



“My Chat with a Bank CEO”

TOPIC | BUILDING CAPACITY OF SMEs


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BANK: EQUATORIAL COMMERCIAL BANK

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My chat
with a Bank CEO



If you had the opportunity
to chat with a Bank CEO,
what would you talk
about?

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Building Capacity of SMEs

Chat Admin

Our topic this morning is Building capacity of SMEs and our host is Mr. Tim Gitonga CEO Equitorial Commercial Bank .We look forward to an engaging session this morning and we are glad you could join us

Tim Gitonga: Hi everyone welcome to this very important session regarding how we can build capacity for our SMEs to positively contribute towards development of our country.

Hawkins Tosi: For SMEs to grow they need access to markets and access to finance. What are the banks doing to help SMEs expand their markets?

Tim Gitonga: Good morning Hawkins, thank you for your question which is very important in terms of SMEs and how they fund their businesses...and how they are supported to get their final products to the market.

Tim Gitonga: In terms of accessing finance, the most important point is the right financing structure -- this means that the product that you take from any bank must match the need at hand...to ensure that you don't incur unnecessary costs. That is where capacity building actually begins.

Tim Gitonga: In terms of accessing the markets, the banks have a role to play in terms of helping SME customers match demand and supply side of the equation. Which means that probably within the setup, if you are producing x commodity and there is a buyer, the two are matched. but then also there are aspects that are critical for you to ensure that you access the market -- 1, the quality of the produce that you deliver...and 2, how do you package the product. 3, when do you get it to the market. Bringing these dynamics back to banking, banks must help SMEs through capacity building to achieve this ultimate goal.

Anne Kay: what are non-financial strategies to support capacity to reduce 70% 'crash'?

Tim Gitonga: I see a question on Twitter about how are banks helping SMEs from a non-financial standpoint

Tim Gitonga: There are three or so things we can talk about 1. Helping SMEs develop the right governance structure...this means helping customers see that the founder is not the beginning and the end of the firm and hence the need for succession planning. Why this is important from a banks perspective is because it creates an entity in perpetuity in the sense that the organisation can go on producing goods and services...contributing positively to the economy of the country. Secondly, banks can continue providing the customer with finance irrespective of if the owner is there.

The second point on non-financial support of SMEs is helping customers improve their efficiency to ensure that the least cost mode of production is achieved. Thirdly, helping SMEs see the need to hire the right people / staff to drive the organisation.

Shelley Viehweber: In the context of accessing the markets; what criteria do banks place on the customer besides showing bank statements for small scale entrepreneurs which is the biggest hindrance in accessing financing?

Tim Gitonga: Hello Shelley. The criteria that banks use to determine how to lend to SMEs is basically on the ability to repay the loan; and is a reflection of both historical financial performance and the current engagement that the customer plans for the capital/finance. For example, the questions would be, what engagement do you have? How much does it require to deliver the results? When will the engagement generate income? Who will pay you? In answering these questions, the customer is able to help the bank assess the source of repayment; assess the risk of repayment; and the customers' ability to deliver on their business plan.

George Kinyanjui: Good morning Mr Gitonga. Kindly elaborate how the Government can support the SMEs in order to reduce unemployment in this country.

Tim Gitonga: I think the Government has in the past dedicated a portion of its business to certain sectors of the economy, which is a commitment in terms of supporting SMEs. But most importantly, is Government committing to deliver specific payments, for example on contracts that are due to SMEs.

Isaac Mwaro: Banks mostly focus on financing part and ensuring the finance they give is secured and cannot be lost, as entrepreneurs we would like to see banks focusing more on business continuity and growth. What are banks doing to help SMEs in market reach, product, service improvement and business continuity?

Tim Gitonga: Isaac, that's an important point. As noted earlier, banks have a role to play to help SMEs in terms of improving the quality of their products; minimising the cost of delivering that product to the ultimate consumer; and generally improving the governance of the entity to ensure that the business survives into the long term.

Mackenzie Kazungu: Good Morning Sir. To what extent has bank leveraged the use technology in managing fraud both internal and external as it has been big concern global and recently locally with SME now wondering where to go?

Tim Gitonga: Mackenzie I see your question about the role of technology in the sector and risk management. The banking industry is dynamic as a result of technology, and with new and emerging technology comes the challenges of managing cyber-crimes and risks. Banks therefore invest in governance structures and have built internal control mechanisms to ensure that fraud is mitigated.

Enock Ngeno: Mr. Gitonga. Nice points noted. If at some point something went wrong in passed engagement with a creditor (bank) and you got listed with CRB, can one re-engage and clear up his or her Name and what is the procedure?

Tim Gitonga: Thank you Enock. Indeed, we would encourage anybody who has a default listing on their credit report to engage with their respective banks to clear their record

through repayment of the loan facility. The bank can consider, based on the arrangements in place, whether to advance the customer more money or not. Please remember that if you have not cleared an outstanding debt and that debt is listed as a default record on your credit report, this affects your chances of accessing cheap credit in the future.

Lawrence Njuguna: Good Morning Mr Gitonga, banks have embraced the use of CRB reports in the approval of SME loans, what needs to be done to make sure that this reports are accurate and report reliable?

Tim Gitonga: Lawrence I see your point about CRB report accuracy. It will take both the customer and the bank to ensure that what is reported to the CRB is correct. Also note that any delays in meeting your debt obligations are reflected in the credit report ...delays do not show as a default, but they are disclosed by the banks (according to the legal requirement)...and this information would contribute to the cost of credit in the future. Equally, good loan repayment history is recorded with CRB and reflects on your credit report, so it can contribute towards the price negotiations with banks and ultimately lower interest rates for good borrowers.

Enock Ngeno: Noted. Meaning no individual can access CRB directly for clearances?

Tim Gitonga: Enock, you can access your credit report without going through the bank. There are 3 registered credit reference bureaus in Kenya. They are required to provide a customer one free report each year. The 3 bureaus are TransUnion, Credit Info, and Metropol.

Jacinta Awuor: Good morning Sir, my question for this session is, do you have a framework that enable entrepreneurs develop business plans for a new or existing business idea into a well conceptualized and viable business that can attract financing from your Bank?

Tim Gitonga: Thank you Jacinta. The value around a business plan is to first allow the business owner to create a focus of his or her business. 2, set specific milestones that are critical towards achieving the business objective, 3, for allowing a financier to see the potential, and Finally, to help the business owner know what it will cost to produce the envisaged goods and services, as well as, out of that cost what will be met by the investors/owners contribution, and who will meet the balance. The critical aspect that you need to consider is a background of your business; the capability of the promoters (ie the owners of the business); what products will you be offering the market; which markets are you targeting; why do you believe a demand exists for your product; who are the competitors; why are your products more superior than the competitors; at what pricing will you offer...and generally such information would be contained in the business plan.

Tim Gitonga: Business plans are very important because they help with projections -- both in terms of cost and revenue. This way, you will be able to know when you will start making money, as well as whether if the business is indeed viable as time progresses. It is said that

most SMEs do not survive beyond 5 years, and the business plan is an important tool which helps entrepreneurs avoid this trap.

Tim Gitonga: To support SMEs on business plan development, a number of banks do offer workshops for capacity building which includes development of a business plan. There are also many local institutions like Kenya Institute of Management who have an SME Center that trains business owners on business planning. I would encourage entrepreneurs to consider investing this kind of training as it will help you run your business successfully.

AHMED OMAR: Good morning! Due to the state of quandary facing Kenyan banks this year. How can the banks assure the SMEs of their savings future and hope to continue business as many of the SMEs have lost a lot from the 3 banks that collapsed?

Tim Gitonga: Ahmed you raise a topical matter in the industry at the moment. Central Bank of Kenya has established a framework to ensure that banks run their business while meeting the regulatory requirements. This means that the health of the sector will continue to improve and we are confident that the banking sector will be stronger. Just like other markets that have experienced their own crisis of confidence, the Kenya banking industry is resilient and will rebound. The broader framework of governance will be enhanced.

Tim Gitonga: Hi Samo, thank you for your question about the future of ECB.

Samo Bryton: Mr. Gitonga, what does the future look like for ECB? What role do you envision ECB playing within the tiers and beyond?

Anne Kwamboka: Thank you Mr. Tim Gitonga for your detailed answers, much appreciated. My questions are 1) Does ECB plan (or already have) a training institute or incubation hub? 2. Like Samo has asked, where does ECB see itself in the Pan African sphere?

Tim Gitonga: Anne thank you! The idea of an incubator is welcomed. As you know, ECB is largely owned by over 70 thousand teachers who are spread across the country, this gives us diversity in terms of our ownership. And this is inspiring us to look beyond the reach of our investors. As far as Pan African reach, we still have a lot of potential to exploit locally here in Kenya and this should provide a platform for this global outlook.

Tim Gitonga: ECB is investing in technology to provide payments solutions to our customers, particularly SMEs, with a view to create convenience and value for our customers. We consider that our economy is largely driven by SMEs and therefore, we have developed solutions that will allow SMEs to take advantage of emerging opportunities.

Enock Ngeno: Can policy work, analytical work, and other Advisory Services provide support of SME finance activities. If so how does it work?

Tim Gitonga: Enock ...good ideas! And I'm sure banks would welcome this line of thinking.

Other Comments

Tim Gitonga: Allow me to share some further thoughts...

The survival and excellence of any enterprise is not dependent on financing. Even if you accessed all the money / capital you require ... without an appropriate business plan, it is unlikely that your business will survive. So key points for entrepreneurs to look at are as follows: 1, we need to be more innovative and avoid the "copy and paste" mentality towards starting a business.

Secondly, business growth is a process...it is not an event, this means that we need to put the right structures in place; define the right products; apply the right pricing; package them appropriately to suit the market we want to serve; and build a network of clients so that the business is not dependent on one single buyer (e.g. Government)

Thirdly, is the thorny issue of financing? The right financing model needs to be applied in line with the business requirement. Critical is cash flow management and this means matching your receivables against payments. Entrepreneurs should avoid drawing cash from the business unnecessarily especially when it is not geared to grow the business. For example, a supermarket owner drawing cash out of the business to buy real estate which has no cash flows back to the business. This means also that financial discipline is a critical ingredient of any enterprise.

Finally, the point I raised earlier on succession planning. To ensure that the business services beyond the tenor of the founder, it is important that we bring in the right people to conduct the business into perpetuity. The owner / founder will therefore need to pass on the skills and experience to incoming managers and this will allow him or her to focus on the bigger picture...and possibly take a holiday!

Tim Gitonga: Thank you all for your participation. The development of our economy is dependent on a vibrant SME sector. And therefore, banks are committed to ensure that we give the requisite support to the sectorto not only grow the economy but also create employment. This is our inspiration at ECB. And we are happy to support the SME segment through a diverse, tailor made solutions that resonate with the needs of every business.

Joshua Okeyo: Thank you. I was a silent participant and found the chat Informative

Tim Gitonga: Thank you Joshua for following the discussion! And for your feedback.

Tim Gitonga: Thank you again. I look forward to further engagement in the future.

Chat Admin:

Ladies and gentlemen, allow me to thank Mr. Gitonga for being with us this morning and for his insights on Building Capacity of SMEs. We would also like to thank you all very much for participating in today's chat. Your contributions have made the session a success.

You can get copies of the transcript and podcasts of past chats in the archives page available on <http://chat.kba.co.ke/index.php?r=chat/archives>

Jennifer Muriuki: First time on-board and found it extremely informative. Thank you

We look forward to meeting you here again for yet another informative session next Friday at 10am. The topic will be "Understanding Islamic Banking" and our host will be Mr. Fazal Saib, First Community Bank, CEO

Many thanks for your participation once more. We will close the chat room in about 15 minutes.

Unanswered Questions

Shelley Viehweber: I agree with Lawrence most loans are held up due to CBR ...how that can be reliably fast tracked.