



Uchumi struggles to stay in the game

By Jackson Okoth

Uncertainty continues to grip the future of Uchumi, Kenya's oldest supermarket retail chain as it falters from one rescue plan to the next.

After a recent debenture issue raised only Ksh 134 million, against a target of Ksh 650 million, the rescue plan now moves to seeking a strategic equity partner to pull the retail chain out of its crippling debt position.

Jonathan Ciano, the Uchumi supermarket's Receiver-manager told *The Financial Post*, "We shall be having meetings with interested investors although I cannot provide details of what amounts they will be offering."

While the debenture offer sold short, the retail chain remains a major attraction especially to numerous local and international investors as well as the retail company's foreign shareholders.

It is from this group that Ciano and his rescue team will be hoping to piece together a deal that will usher in the entry of a strategic equity partner into the company's shareholding structure.

"The main objective and role of the strategic equity partner will be to facilitate the recapitalization

process of Uchumi," says Ciano.

After the company recently failed to raise the Ksh 650 million, its debenture holders, Kenya Commercial Bank and PTA Bank appeared to be losing their patience.

"We have since struck a deal with the banks to reschedule the debt payments to January next year. It has been agreed that we shall be paying Ksh 5 million per month. This is an amount we can afford. The banks fully support our rescue plan and have decided to ease pressure on us so that we can remain liquid and meet our requirements," Ciano explains.

As the receiver team seeks out a strategic investor to shore up its capital base, Uchumi will also be meeting with its suppliers, who are also increasingly becoming jittery. The company owes them in excess of Ksh 1.8 billion.

"We shall be meeting with suppliers who are among those anxious to ensure that the company does not go down," says Ciano.

He adds that a deal will be worked out to pay out part of the debt owed to suppliers from what was raised from the debenture sale.

Although the company is able to meet its cash flow requirements, the retail chain will need to clean its balance sheet off old debts, recapitalize and retool its entire assembly line before it can effectively reclaim lost territory.

The long absence of Uchumi Supermarket from the retail radar screens has triggered the entry of new and more aggressive entrants. Once a household name in the shopping business, the chain now trails Nakumatt and Tusky's, the new kid on the block.

Available figures indicate that Tusky's - formerly Tusker Mattresses - is ranked as Kenya's second largest supermarket chain, only after Nakumatt.

Nakumatt, previously playing second fiddle, has since improved its image as well as local and international ratings.

Incorporated in 1975, Uchumi Supermarkets Ltd has been struggling to resuscitate its operations, creating room for Tusky's and Nakumatt to eat into its turf.

The main objective of creating Uchumi was to have an enterprise for equitable distribution of essential commodities and affordable prices, whilst creating an outlet for the then fledgling local manufacturers.

This noble idea marked the beginning of the company on 17th December 1976, with ICDC, Kenya Wine Agencies Limited (KWAL) and Kenya National Trading Corporation (KNTC) - all Government owned parastatals - being its principal shareholders.

From then on, Uchumi became a trendsetter in low pricing to the advantage of all consumers, while at the same time maintaining high standards in quality of goods and services.

In the 1990's Uchumi spearheaded the hypermarket concept in Kenya. The introduction of this concept and specialty shops was a runaway success.

The key ingredient of Uchumi's success was a keen focus on the buying culture of Kenyan shoppers. Its model has been based on avoiding concentrating on imported foodstuffs and other foreign products that are locally available.

Uchumi also targets growth away from city centres, focusing instead on the residential shopper, enabling them to remain closer to the purse of the average Kenyan.

However, events in the past three years have changed the fortunes of this supermarket chain dramatically.

In 1992, Uchumi Supermarkets Ltd went public with 60 million shares floated at the Nairobi Stock Exchange. The first branch outside Nairobi, Nakuru East, opened.

It then went ahead to open the first hyper mart to its customers along Ngong Road. This was to be followed by other branches in Mombasa, all the way across the borders to Kampala's Nakasero suburbs in Uganda.

It is from this point that the rain began to beat the retail chain. Signs of trouble first began two years ago when Uchumi shut down about 10 of its branches.

The company then went on to raise Ksh 1.2 billion in a rights issue that saw majority shareholders shed off their shareholding from 52 per cent to less than 20 per cent.

Then in 2006, Uchumi's Board of Directors declared the company insolvent, effectively putting it in receivership by the secured lender.

Following a framework agreement between the Government of Kenya, suppliers and debenture holders, the company was revived and commenced operations from 15th July, last year.

Available figures indicate that Kenya's retail sector is one of the fastest growing presently, perhaps a reflection of improved economic performance and consumer spending.

It is against this background that it will be keen to watch who buys a stake in Uchumi.

The prize at stake will be a chance to cash in on its brand name and an opportunity to be dominant in Kenya's booming retail business.

None of the bidders can afford to let this one go. While Uchumi has been away, the supermarket business has increasing become crowded with each player in a constant struggle to stay in the game.

Whoever buys into Uchumi, now in the same status as that of mobile company Safaricom when its strategic partner Vodafone came into the scene, is bound to have an enormous good deal.

It is expected that revival of Uchumi could have a profound effect on supermarket retailing in Kenya for the decades to come.

With space for large out-of-town stores rapidly diminishing, it will be interesting to watch how a revived Uchumi performs. The retail chain knows that it has to fight back quickly and time is running out.

With little room left to grow in groceries, supermarkets are already piled into a whole new area - non-food. Electronics, furniture, pharmaceuticals, hardware tools, flowers and even garden ornaments have all become a vital part of the modern megastore.

As Kenyan shoppers spend more hours in supermarkets, so the big chains have realized that it pays to make them more fun.

Lighting, ambience and presentation all mix to convince shoppers they are having a good time.

The entry of a suitable investor with deep pockets into Uchumi could, at a stroke, turn the league upside down.

Insurance regulator to crack the whip

By Muroki Gititu

Kenya's troubled insurance sector is expected to have a new regulator by the end of this month.

This is as soon as a gazette notice is issued, paving the way for conversion of commission of insurance office, a department at the treasury, to a fully-fledged autonomous regulatory board.

Among the key issues the new regulator is expected to address include the perennial collapse of motor vehicle underwriters, fraudulent activities, price undercutting and breaking the hold of cartel rings run by insurance brokers and dominant companies.

But whether the new authority will deliver remains to be seen as a skeptical public and consumers of insurance services remains apprehensive.

A highly placed source at the Treasury told *The Financial Post* that alot of progress had been made towards operationalization of the Authority. This includes putting in place the prerequisites including appointment of the Authority Board members, securing office space and working out how the Authority will be funded among other procedures.

The move comes against a backdrop of the Insurance (Amendment) Act 2006, which spells out the formation of a regulatory authority for the insurance industry.

Major players in the industry have received the new developments in the sector with excitement and high expectation, as the new regulator is billed to blow the much needed impetus to the industry.

Kennedy Abicha, the General Manager of Amaco Insurance says, "We are only waiting for the gazette notice before the new regulator can begin operations, probably by the end of this month."

While Kenya's insurance industry is estimated to be worth Ksh 100, it currently handles only Ksh 40 billion in written premiums.

Due to lack of a strong regulatory environment, the industry has been riddled with unfair competition, malpractices and premium rate undercutting. Most companies invest little in product research leading to duplication, with the penetration level as just over 2 per cent.

Available figures from The Association of Kenya Insurers (AKI) indicate that the life insurance business, worth Ksh 7 billion, has a penetration level of 27 per cent compared with General business which is worth Ksh 19 billion and has a penetration level of 73 per cent. In a country of over 35 million, only 350,000 people have life insurance policy cover.

Among amendments to the insurance act is the establishment of a regulator through conversion of the Department of Insurance at the treasury into an autonomous regulatory agency - The Insurance Regulatory Authority -

This body is expected to effectively manage an industry whose regulatory environment is currently flawed. Presently, the sector is composed of over 43 insurance underwriters, 200 insurance brokers, 1,000 agencies and 3,000 agents. The chaos in this industry due to lack of an effective regulator is not difficult to fathom.

A senior AKI official told The Financial Post that regulation of the insurance industry has been a problem. For instance, having discussions on policies affecting the industry and implementation has been a problem with the current status quo. The amount of red tape is also stifling.

"With a regulatory authority in place, we expect it to cut through this red tape, make policy decisions and communicate them immediately to the stakeholders. This way, things can move much faster," says the AKI officer.

AKI's Chief Executive Officer Tom Gichuhi welcomes the establishment of this regulatory authority pointing out that, "One of the key issues is the need for a strong body that can not only regulate but also police the industry by providing a level playing field for all the players."

He mentions that at present, it is business as usual as the industry waits for the new regulatory body to be formed.

Gichuhi mentions further that the regulator is to address such issues as low profitability which he attributes to a weak regulatory environment. This has made underwriters reluctant to venture into non-traditional markets.

This authority is expected to among other things push for the introduction of new products and encourage players to move away from conventional areas. This will involve investments in product research and development to enhance what is currently on offer.

Industry players mention that work has been cut out for the regulator which will have to sort out a number of problems as early as yesterday.

A source at Kenindia Assurance Limited says lack of control on the premium rates charged is the most disturbing. "While there are guidelines on rates for motor business, some unscrupulous firms are engaged in undercutting others by offering lower rates. Thus, instead of sticking to the standard 4 per cent, these firms offer as low as 3 per cent." There have been calls that the standards rates for premiums be enforced.

The new regulator authority is also expected to address the issue of fraudulent activities in the industry, especially in the workman's compensation where ambulance chasers and fraudulent claims are prevalent.

A senior marketing officer at Jubilee Insurance says that at the moment, there are too many small insurance companies, overcrowding the market leading to unfair competition and price undercutting.

"Too many players make provision of insurance services expensive arguing that most Kenyans take up third party cover because this is mandatory, said the official.

The new regulator is also expected to ensure compliance to industry requirements, including having companies run by professionals. At present, there are too many quacks prowling the industry.

The Insurance Regulatory Authority is expected in place this month although the treasury is yet to confirm the exact dates for it to become operational.

Finance Assistant Minister Peter Kenneth, while officially opening the AKI-organized Insurance Open Day recently, assured all stakeholders that the process of having a new regulator is ongoing. "While the commencement date for the authority was 1st May 2007, the period has elapsed but we expect it to be fully operational soon," he said.

The awaited Insurance Regulatory Authority replaces the office of the Commissioner of Insurance and will regulate and supervise the industry.

It will have a board of directors consisting of 11 members with the chairman appointed by the President on the recommendation of the Finance minister.

The CEO of the regulator shall be picked by its board, in consultation with the Finance Minister.

Other members of the board will include the PS, Ministry of Finance, CEOs of the Capital Markets Authority and Retirement Benefits Authority, the Central Bank of Kenya Governor, and a nominee of the Insurance Institute of Kenya.

In addition, the minister shall appoint another four members experienced in insurance, finance, banking or actuarial science to sit on this board. All are to serve a term of three years and are eligible for re-appointment once.

No director, officer, employee or shareholder of any insurer, broker, insurance agent or any other member of the insurance industry is eligible for such appointment.

Its duties will include supervision, control, licensing and enforcing standards on the conduct of insurance and re-insurance business in Kenya. The body will also be charged with the responsibility of protecting the interest of policy holders, promoting development of the sector and advising the Government on the national policy to be followed to ensure adequate insurance and security of national assets and properties.

The new authority is expected to replace the under funded, poorly staffed and moribund Commissioner's Office under the Finance Ministry.

Ensure PSV underwriters stay afloat, authority told

The biggest problem that has faced the Public Service Vehicle (PSV) sector is insurance companies in the motor business going bankrupt.

Already the Matatu Welfare Association (MOA) is appealing to the new regulatory-the the yet to be formed-Insurance Regulatory Authority- to tackle this issue as a matter of urgency.

The MOA national chairman Simon Kimutai has said that he hopes the authority will streamline operations of the insurance sector. He told *The Financial Post*, "People have been running insurance companies not as per the law. There has been siphoning of money from PSV underwriters and this increases exposure of premium holders to claims from accident victims," he says.

"With a regulatory authority on board, we hope not to see insurance companies going under. Currently, the Commissioner of Insurance is so overwhelmed and does not have the capacity to effectively police the industry," observes Kimutai.

It is estimated that the matatu industry is worth Ksh 4 billion and one of the biggest consumers of insurance products. The Matatu association has a registered membership of 40,000 people, each with a 14 seater. A member parts with close to Ksh 5,800 in premiums per month, with the overall amount reaching Ksh 2.7 billion in third party insurance a year.

Apart from PSV third party, there is also comprehensive cover whose contribution is also enormous.

But Kimutai now wants the new authority to steer clear of premium fixing.

"In a liberalized economy, nobody is supposed to control premiums", he says

The MOA boss adds that if the authority engages in premium fixing, this will curtail competition. A flat rate will discourage players in the industry. The level of premiums charged should be left purely to market forces. We have the monopolies Act to deal with any unfair practices.

He blames the Department of Insurance at the treasury for the collapse of motor underwriters, including United Insurance Company, which went under with claims running into billions of shillings.

"Each year, the commissioner of insurance is supposed to renew the license of all insurance companies and to ensure that these companies are liquid enough to pay claims, says Kimutai.

MOA is also pushing for change in the current situation whereby where a policy holder is the one sued directly by the victim of an accident - the injured or the owner of vehicle damaged by the policy holder.

"We want a situation where the victim goes directly to the company that gave the policy. This is because once a contract is signed between the policy holder and the insurance company, the company is supposed to assume all liabilities," says Kimutai.

The authority has also been challenged to involve all stakeholders, prompt settlement of claims as issues of fraud.

With all these concerns being raised, the Insurance Regulatory Authority has its work cut out.

Banks target lucrative Islamic market

By Haji Kariuki

A trend is slowly taking shape in the banking landscape with a number of players rolling out muslim-friendly products, targeting the Islamic community.

This is a reflection of a rapid expansion of Islamic banking around the world. In Kenya, a number of key local banks have already embraced this phenomenon with great results and response from the public.

Barclays bank of Kenya was among the first to enter the fray when it initiated the La-Riba account.

Kenya Commercial Bank followed suit by starting the Amana Account before K-rep bank went into top gear with its Islamic related banking package.

But it is the recent opening up of Halaal Credit Limited, a subsidiary of Al-Islamia Sacco Limited, which has spun the market even further with its exceptionally attractive packages.

In an earlier interview, during the launch of La Riba Account, Barclays Bank Managing Director, Adan Mohamed said the main objective of the account is to fulfil the evolving needs and demands of its customers by respecting their faith.

"The Muslim community in this country is growing and therefore calls for an accommodative policy in terms of business transactions" said Adan.

Among the privileges bestowed to the accounts members include access to internet free banking and a 24-hour access to their money through the bank's 82 ATM's countrywide, or at any ATM displaying visa logo worldwide. They are also entitled to a visa Electron card and a free cheque book.

Adan adds that the account is not only meant for Muslims but also non-Muslims who are interested in engaging in the interest-free banking system.

"We intend to build up enough stock that is compliant with the Islamic law and which the bank will later lend to the market. It is a simple product that will help segregate funds that are shariah compliant" he said

A manager at Barclays Omar Sheikh says the response has been very impressive. "Already, a good number of people have opened their accounts. This already shows the market has great potential" said Mr Omar.

He added that although the product is designed with the Islamic community in mind, it is however open to people of other faiths. This product accepts deposits from people without regard to their faith" noted Mr Omar.

According to Islamic banking, one is not allowed to give or receive interest commonly known as 'riba' in Islamic discourse.

In addition, Islamic law prohibits investing in business which is considered unlawful or harmful such as those that sell alcohol or pork, pornography or deal in gambling.

But one is allowed to invest in property or shares acquired through legal means, partnership for production (musharakah), silent partnership when one party provides the capital and the other the labour (mudharabah) or an agreement on differed payment or purchase (murabaha)

Kenya Commercial Bank Chief Executive, Martin Oduor had this to say during the launch of KCB Amana Account. "KCB Amana Account has been positioned as a shariah compliant banking brand. It is a comprehensive three-in-one brand, addressing financial needs at all stages of an individual's life cycle such as children account, student account or a transactional account."

Mr Oduor commends the Government for making it possible for services that neither charge nor earn interest. This, he says, makes it possible for Muslims in Kenya who constitute up to 10 per cent of the population to obtain and utilize financial services.

"Our entry at this juncture is timely with the strengthened Islamic financial infrastructure now being put in place. The Islamic financial services industry is poised to accelerate regional economic growth and also add value to our current and potential customers' lives through a number of benefits provided" he says.

Amana Account holders are allowed to operate accounts in the local currency and major currencies. No interest is charged or paid out. Other benefits include 24 hrs access to banking facilities through the 111 KCB bank's QuickService ATM network or any of the Visa branded ATM outlets worldwide.

The Bank's Group chairman, Susan Mudhune says that the Amana Account brings new levels of efficiency by widening the variety of banking product and service offerings as well as promoting development in the marginalized areas of the country.

"We acknowledge the fact that a number of Muslim investors is increasing by the day. They are also becoming more sophisticated and will demand more from their bankers. Investors will not only look at investment performance or shariah compatibility alone, but they will demand both shariah compliance and efficient customer service" She notes that financial markets are increasing in sophistication whereby the environment is constantly changing and competition increasing.

The Islamic banking system in the country has come on the heels of the efforts to widen the variety of banking products and services, making credit access possible for those who have been left out because of their faith.

During last year's budget speech, Minister for Finance, Hon. Amos Kimunya allowed financial institutions to offer Islamic banking products and services that charge no interest.

The recent entry of Halaal Credit Limited, a subsidiary of Al-Islamia Sacco Society Limited, is a pointer of things to come.

With an annual capital investment of over Ksh 150 million, the credit company boasts a further Ksh 140 million in deposits from 110 Muslim women groups.

The Company's CEO Yasin Abubakar explains how it all started.

"Late last year, we started putting together Muslim women groups for business purpose. We managed to get 110 groups who agreed to contribute Ksh 30,000 each per month. So we were able to guarantee a monthly income of Ksh3.3 million.

In a year's time, we had accumulated over Ksh 50 million as core capital to start this programme as stipulated by the Central bank act" he explains.

With a Ksh 149 million expansion plan on hand, the company currently caters for Muslim customers only. But soon it will also allow non-Muslims subject to the licence issue. This firm has already rolled out 8 more banking products to add to its numerous products already in the market.

These include, H-Qardhan hasana, an interest-free loan of upto Ksh 1 million, H-Tijara, a business account with interest-free overdrafts and Islamic debt banking products.

There is also the H-Shabab which allows parents to borrow upto Ksh 1 million to start a business for a child, H-Hisa which grants access to Islamic equity funds as an alternative to the Nairobi Stock Exchange. Then there is the H-Jammah, which grants projects finance to Muslim groups of upto Ksh2 million. Then there is the H-Sacco for Muslim SACCO members who want the same right they get at their current Saccos with loans completely interest-free, H-Bayt which allows house purchase on the principal of Mudarabah and lastly, the H-Sayara.

"With a monthly turn-over of Ksh 3.3 million deposit and an annual core capital of over Ksh 50 million, the muslim community will definitely get somewhere within a limited time," he says

However, banks and financial institutions that offer Islamic banking products and services (IBS Banks) are required to establish Shariah advisory committees to advise them and to ensure that the operations and activities of the bank comply with shariah principles.

Here in Kenya, The Majlis Ulamaa and the Office of the Chief Kadhi advises banking institutions that offer Islamic banking on the Shariah aspects of the operations and services. The chairman of the Majlis Ulamaa Council, Sheikh Khalfan Khamis says that the body assist in formation of banking package which is shariah compliant.

"We also regulate the account operation to ensure there is no mix up in the financial pool besides solving the arising problems, he says.

Sheikh Khalfan, who is also the Imam of Nairobi's Jamia mosque further says that the country's banking act is mainly compatible with the Islamic banking system except on the concept of interest.

"That is why we have to come in to ensure the safety of the Muslims during financial transaction", he explains.

For instance, the KCB shariah advisory Panel comprises of Dr. Irshaad Abdi Ibrahim, the director of World Assembly of Muslim youth, Sheikh Ismail Hassan Hussein- Director of Africa Muslim Agency, Dr Ibrahim Abdullahi, a lecturer in Islamic studies at the Kenyatta University, Mr Ibrahim Athman Lithome, a practising Lawyer and former commissioner of the constitution of Kenya Review Commission and a member of the Muslim Lawyer's league and Dr Hassan Nandwa, a practising lawyer and lecturer.

Islamic banking has the same purpose as conventional banking except that it claims to operate in accordance with the rules of Shariah, known as Fiqh al-Muamalat (Islamic rules on transactions).

The basic principle of Islamic banking is the sharing of profit and loss and the prohibition of riba (interest). Amongst the common Islamic concepts used in Islamic banking are profit sharing (Mudharabah), safekeeping (wadi'ah), Joint venture (musharakah), cost plus (Murabahah), and Leasing (Ijarah). Generally, deposits received from Islamic banking clients are utilised by banks to enter into shariah compliant transaction, whereby the profits generated from there are in turn shared between the bank and the depositor by way of separate Islamic pool.

As a result, the depositor earns a return on their funds whilst ensuring that the profits are from halaal sources since the type of investment allowed is where a person deposits money in an account and shares both the risk of making profit or losing.

Islam prohibits depositing one's wealth and taking specified increase without the risk of either loss or profit making.

In addition, the Government's step to allow the Islamic banking will also help banks repay millions of shillings earned through illegal fees charged on their customers.

Section 44 of the banking Act discourages arbitrary loading of interest and other fees on customers while the Central Bank of Kenya (Amendment Act) commonly referred to as Donde Bill requires banks to notify the Finance Minister of changes in their charges and interest rates and put restrictions on charges and interest rates.

The first Islamic bank was established in Dubai in 1974. Since then, the industry has grown tremendously with an estimated 300 Islamic banks and financial institution worldwide holding \$300 billion predicted to grow to \$1 trillion by 2013

Other African countries which have already embarked in the Islamic banking system include Nigeria, Egypt, Sudan and South Africa.

Nyayo Tea Zones in self-reliance initiative

By Correspondent

For a long time now, Nyayo Tea Zones Development Corporation has been depending on factories owned by the Kenya Tea Development Corporation (KTDC) to process its tea. All that is bound to change when the

factory completes is a factory rollout programme that was inaugurated by the Minister for Agriculture, Hon. Kipruto arap Kirwa.

The new factory will be situated at Kipchapo in Nandi North. It is expected to generate approximately Ksh. 200 million annually for the Corporation on completion, create 100 new jobs directly, and bring about improvement of infrastructure such as roads and electricity in the area. Critically, it is expected to bring about a reduction of post and preharvest losses, and encourage uninterrupted and continued tea plucking.

It is expected that the tea factory will act as a trigger for increased tea production in this area. The Factory will start as one line tea factory but it has a provision for three lines. On commissioning the factory will have an installed capacity of 7 million kilograms of green leaf annually but this will increase to 12 million Kilogrammes by 2012 and 18 million by 2020. The factory will process C.T.C. teas, Orthodox, green teas and do value addition.

The project is expected to cost a total of Kshs. 481 million and it is being funded 60 per cent by the East African Development Bank (E.A.D.B.), and 40 per cent by Nyayo Tea Zones Development Corporation (NTZDC).

The tea factory has come in timely for Nyayo Tea Zones, which has seen its tea production shoot up from three million kilogrammes in 1990 to 20 million at present.

The minister said that the construction of the tea factory by the NTZDC is the culmination of a long cherished dream. He noted that the factory will resolve the perennial loss of green leaf the Corporation has been experiencing, especially during peak periods. "Most importantly, it will herald a new era for the Corporation, in which it is set to generate more revenue, and boost its profitability," he added.

At the same time the minister distributed cheques to 20 community based projects that had been successfully evaluated for funding.

The disbursement of funds for income enhancement projects being carried out is part of the Ksh 3.5 billion Green Zones Development Support Project being funded by the African Development Bank that was launched in March last year.

The economic empowerment exercise is meant to assist develop income generating projects with an objective of contributing to poverty reduction in areas where the corporation works and is aimed at reducing the communities dependence on forests as part of a major afforestation exercise being carried out under the Green Zones Development Support Project.

"We are pleased by Nyayo Tea Zones Development Corporations hardwork through the Green Zones Development Project and the African Development Bank for funding this project. They therefore join the government's strategy, which would also contribute significantly to achieving the Millennium Development Goals by contributing to poverty reduction projects." said Kirwa.

"As for the beneficiaries, I urge farmers to be focused on the objectives of their projects. The resources allocated to each project should be utilized for the purposes intended for. Farmers commitment is highly required in implementation of the entire Project." added Kirwa.

The initiative being carried out in 17 zones and is targeted to 17,000 households in a period of one year.

"The initiative is based on a different concept. The concept is that if we support forest adjacent communities to engage in income generating activities in their areas, they will have no need for encroaching into the forests in search of a livelihood. It is a step which is believed can be replicated in all our forest areas countrywide if it proves successful" said the Managing Director, Nyayo Tea Zones Dr. Anne Kinyua.

Dr. Kinyua also called on the beneficiaries to put the money to the intended purpose, and work hard to ensure the success of their projects, practicing gender equality on their community groups and discussing health matters especially on the issues of HIV/Aids.

The Green Zones Development Support Project main components include forest conservation and protection, support of forest adjacent communities, development of rural infrastructure and management organization where by today it was emphasizing on the support of forest adjacent communities.

NTZDC was established through a legal notice No. 265 of 1986 as a State Corporation. The corporation's vision is "to be a leader in conservation of forests and protection of the environment."

The mission of the Corporation is "forest conservation and protection from human encroachment of the gazetted forests through the establishment of continuous rings of tea and fuelwood plantations between the communities neighbouring the forests and those forests designated for protection."

The buffer zones have formed protective rings around Mt Kenya and Elgon, the Aberdare ranges, Mau-Transmara and Olpusimoru forest complex and Cherangani Hills. These belts have also ringed the Kakamega Equatorial Forest, Kaptagat Forest and forests to the North and South of Nandi.

The Corporation has managed to integrate agricultural activities with conservation. To date, it has planted over 3,000 hectares of forest cover. These include hectares of tea, having grown to this level from 1989 when the first tea bushes were planted.

Banking growth fails to reduce poverty

By Staff Writer

Although Kenya's banking sector has improved tremendously in terms of size, profitability and products offered over the last ten years, this growth has failed to reduce the levels of poverty in the country.

According to the Banking Survey 2007 launched in Nairobi last week, poverty is still rampant because agriculture, the mainstay of the economy was not receiving adequate funding from banks.

Think Business, a pioneering publishing, and financial data management and analysis firm conducted the study which showed that bank funds were still limited, insufficient and inaccessible to small scale farmers in the rural areas.

The report indicated that the total assets for the banking sector grew from Ksh 328 billion in 1997 to Ksh 746, in 2006 a 132 percent increase. Similarly, profitability rose from Ksh 15 billion in 1997 to Ksh 27 billion in 2006.

"But this growth has not been reflected in the overall development of the country economically because the incidence of poverty is still as bad as it was 10 years ago. More than 50 percent of Kenyans are poor," said the firm's chief executive Ochieng Oloo.

Oloo, however, noted that with the emergence of micro finance institutions like Equity and K-Rep targeting the small trader and the rural small-scale farmers, the trend could be reversed.

"That these banks have grown tremendously compared to their peers over the period they have been existence has put paid previous perceptions that there was no business in the lower retail segment of the market," said Oloo.

The report also noted that the major challenge in the banking sector will be the capitalization for the small banks as underpinned by the Finance Bill before parliament earlier in the year. The Bill proposes to increase the minimal capital requirement for commercial banks from Ksh 250 million to Ksh 1 billion within the next three years.

Oloo said the Bill might affect small banks with low capital base. He predicted that there would be mergers and acquisitions in the banking industry once the bill is enacted.

Central Bank Governor Prof Njuguna Ndung'u in the report says the Kenyan banking sector was reflective of the buoyant economic performance that the country had registered over the last four years.

"Banks assets increased by 22 percent from 2005 on the back of increased lending to private households, transport and communications, building and construction and manufacturing sectors. Capital increased by 29 percent due to enhanced profitability and injections by some institutions," he adds.

Prof Ndung'u says that profit for banks increased by 32 percent from Ksh 19 billion as at December 2005 to Ksh 24 billion as at December 2006. He attributed the rise to increased interest income from the growth in the loan portfolio and growth in non-funded income from fees and commissions.

He also discloses the CBK had embarked on various key initiatives that would bring more Kenyans into the banking realm since 38 percent of Kenyans are still unbanked.

"CBK has conducted a survey whose objective was to enhance the understanding of the level of access to financial products by Kenyans and inform policy interventions going forward," he says.

The Governor also adds that in conjunction with other stakeholders, CBK was developing a credit information sharing mechanism in order to help people in micro and small enterprises have access to loans and other facilities from the banking sector.

He adds: "The Licensing of Deposit Taking Microfinance Institutions under the recently enacted Microfinance Act is expected to increase the outreach of financial products particularly in rural and peri-urban areas."

But Prof Ndung'u says the Kenyan banking sector was facing challenges as small banks were targeting a small market and with little innovation. He also regrets that some banks had conservative banking services that were putting away potential customers.

"Other challenges include lack of credit information sharing and issuance of non performing loans that increase the cost of banking services," he avers.

In a separate interview in the report, Shamaz Savani the CEO ABC Bank mentions insecurity, poor infrastructure, poor bureaucratic and legal framework and an inept macro-economic infrastructure as major impediments to the growth of the Kenyan banking sector.

He says increased insecurity, the high cost of bandwidth and frequent power shortages, which force banks to have standby generators in their branches all add to the high cost of doing business.

Savani says to counter challenges ABC Bank is currently looking at delivery channels that will help them reach as many key customers as possible while still maintaining the human touch and enhancing the quality of their service.

The bank, which targets the medium corporate customers, believes that the small medium enterprises market segment is the next big growth market for the banking sector. "Kenyans are very entrepreneurial and they are very resilient. The growth of the SME sector is what will drive Kenya into the future," predicts Savani.

M-commerce changing the banking landscape

By **Mwangi Mainqi**

This might not be your case, but it was someone else's. You are stuck in a jam on your way to the Airport. Your mobile phone lights up and beeps with a message: 'Bus to Malindi delayed by 40 minutes. Confirmed seat No 18. Ticket transfer facilities available. Confirm by sending Y or N to 45363 for Yes or No respectively.'

You sigh with relief and your loyalty towards the bus company grows. In another part of town, Ciru, a banker is about to leave office. She uses her mobile phone for a quick check of her bank balance and load credit to her phone. Ciru is due to meet her friend Adhiambo for tea.

At around 6.00pm, Adhiambo receives a text message telling her that the Jazz restaurant just across her office has 'Happy Hour' when bites are free. Ciru has given her mobile service provider permission to relay such texts.

She may also opt for window-shopping. She checks to see which shops have sales and special offers and discovers that a movie and also a shoe shop is offering half the price on new releases and brands respectively she loves.

She does not know whether she has enough money to cater for the coming 'party time' but with a few clicks on her mobile phone, she's able to precisely obtain the bank balance from where she is!

This is becoming a reality. In this era, powerful forces and technologies have come towards us with unprecedented speed. Penetration speed has exceeded all expectations.

According to the Standard Chartered Bank chief executive officer Richard Etemesi, the mobile phone providers including Celtel, Safaricom and Telkom Kenya, have given banks an opportunity to reach customer base at the lower end of the market, "since most of them can afford a mobile phone hence capable to benefit from the banking services," Etemesi says.

"With products like M-Pesa and the fact that over 6.5 million mobile phone subscribers countrywide, it creates an avenue which enables many banks serve C market segment," he says.

The current annual sales of mobile phones have surpassed sales of TVs and PCs, with current are over 1 billion mobile telephone users in the world. In Africa alone, there are now over 62 million mobile subscribers. The number of mobile subscribers in the world is already above that of PC owners and will surpass that of households owning a TV.

Essentially, mobile commerce or M-commerce refers to any transaction with a monetary value that is conducted via a mobile telecommunications network. Kenyans for instance have their lives being transformed by an innovative mobile phone money transfer service, M-Pesa. The service is offered by Safaricom Kenya, a leading mobile phone service operator. The service has proved to be a technological breakthrough, as it enables subscribers to send large volumes of money in an instant transaction.

Safaricom's chief executive officer Michael Joseph says the idea begun as a trial money transfer service in the micro-finance industry two years ago. The success of the trial project drove the company to explore moving money among individuals across the country.

"Within two weeks of the launch over 10,000 account holders were registered and more than \$100,000 (Ksh 6.6 billion) had been transferred," Joseph told *The Financial Post*.

M-commerce, a growing core banking system represents all commerce transactions both in business-to-business and business to consumer.

Local banks including Equity Bank, Chase Bank, National Bank of Kenya, Standard Chartered and I&M Bank are already offering SMS banking to their customers.

This has seen most of these banks achieve a lot from the peculiar service delivery channel as M-commerce, according to the Banking Survey Report 2007 reduces congestion in banking halls and enables customers make wider range of transaction through mobile phones.

For instance, Equity Bank SMS services enables airtime top-ups, check balances, salary credit advice, ATM withdrawal advice, order for statements, forex rates enquiry, utility bills payments among others.

The report adds that the Bank previously with the longest queues in town has reduced the congestion in the banking halls by more than 40 per cent. With this, the Bank CEO Dr James Mwangi says that it would take time for other banks to deal with the need to build infrastructure to compete with Equity in the lower end of the market.

M-commerce is billed to drastically change the way we live, react, interact, buy, play and the way businesses operate. Information and content, be it text, data or images will be leveraged to deliver customized services in a manner unseen before.

It is a result of convergence between two or more technologies such as wireless communications and Internet. It is all about the explosion of applications and services that are becoming accessible from Internet-

enabled mobile devices. It involves new technologies, services and business models. It is quite different from traditional e-Commerce.

Mobile devices have opened doors for new applications and services. They follow one wherever he/she goes, making it possible to access the Internet while walking down the street with friends and family or while driving, looking for a nearby restaurant or gas station.

Central Bank of Kenya Governor Prof. Njuguna Ndung'u says the recent enhanced high level of investment by banks in ICT could be principally due to competitive pressure and high demand by customers.

Ndungu however says this will not only enhance convenience access of services but it will also ease collection of data on customer behaviour and their profiles, thus facilitates the development of customer centric bank products for all.

Mobile devices have become more personal too. These days, mobile phones and PDAs can track the user's location. They are also the best replacement for the wallets and plastic transaction cards like ATMs, debit and credit cards.

Analysts say that with the fast trend in the technology development, mobile phones may as well turn into intelligent assistants capable of anticipating many of our wishes and needs, such as automatically arranging for taxis to come and pick us up after business meetings.

Currently M-commerce is in place in Europe and Asia. Faster wireless access and packet switched technology offers fast connectivity. The upgrading of the network infrastructures to 2.5 or 3G, already in the local market through Telkom Kenya wireless phone services, will enable a bigger range of bandwidth intensive applications.

A number of handset devices are being developed to cater for customer needs. These are Personal Data Assistant (PDA), a mobile phone combination of smart phones with micro browsers and others with enhanced functions and video capabilities. Display and input capabilities are expected to improve over time.

Kenya pitches for offshore outsourcing business

By Staff writer

Offshore outsourcing is proving very popular with businesses around the world, with many new market entrants keen to steal India's crown, the latest of which is Kenya.

Kenya could be the next contender ready to steal some of India's offshore outsourcing glory, with potential for call centres or software development coming from Nairobi instead of Bangalore. This is if the country's technology infrastructure plans start to bear fruits.

Kenya, which is currently impeded in the call centre industry by poor communications links to the rest of world, is banking on the first fibre-optic cable in East Africa to be laid by mid-2008.

According to the Kenya national planning strategy, Vision 2030, the business processing off shoring (BPO) is targeted to contribute Ksh 10 billion to the country's GDP and creates 7 500 direct BPO jobs by 2012.

There are plans, according to the strategy, to establish a major BPO park in Athi River that will have excellent infrastructure, developed by top international IT suppliers.

"Kenya is offering competitive incentives packages for companies to locate in the park, providing-one-stop shop for administration and talent. It will also serve as 'showcase' park to attract more foreign IT companies," says Dr Edward Sambili, the Permanent Secretary in the Ministry of Planning and National Development.

Many Kenyan entrepreneurs hope that this, plus cheap labour, clear accents, and customer fatigue with Indian call centres will help the African countries hook into the burgeoning call centre and outsourcing industry, worth \$130 billion (Ksh 8.58 trillion) worldwide.

Once the technology is in place, it is hoped that Kenya can take on established hubs in India and the Philippines.

Cascade Global, an outsourcing advisory firm, estimates its current size at Ksh 330 million and with 3,000 employees since the first call centre was set up a couple of years ago.

"Our biggest selling point is our language. Everywhere we go, people are amazed at how clear our accent is," said the Cascade Global Managing Director, Peres Were.

"They are finding that India is getting saturated and quality is not very good. They want to give Africa a try."

Technology is Kenya's main hurdle. No matter how clear the Kenyan accent, the irritation of an echo on the line is bad for business.

Call centre operators in East Africa's biggest economy rely on an outdated satellite system where echoes caused by latency - the time gap created when calls travel some 36,000 km through space and back - spoil call quality.

For that service, Kenyans pay a hefty \$7,000 (Ksh 462 000) per megabyte of bandwidth each month, compared with the roughly \$500 (Ksh 33 000) per megabyte Indian operators pay.

Call centre entrepreneur, Eric Nesbitt says that when he told prospective American clients their calls will be routed through a satellite connection, they were no longer interested in doing business with him.

They knew the outmoded technology will lower the quality on voice calls, irritating their clients in the process.

"Clients are not going to change their systems to handle a satellite link just for us. It is like, 'why bother? Who are you guys anyway?'

They have no interest," Nesbitt, operations director of KenCall.

"When we have fibre and that takes that discussion off the table, then we will be equal to everyone in the world."

India, usually the first stop for western companies, is looking to increase profits by outsourcing some of their business processes. Last year, it earned \$39.6 billion (Ksh 2.613 trillion) from call centres, back office operations and software development.

The sector employs 1.5 million people here and contributes 5.2 per cent to the nation's gross domestic product.

The Philippines earned \$3.26 billion (Ksh 215.16 billion) in 2006 and hopes to double that by 2010.

Kenya's planned \$100 million (Ksh 6.7 billion) undersea cable is expected to connect Mombasa with Fujairah in the United Arab Emirates. Known as The East African Marine Systems (TEAMS), it will bring the cost of bandwidth down to levels similar to what India is paying.

The government has in the meantime secured a World Bank loan to subsidize the cost of bandwidth until its own cable lands in Mombasa.

But archaic technology is not the only hurdle the young Kenyan call centre industry has to deal with. "Our main disadvantage is that we are at infancy and many companies out there do not know we are there," said Gilda Odera, Managing Director of Skyweb-Evans, another call centre.

Here, Kenyans hope their confidence and good English language skills can make a difference. India's large English-speaking workforce with wages well below western levels has helped to attract business but it is fast becoming a more expensive outsourcing destination, industry analysts say.

Indian agents with clear accents are unwilling to take low salaries so more and more workers with stronger rural accents are getting into the market.

Kenyans are also relying on bad press generated over the Indian industry for clients to look their way. And they say that lately, they have been receiving a lot of inquiries from multinationals looking for a new location.

Crown's search for growth capital

By Staff Writer

With the rapid expansion in the regional economies Kenya's leading paint maker Crown Berger has its eyes set on the regional markets. The company's chief executive officer Rakesh Rao, however, admits that the planned expansions would require substantial amount of capital and the company may have to turn back to both local and international financial markets for the additional cash.

He is confident that the recent credit rating accorded the company by a global credit rating agency, Global Credit Rating Company (GCR), will endear investors to the company and boost their confidence hence making it easier for the company to access further capital for regional growth.

"This rating is a confirmation of our long and short-term favourable outlook. It bodes well for our shareholders and other business partners. The ratings attest to our healthy long term outlook, high credit quality, good protection factors, and the highly attractive investment opportunity that Crown Berger can offer both in the short and long run, which are particularly important at this time as we contemplate going to the market for additional capital for our planned regional expansion geared at growing our business," said Rakesh in an interview.

GCR accorded an A2 grade for long-term and a BBB+ short-term ratings to Crown Berger, an indication that the company has favourable long and short-term growth prospects.

Accordingly, the rating provides an independent and internationally recognized measurement of Crown Berger's financial strength, which is expected to result in an increased pool of investors, facilitate direct access to capital markets and ultimately result in reduced funding costs.

Furthermore, the extensive distribution of the detailed rating report proves to be a highly effective complement to Crown's own investor relations activities as Rao explains.

"The new rating now gives comfort to our investors. It also gives us freedom to borrow both locally and internationally up a reasonably substantial amount of money without having to worry about guarantees. This goes along to explain how significant this rating is to us."

Aggressive expansion plan

The company's paint manufacturing interests stretches throughout East and Central Africa giving it an opportunity to supply the whole of COMESA region.

Rao says that Crown will continue pursuing an aggressive expansion plan for the wider region that will cover Rwanda, Ethiopia, and Sudan. The company launched operation in Uganda in 2006 with the opening of

Crown Building and Product Limited, Uganda. The actual production expected to commence by September 2007.

In Sudan, the company has a distribution office where it hopes to cash in on the booming construction industry, especially in Southern Sudan. It is also planning a grand entry into the promising Rwandan market. In addition, to a healthy regional expansion prospect, Crown's product and rationalization and change in its management structure have seen a marked improvement in profitability lately, with growth in profits for 2006 increasing by 100 per cent. This evaluation of Crown's credit risk and performance by GCR clearly restates the company's position as a resilient and increasingly important player within the paint industry. Close analysis of the data available shows that the company's performance has improved significantly in the past nine months. Improved profitability in 2006 supported a 19 per cent rise in shareholders interest to Ksh 771 million. Crown Berger has been operating in the Kenya since 1958. It is a public limited company incorporated in Kenya under the companies Act and listed in the Nairobi Stock Exchange since 1992 with the current market capitalization of over Ksh 1 Billion. The Global Credit Rating is an independent firm that provides consumers with an objective rating of credit worthiness and financial soundness of companies from various sectors in emerging markets.

Neno Sacco thrives in transport business

By Antony Ndwigah

For Emilio Kathuri, securing a route for his two fourteen seat Nissan Matatus was hell on earth. This led to Kathuri forming a Sacco in Embu district to enable him secure a route for his two Nissans.

After he completed his Bachelor of Science degree in Nairobi University, Kathuri ventured into the Matatu industry and formed a Sacco known as Nairobi Embu Nissan Operators (NENO).

This Sacco, which started in as self-help group has now grown to become a multi-billion organization, with assets all over the country.

Kathuri, an insurer by profession, had set his mind to open a company in Embu-This came to be known as Buffer Insurance Brokers. The idea behind this was to supplement his matatu income by selling insurance policies.

In 1996, Kathuri approached the then Embu Matatu Owners Association to secure a route for his matatus. But the cartel could not allow him to operate, forcing Kathuri to park his two brand new matatus at his home compound.

Kathuri says that as he was pondering his next move and where to take his two vehicles, an idea came to his mind. That was when Neno Sacco was formed.

In the beginning, the Sacco had only 40 matatus, operating the NENO banner with a membership of about 25 people.

Kathuri says that the then Embu Matatu Owners Association would not allow any new entrant into the industry. He says that the cartel would not also allow those willing to part with cash to secure the Embu-Nairobi route.

Kathuri reveals that this cartel could only allow one to operate within the district where roads were in pathetic conditions.

The Sacco now stands tall with share capital worth Ksh 45 million and boost of over 400 matatus operating under the Neno banner.

He says that apart from the crew, Neno Sacco has also employed over 150 people it being one of the largest organizations and employers in Embu.

This Sacco has also managed to open three subsidiary companies, all related to the transport business. They are Eastern Connection, Multiply Purpose Cooperative Society limited, Econ Service Station limited and Neno Courier Services.

He says that Neno courier is a fully registered and licensed company by Communications Commission of Kenya (CCK).

Kathuri adds that the three companies operate independently to supplement the Neno Sacco income.

He says that NENO Sacco has transformed the lives of many people, including the transport sector in Embu. The Sacco has for instance enabled many people to access cash from financial institutions with ease. Due to its viability, the Sacco has been mobile petrol dealer in Embu and a number of surrounding towns.

Already, it has also acquired tankers worth over Ksh 20 million to transport petroleum products, enabling the Sacco's profit and asset base to increase significantly. The next plan on the cards is setting up of petrol

stations by the organization.

Challenges

Kathuri says that the Sacco has face many challenges including fighting off the cartel and managerial problems, especially at the initial stages.

“Some of our members had to physically fight with other the cartel, especially in Mwingi and Meru,” he adds.

As the Sacco grew and more members joined, Kathuri says that managing a large group has proved a difficult task especially in the initial stages as some members could not repay their loans.

In the first year of Sacco operations, his committee held three annual general meetings in the same year to address a management crisis.

Neno Sacco also had difficulty in collecting cash from matatu operators as they had no specific offices to operate from.

However, these challenges were sorted out as the Sacco acquired its own premises to collect the funds and any money from the matatus.

Presently, the Sacco provides a number of benefits to its members including guarantee for loans and financing arrangements for purchase of new vehicles.

Kathuri has a parting shot. He says that since the introduction of new traffic rules, no new matatu Sacco has come into the market. The matatu industry has also taken a beating from poor infrastructure, impacting natively on the transport business.