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Mixed fortunes at the stock market

By Jackson Okoth

It has been a tale of mixed fortunes at the Nairobi Stock Exchange since the beginning of this year. This is clearly reflected in share prices across all the counters at the bourse.

While the NSE 20-share index, which measures the price performance of listed blue chip companies in Kenya, has been depressed since the beginning of this year, the market is now on an upward swing.

Monthly figures from the NSE show that the index stood at 5774.27 points at the close of trading in January this year. It has since been on a downward spiral to 5133.67 in February to bottom out at 5001.77 at the end of the month of May this year.

As the first quarter of this year came to an end, investors lost heavily in the wake of share prices taking a plunge.

At the end of June, the share index rose to 5146.73 and has been on the upward plane to stand at 5372 at the close of trading in August this year. The market's turnover also rose to Ksh 9.25 billion at the end of August, approaching January levels of Ksh 10.48 billion.

At the moment, it appears that the market has ignored the rising political temperatures and is on a rally. Its behaviour has defied early projections that there would be reduced momentum in trading as institutional, high net worth and retail investors take positions.

Both the institutional investors and high income individuals are known to move their cash to such instruments as bonds, which has guaranteed return and are less risky.

Analysts predict that if there is election violence, trading will be affected although this scenario appears unlikely by the day as then polls approach.

One major factor that is expected to work in favour of equity investors this year is the ongoing economic boom, which is being fuelled by rising consumer and business confidence.

The NSE has been on a bullish trend since 2003. However, the early months of this year has witnessed a bearish trend, despite many companies reporting massive profitability.

Analysts attribute this to share price correction after a number of Initial Public Offers, share splits, bonuses and dividend payout in all companies quoted in the bourse.

Currently nearing 5,500 levels, the NSE 20 Share index, a measure of share price movement at the market is projected to hit 7,000 points setting a new record high.

This is an improvement from the first quarter of the year when the index shed points to hit one of its lowest levels in recent years (see graph).

Early this year, the index set a new historical high of 6,161.46 before taking a nose dive as a result of a market correction.

Polycarp Ngoje, a research analyst at Tsavo securities Limited explains that the reasons why the market went down in the fast quarter of the year were mainly due to sentiments rather than fundamentals.

" Among the factors that caused the market to decline was introduction of capital gains tax in February as well as the panic that hit the bourse when Francis Thuo and Partners stock brokers went under," says Ngoje.

Although listed companies were reporting impressive end year results in April, the market went down due to the ripple effects of the above sentiments.

The depression in the market has also been made due to the Kenya Re IPO which sucked in alot of cash from the capital and financial markets.

"The Kenya Re IPO refunds have now been fully absorbed in the market and we expect the index to pick up as companies begin to announce their end-year results," says Ngoje.

Stock analysts mention that while the market cannot afford the developments on the political scene, the impact of the elections will have a small magnitude as opposed to the previous polls.

This is because the market has changed quite considerably. It is now composed mainly of local investors who are unlikely to take flight whatever the outcome of the elections.

The anticipated sale of Safaricom shares in November this year is also expected to affect the secondary market quite considerably as investors rush to sell in order to buy a stake of the mobile phone company, the most profitable company in East Africa.
The Safaricom IPO is also expected to attract a huge amount of foreign funds into the bourse. The refund from the sale is likely to lift the market into the New Year.
The market is expected to rally again after the Safaricom IPO and the outcome of the general elections are factored in by investors.
As the Nairobi Stock Exchange (NSE) 20- share index picks up again in the last quarter of this year, companies will be rushing to the bourse to raise cash for capital expansion.
Even after the huge success and the public interest generated by the KenGen IPO, the NSE has been on a bullish run, leading to companies rushing to the mart to list or raise capital. This powerful trend has been driven partly by positive economic growth figures and increased public awareness on the stock market as an investment option. Further, installation of an automated trading system has boosted trade volumes.
To date, the NSE index has been on an upward climb, presenting a new frontier for wealth creation. The traditional wealth indicators, including land, coffee and tea plantations and farms, real estate are now under challenge as wealth shifts to the stock exchange. As the IPOs momentum gathers steam, company owners, shareholders and state corporations are becoming fantastically wealthy.
Most initial shareholders and players who invested in the market in the earlier years have become millionaires overnight.
The Old Economy of land, coffee and tea farming, real estate, transport business and retailing is no longer attractive as the government offloads its shares from commercial activities, shifting this massive wealth to the public.
The stock market therefore promises to be even more exciting in the New Year as the economic outlook remains positive.
While the exchange's automation is in top gear, analysts contend that numerous challenges remain. For instance, the bourse is still considered inaccessible to foreign dealers on a real time basis.
Further, the exchange is still to offer variety of other investment options, including bonds, stocks and commodities. While these instruments exist, their trading counters continue to register minimal activity, if not quiet all together.
Meanwhile, the NSE continues to post solid growth, beating all expectations. Shareholders of listed firms continue to make huge capital gains, with market capitalization and the all share index on an upward scale.
Experts attribute the driving force behind Kenya's booming equity market to increased confidence in the economy, privatization of state enterprises, improved infrastructure at the NSE and the high demand for goods and services in the economy.
Activity at the bourse has also been supported by strong corporate earnings and anticipated listing of Safaricom and Telkom.

AccessKenya steps up expansion plans

By John Njenga

In their quest to hit the billion shilling target this year as indicated in the firm's expansion plan, Access Kenya has acquired two technology firms in Kenya - Open View Systems and Today's online.
The company's aggressive expansion strategy is aimed at increasing its market share, especially in the provision of internet services to the corporate end of the market.
One of the acquisitions - Open View is mainly in hardware sales and has dealership contracts with International Business Machines (IBM). It also offers networking solutions to private organizations and government departments. AccessKenya Group Managing Director Jonathan Somen says that the company is also exploring ways of making more acquisitions with a view to adding value to the company.
He says that all subscribers of Today's online have moved to Access and that their personnel will be absorbed as AccessKenya selling agents.
Although the company has also set its eyes on the regional market as it steps up efforts to become a bigger force, the company is proceeding gradually on this lane.
"Right now, our growth is so significant in Kenya that we are being very careful to ensure we have and do not make ourselves too thin on the ground by covering too many areas," explains Somen.
On the Open View acquisition, Somen says, "This is a deal where we have bought 70 per cent of the company and the founders remain with 30 per cent. We have an option to purchase the balance 30 per cent in future."
Open View's founders received four million shares of the Access Kenya Group as well as a cash component, which is yet to be finalized. This agreement is based on the results that Open View will deliver between now and the end of the year.
The cash component is yet to be determined depending on the performance of the company.

Somen says the impact of this acquisition has been positive as Access has incorporated a small ISP player to give it more scale. From the perspective of Open View, it now allows the firm to look after a full solution for its clients ranging from internet services to personal computers. Access Kenya is able to monitor, control and manage all aspects of an internet connection.

Somen says that in terms of scale, this makes AccessKenya larger and is likely to benefit from economies of scale.

These acquisitions are expected to have a significant impact to the company as it allows it to reach their first goal laid out during their IPO, which is to move to the complementary information technology sector of the industry.

AccessKenya stands out as the only ICT company in the country which is able to provide connectivity as well as internal network support.

It is already putting together some very compelling and attractive offerings to its clients. The firm also feels that the potential for growth on Open View's side is also very significant and they are both working to scale up and take advantage of the emerging opportunities.

AccessKenya's total equity at the end of June this year stood at Ksh 686 million. The company has also posted a 30 per cent increase in profits in their half-year results for this year.

"We believe the scale of opportunity in Kenya today is enormous. But it is still hard to put a figure on the exact expansion size we hope to achieve. We believe the size of the market being served today is very small. We see excellent opportunities in our core corporate segment, in services and support as well as in voice and residential broadband, all key focuses of our group," says Somen.

AccessKenya is targeting the corporate end of the internet business. "Historically, we have focused on the corporate segment because since the early days, the only way to get connected as a residential user was via a TKL telephone line.

This created such problems that we did not want to be associated with a dial up service that we had no control over, especially on the quality of the phone lines," says Somen.

Already, AccessKenya is covering grounds with the development of a residential broadband connectivity.

It is predicted that in the next one year, Access will have consolidated further especially in the Corporate Internet services market. It remains to be seen what the end game will be as the race to the finish between Wananchi Online, UUNET, Telkom Kenya among a host of other notables, becomes too close to call.

Road repair programme steps up

By Staff Writer

Over the past three years, the Government has rolled out an ambitious road repair and rehabilitation programme, costing over Ksh 100 billion at the end of last year.

Already, the Ministry of Roads and Public Works is implementing the policy of major routine and period maintenance of the roads while at the same time ensuring roads reconstruction is on course.

For instance, the Nairobi -Thika Road is being rehabilitated at a cost of Ksh 2 billion. A major reconstruction on this road will commence in six months. The African Development Bank (ADB) has provided funds for the reconstruction of the 50 km Nairobi-Thika Road, which will be turned into a superhighway when completed.

The existing seven roundabouts between Nairobi and Thika will also be replaced with overpasses, interlinks and extra lanes.

The Government of the People's Republic of China is also financing the rehabilitation of Nairobi Roads on a Design and Build arrangement at a cost of Ksh 2 billion. The five roundabouts on Uhuru Highway will be replaced with overpasses and extra lanes will be added. This projects runs from Jomo Kenyatta International Airport (JKIA) to UNEP Headquarters through the Museum Hill roundabout.

The ministry has also achieved major strides on the Northern Corridor from Mombasa to Malaba border where several re-construction works have been completed while others are on-going. The reconstruction of the Ksh 2.3 billion Maji ya Chumvi- Miritini Road near Mombasa will be completed by the end of this year.

Meanwhile, the 33km Ksh 4.3 billion Machakos turnoff-Embakasi (JKIA) Road including the 12km dual carriageway between Athi River and JKIA is being reconstructed. When completed, the long traffic snarl-ups at Mlolongo near JKIA will be a thing of the past.

Another project is the 96km Ksh 6.3 billion Mahiu-Naivasha-Lanet roads, which will be completed in January 2008. On completion motorists will have a smooth drive all the way from Nairobi to Nakuru. Work on the Ksh 3.8 billion Mai Mahiu- Narok 90km road is also under reconstruction.

The construction of a 15km Lanet-Njoro-turn-off dual carriage way through Nakuru town and the 83km Njoro-turnoff-Timboroa Road which commenced in October last year that is costing Ksh 7 billion is progressing well Meanwhile, the ministry has allocated Ksh 375 million to the 143km Mau-Summit- Kisumu Road for rehabilitation before the start of a major reconstruction of the Mau Summit Kericho-Kisumu Road this financial year. The World Bank will provide funds for this reconstruction.

The ministry is also providing tarmac roads in Northern Eastern Province and the upper areas of Eastern Province. These projects include the 20km Ksh750 million Garissa-Nuno Road. This project will later be extended to reach Modogashe, 160 kms from Garissa.
In Eastern Province, construction of the 136 km Isiolo-Merrile Road will commence in three months time at a cost of Ksh 4 billion. Design work for the remaining 366 kms from Mirrile to Moyale border has been completed and construction will begin immediately funds are identified.

Kenya's economic outlook brightens
The Kenyan economy grew by 6.3 percent in the first quarter of this year. This is according to recent figures released by the Central Bank of Kenya. The growth was driven by good performance of the agriculture sector, manufacturing, tourism, transport and communication, and financial intermediation sectors, which grew by 12, 7.4, 5.8, 6.4 and 7.3 percent, respectively. Despite the high cost of production due to high international fuel prices, economic growth for 2007 is projected to remain strong and to range between 6.5 and 7 per cent

Inflation:-
Month-on-month overall inflation increased from 11.0 percent in June 2007 to 13.6 percent in July 2007. Over the same period, month-on-month underlying inflation increased from 4.9 percent to 5.5 percent. The pick up in inflation in the last two months was mainly driven by increased prices of food and non-alcoholic drinks, partly driven by the taxation measures in 2007/08 budget such as the increase in excise taxes on alcoholic drinks and cigarettes.

Interest rates:-
Since the re-alignment of the CBR in June 2007 from 10 percent to 8.5 percent, the Central Bank has tightened monetary policy to mop-up the excess liquidity in the market. As a result, the market short-term interest rates including the interbank, Repo and 91-day Treasury Bill rates maintained an upward trend.
The 91-day Treasury Bill rate increased from an average of 6.5 percent in June 2007 to an average 6.6 percent in July 2007. The Repo and interbank rates increased from 7.1 percent and 7.0 percent in June 2007, respectively, to 7.2 percent and 7.1 percent in July 2007. However, the average lending rate of commercial banks declined from 13.4 percent in May 2007 to 13.1 percent in June 2007 while the average deposit rate increased from 3.98 percent to 4.01 percent. This narrowing of the spread between the lending and deposit rates suggests increasing competition between commercial banks.
Domestic Liquidity: Money supply, M3, grew by 18.8 percent in June 2007 against a target of 14.0 percent. The growth in money supply was driven by increased net foreign assets (NFA) and net domestic assets (NDA) of the banking system. During the same period, reserve money increased by 17.5 percent against a targeted growth of 14.0 percent. Credit to the private sector also grew by 11.6 percent compared with 17.5 percent growth in the year to May 2007. Reserve money remained above target with the excess being mainly in currency outside the banking system. Following the restructuring of the Central Bank's Open Market Operations, liquidity absorption has improved since June 2007. A further restructuring that brings down the threshold to Kshs 20 million from Kshs 50 million will be implemented and this will further improve the effectiveness of the Central Bank's Open Market Operations.
External Sector: Exports of goods and factor services increased from US$ 500 million in April 2006 to US$ 622 million in May 2007, an increase of 24 percent. On the other hand, imports of goods and non factor services increased by 19 percent over the same period rising from US$ 705 to US$ 843 million. Machinery and equipment and petroleum products which constitute almost 50 percent of the import bill increased significantly from US$ 169 million in April 2006 to US$ 214 million in May 2007 (a 27 percent increase) and the latter by 106 percent from US$ 106 million to US$ 219 million in similar period.

Balance of Payments:
The surplus in Kenya's balance of payments declined to US$ 431 million in the year to May, 2007 compared with US$ 793 million in the year to May, 2006. The decline reflected a widening current account deficit and a reduction in the capital and financial account surplus. The current account deficit deteriorated from US$ 398 million in the 12 months to May, 2006 to US$ 650 million in the 12 months ending May, 2007. This reflected developments in the trade deficit which increased from US$ 3,112 million in the year to May, 2006, to US$ 4,187 million in the year to May, 2007. However, the services account surplus increased by US$ 824 million to reach US$ 3,538 million during the year to May, 2007 thereby partly offsetting the trade deficit. The improvement in the services account was due to increased receipts from transportation and tourism services. The capital and financial account surplus declined from US$ 1,192 million to US$ 1,080 million in May, 2007 following reduced short-term capital flows and increased holding of foreign assets by commercial banks.

Exchange Rate Movements:

The Kenya shilling weakened against all the major currencies in July, 2007 but recovered towards the end of July and in the first week of August, 2007. The temporary weakening of the shilling was attributed to strong demand for hard currencies in the domestic money market. The shilling traded at an average of Ksh 67.1 against the US dollar in July, 2007 compared with an average of Ksh 66.6 in June, 2007. What has pushed the appreciation in the last days of July and early August appears to be international developments as well as portfolio flows taking advantage of new IPOs entering the NSE.

PostBank re-engineers to remain competitive

By Jackson Okoth

Kenya Post Office Savings Bank has joined the PesaPoint ATM network as part of its plans to provide increased access to cash for its clients.

The linking of PostBank to the PesaPoint network is expected to add to the bank's already existing 11 ATMs as well as over 106 cash dispensing machines operated by Kenswitch, also an ATM service provider.

"The bank already has 11 operational ATMs and plans to roll out 9 more before the end of the year," says Koigi Nyambura, Managing Director of PostBank.

The over 1.3 billion active account holders of PostBank will have access to the 110 sites operated by PesaPoint, spread out in over 46 urban centres in Kenya. This is in addition to its own ATMs as well as those offered by Kenswitch.

The 84-branched PostBank now has customer deposits amounting to over Ksh 12 billion, its large customer base forming the basis of its partnership with PesaPoint.

PostBank expects to increase its own-managed ATMs to 20 by the end of the year.

Over the past few months, the bank has been making partnerships with a number of organizations in a bid to leverage on what they offer.

Among these partnerships include one with Safaricom money transfer service and Suntra Investment Bank.

In the case of Safaricom and the Mpesa product, PostBank has been able to tap into the large subscriber base of Safaricom to boost its revenues by offering outlets to its countrywide branches.

It is also possible for its clients, especially those located in other urban and rural centres, to participate in selling and buying of shares through Suntra Investment Bank.

Koigi says that the bank is still on the look out for other value adding partnerships to offer more to its customers.

The move to step up the number of cash dispensers for its customers comes at a time when PostBank has been involved in repositioning and re-engineering to remain relevant and competitive.

The government-owned savings bank is slowly coming from a past of outdated and cumbersome passbooks and long queues.

It is now issuing cards to replace the large bank passbooks and manual entries as it makes use of available technology to remain competitive. "PostBank has been repositioning and modernizing its systems to become more responsive to customer needs and technological changes," says Koigi.

PostBank was incorporated and operates through the Post Office Savings Bank Act Cap.493B of the Laws of Kenya. Its mandate is to provide savings and payment services to Kenyans.

Research has shown that 80 per cent of bankable Kenyans remain unbanked. This is the frontier that PostBank intends to explore and conquer through its savings products.

The savings products portfolio offered by PostBank include Postbank Savings Account Bidii Savings Account, Fixed Deposit Account, Premium Savings Account, Postbank Cash X-press, Step Account and Safe Custody.

"We are currently configuring our branches with 54 out of the 84 outlets becoming online," says Koigi.

The bank expects to complete the configurations to enable all the 84 branches to become online by the end of this year. While the ATMs used by PostBank customers will only be for cash withdrawal services, the institution plans to install the next generation cash machines which will be able to handle more forms of transactions.

Established in 1978, Kenya Post Office Savings Bank's mandate is savings mobilization. Its main challenge remains the inability of the bank to offer a full range of financial services to its customers, due to the restrictive Post Office Savings Bank Act, which is under review.

Internet banking enters new horizons

By Muroki Gititu

The rush by banks to turn to SMS (Short Message Service) banking is far from over.

The latest commercial bank preparing to enter the fray is Imperial Bank, which is hoping to enable its customers make balance inquiries, obtain mini statements and foreign exchange rates from their mobile phones.

Head of IT at the bank Don Ochola says, "The mobile phone is the easiest and most available channel of communication as every customer has one. By simply sending an SMS, a client can find out basic details like salary credits, cheque deposits and debit charges."

Those banks that have already adopted this mode of e- banking include Kenya Commercial Bank with their KCB Connect, Commercial Bank of Africa (CBA), National Bank of Kenya (NBK) with their SIM-ple Banking, Equity Bank, Consolidated Bank, Cooperative Bank, Standard Chartered and Barclays.

The common denominator here is the similarity of the services on offer. These include balance enquiries and updates, requests for account statements, cheque books, lending and exchange rates, transaction alerts, and mobile airtime top up.

Other banks have gone a step further and are enabling clients to pay for utilities such as electricity bills. All these transactions can be done without visiting the banking hall and can be carried out any time.

Margaret Gitonga, the Customer Service Development Manager at KCB says this new wave in the banking industry is currently spreading faster than a bush fire.

She says the KCB service is targeted at all customers with ATM cards, be it the rural one without access to a bank branch or the fast-paced urban one who doesn't really have much time to spend in the banking hall.

"The KCB Connect service is designed to provide a variety of service options which include salary alerts, balance enquiries, stop payments and cheque book orders."

The service is currently available for mobile credit top ups and is being expanded to include other bill payments soon.

Although the uptake of SMS banking services is still slow, the pace has been picking up gradually in recent months. The reason being that customers are yet to understand the technology and new concept.

After the initial launch in 2006, Gitonga says that the KCB product attracted a slow response as the technology was fairly new and that the bank's diverse client base, who are mostly based in the rural areas, were also averse to it.

"The situation has now changed and our customers are registering in good numbers," she says.

SMS Banking has definite dividends for all the parties involved.

It provides an alternative to customers walking to the banking halls for the services by doing their banking from the comfort of their business office or at home.

"Significant business is transacted via the service as it is cheaper than over the counter. It is a worthwhile investment as we are now able to provide our customers with cheaper, convenient, efficient and a wide choice of services at their desks without coming to our banking halls.

What this has meant for those institutions involved is that there is less congestion in banking halls. At present deposit and withdrawal services cannot be transacted through the SMS banking service. These are still being offered over the counter.

But with the ATM technology, making withdrawals has been made much easier.

With the dynamics of technology banking, it will be possible in the near future to make deposits through SMS.

The banks have developed business relationships with mobile service providers for the mutual benefit of the parties involved. This also goes for the providers of those utilities customers pay for through the service.

Digital villages' project gathers momentum

By Muroki Gititu

The Digital Villages Initiative, which aims at opening up the rural areas using Information and Communication Technology (ICT), is yet to take off months after being conception.

Among the challenges facing the project include lack of power in most rural areas, computer illiteracy and equipment shortage.

In order to digitalize all the constituencies a multi-sectoral group has been set up which brings together the ministries of Information and Communication, Education, Science and Technology, Finance, Energy and the Office of the President.

An independent ICT Board has also been established to facilitate coordination and implementation of the many programmes envisaged under the digital villages' project.

Its mandate, according to the Information and Communications Minister, Mutahi Kagwe, is to coordinate the promotion, deployment and utilization of ICT in the country.

Telecommunications infrastructure is at the centre stage in this initiative to increase rural connectivity. This includes telephony and particularly mobile telephony.

Available information indicates that there only 23 per cent of the country has electricity and mobile signals. Communications Commission of Kenya Director Eng. James Waweru says people in the rural areas have problems getting a signal.

Lack of power also poses challenges to the digital villages project. Presently, the government is stepping up its efforts to provide electricity to all rural areas.

Kenya Power and Lighting Company has lowered connection charges under the Umeme Pamoja initiative with rural businesses paying a deposit of Ksh 5,000 for connection with the Ksh 10,000 balance to be paid in installments of Ksh 1,000 via monthly power bills.

Domestic consumers will pay a deposit of Ksh 15,000 and the balance in 12 monthly installments of Ksh 1,665 on the monthly power bills. This is quite a hefty reduction from the Ksh 15,000 and Ksh 34,980 for commercial and domestic consumers respectively.

Other sources of power including solar and geothermal are also be explored in a bid to make the digital villages project a reality.

“We are encouraging hand generators, coils and wind generators. Let providers take solar technologies to the rural areas,” says Waweru of CCK.

One other challenge facing this plan is lack of computers and low literacy levels in the rural areas.

Trade and Industry PS Nalo says that plans are underway to assembly computers locally. “We have the expertise right here with us. All we need to do is to import the raw parts and do the assembling here, a process that is more efficient and cheaper”, says Nalo.

He explains further that through the master plan for industrial development for Kenya, what has been done is reverse engineering – which involves working together of the Ministry of Information, JKUAT and Strathmore University to dissemble and assemble a computer.

Already, there are 150 locally assembled computers known by the brand name Madaraka Computers. The Kenya Industrial Research Development Institute (KIRDI), the PS adds, has also assembled 100 computers.

These computers, which are much cheaper and of higher capacity (IGB) are lined up to be used in the digital villages project.

Andrew Olea, a Systems Analyst at the Madaraka project confirmed that Strathmore, Nairobi and JKUAT universities were involved in the project with the Ministry of Information and Communication being the co-ordinator

The idea, he says, is to assemble computers locally and to sell them to different entities. The universities receive parts bought through ‘seed capital’ from the CCK and Safaricom. The PCs are then sold and the cash received re-invested to buy more parts.

While this is going on, the universities will carry out research on how they can produce locally some of the parts, says Olea. Youths will be trained to assemble the computers and they will at the same time be given entrepreneurial skills, making the computers cheap for the local market.

On the cost of assembling the machines locally as compared to importing complete ones, Olea could not give a figure. However, he said Strathmore have assembled 16 PCs and was waiting for the bulk purchase of parts.

The computers will be several modes depending on the target groups ranging from schools, industry, government offices and so on. There are also plans to go for mass production although this is still being considered.

At the moment, the government is putting in place an enabling environment to create demand, expand systems and offer facilities for trade, data banks and monetary evaluations.

The digital villages project is expected to be private sector-driven and is more than just concept and services. It is expected to work alongside cyber cafés already operating in the rural areas.

For instance, digital schools will provide students with various online services with relevant educational content. The Ministry of Education has already embarked on this programme by selecting model schools in each district and supplying them with computers.

A national ICT policy has been finalized that will see (ICTs) developed as tools for economic innovation and platforms for social economic development to reduce poverty, achieve basic healthcare and education.

Minister Kagwe says the policy emphasizes the development of a universal access programme for provision of affordable ICT services all over the country and a Universal Service Fund (USF) has been set for this purpose.

CCK says the country today has 2.7 million internet users but alot more needs to be done in terms of providing local content.

CCK is assisting local universities to develop local and relevant content including development of Swahili operated systems to allow Kenyans who are not well endowed to operate computers.

The commission is also reviewing interconnection principles in order to license more players in the rural areas.
The award to Telkom of its own mobile licence and the entry of a third mobile operator
Econet is set to improve connectivity in the rural areas.
ICT connectivity in the country will also be boosted by the laying of the Ksh 1 billion fibre optic cables - terrestrial and undersea- through the implementation of the East Africa Marine Systems (TEAMS).
This infrastructure will provide cheap broadband international connectivity not only in Kenya but also the wider Great Lakes Region. Teams will be complemented by the Fibre Optic National Network (FONN) to facilitate access to broadband services to all parts of the country and in particular to hospitals and schools and other essential public utility facilities.
Other initiatives in the ICT vision include the implementation of the CDMA Rural Access Project. The project will allow all areas of the country to access information using mobile phones. For example Kenyans are using CDMA mobile broadband to access the internet even in far flung areas of the country. The combination of both GSM and CDMA Wireless has seen development of value added products that are benefiting the rural areas immensely and thus reducing the divide. These include electronic money transfer using mobile phones and also access to market prices for various agricultural produce using short message services (SMS).

Fina Bank curves niche in SME lending

By Patrick Muchiri

Fina Bank has set out to entrench and widen its foothold in the Small and Medium Sized enterprises (SME) market.
Robert Warlow, the bank's Executive Director and Head of Risk told *The Financial Post* that the institution has renewed its focus on the SME market.
It has also been on an expansion programme to open up more branches both locally and on the regional market.
"Our continued interest in lending to the SME sector is as a result of realising that there exists a gap for the SME sector in the banking industry, which needs to be filled," says Warlow.
He further explains that Fina is into SME banking niche market for the medium and long term period, with targets to become one of the leading institutions in this segment.
Fina Bank has used its enormous expertise and knowledge to curve a niche in lending to the SME market, an area regarded as risky by other players in the banking industry.
"We realised that there exists a market, which is neither too small to be given the necessary attention by SACCOS nor too big, to be served by the big banks," Warlow explains.
Currently, Fina Bank has a network of six branches with plans already underway to open one in Eldoret as it strives to increase its market share in the SME market.
In an effort to have a regional presence, the bank has opened five branches in Rwanda and is in the process of acquiring a licence to set up operations in Uganda.
It has also partnered with a number of development agencies in a bid to expand its SME banking sector. Two of these agencies are FMO, which is a Dutch Aid Agency and USAID.
Fina Bank recorded a pre-tax profit of Ksh 151 million in 2006, a 41 per cent increase over the previous year. Its net interest and fee income each increased by a margin of 21 per cent last year while total equity stood at Ksh 1.1 billion.
The model used by the bank to lend to small and medium sized enterprises is building a relationship and getting to know their customer. "We are then able to gauge the level of risk involved when dealing with the particular customer," says Warlow.
Presently, the bank provides a one-to-one relationship to its customers through relationship managers, who number 16 and are also known as loan officers.
Fina Bank customers are therefore provided with the needed advice and support through the relationship managers. These managers also educate potential and existing customers on the need to keep proper records, draw a business plan and cash flow statements among other management techniques and requirements. The aim is to enable the customer meet the bank's lending criteria because the bank is a cash flow-based lender and therefore relies on financial records to guide its lending.
The bank's lending to the SME market is not based on collateral or security of any kind, with a loan application taking between 5-7 weeks to process for new clients. Subsequent loans take a shorter time to process once a relationship has been established.
A client seeking to obtain a loan is required to fill identification details, provide the registration certificate for the business and have a business plan-covering at least three years and a month cash flow statement.

On the outlook of the banking industry this year, Warlow mentions that the economic performance of the country is well and this is reflected in the banking sector profits.

"The banking industry has been able to come out of the bad debts era to become better lenders, more efficient and are also using improved technology in their operations, says Warlow.

He also expresses the view that the banking sector is too crowded and that the ideal number of banks in the industry should be between 20-25.

Whether the new capitalization levels of Ksh 1 billion will trigger mergers and consolidations remains debatable.

Warlow concludes that Fina is prepared for competition from micro-finance institutions that have also encroached on the SME market and will be relying on their expertise and knowledge in this line of business to provide the cutting edge.

Fina Bank was originally incorporated as a Non Bank Financial Institution (NBFI) on 15th January 1986.

It was then known as "Finance International Limited", a name that was later changed to "The Finance Institution of Africa". The original owners were the Francis Da Gama Rose family – a group with diversified business interests in East Africa.

On 15th August 1991, Dhanu Hansraj Chandaria (a successful entrepreneur in the manufacturing sector) together with a group of professional shareholders, took control of the firm and put it on a new growth path.

Since the company was already well-known as "FINA", the new owners changed its registered trading name to Fina.

In 1995 the banking laws in Kenya were changed and NFBIs were required to convert into fully-fledged commercial banks or close down. Fina was among the first institutions to seize the opportunity and thus Fina Bank Limited (FBL), was born on 14th February 1996. It immediately started providing full banking services.

The company is now shifting from being a small respected financial institution largely serving one community, to a focused medium sized commercial bank with a strong developmental emphasis especially in the rural areas. It aims to serve the entire SME sector of Kenya and the East African region. This sector is currently "under-banked" and therefore presents an excellent opportunity for growth.