CHAPTER 1

Kenya

PHOTOGRAPHY BY GABRIEL ROTICH, A24 MEDIA

I – Mamboz

Jomo Kenyatta Airport feels like a war zone.

Armed cadets motion passengers from the plane to a beige-green bus marked National Youth Service. We sit cramped together, luggage on laps.

To our right, a steel wall barricades the main airport building gutted by fire.

Our driver, in a beret and green army fatigues, weaves through the pitch black before pulling up at a multi-story car park that's serving as the makeshift arrivals hall. Soldiers usher us to immigration gates where ticket machines stood a few months ago.

I head to "Foreign Visitors" until I feel a tug at my arm. "This officer is a friend of mine."

My impromptu guide jumps me through the "Kenyan Citizens" line and fires a meaningful nod at the olive-uniformed guard. He asks me the purpose of my visit but before I can say "business" my passport is stamped and I'm through.

My new-found friend sat next to me on the plane. He was a candidate in the 2013 election for a ward in Nakuru, Kenya's third largest city after Nairobi and Mombasa. He lost the election but became the assistant to the winning MP, a mate of his. As we wait half an hour in the four parking rows that make up baggage reclaim, he shows me one of his three mobile phones. He has private numbers for everyone who's anyone, right up to President Uhuru Kenyatta – "my cousin."

Two extended families have rotated Kenya's political leadership since the British colonialists withdrew in the 1960s. Jomo Kenyatta – the current president's father – was from the biggest tribe, the Kikuyus. After 15 years he gave way to Daniel Arap Moi, a Kalenjin. Moi's dictatorship lasted a quarter of a century before the presidency swung back to the Kikuyus in 2002 under Mwai Kibaki.

It was Kibaki's re-election at the end of 2007 and opposition claims of vote rigging that descended into clashes which killed over a thousand people and displaced half a million.[1] A national unity government hastily formed the next year made Kibaki the president and Raila Odinga prime minister. Kikuyu rule continued in 2013 with Uhuru's victory.

I wondered aloud what Moi was up to these days. "He's my next-door neighbor!"

As it turns out, the despot whose secret police tortured hundreds of political prisoners in waterlogged gallows[2] spends a pleasant retirement pottering around a sprawling farm, tending to his cattle.

As the politician's assistant's four matching suitcases arrive, I swap my mobile number for his three. By dawn I'm heading south from the capital to Kenya's largest national park, Tsavo West, and the hotel that began the safari industry. With me is cameraman Gabriel Rotich who's meant to be taping my journey, though, for reasons no one can explain, filming is banned in the nature reserve.

Tourism is Kenya's biggest source of foreign earnings after tea. It accounts for about 12.5% of the economy. I want to assess the impact from the spate of violent shocks – from the post-election clashes of 2008, to the electrical fault that destroyed Nairobi's main airport, to the horrific Westgate shopping mall siege and subsequent terror attacks by Somalia's al-Shabaab.[3]

The road runs 400 kilometers along the migratory corridor to Tsavo. Antelopes and zebras graze under purple leaf jacaranda trees. It is a breathtaking sight. Folklore has it colonialists gazing out and exclaiming "Look at Kenya" inspired the local name Lukenya, our safari driver Eric Mueke recounts as we pass through. He's ferried tourists along this route for a decade. The only thing that's changed is a drop in the number of visitors.

Eric was booked for a three-van convoy two weeks earlier. In the end only one was needed. America's official travel caution[4] in the aftermath of Westgate made it too expensive for some of the companies to get travel insurance. A few days before we arrived, a US divorce court stopped a mother traveling with her child to Kenya after her husband argued the country was a terrorist risk.[5]

The attacks rekindled the nation's reputation for violence after the battles of 2008. Most of Gabriel's friends in the Kalenjin region of Nakuru were caught up in the violence, defending a bridge from the advance of a Kikuyu gang. The scenes of tribal fighting stuck in the world headlines years on, with the International Criminal Court pursuing war crime charges against President Kenyatta and his Vice President, William Ruto.[6]

"It's not good for the tourist industry," says Eric. "The faint hearted won't come here."

While ethnicity continues to split political allegiance, cultural identity and language, there are other layers too. Eric, from the Kamba tribe, lives 200 kilometers from Gabriel in Machakos. Though both understand Swahili, Gabriel, as a younger man, mixes it with English in the dialect known as Sheng. The Swahili expression of surprise his parents would say – "ati?" – gets mixed with the English learned in school – "what?" – as "atiwhat?" A young guy relaxing will blend the Swahili "kuji" into "kujinice." Other phrases mix the vernacular. The most famous of Swahili phrases – "jambo" – or "hello" – becomes "mamboz."

Youths devised Sheng as a code their parents wouldn't understand.[7] In Gabriel's hometown, youngsters add a further twist by saying words backwards. Others use euphemisms. The Sheng word for a gun – "mguu wa kuku" – translates literally as the "leg of a chicken." Even Sheng-speaking youths in Nairobi sometimes can't understand each other because phrases differ between the neighborhoods.[8] Rap artists miss out on lucrative ad campaigns – the only way to make money in an industry rigged by pirating – because they can't speak Swahili.

We pass through the town of Sultan Hamud, named after the ruler of Zanzibar who visited a century ago.[9] Rain has loosened the red soil, bringing women out to plough the fields with wooden hoes. In the Maasai tradition of polygamy, the wives farm the land, take care of livestock, build the "manyatta" family mud hut, smear it with soil and cow dung, collect water and firewood, wash and cook.[10] And the husband? Well, he guards the family from attack.

It's a role not to be taken lightly. His teenage circumcision is a test of strength. One wince from the pain could forfeit his passage to Maasai warrior.[11,12] This, after all, is the region where scores of men were eaten alive by lions infamous ever since as the Man-Eaters of Tsavo. Their victims had been building the colonial-era railway from Nairobi to Mombasa.[13]

The track still runs parallel to the road, yet for the entire journey we don't see one train. It takes three times longer, explains Eric. It's hard to believe as we amble behind over-filled trucks while skirting the potholes and bony cows and goats feeding on freshly watered tufts of grass by the roadside.

I ask Eric and Gabriel why the trains run so slowly. They look at me like I've got two heads. How can they run any faster with all the animals walking by the track?

Any driver running down an animal here is liable for punitive fines. Landowners are ordered to look on when migrating beasts devour their crops. They can go to the government for compensation, but it's a long process that often doesn't pay the true value of the lost produce.

Running beside the road, smallholders offer oranges, tomatoes and onions. This is the town of Emali, which means wealthy, and it does seem like the townsfolk find every way possible to earn a few shillings. The huts here are brightly painted in green and white, advertising Wrigley's Spearmint Gum, or blue and yellow for Kensalt, whose refinery further south in Mombasa supplies three-quarters of Kenya's table salt.[14]

In the town of Makindu, meaning palm tree, we pass a majestic mosque neighboring a Sikh temple and then the "Loving Jesus Saloon." Religious tensions had been low in Kenya before the attacks from al-Shabaab stirred Muslim–Christian tension. Shortly after the Westgate attack, a Muslim cleric was shot dead in his car with three others in Mombasa. The shooting sparked deadly riots as a Protestant church was torched.[15]

Finally we enter Tsavo. Between the east and west national parks, its grassy plains stretch 21,000 square kilometers, about the expanse of New Jersey. The Kilaguni Safari Lodge opened here a year after independence from Britain. Photos in the dark-wood-beamed reception show Jomo Kenyatta looking out from the veranda as elephants group at the watering hole right in front. Half a century on, it looks just the same. Maasai giraffes, zebras and warthogs take their turn to wallow in the water.

Every room at the two-story lodge, now owned by the Aga Khan's Serena group, has the same incredible view – and every room is booked. Any drop-off from European and American tourists has been made up by Asians and Africans, says manager Henrietta Mwangola.

"The government has driven its marketing campaigns out to the Asian markets as well as the European markets," she says. "As a result of that there has been an increase in Asian tourists. We've been able to get an interesting blend."

Beyond terrorism and perceptions of violence, it's the slow transport network that's holding back tourism generally, she says. "I would just request for more to be done so that tourists are able to access their destinations in less time."

In front of us, plains stretch all the way to the snowy peak of Kilimanjaro in Tanzania. Wildebeest roam with hippos, baboons, buffalo, ostriches and yellow-billed storks. A leopard lounges by a stream watched from afar by a blue-necked helmeted guinea fowl. It's a picture of harmony.

"My grandmother used to leave beer out for these birds," says Eric. "The birds would drink thinking it was water. Then, when they were too drunk to fly, she would catch them and cook them for dinner. It's a very lean meat, very good."

Top Down Data

Country	Population	GDP on PPP Basis ($)	GDP/ Capita on PPP basis ($)	Inflation (% pa)	Unemployment (%)
Kenya	45,010,056	79,900,000,000	1800	5.8	40.0

Source: CIA World Factbook, December 2014

1) Population data from 2014.

2) GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the USA, based on 2013 estimates.

3) GDP per capita (PPP) divided by population, based on 2013 estimates.

4) Inflation rate shows the annual percentage change in consumer prices in 2013.

5) Unemployment rate shows the percentage of the labor force without jobs in 2008. The United Nations Development Program said unemployment was 12.7% in a 2013 report.

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II – Can't Believe You're Going to Kenya

Around noon on a busy Saturday, Nairobi's most upscale shopping mall is stormed by masked men firing indiscriminately. In an 80-hour siege, the al-Shabaab Islamists kill 67 people, claiming retribution for Kenyan military operations across the border in Somalia.

Six weeks later, a 23-year-old gunman rampages through Los Angeles airport. He picks people at random: "Hey, are you TSA?" He kills a Transport Security Administration officer and wounds six more.

The next day, Brett Rowley, a 44-year-old father of four, takes a flight from LA to meet me in Nairobi.

"Friends said I can't believe you're going to Kenya after that mall attack," says Brett, who looks after African investments as part of a team managing more than $11 billion of emerging market bonds.

"I just said, look, we have crazy things that happen in Los Angeles, there are crazy things that happen in New York, and as it turned out my closest call was right at home. As long as I'm careful, I really don't have any concerns about coming to Kenya. It was a fantastically uneventful journey."

For all the tensions here, Kenya does feel welcoming, especially by comparison to some other African countries. The last time Brett visited Angola, his visa took a month to come through. His colleagues at TCW Group in California had their passports with the embassy for six weeks and still weren't processed in time for the trip. When Brett finally landed in Luanda, his Blackberry was stolen before he'd even made it through immigration.

In Kenya, Brett got his visa on arrival within ten minutes.

"Countries that actually want tourists and investors try and make it easy," says Brett. "In Angola or Nigeria, everyone assumes you're in oil or some kind of business to be paying a visit. But in Kenya, there's the idea that people might come because they want to see the country."

Brett flew here via London. The last direct flight from the USA left in the 1980s. Delta attempted a service in 2009 – Kenya's transport minister even flew to America for a seat on board ready for the prime minister's welcoming party in Nairobi – but on the eve of departure US Homeland Security denied approval because of "security vulnerabilities."[1]

The rebuild of the airport after the blaze in 2013 provides an opportunity to set things right – separating arriving and departing passengers, for example – opening the potential for US flights to resume.[2]

"It would be a tremendous boost," says Brett. "If the new terminal can address the previous safety issues, I don't see why US flights wouldn't come here."[3–6]

Fund Factbox

Company & Assets in Emerging Markets	Emerging Market Fund	Performance & Peer Ranking	Portfolio Manager: Brett Rowley
TCW Group (Trust Company of the West) $11 billion	TCW Emerging Markets Income Fund	3rd highest total return among 278 US-registered global emerging market fixed-income funds over 10 years at 175% (annualized 10.6%)	Managing Director for sovereign research, based in Los Angeles Joined in 1995. Returned to TCW in 2008 after a couple of years at global macro hedge fund Pantera Capital Management

Source: Data compiled by Bloomberg as of June 2014

Endnotes

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III – Sleeping Serpent

Al-Shabaab was like a wounded buffalo,
and we in Kenya know that a wounded buffalo
is even more dangerous

Raila Odinga
Ex-Prime Minister, Opposition Leader

Late in 2013, Kenya's Auditor General told the Parliament some money had gone missing from the government's coffers: $3.5 billion to be exact.

Edward Ouko said he had no way of knowing whether 303 billion shillings – a third of annual government expenditure – was incurred lawfully or not. In a 437-page report, he documented unauthorized expenses ranging from a monthly mobile phone bill for over $12,000 claimed by the late environment minister John Michuki to $90,000 for sundries including fresh flowers for the Ministry for Development of Northern Kenya & Other Arid Lands.[1]

The money – enough to build and stock a hospital in each of the nation's 47 counties – went missing at a time when Kenya was battling its worst drought in half a century, with nearly a quarter of the population at risk of starvation, fumed the country's oldest newspaper, the *Standard*.[2]

The media outrage lasted all of two days, says Mwalimu Mati, a lawyer who runs an anti-corruption watchdog in Nairobi. No one resigned.

In the UK, a scandal over MPs' expenses epitomized by a $3000 duck house sparked dozens of arrests and resignations, months of front-page articles, even a West End musical.

"Here this sort of thing is normal," says Mati, the founder of MARS Group or Media Analysis & Research Services. "We're used to corruption scandals in the order of a billion dollars as a matter of course."[3]

Grand-scale graft has been going on for as long as anyone can remember. One item in the auditor general's report is an $8 million payment on debt borrowed in 1970 for a fertilizer plant. The plant was never built. Yet the bill is still being paid almost half a century later.

At the MARS HQ that also serves as his home in a leafy and heavily guarded neighborhood of Nairobi, Mati is archiving evidence "in case at some point there might be a government that's serious about dealing with corruption." But he doesn't hold out much hope.

In the five decades since independence, Kenya has had only four presidents and all are inter-related. Uhuru Kenyatta is the son of the first president. The second, Daniel Arap Moi, was Jomo Kenyatta's vice president. The third, Mwai Kibaki, was Moi's vice president.

"It's actually one regime," says Mati.

Among the opposition leaders today, Raila Odinga, who contested against Uhuru for the presidency in 2013, is the son of the first vice president under Jomo Kenyatta. Musalia Mudavadi, who placed third in the 2013 vote, is the son of Moses Mudamba Mudavadi, who served as a minister under Moi and was married to one of his relatives. In 2002, Musalia Mudavadi was Uhuru Kenyatta's running mate.[4]

The nationalist politicians who led the independence movement and their descendants are in charge of politics, says Mati – "and it will stay like that for a very long time."

One reason is more than half of the country's wealth is in the hands of the political elite and their relatives, led by Uhuru, Kenya's richest man.[5] Uhuru's father amassed vast swathes of land in the 60s and 70s for a pittance under a British transfer scheme. The family estate spans half a million acres along with commercial banks, luxury hotels and dairies to boot. His media interests include *The People* newspaper, K24 TV and several radio stations.[6,7]

Kroll Associates, a corporate investigation and risk consultancy, chronicled almost $1 billion dollars transferred from the country's coffers to family-owned bank accounts and private estates by Moi during his presidency between 1978 and 2002.[8,9] His family own stakes in the *Standard* newspaper group, KTN TV and a Swahili-language radio station.[10] Odinga's wealth through oil, gas, real estate and media holdings may be over 7 billion shillings ($81 million).[11]

"It's a stable, predictable political system," says Mati. "They're the wealthiest, they're the ones who are able to mobilize, and there are no real ideological differences between them. The only things that change are the personalities."

The clubby world of elite politicians isn't reflected on the street. In 2002, the year Moi ceded to elections, a Gallup poll showed Kenyans were the most optimistic people in the world as democracy beckoned.[12] The euphoria turned to despair five years later with the deadly clashes pitting Kikuyu masses backing Mwai Kibaki against the Luos and Kalenjin behind Raila Odinga in the 2007 election.

The lack of substantive policy differences between the politicians feeds the impulse to vote along ethnic lines. Every election has been a dead heat with 45% for one tribal grouping and 45% for another. Victory comes down to who can "steal" the remaining 10%, says Mati.

That game gets played out in the electoral commission that's meant to oversee fairness in the polling stations and declare the results. The system breaks down because the commission is itself made up of political appointees.

"It's as if the players choose the referees," says Mati. "People don't trust any electoral commissions we've ever had."

In the polls of 2007 and 2013, the commission announced the result before the last votes were even counted.

For Kenyans, it's just another corruptible institution – like the police, education and transportation. Kenya ranks among the 20 worst countries for fatal road accidents partly because the driving test can be bought – and that's the way it's been for decades.[13,14]

"All Kenyans feel the pain of having to pay bribes to get medical attention, to get kids into schools, to get out of a jam with the police, to apply for national identification documents – the simplest services have become corrupted," says Mati. "They feel very frustrated but I just don't see them rallying in the political field."

Transparency International, the global watchdog where Mati previously worked as a lawyer, placed Kenya among the 40 most corrupt of 177 countries.[15] It's one reason 40% of Kenyans are living below the poverty line.[16]

The government has a grand plan to lift the nation's fortunes. The cross-party Vision 2030 manifesto promises to boost economic growth to at least 10% a year by investing in oil exploration and connecting Kenya's cities.[17] The remote and undeveloped Turkana region in Kenya's northwestern Rift Valley may hold 600 million barrels of crude deposits. London-listed Tullow Oil committed to exploration even as it scaled back its global program amid tumbling crude prices.

A new Nairobi to Mombasa railway line will speed up the connection between the capital and east Africa's biggest port from 2017, easing the pressure on roads. It's Kenya's most expensive infrastructure project since independence at a cost of over $5 billion. The wandering elephants, giraffes and buffalos of Tsavo will be kept at bay by a 1.8-meter reinforced concrete and metal mesh fence.[18]

Kenya hasn't laid a single piece of track since the British built the railway in 1902, despite taking 11 train-related loans. With billions of dollars being lent once again, anti-corruption activists like Mati are worried history will repeat itself. From the perspective of an investor bankrolling Kenya by buying its bonds, Brett is concerned about the risk of the country sinking into debt without putting the money to work effectively on improving infrastructure or other means to boost economic growth.

The rail project is already mired in allegations of inflated payments. The initial cost of the line at $3.8 billion looks high compared with a train track in

Ethiopia, members of the National Assembly's Public Investments Committee complained in an April 2014 report. The committee questioned why the government had awarded the contract without an open bidding process.

The company contracted is China Road & Bridge Corp. The World Bank in 2009 debarred the Chinese government-linked group and two years later its parent, China Communications Construction Company Ltd., from participating in its road and bridge projects until 2017, citing fraudulent practices relating to a road project in the Philippines.[19–22] CCCC has appealed. It said in a 2014 statement that there's no basis for allegations of corruption and that it maintains strict management systems. Meanwhile Kenya is pressing on to the next stage, with an even higher price tag of $13 billion for a jointly funded plan to extend the line to Uganda and Rwanda.

The Standard newspaper fretted that the rail project risks becoming a bigger corruption scandal than Goldenberg. In Kenya's most notorious scam to date, hundreds of millions of dollars were siphoned from the Treasury as fictitious incentive payments to a supposed gold exporter called Goldenberg International – despite the country having no commercial gold deposits. The payments were in full swing when Musalia Mudavadi became finance minister under Moi in 1993. It took more than a decade for the fraud to be probed by a Commission of Inquiry in 2006, which absolved Mudavadi of involvement.[23]

"It's very difficult to see this happening again," says Mudavadi. We catch up with him a ten-minute drive from his home at a bungalow that serves as the headquarters for his party – the United Democratic Forum. The opposition group was formed in 2012 when Mudavadi was still deputy prime minister in the Kibaki–Odinga coalition. He went on to lead the UDF at the 2013 presidential election.

In a brass-button navy blazer, the 54-year-old fits us in before a golf competition at his club.

"In terms of transparency, there has been tremendous improvement," he says. "I can tell you now, in this country it is extremely difficult to have transactions with public entities not being fully scrutinized."

He points to checks and balances like the Ethics & Corruption Commission, parliamentary watchdogs, the media and all of the reporting requirements prescribed by the revised constitution.

The constitution was rewritten in 2010 in response to the post-election violence. Among the biggest changes is the devolution of power to local regions. At a national level, however, the new rules make it as hard as ever to break the political mold. Any new party must, for example, have offices in at least 24 constituencies. "For new players, that's very difficult," says Mudavadi. "Expenditure is loaded on to the party."

But there's more to it than just the cost. Unlike Europe or America's political systems, Kenya's parties lack obvious defining traits of left and right, or other ideologies that might help draw in nationwide support.

It is hard to grasp substantive policy differences at election time, Mudavadi acknowledges.

"If you were to look at the manifestos of the three major contenders at the last election, to a great extent they were almost the same," he says. "Most of the issues were pegged around Vision 2030 – infrastructure, good economic management, governance and so forth. Looking at all the manifestos, basically they're talking about the same thing."

This affinity increased in the aftermath of the Westgate siege. Uhuru, elected only five months earlier, asked the opposition leader Odinga to address the international media. The slogan "we are one" ran in countless newspaper headlines.

While Mudavadi insists the UDF does clash with the government on specific issues, like which goods should carry VAT and regulation of the media, it would take a "lot of voter education" for Kenyan politics to evolve from its ethnic basis to policies. "Being able to decipher what's a policy that's good for the country or region – we're very weak on that, we have a lot of work to do in that regard."

One point both main opposition leaders criticized Uhuru for was his perceived attempt to escape trial at the International Criminal Court. The ICC repeatedly delayed his case as key prosecution witnesses withdrew on concern for their safety while the government blocked prosecutors from accessing Uhuru's bank statements for evidence.[24]

Yet when the ICC finally abandoned the case against Uhuru in late 2014, Odinga congratulated his "brother."

We meet with the former prime minister at a Nairobi hotel minutes after a press conference. Having lost his legal challenge to the election result, Odinga accepted the ruling and was now hoping to play a role as elder statesman in brokering closer economic ties with Kenya's neighbors, in particular Tanzania to the south.[25] Odinga offered to chair a Panel of Eminent Persons to mediate relations between the five members of the East African Community. All of the countries' presidents were reportedly willing to accept his diplomatic mission except one: Uhuru Kenyatta.[26]

Under the previous administration, Odinga had been forging closer links with the four other nations of the EAC, easing restrictions on work permits and cross-border tariffs and discussing joint transport projects with Uganda, Rwanda, Burundi and Tanzania, all helped along by oil and gas discoveries in the region.

But under Uhuru's government, Kenya narrowed its focus to Rwanda and Uganda, excluding Tanzania in a club dubbed the "coalition of the willing." While Tanzania has been slower to move forward on agreeing freedom of movement and land issues, some political analysts suspect the snub has more to do with the war in the Democratic Republic of Congo, which borders all three countries. Tanzanian troops are part of the United Nations' Force Intervention Brigade that's been fighting M23 rebels. Although Rwanda denies links to M23, Human Rights Watch accuses the government of direct support.[27] Tanzania hasn't won any favors with the Kenyan government either, after showing reluctance to back Uhuru's bid to defer the ICC case and in particular to have it transferred from The Hague to the Tanzanian city of Arusha.[28]

"Kenya stands to gain more with Tanzania in the East African Community than when it is out of it," says the 69-year-old Odinga. "For Kenya to access the central and southern African markets that we have tried to do for so long, we need to pass through Tanzania."

While the East African Community represents the opportunity for Kenya's economy, Somalia is the country's biggest foreign policy challenge. Westgate was one of several acts of reprisal for Kenya's invasion in the al-Shabaab stronghold of Kismayo in September 2012. Odinga as prime minister co-chaired the National Security Council meeting that resolved to attack the city in alliance with the Somali National Army following grenade assaults on bars and churches in Kenya by the al-Qaeda linked group.[29]

"We didn't go into Somalia blindly," says Odinga. "We were forced in because they fought Kenyans, they kidnapped and killed tourists."

"After we liberated Kismayo, al-Shabaab was like a wounded buffalo, and we in Kenya know that a wounded buffalo is even more dangerous. They were substantially weakened but not defeated, so we knew that it was a matter of when and not if, for them to carry out an attack like they did on Westgate."

Discussion Point: Fighting Corruption – Whose Side Are You On?

While Kenya's cliquey political system helps stabilize governance – with no wild card leaders threatening to lurch policy in a new direction – it also limits the odds of anyone tackling corruption head on or challenging the dominance of ethnicity at elections. With that in mind, I wondered whether the investor craving certainty is on the same side as the activist fighting corruption:

Brett: As a fixed-income investor you want stability and continuity, so you think about what kinds of things could be out there to destabilize the market that we haven't heard of yet – for example, how far back is the opposition willing to go and to what extent are they willing to destabilize financial markets to seek justice or payback for political dealings in the past?

Mwalimu: Redressing grievances was very possible in 2002 and 2007. When Kibaki won in 2002, that was a key pillar. But the purge quickly collapsed when the new government saw this as an opportunity – you know, you find a corruption cartel and instead of punishing them you just join them. And that I think, unfortunately, is what also would have happened to the Odinga side to an extent. There are no serious anti-corruption politicians now.

Gavin: To what extent are you misaligned in what you want to see from Kenya? We discussed this perceived lack of an effective opposition – no challenge to corruption – and for Mwalimu that's presumably a big problem. Yet for Brett, this helps strong government and stability.

Brett: Clearly over the longer term, improvement in transparency and reduced corruption helps to improve creditworthiness and boost bond prices. We want to see predictable, steady improvements rather than volatile swings in one direction or the other because as an investor, we have a base case scenario of what we think is going to happen, and then we shock it to the upside with potentially positive developments. We also factor in potential negative shocks and calculate a risk-adjusted return. If we think there's potentially more upside risk than downside, we'll go for it. If it's a binary outcome, we may sit on the sidelines.

Mwalimu: I don't want shock change as in a revolution, but I do want a revolution in the attitude of the government by re-emphasizing corruption as a national enemy and something that can steal development from the people. It increases the cost of doing business in Kenya if, for example, someone needs work permits and they're not available at the official fee, only for a 10% top-up. Corruption is no longer regarded as a priority issue, and yet it's the sleeping serpent in the house, it's the kind of thing that could trip up all of these great opportunities.

Investor Analysis: TCW's Brett Rowley on Policy

Bottom Line

- Odinga's willingness to accept the court's ruling that validated Kenyatta's **election** victory showed just how far Kenya has come since the election that ended in widespread protests and violence in 2008.
- Although some degree of implementation risks remain, Kenya has made tremendous progress with the new constitution and **devolution**.

Buy/Sell Triggers

- **Intra-regional trade** is set to increase as Kenya and other east African countries try to capitalize on recently discovered, commercially viable natural resources in Kenya, Tanzania and Mozambique. While there may be hiccups along the way, there are more benefits to be shared from greater cooperation than trying to compete with one another.
- Keeping a watch on government **expenditure** is critical as a holder of Kenyan bonds.
- We will also continue to monitor the security situation in Kenya. The **al-Shabaab** threat is unlikely to go away anytime soon, and an escalation in attacks in Kenya could significantly reduce tourist arrivals.

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IV — Prowling Leopard

Njuguna Ndung'u grew up on a peasant smallholding in the Aberdare Mountains.

In the mornings as he walked from the coffee farm to school, hyenas and a leopard would prowl close by.

"I knew as long as I didn't make any sudden movements, the leopard wouldn't attack."

The 12th of 19 children in a polygamous two-mother family, Ndung'u was the first to go to university.

"My father used to tell me, the only way to escape poverty is a good education, so I thought I'll study and one day save enough money to buy a parcel of land to grow tea."

Ndung'u became a professor of economics and bought an 8-acre farm to plant tea for a hobby, before being appointed Kenya's central bank governor.

Sitting in his oak-paneled office in Haile Selassie Avenue, it's the lessons of the central highlands that retain the biggest hold on Ndung'u.

"You have to pull from where you are," he says. "The moment you're appointed governor of the central bank you're in public policy, and public policy in a nutshell is welfare improvement; poverty reduction in short."

His cornerstone has been financial inclusion: getting people however poor to save and borrow. The poorer the individual, the more important it is that they have secure ways to set aside what little they can for however limited a period of time. It's a way to maximize spending power and smooth consumption in good and bad times by providing the capacity to buy when the need is greatest or prices are lowest.

The tricky part was getting financial services out to remote farming communities with small, irregular flows of income at a low enough cost to be profitable for the bank while paying enough interest to prevent savings being eaten away by inflation.

The year was 2006. The worst drought in living memory was causing hunger and malnutrition in Kenya's northeast.[1,2] In the west of the country, a freshman Democrat senator from Illinois named Barack Obama visited his grandmother's village and warned that Kenya's "reassertion of ethnic identity as the basis for politics" was not a good sign.[3] In Nairobi and Mombasa, Kenyans were starting to use their mobile phones to pay for shopping and send money to relatives.

To get cash to a mother in need far away in the countryside, the family bread winner in the city would have to pay a bus driver to carry their money. Mobile phones brought a cheaper and safer solution. Users would buy airtime and then transfer the credit to the person they owed money or to their family to redeem for cash.[4] In a country where far more people have access to a phone than a bank account, airtime credits started growing rapidly.

Kenya's biggest network provider, Safaricom, realized the opportunity and adapted the system in March 2007 to create the world's first SMS-based mobile money, or in abbreviated Swahili: M-Pesa.

Banks were appalled. They lobbied for the central bank to ban the system, citing the risk of fraud. Instead, Ndung'u encouraged M-Pesa's development, telling banks it would help them in the long run by strengthening the financial system and bringing more Kenyans into the formal economy.

As financial inclusion doubled to 67%[5] by 2013, banks went from opposing the system to pursuing tie-ups to turn Safaricom's subscribers into savers and borrowers.

"For financial inclusion, this has been the winning formula to reach the poor and those in geographically disadvantaged regions, away from financial services points," says Ndung'u.

It's also made Safaricom the most valuable member of Kenya's stock exchange, accounting for 24% of the Nairobi All-Share Index with a market capitalization of $6.1 billion (Table 1.1).

We head to the company's sleek headquarters in the Westlands business district, close to the ruins of the Westgate mall. The day's financial papers are dotted about on glass coffee tables, with Chief Executive Officer Bob Collymore grinning from every front page. The company has just reported its best quarterly earnings since listing in 2008. A quadrupling of the shares from the beginning of 2012 has sent the price to over 20 times annual earnings, among the highest valuations of its peer group (Table 1.2).[6]

"One of the tricks about Safaricom," says Collymore, in his spacious office, "is this understanding of the micro nature of the economy. I didn't understand that coming from the UK, but my team understood that."

Kenyans can take out loans of just 100 shillings – $1.24 – from M-Kesho, a mobile account Safaricom set up with Equity Bank, Kenya's second largest lender. They can deposit a single shilling – 1 cent – in an M-Shwari savings account, created with Commercial Bank of Africa.

M-Pesa's green and red logo can be seen in every village across Kenya, transforming shacks and mud huts into formal financial transaction points. The handful of payments through M-Pesa every month to family or friends multiplies to 300 transactions per second from over 11 million subscribers.

The system is being upgraded on projections for twice that amount. Coca-Cola, Diageo and Unilever have started using M-Pesa, partly to minimize the risk of robberies by reducing the amount of cash held with delivery drivers and outlets. Transactions are developing from person-to-person transfers to settling rent, school fees, traffic fines - or buying a bottle of Coke.

TABLE 1.1 Nairobi All-Share Index

Company	% Index Weight
1. **Safaricom Ltd**	**24.1**
2. East African Breweries Ltd	10.5
3. Equity Bank Ltd	8.1
4. Kenya Commercial Bank Ltd	7.6
5. Standard Chartered Bank Kenya Ltd	4.5
6. Barclays Bank of Kenya Ltd	4.0
7. Co-operative Bank of Kenya Ltd	4.0
8. British American Tobacco Kenya Ltd	3.9
9. Bamburi Cement Co Ltd	2.5
10. Nation Media Group Ltd	2.4
11. Diamond Trust Bank Kenya Ltd	2.4
12. I&M Holdings Ltd-New	2.2
13. British-American Investments Co Kenya Ltd	2.2
14. CFC Stanbic Holdings Ltd	2.1
15. ARM Cement Ltd	1.9
16. NIC Bank Ltd	1.8
17. Centum Investment Co Ltd	1.8
18. Umeme Ltd	1.7
19. Kenya Power & Lighting Ltd	1.3
20. Jubilee Holdings Ltd	1.2

Note: The index has 62 members in total. The % index weight is calculated from Bloomberg data as of December 2014. (*Function: NSEASI Equity MEMB GO*).

Kenyan Shares in MSCI Frontier Markets Index
Safaricom Ltd
East African Breweries Ltd
Equity Bank Ltd
Kenya Commercial Bank Ltd
Co-operative Bank of Kenya Ltd

Source: Data compiled by Bloomberg as of December 2014

TABLE 1.2 Relative Value: Safaricom vs. Peers

Name	P/E
Average	12.7
Safaricom Ltd	24.2
MTN Group Ltd	14.9
Oman Telecommunications Co	10.1
Bezeq The Israeli Telecom Co	9.1
National Mobile Telecom	11.2
Bahrain Telecom Co	11.9
Cellcom Israel Ltd	9.1
Mobile Telecommunications Co	11.0
Saudi Telecom Co	11.0
Emirates Telecom Corporation Global	10.8
Ooredoo QSC	14.7
Maroc Telecom	38.5
Etihad Etisalat Co	20.0
Telecom Egypt	8.9

Source: Data compiled by Bloomberg as of December 2014. (*Function: SAFCOM KN Equity RV GO*)

While M-Pesa provides a safer route for money transfers than entrusting the bus driver, it isn't cheap. Charges start at 30%, or 3 shillings to transfer between 10 and 50 shillings. Withdrawing 50 to 100 shillings from a cash dispenser costs 10 shillings.[7]

The cost of a loan through the M-Shwari service was 7.5% a month in 2014. That would mean the customer paying back twice the amount borrowed over a year – though the loans are purposely only for 30 days.

It's a lucrative strategy for Safaricom. The rate M-Shwari pays out to savers is between 2% and 5% a year.[8] Loans are typically around $10, with the risk of nonpayment underwritten entirely by the bank. The service had 2.5 million accounts within months of its launch in 2013.

"I don't ever want to be lending money to buy a car, that's not our business," says Collymore. "But I do want to lend for emergencies."

For Ndung'u, M-Pesa is a start. The next challenge is the third of the population that remains financially excluded – and that demands policies to lift millions out of poverty through economic growth.[9]

Ndung'u began pushing for growth in the aftermath of the ethnic violence of 2008 and the global financial crisis. He repeatedly reduced borrowing costs to stimulate activity in the economy. Initially the central bank's scope to decrease interest rates was helped by inflation slowing to a record low. But even when prices started creeping higher in 2011, Ndung'u kept on going with the rate cuts. Lending soared as benchmark government borrowing rates dropped way below inflation to 2%.[10]

To Ndung'u – who wrote his PhD thesis on controlling inflation – the best way to absorb rising prices was to expand the economy – to increase the opportunities for spending and investment. After all, inflation was out of his hands – the result of droughts lifting food prices and rising global energy costs.

For investors, however, cutting interest rates at a time of accelerating inflation was the sign of a central bank governor losing the plot. They sold the shilling for currencies benefiting from rising interest rates, causing the exchange rate to depreciate the most worldwide. That fanned inflation further by making imported food, fuel and other goods even more expensive. The reaction forced Ndung'u to finally hike interest rates from 5.75 to 18% by the end of 2011 as inflation peaked at 19.7%.

While the shilling soon strengthened again and inflation returned to single digits in 2012, Ndung'u took the wrath of parliamentarians who attempted to fire him through a censure motion. A Reuters poll ranked him Africa's worst policymaker of the year.[11] Then, two years later, Kenya's anti-graft agency filed a case accusing him of abuse of office through involvement in a tender to install security software at the bank.

Ndung'u denied being involved in the tender process. He's equally emphatic that his approach to fighting inflation was right.

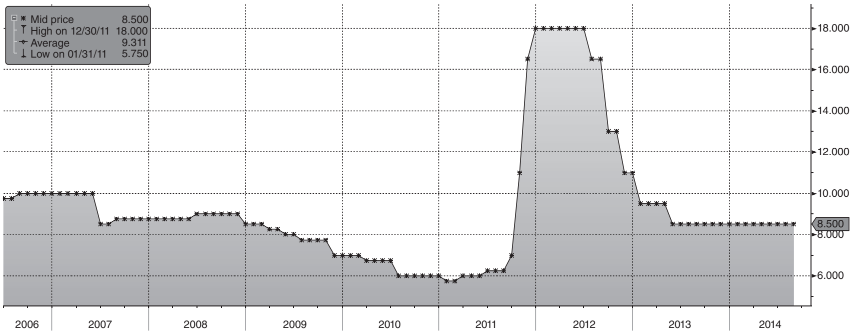
"Many years ago we used to ask, can you trust the central bank? Is he a conservative central bank governor, in the sense that he's going to do what he said he's going to do?" says Ndung'u. "The conservative central banker was very targeted to fighting inflation."

But in the modern world, where inflation is imported through events beyond the influence of domestic policies, central bankers don't have the same anchor to pull prices down, he argues. In the Horn of Africa, the most important inflationary factor is rain, as shortages of food drive up prices and dams without enough water to generate electricity force people to use power generators that run on petroleum. That pushes up fuel prices, adding to production costs across the economy.

The best defense central bankers are left with is a strict pre-commitment to target inflation at a set level. For Kenya, the level is 5%, plus or minus 2.5 percentage points. In 2012, inflation dropped to 3.2% and remained in single digits through 2013 and 2014 (Figures 1.1–1.3).

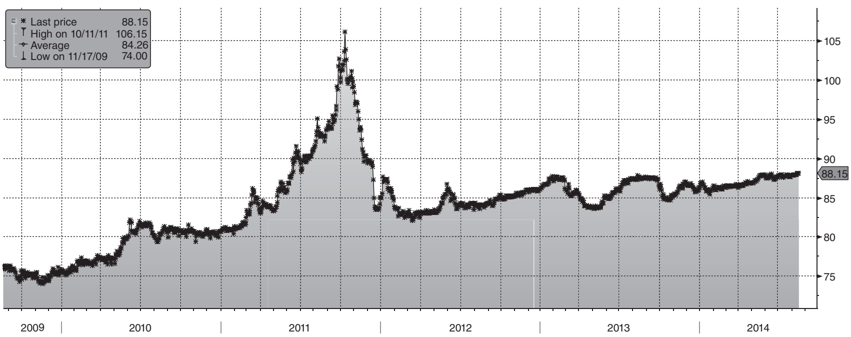
"You have to train the market," says Ndung'u, "because the market is very unforgiving if you don't do the right thing."

FIGURE 1.1 Interest rates by Ndung'u



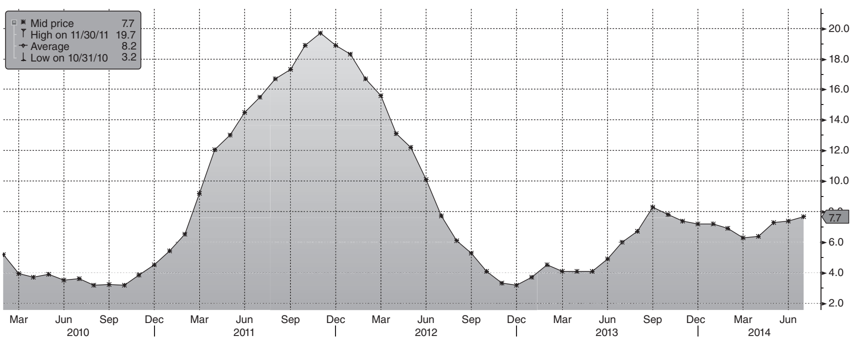
Source: Data compiled by Bloomberg. (*Function: KEIRCBR Index GP GO*).

FIGURE 1.2 Depreciation: Shillings Per Dollar



Source: Bloomberg data. (*Function*: *USDKES BGN Currency GP GO*).

FIGURE 1.3 Rise and fall of inflation



Source: Bloomberg data. (*Function: KNPRIYY Index GP GO*).

My Kenya: Central Bank's Njuguna Ndung'u

- Ultimately, for inflation targeting to work, east Africa needs **three buffers**: food security, petroleum and foreign-currency reserves. The central banks in the region are responsible only for the last one. The crisis of 2011 provides a good illustration.
- The government, through Vision 2030, had developed a stimulus policy for the economy. It meant **domestic consumption** rising, but most of this demand was being satisfied through imports. That widened the current account deficit to 13% of GDP – a crisis level for exchange-rate stability.
- The Vision 2030 infrastructure projects meant spending more **foreign currency** than Kenya could generate in the short run, adding further to the current account deficit.
- The **drought** effect came simultaneously, causing heavy imports of food as prices rose dramatically.
- **Energy prices** increased, with fuel consistently above $100 a barrel. The pass-through effect for the economy is magnified to the tune of 1.5 times.
- The global financial crisis meant everyone was **rushing for dollar** denominated assets. All African economies with a floating exchange rate and open capital account suffered.
- All these factors caused an exchange-rate depreciation and inflation **spiral**. Sudden and drastic monetary policy tightening was needed, not only in Kenya but all the East African Community countries.

Investor's Notebook: Safaricom's Bob Collymore

Politics

Corruption has to be fixed. If you tackle that problem, many of the other issues will sort themselves out. Infrastructure is needed, but you're not going to fix the roads until you fix corruption. The road outside this office gets destroyed whenever the rain comes because there's too little tarmac laid. Why? Because someone has stolen the money.

Business direction

In Kenya, the news comes on at 7 o'clock and 9 o'clock, but people don't want that. They want immediacy. On-demand media is where we see the business heading without a shadow of a doubt. We could be playing relatively prominently in that space – the application and delivery of content to tablets, phones or TVs; aggregating content from media platforms like YouTube.

Products

The cheapest smart phone handsets are $65; we expect the cost to fall to $55. That will help penetration of the market. Suppliers are Huawei, Tecno and Nokia. If you're on a low income, you want a phone that will last you five years; Nokia phones just keep on going until you can't even read the numbers on the keypad.

Stocks Box: Safaricom

Company & Trading Platform	Description	Average Annual Return	Price–Earnings Ratio	Price–Book Ratio/NAV	Return on Equity	Gross Dividend Yield	Market Value ($m)	Top Holders %
Safaricom Nairobi Stock Exchange	Kenya's biggest listed stock & No.1 provider of mobile services incl. M-Pesa mobile money	36% since listed 2008	24.2	6.1	26.8%	3.4%	6,129	Vodafone 39.9% State 35.0% Free float 25.1%

Source: Data compiled by Bloomberg as of December 2014

Investor Analysis: TCW's Brett Rowley on Safaricom

Bottom Line

- We **own** some Safaricom stock, it's one that we have liked for a while. M-Pesa has been phenomenal both for the company and the country.

Buy/Sell Triggers

- My main focus is the next step. They're moving forward with M-Pesa, not just stagnating because it's been such a great success. They're **partnering up with banks** so they can take deposits and lend. It will be interesting to see how these relationships develop.

- Bob Collymore is clearly looking at what's going on in other telecoms around the world. I was impressed with how quickly he answered the question on **expanding to other media**. It was a very definitive "yes." They have a captive audience and they'll get content deals with channels. It could be another growth leg.

Investor Analysis: TCW's Brett Rowley on the Central Bank

Bottom Line

- Ndung'u has been a real champion of **financial inclusion**. It's not just words for him. M-Pesa has been a game changer. He was critical in letting this new idea take shape.
- I was impressed that right after the **Westgate** attack the currency appreciated, which was a sign of the confidence investors have. Kenya sold infrastructure bonds that week.

Buy/Sell Triggers

- I do have a concern that history could **repeat** itself, that the central bank won't tighten monetary policy when needed.
- Although Kenya's newly discovered natural resources should boost the country's exports over the medium term, investment to exploit these resources requires substantial capital goods imports. This suggests that Kenya's current account **deficit** is likely to remain elevated in the near term. That could put downward pressure on the shilling.

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V – Clinker

The thinly tarmacked roads that vex Bob Collymore in the business district of Nairobi aren't typical. Most have no tarmac at all.

Dusty tracks connect towns and villages housing people in the same round mud huts and wooden shacks their ancestors built before them. Paved roads and concrete homes are still an aspiration.

Despite purchases of cement rising by over 60% in the past five years, Kenyans use only a third of the quantity for each South African and a fifth of the amount by Egyptians. With the IMF predicting Kenya's economy will grow by at least 6% a year through this decade, a boost in construction seems a logical bet.[1–3]

The trend in developing countries is for cement use to increase at almost twice the pace of economic growth, says Pradeep Paunrana, the chief executive officer of Athi River Mining, Kenya's biggest cement maker after Bamburi Cement. For Kenya, that's amounted to an increase of 14% a year since 1999.

"The biggest mistake of my career," says Paunrana, who took over running ARM from his father, "was underestimating the demand for cement in this region. Had we believed in those numbers – that it was possible to grow at 14% every year for the next 14 years – we would have taken some different steps to build capacity, but we missed that."

Kenya's demand for cement could double again by 2020, Paunrana says. Currently most goes to Nairobi for homes. Commercial construction such as warehouses makes up around 15% and government contracts slightly less, he says. With the government's Vision 2030 agenda, the state segment could grow rapidly.

Infrastructure projects like the Nairobi to Mombasa railway will not only increase use but should also create major cost savings to boost the economy. Using his own business as an example, Paunrana estimates a good train system would cut his cost to transport a ton of cement from Mombasa to Nairobi from $45 to $15. The saving across the economy from an efficient transport system may be equivalent to 10% of GDP, he says.

Paunrana is busy adding plants to grow his production capacity. He plans to spend $250 million building a factory to make clinker, the main cement ingredient, and a further $50 million on other expansion projects. Although ARM has shares listed on the exchange, the $300 million will probably come from the debt market. Paunrana is looking at a sale of Eurobonds, a type of IOU issued to international investors that can be bought and sold on financial markets. It's a relatively unusual step for a Kenyan company.

Whereas in most emerging markets, the amount of shares investors can buy is dwarfed by a mountain of tradable debt securities, or bonds, in Kenya, the situation has been the reverse.[4–7] While Nigeria has targeted international investors with Eurobonds since 2011, Kenya delayed tapping the market until 2014. Companies waiting for the government to set a benchmark rate so they could start borrowing in the bond market turned to banks for loans instead.[8]

Things are changing rapidly though with Kenya's inaugural Eurobond firing the starting gun for corporate borrowers. The Nairobi Stock Exchange has said it expects the amount of bonds sold by companies to reach the equivalent of 40% of GDP by 2023, compared with less than 2% now. That would open up a whole new market for investors like Brett.[9]

"The faster we develop the credit markets," says Paunrana, "the faster we can build capacity."

TABLE 1.3 Relative value: ARM Cement vs. Bamburi

Name	Market Value ($m)	Earnings Per Share (1 Year)	Price–Earnings Ratio	Return on Equity(%)	Dividend Yield(%)
ARM Cement	472	9.3%	28.4	18.0%	0.7%
Bamburi Cement	624	–21.5%	19.6	9.8%	9.7%
Peer Group Average	-	–7.7%	18.1	12.2%	3.1%

Source: Bloomberg data as of December 2014. (*Function: ARML KN Equity RV GO*)

Investor Analysis: Brett Rowley on Kenya's Bond Market

Bottom Line

- We've noticed in several countries that when the government comes out with a benchmark bond sale it sets the tone for **companies to issue** bonds.
- One thing that would help to get investors like me on board is to make the amount **big enough** to be included in the main indexes used by bond fund managers. Without inclusion in these indexes, the bonds can become illiquid, meaning it takes longer to find a buyer when you want to exit the investment.[10]
- Another issue is where the bonds are **registered**. As a US-based investor, it's much easier to buy bonds that have so-called 144a authorization from the Securities & Exchange Commission in Washington. Buying bonds that have only the European "Reg S" approval requires additional hurdles.

- Bonds that have a credit **rating** assigned to signal the level of risk are a good place to start. The rating agencies are another pair of eyes that look at the issuer's credit fundamentals.
- **Local-currency bonds** governed by domestic regulations can offer better value than international bonds as the yield tends to be a little higher. Some impose withholding and/ or capital gains taxes, so we evaluate our expected returns on an after-tax basis.

Bond Box: Kenyan Government Bonds

Security & Trading Platform	Asset Description	Maturity/Amount Outstanding	Average Annual Price Change	Coupon/ Annual Interest	Yield
Sovereign Eurobonds Euroclear/ Clearstream	Kenyan sovereign debt Dollars	2019 + 2024 Largest is 2024 maturity with $2 billion	N/A	6.875% on 2024 bond	5.9%
Infrastructure Bonds Nairobi Securities Exchange	Kenyan sovereign debt Local Currency	2018–2025 Biggest of the 6 bonds matures in 2025 with 36.9b shillings ($410m) outstanding	N/A	12.5% on 2021 bond	11.7%

Source: Data compiled by Bloomberg as of December 2014

Investment Pipeline: Kenyan Bonds

Security/Trading Platform	Issuer Description	Issuer Comments
ARM Cement Inaugural corporate Eurobond	Kenya's second biggest cement maker after Lafarge's Bamburi	Managing Director Pradeep Paunrana: ARM Cement plans to sell $300 million of Eurobonds to boost capacity. "The faster we develop the credit markets, the faster we can build capacity."

Investor Analysis: TCW's Brett Rowley on ARM Holdings

<u>Bottom Line</u>

- As the country develops its infrastructure there will be a lot of **demand** for cement – many people still live in mud huts beyond the center of Nairobi, and roads are unpaved.
- ARM has a good capital expenditure plan. We would definitely consider **buying** if they come to the Eurobond market.

Stocks Box: ARM Cement

Company & Trading Platform	Description	Average Annual Return	Price–Earnings Ratio	Price–Book Ratio/NAV	Return on Equity	Gross Dividend Yield	Market Value ($m)	Top Holders %
ARM Cement Nairobi Stock Exchange	Kenya's second biggest cement maker after Lafarge's Bamburi	48.1% since listed 1997	28.4	4.7	18.0%	0.7%	472	Amanat 27.7% Paunrana 18.1% Free float 48.4%

Source: Data compiled by Bloomberg as of December 2014

Endnotes

1. Ombok, E. (2014) ARM Cement awaiting directors' approval for South African plant, Bloomberg News. Available at: http://www.bloomberg.com/news/2014-01-02/arm-cement-awaiting-directors-approval-for-south-african-plant.html.
2. Cement consumption per capita was 103 kilograms in 2013, according to data from ARM.
3. Emerging Market and Developing Economies: Real GDP (Annual % change), IMF, World Economic Outlook, p. 186. Available at: http://www.imf.org/external/Pubs/ft/weo/2014/01/pdf/text.pdf.

4. Kenya's total outstanding government bonds totaled 1.15 trillion shillings ($13.12bn) in April 2014, before the sale of Eurobonds: Ndung'u, N. (2014) Expansion of the Kenyan Bond Market, African Financial Markets Initiative. Available at: http://www.africanbondmarkets.org/en/news-events/african-bond-market-review/article/expansion-of-the-kenyan-bond-market-52164/.
5. Kenyan bonds listed on Bloomberg totaled 14 billion shillings ($160 million) as of June 2014, before the government's inaugural Eurobond sale. Bloomberg function: SRCH GO.
6. The government issued 252.2 billion shillings of bonds in 2013, according to data provided by the Capital Markets Authority's Statistical Report. Available at: http://tinyurl.com/ozmek97.
7. Total amount of Kenyan equities on the Nairobi Securities Exchange All Share Index as of June 2014 was 2.12 trillion shillings ($23.9 billion), according to data compiled by Bloomberg: NSEASI Index DES.
8. Gachiri, J. (2014) Treasury delay in Eurobond issue to hurt companies, *Business Daily*. Available at: http://www.businessdailyafrica.com/Treasury-delay-in-Eurobond-issue-to-hurt-companies/-/539552/2220296/-/b3kxu1z/-/index.html.
9. Ombok, E. (2014) Kenya Bourse plans derivatives, REITs to boost market value, Bloomberg News. Available at: http://www.bloomberg.com/news/2014-02-19/kenya-bourse-plans-derivatives-reits-to-boost-market-value.html.
10. Bonds must be at least $500 million to be included in the JPMorgan EMBI Global and CEMBI indexes. The CEMBI Broad Index includes bonds of at least $300 million.