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report

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THE KENYA RURAL ENTERPRISE PROGRAMME'S JUHUDI CREDIT SCHEME

A Review of UK assistance to the Juhudi Credit Scheme, a component of the Kenya Rural Enterprise Programme (K-REP) finds that the range of beneficiaries was expanded but that more domestic saving need to be encouraged before this micro-finance institution can be sustainable or the very poor can benefit.

MAIN FINDINGS

- Project successful overall. New Area Credit Offices set up, additional loan funds disbursed and K-REP's institutional structure strengthened.
- Transaction costs successfully transferred from K-REP to client groups, although burden of such costs excessive in some cases.
- The very poor still not reached. Support biased towards clients with existing businesses rather than those wishing to start a business.
- More baseline data needed on initial socio-economic status of clients to allow tracking of benefit flows.
- High level of group drop-out and default in some areas.
- K-REP not yet self-sustaining. Needs adequate level of domestic savings rather than donor grant finance.
- Savings at present unattractive to poor clients because of limited access, low interest rates and risk of default by other group members.

Background

The Kenya Rural Enterprise Programme (K-REP) is a leading Non-Governmental Organisation (NGO) in the area of micro-enterprise financing in Kenya. Set up in 1984, its original mission was toempower low-income people, help them participate in development processes, and enhance their quality of life. Initially it operated only through on-lending to other NGOs, but started to deliver credit itself in the 1990s with the introduction of the Juhudi Credit Scheme (JCS). The JCS uses client groups, savings and peer pressure to reduce the risks attendant on lending to poor people and to spread the burden of transaction costs.

So while K-REP's original mission has not changed, its objectives now focus more clearly on providing loans, training and technical assistance to generate employment, so increasing household incomes and promoting micro-enterprise development in the informal sector.

DFID (then ODA) provided assistance to the JCS totalling £1.6m between 1993 and 1995 under its British Aid to Small Enterprise in East Africa scheme, to help K-REP expand its lending operations and become financially sustainable. The aim was to build up organisational capacity and bring about both the opening of new area credit offices and increase both disbursement and recovery of loans to micro-enterprises.

The Main Conclusions

The evaluators judged the project a success overall. It was consistent with K-REP's expressed needs, with the priorities of the Government of Kenya, and also with what is regarded as good practice in setting up micro-financing institutions (MFIs). It took proper account of social as well as economic aspects and allowed for potential risks. It was also completed ahead of schedule. It succeeded in establishing three new Area Credit Offices, in disbursing additional loan funds, and in strengthening K-REP's institutional structure.

But it had some drawbacks. The balance of the client base remains less than ideal, being biased towards urban dwellers with existing enterprises rather than people wishing to start a business. To some extent this was necessary to improve K-REP's financial and institutional sustainability, and it has made possible the setting up of a network of offices and provision of credit to an encouraging number of clients. But while K-REP's lending, under the influence of the project, brought about higher micro-enterprise profits and household incomes, the extent of this achievement is hard to quantify and the range of beneficiaries more limited than initially intended. This reflects an absence of baseline

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data on clients' socio-economic status on becoming K-REP members, and the fact that the project was not systematically monitored. But it would have been difficult in any event to attribute broad changes in household welfare direct to membership of K-REP client groups, let alone the influence of the ODA's support.

A positive impact on employment is likely, particularly benefiting poorer semi-skilled and unskilled workers through job creation and job security. But again the extent to which this is directly attributable to K-REP's activities is difficult to assess.

K-REP has successfully transferred transaction costs to groups, reducing its own costs and allowing it to administer small loans to a number of relatively poor and dispersed clients. But the share of costs may need reviewing where it imposes an undue burden. For instance group officials can be required to travel long distances to bank the group's weekly loan repayments and compulsory savings; or members may be expected to engage lawyers in the case of default. Such burdens could prove unacceptable and damage group cohesion. Some weaknesses also remain in K-REP's management information and communication systems.

Groups' share of transaction costs may need reviewing where it imposes an undue burden.

K-REP is establishing itself as a financially sustainable MFI, but cannot be confirmed as fully sustainable until the recent results have been repeated over several years and its main source of loan capital is members' savings rather than grant donor finance. Sustainability requires that ways of encouraging higher levels of household savings be found. The key constraint is not the ability of poor clients to save, but their willingness to save in a scheme where savings are at risk from possible default by other group members yet interest rates are low and access limited. It is also necessary to reduce the rather high level of group drop-out and default in some areas, a problem which, however, K-REP appears to have under control.

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KEY LESSONS LEARNED: see over

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- Micro-Financing Institutions (MFIs) can work in Kenya but blueprint approaches are inappropriate. Financial markets differ significantly and particular socio-cultural environments have implications for the design of financial services.
- Donors supporting MFIs need to recognise the possible tension between sustainability and outreach and adjust the design of their projects accordingly.
- Donors need to resist the temptation to tie funding to specific activities at the expense of broader institutional goals, and instead consider the most appropriate method of financing MFIs case by case. Core funding of an institution may be more appropriate than support for specific activities, especially if they are diverse.
- The level of client drop-out needs to be closely monitored and the causes investigated.
- The importance of savings opportunities needs better recognition, especially for the very poor who may be less able to benefit from availability of loan capital.

For further information see "An Evaluation of DFID Support to the Kenya Rural Enterprise Programme's Juhudi Credit Scheme" (Evaluation Report EV605), obtainable from Evaluation Department, Department for International Development, 94 Victoria Street, London SW1E 5JL, telephone 0171-917-0243. This report will also be accessible via the Internet in due course.

The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty. The government elected in May 1997 increased its commitment to development by strengthening the department and increasing its budget.

The policy of the government was set out in the White Paper on International Development, published in November 1997. The central focus of the policy is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date.

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