Your KenGen investment is safe, Njoroge


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Analysis of the AccessKenya Group share

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KenGen MD Eddy Njoroge (right) calms the market by highlighting future prospects of the company

Inside

End of the road for potholes

Tycoon tipped to succeed President Mbeki

Are banks killing Saccos?

By FP Team

Perhaps more than any advertising blitz could ever manage, the now famous Kenya Electricity Generating Company Limited (KenGen)'s Initial Public Offer (IPO) literally thrust the bespectacled Edward (Eddy) Njoroge into the national limelight.

With over 200,000 investors snapping up the company's shares, the price shot from the offer price of Ksh 11 to an all time high of Ksh 45, suddenly transforming Njoroge into a household name.

Today, he is in the league of top-of-the-drawer managers, running the show at one of the most capitalized and heavily traded companies at the Nairobi Stock Exchange.

But still, apart from his alleged reputation as one of the confidants of President Mwai Kibaki, many would not tell exactly from where the Narc government plucked the soft-spoken KenGen MD.

Indeed, word circulating in the grapevine whispers that Njoroge may have been picked to head the power utility company due to his role as part of a team of strategic foot soldiers in the current government, a view the Alliance High School alumni and father of three sons vehemently refutes.

"I do not know where the perception came from. I only manage KenGen and I am not involved in government. I hope I was not appointed just because I am a friend to President Mwai Kibaki. For, if we cease being friends, I will be fired. I do not think that was the case. The government was then looking for qualified people who could effectively manage its strategic parastatals and settled for me among other many qualified Kenyans," says Njoroge.

Unbeknown to the public, the KenGen MD had never worked in the public sector despite having the distinction of being one of the first post-independent Kenyans to graduate from the then prestigious and biggest university in East Africa, Makerere University, in 1975.

After graduating from Makerere University with a Bachelor of Science (BSc) degree in Chemistry and Bio-Chemistry, Njoroge was to have a short stint in his first and only job with Twiga Chemicals.

For by 1977, Njoroge's dream and vision had already crystallized and he was certain about where destiny was- in private practice. He resigned and set up a chemical company, Abcon Company Limited, an outfit where he spent the better part of his life, stretching over 26 years. This was until the Narc government came knocking.

Tuned to the bare-knuckle business tradition of the private sector, it dawned on Njoroge as soon as he landed at KenGen that its board needed re-organization.

"My first step was to ascertain proper corporate governance at the board level. We did not have any audit, strategy or staff committee in the board at the time. I initiated them and the tender committee which is a statutory requirement," explains Njoroge.

Despite being impressed by the skills of the staff he found at the company, he realized they lacked an important ingredient: "Their outlook to things was not from a commercial perspective and I had to try and instill in them a sense of business."

He adds: "I am glad things are changing our staff now look at everything in terms of what value it is adding to the organization."

And when push comes to shove, Njoroge does not take the easy option and says that to him, he works at KenGen as if he were in his own business.

"I work here as if I was working for my own company. That is why I can assure all KenGen shareholders that the company's future is bright. We are in a sector whose growth is assured and so long as I am in charge, we are not going to rest on our laurels until KenGen becomes one of the best companies in the world," vows Njoroge.

It is not a publicity stunt. For instance, *The Financial Post* crew learnt when it met him at his Stima Plaza office last week that one of the KenGen plants was down. However, while the staff planned to have the plant up and running after 45 days, Njoroge changed this, giving them up to the end of that (last) week to report back that the said plant was back to operation.

But running such a high-profile company has not been a bed of roses for Njoroge. "The transition I underwent from the private to public sector was not an easy one. If anything, I believe, the reverse is easy.

Working through government systems is not easy. But the job itself is not difficult, but sometimes the process of doing it is what is difficult."

But he is not about to throw in a towel: "This is not unique to us only, but cuts across all the state parastatals. For me, this is not too bad. I try as much as I can to manage this company as a private company." **KenGen IPO**

Also not known to the public and perhaps because of his private sector background, the need to privatize the company dawned on Njoroge as he was settling in at KenGen.

"I proposed to the government on the need to issue IPO, an idea to which the government subscribed to," he reveals.

After getting the Capital Market Authority (CMA) approval in 2005, the IPO was offered to the market in 2006 and the rest is history.

Suddenly, KenGen had a massive 240,000 shareholders, with 12, 500 attending its first Annual General Meeting (AGM) held at the Moi International Sports Centre, Kasarani.

But what does this mean to the company? Njoroge explains: "It is expensive to run an AGM with this kind of figures especially when we have to send our accounts to each and every shareholder. But for KenGen, we can afford it. It would be more difficult for smaller companies."

Unfortunately, in the recent past, the KenGen share value has been on a downward trend.

Njoroge assures the shareholders that the slide has nothing to do with the company's fundamentals.

"I can only speculate that it might have been due to an earlier announcement that we were supposed to offload an extra 400 million shares into the market. This could have triggered the price to decline because people always think that such an issue would come at a discount and, as such, they would be prepared to buy it only at a cheaper price. But the offer has since been cancelled," he explains.

Njoroge is quick to add that the cancellation of the share offer will have no effect on the company arguing that once the shares are trading, KenGen has no control over them.

While pointing out that the whole market has been on bearish run, Njoroge says the wrangling over the company's tariff contract with Kenya Power and Lighting Company (KPLC) would be another reason.

"The uncertainty over our contracts with KPLC on tariffs which attracted all sorts of speculations could be a factor. However, we had no problem with KPLC because we have a contract with them. We had an agreement with KPLC which we signed in January 2006 to the effect that the tariffs will go back to 2.36 come July 2006. Of course KPLC were saying that they had problems because of that and, therefore, could not meet the obligation but the government has since agreed that they (KPLC) have to meet that obligation," elaborates Njoroge.

And what does the agreement mean to the KenGen books?

"It will mean nothing. This is because we have been invoicing KPLC all along at 2.36," explains Njoroge.

Expansion

The company is in the process of carrying out an ambitious Ksh 1 billion expansion programme for which it is preparing a prospectus for all the scheduled projects before seeking means of funding for each of them.

He explains: "In total, we will need about Ksh 1 billion for the whole programme. KenGen will certainly be able to fund about 30 per cent of the projects over the next five years."

And the projects will be evenly spread across different catchment areas.

"This is important. For example, if Turkwel Power Station were not in a different catchment area, the country would have been in serious power problems in 2002 because the rest were all hard hit by drought. That is why Sondu Miriu in Nyanza Province is a good move in terms of location diversification," he explains.

Njoroge reveals that KenGen is exploring available alternative sources of energy including wind.

"We already have a small wind generator at Ngong Hills. However, we are hoping to put one more that can produce 13MW in Kinangop. For long-term development, we are also exploring Marsabit District where there is a very huge potential for power generation from wind," explains Njoroge.

The KenGen MD says that if the ongoing negotiations with the Ethiopian government are successful and a transmission line between the two countries is built, it will boost wind power generation in Marsabit.

Although the country's sugar millers are renowned for their core function, sugar production, Njoroge reveals that KenGen has already entered into an agreement with Chemelil Sugar Company for a joint power generation initiative. And others would follow suit.

But does he not fear losing it out to the new players?

"Power generation in Kenya is liberalized. Anybody can generate and sell power. I do not mind competition. If anything, competition is good since demand for power is growing. As KenGen, we welcome anybody who can generate power to go ahead and do it," explains Njoroge.

And talking about demand, the country's current peak power demand is about 987MW while the installed capacity is about 1043MW.

"It shows very little, only about 6 per cent to be exact, reserve margins. Ideally, we should have about a 15 per cent reserve margin," explains Njoroge.

The fast growing demand for power is what is sending KenGen to seek funding from development partners for its ambitious projects so as to boost its power generation capacity.

“We believe the government of Japan and Breton Wood institutions-the World Bank and the International Monetary Fund (IMF)-can finance some of our projects. We may also resort to commercial borrowing from financial institutions or issue a commercial paper or even get machinery on credit from some of our suppliers,” say Njoroge.

On the issue of alleged controversial contracts issued to independent power producers which were said to be skewed, Njoroge says only one contract was by Westmont was not good but has since then expired and subsequently not renewed.

Njoroge says his vision is to transform KenGen into a dominant force in power generation beyond Kenya.

“I hope to transform KenGen into one among the top power generators in the world.”

He calls on the government to exempt power generation from paying duty and other taxes.

He is full of praise of the legislation environment singling out the Energy Act which he says ensures that anybody can generate power. But he has a complaint.

“The only bit which has been missing is the fact that we have only one customer (read KPLC). That also is, however, being changed so that we can access other customers.”

On when the country will address the issue of using fuel in power generation which is normally reflected on the consumers' power bills as fuel adjustment costs, Njoroge is blunt.

“This will only come down when we diversify our modes of generation by increasing on our hydro, geothermal and wind power generation capacities while moving away from thermal generation as much as possible.”

He promises to see to it that KenGen continues to be a dominant player in the sector by ‘getting better’.

Njoroge is thinking big: “In the same way I initiated and concluded in 2004the ISO certification which emphasizes on quality management system, I again want the environment ISO certification for which we have already hired a consultant to advice us.”

The KenGen shareholders may as well breathe easy for Njoroge, with his 4-year tenure at KenGen set to expire this year, has been given a new term.

KenGen’s milestones this far

The Kenya Electricity Generating Company (KenGen) then Kenya Power Company (KPC), was registered and commissioned to construct the transmission line between Nairobi and Tororo in Uganda as well as develop geothermal and other generating facilities in the country in 1954.

The Nairobi-Tororo line was to transmit power generated at the Owen Falls Dam. Since its inception, the Kenya Power and Lighting Company (KPLC), to which KPC sold electricity in bulk, managed the company under a management contract.

Later, another company, Tana River Development Company, which started the development of some of the hydros in the seven Folks, was formed.

There was also Tana River Development Authority (TARDA) which developed Masinga Dam. Reforms started in the energy sector in 1996 and the government decided that all the companies to be put under one company-KPC.

In January 1997, the power sector restructuring effectively resulted in a separation of functions, with KPC mandated to generate power while KPLC transmitted and distributed it.

On October 2, 1998, KPC was re-named KenGen because there was another government parastatal with the same KPC acronym, Kenya Pipeline Company.

KenGen produces about 80 per cent of electricity consumed in the country. The company utilises various sources to generate electricity ranging from hydro, geothermal, thermal and wind. Hydro is the leading source, with an installed capacity of 677.3MW, which is 72.3 per cent.

Geothermal power potential

Kenya has a potential of over 2000 megawatts (MW) of geothermal energy resource located in various sites within the Rift Valley. This clean energy, if exploited, will replace fuel oil based conventional thermal plants earmarked for development in the current least-cost development plan.

In collaboration with KenGen, the World Bank intends to develop geothermal power in Olkaria, making the country a pioneer in geothermal exploitation in Africa.

KenGen Managing Director Edward Njoroge roots for the sector.

“By developing geothermal energy, the country will not only have clean power, but also save on foreign exchange,” says Njoroge, who argues that diesel plants are fired by oil, which is imported unlike geothermal plants that rely on natural steam.

The World Bank supported the 64 Megawatts Olkaria II plant whose additional capacity will boost electricity supply in the country.

Seven folks

The five stations have an installed capacity of 543.2MW. The power stations here include Masinga, which was commissioned in 1981 with an installed capacity of 40MW, Kamburu, commissioned in 1974 with an installed capacity of 94.2MW, Gitaru, commissioned in 1978 with an installed capacity of 225MW, Kindaruma, commissioned in 1968 with an installed capacity of 44MW, and Kiambere, which was commissioned in 1988 with an installed capacity of 144MW.

There is also the Turkwel Power Station, situated in West Pokot near the Kenya- Uganda border and commissioned in 1991, is a technical marvel in the East and Central African region with an installed capacity 106MW.

Sondu Miriu

The project is the first major hydro-power project located in Nyanza Province. When completed in November this year, the power station will have a maximum capacity of 60MW from two units and an average annual energy production of 330.6 GWh.

The feasibility study for the Sondu River Hydropower Project was undertaken in 1985. In 1989, KenGen obtained funding from the Japanese Government through JBIC for detailed design work for one component, the Sondu Miriu Hydropower Project.

In 1997, the first funding block was provided for the initial construction costs and work started on site in March 1999.

Are Saccos losing it out to commercial banks?

By **Justus Ondari**

Prof Jacob Kaimenyi has a soft spot for savings and credit co-operative societies (Saccos). For; earnings from Saccos, in one way or another, has aided his academic pursuits to reach where he is today, Deputy Vice-Chancellor, Academic, at the University of Nairobi. But Prof Kaimenyi expects quality and timely service, a fact that has seen him turn to commercial banks for his financial services.

“I am a beneficiary of the commercial banks personal loan schemes because it is easier to access it compared to a cooperative society or union,” admits Prof Kaimenyi.

The don says it takes a bank a maximum of four days to disburse a Ksh 1.5 million loan, a sum one can only access at a Sacco after weeks or months and “subject to availability of funds.”

However, Prof Kaimenyi admits that Saccos charge lower interest rates than commercial banks but observes that in business time is of essence and the lower interest rates hold little meaning.

Prof. Kaimenyi, who says competition is healthy to business, argues that unless the Saccos style up their act, commercial banks could eat up their breakfast.

The Deputy Commissioner for Co-operative Development Dr Jeremiah Nyatichi feels the situation may not be all that bad.

Dr Nyatichi refutes recent press reports where a number of Sacco officials were quoted lamenting about how banks are driving them out of business.

“If you go to places like Ol Kalou in Nyandarua District, commercial banks pulled out due to competition from Saccos,” says Dr Nyatichi adding that about 500 Sacco members who shifted to commercial banks in Embu have since then trooped back into the Saccos.

“They (Sacco members) found out that contrary to Saccos where through their Front Office Services Action (FOSA) they do not need even IDs to join, they must meet stringent conditions to access credit from banks including having a credit history,” says the commissioner.

Dr Nyatichi, while noting that commercial bank’s personal loans may be enticing to some Sacco members, they are not ‘collateral less’ since they need pay slips.

“If there is any Sacco claiming that banks are wooing their members, then they are not offering the members quality services and it must not be construed to mean it all the Saccos that are loosing members to the members,” says a confident Dr Nyatichi.

The commissioner says there are 11,366 registered cooperative societies in the country with an asset base of Ksh 150 billion, of which Saccos account for Ksh 152 billion.

He says the Saccos have mobilized Ksh 125 billion which is available to 6 million cooperators who benefit directly.

“Assuming that each family has the internationally accepted number of members, four, and then multiply it by the 6 million cooperators, it means the cooperative movement supports about 24 million Kenyan, directly and indirectly.”

He adds: “If we remove cases of double membership, the movement supports about 63 per cent of the Kenyan population and, as per the latest statistics; it contributes 45 per cent of the Gross Domestic Product (GDP).”

Challenges

Dr Nyatichi says the Saccos face a number of challenges that, if addressed, they could effectively stand up to the banks.
"Low capital base means the Saccos do not have enough financial muscle that could enable them give services like loans compared to the bank's high capitalization," says the cooperative official.
Dr Nyatichi says lack of funds means Saccos cannot effectively market their services, for instance, through an advertising campaign
The Sacco sub-sector lacks the research and development expertise to enable it to effectively investigate the customer needs and consequent develop suitable products for them.
High levels of illiteracy among the Saccos membership means many of the members are easily swayed by simple attractions, even if they go against the 'cooperative cause'
Dr Nyatichi says many Saccos are managed by commercial managers who have little grounding on the cooperative philosophy and functioning.
"Many run them with the 'hard-tackling' business principles while Saccos are meant to be friendly service providers," he observes.
Given that many Saccos have are agricultural base, they are susceptible to all the challenges that face the sector including commodity price fluctuations in the international market.
Obviously, Saccos need to put their act together by addressing some of their shortcomings; otherwise, they will lose it out to commercial banks since the latter play hardball.

Saccos re-invent to fight off competition

By **Jackson Okoth**
In a rapidly changing financial market, savings and credit co-operative societies (Saccos) have suddenly found new competitors in their own backyard. The new kid on the block is in the form of commercial banks, with an array of competing personal loan products.
Majority of Saccos are realizing that they need to diversify into some new territories. This is because competition will keep on biting into their turf if they keep running on the same 'wavelength'. But then again, if they stand still, it will swallow them.
While a number of them have closed shop or are performing dismally, there are those who have changed focus and repositioned to wad off competition.
Joshua O. Ojall, the Chief Executive Officer of Mwalimu Co-operative Savings and Credit Society Limited, confirmed to The Financial Post that indeed Saccos face competition from commercial banks.
"It is true that banks are capable of attracting our members because of the low interest rates which they (banks) are now offering. But we are also customers of the banks. All the money we get from our members, we bank it with them," says Ojali.
He explains that the Saccos normally approach the banks for a term loan, which they then use for onward lending to the members, at that low interest rate.
"Using their membership strength, Saccos are capable of bargaining with the banks for a reasonable interest rate for a term loan. This is one way of repackaging ourselves," says Ojall.
Mwalimu Sacco Limited, one of the heavily capitalized Saccos in the country, is introducing new products to counter the threat from commercial banks. For instance, the organization has plans to enter into the micro-finance business in a bid to remain attractive and retain its membership
"We intend to venture into the micro-finance business, targeting members who run businesses. Traditionally, most of these co-operative loans have been used in all manner of expenditures. One can decide to buy a car, fund a wedding, buy a shamba or improve on the house. We want to roll out micro-finance activities intended for our members who have some small businesses here and there. As they are teaching, perhaps their spouses are running a show somewhere- a hardware, salon etc," says Ojall.
Mwalimu Sacco has plans to venture into this new area by July this year as one way of repackaging itself to address the competition.
Further, the Sacco has also entered into partnership with other organizations to provide money transfer services to its members and the public.
The aim of this service is to create an income stream. Mwalimu Sacco has teamed up with other co-operatives, including Kenya Union of Savings and Credit Organizations (KUSCO), Kenya Bankers Sacco and Afya Sacco.
"Altogether, we have 49 per cent stake in the company but World Council of Credit Unions (WOCCU), which is our global apex body, has 51 per cent in the business. We identified ourselves with Vigo International money transfer service, which is the mother remitter. We are shareholders; therefore, when the business makes money we also do so. When we transact through the business, we also retain the commission" explains Ojall.
He adds that competition between Saccos and banks is both ways. For instance, a customer can obtain a bank loan to settle one he/she took at a Sacco and vice versa. He argues that bank customers who have

taken bank loans, whenever they return to the Saccos complain about hidden charges introduced by banks on their loan repayments.
“These customers usually want the Saccos to clear their loans so that they terminate the relationship with the banks.”
But he also agrees to the fact that the financial market is undergoing rapid changes, opening up the eyes of the Saccos to the fact that the captive market, which they had long enjoyed, is no longer there and, therefore, the need for them to improve on service quality and delivery.
Further, he mentions that what banks claim to be offering is not cheaper loan services but efficient and timely provision of the loans. This has been singled out as the reason behind Sacco members shifting to the banks.
Secondly, he says those moving away normally have a loan with the Sacco and, therefore, want someone who can consolidate the loan so that it (loan) is cleared and (they) remain with something small. This one, even Saccos can also do. If someone has a big loan with the bank and has repaid half way, the person can approach a Sacco for assistance to clear it.
Banks are priding themselves for offering a 48 hour service. “I know that this service is not there. They will tell you that they make a decision on the loan application within 48 hours. But for the money to be in your account for withdrawal, it is not 48 hours,” says Ojall.
Why did Saccos abandon huge investments in office building blocks, which was the common practice some years back?
Ojall says such investment was the in-thing in the 80s, involving acquisition of office blocks.
“The problem with this is that it tied-up members’ money. Part of the shortfalls in acquiring these buildings was financed by contributions from members. This created a fall in the amount of loanable funds, creating backlog of loan applications among Saccos. This problem reached the regulator, the Ministry of Co-operatives, who then issued circulars on how such projects should be financed.”
It also came out that returns on those buildings were meager. “I do not think that there is any Sacco member who is happy with the returns they get from these buildings. These days, we talk about core business and, therefore, a Sacco cannot also deal in letting office space, which is a very cumbersome activity. The interest has shifted due to new guidelines from the ministry and also from members realizing that proceeds from these buildings are not attractive.”
It is not that Saccos no longer have this kind of money. He says, at Mwalimu, they have decided that let the member decide on a personal level, what to do with the money they give.
“We do not even sometimes want to know what members do with their money.”
Ojall says that most of their members are secondary school graduate teachers and hence they assume that the member is “fairly reasonable”, has carried out a project evaluation, knows the priorities through discussed with their spouses.
“Repayment of the loans is after all guaranteed through the check off system. We want members to develop at their own level and priority.”
What is the regulatory environment like? Is it favourable to the growth and development of Saccos?
Ojall says that at the moment, the Ministry of Co-operatives and Marketing is the regulator, although it plays an advisory role and not regulation as such. After 1997, its regulatory role was kind of reduced to advisory.
“The co-operative movement has recognized this void or vacuum and to address it, there is a Bill in the pipeline, the Sacco Regulatory Authority Bill, which we hope will be passed by Parliament. Unfortunately, it has taken long to formulate because of consensus building.”
It is now before the Cabinet which has already approved it and is one of the bills scheduled to be passed before the end of the term of the current Parliament. It aims to provide an authority which will register and regulate Saccos’ operations, a role the ministry plays currently.
The Bill will also set up a fund which is equivalent to the deposit protection fund run by the Central Bank of Kenya. It will, for instance, protect the Ksh 7.7 billion invested in Mwalimu Sacco in the event that it collapses.
The regulatory body will also be able to provide a level playing ground and encourage growth and innovativeness of the Saccos.

Battle between Gusii Sacco and banks scale up

By **Oirere Omanga**

The battle for the 15,000 members of a teachers’ society in Kisii seem to have started in earnest following daring attempts by commercial banks to venture into the hitherto safe operating ground of Gusii Mwalimu savings and credit cooperative (Sacco).
In what promises to be a tough fight pitting the Sacco against commercial banks, both institutions are racing to introduce new and attractive products to woo and retain teachers who are among the few savers in the Gusii region.

Members are now torn between remaining with the society or opting for the new products offered by banks and other financial institutions.
Over the past one year, the banks' personnel have been visiting schools and other public forums to talk teachers and other prospective savers into taking up their soft personal loans products and services.
A number of banks are sending agents to woo teachers following intelligence reports indicating high demand for alternatives by members of the Sacco.
Its supervisory committee chairman James Obuba says banks have 'set aside' readily available funds, accessible to their customers on demand."
"Our members are moving to commercial banks mainly because of the readily available funds at their disposal unlike us (Sacco)" he says.
The society's Board of Directors also point out that the loan repayment period is another loophole capitalized on by the banks.
Board chairman Gilbert Meraba says the banks have increased the loan repayment period of personal loans from the initial 36 months to 60 or five years so as to entice more of the Sacco's members.
"A group of our members have been influenced by this repayment period offered by banks," Meraba says.
Currently, all Saccos including Gusii Mwalimu require that all development and school fees loans be repaid within a period of 48 months, with a one percent monthly interest on diminishing balance.
In 2006, the society gave out Ksh 1 billion worth of loans to members inclusive of Ksh 534 million development loans. Of the total amount loaned to members, Ksh 209 million, Ksh 158 million and Ksh 147 million was for refinancing, emergency and school fees respectively.
Unlike the teachers' Sacco, banks have scrapped the requirement of guarantors or any collateral except one's salary pay slip to qualify for a personal loan of up to Ksh 600,000.
The removal of the two requirements has endeared many Gusii Mwalimu Sacco members who otherwise would not have qualified to get any loan from their society. Meraba says the society takes the threat posed by banks seriously with the management readying itself to match it.
One way is by recruiting new members from retirees who have been in Teachers Service Commission (TSC) service.
"We need to accommodate all our past members and especially those who are getting pension regardless of whether they were our members before retiring or not" says Meraba.
Efforts by the society to recruit more members comes barely two months after Permanent Secretary in the Ministry of Cooperative Development and Marketing Patrick Khaemba expressed concern over what he said was declining membership of the society, previously ranked among the top 20 in the country in terms of assets and size.
While launching the Sacco's Ksh 13.7 million Automated Teller Machine (ATM) at the society's Mwalimu House headquarters in Kisii town two months ago, Khaemba said a recent "risk rating of your society by the ministry indicated that the Sacco had a declining rate of membership of negative 9.93 percent".
"The management of the Sacco should develop methods of reaching out to new members as well as encourage savings deposits in addition to the mandatory shares," the PS advised.
The Sacco management is now keen in making membership of the society more attractive through a sustained steady growth in rate of dividends paid out annually.
Some 359 members withdrew from the society over what the chairman terms "one reason or the other."
"Once we increase the interest paid on development and school fees loans to 1.5 percent, we will increase dividend rates on the members' savings," the chairman says, adding that the rate has increased from 3.59 in 1996 to 10.6 percent last year.
The Sacco, through its SASA (Sacco savings account) product is now working on a programme that will ensure quick and cheap processing of loan applications by members.
A report by the society's supervisory committee says that to effectively compete with commercial banks, the Sacco is in the process of disbursing quick loans through SASA, so that members can walk away with money within a day of making an application. The society has also embarked on a re-engineering programme aimed at strengthening its internal audit department laying out high professional standards among its staff.
It has also since opened up new branches at Nyamira, Keroka and Ogembo as it responds to competition.
During last month's annual delegates meeting, participants were informed that the society's operating expenditures''are ever rising' and that the Sacco has no control over them".
Supervisory committee chairman Obuba says that among costs eating into the Sacco's earnings include cash transit charges, security , insurance premiums, cheque clearance charges, stationery and computer maintenance.
Already, the Sacco's has introduced ATMs in a bid to increase efficiency and service delivery to members.

Tourism

Airlines battle for booming tourism business

By Jackson Okoth

With tourist arrivals in Kenya projected to hit the billion mark this year, a number of leading international airlines are gearing up for piece of the action as the country's tourism sector records improved performance.

Responding to demand for travel services to Kenya by visitors from the Benelux countries (Belgium, Netherlands and Luxemburg), Brussels Airlines has now scaled up its services from five to six weekly flights between Nairobi and Brussels, through its extensive 50-destination European network.

Its regional manager, Philippe Saeys-Desmedt, says the expansion reflects the increasing demand for travel to Kenya from the Benelux countries as well as business success of Brussels Airlines, now in its fifth year of operation.

"Coming as it does just a few months after our US$12 million (Ksh 840million) in-flight upgrade, which included flatbeds in business class; it demonstrates our commitment to offering the best service to our passengers to and from Kenya," he adds.

Jake Grieves, Kenya Tourism Board (KTB) chairman, told *The Financial Post* that Kenya's tourism sector is bouncing back as indicated by a move by airlines, as well as those who had previously closed or downsized operations, coming back into the country.

"Compared to a figure of 680,000 tourist arrivals at JKIA (Jomo Kenyatta International Airport) in 2006, this figure has increased considerably, with the number of visitors arriving at both JKIA and Moi International Airport in Mombasa reaching 954,000. We project to get 1 million visitors this year," says Grieves.

He attributes the improved performance in the tourism industry to a growing economy and the positive impact of a Ksh 60 million marketing promotion blitz, which is now paying off.

Brussels Airlines, which is the result of a merger between SN Brussels Airlines and Virgin Express, is concentrating on the business class, which is its main market in Kenya, to increase its share in the lucrative international travel business to the East African country.

It will be aiming to offer more flexible and lower fares throughout its extensive network in Europe for those travelling on the business class. The airline is expected to tap into the 48,000 annual tourist arrivals into Kenya from the Benelux countries.

Saeys-Desmedt says an estimated US$ 5 million (Ksh 350 million) has already been invested by the airline to refurbish its business class.

"With the tourism industry in Kenya booming, this is the ideal time for expansion of the airline in Kenya and the region. The fact that Kenya is also a popular holiday resort has also helped our expansion plans", he adds.

Commenting on the development, Grieves Cook says: "Enhancements such as these (Brussels Airlines plans) are good news as it raises the quality of the travel experience for our visitors and underlines our positioning of Kenya as a high quality destination."

He adds: "Brussels Airlines plays an important role in promoting Kenya to our markets in Europe and these new services will obviously help to attract more high-yield, up market visitors."

Since its launch in 2002, Brussels Airlines has welcomed over 1.4 million passengers aboard its flights to and from Africa. It is the only European airline offering scheduled flights to some African destinations and plays a vital role in the transport infrastructure of the continent.

The 15 African destinations include four in East Africa - Nairobi, Entebbe (Uganda), Kigali (Rwanda) and Bujumbura (Burundi). Four are in Central Africa – Kinshasa (DRC), Douala and Yaounde (both in Cameroon), and Luanda (Angola). Six in West Africa – Dakar (Senegal), Banjul (Gambia), Conakry (Guinea), Freetown (Sierra Leone), Monrovia (Liberia) and Abidjan (Cote d'Ivoire) - and one in North Africa - Casablanca in Morocco.

Meanwhile, Kenya's tourism industry is climbing out of a long cycle of depressed growth in tandem with the country's improved economic performance."International airlines are moving back into the country and this is a positive sign for the tourism industry. When the economy grows, tourism grows too because the two are inter-linked," says Cook.

"We do not intend to diversify into new attractions. Instead, we shall concentrate on our key attractions and diversify them rather than go into new products and areas, says Grieve.

Available information show that there are over 20 international airlines providing flight services in and out of Nairobi. Those with daily scheduled flights include British Airways, KLM, Emirates, Ethiopian and South African airlines.

Brussels Airlines is now in the same league with Qatar Airways as operators offering the most weekly flights from Nairobi apart from Kenya Airways which dominates international routes and offer the most flights to a myriad of destinations worldwide.

Other major airlines include Air Malawi, Air India and Swiss International Airlines.

Entrepreneur

A shoulder to lean on for small traders

By **Samwel Kumba**

From her small office-cum-training room in the right wing of the New Commercial House along Enterprise Road, Judy Wanjiku Njuguna stares at old mamas and the young boys and girls selling bananas and fruits along the street. One thing comes to her mind: How can she help them grow into viable businesses in the future?

The desire to help these Jua Kali entrepreneurs led Judy to discover even greater problems: There are some who cannot even afford to set up even these simple businesses.

Not only do they lack the wherewithal but also the experience necessary to grow their tiny ventures into small and medium enterprises (SMEs) in future. Wanjiku then thought of the vehicle to help realize her dream. She established SME Backup Establishment (SMEBE) in which she doubles as the executive director.

Why SMEBE?

I realized that there were so many youth and small women traders who have ideas but they do not know where to seek advice and training. Most financial institutions which could help them require collateral which they do not have," says Wanjiku, a"Bachelors of Arts Degree holder from the University of Nairobi with a major in Economics and Sociology.

Observing that the current land tenure system perpetuates a process where most of the properties that the families own are registered in their husbands' names, Wanjiku argues that, in most cases, women and the youth cannot raise collateral although they may have the ideas.

"That is why, upon realizing that the problem is greater than I thought, I established SMEBE to facilitate training and capacity building, networking, fund raising, as well as SME grants and Loans," explains Wanjiku, who since"graduation in 2003, has closely worked with the disadvantaged persons in various parts of Kenya.

Earlier, immediately after her graduation, she had joined Mega Peak Training Centre (MPTC) for an entrepreneurship course. She is the pioneer behind the launch of Back –Up Development Plan Kenya that is a program in MPTC that specializes in training the youth especially the new business starters on simple entrepreneurship skills to form a strong foundation of their businesses.

Wanjiku, who is in record starting a number of Initiatives of Groups and Movements (IGM) among women in her areas of duty, was trained as a trainer in entrepreneurship and that gave her the upper hand in establishing her own training centre.

She endeavours to transfer her hands on day-to-day administrative, coordination, capacity building, training, monitoring, implementation, evaluation and report writing experience, especially involving community development, food security, education and project activities which she has gathered from reputable training institutions and organizations.

This she does through her involvement in teaching, training, capacity building, workshop facilitations and staff supervision.

"I have carried out assessments and data collection using different methods, data entry, tabulation and analysis. I am well versed with Participatory Rural Appraisal (PRA) and Rapid Rural Appraisal (RRA) methodologies. I have worked in team environment and areas of complex emergency situations with vulnerable children and communities," she explains.

But why not go job hunting given her qualifications? "My view has been that, if I am employed, I will be underutilizing my capabilities. I have always dreamt of being my own boss. My dream is to reduce poverty. As an employee, I can only do a specific thing within a specific time."

Funding

Given her access to limited funds by mostly using her own resources, Wanjiku espouses stringent resources utilization measures.

"Since funding is still limited, the little I am giving, I ensure I give a small group as opposed to individuals. That way, at least the rate of misappropriation is low and if I risk for, say, 10 groups, seven will yield something tangible," she explains.

She, however, reveals that SMEBE is wooing donors for financial support and if manages to secure a sponsorship, she will expand her reach.

"But our catching phrase is the training, which at the moment we equally offer for free. Through our training centre, we are able to shape the small traders into business conscious individuals."

She adds: "Even if one has the intentions of just getting the money and disappearing, through the training, one is able to wisely invest the money given for reasonable returns," she insists.

Wanjiku discloses that she is in touch with the International Finance Corporation (IFC) which is positive about the proposal to fund the project.

“I am using my own resources because I am encouraged by the future prospects of the people we are assisting. For instance, I gave a vegetable vendor Ksh 3000 and she has been selling vegetables since. As at last week, she told me that she could be able to pay her rent and put bread at the table for her family. So at this initial stage, I am trying to gain people’s trust. That is why I am building success examples both through training and funding,” says Wanjiku.

Challenges

Admittedly, Wanjiku says that hers is a Herculean task. “First, getting grants to give the traders is a major challenge. Even after training most of these people require support, be it a small amount, say between Ksh 1000 to Ksh 25,000.” Taking issue with the Ministry of Youth Affairs’ decision to distribute the Youth Fund through microfinance institutions, Wanjiku considers the move a rush decision. She explains: “Most of the youth we have spoken to are being asked for collateral to access the funds from the distributing institutions. Many of them do not have the collateral. I think the ministry could have dealt with the youth directly or at least used established organizations that are already dealing with them.”

In order to widen her reach, Wanjiku sought partnership with the Capital Youth Caucus Association (CYCA) which has contacts up to the grass roots besides research findings about the needs of these traders.

The CYCA Executive Director Armstrong Ong’era hails the partnership with SMEBE saying that the vision of the two institutions is similar.

“As an organization, we have always endeavoured to pool resources to emancipate the youth by creating sustainable opportunities for all. That has been our objective and I believe with SMEBE, we can actualize it,” explains Ong’era.

Wanjiku envisions that one day SMEBE will be able to support a larger number of entrepreneurs who in turn would to be able to support themselves, saying, “I would like SMEBE to be an organization that empowers youth and women and especially at the grassroots level.

Asked whether a reaction to the government’s Youth Fund, Wanjiku, who has successfully implemented heavy consultancy work for UPS Kenya and Tula Link International Ltd says, “As an organization, we believe in partnerships as one of our ideals and we have created both horizontal and vertical partnerships and collaborations with everyone, including Ministry of Youth Affairs.”

Roads

End of the road for potholes

By **Justus Ondari**

Kenyans may finally turn their backs on a potholed, poorly constructed and dilapidated road network as the Kenya Roads Board (KTB) strives to bring back the business of road management into shape.

The board now has plans to ensure that every shilling raised will be well spent on keeping the country’s road network in the best condition possible.

“Our intention is to have the country’s road network, which had literally broken down completely because of neglect, to regain its lost glory,” says KRB Executive Director Dr. Francis Nyangaga.

To keep its promise, Dr Nyangaga says the board has improved its resource mobilization and utilization systems in order to meet the huge demand for funds due to the number of roads that needs urgent attention.

So far, KRB has collected over Ksh 10 billion or 75 per cent of projected target of Ksh 15 billion in the current financial year.

Most of the amounts have been released to implementing agencies, which includes the Roads Department in the Ministry of Roads and Public Works, 96 local authorities in the country, all district road committees (DRCs) and Kenya Wildlife Service (KWS).

DRCs are made of Members of Parliament (MPs), mayors and chairmen of local authorities, district commissioners, district roads engineers (secretary) and two co-opted members.

Dr Nyangaga says that out of the Ksh 10 billion, the Chief Engineer, Roads, received close to Ksh 5 billion for maintenance of the major highways.

The funds’ release ensures that all money intended for the districts is disbursed by the end of every month of March for utilization before the close of the financial year.

“Funds disbursement close to the end of the year enables us to avoid a problem we used to experience in the past whereby officers use the funds very fast but ‘not very nicely’ as they close their books,” explains Dr Nyangaga.

However, some districts and local authorities have not received their funds for failing to comply with regulations, which include failure to forward returns, books not being in order and deviation from agreed programmes.

Things would get even tighter for the agencies.

“From this year, all the agencies will be implementing programmes based on performance agreements we will be signing with them,” reveals Dr Nyangaga.

Challenges

Bringing discipline to the agencies in management and utilization of KRB funds has been a major challenge.

"All the money never used to reach the intended destination- the grassroots. However, we are trying over time to improve on the amount of money that reaches the ground for the benefit of wanainchi."

The chief executive says that although the situation has improved, working with the DRCs in the past has been a nightmare particularly from its political members.

"It used to be a difficult task, especially working with the MPs who could pick and drop a road project, for instance, just because they have differed with someone politically."

To address the problem, the board has tied its funds to projects that are selected by DRCs in an exercise that is done a year in advance under KRB guidelines

"Once the DRCs agree on a project and we approve it, there will be no changes except under special circumstances like floods. We have instructed the district roads engineers that any deviation from programmed projects will see them surcharged."

Equally, working with local authorities with their set of politicians-councilors- whose interests "can be difficult to manage" was a minefield.

"Many would spend the money on things like salaries and traveling allowances with little regard to roads," he explains.

To stop the practice, KRB has opened a different account for its funds leaving the councils to operate their own consolidated accounts whichever way they deemed fit.

Consequently, the board is making efforts to increase its capacity to effectively manage the money it receives.

"We want to get better value for our money through quality control, proper supervision and generally getting all the money to the grassroots."

Under the Roads 2000 initiative, the government aims to utilize the abundant labour in road maintenance across the country.

He explains: "We will use labour on certain road works such as patching up potholes. Our intention is to reduce use of machinery and increase use of labour as a way of creating employment, especially in the rural areas."

Penalties

To effectively oversee the utilization of the funds, the board has set up a technical compliance, performance and financial audit department which regularly audit the agencies.

"While normal auditors look at books at the close of the year, our team audits the agencies continuously as the road works goes on."

Dr Nyangaga says this ensures, first, the agencies are implementing the projects according to the programme and, secondly, they are giving Kenyans value for their money by doing their job according to the set standards.

"If their work is sub-standard, we give the officers in charge an opportunity to explain why and if their explanations are not satisfactory, we quantify the work and surcharge them," he warns.

This can lead to freezing of the accounts and even arraignment in court of the concerned parties.

"Although in the past we have not been strict enough, with the performance agreements we are signing with the officers from this year, we are going to seriously deal with officers who fail to deliver," he says.

And Kenyans will not suffer just because of the mistakes of errant officers. "The KRB Act allows me, in consultation with the Minister (for Roads and Public Works), to move the implementation of a project from, say, a local authority if it is not doing its job to, say, a DRC besides punishing the offending officers."

By publishing a breakdown of all the projects done and their costs in a financial year at the close of the year, KRB has a rich network of"'supervisors', members of the public who can verify the authenticity of the information.

Sources of funds

Fuel levy accounts for about 90 per cent of KRB's income.

"We are sure it will continue increasing because the economy is growing." The board also receives a certain portion of the agricultural cess, transit toll and funds from development partners.

"For example, last year we received Ksh 50 million from the World Food Programme (WFP) for roads in Garissa. But we are trying to open up more sources by looking at things like fines for those who abuse road use by, say, overloading or poor workmanship," he adds.

Dr Nyangaga has a promise to all Kenyans: "We will keep your roads maintained always."