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Equity Group CEO
JAMES MWANGI

"MY VILLAGE OF NYAGATUGU WAS NOT ENOUGH TO SAY THAT I CONQUERED AFRICA."

How To Build A Billion-Dollar Banking Empire

And Navigate Business At This Time

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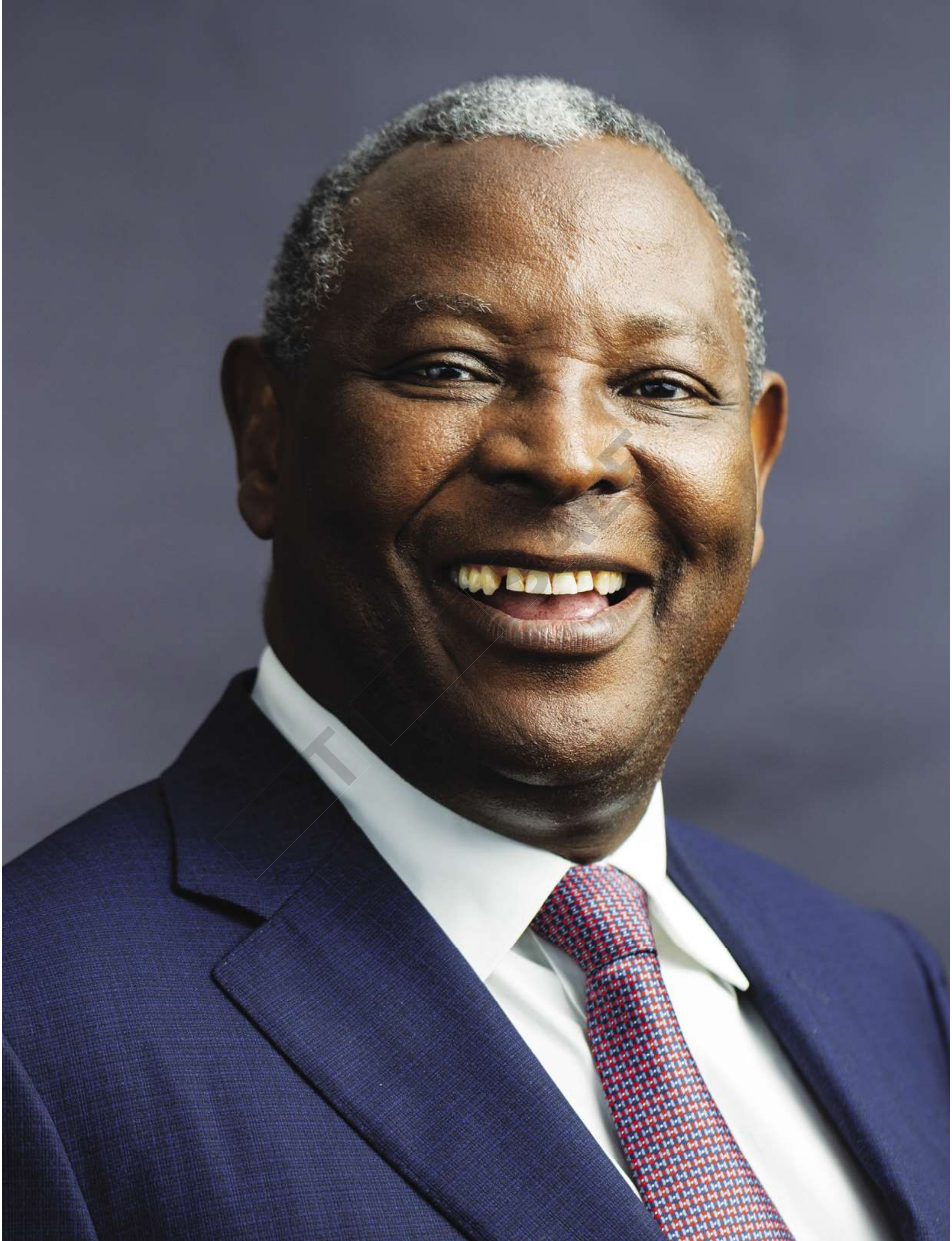

COVER STORY

THE PEOPLE'S BANKER

IN 1993, DR JAMES MWANGI WALKED AWAY FROM A PROMISING CAREER AT ONE OF KENYA'S LARGEST BANKS, TO JOIN THE EQUITY BUILDING SOCIETY. THREE DECADES ON, FEW COULD HAVE PREDICTED HIS ENTREPRENEURIAL LEADERSHIP WOULD WORK TO TRANSFORM NOT JUST EQUITY BUT THE FINANCIAL SERVICES OF THE REGION. FORBES AFRICA MEETS THE MAN BEHIND EAST AFRICA'S BILLION-DOLLAR BANKING EMPIRE.

BY MARIE SHABAYA

DR JAMES Mwangi, Managing Director and CEO of Kenya's Equity Group, is a captivating figure. His trademark smile and down-to-earth demeanour set him apart from the traditional banker. But Mwangi isn't your run-of-the-mill chief executive. His journey to the C-suite has been fuelled by sheer resolve, belligerent bravado, and an uncanny concern for his customers.

It's hard to believe that the force behind East Africa's pioneering billion-dollar banking brand grew up in circumstances far removed in rural Nyagatugu, a tiny village flanking the Aberdare mountains in central Kenya.

"I am a product of my upbringing [and] it has [had] a significant influence on how I see things today... [but] my village of Nyagatugu was not enough to say that I conquered Africa," declares Mwangi from his office at Equity's corporate headquarters in Upperhill, Nairobi's swanky business district, in an interview with FORBES AFRICA in July.

The banker describes his childhood as humble, dignified but fraught with difficulty. Born in 1962 to peasant farmers, Mwangi's parents had no formal education and lived apart from what he calls the 'monetary society'. As a boy, he had never met anyone who owned a bank account or even fathomed being served by any of the country's banks which, at the time, only catered to a privileged few.

"It was a simple life. As boys, we grazed cows and goats... we hunted wild animals like rabbits. Growing up, we didn't know [if] people were 'well-off' or [if] people were 'poor', we were all equals. [As a community], we built houses together, tilled the land together, and even socialized together at village dances," he reminisces.

While it may seem contradictory, it was this deeply communal atmosphere that inspired the business that Mwangi built.

Founded in 1984, Equity did not start its commercial life as a bank but as a mutual society trading as the Equity Building Society (EBS). Back then, as Kenya was forging a new national identity, most banks were hesitant to provide its vast population with even the most basic financial services. As an answer, indigenous building societies took root. However, while buffeted by good intention, these fledgling financial institutions were poorly run, leading many to ruin.

In the 1970s, while these societies were emerging, life's challenges had already begun to shape the young Mwangi. Shortly after his birth, his family had suffered a major tragedy with the untimely death of his father. His mother, Grace Wairimu, was not only widowed but was left with seven children to raise on a meager income.

Never having gone to school herself, Mwangi's mother, who was an anchor throughout his life, was adamant that *all* her children, including her daughters, would study; a controversial decision at the time. And she was not prepared to compromise.

To achieve this dream, Wairimu imposed a strict code of discipline in her household whilst encouraging an entrepreneurial fervor in her children. The family sold milk, tea, charcoal, and fruits to stay afloat. It was an important training ground for the young Mwangi.

"We were vending to eke out a living, to pay school fees, and to feed the family. My instinct for commerce [came] from [there]... I realized that there is no wealth without work! Entrepreneurship means folding up your sleeves and working. Profit is the reward," he explains.

Nyagatugu was where Mwangi really cut his teeth in business. Then, owing to his academic talent, he had the opportunity to study the theory that governed his early entrepreneurial experiences, on scholarship, at the University of

"TAKING MILK TO THE VILLAGE RESTAURANT OR SELLING FRUITS TO THE VILLAGE MIDDLEMAN, WHO WOULD TAKE THEM TO (THE MARKET) IN NAIROBI, INTRODUCED ME TO THE CONCEPT OF 'SUPPLY CHAINS'. I REALIZED THAT I WAS THE 'PRIMARY PRODUCER' WITH MY MOTHER, THE 'MIDDLEMAN' DEALT WITH LOGISTICS, AND THEN AN 'AGGREGATOR', WHO WAS OUR FACE IN THE MARKETPLACE, PLAYED ON VOLUME AND MADE MORE MONEY THAN EVERYONE ELSE. THE OWNER OF THE SHOP RECEIVED (GOODS) FROM THE 'AGGREGATOR' AND SOLD THEM TO 'CONSUMERS', THROUGH THE 'BRAND' OF HIS SHOP. I (FINALLY) UNDERSTOOD HOW THE VALUE CREATED (IN THE SUPPLY CHAIN) WAS SHARED."

Nairobi several years later.

"Taking milk to the village restaurant or selling fruits to the village middleman, who would take them to [the market] in Nairobi, introduced me to the concept of 'supply chains'. I realized that I was the 'primary producer' with my mother, the 'middleman' dealt with logistics, and then an 'aggregator', who was our face in the marketplace, played on volume and made more money than everyone else. The owner of the shop received [goods] from the 'aggregator' and sold them to 'consumers', through the 'brand' of his shop. I [finally] understood how the value created [in the supply chain] was shared."

After university, Mwangi began his career as an auditor with Ernst & Young in Nairobi. Four years later, he moved to the now-defunct Trade Bank Group. Then an innovative financial services firm, founded in 1985, it quickly gained prominence as Kenya's first attempt at mass-market banking.

Over a brief career at the bank, he climbed the ranks from teller to Group Financial Controller.

However, just as things were looking up, a familiar face came calling. In 1993, the EBS was in trouble, with debt on its books. Founder and Chairman, Dr Peter Munga, had known Mwangi as a boy and was convinced that the young banker was his only hope. By then, Equity had been declared insolvent and was facing dissolution.

"We came from the same village where I had developed the reputation of a 'brilliant boy'. I was the first boy [from Nyagatugu] to get a university degree. I was also a youth leader in the church. In Nairobi, I had risen up to be a director at Trade Bank by the age of 28 [where] I had a reputation for being a sharp young man who was good at analytics and bold decision-making. All of that combined to package me, in the eyes of Dr Munga (and other EBS executives), as a credible, reliable person," he says.

Munga's confidence was not misplaced. Eager to oblige, 31-year-old Mwangi left his job at Trade Bank to take on a role as Director of Strategy at the stagnating society.

"I had gone with [EBS executives] to Central Bank because they had been condemned with closure. Suddenly, the Governor looks at me, as I try to plead their case for more time, and he says [to me], 'if it was you who was talking of turnaround, then I would give you the opportunity'. I was between a rock and a hard place; if I hadn't made the sacrifice to join them, then they would [have had] to close," recalls Mwangi.

So, in a seemingly fool-hardy move, the young banker agreed to take on mounting debt, unpaid salaries, dwindling membership, and declining morale at Equity. He even remortgaged his own house to inject some desperately needed cash into the business, inextricably linking his fate, and hard-won reputation, with that of the beleaguered building society.

Given a carte blanche to transform the business and with no option of turning back, Mwangi was determined to meet his mandate.

"I had made the decision from an emotional aspect [and] I didn't want to fail them. But I hadn't realized that Equity was in [such] a bad state. It had not done any [debt] reconciliation, it had not published accounts for three years, and it had not had a board meeting for [over] two years. With everything at stake, it was only my entrepreneurial skill that would [eventually] get us out of insolvency."

Mwangi's reforms were more an attempt at reinvention rather than resuscitation. He began by re-training the organization's remaining staff in the ethos that would later come to define them – customer care.

"We didn't have money... the currency that created Equity was a passion to please the customer. I had a very small staff, none of whom had gone beyond Form 4 [Grade 10]. They didn't

JAMES MWANGI'S 10 TIPS FOR ENTREPRENEURS DURING COVID-19

1. Stick and focus on purpose, use essence to filter dos and don'ts.

2. Protect the public license. Society will never forget the side or position you took when you had the chance.

3. Support the supply and value chain and recover. Bend backwards to accommodate your business' unusual circumstances.

4. Adopt a shared prosperity model using social and impact investing.

5. Adapt to 'the new normal'. Be aware Covid-19 might have irreversibly changed your world in terms of resource reallocation, priorities, tastes and preferences.

6. Be part of the solution to our shared global challenges in humanity, health, and livelihoods. Don't run away from the reality your customers are facing.

7. Focus on the opportunities of the fourth industrial revolution like digitization, big data, technology and innovation.

8. Adopt an appropriate leadership style for these uncertain times. Provide visibility, hope and answers to concerns and when carrying your followers along with you.

9. Preserve cash, liquidity, and capital reserves for the long haul.

10. It is all about people: staff, customers, society and humanity.

have the skills but they had enthusiasm. We didn't [even] have a meaningful product so we had to give our clients an experience that they had never had anywhere else and that they were willing to pay for," he continues.

According to a Lagos Business School case study, Mwangi ensured that, in this way, his 12,000 customers were accorded with the dignity they deserved, breathing new life into the institution. This had an impact on both sides of the counter. Customers felt valued and continued to patronize the building society. On their side, staff felt confident and empowered even whilst working long hours.

In 1997, things looked promising. Equity had cleared its debts, encouraging staff and customers to begin purchasing shares in the company. This time around, Mwangi made sure that records were meticulously kept.

According to its website, Equity's client accounts had grown exponentially from 32,000, in 1997, to 482,000 by 2005. This exemplary track record allowed Mwangi to raise capital from the European Union (EU), the International Finance Corporation (IFC), and other institutional lenders to introduce computing technology to the building society, paving way for his ambitious expansion plans.

"Transaction times dropped from 30 minutes to five, queues disappeared, the process, including signatures and so on, was automated. Equity was now on a rapid, but solid, growth path," notes Mwangi in a 2012 interview to *African Business*.

Steady growth made the building society's transition to Equity Bank, in August 2004, possible. Two years later, the bank listed on the Nairobi Securities Exchange (NSE). Bolstered by further investment, Equity made its first foray into the region, listing on the Uganda Securities Exchange, as EBL in 2009.

Within five years, the bank was operating subsidiaries in Rwanda, Tanzania, and was among the first to open branches in South Sudan, Africa's youngest country. By 2019, the bank had transformed, yet again, becoming Equity Group Holdings, with customers across East Africa.

In 2020, three decades after Mwangi made his debut, the Equity Group boasted a market capitalization of KES128.1 billion (approx. $1.3 billion) making it the largest banking outfit in East Africa, out-rivalling its closest competitors.

Equity's tremendous transformation is due, in large part, to what is now known as 'The Mwangi Model'. Thanks to this ground-breaking framework, Mwangi has been able to introduce a bulk of East Africa's low-income population to the financial services sector. It is a model of inclusion that thrives on high volumes, low margins, and mass-market appeal.

"I realized [after leaving Trade Bank] that it was not the bank of the common man. My mother would have never been able to [open] an account there. Nobody in my village would have qualified for an account either. In fact, not even [EBS Founder] Dr Peter Munga would have

Navigating Business
Equity Group CEO and 'family man' James Mwangi at his office in Nairobi, from where he advocates the model of inclusion

Photos by Paul Kariuki Munene for Forbes Africa

"COVID-19 HAS BEEN A TURNING POINT. WE HAVE ANALYSED OVER 1,200 YEARS OF DATA, STARTING WITH THE BUBONIC PLAGUE, TO UNDERSTAND THIS (COVID-19) PANDEMIC. THE ONLY WAY WE CAN SURVIVE THIS IS IF (OUR) BUSINESS IS AGILE AND RESILIENT ENOUGH TO NAVIGATE THESE TIMES. "

qualified. I had a singular mind to build a bank for my mother who [I saw] bury savings under her mattress," reveals Mwangi.

At the time, this drive to serve the so-called 'unbankable' population had only been attempted once before at the Grameen Bank founded in 1984 by Nobel Laureate Muhammad Yunus in Bangladesh. However, in Kenya, the model was risky, untested, and needed modifying.

"To be honest, [in 1993] I didn't have a very good view of what Muhammad Yunus was doing. His [main product] was group lending, Equity started out with individual lending. I simply wanted to remove the barriers for people, like my mother, in opening bank accounts. We could do better than a mattress!"

This revolutionary perspective blew open the Kenyan banking sector. By eliminating monthly ledger fees, minimum balance requirements, and easing withdrawal limits, Equity ended up engineering a product that it could bank on.

By 2000, Mwangi says, Equity began signing on an average of 100 new clients per day. Going directly to its customers, initially, in weekly marketing campaigns in rural towns and villages, the bank eventually developed a network of third-party 'banking agents' to provide services across Kenya, even in the most far-flung corners.

Today, with mobile banking, Equity's customers benefit from yet more convenience with access anywhere, any time, and at a minimal cost.

As a result, Mwangi's entrepreneurial reward has extended far beyond profit. The 'Mwangi Model' has been recognized and analysed in case studies at some of the world's most prestigious business schools including Stanford, Columbia, Harvard, and the Lagos Business School.

He is also the holder of numerous honorary degrees and the winner of countless awards for his commercial prowess. The first, and most memorable, he says, was the 'Global Vision Award', which Mwangi won alongside fellow micro-finance trailblazer, Muhammad Yunus, at the 2007 G8 Summit.

In 2012, after clinching the title of FORBES AFRICA 'Person of the Year', the Kenyan banker triumphed over 58 global business leaders to become the first African ever to be crowned Ernst & Young's 'World Entrepreneur of the Year' in Monaco.

Mwangi, as Founding Chairman of the Equity Group Foundation (EGF), is also a prolific philanthropist. In May this year, EGF, with the Mastercard Foundation, pledged KES1.1 billion ($10.3 million), to Kenya's Covid-19 response and to provide personal protective equipment to frontline medical staff in public hospitals. A portion of the endowment, KES300 million ($2.8 million), was a personal donation from the Mwangi family. Since March, the banker has been a member of the Covid-19 Emergency Fund Committee, a 10-member board peopled by the country's most accomplished private sector leaders, convened by President Uhuru Kenyatta.

A key feature of the 'Mwangi Model' is its resilience which the current pandemic is putting to the test. In June, Equity saw its acquisition plans, through the highly-anticipated Altas Mara deal, in Rwanda, Tanzania, Mozambique, and Zambia, halted. Instead, Mwangi announced that the Group was doubling down and would take a more conservative approach to see through the crisis. In an unprecedented move, shareholder dividend payments were also delayed to safeguard liquidity reserves.

"Covid-19 has been a turning point. We have analysed over 1,200 years of data, starting with the bubonic plague, to understand this [Covid-19] pandemic. The only way we can survive this is if [our] business is agile and resilient enough to navigate these times."

While much is still uncertain, the pandemic has had some positives for Mwangi, a proud husband and family man.

"I am not a very outgoing character so 'working from home' has been very exciting for me. I've been able to spend more time with my family, which is important for me," he says.

On another high note, Mwangi jests that Covid-19's most visible impact has not been on his balance sheet but his waistline.

"I have been making the best of this crisis. Instead of 30 minutes, I am now able to put in at least two and a half hours at the gym. When I look at myself [in the mirror], my body is looking much better!"

Despite the present tumult, Mwangi insists that the fundamentals remain unchanged and only the things that matter get him up, at 3AM, to start his day.

"Seeing a smile in people's lives still makes me happy. I've lived a full life and it's humbling to know that the child my mother raised has not changed and [with the values she taught me] I'm able to share what I have with others. Thirty years later, it's been a journey of changing one life at a time." F