Marketing strategies of business leaders

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and Jackson Okoth

THE Financial Post

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In today's highly competitive business environment and the fierce struggle for customers, companies are becoming more creative and flexible in their dealings.
With the objective of reaching out to more clients and new business, innovative firms have found a way to deliver what their customers want faster.
In the new knowledge economy, the principles of business strategy are being transformed. Instead of a focus on physical assets and economies of scale, the drivers of success reside in connectivity.
Businesses increasingly need to develop and manage complex partnerships around themselves so as to succeed.
The selection of who to partner with is now becoming a life or death issue for most firms.
The Financial Post takes a look at some of the major partnerships that exist in the market, what drives them and what is in there for the customer, who is the king.
Among the notable ones involve Nakumatt Supermarket retail chain, Equity Bank, New KCC, Safaricom, Celtel, Postbank and Pesa Point.
But why do these companies go into partnership?
Typically, two companies form a strategic partnership when each possesses one or more business assets that will help the other but that it does not wish to develop internally.
The relationships are often complex and can be subject to extensive negotiation.
Synergy is the power behind business partnerships. In a business partnership, two parties leverage their assets (resources, capabilities, expertise, client base etc.) for the mutual benefit of both.
A classical example is the strategic partnership between Safaricom Limited and the UK-based Vodafone
The arrangement, via the M-pesa brand, allows Safaricom clients to transfer cash using a mobile phone.
Mpesa allows the use of a money transfer service, especially the rural population, who have no access to such facilities as a bank account or credit card.
The cellphone company has also entered into partnership with Postbank, to enable more users load onto the Mpesa system.
Under the deal, Postbank hopes to use this platform as part of its modernization and corporate expansion plan to improve its delivery mechanisms and improve efficiency.
On the other hand, Safaricom was to provide an avenue and channel that will enable its M-pesa customers send larger amounts of money.
Postbank outlets are acting as agents for the transfer, adding its 80 branches to boost the existing M-Pesa network of 535 agents.
Postbank's adoption of the mobile operators' money transfer service comes hot on the heels of Equity Bank's partnership with Nakumatt, which will allow the bank's ATM card holders to withdraw money at the till of select supermarkets.
In April this year, Postbank joined efforts with Suntra Investment Bank to act as an agent for the stockbroker to tap into the growing demand for retail investors, especially in rural Kenya.
Postbank is placing its branch network at the disposal of retail investors who may want to participate in trading at the Nairobi Stock Exchange or in an Initial Public Offer (IPO).
Currently, M-Pesa handles amounts ranging between Ksh 100 and Ksh 35, 000. With an estimated 200,000 MPesa customers, Postbank is looking at boosting its revenues from the commission earnings.
Safaricom will also be adding value to their subscribers and attracting new business.
Only recently, Safaricom entered into partnership with ZTE Corporation, a leading global provider of equipment and network solutions, for the supply of high quality, ultra-low cost handsets.
Initially, Safaricom will launch 200,000 units in the local market with more units to be produced depending on demand.

Also on top of the strategic partnership game is Celtel Kenya Limited, which has partnered with K-Rep Bank to provide a money transfer service to its subscribers.
K-Rep Bank facilitates movement of high value denominations or urgent fund transfers through RTGS (Real Time Gross Settlements).
Local payment transactions are processed immediately with the payee bank account receiving value instantly upon execution of the transfer through the Central Bank of Kenya.
Known as the Sokotele, this is a money transfer solution and airtime vending service that runs off a payphone unit.
To become a Sokotele Agent, one needs to open a Sokotele Bank Account at K-Rep Bank as well as have a Sokotele payphone unit.
Celtel and K-Rep Bank staff members will train you on how to use the payphone.
Companies are now teaming up with others to complement their resources and capabilities, enabling firms to grow and expand more quickly and efficiently.
This is especially so for the fast-growing companies which are now relying on alliances to extend their technical and operational resources.
In the process, they save time and have boost productivity by not having to develop their own from scratch. They are thus freed to concentrate on innovation and their core business.
Market leaders have stopped being self-contained business units that produce products or services, and become integral elements in a larger system.
In the new world of virtual integration, no matter who signs the cheque, all the people are working together for a common cause.
Another success story in this partnership concept is PesaPoint.
Registered two years ago, PesaPoint is part of the Paynet Group which also comprises Paynet Kenya, EFT Kenya and Paynet Zimbabwe.
PesaPoint concept was birthed upon the realization that there was an opportunity within the market, and far too few Kenyans enjoyed ready access to their cash through ATM services either because their banks did not offer ATM's or they were only placed in a few locations.
The simple vision was to provide all banked Kenyans easy access to their funds wherever and whenever it was required whilst at the same time encouraging more Kenyans to bank by providing relevant and convenient ATM locations.
The strategy of the business has been to maximize the use of one infrastructure for multiple financial institutions, which will provide economies of scale particularly in marginal yet important areas and give the financial institutions an opportunity to provide ATM services to their customers while still concentrating on their core business.
PesaPoint is determined to continue offering ATM services by providing the widest acceptance possible to locally and foreign issued cards. This has been made possible with the acceptance of internationally renowned brands MasterCard, JCB, American Express and Visa cards on the network.
The organization has now extended its connectivity to PostBank in a partnership deal that will enable the financial institution increase its off site access points for its customers.
This development, which supports capacity of the bank's recently introduced card-based delivery channel dubbed cash x-press, is through interconnection to PesaPoint.
It is in the league of Kenyan companies who have entered into a major marketing alliance that focuses on pooling together their brands both for market expansion and for profits.
For instance, dairy farmers in Kenya today have over Ksh 500 million, in line of credit from Equity Bank Limited as long as one delivers milk to New Kenya Co-operative Creameries (KCC).
Strategic partnerships seem to be the trend for many companies as Henry Karugu the Marketing and Product Development Director, Equity Bank suggests.
"Through partnership with other companies, Equity Bank gains access to their premier products and solutions. This gives us additional growth opportunities, technical services and highly specialized go-to-market engagement," he says.
According to Karugu, the arrangement with the dairy firm, New KCC, enables the bank to provide short-term loans to farmers. The debt is then recovered from deliveries to KCC through a check-off system.
Equity, on the other end, has an avenue for delivering credit to customers, who are the dairy farmers in Kenya.
Equity CEO Dr James Mwangi mentions that the partnership between these two firms helps build the capacity of dairy farmers to enable them overcome challenges of financing purchase of farm inputs, artificial insemination services and improvement of stock quality."
The line of credit expected to run for three years range between Ksh1, 000 to Ksh 500,000 and is offered to individuals, mainly peasants and farmer organizations.
Equity is playing a game of numbers to expand the list of its account holders through this kind of partnerships.

In the banking sector, partnerships have played a crucial role in providing access to financial services, especially the under-banked, in the process unlocking their entrepreneurial potential.
Equity has also entered into partnerships enabling its over 500,000 clients access shopping by withdrawing up to Ksh 30,000 using their ATM cards at Nakumatt and Tusky supermarket outlets countrywide.
According to Karugu, the bank account holders can pay for their shopping using the normal automated teller machine (ATM) cards and additionally have the option of withdrawing cash from the supermarket cashiers.
“We are targeting over 1.5 million customers, who will be able to withdraw cash from other major supermarkets such as Uchumi, Tusker and Ukwala. The same withdrawals will be possible through other outlets, including gas stations and hospitals,” Karugu says.
Nakumatt Supermarkets is also playing the partnership game and building bridges across companies to shore up the image of its brand.
Already, Nakumatt is in partnership with other players in the financial sector, including Barclays Bank Limited.
The two companies have a co-branded credit card - the Nakumatt Visa Credit Card, to enable holders enjoy unique benefits offered by both Barclaycard and Nakumatt.
James Kinyany, Head of Barclaycard, says the reason behind the partnership is to co-brand their products and services.
“We expect the co-branded card to help both Nakumatt and Barclays increase cardholders while reaching out to more customers of the retail chain,” says Kinyany.
He explains that some of the benefits of the partnership include low interest rates of2.5 per cent for the co-branded cardholders, 50 days interest free credit and flexible payments of a minimum of 10 per cent after the interest free period.
Sailesh Savani, the Nakumatt Holdings Information and Technology Director says,”For the holders of the credit card, one will earn one smart point for every Ksh 100 worth of shopping in Nakumatt and one Smart point for every Ksh 500 spent anywhere else.”
The introduction of Nakumatt’s Visa credit card is part of the retail chain’s strategic plans to introduce a range of financial solutions for its customers. “Two or more companies partner to increase their market share this can lead to better profits, or reduce the cost of doing business as each company gets larger in terms of coverage. Not the total cost but the cost per unit decreases with size.”
In some industries, it makes sense for a company or companies to partner up with those who have unique products to help its growth.
The New KCC Equity Partnership will see suppliers and farmers gain access to financial services and maximize production. It will also improve the dairy company’s cash flow, increase investments and meet the operational needs and growth of the firm’s local and international market networks.

Battle lines in internet business

By Jackson Okoth

The stage is set for a scramble for a piece of the internet business pie following a series of rapid-fire acquisitions and mergers seen within this niche market in recent months.
The Financial Post has since established that Wananchi Online, one of the dominant Internet Service Providers (ISPs) in the market, has made two major acquisitions, to the tune of US$ 17 million (Ksh 1.1 billion).
Sunny Mangat, the CEO, disclosed that it has taken four months of intense negotiations to buy out two local firms, an ISP and a multimedia service company.
Although he has kept a tight lid on the names of the two companies, Mangat says that both are local firms, with one having a presence in both Kenya and Tanzania.
These strategic acquisitions are expected to enable Wananchi offer more services, including VSAT, wireless broadband, fibre and voice services.
Reliable sources confirm that Wananchi Online has indeed acquired Simbanet Com Limited in its quest to expand and challenge the dominant players in the business by having a regional presence.
After losing the bid to acquire Africaonline to Telkom South Africa, Wananchi has been burning the midnight oil, recapitalizing and upgrading its network and looking out for more takeover deals.
Wananchi has also attracted interest from a group of investors, led by Schneider Media Holdings as well as East Africa Capital partners. These new majority shareholders in the firm have pumped in huge sums of fresh capital into the firm’s war machine.
“Already, some US$15 million (Ksh 1 billion) has been injected as fresh capital into Wananchi Online and another similar amount is already in the pipeline, with the company targeting a sum of US $30 million (Ksh 2 billion). This figure is expected to rise to US$50 million (Ksh 3.3 billion) in the first quarter of next year, says Mangat.

The fresh capital injection has financed the two acquisitions and has also been used to build a top-of-the-range Y-MAX broadband network.
The Communication Commission of Kenya (CCK) has already granted a licence to Wananchi Online to proceed.
The firm has already procured the required equipment, including its own satellite earth stations, with the roll out for a high capacity wireless network expected to be complete in the next two months.
With a new majority shareholder on board, fresh capital and an enhanced network, Wananchi is now poised to challenge its closest rival AccessKenya, which unlike Wananchi, is targeting the corporate internet customer.
“Once our capitalization levels reaches US$75 million (Ksh 5 billion), Wananchi will be able to able to have a network that is capable of competing against any other serious competitor in the market, including Telkom Wireless,” says the Wananchi CEO.
Wananchi Online, which targets the retail consumer market, now plans to roll out broadband internet services to the masses by the end of June next year. The firm aims to increase its penetration levels in this market segment.
Among the main fundamentals driving this expansion and positioning frenzy within the internet business is the anticipated entry of a strategic partner into Telkom Kenya- It is expected that Telkom equity will attract Telkom SA or British Telecoms among other deep pocket players.
The entry of a large Telecoms firm into the local market will inject vast amounts of capital and experience to this market.
Secondly, the recent entry of mobile phone operators Safaricom Limited and Celtel into the data business is pushing ISPs to consolidate and polish their act.
A large number of ISPs will have to obtain substantial amounts of cash as well as roll out extensively to compete with the mobile phone companies as well as Telkom Kenya. Presently, most ISPs have low capital and may have to consolidate or sell out altogether.
Currently, there are about 18,000 retail customers on the Wananchi network and 450 corporate clients. These figures are expected to rise once the firm rolls out its wireless network.
It has also been established that Wananchi Online is in negotiations with Mitsuminet for a possible acquisition deal. Already, subscribers of Mitsuminet have migrated to the Wananchi network. “We have entered into a deal with Mitsuminet where we shall manage their ISP portfolio by offering technical services to their customers on our network,” says Mangat.
It is anticipated the end game after all the consolidations in the internet business, being seen currently, is the emergence of a few dominant players. The list is expected to include Safaricom, which is already in the data market.
The other big player will be whoever acquires a majority stake in Telkom Kenya. This strategic investor in Telkom is expected to leverage off Telkom’s wide infrastructure network, to increase penetration levels in the internet business.
Also in this league of big hitters will be cellular phone operator Celtel as well as a group of second-tier operators, including AccessKenya and Wananchi and three more players. Below that will be ISPs offering services to customers such as websites management and other low chain products and services. Eventually, the second tier firms will merge into the top tier group, leading to the dominance of Telkom Kenya, Cellphone companies and the larger ISPs.
The customer is expected to be the beneficiary at the end of it all. This will come in the form of low-priced broadband internet access as well as other value added services including mobile internet services such as e-mail.
Customers will also be looking forward to better customer support, cheaper prices for hardware, bundling opportunities where a customer will be able to purchase hardware complete with internet connection and other multimedia services at affordable prices.
The advent of the fibre optic arriving in Mombasa around March 2009 is also expected to drive down the cost of internet services.
With Wananchi already firing the first shot, its acquisitions and network upgrades including competitive offers on VSAT, wireless, fibre and copper infrastructure is poised to attract the keen eye of competition.
Already, it is about to acquire 300 megabytes of satellite capacity, which is way above that of Access, Swift Global, UNNET. The new capacity is expected to go live at the end of September this year, offering the cheapest bandwidth available in the market. The arsenal that both AccessKenya and Wananchi are building up is likely to intensify competition in the internet business in the coming months.
Already, electrification of rural Kenya and the World Bank sponsored digital villages project as well as tax incentives offered to investors is expected to increase the penetration levels of internet services in the country. The next big thing, after the fibre connection between towns in Kenya, is the metro fibre roll out- to all buildings within the Central Business District (CBD). The infrastructure will offer high speed internet connections to offices providing VOIP, high speed access, TV and Triple play- which is video, voice and data.

Are banks big profit genuine?

By Staff Writer

Is there some correlation between banks' bumper profits and our unhappy experiences of banking?

Everyone has a "bastard bank" story - a gripe about unfair charges, ridiculous interest rates, inaccessible branches, or just a general, rumbling discontent. We dislike banks even more than we dislike doorsteppers but they remain necessary evils. And there is plenty of anecdotal evidence demonstrating the rapaciousness of banks as contained in a research by Research International for the Central Bank of Kenya.

Picture this: here is a man who ends up with Ksh 20, 000 out of pocket when his bank of over 10 years "loses" the deeds to his house. Or a man who is charged Ksh 2,500, then a late payment fee of Ksh 2,000, for the unrequested pleasure of having his credit card limit raised. Or worst still, another man is charged Ksh 50,000 for settling a loan too early.

It's not surprising that we feel especially piqued when these same banks announce record-busting profits. We can't help but wonder whether there is some correlation between the bumper profits and our unhappy experiences of banking.

Inevitably, there is the June 2007 Central Bank of Kenya's monthly economic report indicates that profit before tax for the banking system increased by 43.1 per cent or Ksh 3.2 billion from Ksh 7.5 billion in April 2006 to Ksh 10.8 billion in 2007. The increase in profits reflected an increase in interest income on advances which rose by 18.1 per cent or Ksh 2.6 billion from Ksh 14.4 billion in April 2006 to Ksh 17 billion in April 2007.

Both high street banks and small timers alike, reap rich rewards from our ignorance and indolence. Just a few generations ago, most people didn't have bank accounts or credit cards or mortgages. They paid and were paid in cash. However, trucking cash grew cumbersome and costly, so throughout the 70s and 80s we shifted to credit payments running through bank accounts.

Then came what the British call Thatcherism - financial deregulation in the late 90s. Crucially, banks could now sell mortgages, pensions and life assurance, and building societies could become banks.

Fierce competition between the old banks and the former building societies led inexorably, with the mantra "economies of scale", to the next phase: a frenzy of acquisitions and mergers, as weaker ones fell by the wayside as others were put under consolidated management in the wake of a banking crisis in the early 90s.

City Bank took over ABN AMRO. Commercial Bank of Africa swallowed First American Bank, I&M Bank took over Biashara Bank, as Akiba Bank joined East Africa Building Society to form EABS Bank. Latest in the news is the impending merger of CFC and Stanbic banks.

These mergers and acquisitions have steered the growth of the banking industry, albeit minimally. A recent study by UK's DFID, found that only 1 million out of 17 million adult Kenyans have a bank account. It's estimated that the top five banks could be holding more than 70 per cent of our accounts.

These accounts may not provide huge money making opportunities for the banks, but they are a platform from which to sell all those other services banks hawk nowadays.

Banks - rather like supermarkets through their loyalty cards - operate as data miners, except that, in the banks' case, they know exactly what you do with all your money. True, banks always did know our money movements, but now those statements aren't just sitting in filing cabinets, they are being analysed.

While we display considerable antipathy towards banks, we also show an entrenched apathy towards shopping around for financial services. Very few, if any, account holders switch banks each year, and we prefer to buy additional financial products from recognisable brands, which gives the high street banks a head start and a big slice of the trade. Do they deserve it?

Most of the products the banks provide are rubbish, especially the ones provided by the major banks. In all categories of financial products, the big banks charge more and offer less than their smaller rivals.

The major banks pay, on average, less than half the interest rates on current accounts than do the smaller banks, they charge over 50 per cent more interest on credit card purchases, and nearly twice as much on personal loans. Money programmes and financial pages in newspapers are full of league tables on bank services, but only a tiny proportion of us pay heed.

A similar apathy surrounds the charges we incur any time we exceed an agreed overdraft, even by just a penny, for just a day. A careless mistake, you might think, but a mistake that happens to one in four of us each year. Unauthorised overdraft fees can be as ridiculous a hit as you can imagine, and charges are slapped on for each transaction made while unofficially in the red. Add to that the fact that annual interest rates for overdrafts go as high as 30 per cent, and you can see why banks rack up some outrageous figures each year from these charges and commissions alone.

Another cash cow for the banks is their system of payment clearance. Banks process electronic transactions - from internet and telephone banking, to standing orders and direct debits - through the clearing house, which takes up to four working days (as if money doesn't work at weekends) to clear all transactions. A donkey can deliver money faster!

This delay earns banks a lot of money each year in interest alone. Money reformers believe we have given banks the power to make money.
I have been toying with this question in mind: can't the Central Bank be allowed to create "credit" money - just like the retail banks do now - but put it into the economy, interest-free, to be used as the government of the day sees fit, much as it does now with tax revenues?
Abraham Lincoln, outlining his monetary policy to the US Senate in 1864, said: "The privilege of creating and issuing money is not only the supreme prerogative of government, but it is the government's greatest creative opportunity."
I bet such a proposal to change the current system would get tarred as hippy or cranky. I too, guess the government would avoid this subject like a plague. The fact is; we have long since ceded all powers of thinking money to the money experts - who may have a vested interest in keeping us money-illiterate.
Even if we do not accept such a radical reform ideology on how money is really created, we know that banks are in some way fleecing us, but we're too bored by money matters to do anything about it.
And if we collude, by apathetic default, in a bamboozlement over our own personal finances, what chance is there of our understanding the greater movement of money, of having a real say in the nation's economy?

A horticulture expert of international repute

By John Njenga

As a young boy in Machakos District, Dr Stephen Mbithi developed a rare but deep interest in anything horticulture. It seldom rained in his village, but the barely 12- year- old lad would trek long distances in search of water to sprinkle on his cabbages and tomatoes just to ensure they did not wither or die, as a result of the scorching sun in the semi-arid area.
Although the harsh climate continuously made sure he got little for his troubles, the young boy would not be deterred and guarded his crops zealously; he would not hesitate to tell off anybody stepping on the crops. Upon harvesting them, he would sell them to traders in the nearby market and use the proceeds to boost his school fees.
Today, about three decades later, the 40-year-old chief executive of the Fresh Produce Exporters Association of Kenya (FPEAK), marvels in nostalgia at the road he and the horticultural industry have traveled over the years.
As he waits to be officially installed at the helm of the Kenya Horticultural Council next month - a new umbrella body that will result from the merger of the Kenya Flower Council, FPEAK and the Domestic Horticultural Growers - Dr Mbithi should evidently be a jubilant man.
Only two weeks ago, a new protocol that put Kenya's horticultural sector in the international limelight was passed in Nairobi in a ceremony attended by the who-is-who in the global horticultural industry.
The Kenya Good Agricultural Practices (K-GAP) protocol was a milestone and a first for Kenya in many ways. For once, the country became the first in Africa and the third in the world to have an internationally recognized quality assurance scheme benchmarked and acclaimed as equivalent to the globally respected EU's Eure-GAP.
It is also now a universally accepted standard, against which local growers can be audited and certified. And for international buyers of Kenyan fresh produce, K-GAP certification will be an assurance of food safety, and active environmental and social responsibility.
At the same time, other than continue to rely on Eure-GAP or develop their own quality assurance scheme, a process that may consume a lot of time and resources, African countries have no choice but to look up to Kenya.
"The efforts we put in to have Kenya-GAP were strenuous. EU officials pitched camp in the country doing thorough inspections. We trained our farmers intensively, carried our own inspections to ensure there were no loopholes. There was no looking back until the protocol was realized," says Dr Mbithi.
This may explain why when the big announcement was made at the Nairobi ceremony; the local players could barely hide their joy. But for Dr Mbithi, who had been deeply involved, fast-tracking the process in less than a year at helm of FPEAK, it was a dream come true."When I ventured into small time horticulture as a boy in a dry region years back, family members and many villagers could not at first understand what was driving me to it. When in the early 90s some Kenyans started taking the horticulture industry seriously, they were also dismissed as shortsighted people who would not get very far. All this has changed and today many skeptics have already been proven wrong," said Dr Mbithi during an interview in his Westlands based New Rehema House office.
Looking at the histories of both the FPEAK boss and the horticulture sector it would be hard to disapprove Dr Mbithi's story. For facts and statistics rarely lie.
From growing a few cabbages and tomatoes under stressful conditions in order to raise school fees, Dr Mbithi chose a path and followed it. Today he stands high among his contemporaries. His love for the crops led him to the University of Nairobi where enrolled for a BSc specializing in industrial processing technology. He then proceeded to the University of Ghent, Belgium.

He honed his skills working for myriad horticultural organizations in Brussels, the country's capital and returned home seven years later armed with a PhD in his specialty. He joined the private sector working as a consultant with various companies before landing a full time job in the fishing sector.
"In 1999, I was appointed the CEO of the Association of Fish Processors and Exporters of Kenya (AFPEAK) at a time when the European Union had banned Kenya from exporting fish to its lucrative markets citing sanitary standards," he recalls.
A team of EU inspectors had warned that fish from Kenya was a big health risk to European consumers. Europe heeded the warning and this sounded the death knell for the previously promising fish sector.
The ban affected 18 local companies and the country was losing Ksh 4 billion annually. The country thus required somebody who would take drastic measures and save the fishing industry from total collapse.
"Although my appointment came as a surprise since fishing did not interest me so much, it provided an opportunity to prove that the fortunes of the sector could be turned around. I conducted an intensive monitoring and surveillance of fish harvested in Kenya until we were able to convince European consumers that it was safe and we only rested after the ban had been lifted," he recalls.
After a five years stint in the fishing sector, FPEAK head-hunted him and appointed him the CEO. "I was so happy going back to my bigger love which is horticulture but all along I knew it would happen," he says.
But life was not going to be a bed of roses. Dr Mbithi found many challenges facing the sector. These needed to be overcome urgently if Kenya was to become the envisaged regional horticulture hub. He had to accelerate efforts and ensure the country had an internationally recognized standards scheme that would to avoid an exports ban in future.
"The sector was also fragmented and this only helped to worsen things. Two organizations representing the interests of the same farmer was in itself a duplication of valuable efforts that could be channeled to worthy causes," he says.
"Officials from FPEAK and KFC would separately seek audience with a government minister and it is ridiculous since both would meet the minister to pass the same message. That is why I gave the issue of the merger a big priority. In fact we are anticipating the realization of this in October."
The Kenyan horticultural sector is presently vibrant bringing the country Ksh49 billion every year. It has overtaken coffee and tea in export earnings and is only second to tourism, growing at the rate of 14 per cent every year. That K-GAP is going to be a big shot in the arm doesn't need any no belabouring. In fact, players in the sector expect the growth to double in less than five years.But are there challenges that need to be overcome for this to be realized?
"There is multiplicity of levies and taxes. A horticultural exporter is required to pay at least 65 levies and this is killing competitiveness. Kenya does not also have a one-stop competent authority dealing with horticulture. One has to move from one government office to the other before exporting and this creates confusion. The government should put its house in order," laments Dr Mbithi.
There is also the issue of the proposed Economic Partnership Agreement between Eastern and Southern African States (ESA) and the EU that is to be implemented on December 31 this year.
The horticultural sector has expressed concern that trade between the two regions would suffer serious disruption should there be no agreement or an interim arrangement to safeguard the current preferential trade arrangements.
"With only four months to December, we need assurances as what kind of tariffs there might be so that we can know what to tell our customers in Europe placing orders before October. Today the issue has brought about a lot of uncertainty and it definitely needs to be addressed," says Dr Mbithi.
The young boy from Machakos may have risen academically and in stature over the years but he remains as passionate as ever on matters horticulture. When you engage him in that topic, just don't be in a hurry

Is taking out a mortgage worthwhile?

By Patrick Muchiri

A mortgage refers to a long-term loan, taken either for buying or building residential or commercial property. It is normally a long-term loan, since the repayment period can even extend for up to 25 years.
Mortgages are either fixed rate or adjustable rate. Fixed rate mortgages, as the name suggests, have a fixed interest rate for the period of the loan. This means that the monthly payments to be made by the borrower are computed using a constant rate, which is normally known by both parties, from inception of the contract agreement.
Adjustable rate mortgages, on the other hand, have an interest rate, which is pegged to the prevailing market interest rate. Thus, the interest rate used in computing the monthly payments varies the same way the market rate varies.

The decision whether to take up a fixed interest mortgage or an adjustable interest mortgage would among other factors, depend on the investor's perception of risk. That is, whether the investor is a risk taker or is risk averse.
A risk taker will normally go for an adjustable rate mortgage, because he/she is not afraid of taking on risks. This is because an adjustable rate mortgage exposes one to a higher risk, based on the fact that it would be very hard to predict what the market interest rate would be, in future. Thus, the future loan repayments cannot be predicted with certainty.
A risk adverse investor will most probably go for a fixed interest rate mortgage. This is to avoid risk as the loan repayments can be predicted with certainty.
A key advantage of taking on a mortgage is to enjoy a tax benefit. One way in which a tax payer can reduce their tax burden is by taking a mortgage. Currently, the Income Tax Act, allows for deductions from Taxable Income of Mortgage Interest, subject to a Maximum of Ksh 150, 000 per annum.
This normally helps a tax payer, reduce his/her tax burden. This benefit is, however, restricted to a person who acquires a mortgage to buy or build their first home only.
In most instances, when one seeks a mortgage, there is normally no need for collateral. Collateral refers to security, in terms of an asset, normally required by most financial institutions in order to advance the borrower a loan.
For purposes of acquiring a mortgage, the property being acquired is normally the primary collateral, except in some specified circumstances. For instance, if one wishes to construct a house in the rural areas, additional collateral may be required.
A mortgage enables one to acquire appreciating assets. Land and property in most instances normally appreciate in value. It is thus more appropriate to take out a mortgage as opposed to keeping large sums of money in the bank. This is because inflation normally erodes the purchasing power of money over time.
Another advantage of taking a mortgage is that, one is able to acquire land, develop property and sub-let the same. Hence, mortgages enable previous rent payers acquire what can be termed here, as landlord status.
Raising of minimum deposit can be, however, a major constraint. Most financial institutions offering this facility normally require that one raises a certain percentage of the value of the property, before one is given a mortgage.
This is normally a big challenge, to would be mortgage seekers, who are forced to save for a number of years, in order to raise the minimum deposit.
Mortgage providers use a loan-to-value ratio to compute this deposit. This ratio is normally a percentage of the value of the property being sought.
Furthermore, there are normally additional charges such as valuation, legal fees and insurance, which one has to incur before the loan application is processed. This fee varies from one mortgage provider to another.
In addition, anyone taking on a mortgage experiences what may be termed as default risk. In committing one's future income, one runs the risk of not being able to service the mortgage.
For instance, in case of a job loss, serious illness or death, as a result of which the borrower/dependant is unable to continue making the required monthly payments, this may unfortunately lead to a repossession of the property.
In rare instances, prices of property may decline especially in the short term. This may consequently lead to a temporary loss, in the value of property, especially if one has to suddenly sell off the property. This is currently the case in the United States.
However, most property prices are expected to rise, in the long term.
The Financial Post sought the views of some industry players regarding the mortgage industry in Kenya.
Kung'u Gatabaki, Chairman Housing Finance Company of Kenya (HFCK), a leading mortgage service provider in the country had this to say.
"The industry is growing as indicated by the fact that we hit the Ksh 2 billion mark in new business last year. This is the highest ever for Housing Finance", he says
He further explains that although HFCK was facing some challenges amongst them inadequate housing development in the country by the government and competition from other financial institutions, the future was still bright.HFCK has been building on its brand and maintaining market share, estimated at over 65 per cent, despite entry of other players into the mortgage business.
Gatabaki points out that the mortgage crisis in the USA is unlikely to impact on the local market in Kenya due to the difference in market conditions and factors. "These companies operate in their own market under different regulations," he says.
Suprio Sengupta, General Manager at Investment and Mortgages Bank Limited, says that mortgage financing is quite attractive unlike in the past.
Sengupta says that I&M has chosen to offer only the adjustable rate mortgage product. This is because the fixed rate mortgage product has a high interest rate risk.
By and large, mortgage financing has helped middle and high income earners to acquire property which they could not have otherwise afforded to pay for in cash.

Please send any positive feedback to: pmurioga@yahoo.com

A front seat in the boardroom

By Jackson Okoth

Kungu Gatabaki is one of the most influential company directors, sitting on the board of three listed companies and 14 other private ones in Kenya.

He explains what it means to run the board affairs of these companies, juggling between different roles as well as the changes that have occurred in corporate governance in Kenya over the years.

Gone are the days when company board chairmen wielded influence and executive powers over the running of companies on whose boards they sat, enjoyed huge perks and allowances and held board deliberations without oversight scrutiny from the regulators.

This is especially so for listed companies where structures are in place to scrutinise the operations of various boards of listed companies, the competence of these board members and whoever sits on the various board committees which set out policies and strategies for the concerned listed firm.

When asked about how he manages to deal with issues of conflict of interest in all the 17 boards, Gatabaki explains, “The role of the board of directors is to look after the affairs of the company. Once elected to the board, one becomes an agent for that company and that takes precedent over any other interest that the said director may have.”

If an issue relating to another company where a director has interest comes into discussion, the said director is required to declare his or her interest in the matter.

When there is a business relationship between one company and the other, and a matter relating to either comes up for discussion, a director in the two companies must declare any interest in the issue under discussion.

In most cases, a director can excuse himself or herself from attending the board discussions.

“In my case, rarely do I come across a company’s interest being discussed in another company. For instance, I am a director of Mumias Sugar, Serena Hotels and Housing Finance. Very rarely are there issues that would conflict my position on the boards of these companies,” says Gatabaki.

Gatabaki, who has worked for long with Commonwealth Development Corporation (CDC), says all the directorships he currently holds stem from his experience and positions held at CDC. The Corporation invested in a large number of firms in Kenya, where Gatabaki came in to represent their interests, including Housing Finance Company of Kenya (HFCK).

He says that the moment one enters the doors of any company board, he or she ceases to represent the interests of any other company. The conflicts are therefore rare and minimal for Gatabaki who is able to serve all the interests of these companies in the most professional manner possible.

Companies also offer various packages and perks for their board of directors including provision of offices, cars and other incentives.

The pack given out to the directors depends on the company. While some pay out handsome sitting allowances, others do not even pay directors fee. For instance, what hotels do is allow the directors to stay in the hotels without paying for the full range of services. This is an alternative to giving the directors allowances.

“When I was working as a senior corporate executive in a multinational company, I was earning more than what I get sitting on these boards. It all depends on which company boards one sits,” explains Gatabaki who prefers to remain modest on the issue of remuneration.

He adds that because of the Enron experience in the USA, corporates including those in Kenya now have standardised entitlements and allowances for directors.

“For instance, there is very little I can expect by being a director at Housing Finance, apart from my fee and sitting allowances. I cannot approach the company to have prime property in Muthaiga. Those days are long gone,” he says.

There are regulators, including the Central Bank of Kenya, Nairobi Stock Exchange and the Capital Markets Authority, who monitor the activities of company directors for banks, listed companies and others.

For instance, there are regulations which directors of listed companies need to observe. Things have changed from those days when directors used to make millions by trading with their own companies either through the stock exchange, doing lucrative procurement deals and so on.

Gatabaki, who is the chairman of HFCK, Limited, is unwilling to discuss the ongoing negotiations by Equity Bank and British American Insurance to acquire a stake in the mortgage company.

We were, however, able to establish that delicate discussions are ongoing, including certain considerations being looked into by the relevant regulators before the deal can be sanctioned.

He views on the mortgage industry in Kenya are quite enriching. Gatabaki observes that development of suitable housing units has not matched the high population growth in the country, resulting in a huge

demand for decent housing. Even the policy by government to provide 150,000 housing units per year still falls short of meeting this huge demand, says Gatabaki.
Algeria, which has almost the same population as that of Kenya, has a policy of providing a million houses per year, through a concerted and deliberate effort by the government.
When CDC was developing houses in Nairobi's Buru Buru Estate, for instance, the houses were meant for low-income earners. Today, the area is occupied by doctors, military personnel, big corporates and senior people in the society.
The cost of these houses has been going up. There aren't enough houses to accommodate those who should not be in Buru Buru in the first place. The same is happening to Komarock Estate.
The development of housing has not matched the population growth and the rate of urbanisation. The low income earners who should be in Buru Buru have been pushed to Zimmerman, Komarock estates and other peripherals. This tends to snowball causing problems in the housing sector.
HFCK was structured to provide mortgages but finds it difficult to do so in the peripheral areas such as Zimmerman which may not have all the necessary infrastructural facilities for mortgage properties.
The mortgage finance company is also limited in terms of securing adequate long term funds given that it has to compete with the government, banks and other players in the increasing competitive funds market.

He concludes that there is a serious problem in housing that is likely to persist for some time. HFCK is in constant consultations with the government to overcome regulatory bottlenecks; partner with other financial institutions and other interested parties to enable the company reach out and meet the huge demand for housing," he says.
In general, company boards formulate policy structures which depend on strategy, resources and their utilisation. Directors are entrusted to do this by the company's shareholders.
The directors report back to the shareholders through AGMs and annual reports.
Corporates today are slightly different from the past in that it is the interest of shareholders that is paramount. There are no more intrigues especially for listed companies where the CMA and NSE are on the watch for any misconduct by directors.
These days, shareholders attending AGMs include representatives of investment banks and key shareholders, trust fund managers and so on. Their questions are more learned and thorough including details of the company's financial reports and statements, earning ratios, return on equity and so on. The questions are thus more professional. This year, I was asked about provisions made in the balance sheet at a certain AGM. This means that these days, members on the board of listed companies must be highly professional. Board members must be able to handle financial data presented by the management of a company.
Boards also have nomination committees to seek out for particular directors to join the board, taking into account professional needs and gender equality of the particular board.
Sometimes, the committee can enlist the services of manpower selection firms such as KPMG and Delloitte Touché.
The qualities of a director include being knowledgeable, experienced, credible and between 50 and 60 years as the prime age for directorship.