIDE FOR THE MONEY MARKETS IN
KENYA 2023

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EXECUTIVE SUMMARY

In this guide we set out to consider a myriad of investment options available in the money markets in Kenya with the aim of identifying the five top low risk options that investment groups in Kenya can consider [as of October 2023] in the short term of three (3) to twelve (12) months. The methodology used to rank these options took into account the risks involved and the return on investment in the said short term period.

METHODOLOGY

The methodology used to rank the investments was based on the risk assessment, liquidity and return on investment whether they were high or low was taken into account.

The steps used include:

1. Looking at whether the risk the investment is giving is high or low
2. Looking at whether the return is of good amount.
3. Checking whether the investment is easy to liquidate
4. We used KSh. 2,000,000 as an illustration for all investments
5. Periods of 3, 6 and 12 months are used for any investment considered.
6. If the investment had low risk, good return and was easy to liquidate it was considered to be ranked in descending order from the best to the worst.

The top 5 investments include:

MONEY MARKET FUND (MMF)

Definition

This is a type of mutual or unit fund that invests in short-term, low-risk debt securities. These funds are designed to give investors a relatively stable investment option to preserve capital and provide modest returns. Investment companies, banks, and brokerage firms typically offer money market funds.

WHY IS IT A SAFE INVESTMENT?

In Kenya, money market funds are regulated by the Capital Markets Authority (CMA), and they invest in various instruments, such as government Treasury bills,

commercial paper, certificates of deposit (CDs), repurchase agreements, and short-term corporate debt

These investments are known for their short maturity periods, typically ranging from a few days to one year, which helps maintain liquidity and reduces the risk of interest rate fluctuations¹

It is also vital to note that money market funds are taxed a withholding tax of 15% which is remitted to the Kenya Revenue Authority (KRA) on the 20th day of the following month

There is still a possibility of losing money in a money market fund, although the likelihood is relatively low compared to higher-risk investments.

The best performing companies as at 2023 in the Kenyan financial and money market.

Assuming the amount for investment is KSh. 2,000,000

NAME OF THE FUND	RATES	TAXES WITHHOLDING TAX 15%	ADDITIONAL COSTS	6 MONTHS RETURNS	ANNUAL RETURNS	POINTS TO NOTE
Enwealth Money Market Fund	11.43% 228,600	Withholding tax 15% 34,290		97,155	194,310	FORMULAE $I = P \times R \times T$ WHERE I=INTEREST P= PRINCIPAL AMOUNT INVESTED R= RATE T= TIME PERIOD
Etica Money Market Fund	11.41% 228,200	34,230		96,985	193,970	Initial minimum investment of KSh. 100 and Top-ups of KSh. 100 Daily compounding of interest then credited daily to clients' accounts – you are able to see your money grow on a day-to-day basis.

Cytonn Money Market Fund	11.41% 228,200	34,230	No entry or exit fee is charged.	96,985	193,970	Initial minimum investment of KES 1000 and Top-ups from as low as KES 100. Speedy withdrawals. Interest is earned daily and compounded monthly
Apollo Money Market Fund	10.95% 219,000	32,850	Annual Management fee 2% 2,000	93,075	186,150	Initial minimum investment amount of Kes 1000 Minimum top-up amount 1000
GenAfrica Money Market Fund	10.77% 215,400	32,310	No initial fees. No limitations on withdrawal	91,545	183,090	Easy sign-up and top-up via the GenAfrica Unit Trust portal.
Jubilee Money Market Fund	10.75% 215,000	32,250		91,375	182,750	Monthly compounded interests.

Madison Money Market Fund	10.65% 213,000	31,950	Annual Management fee 2% 2000	90,525	181,050	Initial minimum investment amount of Kes 5,000 Minimum top-up amount of Kes 1,000
Zimele Money Market Fund	10.56% 211,200	31,680	Annual Management fee 2% 2,000	89,760	179,520	Initial minimum investment amount of Kes 100 Withdrawals are processed in 3 working days
Old Mutual Money Market Fund	10.50% 210,000	31,500	Annual Management fee 2% 2,000	89,250	178,500	Quick mobile sign-up by simply dialing *480#. Capital stability. Provides return without penalties. Easy liquidity. Freedom to switch investments between different funds

Kuza Money Market Fund (KES) (10.45%)	10.45%	31,350	Annual Managem ent fee 2%	88,825	177,650	The initial minimum investment for new investors is KES 5,000 and subsequent KES 1,000 top-ups.
	209,000		2,000			

The Investment club in Kenya should undertake the following investments in the financial and money markets:

TREASURY BILLS

A treasury bill is a secure, short term investment, offering your returns after a relatively short commitment of funds.

Treasury bills are auctioned every week.

There are two types of treasury bills:

- **Competitive:** This allows the bidder to put their own interest rate which will be discussed by the board to know if they will accept it or not.
- **Non-Competitive:** This type of treasury bill is the average of all the bids made by investors, so the average rate is used and the bidder can not choose his or her own rate.

The treasury bills are auctioned and take 91 days, 182 days and 364 days to mature.

The club should invest in acquiring a Treasury Bill from the Kenyan government since the risk is low. It also does not cost much to get it and you can liquidate your money by breaking the time line set for the treasury bill to mature. A disadvantage is you will only get your money back and no interest if you take the bill before maturity.

Example

For example, let us say the club wants to put a treasury bill of a face value of 2 million. The club can decide to put in competitive or non-competitive which is the average rate of all bills bid. They can decide to put it to maturity in 3 months (91 days), 6 months (182 days) or 1 year (364 days).

The average treasury bill rate as of 16/10/2023 is annually a weighted average rate of 15.3368%, semi-annually (6 months) at 15.0231% and quarterly (3 months) a rate of 14.9604%.

If the club puts 2 million as the face value for 1 year it will have to pay KSh. 1,774,478 and earn an interest of KSh. 225,522 and tax amount would be KSh. 39,798.

If they put in 2 million for 6 months, they will pay KSh. 1,881,527 and earn an interest of KSh. 118,473 and tax amount of KSh. 20,907.

If they put in 2 million as the face value for 3 months they will pay KSh. 1,938,868 and earn an interest of KSh. 61,132 and tax amount of KSh. 10,788.

NON- COMPETITIVE	91 days (3 months)	182 days (6 months)	364 days (1 year)
Face Value	KSh. 2,000,000	KSh. 2,000,000	KSh. 2,000,000
Amount to lend	KSh.1,938,868	KSh. 1,881,527	KSh. 1,774,478
Interest/Discount/Return	KSh. 61,132	KSh. 118,473	KSh. 225,522
Tax	KSh. 10,788	KSh. 20,907	KSh. 39,798

How Do I Determine my Return on a Treasury Bill?

Treasury bills are sold at discounted price (always lower than unit par value of Ksh 100) and therefore the discount is the only return an investor earns on Treasury bills. The price is computed per KSh. 100 depending on the interest rate/yield quoted by investor using the following formula:

$$P = 100 \left[\frac{1}{\left(1 + \left(\frac{r}{100} \times \frac{d}{365} \right) \right)} \right]$$

Where,

P = Price per Ksh 100 which investor will pay

r = interest rate or yield per annum quoted by the investor

d = days to maturity or tenor (91, 182 and later 364 days)

Benefits

- The advantage here is that treasury bills are discounted so the interest is paid first, you only pay the discounted amount and not face value.
- The risk is low when lending to the government.
- State and local income taxes are not imposed on the interest income.
- Can be bought or sold easily in the secondary market
- Have a lower minimum investment requirement which is KSh. 100,000.

Challenges of Treasury Bills

- If you choose to withdraw the amount lent to the government. You will only get your discounted amount and not the interest back.
- Treasury bills can hinder cash flow for people requiring steady income.
- They offer lower returns.
- Leading up to maturity, treasury bills do not pay any coupon interest payments.

COMMERCIAL PAPERS

A Commercial Paper is a short term, unsecured debt obligation that is issued by financial institutions and large corporations as an alternative to costlier methods of funding.

Since they are short term securities ,they reach a maturity in 270 days or less. Usually, between one and six months.

How Does Commercial Paper Work?

Imagine that a big Company ,like an electronics store ,needs some money to buy more electronics products to sell in their store. But they don't want to borrow the money for a long time, they just need it for a little while.

Instead of going to a bank to borrow money they can make something called "commercial paper". It's like a big check ,but instead of being written by a person ,it's written by an electronic store.

They give the commercial paper to people who have money , and say "we promise to give you your money back after a short amount of time ,like say 3 months."

The people who have money can decide if they want to give the electronics store the money by buying the commercial paper. And just like a check ,the electronics store can use the money they get from the commercial paper to buy more electronics products for their store.

Features of a Commercial Paper

Short Term Maturity

Most commercial papers mature within 30 to 90 days with the maximum being 270 days.

Unsecured debt

It's not backed by any collateral so it is considered unsecured debt. Investors commit based on the company's financial strength and ability to generate income.

Non-convertible

They cannot be converted into equity in the issuing company.

Low interest rate

Interest rates on commercial papers can be lower than other short-term debt instruments.

Negotiable

It can be bought and sold in the secondary market making it a liquid investment. The issuer repays the buyer in the future using liquid cash and no other assets.

Discounted

Issued at a discount from its face value and the return to the investor is the difference between the face value and the buying price.

Unregulated

Not regulated by the government ,however the issuer's creditworthiness is important.

Forms of commercial Paper.

1. Promissory notes

A promissory note is a legal document that is written by one party to another and makes a promise to pay that party a certain sum of money by a specific date. Businesses can issue commercial paper in the form of notes.

2. Drafts

This is a signed contract between three parties: a bank(the drawer) a payer (the drawee) and a payee .The bank gives the commercial paper issuer instructions to pay the loan (payee) a certain sum of money at a specific time.

3. Checks

A bank pays checks immediately rather than by a timeframe. They are the quickest method of issuing commercial paper, the issuing company directs a bank to transfer a certain sum of money to the payee immediately.

4. Certificates of Deposits(CD)

A certificate of deposit states that a certain amount of money has been deposited by an investor with the bank. It commits to paying this money back along with interest at a predetermined time. The maturity date and interest rate are also specified in the CD

Advantages of Commercial Paper

Low risk

It is typically issued by financially stable companies with a strong credit rating making it a low risk investment option.

Short term maturity

It typically has a maturity of less than 270 days ,which can be an advantage for investors who want to invest for a short period of time.

High Liquidity

It can be bought and sold in the secondary market making it a liquid investment option.

Disadvantages of Commercial Paper

a) Unsecured

It is not backed by any collateral which can make it a high-risk investment than a security with collateral.

b) Limited returns

The returns on commercial paper are generally lower than those on other investments such as bonds or stocks.

c) Credit risk

The credit worthiness of the issuer is important for commercial paper ,as it is an unsecured debt, so if the issuing company experiences financial difficulties ,the investors may not get their funds back.

How to Invest in Commercial Papers in Kenya

The minimum amount required to invest in a commercial paper is KSh.1000,000.

Buyers usually comprise large institutions such as investment companies ,financial and non-financial firms ,state and local governments.

The best way for individual investors to invest in commercial papers is to put their money in companies that buy it.These include market funds, mutual funds and even exchange traded firms.

To invest in commercial paper, you can make inquiries from your bank .They will offer information on the type of commercial papers available with interest rates and minimum subscription.

Example

Assuming that a company is planning to issue KSH.2000,000 of 30,90,180-day commercial paper on 01/01/2024.

The interest rates for a 30-day commercial paper is 5.36% ,90-day commercial paper is 5.44% and 180-day commercial paper is 5.59%.

30-Day Commercial paper.

Value Date	01/01/2024
Investment Term	30 days
Face Value	Ksh.2000,000
Interest Rate	5.36% p.a
Investor Total Return	Ksh.7,456
Purchase Price	Ksh.1,992,544
Due Date	Ksh.31/01/2023
Withholding tax(15%)	Ksh.1316

90-Day Commercial Paper

Value Date	01/01/2024
Investment Term	90 days
Face Value	Ksh.2000,000
Interest Rate	5.44% p.a
Investor Total Return	Ksh.22,501
Purchase Price	Ksh.1,977,499
Due Date	01/04/2024
Withholding Tax(15%)	Ksh.3971

180-Day Commercial Paper

Value Date	01/01/2023
Investment Term	180 days
Face Value	Ksh.2000,000
Interest Rate	5.59%
Investor Total Return	Ksh.45,407
Purchase Price	Ksh.1,954,393
Due Date	30/06/2024
Withholding Tax (15%)	Ksh.8048

REAL ESTATE INVESTMENT TRUSTS (REITs)

Definition

REITs are regulated investment vehicles that enable collective investment in real estate. Investors pool their funds and invest in real estate assets e.g., hotels, resorts and apartments.

REITs are regulated by the Capital Markets Authority.

Types of REITs.

Income REITs (I-REITs).

Investors pool their resources for purposes of acquiring long-term income-generating real estate assets including housing, commercial and retail.

Development (D-REITs).

D-REITs is a type of REIT whereby resources are pooled together for purposes of acquiring eligible real estate for development and construction projects. For example, housing or commercial projects. D-REITs are not common in Kenya.

Islamic REITs.

This REIT only undertakes Shari'ah compliant activities. A compliance test is done by the fund manager.

Advantages of REITs

- **Tax exemption**

REITs are exempt from corporate and income tax. This exemption saves on tax. However, they are not exempt from withholding tax on interest income and dividends.

Withholding Tax

Type of income	Resident (%)	Non-resident (%)
Dividends	5	10
Interest	15	15

- **High yields and long-term returns**

On average the Return on Investment (ROI) ranges between 8%-12% per annum. I-REITs are required by law to pay at least 80% of their income to unit holders as dividends.

- **Liquidity**

REITs are highly liquid as one can convert investments into cash by selling units.

- **Portfolio diversification.**

REITs give investors an opportunity to invest in a variety of other real estate developments such as shopping malls and warehouses.

- **Transparency.**

REITs are listed and traded publicly thus transparent. REITs are also required to disclose financial information to respective investors on material risks and business developments.

Risk assessment

1. Regulatory risks.

All REIT schemes are subject to the REITs Regulations.

2. Titles.

Weakness in land title and rental lease registration can affect the operations of REIT schemes.

3. Economic Instability.

REITs are affected by the economic and political stability of the country. Instability leads to value depreciation of real estate assets.

4. Market risk.

The underlying asset value of a REITs property can be influenced by fluctuating rates of supply and demand.

5. High minimum capital requirements for a Trustee (100 million).

This limits trustees to only banks and eliminates corporate trustees.

6. High minimum investment amounts are set at Ksh 5 million.

The minimum investment for a D-REIT is 5 million which is considered too high and might limit investors from venturing into it.

Authorized Real Estate Investment Trusts in Kenya

1. The ILAM Fahari I-REIT.
2. Acorn Student Accommodation Development Real Estate Investment Trust (Acorn D-REIT)
3. Acorn Student Accommodation Income Real Estate Investment Trust (ASA-REIT)

Investing in REITs in Kenya.

a) ILAM Fahari

Listed on the Nairobi Securities Exchange (NSE).

REITs are sold online on the Nairobi Securities exchange under the symbol FAHR.

Minimum number of units=100 units

Minimum amount to execute the trade of 100 units= Ksh 752

Major Properties: Greenspan Mall and 67 Gitanga Place

ILAM Fahari I-REIT Performance

DETAILS	2022	2021	Change
Net loss for the year (KShs)	(28,363,591)	(123,951,010)	77%
Rental and related income (KShs)	354,291,682	297,549,052	19%
Property expenses	131,271,761	122,048,628	-8%
Fund operating expenses	112,092,872	107,499,674	-4%
Fair value adjustment	(170,312,110)	(225,924,281)	25%

Distributable earnings (KShs)	141,948,519	101,973,271	39%
Market value of property portfolio (KShs)	3,118,600,000	3,258,000,000	-4%
Net asset value per unit (KShs)	18.92	19.58	-3%
Distribution per unit (KShs)	0.65	0.50	30%

b) ASA I-REIT.

Minimum number of units one can buy through the Vuka platform=10 units

Number of units =10

Single unit value =20.62

Total unit value =206.20

Service charge =3% * 206.20 =6.186

Purchased amount =212.39

The unit value varies overtime

The maximum number of units one can purchase in a single through the platform is Ksh100,000.

Trades are executed at the end of the month.

ASA I-REIT Estimated Returns for Ksh2,000,000 Investment.

DETAILS	6 months	1 Year
Total Investment	Ksh2,000,000	Ksh2,000,000
Total Units Held	94,184 units	94,184 units
Dividend earned	Ksh70,000	Ksh 140,000
Capital Appreciation	Ksh40,000	Ksh80,000
% Returns	5.5%	11%
Withholding Tax For Dividends(5% for residents)	Ksh3,500	Ksh 7,000
Dividends after Tax	Ksh66,500	Ksh 133,000
CURRENT VALUATION	Ksh2,040,000	Ksh2,080,000

Returns= [(Dividend earned + Capital Appreciation)/Total Investment]*100

The table above shows estimated returns based on current business projections which are subject to change.

REITs in Kenya do not earn interest. Earnings are through dividends and capital gains.

Transactions are conducted through the Vuka platform.

REITs are good investment opportunities as they give investors a chance to participate in real estate projects. REITs are not common in Kenya and this has been caused by minimal investor knowledge in REITs. Kenya has only one listed

REIT, the Fahari I-REIT. The REITs market in Kenya has the ability to grow and expand with various measures, such as, reduction of minimum capital requirements and increased government support, being implemented.

HIGH YIELD SAVING ACCOUNT (HYSA)

HYSA is basically a deposit account. Where one earns a high interest rate by having money just stays in the account. By high yield we are looking at a rate of return of 5% and above for financial institutions in Kenya. Factors to consider:

Risk Involved

HYSA are a low risk type of investment and this is because one doesn't lose the value of their money. Other investments money is lost in weeks, months, years etc. but as for HYSA, the value only goes up.

Deposits in Kenya are insured by Kenya Deposit Insurance Corporation (maximum of Ksh500,000) therefore making it a low risk investment.

A risk in the savings account would be fluctuation / low rate of return. Interest rate may be affected by different external factors and since for some institutions it's not fixed, it may lead to fluctuation of the interest rates.

Cost of Administration

Most Savings Accounts do not have fees charged to the account. They don't have maintenance fee, ledger fee (fee charged for operating an account) etc. Other institutions have what they call hidden charges and they include a fee charged of having a balance below the minimum required.

There are account fees like;

- Over the counter withdrawal charges – For instance in Tuungane Account for KCB they charge Ksh 50 and also have,
- Cost of cheque book – Ksh 375 for 50 leaves; and Ksh 750 for 100 leaves

Liquidation

The money in the account is always readily available and easy to access therefore HYSA are highly liquid.

The money can be withdrawn over the counter, use of mobile banking through the institution provided app or even online banking using USSD.

Minimum Balance Required

Here we are talking about the minimum amount required to open a savings account and start to invest. For most commercial and financial institutions in Kenya, the amount ranges from 0- Ksh 200,000. Some institutions also have a minimum interest earning balance.

Interests/ Returns Earned

Interest rates differ depending on the financial institution. The rate of return for most saving accounts for investment groups range from 1.5%-9%

In Kenya any interest earned is subject to a withholding tax of 15%, which is a final tax, remitted by the institutions to the Kenya Revenue Authorities. The Net return on investment received by the investors is less than the WHT.

Assuming a deposit of Ksh 2,000,000 for a time period of 3 months, 6 months and 1 year, the average rate of return is 5%. The net return on investment will be as follows:

The formula used to calculate the interest is indicated below;

$$I = P \times R \times T$$

WHERE

I=INTEREST , P= PRINCIPAL AMOUNT INVESTED, R= RATE, T= TIME PERIOD

DETAILS	3 Months	6 Months	1 Year
Amount Invested	2,000,000	2,000,000	2,000,000
Rate (%)	1.25	2.5	5
Interest	6,250	25,000	100,000
Tax (15%)	937.5	3,750	15,000
Net Return	5,312.5	21,250	85,000
Total Amount Received	2,005,312.5	2,021,250	2,085,000

Requirements

- Originals and copies of National Identity Cards of the official signatories.
- Minimum opening balance of Ksh 2,000.

For registered groups, the following are necessary:

- Group Registration Certificate.
- Group Constitution.
- Letter of introduction from the registering authority.
- Group minutes resolving to open the account.
- List of members with ID Numbers and signatures.
- Copy of KRA PIN.

For informal groups, the following are necessary:

- Signatories to open a joint account.
- Copy of KRA PIN.

HYSA would be a good investment option as it is most preferable for short term goals rather than long terms, more of an Emergency Fund. Savings Account cannot achieve long term financial goals.

CONCLUSION

TOP 5 BASED ON RETURN ON INVESTMENT

	3 Months	6 months	1 year
Treasury Bills	Sh.61,321	Sh.118,473	Sh.225,522
REITS		Sh.70,000	Sh.140,000
Money markets			Sh.194,000
Commercial Papers	Sh.7456	Sh.22,501	Sh.44,407
High Yield savings Account	Sh.5312.5	Sh.21,250	Sh.85,000

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