THE Financial Post

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How churches are funding business

By Guchu Ndung'u

At the height of the economic depression that swept Kenya during the late 1980s, one Christian brother was in dire financial straits.

Prayers, though welcome, were not able to meet his immediate needs of sending his kids to school and putting food on the table. Even his ambition of one day running a business on his undeveloped piece of land in Kiambu District seemed like, at best, a far -fetched dream and, at worst, a mirage.

It was at this point of desperation and hopelessness that he turned to the Navigators, a Christian missionary group, which agreed to lend him US$ 1,000 (Ksh 70,000), on the understanding that he will re-pay the money.

Today, this lending scheme which begun as a philanthropic project, has expanded to impact on the lives of over 250 entrepreneurs.

Through its Economic Project Trust Fund (EPTF), the organization has lent out over Ksh 60 million to various Christian entrepreneurs, most of whom have no collateral but possess highly viable business ideas.

Navigators joins a league of churches and church-based organizations slowly redefining how the church once seen as a melting point of anti-business sentiments, has not only embraced but also supports entrepreneurship.

They are helping their members plunge into the world of business enterprises either through quasi-autonomous bodies or organizations with a leap of faith.

When *The Financial Post* contacted the outgoing National Council of Churches of Kenya (NCCK) Secretary General Mutava Musyimi for comment, his office directed us to a lending behemoth owned by this church organization.

At the moment, it has already has lent out over Ksh 3 billion to some 25,000 enterprises strewn across the country.

Established to support a feeding programme within the sprawling Nairobi's Mathare Valley slums way back in the late 1970s, this small and micro enterprises programme (SMEP) has become a fully-fledged non-profit company limited by guarantee and owned by NCCK, which is an umbrella body representing all protestant churches in Kenya.

Other relatively new and rapidly expanding evangelical churches have also taken the cue. At the Jubilee Christian Church (JCC) led by their youthful pastor Rev Allan Kiuna, a business club meets weekly to assist fellow entrepreneurs through mentoring and advisory services.

Downtown, faithfuls of the flamboyant Jesus is Alive Ministry (JIAM) Bishop Margaret Wanjiru are laying their entrepreneurial hopes on the Glory Development Fund, a self-help micro-finance project of JIAM hoping it will hatch the church's next generation of entrepreneurs.

Rules of this fund require that a member be introduced by a fellow church member. After this vetting, those who qualify are required to pay Ksh 300 as registration fee. One is then legible for a loan after saving with the fund for three months.

Members are offered 80 per cent of their savings as loan to be repaid at an interest rate of 18 percent per annum or 1.5 per cent per month.

Efforts to get a comment on the amount lent out and other plans for the 1,700 member micro-enterprise, whose operations were temporarily halted during a crackdown on micro-entreprises that followed the closure of Akiba Micro-Finance in 2005, were fruitless.

Bishop Wanjiru promised to get back to us but had not done so by the time we went to press.

The only strand linking these church-based funding schemes and entrepreneurship is the Christian element. Otherwise, their operations are as varied and different as the biblical day and night.

For instance, at the Navigators, your Christian curriculum vitae matters as much as the business plans that you present to the committee that evaluates the enterprises to be funded.

One Wanjau Nduba offers that for an individual to qualify for the Navigators' scheme, which is tailor-made for Christians, the applicant must have a strong Christian background and involved in such activities as Bible study. The applicant must also be someone known to a member of the Navigators Christian congregation.

"This is because we do not ask for collateral. Your character is your collateral. So it has to be known," says the official who joined the Christian organization in the 70s.

The Navigators offer loans at an interest rate of 12 per cent repayable between three to 36 months and peg their funding on the business proposal.

At the Nairobi Pentecostal Church (NPC), there is a busines vehicle, the *La Nyavu* Sacco Society Limited, which draws its membership largely from NPC affiliates across the country.

Apart from being believers of Christian faith, NPC ups the integrity ante by insisting that members of the SACCO must not have any criminal record including a court conviction.

"Our common bond is the Nairobi Pentecostal Church. There are over 2,000 members and to join, one buys shares at Ksh 3,500, besides monthly contributions," offers Haron Nyakundi, the vice chairman of the Sacco.

Though collateral-free, members can only access the Sacco loans after saving with it for over six months and are guaranteed by other members of the Sacco.

The NCCK-operated SMEP is more liberal, offering loans to all denominations irrespective of their beliefs.

Its Operation Manager Simon Karimi says that all one requires to belong to the group is to have operated with it for over six months.

Entrepreneurs can access loans of between Ksh 5,000 to Ksh1 million, payable at an interest rate of 1.6 per cent per month.

"However, we are Christian-oriented, as shown by the high levels of integrity in our operations," says the Karimi.

He adds that the SMEP has been chosen by the Ministry of the Youth Affairs to disburse the Ksh 1 billion kitty. The fund now plans to operate as a micro-finance institution once the Microfinance Act, 2006 becomes operational.

Many attribute the churches' forays into entrepreneurship to the stiffness and aloofness of banks to the needs of the ordinary savers, especially during the 80s and 90s. This period saw banks raise their minimum deposit requirements with interest rates on loans skyrocketing. The only refuge for their would-be customers was inside the prayer room.

"The churches felt they had to do something for their flock," says James Maina, a microfinance analyst who has worked with various institutions. Indeed, according to Nyakundi of NPC's *La Nyavu* Sacco, which was formed in 1997, the economic situation prevailing then trashed the notion that the church was only a place for spiritual nourishment.

"Though we had good and faithful Christian leaders, we realized they were struggling in life. We cannot preach the joys of the Lord to a hungry person," says the Vice Chairman.

Maina also feels that it was a matter of self-interest.

"They also need people to be funding the ministry. Who are better placed than their own businesspersons?"

Nduba traces the churches' dabbling in entrepreneurship and the end of the''puritan gospel'-where the church's role was limited to only spreading the Word-to the departure of missionaries who handed over the reigns to African church leaders.

"While the missionaries were well funded from abroad, they went with the dollars. The people who took over had to find a way of helping their flock without relying on foreign support. Helping them start an enterprise was one of the ways," says the 46-year-old economics graduate.

Karimi of SMEP is unequivocal. "It was a change of the environment. The church had no business dealing with people if it could not meet their needs."

The changing demography of the church also played a significant role. During the early days, the House of God was filled with civil servants and other working class people with graduates also enjoying state subsidies and everyone in the flock was, at least, economically 'nourished'.

Enter unemployment, currently at over 60 per cent of the population, and the church had to change.

"Suddenly, civil servants became retrenchees and the young generation found itself jobless. You cannot spend a whole week in the choir or prayer meeting. The flock has to pay the rent, feed children and pay their fees," notes Maina.

The entry of the church in entrepreneurship also has its hoard of critics especially with one 'figure-head' churches coming under heavy criticism for awarding such enterprise money based on the closeness to the spiritual figurehead and 'Christian element' of the applicants rather than the viability of their business ideas.

"They look at the character behind the person who has the idea than the idea itself. You may have a good idea but you are no knight in shining armour. Everyone, irrespective of the feelings of the moralists, deserves a shot in the arm," a follower of one of the evangelical churches whose enterprise project was turned down, on condition of anonymity, told *The Financial Post*.

She fronted another 'acceptable' follower who presented the idea which she says was funded and now they work as partners.

Also, apathy is rife especially between organizations where Christians guarantee their brethren. In case they fail to pay, the brothers and sisters in Christ may find it 'unchristian' to move in and repossess property from the creditors.

Ideologically, the churches foray into business has purists on its neck and the many verses that cast aspersions of wealth as ungodly do not help.

Top on their firing arsenal is Jesus' words in Matthew 6:19-20.

'Do not store up for yourselves treasures on earth, where moth and rust consume, and where thieves break in and steal, but store up for yourselves treasures in heaven.... For where your treasure is, there your heart will be also.'

They in turn cite verses the paint positively the concept of saving. For instance, Proverbs 21:20 which says that a foolish man spends his money but a wise man saves.

And there is the issue of the bottom line.

"Business in not ungodly since, for example, the disciplines of Jesus were fishermen, there is the example of the three people who were given talents where one kept while the other two invested. The two who invested got Jesus blessings," says Nduba.

The churches also have to distance themselves from accusations of spreading the gospel of prosperity, a rising but controversial mode of gospel that insinuates that God wants Christians to be financially rich. It confirms to the wealthy that their wealth is proof that God loves them.

The flipside is, however, that the gospel, which is popular with televangelists, teaches that poor believers are doing something wrong thereby blocking them from God's financial blessings.

It insinuates that the poor do not love God enough, or do not have enough faith or are not giving enough money to support 'His work'.

"The gospel of prosperity is wrong and those engaged in it are doing it for selfish reasons. We want to empower the flock and not just the leaders of the church," Nduba, a born again Christian defends entrepreneurship in church.

He, however, admits that such apathy has led to Christians shying away from business and remembers a lull in the late 90s when the Navigators had fund but not enough projects to fund.

"And who said Christians should live an inferior life? They are the most faithful people and pay their taxes? They should live a comfortable life. Poverty does not glorify God," says Nyakundi.

The Moderator of the General Assembly of the Presbyterian Church of East Africa (PCEA) Rt. Rev. Dr. David Githii, for instance, says wealth is not evil so long as it is acquired rightly.

"After all, the Church is not a place for the poor. This is based on a negative mentality missionaries brought into Africa," argues Rt. Rev. Githii.

As we celebrate the Easter holiday, Christians can rest assured of not only the resurrection of Jesus Christ, but also the rising spirit of entrepreneurship.

Their only hope is that those cited as having betrayed him for 30 pieces of silver were not entrepreneurs.

Banking

In the saddle of a financial giant

By Samwel Kumba
and Justus Ondari

It all began with a simple advertisement in the *Economist* magazine. As head of reporting and compliance for Barclays Bank PLC in charge of the African regional office Martin Oduor-Otieno was going through the magazine when the said advertisement caught his eye. Kenya's most capitalized financial institution, Kenya Commercial Bank (KCB), was searching for a deputy chief executive officer (CEO).

"I actually had picked up the job advertisement in the *Economist* while in South Africa, still working with Barclays bank," explains Martin, a father of four.

Martin who had taken up his Barclays Bank job in the wake of the aftershocks that hit corporate America in 2001 following, among others, the Enron saga, applied for the job. After a rigorous interview process, the soft-spoken technocrat clinched the three year contract in 2005 to deputize the CEO Terry Davidson.

He was charged with strategy formulation, subsidiaries revival and search for new markets. His short stint in this capacity saw him contribute significantly to the opening of KCB Sudan and the rejuvenation of KCB Tanzania.

"I was charged to drive the strategic planning agenda for the bank. Within my period of stay, we were able to formulate with the board a 5-year strategic plan which will drive the bank forward between 2007 and 2011," explains Martin.

As the principal deputy to Davidson, Martin was also tasked to work on management cost restructuring.

"It has been a whole range of responsibilities. Through this re-organization and restructuring, we have now brought all our business units together and I was leading the team. This has helped us so much because we can cross-sell our products under one armpit."

Slightly more than a year since taking up his new job, Martin was back at up-dating his CV after the bank's board answered to the wishes of Davidson who did not want to re-new his contract set to expire next July by advertising the position of the CEO. To cap a career ambition of heading a big organization at one time, the 50 year-old Martin was confirmed as KCB CEO last month awaiting to take over from the outgoing CEO who, however, has expressed his intention of leaving before July.

"I will leave before then (July) because I feel it will not be prudent for an organization to have two CEOs at the same time," Davidson is quoted as having said.

However, Martin denies the argument in some quarters that he was actually plucked from his South African job in 2005 to warm the deputy's seat awaiting Davidson's term to expire to move up the ladder.

"It (job) was never given to me on a silver platter. It was through competitive bidding and I am happy to have emerged at the top," says Martin who has been in the financial industry for the last 28 years, 15 of which he has been in the banking sector.

Dreams

Born to the late Peter and Mary Otieno, the KCB CEO dreamed of becoming a teacher like his late father.

He explains: "I wanted to follow the footsteps of my father into teaching. Even while I was doing my A level examinations at Cardinal Otunga High School, Mosocho in Kisii, I saw myself as a very successful teacher in future."

Once a teacher always a teacher and although he was not take up the chalk as his career, Martin believes he could have made a good teacher.

"I believe I could have been a very good teacher. I remember at British American Tobacco (BAT), I developed a lot of manuals about accounting for distributors and I went all over the country educating tobacco distributors on financial discipline and accounting. I am also involved the Kenya College of Accountancy on corporate governance," says the incoming CEO.

It was disappointing for the self-proclaimed 'teacher' when he was selected to pursue at the University of Nairobi his third choice, a Bachelor of Commerce degree rather than his first choice career course- Bachelors of Education. But he was in for a rude shock.

"I opted to specialize in accounting and then it dawned on me that it was actually the course I really was wanted to do. I was taken in by Pannell Bellhouse Mwangi and Company-currently Ernst and Young- as an audit trainee in 1979 and the rest is history," explains Martin who is a member of the board of directors of Kenya College of Accountancy and that of the Institute of Directors of Kenya.

But Martin has never hidden his ambitions and told his interviewees when joining BAT in 1982 that he wanted to be a CEO of a big company like BAT one day.

It was at Barclays that he was to put his ambition to practice. "At Barclays, I wanted sit in the board but the finance director was not designated to be on the board but I successfully lobbied the condition to be changed. Indeed I was the first finance director in Barclays to be in the board, a tradition that was followed by Adan Mohammed (current Managing Director) and Charles Ongwae, the current Finance Director."

Between 1992 and 1997, Martin was the bank's financial controller, company secretary and treasurer before being made executive director in charge of finance and planning in 1997.

In 1999, former President Daniel Moi appointed him Permanent Secretary, Ministry of Finance and Planning, under what came to be known as the Dream Team led by conservationist Dr Richard Leakey.

Dream Team years

He describes the two years at Treasury as 'difficult'.

“The World Bank and the International Monetary Fund (IMF) had withdrawn their programmes from the country. Our mandate was to try and come up with a programme that could lead to a resumption of aid from the two Breton Wood institutions. This, we did,” explains the incoming KCB CEO.
But all was not well for the Dream Team along the way.
“If an organization is not performing well, people get demoralized, lose the motivation and, for us, things were not really exciting as we faced a difficult time.”
However, according to Martin, all was not lost since some of the Dream Team programmes have continued to bear fruits and cites the restructuring around financial planning proposals like Poverty Reduction Strategy Programme (PRSP), Medium Term Expenditure Framework (MTEF).
“We also came up with some of the corporate disciplines and good corporate governance that are practiced today. Our mandate also included strengthening capacity building in institutions like the Judiciary, Kenyan Anti-Corruption Authority and the Attorney General’s office all of which have come to pass,” says Martin.
The Dream Team was to leave in a huff at the expiry of their 2-year term but Martin says the two years were actually “many years crumbed into two years.”
“We were working for pretty long hours. And do not forget that there were politics during those days but we were able to navigate through,” he remembers vividly.
But he does not perceive the Team’s tenure negatively:’“We played our role and it got to a time when a different mindset was required to drive the agenda forward. In any case, our contract was a 12 to 24-month period. For instance, when I was released from Barclays, the agreement was that I was to be in government for a period between 18 and 24 months. And we did about 21 months. So our departure was within our contract framework.”
He returned to Barclays where he became the Regional Head of Business Support in 2001 after a brief stint as project manager.

Future

The incoming CEO is full of praise for his predecessor.
“My predecessor did a good job. I am taking over a bank with a solid foundation, a very clear strategy and committed staff, a bank that has the momentum to carry itself forward to the next level.”
The CEO designate is determined to steer KCB to reclaim its position as the best bank in the region.
“My role as the leader of this bank is to build on the foundation that has already been laid and take the institution to the next level in terms of growth and expansion. I would like to see, during my stay in the bank, a continued growth in terms of the balance sheet performance, profitability, reach and customer base. Looking down the line at the end of my four year term contract, I would like to leave a legacy of a really strong bank which is seen as a leader not only in Kenya but also in the region,” envisions Martin.
“Going by profitability, for instance, last year we were third after Barclays and Standard Chartered banks but we are second to Barclays in terms of the size of the balance sheet. If you look at branch network, we are the leading. Over the next couple of years we are just out to improve the productivity, use our balance sheet better to grow our business so that we can reclaim our position of the leading bank in the region.”
He cites the implementation of a new information technology (IT) with an eye on the general growth.
The bank is investing $ 8 million (Ksh560 million) in the ultra modern banking software known as T24 to be supplied by Temenos Corporation of Geneva, Switzerland, which won the tender to install and maintain the system.
The implementation begins this month and will take between 12 to 18 months to complete.
But what does it mean to the bank?
“It is a much more flexible system with which we can easily introduce IT related banking products like Internet and home banking, process transactions much faster and in terms of managing information, we will be able to manage our customers and businesses better.”
Staff development is also a priority to Martin, who has previously served in the KCB board.
“We will continue to develop our staff because without good manpower, we will not make it.”
The CEO designate reveals that the bank will be rationalizing its branch network by opening some while consolidating others where need be.
“We are not going on large scale closure of our branches, say, in the rural areas because experience has taught us that this is where growth will be experienced with the government channeling funds to the rural areas through Constituency Development Fund (CDF), Youth Fund, Women Fund, health funds and the bursary funds,” explains Martin.
The bank is targeting new district headquarters and constituencies.
“We are tracking the East African Community (EAC) because we believe that there is a lot of potential in countries around East Africa. We are already looking at expanding business opportunities in both Tanzania and Southern Sudan where we already exist.”
Indeed its Southern Sudan subsidiary is in a trailblazing performance.
“When we went in, our business plan clearly stated that we will break even in the third year but we have done it in the first year. Within the last 8-10 months, our balance sheet for our two branches in Southern Sudan is as big as some banks in this country. Their assets total over Ksh 1.5 billion. For just less than a year, this is tremendous performance. And there is still a lot of potential for expansion. There are obviously a lot of challenges including regulatory, infrastructure but the business is moving in the right direction,” says Martin.
KCB is exploring other countries where it is not represented such as Uganda and Rwanda.
“In about 15 years’ time, we should be seeing ourselves as a pan African bank,” envisions Martin who is a fellow of the Kenya Institute of Bankers and a member of the Institute of Certified Public Secretaries of Kenya.
How safe is KCB from falling into the same trap which has seen many organizations go under after growth gets out of control?
“Growth becomes a challenge if it just happens. But if it is well managed, then it is not a problem. In our case, we have got a 5-year strategic plan which defines the steps that we are going to go through.”

Attributing the past problems of the bank to poor risk management systems, the new CEO says a risk management framework is in place now.

"The bad loans became a problem because there was no proper risk management system. We now have a fairly robust planning, management and monitoring system in place to ensure that we do not skid as we move on," he explains.

Non-performing loans

In 2001/2, the KCB management came up with idea of the good and bad banks with all the non-performing loans (NPLs) falling under the latter. It was not a separate institution but the management allocated resources to manage that particular book and it has done tremendously well.

"We have made recoveries where we could, structured debts where there were opportunities and potential for those with loans to continue performing and we are still making recoveries. Where we were not able to recover, we have made adequate provisions in our books over the years to ensure that it does not impact our future. Today, the figure is small," Martin says.

Martin attributes the NPLs to the economic downturn of the 1990s but many feel political factors had a role to play. How safe is the institution from political interference today?

"Over the last one and half years I have been here, I have not seen anything that I would consider to be political interference. Our outgoing CEO Terry (Davidson) who has been here for the last four and half years confirms to me that he has not come across

Investment

Is recovery at the stock exchange for real?

By **Jackson Okoth**

Uncertainty persists at the Nairobi Stock Exchange (NSE) as the market creeps back from a period of falling stock prices in what is widely perceived to be 'temporary recovery'.

According to John E. Kirimi, Director of Sterling Securities Limited, the prevailing recovery at the NSE can be attributed partly to positive perceptions by investors.

"The number of incoming initial public offers (IPOs) is definitely influencing the pattern of trading at the market. The recent unlocking of aid by donors, the release of the Steadman poll results and other pronouncements in recent weeks is also driving up the index," says Kirimi.

He, however, warns that the perceptions of the investor could change overnight, due to the careless utterances of politicians, given that this is in an election year.

"Perhaps the market had also hit the rock bottom and the only other way was for it to rise. When prices fell, the price per earning ratios also came down, attracting professional investors who then went into the market to buy, thereby increasing demand and pushing up share prices again," says Kirimi, a leader stock broker.

It is anticipated that the NSE 20-share index, which captures the level of activity at the bourse, will oscillate between 4000 to 6000 points in the coming weeks as trading becomes cautious ahead of the general elections, analysts project.

"The IPOs lining up could boost activity at the exchange, especially the one by Safaricom, which is definitely going to blaze the market. However, the pricing of these IPOs is going to be critical. You can recall how investors got their fingers burnt with the overpriced Mumias secondary shares offer when their prices fell at the beginning of trading," says Kirimi.

Access Kenya Group and Safaricom IPOs are already billed as one of the activities that are going to cause excitement at the NSE.

Considered one of the largest corporate Internet Service Providers (ISPs) in Kenya, the listing of Access Kenya will make it the only technology firm at the exchange. Others IPOs bound to excite and improve liquidity at the market include Safaricom, Sarova Group, Kenya Re, Telkom Kenya and Wananchi Online.

Over the past few weeks, the market has been on a bear run; shedding off more than Ksh 110 billion, as share prices of almost all listed companies fell.

"It is the small speculators who have been hurt by this market correction. Institutional investors, who discern the market movement, will hang around, until after the correction," analysts say.

A bear market is a prolonged period in which investment prices fall, accompanied by widespread pessimism. If the period of falling stock prices is short and immediately follows a period of rising stock prices, it is instead called a correction.

Statistical data obtained from the NSE indicate that activity at the bourse hit the highest point this year, with the 20-share index rising to 6161.46 points at the end of trading on January 12, 2007. The market maintained its bullish run during the months of January and February.

But it was in the month of March that the index fell to below the 5000 points, hitting a rock bottom of 4465.09 points at the end of trading on March 23, this year. It was at this point that the bear market ended and the market has been on a gradual recovery since, with the index recording 5183.11 points by close of business on April 3, 2007.

Interestingly, it was during this period that companies were releasing their financial results. Despite favourable returns by listed firms, especially commercial banks, share prices continued to dip, defying market fundamentals.

"Normally, prices should have gone up with news of these results but instead the trend was reversed and the market dipped," says Kirimi.

"However, the index cannot be said to be reliable and representative as not all companies are captured by the index, especially those whose shares trade in large volumes or experience a boom. Given that the market is also characterized by a high element of speculation, the index may not be able to capture this element and might not be reflective enough", says Karimi.

As the market moved to the Easter holiday mood, the NSE index continued to surge steadily, rising by 33.57 points to close last Wednesday's trading at 5216.68. This was the level of activity during the first week of March this year as the bear market phase set in. By the time of going to press, the market was still clawing its way out of the bottom pit.

Enrepreneur

The rise of Pamela's Amaica

By **Mary Maina**

Hardships can be life changing and only a right attitude hammered with resilience, if Pamela Muyeshi's life is anything to go by can help one face life.

The death of her diabetic mother dashed her dream of pursuing medicine, but currently she runs a restaurant worth Ksh 5.5 million-a truly unprecedented about turn.

Going by the name Amaica, the restaurant which is located at the China Centre along Ngong Road, specializes in traditional African cuisine though with a bias towards foods from Western Kenya.

Indeed Amaica's concept is an epitome of healthy living as opposed to consuming fatty foods. She uses milk cream and peanut gravy in her cooking.

"We use Munyu, which is water drained from dried bean pods ash, to soften smoked meat. This was traditionally used for purposes of preservation. During the Rift Valley Fever scare, we sold a lot of meat because of our preparation methods. We give our competitors a run for their money," explains Pamela.

Amaica, which is Luhya for the three traditional cooking stones, was inaugurated by Vice President Moody Awori on November 30, 2006 and has since thrived on.

During the interview, she had to split her time between the teeming customers and *The Financial Post* (*FP*) crew.

"The concept has been well received. Most of the clients who learn of our existence recommend others.

Our target clientele is those who have realized that traditional food is healthy," she offers.

Trained as an information technology (IT) specialist, the destiny of the light skinned mother of one was not intertwined with the hospitality industry .

Born in Kakamega, Pamela attended Alliance Girls High School before moving on to Limuru Girls High School for her 'A' levels.

Her dream of becoming a medical doctor was nipped when her mother was diagnosed with diabetes and she passed away when Pamela was still in high school.

"She died the year I was doing my final examinations. This adversely affected my performance and I never made it to a medical school," she vividly recollects as tears appear in her eyes. Her entrepreneurial journey began after school when she sold *barafu* (flavoured ice cubes) in Kakamega.

The angels were on her call and, fortunately, some of her mother's friends offered to educate her thereby enabling her to proceed to the Kenya Polytechnic for a Diploma in IT after which she landed a job at Mumias Sugar Company.

"Even at Mumias, I started selling items. I would import clothes, electronics and furniture, the latter two on order. For the clothes, I would just import and sell from my house. I just loved doing business."

Pamela later joined the Federation of Kenya Employers (FKE) a decade ago and it was then that she discovered an unexplored niche market in the hospitality industry- traditionally cooked food for heath conscious customers**.**

"Each time I went out and wanted to have a traditional meal, I could not find a decent eating place. Most places that serve traditional food in Nairobi are not very decent. They do not have ambience, no secure parking and the food preparation is not up to standard," she explains. To actualize her dream, Pamela liquidated her import business and successfully applied for a loan from a cooperative society to help her raise the Ksh 5.5 million needed for the venture as seed capital.

But that was not the end of her predicaments as she has had to face many obstacles along the way.

First, Pamela says, there was the issue of licensing which was 'too bureaucratic', a fact that was amplified by her sole proprietorship which meant she had to carry out the procedures single-handedly.

"Identifying the right location was even a more challenging task. In Nairobi, getting a place with ample and secure parking is almost impossible. And when you do, rent is usually unaffordable."

On the other hand, Pamela reveals that being a specialty restaurant for making authentic traditional food, she could not get qualified personnel in Nairobi and had to source for them in the village to come and prepare the recipes. According to her, in Amaica, everything has to be authentic and done the right way.

"Most hoteliers do not train in preparation of traditional dishes. They only do the continental ones. We have professionally trained staff at Amaica but we had to get people from the village to prepare the recipes. However, the response has been positive."

Amaica currently has 12 employees, but as Pamela admits, she is yet to be done.

"We need to market the restaurant more which requires a lot of funds," she says.

Though Pamela specializes in traditional food, she leans more on cuisine from Western Kenya and a glance at the restaurant's menu reveals delicacies such as *Eshiango* and *Tsisidu*. "There are some dishes that do not have English names and we use the Luhya terminology. I used the names because I am a Luhya and I am more familiar with the names as opposed to trying to use names from other three Western Kenya communities including Gusii and Luo. The foods are, however, universal," says Pamela.

She plans to one day open a franchise in the financial capital of New York and beyond.

"The concept can go places if we do it right, which we will. It can easily develop into something big. The sky is the limit."

As she watches her enterprise grow, Pamela has one desire; to reciprocate the kindness shown to her by her mother's peers while she was in need.

"I would like to set up a children's home for the needy children. As I grew up, I was given an opportunity by people whom I hardly knew, a gesture without which I would not be what I am today."

Her advice to upcoming entrepreneurs?

“They should not think of starting from the top. It is always good to start small because it is less expensive if you make mistakes, you will not lose much,” concludes Pamela whose mentors include Adopt a Light Managing Director Esther Passaris and Kiss FM presenter Caroline Mutoko.

Why CBK is reluctant to tame bullish shilling

By **Jackson Okoth**

The Central Bank of Kenya (CBK) faces the challenge of intervening in the foreign exchange (forex) market due to lack of accurate market intelligence and data on its level of activity.

Further, entering the market to weaken the shilling could have the adverse effect of upsetting the CBK monetary policy of keeping a tight lid on inflation and money supply within the set targets.

Unlike in the era of exchange controls when all forex circulating in the system had to pass through CBK accounts, the floating regime appears to present new challenges to the monetary authorities.

This has meant that a large portion of remittances from abroad is not captured by CBK, who apparently lack the necessary mechanism to monitor this inflow.

But CBK says that events in the forex market are purely due to market forces, a situation that does not warrant any intervention.

Nicholas Korir, the Director of Research at CBK, says in a statement that the bank has chosen not to intervene in the forex market despite continued strengthening of the shilling. This is in line with its policy of keeping inflation and money supply levels low. Further, Korir says that the CBK has now left the exchange rate to be determined purely by the market.

This is in order to resolve the conflicting interests in the domestic interbank foreign exchange market, especially that between exporters and importers. “ The shilling exchange rate is currently driven by market forces of supply and demand, underpinned by economic fundamentals, which include improved relative real productivity, differences in real interest rates and the attendant strong favourable expectations about the Kenyan economy,” says Mr. Korir.

The CBK therefore maintains that there is no evidence of speculation or unexpected developments hitting the economy or the domestic interbank foreign exchange market that would warrant its intervention.

But as the monetary authority distances itself, exporters continue to take the hit with their dollar earnings declining in value as the shilling gains.

A strong shilling, while favouring importers, has deeply hurt exporters, especially the tea industry-one of the country’s top forex earners.

A look at recently released financial reports for a number of listed tea companies shows a sharp decline in their profits, a scenario largely attributed to the negative effects of a strengthening shilling.

Mr.Umesh Ramakrishnan, Group Financial Director at Sasini Tea and Coffee said in an interview that strengthening of the shilling has had adverse impact on the company’s profits.

“We urge the Central Bank of Kenya to intervene in order to cushion export-oriented companies. The ideal exchange rate should be between Ksh75 and Ksh76 to the dollar, where both exporters and importers are not hurt adversely,” adds Ramakrishnan.

Available figures indicate that the tea industry alone has lost an estimated Ksh 1.6 billion over the past year, with tea exporters getting Ksh 3.00 less for every dollar in earnings.

Unilever tea, another key player in the industry mentions in its annual financial report that apart from drought, appreciation of the shilling affected its performance last year.

It now says that the ongoing strength of the Kenyan Shilling will exert pressure on tea prices in local currency.

The reduction in overhead costs secured in 2006 combined with better quality teas and higher volumes of added value products should help mitigate the threat posed by a strong shilling and other external factors.

Highly placed sources at Kenya Tea Development Agency (KTDA) Limited confirmed that the continued strengthening of the shilling against other major currencies was having an adverse negative impact on the tea industry.

“We have been able to survive due to the fact that tea prices at the auctions have improved tremendously. This has had a neutralizing effect on a strong shilling. But if tea prices fall below current levels, the consequences of the exchange rate may be severe,” said an official of the company.

He added that coupled with high cost of production fuelled by high oil and electricity prices, the continued appreciation of the shilling could seriously hurt the tea business.

Over the past two years, the shilling has risen in strength from a low of Ksh 80 to the dollar to the present levels of Ksh 69 to the greenback.

Mr. Eliud Moyi, an economist and senior analyst at the Kenya Institute for Public Policy Research and Analysis (KIPPRA) argues that when deciding whether or not to intervene, the Central Bank of Kenya (CBK) must make a trade off between cushioning exporters or importers.

“The CBK could be reluctant to intervene in the forex market as this will send the wrong signals on which side it is leaning between exporters and importers,” said Moyi. Favouring one side of the equation is definitely bound to attract protests from the other end.

He adds that the exchange rate is usually a price signal for exporters and importers and that one side must gain or lose whether the shilling is strengthening or weakening. “The CBK must therefore do a cost-benefit analysis and make a trade off before intervening in the forex market,” said Moyi.

“The exchange rate has implications on inflation and interest rates through export and import price mechanisms. Thus an incentive by the CBK to pursue a policy of having a strong shilling would be to favour importers, especially of intermediate inputs like oil and machinery. This has the effect of keeping the cost of production and therefore inflation at low levels,” said Moyi.

He adds that the CBK can also pursue a policy that encourages a weak shilling in order to provide a price incentive to the export-oriented sectors of the economy.

Statistical bulletins from CBK monthly bulletin show that foreign exchange held by the entire banking system rose to US$ 3,284 million (Ksh 229 billion) at the end of January 2007. Besides these holdings, foreign currency deposits held locally by residents increased by US$ 277 million(Ksh 15.8 billion)to US$ 1,422 million(Ksh 99 billion) at the end of January 2007.

Although we are still uncertain in which direction the shilling will take, we expect it to dwell within the Ksh 69-Ksh 72 range in the coming months," said one dealer.

There is wide speculation, though, that as the country moves into an election, the demand for dollars is likely to increase, leading to a weakening of the Kenya shilling as investors convert their holdings into dollars.

But with the CBK stockpiling on its foreign exchange reserves, it is unlikely that the shilling will depreciate over a wide margin, others argue.

Banks plunge into lucrative insurance business

By **Justus Ondari**

With competition for retail customers reaching fever pitch, new battle lines are being drawn as leading commercial banks plan to move into the multi-million insurance sector, *The Financial Post* reports

The list of those banks that have already lodged their applications to be licensed to offer insurance business is growing. So far, it is only Commercial Bank of Africa (CBA) which is already offering insurance products, alongside its traditional banking services.

The opening up of this new competition front comes at a time when the country's banking corporate landscape is rapidly changing, with the retail customer gradually becoming king and master.

Long despised by the high-street banks, which preferred the less risky but lucrative Treasury bills, the retail consumer is today the most sought after bride by commercial banks.

Driven by fierce competition, banks are scrambling for customers by going for them wherever they are, offices, homes, streets, recreational areas, name it.

It is now common to see a branded tent at a street corner as banks literally pitch camp on the streets to 'serve better' the passing-by potential customers.

But that may turn out to be just the beginning of an all out war as, if we may use military parlance, the banks are slowly but surely opening up a new war front, the Ksh 35 billion insurance industry.

Under what is known as bancassurance, which is the provision of insurance products through a bank's distribution channels, the banking industry is spoiling for a titanic fight.

Bancassurance comes in various forms. First, a bank can own an insurance company which will operate as a different entity and using the bank's services, it will distribute insurance products. Secondly, a bank can enter into a business partnership with an insurance company whereby it (bank) will also be involved in distributing the insurance company's products at a commission. Thirdly, as is common in other countries, an insurance company can own a bank whereby the bank would be distributing the insurance company's products.

And the government is promoting the concept albeit in a subtle way.

"We want to develop it because banks have access to a large number of customers who are able to buy insurance as a way of promoting the industry," explains Sammy Makove, the Commissioner of Insurance.

Although not known to many Kenyans, CBA, through the CBA Insurance Agency, has been doing bancassurance as an agent for three underwriters for almost five years. It offers life and education policies, travel, personal accident and private motor vehicle insurance, domestic package (household insurance) and mortgage protection covers.

Spurred by the desire to increase their income streams, several banks are determined to have a piece of the action that CBA has been enjoying.

"We have several applications which we are considering. Two banks, Barclays Bank of Kenya and Equity Bank have applied for the license to start offering bancassurance. We are also talking to Diamond Trust Bank and Standard Chartered Bank over the same," reveals Makove.

While the industry regulator is ready to let open the trap door for the new applicants to try their skills in bancassurance, they must prove theirs is not a run of the mill affair.

"We are willing to facilitate the process but they (applying banks) must show us what value they are going to add to the industry. It is not just a matter of giving people a license for the sake of wanting to bring more competition to an already crowded market. With 4,000 agents already in operation, what value are they going to add by getting a license?" poses Makove.

But the Executive Director and Chief Executive Officer (CEO) of the Association of Kenya Insurers (AKI) Tom Mara Gichuhi feels the banks would offer a lot.

"It is a question of harnessing synergies because banks have one advantage, a huge client base since banking services, particularly the basic ones, are sought by clients. Therefore, mostly, it is clients who go to banks to seek services. It is the opposite in the insurance industry whereby it is the insurers- on their own or their intermediaries like insurance brokers and agents-who go out looking for clients to buy insurance products."

The Nairobi-based College of Insurance Director Ken Osinde also feels banks can complement insurance agents and brokers in promoting the industry.

"An insurance broker or agent may not know, let alone access, the information about a client who, say, has Ksh 200 million in an account compared to the bank with which the client has an account. By tapping into the bank's privileged position, we would deepen the insurance industry, a feat we would not have achieved with a broker or agent," explains Osinde.

He adds: “It is not a competition between banks on the one hand and agents and brokers on the other. On the contrary, it is a complimentary relationship that will see more people who have not been reached getting covered.”
However, according to Osinde, the ‘complimentary-competition’ will sharpen the skills of agents and brokers for them to know their clients in detail beyond the one or two policies they are selling to them.
“This will not only ensure more business at a faster rate, but will also provide high worth business for the industry,” says Osinde.
It is not an entirely new concept as Mathew Ndusi Magotsi, a senior lecturer at the College of Insurance, explains: “Bancassurance has been practised for a long time especially in the United Kingdom (UK) where we borrow most of our practises from.”
Indeed, industry players feel the country’s financial sector is ripe enough to enable Kenya rival South Africa in adopting the concept.
“We have come of age in Kenya since our banking network is quite wide and the banking services are sophisticated enough,” says Gichuhi.

Law
The country’s laws do not say anything about bancassurance with the two sectors, insurance and banking, governed by different pieces of legislation. The Insurance Act governs how insurance services are conducted in the country while the Banking Act controls the banking services. But there is hope since virtually all the laws in the country are undergoing major reviews.
“We would like a situation where the two Acts are amended to accommodate new developments in the industry. We should have a situation where anyone who wants to distribute insurance products as an agent, in whatever form, whether a bank, individual, supermarket, etc, should not be tied to some rigid conditions,” advises Gichuhi.
Ashok Shah, the APA Insurance CEO, agrees: “For bancassurance to be implemented in the country, the laws must be amended.”
He defends AKI: “In our Budget proposals for the last four or five years, we have consistently urged the government to come up with mechanisms that will facilitate a wider scope in terms of distribution of insurance products; that will enable us to use various outfits with a huge customer base such as banks, supermarkets, cooperative societies etc to distribute insurance products.”

Benefits
Going by the 2005 statistics, both life and general insurance had a turnover of Ksh 35 billion with life insurance business contributing Ksh 9 billion.
“Even the current companies that we have licensed on bancassurance seem to be concentrating on non-life business and hence life assurance is an area that the new applicants should explore,” says Makove.
Ashok concurs: “Bancassurance is one of the best ways we can harness to increase market penetration for insurance services.”
The duo has a point. With a paltry 500,000 out of 35 million Kenyans insured, Gichuhi feels there is a potential market of about 5 million Kenyans waiting to be insured.
He arrives at the figure by arguing that 60 per cent or 20 million of 35 million Kenyans living below the poverty line cannot afford insurance services while 50 per cent of the remaining 15 million Kenyans are the youth (0-18 years) who cannot enter into contractual arrangements. Minus those, 60 years and above are outside the life insurance bracket, justifying the 5 million number.
With the country’s economy recording rapid expansion, this also means growth of the general insurance business as key sectors of the economy grow in tandem.
On the overall, the sector has been buoyant even when the economy was struggling.
“Even when the economy was recording negative growth, apart from 2001, the insurance has always recorded an annual average growth of 10 per cent. The number of players may be many but there is great potential,” says the AKI boss.

Capacity
Obviously, since the concept is not well known in the market, there is an urgent need to develop the necessary skills both in the insurance and banking industries besides increasing public awareness.
Already, the College of Insurance is leading the campaign.
While the college is mandated to offer insurance studies-certificates and diplomas-which tackle different areas of operation in insurance, it has come up with short courses focusing on the business management aspects of insurance.
“The management aspect of our programmes deals with the missing links and bancassurance is one of the products we are focusing on. The industry is very keen on the programmes and we have received a good response including from the banks,” explains Osinde.
The institution is investing in research in order to provide the industry with the most current global insurance trends so that it can benchmark itself with the best in the world.
Explains Magotsi: “We try to articulate the principles and legal framework within which every product that comes into the market ought to be offered.”
To achieve this, the college conducts company specific researches on particular products such as bancassurance. It also holds public education besides issuing publications on the industry to the market.
Osinde concludes: “To survive in any industry, innovation is the key. I feel we are better placed to assist the industry innovate both in terms of service delivery and product development.”
Talk of sharpening the knives and the College of Insurance may be doing just that for the banks and industry players as the financial institutions dabble in the world of insurance.