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James Mwangi, CEO and Managing Director, Equity Bank
Interviewed by Tarun Khanna,
Jorge Paulo Lemann Professor, Harvard Business School
April 24, 2018 in Boston, MA
Video interview conducted in English

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_TK:_ *James Mwangi, thank you for agreeing to speak with us as part of the Creating Emerging Markets project. It's an honor and pleasure to meet you and have you with us.*

JM: It's a pleasure for me to be with you today.

_TK:_ *What I'd like to do is take a very broad view of the sweep of your career. You're well known on the African continent as an iconic figure, having built Equity Bank, having created a foundation next to it, and being involved in numerous efforts that are moving Africa forward in amazing ways. We're all inspired by your work and hope to share that story with many others. What I'd really like for you to do is to reflect on the broad arc of your career and think about iconic moments that you think shaped your professional and personal development as an entrepreneur—going back, perhaps, to the beginning of what is now the Equity Bank story. And you can start anywhere.*

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JM: Thank you very much. I think the most memorable moments in my career—one was when I got my first job in banking. It dawned on me that less than four percent of the population had a bank account—that basically the majority of the population was excluded. That was a turning point. [It became my desire to change that, in part because of my own personal experience.] My late mother, Grace, who brought me up, was never allowed to get a bank account. Everybody in my village was not eligible for a bank account. But by that time [when I got that first job], I really understood that exclusion from the financial system was exclusion from resource allocation. That was a turning point.

The second turning point was when I set foot in Equity—a building society then—and realized how devastated it had been by 11 years of operations, without reaching breakeven. It was scary to fully appreciate technical insolvency, but [inspiring to] see the resilience in people that despite 11 years, they still had hope.

TK: *Their spirit was there.*

JM: Their spirit was there. The turnaround of Equity was driven by that spirit. It was all about that human spirit, that determination. Then a year later, when we were turning it around, I realized the power of customer satisfaction, the power of customer experience. I realized that while all of the factors for production are essential in an entrepreneurial journey, it's the

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fulfillment and satisfaction of the customers that allows progress to be achieved.

TK: *Let's go back to the different stories. Maybe you can put some dates on them also for us. Your first job—when you realized that 96 percent of the population of Kenya was excluded from having a bank account—why were they excluded?*

JM: There were so many barriers. That was back in 1989. There were so many barriers how to access to a bank account. The first one was the KYC, or Know Your Customer, compliance requirements. They were so rigorous that an ordinary person could not meet the specification. The second one was the charges. An ordinary person could not cope up with the charges that were levied.

TK: *So this is like minimum balances and transactions?*

JM: It was the minimum balance. It was the issue of ledger fee; it was the issue of standing orders that essentially became a part of the fixed cost of operating a bank account. Those were ridiculous. Of course, there were other non-financial barriers, like liquidity—access to liquidity. People were only allowed to access their liquidity once every seven days, and they had to keep a minimum of 10,000 shillings, which today is equivalent to 100 dollars. So you had to have money there, but you could not access it. If you had to

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withdraw more than 10,000 Kenya shillings (or 100 dollars), you had to give 14 days' notice. Those non-financial barriers were even more exclusive—the basis of exclusion— than the financial barriers. Then, lastly, was the way the customers were treated. You were made to feel that your value to the bank was based on your account balance. So the issue of human dignity; the issue of esteem of people—somehow, people felt—it was abused. They were rated based on the value of their bank account.

TK: *Explain to our viewers and students why the government was not involved in addressing this obvious, big inequity.*

JM: After independence back in the mid-'60s, the country was dominated by international banks. When the government rose to the challenge, it formed three government banks, but they all focused on serving state corporations. They didn't realize that serving the citizenry was most important. So that is where the government failed. I think, also, that the government didn't have a mechanism of altering or adjusting the market forces. It was like capitalism without regulation—the government just watched as the market forces shaped the environment and determined who could get access to financial services, without really realizing that access to financial services is fundamental to the development of a society or a community. So you could think of it as a market failure with the government not being able to find mechanisms of regulating or adjusting the market forces.

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TK: *So this is true in the time of all the presidents of modern Kenya? There's no difference across the different administrations in the early years?*

JM: That is true, because—

TK: *[Jomo] Kenyatta and then…*

JM: [Daniel arap] Moi.

TK: *Moi.*

JM: That is true, and that is why Equity was credited with the democratizing of financial access in Kenya. It disrupted the banking environment from the top down. Simply, what we did was remove all the barriers—including the legal barriers—of opening an account. We assumed anybody who had a national ID was well-known to the government. That was a sufficient condition. The second aspect was to remove all these fees—minimum operating balance, ledger fees—and then remove, most importantly, the barriers to access to liquidity and allow customers to withdraw as many times as they needed and as much as they needed, or allow full access to liquidity.

Eventually, a country that had four percent of the population banked, grew to having 86 percent of the population with access to financial services—with Equity Bank serving 56 percent of that population. That is

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why it is said to have democratized banking. Lastly, we give banking a human face. Essentially, it was the dignity. It was the way you treated customers when they walked in. They were not treated based on the balances of their bank accounts.

TK: *I want to get to the core of the Equity Bank model—how it actually works. For somebody who is not in banking or microfinance, in a moment. But before this, you mentioned that the second turning point for you was when you came and you saw distress in the building society, before it became a bank. Can you talk about why you think, in retrospect, that distress situation arose? Because there must have been a huge demand for those kinds of services, also. So what was the issue that you felt you had to address when you came in?*

JM: Equity Building Society was started back in 1984 and I came on board in 1991. By that time—while it had been started with a capital base of one million Kenyan shillings—it had accumulated losses of 33 million shillings. So it was technically insolvent to the tune of 32 million shillings. It had only a deposit base of 22 million shillings—much lower than the accumulated losses—and had a loan book of nine million shillings. When you looked at the total payout of the building society, it was 101,000 Kenyan shillings, while at my previous employer I was earning 360,000.

So you can see that brand couldn't really sustain itself. That is why I appreciated the human spirit, that even under those conditions, they still

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believed in a better future. They still believed and had hope that they could make a breakthrough. But that was when I came in and said, "Let's try a business model that is high volume, low margin—to differentiate ourselves from the other banks; to bring in affordability, and to be able to meet the cost of removing the barriers because the barriers were the basis of income. So the fact that we removed all these barriers that really generated the revenue, we had to operate a very low-cost model. Eventually, this meant that—to be able to have high volume—we needed to computerize the bank so that we could increase productivity.

Now, the spirit of the people just needed to be ignited—they needed to be given greater hope—and when we did that, we saw productivity significantly improve to cope with the large number [of clients]. So that was really the turnaround—it was the customers' experience of suddenly finding themselves in an environment where they're treated with dignity; where they could see a bank with a human face; a bank with a soul. I didn't realize that the social component of interaction with people might be stronger than the financial or economic component. People are more human than economic. That's the conclusion I have today—that it's how you treat them, it's not what you give them that matters.

TK: *That matters so much more.*

JM: Yeah, that matters much more.

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TK: *So for someone, again, who doesn't know microfinance or banking, can you describe a typical interaction for a previously disenfranchised (not included in finance) person entering the Equity Bank family? What would their interaction look like, either as a deposit-maker or a seeker of loans?*

JM: Microfinance was an offshoot from microcredit. It was an offshoot after realizing that people needed more than credit—realizing that truly, transformation could never be driven by credit alone. You needed people to build their savings. It's complementing their savings for investment.

So microfinance entailed small savings transactions, small payments transactions, small credit transactions, eventually, a small micro-insurance transaction, all embedded in one, such that one could have access to the whole range of financial services, but tailored to their economic lifestyle—small salaries, small remittances, small withdrawals, small deposits, small loans…

TK: *And high frequency.*

JM: And high frequency. Essentially, what we realized as we moved on is that the financial diaries of the poor are very different from the financial diaries of the wealthier households.

TK: *How so?*

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JM: Essentially, because they plan for the day. They buy their milk on a daily basis. They pay public transport. It's not like the rich, higher-income households which fuel their car once every week. These people pay for public transport twice a day, when going to work and going home. They pay for their kerosene or charcoal daily. They buy their food rations for cooking from the market daily. So that is when we realized, these are micro-transactions that happen with a huge frequency. So we had to create a financial system that overlapped with their lifestyle, and their lifestyle was without much long-term planning. It was daily plans.

TK: *But they're very good planners.*

JM: Absolutely.

TK: *They have to be.*

JM: They have to be, because it's planning for survival. If they don't plan well, it means there's no meal at home, or their children are kicked out of school for lack of payment of school fees, or it means losing an asset that they had because of a debt they had borrowed. So that's why planning is very, very precise—and with a lot of discipline—because there's no certainty about incomes. If you look at it, it also involves—what I've come to respect most about low-income households—the discipline of work, because there's no food on the table unless they work.

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TK: *You said something very interesting a few minutes ago, when you said it's more human dignity than economic planning at the core of the individual relationship [with the bank]. It just occurs to me that in the case of the very poor, they have to be both. They have to be incredible economists. They have to be incredible planners and financial diaries, so to speak—daily diary. And of course, they also have to value their own dignity. It's just an interesting reflection.*

JM: What I realized is, because of that, the discipline of repayment—repaying borrowed funds—is much higher in the low-income households, because they want to maintain their relations. They know children will go to school only if they pay their present loan so that they can get a loan in the future. So it's not just the planning, but it's also the discipline.

TK: *So they're trying to build their own credit histories?*

JM: Absolutely, yeah…

TK: *As you're speaking, I am reflecting on other experiences I've had with microfinance in my own country, in India, and in Bangladesh, in Indonesia, and other places. Can you speak about other influences on your thinking, perhaps at the time you started? Professor Yunus was already doing some microfinance in Bangladesh. Are there other places or people that you borrowed ideas from?*

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JM: We borrowed extensively. I remember in 2007, there was a Global Vision competition, and we jointly won with Professor Yunus, based on the two different models of microfinance. He led a group-led microfinance model, and we did an individual-based model. There was also a lot of learning from Latin America.

TK: *BancoSol.*

JM: BancoSol.

TK: *Mibanco.*

JM: Mibanco and all that. We were members of what at that time used to be called CGAP [Consultative Group to Assist the Poor].

TK: *Yes, in the World Bank.*

JM: In the World Bank. That helped all of us. There was also a famous network of women-led microfinance institutions. We were eligible simply because the majority of our clients were women, led by Nancy Barry. So there was a lot of cross-learning at that time, from one continent to the other, because there was no script. So we all kept on sharing our newfound knowledge from practice.

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TK: *It's interesting how—so you and your team have become sort of a knowledge intermediary, bringing this information into Kenya and East Africa in many ways, and of course, contributing to it, to all these other banks. What were some other influences, besides microfinance, in the early years of formulating what became the Equity Bank model?*

JM: There was a lot of influence from the customers themselves. We learnt a lot and so today, the processes and procedures of Equity have been reshaped by the customer experiences. We realized what works and what doesn't work. We also learnt a lot from India when it came to computerization, how to deal with the huge number of clients you needed. And we have been to Bangalore a couple of times, eventually ending up with a system from India—Finacle by Infosys—for processing these large numbers. We also realized, when it came to the switch to digital systems, that we had to go again to Southeast Asia. The West didn't provide systems for managing the large numbers of small balances that we were looking for. The West had very solid systems, but they were more for corporate banking. So we went to the East and found a lot of systems running. When it came to innovations, there was also a lot that we learnt from the telecoms industry, particularly the initial setup. Today, you'll find almost 97 percent of the transactions at Equity happen on the mobile phone. So that ability to learn from other sectors, not necessarily banking, has also been critical.

When it came to insurance, again we learnt from the customers. We asked ourselves—"These clients from low-income households don't have

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insurance policies, so how do they insure their life?" We realized that they kept on hedging most of the risk—particularly from social groups, sometimes diversification of their asset portfolio. We could see them with chickens, with goats, with cows, with bananas, and the rest. It was a diversified portfolio of assets that withstood shocks differently and produced streams of income at different seasons.

Lastly, reflecting on the fact that only four percent of the population was banked, we asked ourselves, "Where is the other 96 percent of the population banking?" We realized they were banking with little shops. That's also where they were getting their credit. That led us to formalize that little banking system—in the form of taking savings and providing credit—by appointing the little shops as agents of the bank. Today, we have 35,000 little shops. We just formalized what they had been doing for years. Today, that is the bedrock of Equity Bank. The bulk of transactions happen on third-party infrastructure, rather than brick and mortar. Banking has ceased to be about where you go; it's what you do—either with an agent or on the phone. So all that innovation was shaped by studying the market. So many influences were not boardroom knowledge, it was market-informed.

TK: *In the field—*

JM: —heavily market-led.

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TK: *I see. When one thinks about most developing countries—particularly if you're living, as I am, in the West—among the first things that come to people's minds are instability, corruption, things like that. Where were the role models for you to deal with things like that?*

JM: While we appreciate there are a lot of vices in developing countries, we find you can't confront them head-on. We now have 12 million customers. We have about 208 branches spread over six countries. And I've found that we have operated without succumbing to corruption. That has meant that we are private sector-led institution and the bulk of our customers are in that sector. It's when you demonstrate your value that others buy into your value, and you don't have to persuade them. That is how we have been able to grow. There are challenges, though, because of social hazards like we have mentioned.

But the biggest problem that we confront on a daily basis is the capacity of the would-be clients and customers. One thing that people underestimate is that, in emerging markets, customers might be the first generation in their families to move from peasantry to the commercial world. Essentially, that transformation has never been given full attention—that people need to adapt, people need to be trained. The way we study geography or history or science is how people should study financial transactions and financial intermediation. But we assume people would move from barter trade—that people would be able to move from a peasantry lifestyle—to the commercial world without any training. But the ability to train people is key.

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Today, our biggest responsibility has to do with financial literacy. In the last three years, we have trained 1.7 million people just to try and bring them to a level where they appreciate and use our products appropriately to have impact in their lives, and then to de-risk the offering that we are making to the people.

TK: *So I think that's a fair point. In a variety of ways, you're reminding us that one of the tasks of the entrepreneur in a developing company is to compensate for all these limitations. So if you don't have electricity, you have to provide the electricity. If you don't have a road, you probably have to provide something that looks like a road. If you don't have education, you have to provide the financial education and literacy to bring to people to the point where they're able to appreciate the value of what you're offering—*

JM: —and hopefully invest in the next generation. Equity Group Foundation has focused on education to ensure that the next generation of clients will have access to education, or will have access to school. There is an effort to constantly improve the environment, and that is a bigger responsibility and a bigger challenge that, when well-executed, creates a bigger market and a bigger advantage to the institution.

But I was very privileged. I was only 28 when I started at Equity, so time was on my side. We were very lucky that the market had not been populated, and we were a necessity for the transformation of the economy. We became a catalyst of the transformation of the country, so the brand was

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respected. Then, the strength of the corporate foundation—in terms of size, in terms of impact and significance in society—earned us the respect that everybody wants to associate with us and everybody wants to be seen to be supporting us. So it may be something we have earned ourselves that may not be applicable to everybody.

TK: *That's right. There are so many different things to talk about. So no particular order. If you are sitting in London or in Boston as I am, the dominant story about Kenya in the news has been the political fracas—the brouhaha between two political parties. You had that terrible situation a few years ago with a lot of violence in the streets. You've got not a reputation of violence so much, but still an uneasy situation. I know you've said in other places that, at Equity Bank, the politics stays out, but talk to me about how that works in the bank, because everybody's part of a community, and the communities are pretty split. So explain to us how you think about these sorts of issues.*

JM: Professor, you are right. Politics has been at the center of Kenyan society. Unfortunately, the country has been split into two, with those for and those against at every point in time. Given that the country enjoys a wide democratic space, a lot of noise comes out of that. The fact that we have a very independent judicial system, which also might be polarized, means that we get into very awkward situations, which to the outside world creates a feeling of uncertainty, as you've rightly said. This is where we have to be

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very conscious as an organization, because our 12 million customers, are split between the two sides. So we decided to be politically neutral, or not political, because if you polarize, you lose half of your customer base.

So consciously, as an organization, we felt that the organization should be completely divorced from politics. And because of its size, it is respected by the politicians for that. Equity enjoys, for lack of a better word, what one would call a fanatical following because of the support it has given people. You don't want to mess that following by showing your political inclination. So we tend to be over-conscious as an organization and keep out of politics completely because of the risk of losing half of the customer base, because as I said, the country is polarized in two. Any inclination, there is the possibility that you lose the other half. That's what has kept us safe.

That doesn't mean we are not affected by politics. If you look like last year, you'll find the growth rate of the organization was constrained because the economic activities were depressed within the country. There was so much uncertainty, and you could see the price of Equity shares in the marketplace being affected, because the market had been affected. So we suffer the sovereign risk, the country risk, as much as anybody else. It is significant.

However, those who have scrutinized Kenya closely realize that what makes it so visible—is not the underlying risk. It's the freedom and the visibility that politics has been given. The last two elections have been two elections that we haven't had the GDP growth rate go to almost zero. Last

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year, we held at 4.8 out of 5.5, but you can see it declined by 100 basis points. That is the cost that the country pays because of the turbulence of politics.

TK: *Well, in a sense, it's a maturing of society to be able to deal with that turbulence.*

JM: We say it is the price of democracy.

TK: *It's the price of democracy.*

JM: It's the price of evolution. We have a very progressive constitution that grants the right of the politicians, so they are testing the limits of that space without cognizance of the impact on the economic front—which suffers a lot of uncertainty. The international community, doesn't understand the complexities of local politics. So consequently, it responds to what it sees on the media. It responds to the statements that are issued and the feeling of uncertainty that results.

But hopefully, the country will continue to mature. I've been very impressed with what has happened after the elections—the leader of the opposition and the leader of the ruling party coming together and saying, "Until 2022, let's focus on development." Suddenly, you see the temperature in the country has fizzled, there is a sense of calm, and everybody has more focus. There is an issue that the country has to evolve to the next level—how to move away from politics of personalities.

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TK: *So there are many other things about the model that I wanted to come back to—about the Equity Bank model. But first, I have a different question about defraying some of the institutional risk. You talked about sovereign risk, which is visited upon you either directly (because presumably it's keeping some investors away) or indirectly by lowering the growth of the economy by 100 basis points in the last crisis. Have you thought about defraying some sovereign risk by doing an overseas listing? Because there must be a lot of appetite for your story in different places.*

JM: I think we realized that the sovereign risk of Kenya was fairly significant and it was affecting us. The value of the investment had cycles of five years. Essentially, we felt that cross-listing in London didn't really matter a lot, because the assets were still in Kenya, and that is what is being affected. And we felt we could de-risk by having geographical diversification. That explains why today we're in six countries—DRC, Uganda, Rwanda, Tanzania, South Sudan. So far, of the total assets of the group, Kenya only contributes 75 percent. So to that extent, you're—

TK: *Sizably de-risked, yeah.*

JM: —at least 25 percent. That is in five years. We think in another three years we'll have been able to reduce that to 60 percent and hopefully a profit contribution to a similar number. So today, the subsidiaries are contributing 20 percent of the profit. That helps to de-risk significantly.

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TK: *Kenyan risk, yeah.*

JM: Also, the visibility of leadership of the holding company ceases to be seen to be a platform within a country that can be used for political purposes, and is seen instead as a platform for business within the African continent. So we expect in the next nine years we'll be in another nine countries and hope we will be in 15 countries in total.

TK: *So when you think about the expansion into these other countries—DRC, South Sudan—talk to me about the most difficult part of that process, practically in the last few years. What have you experienced? What part of the model has been most stressed?*

JM: The most stressed is infrastructure, in the sense that banking infrastructure—in modern days, where there are a lot of modern tools—it's carried on very evolved systems. It's all computerized. Then, when you go to DRC, you find everywhere that you have to install a generator. It requires a huge investment in telecommunication. It forces you to use satellites. That I would say is the biggest stress—security is another big challenge, too.

TK: *Yes, I would think so.*

JM: You can imagine providing your own security in such a massive country as DRC, providing your own electricity, providing your telecom

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infrastructure. But the most expensive challenge I've faced is where there is a rupture in terms of peace. The situation in South Sudan affected us—one of the best subsidiaries we had in 2013 melted down to almost nothing because everybody escaped from the country. It went from a commercial enterprise to what one would call dealing with philanthropy.

So those extreme swings—peace becomes a huge factor. Then lastly is the issue of policy and regulation. You find that every country seems to be at a different level in development of regulatory policies and legal framework. That will really create difficulties, that, while you have a single, centralized system, when it comes to execution, you have to break that down to tie with the policies and regulations within each country. Those three, I would say, are the major challenges.

TK: *So interestingly, the South Sudan situation, what has been your stance? You described it as evolving towards philanthropy. How do you see that play out?*

JM: The reality is that the economy completely shut down from a commercial world perspective, and the only economic activities that were taking off were humanitarian efforts by the UN. So you support those initiatives because they need infrastructure to execute programs, whether it's cash payouts or distributions to the refugees. I see lessons hopefully learnt. There are a lot of negotiations going on in South Sudan, and I hope that South Sudan's leadership and population have realized that maybe peace is the most

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essential asset in the development of any civilization. I am hopeful that it will be given a chance to grow back.

TK: *So one thing in your model that we didn't speak about—but my impression is that it's important—is going back to this core value of trust that you always have spoken about, the idea that your loans, I believe, are made to your depositors. Can you speak a little bit about the origin of that idea and how it's played out over time?*

JM: We realized that, microfinance evolved from microcredit. We realized that you can't build people's lives around credit, because credit eventually has to be settled and paid. People must have income. So the Equity model is a liability-led model. You have to demonstrate your ability to have disciplined savings. And we hold back for six months until somebody has demonstrated that they are willing to build a savings fund, because investments are built from savings. But then we match your savings with a credit component to allow you to move to the next level, a pure intermediation.

We realized that when you focus purely on credit, there's an element of indebtedness, and sometimes by trapping people in debt, you impoverish them even more. But when you motivate them to economic growth, to be engaged in economic activity, when you give them room, then it scales the economic activities.

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That is why we believe Equity has, within a period of 30 years, become the most inclusive bank on earth, in the sense that there has been a lot of evolvement or transformation. Micro businesses become small. Small businesses become medium. Medium become large enterprises and large enterprises are corporatizing. It's simply because of that model of liability: demonstrate you are involved in economic activities; those economic activities—let's see the transactions that they are generating; let's see that you're engaging in transactions profitably, in the sense that you are building a savings fund; and then investments can be made out. You can have reverse savings once you have demonstrated that we can give in advance, and then you save by repaying the loan.

That is why we think the model has generated extreme and rapid growth. If you look at Equity—it experienced a compounded growth rate of 150 percent over a period of 15 years. It's simply because we are an aggregation of the economic activities of our client base—so it is a savings-based model which has—because it's many more transactions—has become heavily automated or computerized to enable a self-service platform. We now have 97 percent of all cash transactions digitized, such that there is no physical cash for the exchanging of goods and services, exchanging hands, because the electronic balance is exchanging positions in different accounts. That has really helped, so that we don't have to be labor-intensive.

TK: *Right. So there's two things that are going on, if I heard you correctly. One is, by encouraging savings before you allow reverse savings, you're*

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building up a little bit of knowledge base about the potential client in an environment where otherwise that information is not easily available or accessible. So that clearly helps you.

JM: And testing of economic activities—

TK: *Testing of economic activities.*

JM: —the viability of whatever economic activities they're engaged in.

TK: *Exactly.*

JM: And we can see the speed of growth of those economic activities. So the loan amount is determined by past proven growth rates. So we can project how much you require by projecting the possible growth rate into the future.

TK: *So that information is currency, in effect, for you?*

JM: Enormous currency. That, Professor, has helped us now to digitize our own process for both the individual, and for micro, small, and medium enterprises. We're able to create algorithms because we have data spanning 30 years. We have been able to study the most successful cases, and we see the trends and create algorithms for that caliber of clients. Then we have seen those who have stalled, and we can tell what the challenges are. That is how

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the financial literacy is planned, because it is an intervention. It's intended to cure a challenge within the customer base.

TK: *But the other thing that seems to me equally important, if I understood correctly, is that by not having a pure credit relationship with a poor person, there is less of a feeling of dependency.*

JM: That's the most important thing.

TK: *The dignity that you keep.*

JM: They are in the driver's seat. We're just empowering them to change their lives. We are not changing their lives. Credit gives the impression that I'm giving you money to change your life, but with this model, the client feels, "I am in the driver seat." So you're just supporting their own initiative.

It creates a lot of pride and esteem. Any achievement in that journey, they feel they owe it to themselves, so they celebrate and they realize their capability. That inspires them and motivates them to even do more, rather than a situation where somebody gives you money and tells you, "Do this."

TK: *This is the basis of the trust between Equity Bank and—*

JM: That is how the trust has been built in Equity. Trust in the sense that it's not us trusting them first. It's us receiving their trust and returning back

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that trust by adding more of what they already have trusted us with. That is why I said trust is the currency that has built Equity, and it's the bond between the clients and the bank.

TK: *So there's one other pasture that I wanted to get to, which is going back to this idea that you've democratized access to finance in Kenya, and other countries now. When one thinks from the outside of other democratization stories—corporate democratization stories—one thinks of Safaricom and M-Pesa. The other thought that I have is that these days, a phone is a bank and a bank is a phone. So can you talk about the coexistence of these two incredibly interesting stories—your own at Equity Bank, and the Vodafone-controlled, Safaricom-controlled, M-Pesa-controlled story of telecoms?*

JM: You're spot on when you talk about democratization. It initially started with removing the barriers to entering the financial sector. So when you drop things like minimum balance, when you drop things like ledger fees, when you drop limitations on the frequency of access to your own money and limitations on the amount that had been capped—people enjoy that freedom. That's how they coined the word you used—democratized our financial access. We now can access. It's for all and universal.

The next phase, which you have really touched on, was where we gave the freedom of choice and control to the client, that we moved banking from the place you go to—from the brick-and-mortar model—to what you

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do on your phone. So you choose when to do it, how to do it, where to do it, and there's no time barrier in your life.

Essentially, what we now see is that the loan peak time is at 5:00am. When people are preparing to go to work or open their businesses that is when they confirm they have all their credit that they need for the day. So you can see that we removed the restriction in planning and pushed the planning from being controlled by the bank. Before, we planned when you could get credit, how you could get it, and pushed it to the people. Now, they have freedom of choice and control.

The second aspect was where we created convergence. This then comes to the question you have raised. We realized that banking was just part of the lives of the people. As we recognized early on, the social aspect was even bigger. So we thought, "Why don't we create a complete overlap between the telecoms as a channel?" We recognize you can't build that channel, but the bank does build the product. And then interoperability allows you to create a payment capability with whatever instrument [or payment method] you have. So we converged the bank account with the wallet and converged the payment gateway of the banks, of the wallet, of the telecoms, of the credit cards, of the debit cards—all of them into a seamless service, and such that physical fulfillment is not dependent on the bank. It's dependent on lifestyle.

So essentially, that became lifestyle. The fact that we converged the mobile phone from voice to SMS to financial transaction to gaming to

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everything that one does—that, again, was freedom that created a democracy where the customers felt empowered.

However, that then created conflict between the telecoms and the banks. The conflict was purely over whose customer we were serving and whose business model. The conflict was elevated by the fact that there were gray areas in terms of regulation. Today, that convergence of financial products and telecom products has really created a gray area that can only be settled by regulation—where regulation says infrastructure is this, and it reaches there; products reach here. Hopefully, that will enable collaboration. At the moment, the reason why telecoms and banking are fighting is because we cross into each other's territory. That then kills the need for collaboration and cooperation.

TK: *But why not just have competition? In the spirit of argument, if you went more and more into telecoms—you said you have your own SIM cards, and if you go into telecom services—and the telecom companies go into some kind of banking products, then the customer chooses.*

JM: The problem with that is that telecommunication companies are very good with infrastructure. Banks are very good with financial products, not infrastructure. So what you are doing is the 101 economics of specialization and focusing on what you are very best at is being lost. And second is the fact that this creates a huge amount of duplication. When banks choose, like Equity, to have an MVNO, essentially we are just duplicating the effort of

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the telecoms. It's like creating a town with 10, 20 different companies supplying water, and you have all these pipelines moving in the same direction—so that is what needs to be avoided for an efficient world, because ultimately somebody is paying for that duplication, and unfortunately, it happens to be the customer.

TK: *So I want to shift gears away from Equity Bank and talk about Kenya. You have a foundation. Can you talk about how the foundation embodies some of the values that you were, perhaps, brought up with? Values that you brought into Equity Bank and that you're trying to pass on?*

JM: Equity Group has maybe one of the largest foundations in Africa, focusing on eight thematic areas. The first one is on financial inclusion. That is the one that administers the financial literacy to try and bring people on board. It has focused enormously on supporting the donor community so that humanitarian aid is paid in cash as opposed to in kind. And we are the world leader in that space.

The second area that we focused on is the issue of entrepreneurship. We recognized that the model of massive employment across economies seems to be heavily challenged. We started realizing economies in Africa have unemployment of up to 40 percent. Unfortunately, these are very young, highly educated people who have very little tolerance of such a situation where they have nothing to lose. That may explain the Arab Spring that we are seeing now and other developments.

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And we said, “Maybe what we could do is to help this young generation to become entrepreneurs.” Because Africa is endowed with human capital and natural resources, but what is needed, is an organizer of those resources, and a mobilizer. Global capital is now willing to flow across where returns are. We have seen Africa being a big recipient. That is where entrepreneurship became a major driver of the foundation.

The third thematic area we felt needed a lot of attention was leadership development. We realized you can’t divorce leadership from education. If we can go straight to high schools, identify the most gifted students—but those who are never able to graduate or transit from free primary education to the paying secondary education—and we give them, as we say, Wings to Fly to secondary education and through to university, then most likely, we’ll have the most transformational leaders.

Particularly, we coach and mentor them from that age of 14 and we take them all the way to age 25. It takes us ten years to complete that cycle. That is the time that you can influence a child most. What we give them is coaching and mentoring, a lot of modeling, and to ten percent of them we give global exposure, so that the networks are of a global nature.

We’re hoping—with 23,000 kids so far having passed through our program in a generation of five years—that there’s no possibility of future leadership escaping that generation. If we do it for another ten years, then we’ll get it right. Hopefully, we will then generate a critical mass of very enlightened ethical and value-based leaders, who bear the burden of society in their mind—people who are willing to give and people who want to escape

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the trap of primitive accumulation Hopefully, people who have overcome the greed that perpetuates corruption on the African continent.

So that's what we thought it would be. But we then realized that the group needs to be supported further. So the next big thing was agriculture, a small transformation of agriculture. So far, we have transformed 600,000 peasant farmers into agribusinesses. With the transformation of agriculture, livelihoods are transformed in a significant way, because children go to school, their diet is good, their health improves, and housing improves in the rural areas.

Then we saw that once they have agribusinesses, then they have built the capacity for us to help them to modernize their agriculture—their use of fertilizer, certified seeds, the appropriate chemicals, doing soil tests—and that leads to huge increases in productivity, and agriculture ceases to be a low-value sector and becomes a high-income sector. Then hopefully there will be a generation whose children will go into agro-processing. So then the full value is unlocked in farming, whether it is yogurt or such value added products.

So that has obsessed us, in the sense that we realize that it would have the greatest impact—because 85 percent of the population still makes a living from agriculture and is based in rural areas. Then we realized that, yes, you can transform society, but you can't transform a society that is not healthy. And we realized that in the 23,000 students who have passed through us, 1,200 had studied medicine. Eight hundred of them have completed their course. What we can do is to create a franchise and provide them credit to set

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up clinics. So the pilot clinics—we currently have five of them—they have proven the concept, and now we are launching initially 300 clinics throughout the country. So health becomes affordable, and we have a private sector franchise that tries to challenge government in terms of quality of health and affordability.

So those are the main ones, and then of course, climate change. When you have 56 percent of the population changing with you, then you can have concepts like smart agriculture to help mitigate the problems of climate. You can do agroforestry, because you are in the rural areas. You can help distribute seedlings that people plant. They go into better practices. You avoid providing credit to climate change-adverse projects. So that is the project that we have with the foundation.

We have realized that—personally I know it because I was a beneficiary of a scholarship. I would never have made it otherwise. Then I realized, there are many James Mwangis out there who are stuck. I said, "If society invested in me to become not only the chief executive of Equity Bank, but the Chairman of Kenya's Vision 2030, why don't we rebuild the bridge that I used?" I'm glad that from one scholarship, now we can talk of 23,000 scholarships and counting. Hopefully, in my lifetime I'll have given 50,000 scholarships.

TK: *That's wonderful.*

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JM: So that is where it—and it's then the realization of the futility of primitive accumulation. When you come from a humble background and you meet your needs, you start realizing how quickly the diminishing law applies in money. You meet your bills quickly, and then you start realizing the money is accumulating in the bank, it's not helping you—it should be helping those who are in need. Then you say, "Why don't I distribute this opportunity?" So the way I was brought up influenced the way I reacted to society. Fortunately, now, we use the infrastructure of the corporate to scale that thinking.

It didn't matter how philanthropic I would have loved to be. I've realized you can never match corporates that can lay out the capabilities at their disposal for the benefit of the society. They already incurred a cost in infrastructure. The 9,000 staff of Equity Bank are the agents of the Foundation. Their branches have all the activities for the Foundation. It doesn't have to have offices throughout, or IT capability and systems. The human capital, in terms of leadership, provides technical expertise to the foundation. So there are many lessons that we have learned.

TK: *You're amortizing the existing assets.*

JM: Absolutely. Which are already sunk cost. It's leveraging and really mining the match.

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TK: *That's wonderful, for a banker, to end on leveraging as a concept and amortization and so on—it is a wonderful end to an amazing and inspiring story. So, James Mwangi, thank you again for spending time with us.*

JM: Thank you very much.

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