

Tackling the ‘frontier’ of microfinance provision in Kenya:

reaching remoter areas with financial services

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Decentralised
Financial
Systems



Outline

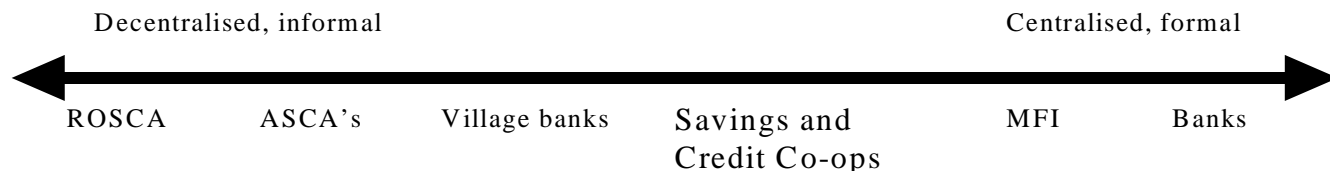
1. Microfinance in Kenya: the story so far
2. Review of five models
3. Challenges for decentralised systems
4. Challenges for centralised systems

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



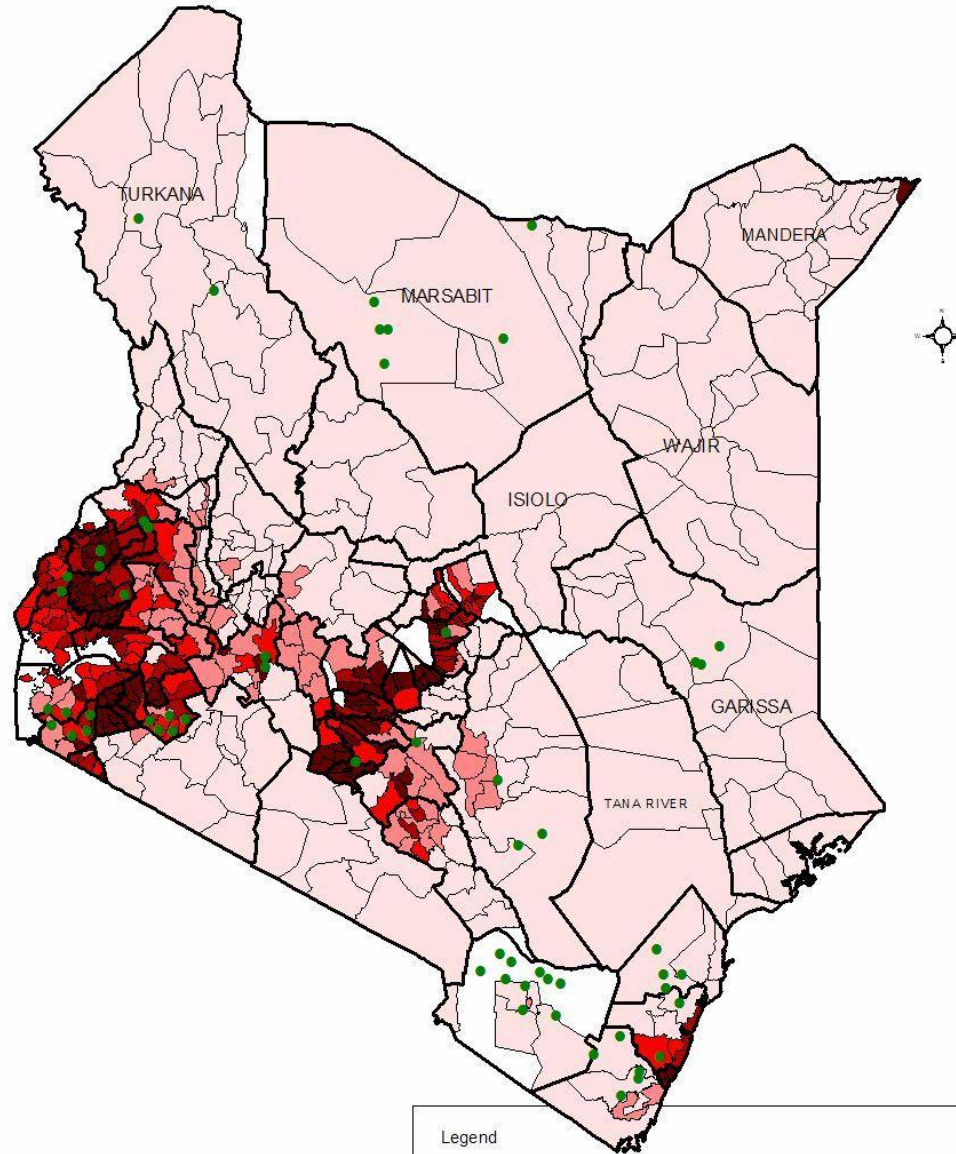
Equity Building Society (1)

- 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

Kenya FSA & Population Density

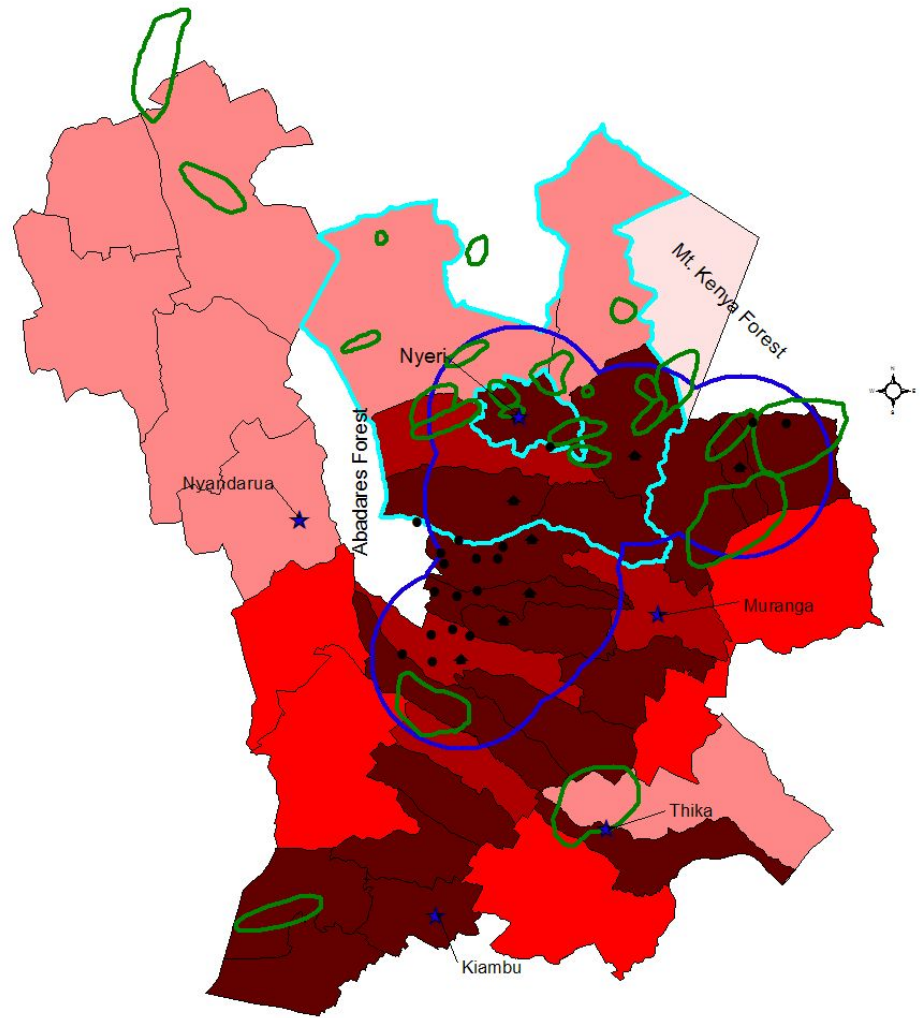


Scale: 0 100 Kilometers

Legend

	KDA		Pop Density		201 - 300
	Districts		1 - 100 Pers/Km ²		301 - 400
			101 - 200		Above 401

Central Kenya : Population Density, Nyeri Farmers SACCO, Equity & Wedi Operational Zones



Scale: 0 20 Kilometers

Legend:

- ★ Major Towns
- Equity Mobile
- ▲ Equity Branch
- Wedi
- 15 km
- Nyeri Farmers SACCO

Pop Density

- 1 - 100 Pers/ Km²
- 101 - 200
- 201 - 300
- 301 - 400
- Above 400



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

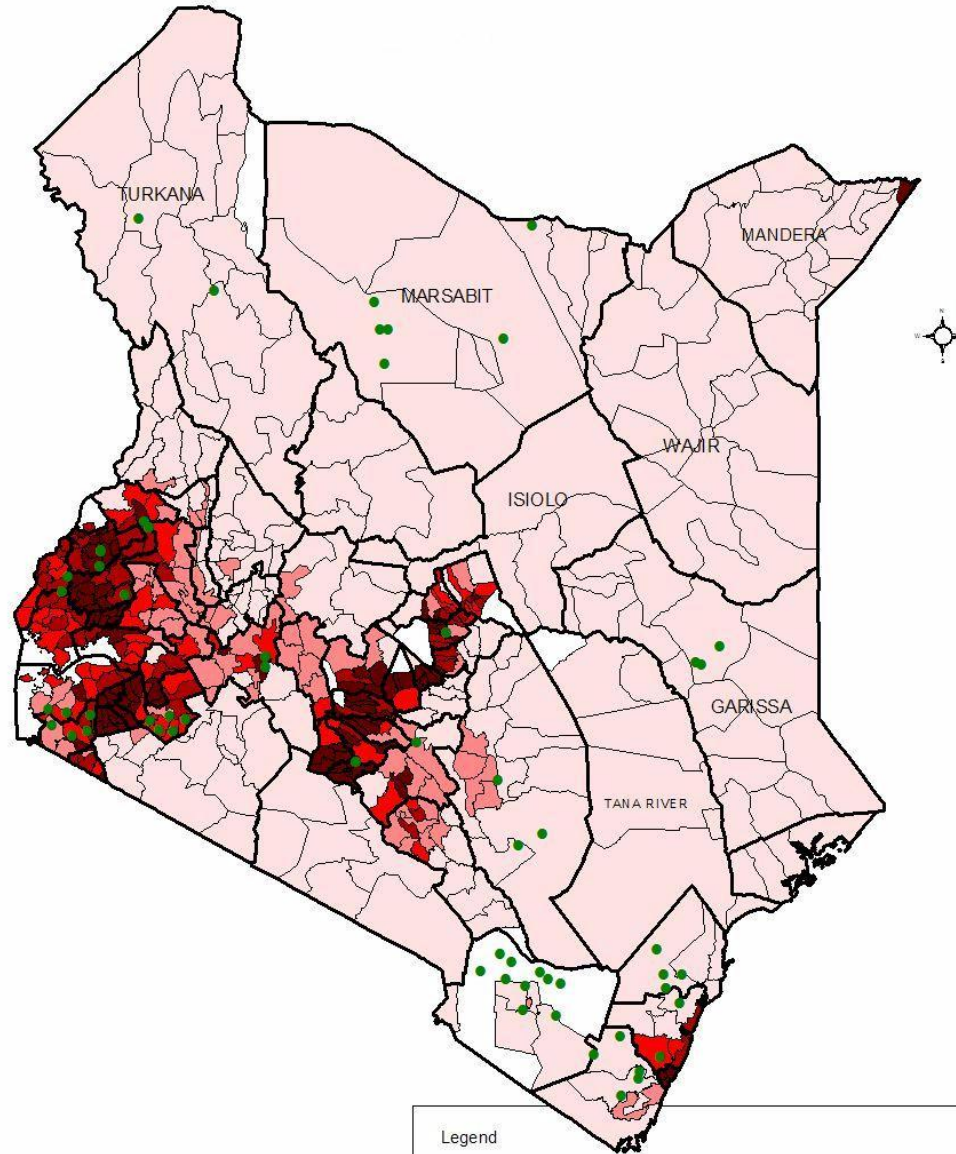
Financial Service Associations (1)

- 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

Kenya FSA & Population Density



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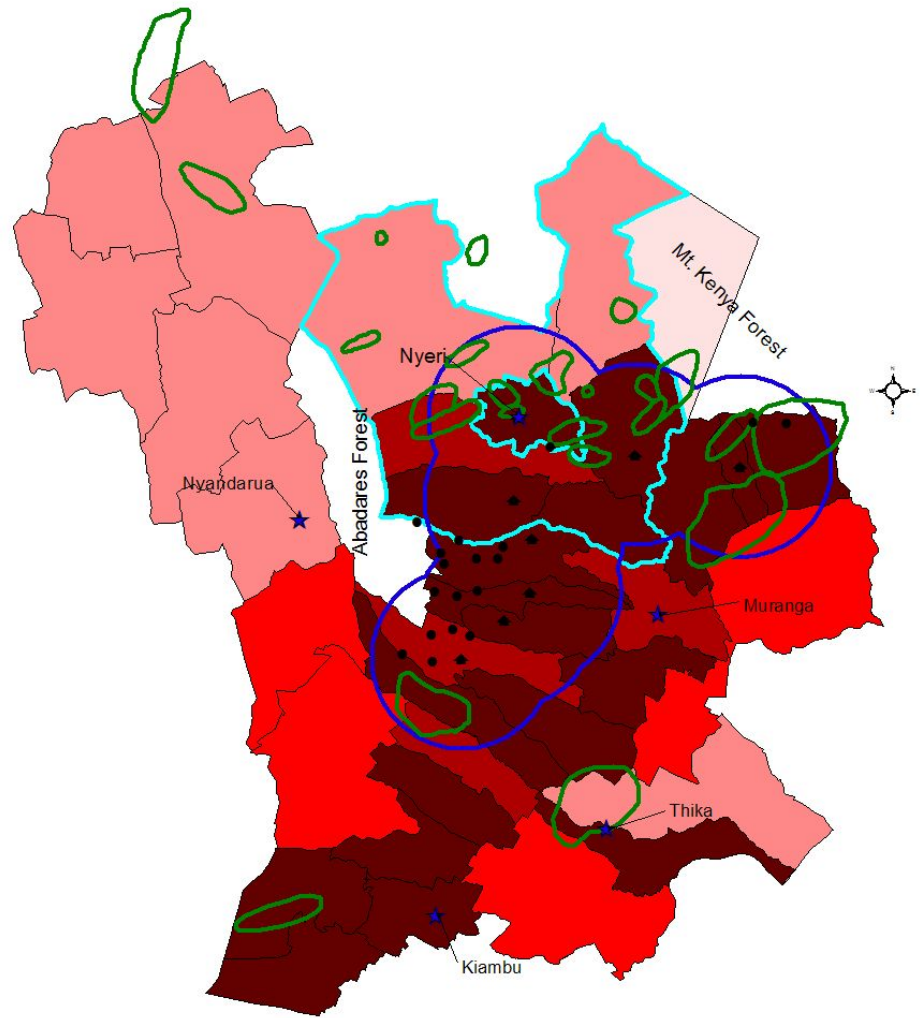
Managed ASCAs (1)

- 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

Central Kenya : Population Density, Nyeri Farmers SACCO, Equity & Wedi Operational Zones



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Pop Density

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Population density \ Poverty incidence		Population density				
		1-100	101-200	201-300	301-400	400+
81-1000%						
61-80%		<i>FSAs</i>	<i>FSAs</i>	<i>WEDCO SAGA</i>	<i>WEDCO SAGA</i>	<i>WEDCO SAGA</i>
41-60%		<i>FSAs</i>	<i>WEDI FSAs</i>	<i>FSAs</i>	<i>WEDCO FSAs</i>	<i>WEDCO FSAs</i>
21-40%		<i>WEDI</i>	<i>WEDI</i>	<i>WEDI Nyeri SACCO</i>	<i>WEDI Equity Nyeri SACCO FSAs</i>	<i>WEDI Equity Nyeri SACCO FSAs</i>
0-20%						

← Geographical Frontier

Poverty Frontier

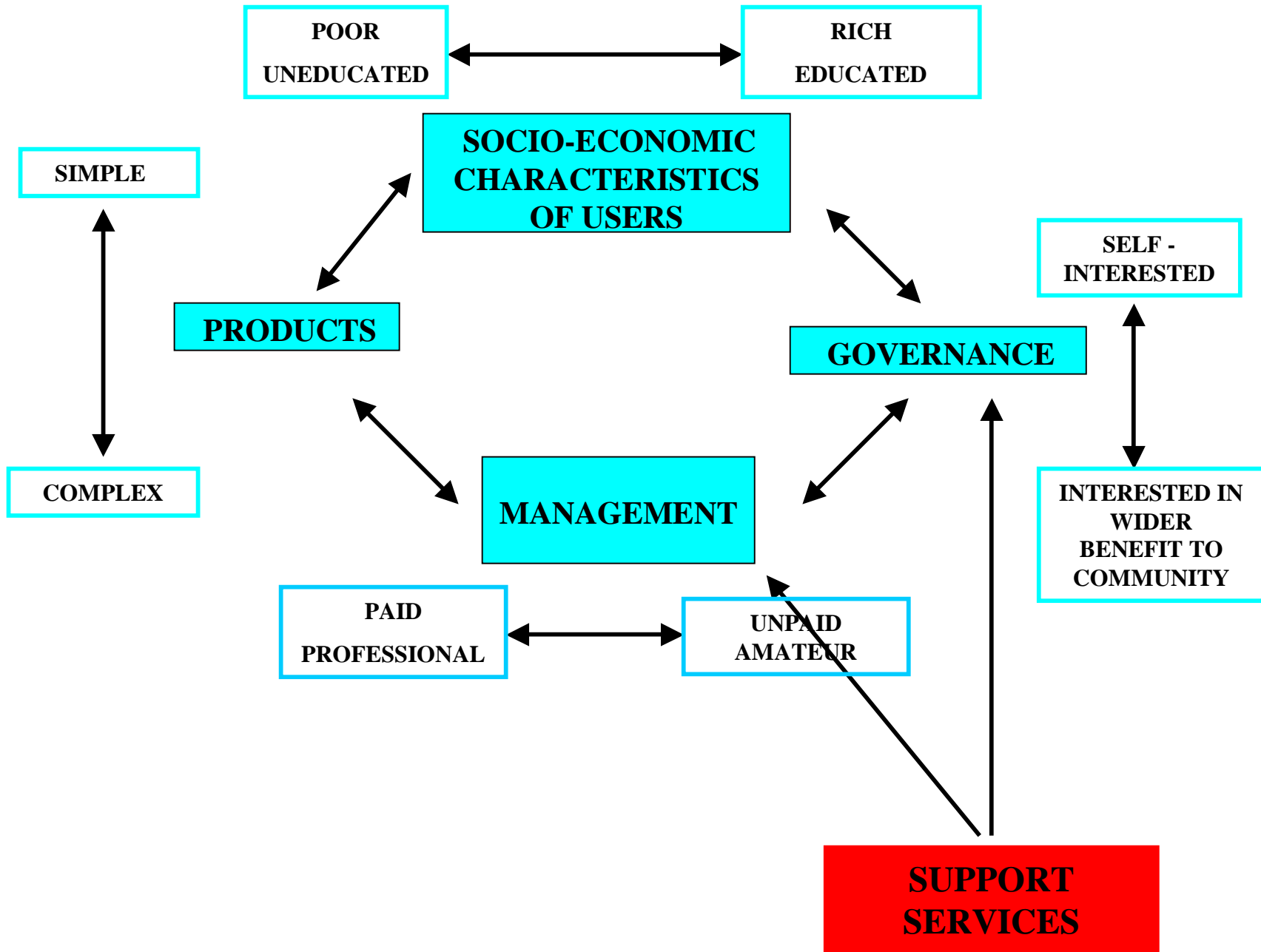
NB: Organisations in *italics* are financially sustainable

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



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...

CHENRO ^{GRP} MAR ^{GRP} THE
~~MAR~~ ~~GRP~~ ~~BER~~

	RACH	OK BER	BER MOROMO	BER AHIMTA
1) Bedo gi Sotclomaba		✓		
2) Luwo chik burer			✓	
3) Bino e burg			✓	
4) Bedo e Achil			✓	
5) Bedo gi records		✓		
6) Tino kinds e kana			✓	
7) Chilo loon e wang ssa				✓
8) Bedo thuolo e burg.		✓		

o pess

angi



Group Will Beating Tree

1) Group will be beating tree

- Tino kinds e kana
- Luwo chik burer
- Bedo e Achil
- Tino kinds e kana
- Luwo chik burer
- Bedo gi records
- Bedo gi Sotclomaba
- Bedo gi records
- Bedo gi Sotclomaba



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

