Small businesses get access to banking

By Zipporah Musau and Kwamboka Oyaru

21 Feb 2007

In Kenya, as in many African countries, major banks prefer to deal with 'big' clients and 'small' clients experience great difficulties in obtaining access to banking services. One bank in Kenya has set out to change this, however, and this could have long-term benefits for advertisers and marketers. Zipporah Musau and Kwamboka Oyaru report.

Mrs Grace Muriuki is not sure who to blame for her misfortunes. The 32-year-old mother of two had high hopes when she started a small bakery in Buru Buru on the outskirts of Nairobi. A trained sales and marketing executive, she had worked for a leading media organisation for 10 years. Grace excelled in her career and reckoned that with her experience, she would shine even brighter if she ventured into business.

Raising the capital to start the bakery was not difficult as she had a good job and the rent was less expensive than it would have been in the city centre. She employed a team of seven workers to run the bakery while she continued to work in her day job. Neighbours were excited to have a bakery and rushed to buy bread, cakes and scones. For six months, things went well.

They took a different turn when Grace resigned from her job to run her business full time. As she settled into her new office the price of wheat went up, putting pressure on cash-flow. "It was like a bad dream," she remembers. "When I was still employed, I could use my salary to supplement my business. But when I left, I found myself with no money to run the business."

In a bid to salvage her business, Grace went to a major bank where her former employer had channelled her salary to ask for a loan of 200 000 Kenyan shillings (just under US$3 000). It declined, saying that it only deals with 'big' clients. She tried two other banks, but to no avail.

"It was my worst nightmare. I don't understand why the banks refused to offer me a loan even though the amount was not big. I believe things would have been different had I gotten a loan to boost my business," she says.

Deeply disappointed, Grace resorted to borrowing money from loan sharks at exorbitant rates of interest. In less than 18 months she had accumulated a huge debt and her business had to be auctioned. "I believe it would have been a different story if I had been able to access a bank loan," she says. "I don't understand why the banks refused to offer me a loan, the amount was not big."

Next to impossible

Grace Muriuki's story is typical of many small-scale business people. Access to bank loans has been next to impossible for most. Bank charges are high and banks generally prefer to deal with bigger clients. Economist Geoffrey Irungu says "banking halls appear clean with glass all over. It can be intimidating. This is not the culture of small business people. It is for those with money big time."

Banking services – even just opening a bank account - are out of reach for most people. Many Kenyans avoid banks altogether, storing their money at home under mattresses or pillows. Small-scale business people, such as second-hand clothes traders at Nairobi's famous Gikomba market often keep their money stashed in plastic bags on the roof of their makeshift structures.

The Kenyan government has acknowledged the problem; the president highlighted the need to attract support for small businesses in his launch of the country's anti-poverty and growth plan known as Vision 2030.

When Fina Bank, a 20-year-old commercial bank that had previously served the Asian community decided to focus on small and medium-sized enterprises (SMEs), it targeted the huge number of people ignored by other banks. It has now tripled its customers.

"Our charges are low and accessing the account through ATMs – automated teller machines – is just 10 Kenya shillings when other banks charge up to 50 Kenya shillings per withdrawal," explains Natasha Klimova, an SME lending consultant in Nairobi.

Inside Fina Bank's hall on Kimathi Street, a group of small-scale business men and women listen to Fina's relationship officer explaining various loan schemes. Loanees can be lent amounts from 300 000 Kenyan shillings (roughly US$4 400) to nearly 10 million (almost US$150 000). The bank's staff is trained to support small and medium-scale businesses and small-scale customers.

Peter Hinton is the founder of the Enterprise Banking Group, an international financial services company based in Botswana that invests in banks and encourages them to grow through targeting small and medium sized businesses. It paid US$2.6m in 2004 for a 20.75 per cent stake in Fina Bank and helped it to relaunch. "The motivation was to contribute towards economic development in Africa through successfully financing growing small businesses. Secondly, it was to meet the market opportunity that exists due to few other banks serving the SME sector," says Mr Hinton.

The contribution of the multiplier effect

"Businesses range from hairdressers, radiator restorers, wedding card-makers to a woman in Mombasa who collects milk from cow owners and takes that milk to the dairy," he adds. Forty per cent of Fina's new SME customers are women. In his opinion, the multiplier effect of assisting small businesses can contribute towards wider development. The idea behind this is that if SMEs grow, wealth and jobs can be created, tax revenues can be raised and SME employees can be brought into the banking system.

One of Fina's clients is Joseph Mburu, proud owner of Modern Radiators Ltd. When he started his business in Nairobi eight years ago, he was confident his business was in a good strategic position. It would only be a matter of time before he became a millionaire – or so he thought.

Seven years down the line, Joseph was still struggling to stay afloat. Business had stagnated. He approached his bank for a loan – unsuccessfully. Frustrated by the lack of help, he closed his account. When he was on the brink of closing his business as well, a friend told him about the loan scheme for small and medium enterprises run by Fina Bank.

Joseph approached the bank and was able to secure a loan of 500 000 Kenyan shillings (just over US$7 000). "I bought new stock and overhauled my premises, something I was not able to do before," Joseph recalls. "Soon the radiators were moving fast. This gave me a lot of encouragement and really boosted my morale!" His business is now doing well and he has been able to employ four new employees, including his wife.

To access a loan, Fina's customers must have the initial capital to set up a business, register it, pay taxes and successfully manage it for at least one year. These requirements still exclude many prospective business innovators. Another common problem is that most SMEs don't keep records of accounts and transactions but before a bank decides to give a loan, it must establish how much the business is worth.

The bank has turned away customers because they lack financial statements, or don't have bank accounts and cannot provide proof of how they could repay a loan. It says it encourages those who don't qualify for a loan to open an account with them. This way, it can build a history with the client, which can be used to assess credit worthiness later on.

Once the loan is granted, the bank stays involved and follows up on the customer's progress. Relationship officers visit the business premises and offer advice. "There now exists a relationship between the customer and the bank," says Bernadette Ngara, Fina's head of marketing. "We are happy that our loans are creating jobs. Those obtaining loans are hiring workers, thus improving many people's lives."

This feature is published by courtesy of Panos Features.