

“My Chat with a Bank CEO”



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Chat summary

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Topic: SME Opportunities and Challenges

Time: 10:00am-11:00am

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SME Opportunities and Challenges

Sammy Itemere: Good morning and welcome to this Chat. I'm Sammy Itemere, the CEO of Equatorial Commercial Bank...I'm looking forward to having this discussion with you on SMEs...the opportunities and challenges that they face, thank you.

Erick Ngosia: Sammy Itemere, thanks for this opportunity, how does ECB help people, young entrepreneurs to scale up their ladder?

Sammy Itemere: Thank you Erick for getting us started...let's talk about young entrepreneurs generally...what I can say is that banks are committed to supporting young entrepreneurs in their efforts to start-up businesses...they are doing this through getting into partnerships with certain international institutions, DFID, USAID, who have funds specifically to support certain start-up businesses targeting the youth.

In addition, the kind of support goes beyond financial...these programs are structured to be a holistic approach and ensure that capacity building is core...so that the young entrepreneur is helped in running a successful business.

John Komu: Hello Sir, ABC bank is running a campaign that allows SME to access funds based on invoices issued to clients are other banks going to start offering similar products?

Sammy Itemere: Thank you John ...the product you mention is offered by most banks...it is called LPO discounting or invoice discounting.

Elizabeth Muguiyi: Thank you Sammy, what do you see as the most promising sectors for SME's?

Sammy Itemere: Elizabeth, this is a good question. There are a number of promising sectors that we can look at...some include transport, ICT sector, agriculture, there is opportunity around agriculture particularly because it plays a key role in the economy so increasingly we're seeing a lot of entrepreneurs going into farming for export....also hospitality.

Another area for entrepreneurs is the services sector, including consultancy services.

Erick Ngosia: What of those youths who don't have the required security and are willing to engage in a business, how do you help such you as a ECB?

Sammy Itemere: Erick thank you for your follow up question. Banks are willing to engage such individuals who may not have adequate security or collateral...banks would normally wish to look at the nature of business, the expertise that you have, and then looking at that they can see how you can be supported...however, we encourage there are various ways to build up capital that will help you create the business track record (especially cash flows) that banks would be keen to look at and on that basis make a decision to lend -- with or without security

Elizabeth Muguiyi: Is there a ceiling on the age of people who can have access to these funds and capacity building? What criteria do they use for this?

Sammy Itemere: Elizabeth, when it comes to capacity building...there really is no age limit...it is more of the age of the business.

John Komu: Thank you for that answer, why do banks find it hard to offer loans to young individuals who want to start businesses in non-traditional businesses, such as software development and design studios?

Sammy Itemere: John, there are people who can support that...and the financier may not necessarily be a bank...it could be an equity fund investor or pooling resources could be another way.

Austine Mwinzi: Given that the Banking sector is looking forward at bridging the financial gap in the SME sector, we do have other serious challenges facing the sector such as inadequate managerial skills, access to markets, value chain management etc. Kindly share with us any likelihood of the banking sector having a strong partnership with institutions/association representing the SMEs to counter the challenges?

Sammy Itemere: Thank you Austin... I think that is a good question...there are programs that banks undertake through business clubs, where they invite expertise to assist with capacity building in areas such as management, accounting, how to file taxes, value addition; and even also opportunities around how to access certain markets. For example Rwanda, Uganda, and other markets...these clubs give SMEs opportunities to interact, broaden their knowledge.

When you interact in those forums as an SME, you identify opportunities to coordinate and provide services across the value chain for big businesses.

Donald Kogai: Morning Sammy, research suggests that two-thirds of SME start-ups collapse after 1 year mainly due to financial difficulties. What can banks do to support SMEs to grow past this stage when they are most vulnerable?

Sammy Itemere: Good question Donald. I would just say that the key issue here is ensuring that you partner with a bank that can offer you information that will help you go beyond the first year...and some of those interventions as I mentioned are the forums or business clubs that banks create to foster interaction between SMEs, and provide capacity building...and through those interactions, you learn and grow in your business.

Joan Wairimu : Hi Sammy, what would you say is the biggest mistake the youth / start-ups / SMEs are making in their endeavours and what would be the solution(s)?

Sammy Itemere: The biggest mistake that SMEs make; I would say the issue of "copy cats". As in when you see a thriving business, and you quickly register a company without really understanding the opportunities, the market before you start...i think that is one of the biggest mistakes that SMEs make...also the informality of operations, which means, being really casual about your business and yet

the business as real potential. Some of the areas that need to be formalised for any sized business, include record keeping, maintaining a long term relationship with a bank for financial services, seeking professional advice on your business (beyond family and friends).

Martha Lee: Morning Mr. Itemere. Thank you for the opportunity to chat and discuss our thoughts with you. My question is, how does a SME access the financial assistance that organisations are offering when the SME does not have any security?

Sammy Itemere:Hi Martha...we touched on this earlier but I can just maybe build in a little more by saying that there is more than just asking for a security by banks; banks look at the character of the applicant, the ability to repay the loan; whether the owner has invested capital of their own into the business; what the purpose of the credit/finance requirement is...repayment schedule, etc., and finally if there is any insurance intervention...so there are a number of things banks consider when financing a business...i urge you to shop around and see which bank meets your needs.

Meredith Njenga: Hello Sammy, in my opinion Micro-finance institutions are bringing up stiff competition and have better products to suit SME needs. For a start-up, why should I choose a bank over a micro finance institution? What are banks doing to better their SME lending products or services?

Sammy Itemere: Hi Meredith, very good question. I think Microfinance give SMEs what I would define as the start-up capital or financial requirements...as you grow, you will need a bank...and that is why I would recommend this approach...banks bring, especially for SMEs; banks bring the expertise as you are growing, especially from an exposure perspective.

Generally, banks and microfinance institutions work together to support SMEs and each has value to add...microfinance on the initial stage; and banks helping you grow.

Austine Mwinzi: From your points @Sammy, I believe for our SMEs to realize their visions a lot of awareness is needed and in addition advocacy to make sure the hindrance/barriers to growth and sustainability are dealt with.

Sammy Itemere: Austine it's a good comment, I agree with you, it is more of the awareness and capacity building is required, and I'm glad to say that a number of banks are in partnership with organisations/development partners to support SMEs because we recognise that SMEs play a major role in this economy and the region.

Don Baraka: Morning.. How is ECB embracing Social Media Networks to improve SME product development?

Sammy Itemere: Thanks Don for that question, as ECB we are working to develop our social media as a means of communication on service delivery but broadly banks have rolled out various social media channels to support SMEs as a means of faster communications to clients ... social media is a good platform that can be used to get feedback from the SME sector in regards to products being offered.

Andrew Kabeke: Greetings Sammy, having gone through the chats there is a lot of questions concerning debt financing in terms of partnering with banks. My question is what are your thoughts about equity financing for start-ups and can banks play any role in this?

Sammy Itemere: Hi Andrew...Debt financing is key especially for businesses that are either existing or starting up...on equity financing, I'm glad to say that through the capital markets there are interventions being put in place, for example the Nairobi Securities Exchange Growth Enterprise Market Segment (GEMS) that is used for growing companies...there is also in addition the role of private equity funds that are looking to support or partner with businesses.

Joan Wairimu: You spoke about partnerships with organizations like DFID on funds etc...How much money does ECB have in this line to lend to SMEs?

Sammy Itemere: Joan, thanks, without getting too off topic, I can say that ECB has recently signed an MOU with African Guarantee Fund which guarantees financing up to 50% of the borrowed amount...the fund is Ksh.212 million... This will therefore increase ECBs risk appetite in supporting SMEs...but may I add that a number of banks are also in various partnerships, so it's good to shop around and see what facilities are available.

Njoki Riguga: Sammy, Hi. I would like to know what banks are doing regarding performance and bid bonds that normally tie up funds hence a major challenge to SMEs. Essentially how can the service be made friendly to ensure a win -win for the SME and banks?

Sammy Itemere: Njoki you raise an interesting point, yes, banks have the bid bond service where they discount the invoice and pay a portion of the money to enable the client to have the working capital...decisions on how much banks are willing to discount (or the Win Win as you note) is determined by the parties involved in that transaction...

Njoki Riguga: on GEMs what explains the partake by only one company so far yet there are various SMEs in need of financing?

Sammy Itemere: Njoki a good observation on GEMS, its more around the regulatory requirements and disclosures that one needs to make to enable them to partake on these facilities, whether it is the GEMS or private equity.

Fred Makau: Other than financing, any other incentives you offer SMEs to encourage them to partner with banks in running their businesses?

Sammy Itemere: Thanks Fred, we've discussed the value proposition that banks offer, I encourage business owners to shop around and see what various banks are offering...you would be looking for if they offer business forums/clubs and financial advice; if there is flexibility in the financing options; the kind of relationships the bank has with other partners including guarantee funds, insurance, etc. that can enable the business to access appropriate funding at a competitive price.

Martha Lee: Mr Itemere, is there a way that banks can provide a stop gap for SMEs? like if a farmers crop all dies, or the quails they were farming also die, or if the prices in the product they are dealing in drop and thus having a significant loss?

Sammy Itemere: Martha we recognise that these are some of the real challenges that SMEs face daily...there are interventions through products that banks offer such as insurance for crop failure, even on the quails issue you mention...we really encourage SMEs to take insurance cover.

Samuel Wambugu: Thank you for the opportunity to chat and discuss our thoughts with you. Challenges in SMEs are many and varied from their start-up, growth and development. SME challenges are cushioned through various methods in different countries. In some countries like Malaysia the Business Incubation model has been very useful in supporting SMEs. The Public-Private sector Partnership (PPP) approach is very useful in achieving the desired results. I have visited these incubation centres in Malaysia (and undergone training in their management) and I am personally I am very passionate about this business incubation approach. My question is: are there banks in Kenya interested this approach so as to reduce the challenges and through increased opportunities for survival, growth and development of SMEs in Kenya?

Sammy Itemere: Samuel thank you for your observation and sharing your experience from Malaysia. I agree with your observation that the aspect of PPP has a potential of addressing the challenge of investment aspects that have a public dimension and yet are amenable to private sector participation...regarding business incubation, my view is that SMEs should not hesitate to engage banks in at what stage the bank can support them and help them grow, and I think in our chat this morning we've talked about some of the opportunities such as the funds banks have in partnership with development finance institutions; also we discussed the Uwezo fund which targets women and youth...these are some of the interventions available to support SMEs.

Joan Wairimu: With the clamour for self-employment / entrepreneurship...do you think the youth are enthusiastic to start up own businesses?

Sammy Itemere: Joan I'll take your question as a final comment. In view of the fact that we are not generating employment opportunities in this country as fast enough, the youth would be persuaded to engage in start-up businesses...I see this increasingly becoming a very common thing in this market because of lack of job activities...we see dairy start-up businesses where a graduate starts a business with two cows and now doing extremely well; ...entrepreneurship is something that people would embrace as a viable option and should not be seen as a last resort.

Uwezo Funds

Joan Wairimu: The funds that the government is offering be it Uwezo, Youth or Women fund ...do you think they are in a way prohibitive especially on membership?

Sammy Itemere: Thank you Joan Wairimu. Regarding Uwezo fund, I don't think those funds are prohibitive as stated by Joan...because these are public funds that the Government has set aside to support women and youth in this country.

Interest Rates

Sammy Itemere: I saw a question from Abraham on interest rates vis a vis Central Bank Rate.

Sammy Itemere: There is a common misconception that banks are not lowering interest rates; but in fact, bank rates have lowered from an average of 19pct/20pct to 15pct/16pct which is a good indication that indeed banks are responding to the signal of stable interest rates in the market as indicated by Central Bank.

The Central Bank Rate is a policy rate and is one of the parameters that banks consider in their pricing...other parameters include the level of liquidity in the market at a given time; and borrower specific characteristics which give an indication of the risk profile.

Banks and Social Media

John Komu: @Sammy would banks be interested in setting up on-line forums and business groups where SME's can discuss and be guided by industry specialists?

Sammy Itemere: That's a good idea John...Banks would be interested if conducted to set up online forums such as this CEO Chat facilitated by KBA, to help build capacity.

Don Baraka: @John Good question in relation to On-line Forums.

General Comments and feedback

Sammy Itemere: Final comments...this has been a very interesting and exciting experience...I've enjoyed chatting with you, entrepreneurs and people interested in starting businesses, I wish to give our commitment as an industry that we are there to work with you to prosper even as the nation prospers.

Do have a productive day. Thank you, good bye.

Chat Admin: Thank you Mr Sammy Itemere for giving us your time and insights. And thank you to all of you who have participated in making this chat session lively and informative. We look forward to seeing you all online once again next week when we discuss Building Youth Enterprises through Savings and Investments with Dr Nyambura Koigi, CEO of Postbank.

Joan Wairimu: Good day Sammy, thank you.

John Komu: Thank you very much for your time, we hope to see banks following through by helping SME's grow through capacity building.