Finance: *How do the lending alternatives compare to banks*

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Contents

How the East African Community could reap from EPAs.

The heterogeneity in the nature of exports from Sub-Saharan Africa (SSA), has always been a major source of worry, and of particular concern has been the insignificance of the non- oil commodity exports to the rest of the world.

By George Wainaina

Economic Partnership Agreements (EPAs), are a form of trade contracts between the EU, African Caribbean and Pacific Countries that mainly comprises developing nations. With Africa countries already long history of exporting raw material to the Europe dating back to the pre-colonial period, an arrangement that was one sided and Africa seemed to be getting skimmed off the top.

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Markets

Key highlights in the NSE

The market edged up marginally (0.1%) to close the week at 131.58 which was characterized by a sharp decline in trading activity compared to the previous week. The can be attributed to the gain in the index partly because of price gains on EABL, Scangroup, Britam and Kengen. TPS also posted price gains supported by strong trading volumes. Foreign investors have been keen on the counter following continued recovery in the tourism sector. Most banking stocks experienced some volatility with the exception of CFC, NBK, I&M and CO-OP that posted a w-o-w gain. CO-OP was also supported by strong trading activity. We expect minimal price movements on majority of the counters in the coming week.

The summary of the market statistics is as shown below:

	21.09.2016	20.09.2016	Change
Equity Turnover (KES)	349,947,264	479,339,290	26.99%
Total Volume	17,979,970	21,785,806	17.47%
Traded Market Cap	1,913	1,906	-0.38%
Bond Turnover	0.953	1.479	35.56%
NSE 20 Share Index	3,170	3,192	0.69%
NSE All Share Index	132.85	132.34	-0.39%
FTSE NSE KENYA 15 Index	158	157.78	-0.14%
FTSE NSE Kenya 25 Index	163.51	162.9	-0.37%
FTSE NSE KENYA Gov't bond index	-	88.45	
Foreign buys	281,857,080	389,200,943	27.58%
Foreign Sales	210,457,793	317,269,125	33.67%

Source: NSE

The key market indicators for this week is shown below.

4 Day Key Market indicators (September)				
Indicator	21ST	20TH	19TH	16TH
NSE 20	3170.22	3192.31	3218.88	3206.12
NASI	132.85	132.34	132.24	131.58
Market Cap (KES bn)	1912.99	1905.73	1904.31	1894.69
Equity +I Reit turnover (KES bn)	0.35	0.479	0.284	0.353
Bond Turnover (KES bn)	0.953	1.479	1.611	0.852

Source: NSE

Cover Story

From Pg 1

the EAC region that is categorized as a lower middle income nation, whereas her EAC counterparts are all in the 'Least Developed Nations' category, hence by default are exempt from duty but not Kenya.

Due to its newly acquired status, Kenya technically will operate under a new trading regime of Generalized Systems of Preference, and hence is liable to attract duty on exports ranging from 5-22 percent while other EAC partner states are to continue trading under Everything But Arms (EBA) initiative.

Each EAC country ought to have opened up 82.6 percent of its market by 2033 to allow imports from EU and by 2010, Kenya had already liberalized 64 percent of raw material and capital goods from the EU. Some EAC partners feel that the level of liberalization is quite high and may have a negative implication on the region's infant industries and may fail to compete with goods from the more technologically advanced EU industries. However the extensive liberalization is based on the thinking that the region is in much need of intermediate goods to be used as inputs in the production process thus enhancing competitiveness of its finished goods whose availability at lower costs is deemed to have consumer welfare advocacy effects.

On the other end, exports into the EU, from the EAC region will be duty and quota free providing a tremendous opportunity for the East African producers and allow access to a wider market that is in excess of 500 million people. Therefore, the moment has never been more opportune for Kenya and her neighbors to seize the moment and ascend the global value chain by enhancing the quality of their finished produce.

Sub-Saharan Africa overall progression in trade integration has requires to be put into perspective with

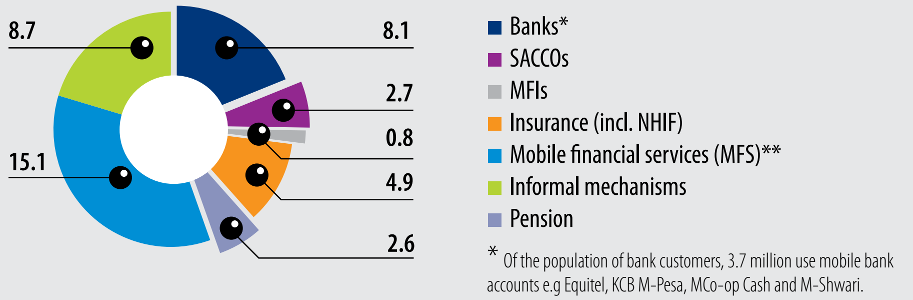
Since the Cotonou Partnership agreement, the East African Community is to negotiate new EPAs contracts as a block and with the preexisting reluctance from some of the EAC member states to ratify the current Framework Economic Partnership Agreement (FEPA), Kenya would be dealt a heavy blow and even risk experiencing an economic slug as a result. Kenya is the only country in developments in global trade. Global trade took off shortly after creation of World Trade Organization (WTO) in 1995. As a result rapid expansion was witnessed with emergence of new trade giants like China and it is only then that Africa was able to redirect trade to these giants that it was able to keep its place in world trade- one that remains relatively small to influence the global scene.

Sub-Saharan Africa could borrow leaf from Asian giants Japan and China and take advantage of increasing globalization. In an increasingly world economy fuelled by technological processes, cheaper transport and communication costs, policy reform in support of trade production processes have been dispersed all over the globe. This has given rise to systems of supply chains in which value is added at each stage before crossing the border onto the next stage.

This process would allow countries to better utilize their comparative advantages by giving them the opportunity to join a production chain without having to possess all other production capabilities. This is what happened in Eastern Europe and South East Asia and now it is time for Africa.

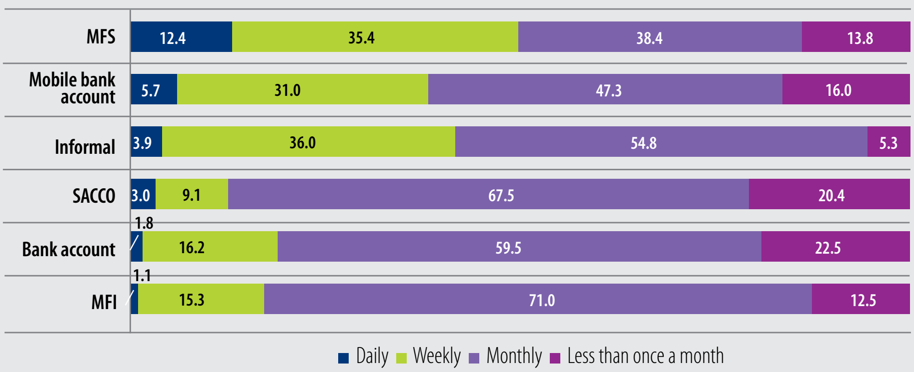
Moreover, all this factors notwithstanding, a more supportive business environment, lower tariff levels, ad easier access to credit all favor large trade flows. Therefore because of this factors trade in Sub-Saharan Africa is substantially less conducive with the quality of infrastructure about 50 percent lower in the region than anywhere else in the world, credit to GDP ratios about 25 percent lower, and tariffs on average four times higher than elsewhere. Without this, Sub-Saharan Africa will never realize full benefits of EPAs.

Number of individuals using different financial service providers (millions)



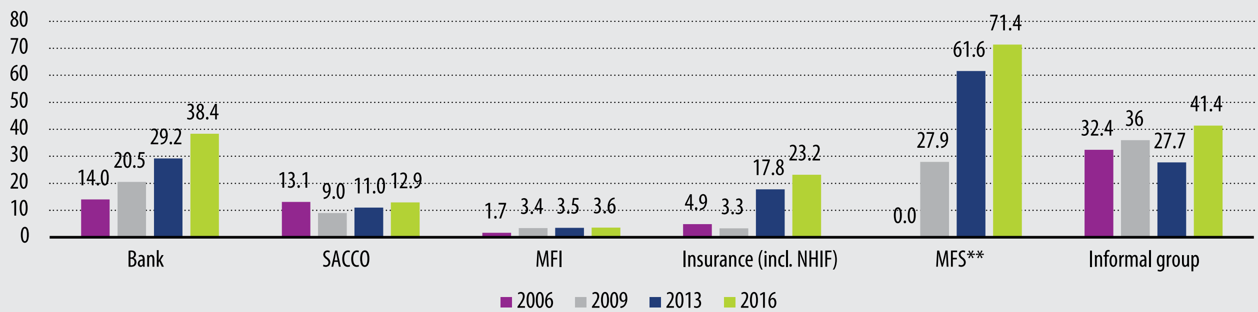
* Of the population of bank customers, 3.7 million use mobile bank accounts e.g Equitel, KCB M-Pesa, MCo-op Cash and M-Shwari.

Use of different financial service providers over the years (%)



** MFS providers include Airtel Money, M-Pesa, MobiKash, Orange Money & Tangaza Pesa.

Frequency of use of financial service (%)



Source FSD Kenya

How do the lending alternatives compare to the banks ?

With the review of interest rates, and the new law requiring all banks to configure or readjust their interest rates to not in excess of 14.5 percent, it is inescapable an imagination of the worst case scenario, whereby the banks decide to embrace the risk factor in their lending and eventually leave out the high risk unsecured borrower in the cold.

By George Wainaina

Despite the presence of the credit referral system , which aims at helping borrowers leverage on their credit score for easy access to credit, it still doesn't guarantee that the banks will place high priority on this borrower under the new terms of play, especially if they have options.

However, there are plenty of formal avenues at the low end borrowers' disposal that could sufficiently provide financing to this groups, hence how would the banks feature in comparison to the other lenders?

Apart from the banks, the Kenyan financial system is a jungle inhabited by all, according to the 2016 FinAccess Household Survey. Saccos, Microfinance institutions (MFIs), mobile financial services (MFS),Insurance and Informal groups continue to play an even major role in Kenyans' daily financial activities.

Saccos

Strengths

Savings and Credit Cooperatives are an integral part of Kenya's financial system. Unlike the bank customers, respective Sacco members mainly hail from similar financial background and is mainly influenced by occupation. Therefore, it is easier for the entities to innovate relevant products for their clients, a fete the bankers are grappling with as they seek to satisfy the heterogeneity of their client base. With a steady 12 percent per annum interest rate(1 percent per month on a reducing balance), the lending platform is technically unmatched by still bears challenges that limit its inclusion potential.

Weakness

Saccos heavily guard against NPLs and in an attempt to reduce the risk of lending, the unsecured borrower doesn't stand a chance. Banks could lend to an unsecured borrower who is on a salary but for the Sacco, the borrower in absence of collateral, will have to convince 3 or more fellow members to guarantee them of the sum borrowed, and also be salaried. Studies show that this is a major limitation towards Sacco sector growth.

MFS (Mobile Financial Services)

Strengths

The mobile money market in Kenya, has grown in leaps and bounds over the last decade and remains peerless all over the world. It is the most widely used financial platform accounting for the highest number of financial services users at 15.1 percent. Mobile services accounted for 12.5 percent frequency in daily usage which was the highest and was closely followed by mobile bank accounts at 5.7 percent. The mobile platform derives it strength from its simplicity in usage, diverse product options.

The statistics can only strengthen in this sector's favor as financial service providers across the sectors seek to leverage on the mobile platform to attain growth. Another strength that mobile money market continues to use as leverage is the affordable cost of transaction. Organizations are continuously finding it conveniently affordable to disburse products and services via the platform. As underwriters, banks and listed companies seek to diversify their product distribution options, the mobile platform is the most preferred avenue of choice and represents the future of financial service delivery. Studies show an increasing role of mobile money in the future and it will be at the epicenter of financial services especially in the emerging markets.

Weaknesses

The major obstacle involves the lending capacity. It is faster, more efficient and the least bureaucratic credit advancing system, hence has attracted a lot of customers with a whetting appetite for small loans accessible via the mobile platform therefore as expected demand is outstripping supply by far. With most of them having a lending capacity of below Ksh 20,000 the big borrower is debarred from enjoying the stellar services that endear many to the platform hence result to the banks.

Micro Finance Institutions

(MFI)

According to the FinAccess Household Survey 2016, Microfinance institutions, have the highest transaction frequency per any given month with an average of 71 percent. The law on capping interest rates doesn't encompass the MFIs but it ought to be expected that they too will adjust their rates as they are subject to the forces of competition.

Informal lenders

They form the bulk of the non-prudential financial service providers and at 8.7 million, the number of informal services users is only second to those that use mobile services which stands at 15.7 million users.

These lending facilities are non-prudential and an agreement in principle works just fine in this sector. The popularity of this informal lenders is a clear indication that borrowers would rather risk their financial vulnerability than have to deal with bureaucracy prevalent in the conventional market while acquiring credit. There is guarantee of instant cash.

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