Tackling the ‘frontier’ of microfinance provision in Kenya:

reaching remoter areas with financial services

Susan Johnson

Centre for Development Studies
University of Bath

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Outline

1. Microfinance in Kenya: the story so far
2. Review of five models
3. Challenges for decentralised systems
4. Challenges for centralised systems
The story so far

• 1990s concentration on turning credit programmes into sustainable MFIs
  – Limited products: compulsory savings and working capital loans
  – Limited outreach: traders/business in town/urban areas
  – Kenyan mainstream MFI outreach: approx. 200,000
    • KREP, KWFT, FAULU, SMEP, PRIDE

• Now emphasis on commercialisation:
  – transformation of MFIs
  – bank downscaling

• Challenge to extend coverage:
  – remoter areas
  – different clients: rural/ agricultural/poorer people
Models reaching rural areas

- Five models:
  - Equity Building Society
  - WEDCO
  - Nyeri Farmers SACCO
  - Financial services associations (FSAs)
  - Managed ASCAs - WEDI
Equity Building Society (1)

• Ownership and governance:
  – privately owned, board includes invitees
  – managers are shareholders
  – fast growing c.300,000 savers
  – context of 1990s banking sector
  – Central Kenya and Nairobi
  – rural outreach through mobile units

• Services:
  – savings services as in branches, plus a mobile fee
  – now starting loans <US$666 from mobile units
  – Interest rates – went up! 1.5-2% p.m flat
Equity Building Society (2)

- Outreach:
  - 12,000 clients but pop densities >400/sq km
  - 6-65kms from branches; 29 locations
  - Richest districts - Middle income and relatively wealthy
  - avg balance US$65, approx half avg for all customers
  - loans – avg loan o/s US$130 (half overall avg)

- Sustainability: OSS = 102%

- Strengths:
  - Savings safe; min balance low
  - Loans require collateral - but flexible eg guarantors

- Weaknesses:
  - not proven - need for improved efficiency
MAP 12

Kenya FSA & Population Density

Legend:
- Green dots: KDA Districts
- Pop Density:
  - 201-300
  - 301-400
  - Above 401

Scale: 0 - 100 Kilometers
WEDCO (1)

- **MFI:**
  - originated by CARE, transformed to company in 1999
  - standard group lending methodology
- **Ownership and governance:**
  - investors (donors)
  - management: increasingly professional
- **Services:**
  - compulsory savings
  - working capital loan one year
  - emergency and school fees loans
  - Interest rate (?) 20% flat
**WEDCO (2)**

- **Outreach:**
  - 12,000 clients, <10% men
  - Western and Nyanza Provinces:
  - Poverty incidence high >60%
  - 20% of clients in areas of density 200-300/sq km
  - Avg loan o/s US$192
  - Middle income and relatively wealthy

- **Sustainability:** OSS not comfortable yet (98%)

- **Strengths:**
  - Relatively well managed, savings safe

- **Weaknesses:**
  - credit led
  - to reduce costs has withdrawn motorbikes and moved meetings to market centres
Nyeri Farmers SACCO (1)

• SACCO model since 1999:
  – 1990s transition from Union Banking Sections
  – Context of co-op liberalisation and “splits”

• Ownership and governance:
  – shareholders - coffee farmers plus….expanding common bond
  – board elected by shareholders’ delegates

• Services:
  – Savings - shares against which can borrow
  – voluntary savings services expanding
  – Interest of 3% paid in 2002; 7% on shares
  – Loans: short, medium and longer term (ie 3 years)
  – Interest rate - 16% declining balance
Nyeri SACCO (2)

• Outreach:
  – 111,000 members, c.40% active
  – Nyeri a rich district: poverty incidence <40%
  – Approx. 10% in drier zones
  – Middle income and relatively wealthy
  – Avg loan o/s US$550

• Sustainability: very problematic portfolio

• Strengths:
  – low cost services – both savings and loans

• Weaknesses:
  – coffee prices >> poor portfolio performance
  – heavy competition – other SACCOs: tea, teachers…
  – politics
Financial Service Associations (1)

• Ownership:
  – Shareholders – minimum 300
  – Share price approx. US$5

• Governance:
  – Elected board of directors
  – Shareholding votes capped at 10 shares

• Management:
  – Local manager, cashier employed

• Services:
  – 3 month loans (10% p.m) at start
  – voluntary savings; fixed deposits etc
  – money transfer
Financial Services Associations (2)

- Outreach: 39,000 clients in 67 FSAs
  - 53% of clients in areas where pop density < 300
  - Operating in districts with high poverty incidence
  - Relatively wealthy, middle and some poor
  - Avg loan in Mkongani = US$55

- Sustainability:
  - 14 out of 20 analysed covered own costs
  - Poor in very remote districts
  - but KDA support and supervision is subsidised

- Strengths: outreach, range of services

- Weaknesses:
  - Fraud, bad debts
  - testing external management contracts
MAP 12
Kenya FSA & Population Density

Legend:
- KD 
- Districts
- Pop Density
  - 1 - 50 PerKm2
  - 101 - 200
  - 301 - 400
  - Above 401

Scale: 0 - 100 Kilometers
Managed ASCAs (1)

• Groups (ASCAs) managed by privately owned NGO
  – shares mobilised and on-lent - short term (10% p.m.)
    • Dividends paid at year end
  – Fee: 1% of revolving fund per month

• Governance:
  – groups have BOD but rely on NGO
  – ASCA managers - no accountability

• Services:
  – Minimum savings US$1.3 p.m and withdrawable
  – Short term advances
  – Interest rate 10% p.m.
  – Long term loans up to 2 years (liquidity permitting)
Managed ASCAs (2)

• Outreach:
  – Central Kenya – 9 orgs: 36,000 clients
  – WEDI - Approx. 25-30,000 clients
  – 45% in areas of pop density <200/sq km
  – Mainly in low poverty incidence districts of Central
  – Mostly poor, some middle income
  – Avg loan o/s US$100

• Sustainability:
  – ASCA managers self-sustaining (OSS=113%)

• Strengths: strong outreach

• Weaknesses:
  – portfolio performance and group collapse
  – Incentive structures
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<th>Population density</th>
<th>1-100</th>
<th>101-200</th>
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NB: Organisations in *italics* are financially sustainable
Reaching further out

• Those reaching furthest across geographical frontier - FSAs and WEDI
• Decentralised (user-owned) lowers costs because:
  – Own savings mobilised
  – Profits can remain in fund
  – Voluntary inputs of members
  – Overheads low: rented offices; low salaries
Systems with user-ownership

• Advantages
  – Products respond to member’s needs (direct feedback)
  – Interest rates are set by the members
  – Dividends paid to members
  – Default problems can be negotiated in ‘genuine’ cases
  – Social welfare in event of death, illness etc

• Disadvantages
  – Seasonal demand peaks outstrip supply of credit
  – powerful individuals can manipulate
  – …..many fail due to default and fraud
SOCIO-ECONOMIC CHARACTERISTICS OF USERS

SIMPLE

COMPLEX

PRODUCTS

MANAGEMENT

PAID PROFESSIONAL

UNPAID AMATEUR

GOVERNANCE

SELF-INTERESTED

INTERESTED IN WIDER BENEFIT TO COMMUNITY

SUPPORT SERVICES

POOR UNEDUCATED

RICH EDUCATED

WIDER BENEFIT TO COMMUNITY

RICH EDUCATED

WIDER BENEFIT TO COMMUNITY

POOR UNEDUCATED

SUPPORT SERVICES

RICH EDUCATED

WIDER BENEFIT TO COMMUNITY
Challenges for decentralised systems

- Improve governance and management through
- Training: need for simple tools
- Simplify systems eg. book keeping
  - MMD programme in Niger and replicates
- Engage with NGOs working in these areas
  - Lack discipline in lending methodologies
- Sustainable support and supervision systems:
  - Fee for service:
    - Upgrade ASCA management systems
    - Address incentive problems
  - APEX organisations: user owned & fee paying
  - SACCOs as APEX – fees & implicit in interest rates
  - Potential for ratings systems to signal quality?
Decentralised financial systems: action research project

• Work with decentralised providers to address the challenges
• Approx. 300,000 members in NGO groups
• Strengthen governance and management through toolkits:
  • Self-assessment tool
  • Governance: Board and member education
  • Management: bookkeeping; internal controls; audit; management information systems; savings and credit methodology; portfolio and default management; legal issues for default and recovery
• Action research: design tools; test; get feedback; revise; test again…
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Centralised systems

- High quality services: WEDCO and Equity
  - but outreach constrained by cost
  - MFI outreach constrained by services:
    - min loan sizes US$67 too high
    - Flexible savings
  - First reach poor in high density areas
  - Potential for information technology?

- Banking sector:
  - down market movement: lending against salary
  - competition from liberalised SACCOs
  - but agriculture still difficult
    - Constraints to use of rural land as collateral