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# An Evaluation of DFID Support to the Kenya Enterprise Programme's Juhudi Credit Scheme

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DFID EVALUATION DEPARTMENT

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

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# AN EVALUATION OF DFID SUPPORT TO THE KENYA ENTERPRISE PROGRAMME'S JUHUDI CREDIT SCHEME

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In May 1997 the Overseas Development Administration (ODA) was replaced by the Department for International Development (DFID). References in this report to the ODA apply to events, actions, etc prior to the changes of title and functions.

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## PREFACE

Each year the Department for International Development (DFID) commissions a number of ex post evaluation studies. The purpose of the DFID's evaluation programme is to examine rigorously the implementation and impact of selected past projects and to generate the lessons learned from them so that these can be applied to current and future projects.

The DFID's Evaluation Department is independent of DFID's spending divisions and reports direct to the DFID's Director General (Resources).

Evaluation teams consist of an appropriate blend of specialist skills and are normally made up of a mixture of in-house staff, who are fully conversant with ODA's procedures, and independent external consultants, who bring a fresh perspective to the subject-matter.

For this evaluation the team consisted of the following: Michael Hubbard (Team Leader) & Kate Bird, Economists of the Development Administration Group at the University of Birmingham; Patrick Ryan, Consultant SME Specialist; Peter Lewa, Consultant Economist and Elizabeth Meveni, Consultant Sociologist and Gender Specialist.

The evaluation involved the following stages:-

- initial desk study of all relevant papers;
- consultations with individuals and organisations concerned with the project, including a field mission to collect data and interview those involved;
- preparation of a draft report which was circulated for comment to the individuals and organisations most closely concerned;
- submission of the draft report to the DFID's Director General (Resources), to note the main conclusions and lessons to be learned from the study on the basis of the draft report.

This process is designed to ensure the production of a high quality report and Summary sheet (EVSUM) which draw out all the lessons.

This study is one of a series of evaluations of projects in the small and medium enterprise sector. A synthesis study which draws out the conclusions and lessons from all these evaluations is also due to be available from Evaluation Department.

DFID Evaluation Department

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## ABBREVIATIONS, ACRONYMS & GLOSSARY

| | |
|---|---|
| ACO | Area Credit Office |
| BASE | British Aid to Small Enterprises in East Africa<br>(for details see Annex A Project Brief) |
| BDDEA | British Development Division in East Africa (now DFID East Africa) |
| CO | Credit Officer |
| DFID | Department for International Department (successor to the ODA), UK |
| FSD | Financial Services Division |
| GoK | Government of Kenya |
| JCS | Juhudi Credit Scheme ("Juhudi" = Swahili for "zeal") |
| KIWA | A K-Rep grouping of Watanos (see para 4.7) |
| K-REP | Kenya Rural Enterprise Programme |
| Ksh. | Kenyan Shillings |
| MFI | Microfinance Institution |
| MIS | Management Information System |
| MSE | Micro and Small Enterprises |
| NFSD | Non-Financial Services Division |
| NGO | Non-Government Organisation |
| ODA | Overseas Development Administration (DFID's predecessor) |
| PCR | ODA (and DFID) Project Completion Report |
| ROSCA | Rotational Savings & Credit Association |
| SED | Small Enterprise Development |
| SME | Small and Medium Enterprises |
| ToR | Terms of Reference |
| USAID | United States Agency for International Development. |
| Watano | the smallest K-REP credit unit (see KIWA) |

## SUMMARY

### *THE PROJECT*

1. The Kenya Rural Enterprise Programme (K-REP) is currently one of the leading NGOs working in the area of micro enterprise financing in Kenya. K-REP was established in 1984 and its original mission was *'to empower low income people and to promote their participation in the development process and enhance their quality of life'* (paragraph 1.4). K-REP has evolved considerably since its inception in 1984. Initially, it worked in micro-finance solely through on-lending to other NG0s. However, this was gradually phased out and in 1990 K-REP began to deliver credit itself with the introduction of the Juhudi Credit Scheme (JCS). The JCS is based on the *'financial systems model'* which uses client groups, savings and peer pressure to reduce the risk of lending to poorer income groups and to share the transaction costs normally borne by financial institutions (paragraph 1.5).

2. During this period of transition K-REP has maintained its original mission but its goals and objectives have become more clearly focused on the means of achieving its mission, namely through *'the generation of employment and increased incomes through a strategy of providing loans, training and technical assistance through groups and NGOs in order to establish or expand capacity in micro-enterprises in the informal sector'* (Managed Growth Plan, 1992).

3. The purpose of ODA's K-REP JCS project, a part of its British Aid to Small Enterprise in East Africa (BASE) scheme, was to assist K-REP in its effort to expand its Juhudi lending and to establish itself as a financially sustainable microfinance institution (MFI). The original Project Memorandum was signed in January 1993 and provided a total of £966,293 over the five year period 1993 to 1998. The project was subsequently revised and a Project Addendum was approved in March 1995 that provided an additional £610,589 and reduced the length of the project to three years. In total the revised project was allocated a total of £1,576,882 and ran from January 1993 to December 1995.

4. The objectives of the project were to increase employment generation in the micro enterprise sector; increase small and medium sized enterprise (SME) and household incomes; increase household savings; establish a financially viable small and microenterprise credit mechanism and research issues of credit sustainability. The original project design envisaged that these objectives would be achieved through the creation of three main project outputs: the institutional development of K-REP, the opening of three new Area Credit Offices (ACOs), and the disbursement and recovery of loans to micro-enterprises.

## *THE EVALUATION*

5. The overall purposes of the evaluation were: to assess the project's success in terms of fulfilment of objectives and overall impact. To judge whether the costs of the assistance programme were justified by its measured or perceived benefits; and to enable the GoK and the British Government to learn from the experience of the programme and draw appropriate conclusions which can be applied to future phases of the project, or to similar programmes elsewhere. In addition, issues of project identification, design, appraisal and implementation which affected the input to output stage of the project cycle were considered, but in less detail (paragraph 1.10).

6. The Evaluation was conducted by Kate Bird, Economist, Development Administration Group, University of Birmingham, Patrick Ryan Economist and SME Specialist and Elizabeth Mweni, Sociologist & Gender Specialist. The evaluation took place in three stages. An initial desk study in the UK of existing reports and evaluations and the development of a study methodology in May-June 1997 were followed by a field visit to Kenya during the first three weeks of July. This involved a series of interviews with DFID and K-REP staff as well as visits to 6 Juhudi credit group meetings served by two AC0s (West Nairobi ACO and Mount Kenya West ACO) and interviews with 16 entrepreneurs who had received loans from K-REP (paragraph 1.11).

## MAIN FINDINGS

### *Identification, Design and Appraisal*

7. The project design was consistent with K-REP's expressed needs and with BASE and GoK policy in this area. It was also consistent with current ideas regarding what constitutes best practice in the establishment of MFIs and lending to micro-enterprises (paragraphs 2.1-3).

8. Sufficient attention was paid at the project's design stage to its technical, economic and social aspects. It is also evident from the Project Memorandum that due consideration was given to the identification of potential risks that might have adversely affected the project's performance (paragraphs 2.6-14).

*Implementation*

9. The project was implemented more quickly than originally planned and all monies were spent. Funding was not tied to specific activities as originally planned. This appears to have been in response to K-REP's needs and does not appear to have had a significantly negative influence on project implementation or impact. However, it is not clear whether the changes in funding disbursement patterns were made prior or subsequent to the drafting of the Project Addendum (paragraphs 3.1-6).

10. The project largely achieved its input to output objectives of establishing three new AC0s, disbursing additional loan funds and the institutional strengthening of K-REP (paragraphs 3.7-15). However, weaknesses remain in K-REP's management information system and in the way K-REP has responded to reporting requirements specified as special conditions in the K-REP JCS project agreement (paragraphs 3.18-20).

11. Some communications difficulties appear to have been experienced during the various stages of the project cycle, within ODA and between ODA and K-REP. These problems were particularly evident during the evaluation.

*Institutional Development and Outreach*

12. The evaluation team recognises that a trade off between some of the project objectives occurred. In order to improve its financial and institutional sustainability, K-REP was forced to slow the pace of growth of its client base (paragraphs 4.41, 4.49 and 50). This appears to have had implications for both the composition of that client base and the geographical areas in which K-REP's financial services were made available. There has been a bias towards urban dwellers with existing enterprises (paragraph 4.8). The ultra poor, individuals wishing to start a business, those in agricultural production, and to a lesser extent those in service and manufacturing industries, have tended to be underrepresented in the client profile. Nevertheless, K-REP has achieved a considerable impact through successfully establishing a network of offices and providing credit services to a fairly large number of clients. Donors supporting MFIs perhaps need to acknowledge the tension between sustainability and outreach and adjust the design of their projects accordingly.

*Beneficiary Impact*

13. K-REP lending has led to an increase in SME business profits and or household incomes (paragraphs 5.3-5, 5.13-16). However, the extent to which this has occurred is difficult to quantify (paragraph 5.1) and the benefits have perhaps accrued to a more limited target group than initially intended by K-REP (paragraphs 4.49 and 50).

14. The provision of substantial hard evidence concerning the impact on beneficiaries of ODA's funding of K-REP is difficult for a number of reasons. Baseline data indicating K-REP clients' socio-economic status on becoming members of K-REP's client group are not available. Systematic beneficiary monitoring was not undertaken during the life of the project and the impact indicators used in the project logical framework (see Annex C) - employment creation and income growth - are inadequate (paragraphs 5.1, 5.6 and 13). Neither would be able to capture the broad changes in household welfare resulting from membership of K-REP client groups. These benefits might include the development of social capital; the availability of capital for investment in household health care, education, housing, nutrition; general consumption and a reduction in vulnerability due to more sustainable livelihood strategies. In addition, where changes in income and employment levels occur it is rarely possible to ascribe causation; employment change is frequently hidden through the use of unwaged household labour; income and employment changes may be masked through the horizontal expansion of enterprises and the lack or poor quality of the records maintained by micro-entrepreneurs (paragraph 5.13).

15. K-REP's lending has had another positive impact, through increased SME employment. This has occurred through the horizontal and vertical expansion of K-REP clients' enterprises, and is likely to have a positive impact particularly on the poorer semi-skilled and unskilled workers through job creation and job security. However, the extent of job creation and security directly attributable to K-REP's activities is difficult to assess from the small sample taken by the evaluation team but it is not believed to be as substantial as the figures in BASE's Project Addendum, which deduces job creation figures from loan volumes multiplied by a factor of 0.59 (a figure derived from a USAID study). It is not clear whether these calculations take account of clients receiving repeat loans. The 'jobs secured' figures appear to equate each loan disbursal with the securing of a job, without taking into account enterprise failure or default (paragraphs 5.6-13).

16. K-REP has successfully transferred transaction costs to groups, thus reducing costs borne by the institution itself and allowing it to administer small loans to a number of relatively poor and dispersed clients (paragraph 4.26). The share of costs may, however, have to be reconsidered in some cases as it represents an undue burden for some groups. For instance, requiring group officials to travel long distances by public transport carrying

large amounts of cash in order to bank the group's weekly loan repayments and compulsory savings and expecting group members to take responsibility for engaging lawyers in the case of default may increase the cost of capital to an unacceptable level and affect group cohesion (paragraphs 4.36 and 39).

17 Although flexibility in rule making and monitoring is clearly an important element in the success of groups, the evaluation team felt that some inconsistencies between JCS groups should be removed (paragraph 4.10). There did not appear to be sound banking reasons for some groups being allowed the option of making monthly repayments on loans while others were not.

18. In order to achieve greater financial sustainability, K-REP will have to find a mechanism for increasing household savings levels. It was clear from the meetings attended that the key constraint was not the ability or otherwise of poor clients to save, but their willingness to save in a scheme where their savings were at risk due to the potential for default by other group members (paragraph 4.37) but despite this offered low interest rates and very limited access.

19. Another significant problem is the level of group drop-out and default in some groups and areas under the JCS programme. This may have been the short-lived result of rapid expansion which resulted in poor group training and supervision, and loose group cohesion. It may, however, indicate problems, possibly to do with the design of the financial services offered by K-REP, and the appropriateness of the adaptation of group lending to the Kenyan context. Due to the costs of high default and drop-out rates K-REP will need to monitor this issue carefully (paragraphs 4.16-24). A study is needed to investigate the causes of client drop-out and to assess possible solutions (paragraph 4.25).

*Financial Performance and Sustainability*

20. Overall, the evaluation found that K-REP has made a considerable, and acceptable, level of progress towards establishing itself as a financially sustainable MFI. This finding is supported by the Ferrand report (1997) (paragraph 6.14) produced by the BASE office which concludes that the results for 1996 reveal an important break-through for K-REP's credit division with the achievement of full financial self-sufficiency in the year for the first time. K-REP cannot, however, be considered, as yet, a fully sustainable MFI because these results would need to be repeated over a number of years and because its source of loan capital is grant donor finance and not members' savings. K-REP therefore does not incur the cost of mobilising savings or of borrowing commercial funds. K-REP has been unable to on-lend the savings of its members because of its NGO status but this problem

is being addressed through the creation of the K-REP Bank (paragraph 6.2).

21. Key threats to K-REP's financial sustainability are group drop-out rates and non-repayment of loans. There is some evidence that these have been and still are problems in some groups and ACOs. Overall, however, K-REP appears to have them under control with provision for bad debts currently around 5% of the total loan portfolio which K-REP considers to be an acceptable level (paragraph 6.6).

## *LESSONS LEARNED*

22. DFID needs to liaise closely with other donors, where projects are funded from a number of sources, in order to maximise opportunities for collaboration on project management activities, particularly monitoring and evaluation exercises.

23. Close co-operation and co-ordination between DFID desk officers, the Small Enterprise Advisers and the client are important in the design and implementation of monitoring and evaluation activities. (Paragraph 11).

24. DFID small enterprise and informal sector advisers, when designing MFI support projects, perhaps need to acknowledge the tension between sustainability and outreach experienced by MFIs and adjust the design of their projects accordingly. (Paragraph 12).

25. Advisers should also consider the most appropriate method of financing MFIs and resist the temptation to tie funding to specific activities or areas at the expense of attaining broader institutional goals. Core funding of an institution may be more appropriate, particularly in cases where an institution has a diverse range of activities and is receiving funding from several donors. (Paragraph 9).

26. MFIs can be adapted to the Kenyan context but blueprint approaches are inappropriate. There are significant differences in countries' financial markets and in the socio-cultural environment which have implications for the design of financial services. The level of client drop-out needs to be closely monitored and the causes and possible solutions to this problem investigated. (Paragraph 19).

27. Advisers aiming to use micro-finance as part of a poverty reduction strategy, need to be aware that variations in livelihood strategies among the poor and very poor make a focus on income growth and employment growth generated by a single core enterprise inappropriate as indicators of success. It would also be beneficial if there were increased recognition of the importance of savings opportunities, especially for the very poor who may be less able to benefit from an increased availability of loan capital. Efforts by MFIs to develop a broad portfolio of financial products, including savings products and rapidly

disbursing small crisis/consumption loans which are rapidly repayable (possibly at higher interest rates), merit support. There may be scope for investigating further those models of savings, loans and insurance products which already exist in the informal sector in the South. (Paragraphs 12, 15, 18).

*OVERALL SUCCESS RATING*

28. The project was judged to have been successful in terms of largely achieving most of its objectives, although this is qualified in some respects, as indicated above. During the life of the Project K-REP has become more strongly established and has performed well against most indicators of performance. In addition the Project has provided the BASE Office, BDDEA in Nairobi and DFID with an important learning experience in the support of MFIs in Africa. The evaluation team judges that the project benefits were significant in relation to the project costs, and the project is therefore given an overall success rating of successful (A). Individual evaluation success ratings for specific project performance criteria are summarised in the table below.

29. A project of this nature clearly has scope for making a positive social impact and for impacting positively both on women and on poverty reduction. The project did not, however, have these goals explicitly built into its project design. The project objectives detailed in the Logical Framework did not specify any impacts measurable by specific indicators of achievement for poverty and gender. K-REP therefore felt it was unfair for the Evaluation Team to judge the project by these criteria. The Evaluators, therefore, have not included these areas in the Project Performance Criteria matrix below, but refer to the benefits achieved in these areas in the text of the main report, where appropriate.

## *EVALUATION SUCCESS RATINGS*

The Overall Success Rating for a project is allocated on a scale from A+ to D according to the following rating system:-

| | |
|---|---|
| Highly Successful (A+): | *objectives completely achieved or exceeded,* very significant overall benefits in relation to costs |
| Successful (A): | *objectives largely achieved,* significant overall benefits in relation to costs |
| Partially Successful (B): | *some objectives achieved,* some significant overall benefits in relation to costs |
| Largely Unsuccessful (C): | *very limited achievement of objectives,* few significant benefits in relation to costs |
| Unsuccessful (D): | *objectives unrealised,* no significant benefits in relation to costs, project abandoned |

The judgement on the Overall Success Rating is informed by a tabulated series of judgements on individual aspects of performance, including the project's contribution to achievement of ODA's priority objectives (listed in the upper section of the table). First an assessment is made of the relative importance in the project of each criterion or objective, which may be Principal or Significant; or, if not applicable, it is marked " - " . Where no specific objective was established at appraisal, the importance assessment is given in brackets. Each performance criterion is then awarded a rating, based only on the underlined sections of the five-point scale above.

| Project Performance Criteria | Relative importance | Success Rating |
|---|---|---|
| Economic Liberalisation | | |
| Enhancing Productive Capacity | Principal | B |
| Good Governance | | |
| Poverty Impact | (para 29 refers) | |
| Human Resources: Education | | |
| Human Resources: Health | | |
| Human Resources: Children by Choice | | |
| Environmental Impact | | |
| Impact upon Women | (para 29 refers) | |
| Social Impact | (para 29 refers) | |
| Institutional Impact | Principal | A |
| Technical Success | | |
| Time Management within Schedule | Significant | A+ |
| Cost Management within Budget | Principal | A+ |
| Adherence to Project Conditions | Significant | B |
| Cost-Effectiveness | | |
| Financial Rate of Return | | |
| Economic Rate of Return | | |
| Financial Sustainability | Principal | A |
| Institutional Sustainability | Principal | B |
| Overall Sustainability | Principal | B |
| OVERALL SUCCESS RATING | | A |

# 1

## INTRODUCTION

### *BACKGROUND*

1.1 Unemployment has been one of the major problems facing the Government of Kenya (GoK) during the past decade. Declining GDP growth rates and post-structural adjustment fiscal austerity have led to increased job losses in the formal sector. Furthermore, Kenya has one of the highest population growth rates in the world (3%) which means that there are over 400,000 new job seekers arriving on the market each year. In this situation the GoK has recognised the importance of the informal sector as a source of employment and economic growth.

1.2 The size and character of the informal sector in Kenya is illustrated by a survey of Small and Micro-Enterprises (SMEs) carried out by the GEMINI project. The study found that there were 900,000 SMEs employing two million people in 1993, representing 16% of the working age population. Approximately 75% of enterprises were located in the rural areas, but urban SMEs provided a larger proportionate contribution to individual household incomes. On average, 1 out of every 4 households engages in some sort of enterprise activity and almost 70% of all households depend on SMEs for one-half or more of their income. Of the 9% that have received financial assistance, the majority of these had to rely on informal channels (Gemini, 1993).

1.3 In an attempt to increase the employment-generation capacity and growth rate of the informal sector the GoK has been actively seeking mechanisms for supporting the sector. Its current SME policy is described in ‘Small Enterprise and Jua Kali Development’ (Sessional Paper No 2, 1992) and includes a softening of the regulatory and legislative bias towards larger, more formal, enterprises and to an increase in the number of Government supported programmes.

### *THE KENYA RURAL ENTERPRISE PROGRAMME*

1.4 During the past decade there has also been a significant increase in the amount of

NGO support for SMEs and the informal sector. In particular, NGOs have featured prominently in attempts to increase the access of SMEs to credit through the use of savings and credit groups. The Kenya Rural Enterprise Programme (K-REP) has been one of the main Kenyan NGOs working in this area. K-REP was established in 1984 by World Education (USA) and its initial main sources of funding were two grants from USAID. Its original mission was 'to empower low income people and to promote their participation in the development process and enhance their quality of life'.

1.5 K-REP has evolved considerably since its inception in 1984. Initially, it worked in microfinance solely through onlending to other NGOs. This was, however, gradually phased out and in 1990 K-REP began to deliver credit itself in Kibera with the introduction of the Juhudi Credit Scheme (JCS). This was followed in September 1991 by the opening of the Eldoret Area Credit Office (ACO). The JCS is loosely based on the 'financial systems model' which uses client groups, savings and peer pressure to reduce the risk of lending to poorer income groups and to share the transaction costs normally borne by financial institutions.

1.6 K-REP's evolution from an NGO which financed other NGOs to a 'minimalist'[1] direct lending microfinance institution (MFI) was accompanied by significant changes in its organisational structure and legal status. Initially, the organisation was incorporated as a limited liability company under the name of WEREP. In 1993 it changed its legal status to an NGO under the name of K-REP. During this period of transition K-REP has maintained its original aim but its goals and objectives have become more clearly focused on the means of achieving its mission, namely through 'the generation of employment and increased incomes through a strategy of providing loans, training and technical assistance through groups and NGOs in order to establish or expand capacity in micro-enterprises in the informal sector' (Managed Growth Plan, 1992).

1.7 K-REP continues to provide institutional credit to NGOs in order to help build their institutional capacity for the provision of credit to SMEs. It has also developed its capacity to provide training for other NGOs involved with micro-finance, consultancy services both locally and internationally and a micro-finance research capacity. K-REP also established, and now maintains, the Arifu Documentation Centre (also supported by DFID). The latest stage of K-REP's evolution is the establishment of the K-REP Bank which was scheduled to start operations in September 1997[2]. Under this proposal a holding company will be established which will have two main investments: the K-REP Development Agency (the NGO) and the K-REP Bank.

1 The term 'minimalist' is used here to refer to the provision of credit to organised groups of borrowers without additional expensive packages of training and technical assistance.

2 Facing delays due to the recent general election.

*THE PROJECT*

1.8 The purpose of ODA's K-REP project was to assist K-REP in its effort to expand its Juhudi lending and to establish itself as a financially sustainable MFI. The original Project Memorandum was signed in January 1993 and provided a total of £966,293 over the five year period 1993 to 1998. The project was subsequently revised and a Project Addendum was approved in March 1995 that provided an additional £610,589 and reduced the length of the project to three years. In total the revised project was allocated a total of £1,576,882 and ran from January 1993 to December 1995.

1.9 The summary of the original and revised project inputs given in Table 1 shows that project funds were used to finance fixed assets, loan capital and operating costs to help establish the Juhudi lending scheme. In addition, the project was designed to support institutional development in the areas of staff training, research and an improved management information system.

*Table 1: K-REP JCS Original and Revised Project Inputs (UK £s)*

| | Project Inputs | Original Budget (Proj Memo, 1993) | Revised Budget (Proj Adden, 1995) |
|---|---|---|---|
| 1. | Juhudi Credit Scheme | | |
| | Juhudi operating capital | 57,321 | 54,278 |
| | Juhudi startup & fixed costs | 24,291 | 31,157 |
| | Juhudi loan fund capital | 636,364 | 355,509 |
| 2. | FSD Operating Capital | 0 | 957,606 |
| 3. | Training department | 48,228 | 69,168 |
| 4. | Research & monitoring | 48,657 | 62,444 |
| 5. | Management and administration | 79150 | 124,441 |
| 6. | Add 15% contingency | 134,102 | 0 |
| 7. | Less interest on Juhudi loan | (61,818) | (77,722) |
| | Total | 966,293 | 1,576,882 |

*THE EVALUATION AND TERMS OF REFERENCE*

1.10 The detailed Terms of Reference (TORs) for the evaluation are given in Annex A. The overall purposes of the evaluation were: to assess the project's success in terms of fulfilment of objectives and overall impact; to judge whether the costs of the assistance programme were justified by its measured or perceived benefits; and to enable the GoK and the British Government to learn from the experience of the programme and to draw appropriate conclusions which can be applied to future project phases, or to similar programmes elsewhere. Issues of project identification, design, appraisal and implementation which affected the input to output stage of the project cycle were also considered, but in less detail.

1.11 The evaluation took place as follows. An initial desk study of existing reports and evaluations of K-REP including the Project Memorandum (1993), the Project Addendum (1995), the Project Completion Report (1995) and the Project History (1996). The desk study also reviewed the USAID Evaluation Report of K-REP (1994). During this period the study methodology was developed and structured interview questionnaires were produced. The fieldwork stage of the evaluation took place in Kenya during the first three weeks of July, 1997. This involved a series of interviews with DFID and K-REP staff, visits to 16 entrepreneurs who had received K-REP loans, and attendance at 6 Juhudi credit group meetings. Further details of the methodology employed for this study are given in Annex L.

1.12 Details of the Evaluation Team's membership are given in the Preface. The list of persons met by the evaluation team is at Annex B. The original Project Framework for the K-REP JCS project (taken from the Project Memorandum) is in Annex C. This was subsequently revised in the Project Addendum. The original and the revised Project Frameworks set out the project outputs and objectives to be examined by the evaluation team and the indicators of achievement to be tested. These issues will be discussed in more detail in Chapter 2.

## *REPORT STRUCTURE*

1.13 This report contains six chapters and its structure is based on the Standard Report Format presented in Annex 1 of the ODA Guidelines for Evaluators (August 1994).Chapter 2 focuses on issues relating to design and appraisal and traces the project's history from its identification through to the signing of the Project Memorandum. Chapter 3 reviews the process of project implementation and assesses the extent to which project outputs were realised within the planned time frame and budget. Chapter 4 assesses the extent to which the project achieved its outputs of institutional strengthening, of both K-REP and lending groups, and outreach of its services. The last two chapters focus on the broader question of impact assessment and whether or not the project achieved its output to purpose objectives as specified in the original Project Framework. Chapter 5 focuses on the project's impact on beneficiaries (group members, borrowers and employees), in terms of its generating increased income, employment and savings. Chapter 6 assesses the extent to which the project has succeeded in helping K-REP to become a financially sustainable microfinance institution.

# 2

## IDENTIFICATION, DESIGN AND APPRAISAL

### *PROJECT IDENTIFICATION AND RATIONALE*

2.1 K-REP's basic requirement was for additional funding to finance the expansion of the JCS. Prior to this, K-REP had been dependent on USAID whose funding levels were confirmed until 1994. However, with K-REP embarking on an expansion programme it was keen to diversify funding sources and, since funding from other potential donors was not expected to be available until 6-12 months later, ODA's support in 1993 was seen as vital.

2.2 The K-REP JCS project was consistent with K-REP's desire to expand direct lending and establish itself as a sustainable MFI based on the financial systems model. The project was also consistent with both ODA's and the GoK's SME developmental priorities and objectives. The broader ODA objectives, and the specific objectives of the Small Enterprise Development (SED) programmes, were to increase incomes and generate employment (BASE 1995:1). This can be placed within the context of the core strategy of the British Development Division in East Africa (BDDEA), ie to 'bring sustainable benefits and opportunities to poor people'. The SED programmes would therefore contribute significantly to meeting BDDEA's core strategy objectives and ODA's priority objectives of poverty alleviation and the enhancement of productive capacity (ibid).

2.3 The proposed expansion conformed well with the BASE programme's major goal, the provision of additional off-farm employment and self-employment, especially for poorer people, and [enhanced] incomes through increased productive capacity. Despite ODA's initial reservations about funding a MFI, the 'Report of the Small Enterprise Policy Implementation Programme (SEPIP)' indicates the major constraints facing SMEs as being land availability, inadequate infrastructure and inadequate access to credit. (BASE, 1995:4) Thus, through improving capital market functioning the K-REP JCS project is intervening in a crucial area.

*PROJECT OBJECTIVES AND DESIGN*

2.4 The project's objectives as specified in the original Project Framework (Annex C) were to: increase employment generation in the MSE sector; increase SME and household incomes; increase household savings; establish a financially viable small and microenterprise credit mechanism and research issues of credit sustainability.[3] The verifiable indicators of achievement for these objectives are set out in the Project Framework (Annex C) and summarised in Table 2 (Column 2) below. A summary of the revised verifiable indicators described in the Project Addendum are given in Column 3 of the Table. This evaluation will assess the performance of the project against the revised indicators where specified and against the original indicators where no change was specified.

*Table 2: Summary of Project Objectives and Indicators of Achievement and Value*

| Project Objectives (Col 1) | Original Indicators of Achievement and Value as per Project Memorandum (Col 2) | Revised Indicators of Achievement and Value as per Project Addendum (Col 3) |
|---|---|---|
| Increase SME and Household incomes | Increased Business Profits.<br><br>No quantifiable measure of 'increase' was given in the Project Framework. | No change specified. |
| Increase SME Employment Generation | Average jobs increase at 0.4 jobs per enterprise.<br><br>1,440 new jobs created,<br>3,600 existing jobs secured. | Average jobs increase at .59 jobs per enterprise.<br><br>7,134 new jobs created.<br>12,091 existing jobs secured. |
| Increase SME and Household Savings | Each ACO to mobilise savings to the value of:<br>Ksh 1.40m in Year 1<br>Ksh 4.04m in Year 2<br>Ksh 4.67m in Year 3<br><br>A total savings fund of Ksh36.55 m built up by the two ACOs over the five year period.<br><br>Savings at a minimum 30% of loans outstanding by the end of year 3. | No change specified. |
| Establish a Financially Viable Small and Microenterprise Credit Institution | Branches Covering Operating Costs by the End of Year 2.<br><br>Juhudi Operating as a Separate Accounting Entity with high % level of Cost Recovery after 5 Years.<br><br>Each ACO to make operating profit /(loss) of:<br>Ksh (1.22) m in Year 1<br>Ksh (0.36) m in Year 2<br>Ksh 0.34 m in Year 3<br><br>Each ACO will make an operating profit of Ksh 1.35m over the first 5 years.<br>Administration costs per branch at max. of 10% of loans outstanding by end of Year 3. | Mount Kenya East and West offices to recover operating costs by the end of 1994.<br><br>West Nairobi to start covering its costs by July 1995. |
| Research Issues of Credit Sustainability | Publication of Statistically Valid Research, Monitoring and Financial Reports<br><br>Juhudi Progress with Development of Sustainable Credit Model to be Fully Documented | No change specified. |

3 There appears to be some confusion in original Project Framework in distinguishing between project outputs and immediate objectives and this has led to some repetition. For example the establishment of ACOs and the delivery of credit is treated as both an output and an immediate objective.

*PROJECT OUTPUTS*

2.5 The original project design envisaged that these objectives would be achieved through the creation of three main project outputs. These were the institutional development of K-REP, the establishment of two new ACOs; and additional loans disbursed and recovered under the JCS, according to the schedule presented in the Project Framework and summarised in Table 3 (Col 3). The project outputs and the indicators of achievement and value are presented in detail in the Project Framework (Annex D) and summarised in Table 3 below; and a summary of the revised verifiable indicators described in the Project Addendum are given in Column 3 of that Table.

*Table 3: Summary of Project Outputs and Indicators of Achievement and Value*

| Project Outputs (1) | Original Indicators of Achievement and Value as per Project Memorandum (2) | Revised Indicators of Achievement and Value as per Project Addendum (3) |
|---|---|---|
| To Establish Two Area Credit Offices | 2 offices established in the first year, the second six months after the first. | More general funding of JCS Operating capital to three ACOs-West Nairobi, Mt. Kenya East and West |
| To Disburse and Recover Additional Juhudi Loans | Each ACO to disburse loans as follows:<br><br>720 loans in Yr. 1 & 1,800 loans in Yr. 2<br><br>14,760 loans to 3,600 entrepreneurs over 5 years including repeat loans.<br><br>Each ACO to disburse loans to the value of: Ksh 6.12m in Year 1,Ksh 17.28m in Year 2, Ksh 22.95m in Yr. 3<br><br>A total of Ksh 202.7m disbursed by the two ACOs over the 5 year period.<br><br>Each ACO to recover credit to the value of: Ksh 2.70m in Year 1, Ksh 13.73m in Year 2, Ksh 23.04m in Year 3.<br><br>A total of Ksh 196.24m recovered by the two ACOs over the 5 year period &<br>On time recovery rates to average 95%. | Projected loans disbursed for West Nairobi and Mt. Kenya East and West revised to an estimated total of 14,847 loans to 12,091 emterprises at a value of Ksh 359,290. |
| Institutional Development of K-REP and the Juhudi Credit Scheme | Staff training - 16 staff training sessions and exchange visits to Asian credit programmes.<br><br>Improved control systems - monthly MIS reports with MD within 15 days of month end.<br><br>Information dissemination in the form of published M&E reports, seminars and consultancies. | No change specified. |

*PROJECT APPRAISAL*

2.6 There appear to have been two main influences determining the design of the K-REP JCS project. The first is the fact that K-REP was an on-going organisation with a clear perception of its own role and objectives and how it wanted to achieve those objectives. The second design influence is that K-REP is loosely based on the principles of the financial systems model developed and employed successfully in Asia and Latin America.

2.7 Justification for the project rested on several formal appraisals which tested the validity of the project design and the assumptions which underpinned it. The Technical Appraisal considered the important question of applicability of the group-based lending model to the Kenyan context. In particular, it considered issues relating to the social acceptability of group formation and both the concentrations of and static nature of population which seem to have been important factors in determining the success of similar schemes in other countries. The Kenyan context differs from that of Asia in these respects, and the history of group lending is less deep. These issues and the problem of replicability prompted the K-REP and BASE emphasis upon the former's being seen as an evolving, action research-based institution that is trying to adapt primarily Asian and Latin American best practice to the African context.

2.8 The project appraisal also briefly considered the project's impact on poverty and gender. It was expected that at least 50% of borrowers would be women, which would represent a significant improvement in women's access to credit and an improvement in their control over productive resources and household income. The project was also expected to have a positive impact on poverty in that the individuals who manage microenterprises are normally in the poorest 40% of Kenyan households and tend to be landless.

2.9 The project's economic justification rested on the number of jobs created and on increasing incomes. No attempt was made to conduct an economic cost-benefit analysis. This seems justified in this case because even though the methodology for conducting a cost-benefit analysis of a line of credit does exist in theory, it is problematic to calculate in practice.

2.10 A number of assumptions and risks were identified during the appraisal process. A key assumption was that the apparent demand for credit from entrepreneurs would be matched by actual levels of take-up. This would clearly depend upon the appropriateness of K-REP's financial products and the successful communication of their availability. Other critical assumptions identified at the planning stage were that, for the new ACOs to be established, competent credit officers would be required to manage 300 borrowers each and to maintain the discipline of loan making and recovery. In addition, in order to recover branch operating costs fully by the end of their 3rd year, it was recognised that loan volumes would have to build up as anticipated; over 95% on-time loan recovery levels would have to be maintained; a loan-loss fund would have to be developed; and adequate cost control would have to be maintained.

2.11 There is no evidence that the beneficiaries of K-REP's interventions in financial markets were consulted as part of the process of project design. This may, however, be explained by the fact that ODA's proposed funding of K-REP JCS would be supporting an existing project with clearly identified project beneficiaries and the BASE office's existing experience of MSE in Kenya was already sufficient, without formal consultation with possible beneficiaries.

## *PROJECT APPROVAL AND SPECIAL CONDITIONS*

2.12 The Project Memorandum was drafted by BASE with the co-operation of K-REP staff and was first submitted to ODA HQ in 1990. There then followed a two year period of negotiations and re-drafting before the memorandum was approved and signed in October 1992. It appears that the main causes of the delay were due to ODA caution in becoming involved in this type of institutional level support for a MFI as it had had little experience of this sector in Africa.

2.13 Another concern with the original project design was that it appeared to lack a sufficient earmarking of funds and to provide inadequate conditionality. ODA London wished to see a clearer targeting of specific outputs and objectives. K-REP and BASE staff wanted to see funding as facilitating organisational development with broad goals and objectives. In other words, there was a desire for programme funding which would allow flexibility for a growing organisation undergoing some degree of evolution. Effectively, there appears to have been a degree of conflict over whether the process approach to project design, leading to a programme form of investment was appropriate. The result of this dialogue was that several Special Conditions were added to the Project Memorandum (and are reproduced in Annex E of this report) which imposed increased conditionality. A description of these conditions and an assessment of compliance is given in Chapter 3.

2.14 Overall it is clear that the project design was consistent with both the needs of K-REP and also with the current ideas about what represented best practice in the design of MFIs in other countries. It is also evident that reasonable attention was paid in the project cycle to consideration of the technical, economic and social appraisal and the identification of risks. The original project design was subsequently amended during implementation and for convenience these aspects have been covered in Chapter 3.

# 3

## IMPLEMENTATION

### *PROJECT IMPLEMENTATION*

3.1 The distinguishing feature of the K-REP JCS was that it was implemented in 3 years instead of 5 and that the original project design was revised after 19 months. Initially it was envisaged that the project would start in January 1993 but because of the lead time necessary to recruit and train staff implementation did not actually begin until September 1993.

3.2 By September 1994 a number of the original project outputs (Table 3, Col 2) had been achieved. The two new ACOs were opened in May 1993 and between January and July 1993 fourteen new Credit Officers and two managers were recruited and trained. The number of loans advanced during the thirteen month period from September 1993 to September 1994 was 2,745 compared to a 24 month target of 3,060. The value of the loans advanced was Ksh 39m compared to a 24 month target of Ksh 36m. Some, however, of the project outputs were not achieved during this period. The Asian exchange visits to credit programmes were rescheduled to 1995 due to the restructuring process in 1994.

3.3 During the project's first 18 months it became clear that the original project design was inadequate to accommodate significant changes in the way in which K-REP operated. For example:

- it was originally thought that expansion would take place through the existing legal framework i.e. as an NGO. The Managed Growth Plan was revisited as K-REP found that being an NGO restricted its ability to grow and thus perpetuated its dependence on donors. The main reason for this was that, as an NGO, K-REP could not mobilise savings for onlending;

- loans were disbursed more quickly than expected. The original project design saw the JCS as providing the sole lending method because the Chikola scheme was operating then only as a pilot. However, as the Chikola scheme initially appeared versatile and effective[4] it was decided that the schemes should complement each other and be used to expand K-REP's lending effort. The increased demand for loans which followed made the original financial projections of 1993 inappropriate;

- K-REP needed to revise and re-organise its lending rules in response to some poor performance in certain areas. This led to changes in policies on loan size, duration of loans and rules on group formation.

3.4 The Project Addendum was approved and signed in March 1995. It sought to accommodate these changes by broadening the outreach of services, enhance K-REP's efficiency, and increase impact in terms of the number of loans disbursed. The Project Addendum differed from the original project in four areas:

- duration shortened from five to three years and a revised project ending of 31 December 1995, this change being justified because K-REP had demonstrated a bigger capacity than earlier projected and that capacity would be further enhanced by the proposed changes;

- an increased budgetary allocation from £966,293 to £1,576,882;

- an expanded project description to include the Chikola system and a third ACO at Mount Kenya East;

- a revision of the financing agreement so that funds were disbursed according to a standardised quarterly disbursement plan, instead of disbursements based on quarterly estimates of requirements for the following quarter, less any balance remaining from the previous quarter.

3.5 The Addendum also provided for flexible transfer of funds between one office and another and between the Juhudi and Chikola Credit Schemes. This was a significant departure from the original project but seems to have been justified by the argument that the original plan of financing individual sections of K-REP was not desirable or feasible given the diverse and complex nature of K-REP's activities. This is an issue which DFID needs to consider when designing future intervention and investment in microfinance institutions and when funding attempts to replicate K-REP's experience.

3.6 The revised project was completed in 1995. A summary of actual expenditure by financial year compared to the original budget is given in Table 4. The figure of £1,752,000 exceeds the revised budget total of £1,576,882 by £175,118 and which

4 Problems later emerged in some areas. Credit Officers found that loans were disbursed to the group as a whole and became aware of deeply entrenched practices arising from the methods of group decision-making concerning loan disbursements and repayment and the infrequency of meetings (monthly). K-Rep is currently investigating ways of adjusting the Chikola Scheme in order to maintain those features that appeal to rural entrepreneurs and established self-help groups while reducing risk.

represents the cost of preparatory work for the project not included in the Project Memorandum or Addendum.

*Table 4: ODA Funding for K-REP JCS - Financial Years 1991/2 to 1996/97 (£'000)*

| Financial Year | Actual Final Expenditure of Revised Project | Initial Budget Forecast Prior to Project Addendum |
|---|---|---|
| 91/92 | 1 | 0 |
| 92/93 | 55 | 250 |
| 93/94 | 906 | 259 |
| 94/95 | 551 | 165 |
| 95/96 | 0 | 125 |
| 96/97 | 0 | 167 |
| Total | 1,752 | 966 |

*Achievement of Implementation Targets and Project Outputs*

3.7 K-REP's Juhudi lending programme has expanded rapidly since it began lending in 1990 meeting and exceeding most of the K-REP JCS project output targets. The performance of the JCS project in achieving the revised implementation targets and project outputs will be discussed under three broad headings: the establishment of an ACO network; the level of loan disbursement and recovery; and the institutional development of K-REP and the Juhudi Credit Scheme.

*Establishment of ACO Network*

3.8 The revised project output of opening three ACOs in West Nairobi, Mount Kenya East and Mount Kenya West was achieved. A summary of the complete ACO network is presented in Table 5 below. The first ACOs were established in Kawangware (1990) and Eldoret (1991) This was followed by the opening of the Nyeri ACO in 1993 and Buruburu and Embu ACOs in 1994. There are currently 15 Field Offices operating under the 5 ACOs and employing 76 members of staff (44 Credit Officers and 32 support staff).

*Table 5: Area Credit Office Summary Data*

| Area Offices | West Nairobi (Kawangware) | East Nairobi (Buruburu) | Eldoret | Mount Kenya West (Nyeri) | Mount Kenya East (Embu) |
|---|---|---|---|---|---|
| Established | 1990 | 1994 | 1991 | 1993 | 1994 |
| Field Offices | 2 | 5 | 4 | 2 | 2 |
| Credit Officers | 11 | 12 | 6 | 10 | 5 |
| Support Staff | 8 | 8 | 5 | 6 | 5 |

3.9 The expansion and strengthening of K-REP's ACO network during the K-REP JCS project is also indicated in Table 6. This shows the staffing levels by ACO between 1991 and 1996 and demonstrates that the JCS project period was a period of major expansion with the number of credit officers employed growing from 10 in 1992 to 41 in 1995.

*Table 6: Credit Officers Per Area Credit Office - 1991-1996*

| ACO | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|
| West Nairobi | 4 | 4 | 9 | 11 | 11 | 11 |
| East Nairobi | 0 | 0 | 0 | 6 | 10 | 12 |
| Mt Kenya West | 0 | 0 | 5 | 8 | 9 | 10 |
| Mt Kenya East | 0 | 0 | 3 | 4 | 5 | 5 |
| Eldoret | 4 | 6 | 6 | 6 | 6 | 6 |
| Total | 4 | 10 | 23 | 35 | 41 | 44 |

*The Level of Loan Disbursement and Recovery*

3.10 The main financial service offered by K-REP is loan finance. In fact, the majority of K-REP's clients join groups in order to access loan capital. K-REP's loans are only disbursed once a client has a proven attendance and savings record. Loans start small, first loans commonly being in the region of Ksh.10 - 20,000. Subsequent loans may increase in size, depending on the client's business turnover and ability to save. Established clients may receive loans in the order of Ksh.200,000.

3.11 K-REP has achieved and exceeded its loan disbursement target (see Table 3, Column 3). Table 7 shows that the total number of loans made by K-REP under the Juhudi scheme between 1991 and 1996 was 15,850 compared to 19,049 for Chikola lending. Despite this success, there is need for caution. K-REP has lower numbers of clients returning for repeat loans than it would like. This client drop-out has implications for client group cohesion and for the cost attached to recruiting and training new clients. (See Chapter 4 for a more detailed discussion).

*Table 7: Number of Loans Approved to Juhudi and Chikola Schemes - 1991-1996*

| Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | Total |
|---|---|---|---|---|---|---|---|
| Juhudi | 1,253 | 2,852 | 1,713 | 2,531 | 4,497 | 3,004 | 15,850 |
| Chikola | 254 | 402 | 2,618 | 2,618 | 6,640 | 6,517 | 19,049 |
| Total | 1,507 | 3,254 | 4,331 | 5,149 | 11,137 | 9,521 | 34,899 |

3.12 A further indication of K-REP's expansion and the level of outreach achieved is given in Table 8. This shows that the total value of loans disbursed for both schemes between 1991 and 1996 was Ksh 314.8m. By the end of 1996 the value of K-REP's loan portfolio stood at Ksh 274.7m.[5] The lending performance of ACOs is given in Table 9.

*Table 8: Value of Loans Disbursed: Juhudi and Chicola Schemes - 1991-1996 (Ksh'000)*

| Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|
| Juhudi | 12,622 | 17,800 | 27,020 | merged | merged | merged |
| Chicola | 1,700 | 4,500 | 56,480 | merged | merged | merged |
| Total Disbursed | 14,322 | 22,300 | 83,500 | 211,000 | 363,700 | 314,810 |
| Outstanding Portfolio | 32,500 | 38,600 | 109,600 | 205,700 | 309,900 | 274,723 |

*Table 9: Number and Value of Loans by Area Credit Office as at June 1996*

| Area Offices | West Nairobi (Kawangware) | East Nairobi (Buruburu) | Eldoret | Mount Kenya West (Nyeri) | Mount Kenya East (Embu) |
|---|---|---|---|---|---|
| No of Loans | 1,712 | 2,491 | 864 | 1,491 | 956 |
| Loan Value Ksh '000 | 63,658 | 65,088 | 25,312 | 39,567 | 31,502 |

5 Table 7 shows that the two credit schemes were merged for accounting purposes in 1994, which complicated treatment of the Juhudi credit scheme in isolation.

3.13 Overall loan repayment rates appear to be acceptable. For example, according to K-REP, the repayment rate for West Nairobi ACO as at 31st December 1995 was 97% while the Mount Kenya West and East ACOs reported repayment rates of 99% and 87% respectively[6]. A more detailed discussion of problems associated with loan repayments and client drop-out rates based on client and group interviews is given in Chapter 4.

## *SAVINGS*

3.14 One of the most important services offered by successful MFIs is savings. This has the dual benefit of encouraging thrift as well as accumulating capital for on-lending and providing security for new loans. KIWA members are expected to save a minimum of Ksh 50 per week. This is held in a joint group account in a commercial bank, earning a minimal interest of approximately 3% per annum. The Credit Officer, Chair, Group Accountant and Secretary are co-signatories on the account. Members are expected to accumulate savings amounting to 20% of any loan disbursed, and although clients can withdraw savings when they have completed loan repayment the bureaucratic hurdles imposed by K-REP are such that individuals are generally dissuaded. Some will withdraw their interest as it accrues, and some KIWAs will withdraw interest and share it amongst members. When K-REP becomes a bank, it will be able to hold savings itself. This will substantially reduce its capital requirements for on-lending and will result in the recycling of capital within the microenterprise sector. It may also enable K-REP to offer a wider range of savings-based financial products.

3.15 The numbers of clients holding savings has increased from 1,631 in 1991 to 7,247 in 1994. 1995 saw a rapid increase to 11,746 but only a slight increase, to 12,342, in 1996. The 1996 figures can be broken down by area as follows: West Nairobi 2,638; East Nairobi 4,172; Mt. Kenya West 2,218; Mt. Kenya East 2,000; and Eldoret 1,314. The value of these savings grew similarly over the same period. The figure of 3.25 million Kenyan shillings in 1991 increased to 5.79 million in 1992. It then jumped to 17.536 million in 1993; 41.14 million in 1994; 61.68 million in 1995 and 72.578 million in 1996. Again the 1996 figure can be broken down by area. West Nairobi had accumulated the highest level of savings with 22.978 million; East Nairobi had saved 17.307 million; Mt. Kenya West 15.6 million. Mt. Kenya East had saved only 6.993 million and Eldoret 9.7 million.

6 Further discussion of loan recovery rates is in Chapter 6.

*INSTITUTIONAL DEVELOPMENT OF K-REP AND JUHUDI SCHEME.*

3.16 In addition to the expansion of the ACO network it is clear that K-REP has undergone a period of institutional consolidation. K-REP argues that managerial sustainability is as important as financial sustainability and it is clear that it has made considerable progress in moving from an NGO dependent on the personalities and drive of its inventors to an institution based on systematic management structures. K-REP referred to this transformation as the 'systemisation of their corporate structure'. Senior K-REP staff rightly stated that our evaluation should reflect this change and the evaluation should judge the institution as a whole and not simply the JCS programme.

3.17 It is clear that significant progress has been made by K-REP in managing the process of change from project to institution. The personnel system has been formalised and strengthened and the role and regulation of the Board of Directors has been clarified. K-REP also argues that sound practices in treasury management have been introduced both at the operation and strategic financial planning levels. In addition, K-REP ACOs have become autonomous accounting entities and have their own management structure.

3.18 In general, this evaluation supports the findings of the PCR (1995) which concludes that the fully implemented project has 'largely realised' its main output objectives. However, the one project output that does not appear to have been adequately achieved is the improvement of its management information system (MIS). The PCR concluded that 'although the MIS system was improved during the project it has not delivered information to K-REP and ODA as all parties would have liked'. The PCR also noted that the monthly reports were late and that quarterly internal audits and annual reviews were not done. This is quite serious given that it was also one of the special conditions attached to the original Project Memorandum (The other special conditions were judged by the PCR to have been either wholly or largely met. A summary of compliance with the Special Conditions taken from the PCR is given in Annex E).

3.19 Our findings confirm the MIS weaknesses . One problem appears to be that a great many individual pieces of information are produced by the existing system but these are not used to generate timely information in a form suitable for management reports. Much of the information requested by the evaluation team would normally have been expected to exist in the form of management reports but this was, unfortunately, not the case at K-REP.

3.20 One of the main problems seems to be the variety of software packages used in K-REP. At the moment it uses 'Dac Easy' for its administrative accounting and general ledger. For loan accounting, some ACOs use a Lotus spreadsheet for the loans ledger and other management reports, while other ACOs use the FAO Micro Banker software package. We understand that the intention is to introduce the FAO package as a standard throughout K-REP for loan accounting. We support this idea but it should be remembered that the introduction of specific pieces of computer software may not necessarily resolve all an organisation's management information problems.

# 4

## ESTABLISHMENT OF CREDIT GROUPS AND OUTREACH

4.1 It is clear the K-REP JCS project has been successful in achieving many of its implementation targets and project outputs with the establishment of an ACO network, the disbursement of additional loans and K-Rep's institutional development. The delivery of sustainable financial services depends, however, upon the establishment of a strong institutional framework not only at the K-REP level but also at the level of client groups. An accurate evaluation of the JCS scheme, and one which refines the assessment of the achievement of outputs, must include an assessment of the effectiveness and durability of the borrower groups established. The outreach of K-REP cannot be assessed by lending statistics alone but by an analysis of groups' membership and of what sections of society benefit from K-REP's services.

### *GROUP FORMATION AND OPERATION*

4.2 An essential element of JCS institutional development was the establishment of entrepreneur groups. As at June 1996 there were 230 Chikola groups and 412 Juhudi groups operating under the five ACOs. The largest concentrations of Juhudi groups were in Buruburu (214) and Kawangware (103) and the largest number of Chikola groups was in Embu (see Table 10).

*Table 10: Group Formation by Area Office*

| Area Offices | West Nairobi (Kawangware) | East Nairobi (Buruburu) | Eldoret | Mount Kenya West (Nyeri) | Mount Kenya East (Embu) |
|---|---|---|---|---|---|
| Juhudi Groups | 103 | 214 | 44 | 51 | 0 |
| Chikola Groups | 46 | 10 | 41 | 52 | 81 |
| Total (642) | 149 | 224 | 85 | 103 | 81 |

4.3 The growth of KIWA numbers is shown in Table 11 below, with a rise in the numbers of JCS KIWAs from 44 in 1991 to 207 in 1996 and in numbers of Chikola groups from 8 to 544 over the same period.

*Table 11: Group Formation: Juhudi and Chikola Schemes - 1991-1996*

| Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|
| Juhudi | 44 | 82 | 85 | merged | merged | 207 |
| Chicola | 8 | 17 | 115 | merged | merged | 544 |
| Total | 52 | 99 | 200 | 381 | 575 | 751 |

4.4 Detailed information was not readily available for all ACOs but data were collected for both JCS and Chikola groups under the control of the Kawangware and Nyeri ACOs. Annexes I and J have tables showing the establishment dates and size of groups at establishment and in May 1997.

4.5 The figures in Tables 10 and 11 demonstrate K-REP's success in facilitating the development of the group network. The mere existence of groups, however, is not a sufficient indicator of institutional strengthening nor will it automatically lead to an efficient and sustainable financial service delivery mechanism. The quality of lending groups is critical. This quality can be measured using proxy variables such as cohesion and solidarity, and by investigating borrower attitudes and perceptions. Other key factors are leadership style, the process of selecting or replacing leaders, and the extent to which individual group members can freely express their opinions and participate in decision-making.

4.6 It is also clear that another crucial factor affecting the success of the groups, and thus the likelihood of individual members defaulting or dropping-out, is the quality of the field office staff. K-REP has observed a strong correlation between 'poor' Credit Officers (COs) and the failure of the groups under their control. As all new staff receive the same training, it was suggested by K-REP that the quality of the staff depends on their level of commitment and their approach. When joining a KIWA an individual's likelihood of defaulting or losing savings (through the default of other members of the group) depends, (at least in part), on the Credit Officer to whom they are assigned; and on the KIWA group's ability to make rules and monitor their observance, to manage the loan application and membership vetting procedures, and to maintain group cohesiveness.

4.7 K-REP's groups function by joining together between five and seven entrepreneurs, who live and work in the same area and know each other well, to form a Watano. Several Watanos are joined together in a KIWA, which has a target size of thirty members. If K-

REP is expanding in a certain area and new recruitment by existing clients is insufficiently rapid, the COs attached to a particular field office will hold public meetings to inform the local business community about the organisation. This will be followed up by discussions with individual entrepreneurs within the target client group[7]. When there appears to be adequate interest, the CO will encourage individuals to form a Watano. Members of the same Watano generally know each other as business neighbours prior to group formation, with 53.7% joining a particular Watano because they knew the other members (Oketch 1992:7). Once there are five or six Watanos, each with five members[8], the Credit Officer will join these together to form a KIWA. This period in the group's formation, prior to group registration, allows screening to continue. Some individuals will leave the group at this point, and others will join to replace them (Oketch 1992:9). Once the KIWA's membership is settled the group will adopt a name and register as a self-help group with the Ministry of Culture and Social Services (USAID, 1994:18).

4.8 Members of JCS groups are heavily mutually dependent. As discussed more fully in paragraphs 4.15, 17, and 30 below, the Watano members screen each other's loan applications and act as co-guarantors. Individuals must be confident that other members of their Watano will not put their savings at risk through default and that the KIWA will be well managed by efficient group officials. It is therefore in an individual's interest to vet other members of their Watano and KIWA to assess their professional competence, their personalities and any likely risks caused by internal household dynamics. This process reduces the risks faced by K-REP and is an element in the transfer of transactions costs to the clients. Groups may attempt to exclude applicants perceived to be high risk. This may lead to the exclusion of the ultra-poor (as their businesses may be smaller and therefore more vulnerable), of certain socio-economic groups, of some age-groups, and the owners of some types of enterprise. K-REP has high female membership levels but this may mask the exclusion of women from some groups.

4.9 A further transfer of costs is effected by the delegation of KIWA management by the group's CO to a voluntary Chair, Treasurer and Secretary. This is further delegated to a treasurer within each Watano. Following democratic selection by the group, these officials are given basic training in book-keeping and maintaining records by K-REP.

4.10 Annex K (Case Study 5) provides an example of the positive impact of absorbing pre-existing self-help groups into newly formed KIWAs, and provides an illustration of variable rule-making between KIWAs.

7 This was initially intended to be informal sector entrepreneurs whose businesses were located in the designated area and had assets not exceeding Ksh 300,000 (US$5,000) (USAID report p18).

8 Although five is the target size, groups can vary in size from 4-7 (USAID report p18).

## *GROUP MAINTENANCE*

4.11 Group coherence and solidarity is crucial if default and client drop-out rates are to be minimised. In an attempt to ensure this, COs maintain close links with each of the KIWAs under their control, visiting JCS groups during their weekly meetings (which may exceptionally be held fortnightly or monthly), getting to know both the groups and the individual clients. In this way they are able to pre-empt some disputes or individual problems, provide advice to clients with repayment problems, and be better able to assess clients' loan applications once they have gone through the Watano and KIWA level application processes.

4.12 It emerged clearly from the fieldwork that each KIWA has a distinct atmosphere, approach to business and level of discipline and cohesion. It was found that some were more formal than others, with members standing to speak to the group, stiff penalties for lateness or non-attendance, and deference shown to group officials, while others were far more relaxed. Group coherence also varied and the atmosphere of conviviality and friendliness apparent in several of the groups visited contrasted sharply with that in others which were damaged by lax attendance, drop-out and default. Nevertheless, an indication of the success of a proportion of the KIWAs was that they not only facilitated K-REP loans and savings, but also acted as the focal point for a number of other self-help activities including merry-go-rounds, rotational savings and credit associations (ROSCAs), insurance schemes and group savings accounts (see Annex M for a fuller explanation of these activities).

## *RULE FORMATION, MAINTENANCE AND ADAPTATION*

4.13 Self-managing groups involved in any form of communal activity are more likely to survive and be successful if they are able to form their own rules, to determine how they will be monitored and apply their own sanctions to rule breakers (Ostrom, 1990.). Although K-REP has a framework of basic rules with which all groups and group members must comply, COs are permitted to adapt rules to meet local group needs. Some KIWAs are allowed to meet monthly or two weekly if they have an established loan repayment record. In others, although meetings are held weekly, members can chose to repay their loans on a monthly basis.

4.14 The KIWAs themselves determine rules concerning lateness, non-attendance and other internal matters of discipline, allowing them to strike an appropriate balance which takes account of their membership and history. One group that the evaluation team visited (see Annex K, Case Study 2) was attempting to stabilise after a period of rapid drop-out and a merger with another group. Its set of institutional rules and procedures was a clear attempt to stamp out ill-discipline, with fines of Ksh.20-50 for latecomers and Ksh.50-100 for non-attenders. Home visits were made to investigate absenteeism following a member's absence from three consecutive meetings.

4.15 Watano and KIWA members determine who joins the KIWA, who is requested to leave, who has their loan application accepted and who is refused, although the group's CO has an opportunity to veto loan applications and can set conditions for loan disbursements (see paragraph 4.27).

*NON-ATTENDANCE, DROP-OUT AND DEFAULT*

4.16 A 1992 study found that KIWAs were largely stable, despite some problems with non-attendance and drop-out. Oketch found that non-attendance was a problem in 36.4% of KIWAs. These groups had more than two members who rarely attended meetings (Oketch 1992:40), and approximately 75% of members were found to have missed meetings at one time or another.

4,17 Post-registration drop-out was rare at this point in K-REP's history, with less than 8.9 % of Watanos replacing one or more members (Oketch, 1992:11). Where individuals were asked to leave, the reasons were recorded as being poor loan repayment; high risk of future problems due to business difficulties and disobedience or absconding. The majority of voluntary drop-out at the early stage of membership appeared to be due to individuals finding the terms of the scheme too stringent. Mistrust was only stated by questionnaire respondents as being a cause of departure in 2% of cases of initial turnover (Oketch 1992:10).

4.18 Only two years later, however, USAID observed that K-REP had experienced a high rate of turnover since the inception of the JCS and the Project Completion Report (ODA, 1995) showed that instead of disbursing 14,760 loans to 3,600 clients during the project's life as planned, K-REP had in fact disbursed 14,847 loans to 12,091 clients. This indicates a much higher than anticipated client turn-over.

4.19 This evaluation also found evidence of high rates of drop-out and default. In the Mount Kenya West area KIWAs appear to have lost 65% of their membership between KIWA establishment (dates between 1993 and 1997) and May 1997 (see Tables 17-26 in Annex I), which is too high to be attributable to the graduation of clients to the commercial sector and indicates a problem either with the design of the financial products being offered or with the supervision of groups.

4.20 Where high levels of drop-out are accompanied by default, large losses are being borne by the drop-outs' Watano, by their KIWA, and ultimately by K-REP. In addition, the recruitment of new clients is necessary, with their accompanying establishment and training costs, in order to maintain savings levels and earnings from loan servicing and to keep staff-client ratios high.

4.21 As most defaulters and drop-outs lose contact with K-REP, it is difficult to assess the possible causes of the problem. However, members of the Jasho Self Help Group, a KIWA interviewed in Kawangware, related drop-out and default to client misperceptions of credit. Apparently, many of the group's initial members, who received loans between 1992 and 1993, believed that K-REP was disbursing grants. They did not appreciate that they would have to repay the loan principal with interest and this led to high levels of wilful default.

4.22 The evaluation team's interviews with entrepreneurs provided only limited evidence of wilful default, the more likely causes being illness or business failure (see Annex K Case Study 3a, and Client Profiles 7, 8, and 9). Few defaulters were interviewed (due to difficulty in tracing them), so the interview outcomes did not provide firm evidence of a pattern. However, there are indications that, in an urban setting, with high population mobility, social collateral and the co-guaranteeing of loans is less secure than in other settings.

4.23 The impact of default on a client's Watano and KIWA is profound, often leading to the loss of the co-guarantors' savings and the destabilisation of the group (see Annex K, Case Study 2). The loss of confidence in K-REP, and further drop-out following default, may lead to the collapse of a group without sufficiently robust internal mechanisms.

4.24 Senior staff in K-REP see high levels of drop-out and default as having a close correlation with the quality of field staff and the quality of the group. The personality and proficiency of Watano and KIWA officials clearly also has some bearing. Furthermore, the infrastructural setting or the general commercial environment in some areas may be less conducive to micro-enterprise than in others.

4.25 Given the impact of default and drop-out on both K-REP clients and the institution itself, there seems to be a compelling case for commissioning a study to investigate the causes of this problem and possible solutions. Such a study could also be of assistance in assessing whether group lending schemes have been appropriately adapted for the African context. These issues are illustrated by the boxes below which are drawn from Annex K client profiles 8 and 9.

## BOX 1. CLIENT PROFILE 8.

The information in this box is drawn from Annex K, and summarises the information provided by Client 8.

Client 8 was a member of Goodhope, a KIWA co-ordinated by Nyeri Field Office and Area Credit Office, between 1994 and 1996. She left due to the loss of Ksh.10,000 of her savings following the default of other KIWA members. She runs a dry goods stall in Othaya market, which sells beans, husked corn, and other grains. She does not own another business, but her husband has recently bought a car, which would place them in the middle or towards the upper end of the K-REP client profile. Her K-REP loan history is shown in the table below.

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1994 | repaid over 10 months | Purchased stock |
| 2 | 25,000 | 1995 | repaid over 10 months | Purchased stock |

It is clear that K-REP membership had distinct benefits, as during that period her stall employed three people on a full-time basis. This was the owner, her husband and another worker. This has since declined to the owner and her husband.

A rough estimate indicates that the enterprise brings in about Ksh.10,000 per month in profits. The owner believes that this has declined from a higher level during her membership of K-REP, when stock purchases were in the order of Ksh.150,000 per month. These have now declined to Ksh.100,000 per month. Profits are estimated at approximately 10% of stock purchased in a month. As she does not have any alternative source of credit, her business now has a more constrained cash flow. She is therefore unable to hold as much stock.

Despite the negative repercussions of leaving K-REP, the client felt that she had no choice. She felt that she was being penalised, despite repaying her loans in full. She was also suspicious about the events surrounding the seizure of members' savings. A lawyer had been employed to recoup the defaulted loans, and the items pledged as security by the defaulters had been repossessed. However, rather than being auctioned the defaulters possessions were returned to them. The KIWA did not receive money to cover the bad debts and the KIWA had to cover the default. The defaulters appeared to lose their savings but to avoid any other penalties[9].

She is interested in obtaining an individual loan from K-REP (if they are introduced in the future) using the log book of her husband's car as collateral. She would be happy to rejoin a reliable group, if offered a place, as she was basically happy with K-REP prior to the loss of her savings.

See the Case Study on Client 7 in Annex K for another example of the impact of default.

9 This interpretation of events was countered by the group's CO. Whichever version of events was correct, the poor communication between K-REP and the KIWA members concerning progress in clearing bad debts is clearly a problem.

BOX 2. CLIENT PROFILE 9.

The information in this box is drawn from Annex K, and summarises the information provided by Client 9.

Client 9 was also a member of Goodhope between 1994 and 1996. Her case is closely linked to the one above. However, she left due to a default caused by illness. She also runs a dry goods stall in Othaya market, which she has had since 1993 but hers is smaller than the one owned by Client 8, and only provides enough work for the client. She is a single mother, and appears to be at the lower end of the K-REP client profile.

The client's loan history is shown in the table below.

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1995 (July) | 6 months | Purchase of stock. |
| | | | | Prior to the loan, the client's stall stocked horticultural products. Following the loan, the client began selling grains. Purchase of some household items. |
| 2 | 15,000 | 1995 (Oct.) | 6 months | Purchase of stock to expand the business. Purchase of some household items. |
| 3 | 25,000 | 1996 (Feb.) | Defaulted | Purchase of stock. Purchase of some household items. |

The client's loan repayments fell into default when she was admitted to hospital. She lost Ksh.6,000 in savings, and her KIWA (at that point numbering 25 people) had to cover the balance of Ksh.1,900. Although she was forced to leave the KIWA she continued to repay the group members for their loss of savings. She has just finished repaying the amount that they covered on her loan.

As a result of the K-REP loans she was able to purchase some furniture, and bring her two children to come and live with her. They had previously lived with her mother. She is unmarried and has no other source of income, so it was important that her business income improved before she brought them to live with her. The K-REP loans therefore had a very real impact on the welfare of her family. She would like to rejoin, and is on Goodhope's waiting list in case anyone drops out and they need a replacement. In the meantime she does not have any other access to credit, although she belongs to a couple of Merry-go-Rounds organised amongst the market traders. She uses these funds to save money for household and business expenses.

Her livelihood is not entirely dependent on her enterprise as she has access to land at her father's shamba (farm) where she grows horticultural crops, maize, potatoes, and beans. Although the food is mostly for subsistence, she will sometimes sell small amounts of surplus produce at her stall.

## *THE TRANSFER OF TRANSACTION COSTS*

4.26 A crucial function of group lending in the context of MFIs is that it enables financial institutions to achieve outreach which draws in a large number of poorer clients while minimising administrative costs. Disproportionately high transaction costs are attributable to poor clients who require small loans and wish to save only small amounts. For an institution to approach financial sustainability it is imperative that it both minimises these costs and passes as many of them over to the clients as possible. It is clear that K-REP has been relatively successful in doing this.

### *PROCESSING LOAN APPLICATIONS*

4.27 Once a K-REP KIWA has been formed and the members have begun to save, members of a Watano can apply for loans. Applicants must have attended KIWA meetings and contributed savings of not less than Ksh. 50 per week consistently for eight weeks in order to qualify for their first loan. They must also have 20% of the loan amount held in a K-REP savings account. This cannot be drawn on as a productive resource while the client has a loan, but is held as a form of collateral (see paragraph 3.14). If these conditions are met, the first three members of a Watano may apply for a loan, followed by the remaining members four weeks later.

4.28 Each loan applicant must also pay K-REP loan application fees, which will amount to Ksh.3,000 for a loan of Ksh.150,000, with an application fee of 1% and loan insurance[10] of 0.5% of the loan amount, in addition to the Ksh.65 paid for a passbook.

4.29 Most of the K-REP members interviewed by the DFID Evaluation team were happy with the loan application process and felt that, compared with the commercial sector, there were fewer blocks to accessing credit, although one group[11] considered the application fee structure unfair and thought the loan processing charge should be standardised rather than related to the size of the loan.

4.30 As indicated in paragraphs 4.15 and 4.27 above, group members themselves decide who will get a loan and for how much. It is common for them to visit the individual's business and home, if this has not already occurred, in order to assess the applicant's business and ability to repay and to confirm the value of items offered as security. The application will be discussed by the Watano and the KIWA before being passed to the CO for confirmation. This process clearly reduces the transaction costs incurred by K-REP, which simply has to complete the last stage of the application, determine loan scheduling[12] and issue a cheque which is passed on by the CO at a KIWA's meeting.

4.31 Group members resent losing their savings when default occurs, and it is becoming increasingly common for KIWAs to demand some form of collateral. The USAID final evaluation report of 1995 noted that 'while K-REP does not require security other than the requisite amount of savings prior to receiving a loan, many of the KIWAs, as well as Chikolas, now require security items from their members.' (USAID, 1994:18). Although

10 Covers the loan amount only where the client dies prior to full repayment.

11 Jasho Self Help Group, a KIWA located in Kawangware, West Nairobi

12 One client (Client 7) highlighted problems with loan repayment scheduling, as his request to have a 2 year repayment schedule for a loan of Ksh.200,000 was rejected. The loan was disbursed, but he was requested to repay within 12 months. He ultimately defaulted, and although the reason for the default appears to have been quite complex, the pressure of over large repayments may have had something to do with it.

this has implications for access to credit by the ultra poor, the practice is clearly encouraged by K-REP which provides standardised affidavit forms, which it keeps on file. K-REP also stores any items removed from the homes or businesses of defaulters prior to their reclaim or auction. Where legal intervention is necessary, so as to obtain the items listed on an affidavit, it shares the cost of the legal fees with the KIWA.

4.32 It is possible that social collateral which relies on peer group pressure to deter wilful default has limited effect where illness or business failure causes default, and to require security is, therefore, an appropriate adaptation of group lending in the Kenyan context.

4.33 The processing of loan applications is somewhat simpler where groups are well-established as they will have a record of an individual's savings and repayment record. Transactions costs are reduced as trust and information increase. Oketch found in 1992 that nearly 50% of sample respondents felt they should be able to increase the size of their second loan, reflecting a good loan repayment record.

### *ADMINISTERING THE COLLECTION OF SAVINGS AND LOAN REPAYMENTS*

4.34 In a conventional banking system, loan repayment collection for a large number of small loans would impose huge administrative costs, with staff having to maintain records and follow up any late payments. The structure of Watanos and KIWAs in K-REP's JCS, however, ensures that the bulk of the transaction costs are borne by the clients themselves.

4.35 Loan repayments are collected weekly along with savings contributions, usually by the Watano Treasurer who updates the K-REP account books of the members of their Watano, before passing both books and cash to the KIWA Treasurer for verification. The group's CO records the figures for K-REP, but the KIWA's Treasurer or Chair is responsible for banking the cash in the nearest K-REP bank account. (This may entail a long journey by public transport, exposing the KIWA officials to attack, and incurring costs both in terms of time and money. K-REP's failure to open a bank account in Othaya, for example, has caused KIWA officials to make a 45 minute bus journey to and from Nyeri in order to bank the cash for loan repayments and savings collected in the weekly meetings.)

4.36 Dissatisfaction with the cost of capital in terms of time, and with the inflexibility in the financial services, was relatively common. Many of the clients the evaluation team met wanted to see a review of the system of weekly meetings and loan repayments, and felt that a twice-monthly system would be more appropriate, fitting in better with the two peaks in the monthly business cycle. These findings are supported by a 1992 survey which found that 42% of the sample would prefer twice-monthly repayments (Oketch 1992). A group met by the Evaluation team[13] were dissatisfied with the length of time that K-REP cheques take to clear requiring the borrower to start loan repayment before the loan fund has entered the borrower's account. They suggested that a longer grace period be introduced in order to counter this problem.

### *MANAGING DEFAULT*

4.37 Because the co-guarantor system places group members' savings at risk, groups tend to be vigilant for signs of repayment problems. If a default occurs the Watano has to decide what approach to take. They may defer to the KIWA and seek support from the CO.

4.38 One KIWA interviewed by the team preferred to respond by first drawing on the savings of the defaulter's Watano in order to cover the loan. If this amount was inadequate the savings of the whole KIWA would be drawn on, before seizing items promised as security. The group would engage a lawyer to assist it if the defaulter was likely to abscond or become violent. Once seized, the item listed as security would be held while the defaulter attempted to raise funds to cover the debt. If the defaulter failed to do so, the group would auction the goods and withdraw the defaulter's group membership. Other groups preferred to seize items promised as security earlier in the process as they did not wish to draw on group savings unless forced to.

4.39 There was disquiet amongst some K-REP clients interviewed by the evaluation team concerning the costs faced by a group where a member of defaulted. The loss of savings resulted in some K-REP members leaving (see Annex K, Case Studies 8 and 9). A number of interviewees were disturbed by the level of responsibility passed to groups for tracing defaulters, engaging lawyers and seizing assets. This finding is supported by a K-REP study of defaulters, where 64% of non-defaulting borrowers and 21% of defaulters felt that K-REP had not been aggressive enough in pursuing defaulters. (Oketch and Aleke Dondo, 1993, in USAID, 1994:20).

4.40 K-REP could potentially reduce levels of default by encouraging loan officers to visit clients within a couple of days of missing a payment (USAID, 1994:22). Although, clearly, the organisation must strike a balance between its transfer of transaction costs, so as to reduce its own administrative costs, whilst retaining a stable client base and minimising default.

13 Mwitindia KIWA based in Othaya, a town served by Nyeri Field and Area Offices.

*COVERAGE AND OUTREACH*

4.41 A key question for K-REP is whether, in its attempt to achieve improved levels of financial sustainability, it has compromised too heavily on outreach.

4.42 Historically, K-REP expanded its portfolio rapidly. An indication of this is that by the end of 1993 K-REP had disbursed 4,622 loans to 3,590 clients through its Kibera and Eldoret JCS branches and 141 loans to 3,635 Chikola scheme clients (USAID Evaluation Report). On-lending through NGO partners resulted in a further 10,938 loans being disbursed to 8,360 clients (paragraphs 3.8-15 provide additional information on expansion).

4.43 Approximately 63% of the NGO loan recipients were women, reflecting the emphasis of some of the NGOs (USAID, 1994.). Their focus is justified by the observation that while 46% of Kenyan micro-entrepreneurs are women, their businesses tend to start smaller and grow more slowly than men's businesses. They more often work out of their homes and tend to rely more on unskilled and unpaid workers. Significantly, they have tended to have had less access to formal credit than men, relying instead on informal credit sources such as merry-go-rounds (Parker, 1994, in USAID, 1994:79).

4.44 The high level of female enrolment found amongst NGO-run schemes was matched in K-REP's Chikola Scheme, where 65% of loan recipients were female. This appears to have been due to the absorption of pre-existing self-help groups into the scheme, many of which were women's groups. Although this level of female involvement has never been equalled by the Juhudi Scheme, a study conducted in 1995, using a randomly drawn sample of 1,032 K-REP intake forms, found that 51% of the client base was female. An earlier study from 1992 found that 53% of borrowers serviced by Kibera ACO were women (ODA, 1992:16). Many of these women were single, indicating that theirs might be the sole household income (Kioko, 1995:1).

4.45 So up to 1994/5 K-REP achieved a rapid expansion of its client base with a healthy gender balance, although the question remains as to whether this was achieved while reaching its target group.

4.46 K-REP aims to assist owner managers, as opposed to individuals with full-time paid employment who dabble in enterprise. The findings of this evaluation support those of a study conducted in 1995 which confirmed that 95.7% of K-REP members own the business they are to be investing in. Of the remainder, 4% were family owned and 0.3% were owned by partnerships (Kioko 1995).

4.47 The Kioko study found that the vast majority of enterprises were small, with 99%

employing between one and five people. Their small size was also highlighted by the findings that 57% of the enterprises had business assets not exceeding Ksh250,000; and that 75.7% had a turnover of Ksh 5,000-200,000. In addition, 67.2% of K-REP clients were able to 'draw' only between Ksh 1,001- 4,000 per month from their businesses as income. Earnings from other sources were found to be limited (60% of men earned up to Ksh.1000 per month from other sources, and 66% of women earned between Ksh 1000 and 5000 month from other sources). This gives an indication of the socio-economic status of K-REP's clients.

4.48 Figures from the USAID Final Evaluation indicate the importance of K-REP clients' incomes within the household, and how changes in those incomes might affect household welfare. Their sample shows that 65% of female and 80% of male respondents were the sole providers of food for the household, and that 35.8% of the women and 55.4% of the men were responsible for rent payments (Not all clients lived in rented accommodation. 33.1% of Juhudi clients and 35.5% of Chikola clients owned their own homes). In addition, 46.7% of the women and 71.7% of the men had sole responsibility for paying school fees for children in the household (USAID, 1994:80).

4.49 This picture may have altered. Client enrolment has slowed, and the composition of clients has gradually changed. The slowed expansion has been policy-driven as K-REP approached bank status. It was essential that the portfolio was strengthened and the problems of default and drop-out substantially resolved prior to the introduction of formal banking regulations.

4.50 Nearly all the clients are still believed to be within the lower end of microenterprise range, owning enterprises employing five or less workers. Nevertheless, significant differences in levels of monthly sales, income and assets exist within this band, and K-REP clients rarely come from the bottom 25%. Senior staff within K-REP argue that this apparent shift away from the ultra-poor has occurred as a result of the selection process within Watanos and KIWAs who tend to exclude individuals without pre-existing enterprises and those with insufficient business turnovers.

## *THE NEED FOR K-REP'S FINANCIAL PRODUCTS*

4.51 An important issue is whether K-REP services a clear and distinct niche by providing a unique form of financial intermediation, or whether it is replacing other providers in Kenyan capital markets.

4.52 Our findings strongly suggest that the majority of K-REP clients would be unable to access loan capital from commercial sector banks. In the past their enterprises have therefore had to survive inadequate working capital and erratic cash-flows. Where any capital has been available, it has very largely been from traditional self-help schemes like ROSCAs and Merry-Go-Rounds (see Case Studies in Annex K). This finding is supported by Kioko, who reached clear conclusions about clients' access to alternative sources of funding. He stated that for 82.6% of clients' savings were their only source of capital, with 1.5% obtaining funds from ROSCAs, other NGOs and co-operatives. Out of the whole sample of 1032 individuals only one client had been able to obtain financing from a bank.

### *THE APPROPRIATENESS OF K-REP'S FINANCIAL PRODUCTS FOR ALL ENTERPRISE TYPES*

4.53 It is clear that K-REP's client profile is dominated by petty traders. In his study, Kioko found that only a small minority of clients were involved in either manufacturing or service industry, 77% of the sample being involved in commerce and trade (Kioko 1995) (see Table 12 below).

*Table 12: Enterprise Types Found in Kioko Sample Survey*

| Business Sector | Male | | Female | | Total | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Manufacturing | 120 | 23.9 | 67 | 12.8 | 187 | 18.2 |
| Trade | 353 | 70.3 | 438 | 83.4 | 791 | 77.0 |
| Services | 29 | 5.7 | 20 | 3.8 | 49 | 4.8 |
| TOTAL | 502 | 100 | 525 | 100 | 1027 | 100 |

Source: Client Intake Forms, Nyeri. 1027 responses from a sample of1032. Reported in Kioko, 1995:14.

4.54 An internal study by K-REP had findings of a similar order, with between 55% and 65% of clients engaged in commerce and trading, between 25% and 30% involved in manufacturing and 10-15% providing services.

4.55 The small proportion of service and manufacturing enterprises is undoubtedly due to the nature of the financial products offered by K-REP. The system of weekly repayments starting immediately after loan disbursement does not lend itself to agricultural production or to many forms of manufacturing. K-REP loans cannot be used to stabilise seasonally erratic cash-flows or to make medium or long term investments with a delayed income stream.

*AN URBAN FOCUS?*

4.56 A further issue concerning K-REP's outreach, is the institution's focus on urban and peri-urban areas. This focus has clearly been necessary in order to establish itself as a sustainable financial institution. A certain population density, with a sufficient number of micro-entrepreneurs is a prerequisite if credit delivery is to be cost-effective.

4.57 Attempts to expand into more rural districts using the Chikola Scheme have run into problems caused by the difficulty of tracking clients and predicting problems within the groups. Chikola Groups are under much looser control than JCS groups, and the black-box of decision-making, loan disbursement and loan recovery appears to have led to disastrous levels of drop-out and default, especially in groups established just prior to joining K-REP, and those that were poorly trained or had weak systems of internal governance (see footnote, paragraph 3.3). In any case there appears to be some empirical evidence to support the current focus, with USAID finding that urban households were more likely than those in rural areas to depend entirely on K-REP assisted enterprises for their income (USAID, 1994).

4.58 K-REP has developed a medium term strategy to attempt to broaden its portfolio of financial products in order to reach the full range of Jua Kali enterprises. It aims to use K-REP's NGO division, following the transformation of K-REP into a bank and an NGO, to develop and pilot new financial products suitable for the ultra-poor, for agricultural producers and others currently unable to benefits from K-REP's financial services. If these are shown to be viable in an NGO context they will be adopted and mainstreamed by the banking division.

# 5

## BENEFICIARY IMPACT

### *EMPLOYMENT GROWTH*

5.1 Using employment growth as an indicator of the success of K-REP's lending can serve as a proxy for other kinds of enterprise growth, such as increases in assets, sales and profits. Employment growth, however, is not an ideal measure of successful loan investment. Despite this, it is likely to continue to be used because of the complexity of alternative empirical measures. To assess accurately changes in the welfare of loan recipient's households, data would need to be collected on household expenditure and consumption patterns; on non-enterprise investments (e.g. land purchase); and on all income streams, forms of investment and spending within the household. As shown in Table 13 and paragraphs 5.16-20, patterns of investment and loan use are complex. As a result, measurement of growth, of either income or employment, is likely to underestimate the benefits of improved access to capital.

5.2 Surveys conducted in a number of African countries have repeatedly confirmed that the majority of microenterprises stay small (McPherson,1991; Liedholm and Mead, 1993, in USAID Final Evaluation Report, 1994:74). The original objectives of ODA support to K-REP were, however, to increase household income, savings and employment, and it is therefore necessary to measure against these indicators.

5.3 The original target for increase in jobs was set at 0.4 jobs per borrower. K-REP appears to have performed well against this target. A study on Labour Force Changes Since Loan Receipt conducted during the USAID final evaluation found that employment growth rates were better than anticipated, with the average rate of increase in jobs being 0.59 jobs per enterprise (Macharia, 1996:18-19). In addition, the USAID evaluation found that prior to receiving loans the average rate of employment growth amongst the enterprises of K-REP clients was only 12.4% (USAID, 1994:5), Following the first loan disbursement, however, the rate of growth for these businesses was equivalent to the national average at this time of 29% and, after second Juhudi, loans employment growth rates were even higher. Despite this, nearly 40% of enterprises experienced no business growth following loan receipt (USAID, 1994:6).

5.4 These positive findings are countered by Oketch and Kioko who, in their 18 month study of K-REP loan recipients, found that '(t)here was no change in the average number of workers per enterprise nor any significant change in their size distribution, with 78-85% remaining at the 1-2 worker range....However, there was a significant horizontal impact of the loans on employment.' (Oketch and Kioko 1995:19). These contrasting findings may simply be due to the nature of the different sample groups. Growth in employment is likely to occur in spurts and only once or twice in an enterprise's lifetime. Thus evidence of growth may relate to the age of the enterprise, as well as to the availability of surplus capital and the entrepreneur's objectives. Evidence concerning employment growth resulting from loan disbursements will also inevitably be affected by the 'health' of the MFI. It is possible that the 0.59 jobs per enterprise figure fails to reflect the impact of drop-out and default.

5.5 Nevertheless, half the enterprises owned and run by the K-REP clients interviewed by this evaluation team had experienced employment growth (this includes all enterprises, not simply the 'core' enterprise, as it is assumed that cross-subsidy and horizontal expansion is taking place). Of the remainder, five out of sixteen had seen no growth in employment. One enterprise had had a fluctuation in staff numbers and two had seen a decline, one following the business collapse and default, and the other following the owner's departure from K-REP.

### *HORIZONTAL ENTERPRISE EXPANSION*

5.6 As stated above, tracking employment and income growth within a single enterprise was shown to be an ineffective mechanism for assessing the level of benefit accruing to K-REP loan recipients. Entrepreneurs have been found to be using surplus capital, including the increased liquidity following K-REP loan disbursements, to establish new enterprises rather than to reinvest in a nominal 'core business'. This enterprise may have reached its optimal size. Alternatively, horizontal growth may reflect two alternative elements of a risk-averse or risk-spreading strategy.

5.7 Small and micro enterprises are likely to fluctuate around the point of failure when attempting survival in saturated and highly competitive markets (USAID, 1994) and within insecure macro-economic environments. This may be even more the case where due to business location (for example in slum areas such as Kibera and Kawangware) ineffective demand stifles enterprise growth. These small enterprises are therefore highly vulnerable to shocks. The apparent preference for the horizontal expansion of entrepreneurial activity, as opposed to the more normal vertical growth of single enterprises, is therefore a rational livelihood strategy in order to spread risk by developing a range of income-generating activities. This is especially the case where the key issue is household security, as opposed to the survival of an individual enterprise.

5.8 There is anecdotal evidence to support an additional supposition: that cultural factors are influential in determining investment decisions. Within the Kenyan environment, where informal transfers are an important safety net mechanism, entrepreneurs may wish to disguise their success by running a number of small businesses, thus avoiding heavy social responsibilities. In addition, by having a large number of small enterprises, the individual may also avoid theft, vandalism and other actions prompted by jealousy.

5.9 A significant implication of this horizontal growth is that any study focusing solely on the impacts on a single enterprise may well miss key benefits in terms of both income generation and employment creation. In a study of K-REP clients spanning 18 months it was found that 'the number of clients starting another business venture increased from 26% during the first interview to almost 71% during the fourth observation. This suggests that the loans directly contributed to the creation of new jobs by as much as 26% at the minimum.' (Oketch and Kioko 1995:19).

5.10 An indication of this horizontal growth is that the USAID evaluation team found that 13% of their sampled clients from Kibera had more than one enterprise prior to receiving a loan from K-REP. This figure increased to 45.2% following loan disbursement. Many of these clients were engaged in rental housing which, despite having low returns, produces a regular low risk income, with a minimal input of time (USAID, 1994:83).

5.11 When assessing the scale of horizontal growth across the whole USAID sample, 22% of JCS scheme members had more than one enterprise prior to loan disbursement. This rose to 41% following receipt of a loan.

5.12 The benefits of horizontal expansion are illustrated by the case study in Box 3 below.

BOX 3. CLIENT PROFILE 5

The information in this box is drawn from Annex K, and summarises the information provided by Client 5.

Client 5 lives in Kibera, where he is a member of Jasho Self Help Group[14] and owns a number of enterprises. The enterprises are all very much micro in scale, and would produce a very meagre income if run singly. His 'core' enterprise is a General Store which was established in 1992. His first K-REP loan in 1992/3 allowed him to improve his stock in this store. The later purchase of a sewing machine, using a subsequent loan, allowed him to employ his daughter as a tailor in return for her keep. Further loans allowed him to continue this process of diversification through the horizontal expansion of his entrepreneurial base. He opened a hairdressing salon in 1995, and started wholesaling bottled, carbonated drinks in 1996. He also used one of his K-REP loans to renovate the eleven room barrack made from wood that houses his enterprises, four one-room rental units and his own household.

The table below shows the client's loan history with K-REP.

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1992/3 | 1 year | Purchase of stock for general retail kiosk |
| 2 | 15,000 | N/A | 1 year | Purchase of a sewing machine |
| 3 | 40,000 | N/A | 1 year | Renovation of premises |
| 4 | 120,000 | 1996 | 1 year | Establishment of the Soda Wholesale business, and purchase of additional stock for his general retail kiosk. |

As his businesses have grown, this client has been able to increase his workforce. When he first joined K-REP he employed one person in his shop, in addition to himself. He now employs four people, one in the shop, two in the hairdressers kiosk, and his unpaid daughter. Each of the paid members of staff receives a salary of Ksh.1,500/month.

He believes that between the general retail kiosk, the hairdressing/tailoring and the wholesale businesses he makes a profit in the range of Ksh.2,000/month, with an additional regular income of Ksh2,000 a month from the rental properties. The units are rented out at Ksh.500/month, which is at the bottom of the normal Ksh.500-700/month price range for rental accommodation in Kibera.

Tenure in Kibera is tentative, so despite owning property, this client would be unlikely to be able to raise capital through a commercial loan. However, he is not entirely estranged from the formal banking sector, and in addition to the Ksh.21,000 he has accumulated in savings with K-REP, he has an account at the Post Office Savings Bank and the Co-operative bank.

Unfortunately, the positive impacts of K-REP membership have come with a very definite price tag. He has lost savings through the default of three members of his group. His losses amount to a Ksh 900 contribution to clearing one account, a Ksh.650 contribution to another, and a Ksh75,000 debt which the group has still to cover.

## *INCOME GROWTH*

5.13 Growth in the income generated by an enterprise is extremely difficult to assess in a meaningful way in the Kenyan context. In order to obtain reliable information, it would be necessary to gather information concerning sales and expenditures in order to construct balance sheets. Where this information is being gathered from entrepreneurs relying on memory, and where inflation may make any increases or decreases meaningless, there can be no guarantee of accuracy.

5.14 However, in a study conducted in 1993, using a sample of 200 JCS clients, Buckley found that increases in assets depended on whether a client was servicing a first or subsequent loan. It also depended on how far loan repayment had progressed. Borrowers who had made more than 12 months' repayments on their first loan experienced a growth rate of 22% in current assets and a 4% growth rate in total assets after adjusting for

14 This KIWA is under the control of Kibera Field Office, and Kawangware Area Credit Office.

inflation at 20%. The study also found that monthly sales increased by between 2 and 14% for K-REP Juhudi clients.' (Buckley in Hulme and Mosely, 1996.)

5.15 Our evaluation found that ten of the sixteen K-REP clients interviewed had experienced an increase in income. Of the remainder, three individuals had seen their incomes increase during K-REP membership, one had then lost his business following default on a loan, another had seen her business go into decline after leaving K-REP due to a default and the third had experienced a decline in sales after leaving K-REP due to the loss of her savings. Other interviewees had either seen no increase in sales earnings or profits, or had experienced fluctuating sales.

## *BENEFICIARY IMPACT*

5.16 Over 86% of K-REP clients interviewed by the USAID evaluation team stated that their households had benefited as a result of receiving a K-REP loan (USAID, 1994:86). However, their perception of benefit may differ from that expected by donors. There appears to be a divergence between donor objectives and those of micro-finance clients. Donors and microfinance institutions tend to aim to 'create opportunities in the enterprises for vertical growth'. Their targets are employment and income growth. However, most clients diversify by investing in new enterprises, and the most positive benefit they perceive is the qualitative improvement in their entrepreneurship (Oketch and Kioko 1995). This is reflected in Table 13 below and in a number of the case studies developed by the evaluation team. The latter are summarised as a series of boxes at the end of this Chapter.

5.17 The tabulated information and case studies show that between 25.2% and 30.5% of the clients sampled used their loan capital to invest in horizontal enterprise expansion (i.e. opening another, possibly linked enterprise), while less than 1% invested in the expansion of their workforce. In many cases, however, clients expanded (42.4%-56.1%), improved (3.5%-4.2%), or diversified (7.3%-10.2%) their stock.

*Table 13. K-REP Client Loan Use Intentions*[15].

| Type of business plan | 1st observation | | 2nd observation | | 3rd observation | |
|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % |
| Increase volume of goods | 98 | 48.5 | 50 | 42.4 | 23 | 56.1 |
| Improve quality of goods | 7 | 3.5 | 5 | 4.2 | — | — |
| Diversify into new goods | 20 | 9.9 | 12 | 10.2 | 3 | 7.3 |
| Purchase tools/equipment | 2 | 1.0 | 3 | 2.5 | — | — |
| Move to better premises | 6 | 3.0 | 5 | 4.2 | 1 | 2.4 |
| Open new branch | 3 | 1.5 | 2 | 0.8 | 1 | 0.4 |
| Open another business | 51 | 25.2 | 36 | 30.5 | 12 | 29.3 |
| Hire more workers | 1 | 0.8 | — | — | — | — |

(Oketch and Kioko 1995:27.)

5.18 The USAID Final Evaluation Report found that the loan capital would be used to meet the most pressing household needs. Macharia found such loan use demonstrated the 'complex interaction of an assisted enterprise with the other activities in a household, and highlighting the realities facing many Kenyan micro entrepreneurs' (Macharia, 1996: 23)[16].

5.19 Allowing for some movement of funds to increase household liquidity, USAID found that most Juhudi Credit Scheme (JCS) clients used their first loan as working capital to buy stock or supplies (some adding to a second business and approximately 12.5% going to support household expenditure) and their second loan to purchase stock (68%), extend product range (21%), change business location (4%), purchase or improve fixed assets (6%), purchase equipment (15%), and support existing second enterprises (14%). Approximately 20% of the sample used their second loan for non-business expenditures such as school fees, the purchase of land and other household expenses (total exceeds 100% due to multiple use of loan funds).

5.20 The evaluation team found that the horizontal growth of enterprises was common, as was the purchase of land (see Annex K). The team viewed the purchase of land as a mechanism for increasing household security by acquiring an appreciating asset.

15 The data were collected from a randomly selected sample of 252 K-REP clients over a period of 18 months by Oketch and Kioko. Approximately 30 % of the sample was selected at intervals of six months each.

16 K-REP officials discourage the use of loan funds for non-productive purposes and, as researchers reporting directly to K-REP, Oketch and Kioko (1995) were unlikely to obtain reliable responses on this aspect of loan use, which explains this category's absence from the table.

5.21 The case studies in Annex K (clients 10,12,15) indicate the benefits three clients gained through access to capital provided by K-REP. The first represents a client at the upper end of the K-REP client portfolio, the second one roughly in the middle, and the third one who started off towards the bottom of the range.

# 6

## FINANCIAL PERFORMANCE AND SUSTAINABILITY

6.1 The financial performance and sustainability of K-REP will be assessed primarily in terms of total lending and the institution as a whole. In addition, some branch level analysis will be presented on the three ACOs financed by the K-REP JCS project. Data used in this analysis will be drawn from three sources:

- An analysis of Annual Income Statements and Balance Sheets from 1991 to 1996 for the three ACOs at Mount Kenya East, Mount Kenya West and West Nairobi;
- An analysis of Annual Income Statements and Balance Sheets from 1991 to 1996 for K-REP's Financial Services Division which includes all K-REP's lending activities;
- A more detailed financial analysis of K-REP's financial services for the period January 1995 to June 1997 produced as an internal document by the BASE office (Ferrand Report). Relevant findings and graphic material have been reproduced here and in Annex O but the Report, as a whole, is not in the public domain.

6.2 Overall, the evaluation found that K-REP has made a considerable, and acceptable, level of progress towards establishing itself as a financially sustainable MFI. This conclusion is also supported by the Ferrand report produced by the BASE office which concludes that the results for 1996 reveal an important break-through for K-REP's credit division with the achievement of full financial self-sufficiency in the year for the first time.[17] However, K-REP cannot as yet be considered a fully sustainable MFI because these results would need to be repeated over a number of years and because its source of loan capital is the grant donor and not members' savings. Thus it does not incur the cost of mobilising savings or of borrowing commercial funds.[18] K-REP has been unable to on-lend the savings of its members because of its NGO status. This problem is being addressed through the creation of the K-REP Bank which will allow K-REP to on-lend members'

17 The indicator of financial self-sufficiency used by the Ferrand report is the achievement of a positive real return on equity: ie a return on equity greater than inflation. The achievement of this is indicated by the graph in Annex O).

18 The cost to K-REP of using savings for on-lending would be somewhere in the region of 15% made up of 5% paid to savers for their deposits and 10% for the transaction costs incurred by K-REP in collecting the savings.

savings currently held in group commercial bank accounts and currently used only as security for lending. The change to bank status will allow K-REP to mobilise Ksh 44m. The three ACOs have also made progress toward cost-recovery.

6.3 K-REP's lending programme is administered under the Financial Services Division (FSD). The Annual Statement of Accounts reports the individual financial performance of the FSD Head Office and the five ACOs as well as a consolidated FSD set of accounts. The financial statements given in Tables 38 and 39 are the consolidated accounts derived from the Annual Reports (1991- 1996) for all K-REP's lending, including the Chikola and Juhudi schemes as well as Head Office FSD loan-related expenditure. These accounts also include K-REP's original on-lending to NGOs which now forms a relatively small and diminishing part of the total credit activity. As at June 1997, the wholesale lending accounted for less than 5% of net aggregate credit portfolio.

6.4 Much of the loan accounting and group records are kept by the groups themselves but the ACO also keeps records of disbursements and repayments. Loan repayment schedules are worked out by the ACOs using a Lotus spreadsheet developed by K-REP in-house. Some ACOs (eg Kawangware), are in the process of adopting the FAO Micro Banker software. Accounts are maintained for each area office and the head office credit related component. Under the cost accounting system, ACO profit and loss accounts do not indicate a direct charge for head office overheads. Consolidated accounts are prepared for all lending which aggregate the ACO and head office accounts.

## *FINANCIAL PERFORMANCE OF AREA CREDIT OFFICES*

6.5 The three ACOs included in the K-REP JCS project have all been established and operate separate accounting entities.

6.6 Tables 39 and 40 in Annex N show the financial statements for the Mount Kenya West ACO at Nyeri from 1993 to 1996 and highlight the growth of K-REP lending. The size of the loan portfolio has grown from Ksh 0.5m in 1993 to Ksh 76.8m in 1996. Loan-related income has grown from Ksh 0.2 m in 1993 to Ksh 14.5 m in 1995 and total expenses have grown from Ksh 1.2m in 1993 to Ksh 10.3m in 1996. As a result, the Nyeri ACO made a cumulative loss for the first three years' operation of Ksh 3.9m and returned its first profit of Ksh 5.3m in 1996. This suggests that the ACO is making progress towards cost recovery but again it should be remembered that it is lending grant funds. Provision for bad debts has grown from zero in 1994 to Ksh 3.4m in 1995 and to Ksh 3.9m by 1996. This provision for bad debts for Nyeri represents only 5% of the total loan portfolio outstanding, a level considered by K-REP to be acceptable for this kind of lending.

6.7 Table 41 in Annex N, the Income Statement for the Mount Kenya East (Embu)

ACO shows the ACO to have been lending for only two years. It returned a loss of Ksh 2.3m in 1995 and a reduced loss of Ksh 47,901 in 1996. As such it is too early to judge the financial performance of this ACO. The financial statements for the two West Nairobi Offices of Kibera and Kawangware which, initially, operated separately but in 1996 were merged, are given in Tables 42 to 45 in Annex N.

6.8 Kibera was one of the ACOs established with assistance from the K-REP JCS project and Table 45 shows that since 1993 the size of the loan portfolio has grown from Ksh 4.4m to Ksh 24.6m in 1995. The Income Statements show that loan-related income has grown from Ksh 1.4 m in 1993 to Ksh 5.8m in 1995 while total expenses have grown from Ksh 3.0m in 1993 to Ksh 3.6m in 1995. As a result the Kibera ACO has made a net profit for the three year period 1993 to 1995 and reported a cumulative profit of Ksh 3m in 1995. Overall, the combined West Nairobi ACO appears to be moving towards financial sustainability, reporting a total portfolio of Ksh 77m and a net profit of Ksh 16.8m in 1996.

## *FINANCIAL PERFORMANCE AND SUSTAINABILITY OF K-REP*

6.9 Annual Income Statements for K-REP's lending programme from 1991 to 1996 are presented in Table 14. These statements include both Chikola and Juhudi lending and give a good indication of K-REP's total lending and financial sustainability. Table 14 shows that K-REP made a loss on its lending operations for its first three years (1991 to 1993) and profits of Ksh 1.4m in 1994, Ksh 1.7m in 1995 and Ksh 31.3m in 1996. K-REP did not move into a cumulative profit position (Ksh 25m) until 1996. Over this period the loan portfolio of the combined Juhudi and Chikola schemes has grown from Ksh 32m in 1991 to Ksh 272m in 1996 (see Balance Sheets in Table 15). The same table also shows the decline in K-REP's original lending activity to other partner institutions and NGOs.

6.10 One possible contributory factor to the increased profit in 1996 is that during the last 18 months K-REP has stopped growing, in terms of recruiting new clients, and the size of the loan portfolio has reduced from Ksh 317m in 1995 to Ksh 264m in 1996 (see Table 15 below). As a result, K-REP has increased its profits primarily because it is working with a reduced number of new groups and with more well-established groups which incur lower training and establishment costs. This point highlights the trade-off issues between retaining financial efficiency and maintaining development outreach.

6.11 Table 14 shows that the major sources of K-REP internally-generated income is loan interest which has grown from Ksh 2.5m in 1991 to Ksh 71.8m in 1996 and represents 95% of the total income figure of Ksh 75.3m. Other sources of directly loan-related income such as application, registration and passbook fees have also grown but are not significant sources of income. The other main source of K-REP income, interest on its savings and deposits, amounted to Ksh 6.3m in 1996.

*Table 14: Income Statements 1991-96 - Financial Services Division - Total Lending*

| Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|
| Income | | | | | | |
| Loan Interest | 2,580 | 4,090 | 8,494 | 27,693 | 53,723 | 71,805 |
| Loan Application Fees | 105 | 161 | 255 | 788 | 3,707 | 2,813 |
| Registration Fees | 132 | 170 | 174 | 347 | 217 | 393 |
| Passbook Fees | 26 | 87 | 94 | 168 | 319 | 309 |
| Sub-Total | 2,843 | 4,508 | 9,017 | 28,996 | 57,966 | 75,320 |
| Interest on Savings and Deposits | 1,965 | 2,450 | 2,492 | 4,805 | 2,151 | 6,384 |
| Interest on Staff Loans | 0 | 0 | 64 | 198 | 0 | 0 |
| Other Income | 34 | 64 | 0 | 2 | 46 | 930 |
| Total Other Income | 1,999 | 2,514 | 2,556 | 5,005 | 2,197 | 7,314 |
| Total Income | 4,842 | 7,022 | 11,573 | 34,001 | 60,163 | 82,634 |
| Expenses | | | | | | |
| Salaries | 2,886 | 4,609 | 8,266 | 15,162 | 23,725 | 28,083 |
| Office Expenses | 1,566 | 2,674 | 4,330 | 4,592 | 4,292 | 5,770 |
| Depreciation | 140 | 274 | 165 | 398 | 698 | 1,019 |
| Training Expenses | 19 | 52 | 137 | 948 | 240 | 431 |
| Travel & Accommodation | 224 | 1,041 | 1,634 | 2,301 | 3,037 | 2,774 |
| Professional Fees | 10 | 71 | 87 | 44 | 40 | 752 |
| Audit Fees | 50 | 244 | 608 | 750 | 900 | 600 |
| Bad Debts Provision | 237 | 1,415 | 1,946 | 3,495 | 14,951 | 7,989 |
| Other Expenses | 26 | 79 | 719 | 2,593 | 3,239 | 3,904 |
| Interest on Head Office Loan | 0 | 0 | 150 | 2,305 | 7,310 | 0 |
| Total Expenses | 5,158 | 10,459 | 18,042 | 32,588 | 58,432 | 51,322 |
| Net Profit/(Loss) | -316 | -3,437 | -6,469 | 1,413 | 1,731 | 31,312 |
| Profit/(Loss) B/F | 0 | -316 | -3,753 | -9,124 | -7,711 | -5,980 |
| Re-Statement of Assets | 0 | 0 | 1,098 | 0 | 0 | 0 |
| Profit/(Loss) C/F | -316 | -3,753 | -9,124 | -7,711 | -5,980 | 25,332 |

6.12 K-REP's lending related expenses have grown from Ksh 5.1m in 1991 to Ksh 51.3m in 1996. The major single expense was salaries which grew from Ksh 2.9m in 1991 to Ksh 28m in 1996. The other major items of expenditure were office expenses of Ksh 5.8m in 1996 and travel and accommodation amounting to Ksh 2.8m in 1996.

*Table 15: K-REP Balance Sheets - Financial Services Division - 1991-96 (Ksh'000)*

| Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|---|
| Fixed Assets | 0 | 0 | 2,075 | 2,485 | 4,808 | 6,151 |
| Program Loans | | | | | | |
| Juhudi & Chikola Loans | 8,830 | 15,485 | 68,882 | 164,804 | 294,357 | 271,646 |
| Partner Institutions Loans | 23,700 | 23,100 | 46,700 | 43,900 | 40,734 | 189 |
| | 32,530 | 38,585 | 115,582 | 208,704 | 335,091 | 271,835 |
| Less: Provision for Bad debts | 236 | 651 | 8,498 | 9,916 | 17,806 | 7,989 |
| Net Program Loans | 32,294 | 37,934 | 107,084 | 198,788 | 317,285 | 263,846 |
| Other Assets | | | | | | |
| Cash and Bank Balances | 21,058 | 18,185 | 13,223 | 20,925 | 29,232 | 28,550 |
| Term Deposits and Treasury Bills | 0 | 0 | 0 | 6,745 | 3,012 | 57,244 |
| Inter Company Account | 0 | 0 | 16,464 | 18,455 | 5,347 | 4,666 |
| Sundry Debtors | 794 | 1,540 | 3,891 | 3,762 | 445 | 2,553 |
| | 21,852 | 19,725 | 33,578 | 49,887 | 38,036 | 93,013 |
| Total Assets | 54,146 | 57,659 | 142,737 | 251,160 | 360,129 | 363,010 |
| Capital Resources | | | | | | |
| Bank Overdrafts | 0 | 0 | 6 | 0 | 1,003 | 0 |
| Loans | 0 | 0 | 6,100 | 923 | 43,504 | 189 |
| Loan Insurance Fund | 976 | 135 | 4,391 | 3,332 | 2,782 | 0 |
| Sundry Creditors | 0 | 181 | 425 | 1,372 | 1,556 | 25,355 |
| Grant Capital | 53,485 | 61,095 | 140,938 | 253,244 | 308,037 | 305,218 |
| Retained Profits | -315 | -3,752 | -9,123 | -7,711 | 3,247 | 32,248 |
| Total Capital Resources | 54,146 | 57,659 | 142,737 | 251,160 | 360,129 | 363,010 |

6.13 One of the main treats to K-REP's financial sustainability is the level of bad debts and group drop outs reported in Chapter 4 of this report. Table 15 shows that the provision for bad debts in the 1995 balance Sheet was Ksh 17.8m, just over 6% of the total loan portfolio of Ksh 294m. The amount provided for bad debts in the 1996 Balance Sheet fell to Ksh 8m which represents approximately 3% of the outstanding portfolio. K-REP claims that this increase represents a change in bad debts provision policy rather than a sudden deterioration in the number of K-REP loans at risk.

*K-REP FINANCIAL ANALYSIS, JANUARY 1995 TO JUNE 1997*

6.14 This section presents a summary of the main findings of the 'Ferrand Report 1997'' which analyses the performance of the activities of the Financial Services Division in the eighteen months from January 1996 to June 1997 (para 6.1 refers). The graphs and tables to which this section refers are reproduced in Annex O. The Report does not include an analysis of individual branch performance.[19]

*Profitability*

6.15 K-REP has shown a steady improvement in profitability over the past four years. In 1996 the sustainable return on equity exceeded inflation for the first time (Annex O graph 1). The positive real return on equity is a key sustainability indicator, implying the achievement of financial self-sufficiency in 1996. This is clearly a very significant milestone in the development of a MFI pursuing a goal of institutional sustainability.

6.16 The 1995 results suggest a downturn in that year. This can be attributed, however, to the substantial provisions for loan losses made in that year, producing a loan loss ratio of 4.7%. The majority of these anticipated losses should be attributed to lending made in previous years. Were the provisions of 1995 re-allocated to the appropriate previous years in which the non-performing loans were actually disbursed then the upward trend in overall profitability would have followed a smooth path as illustrated in the Adjusted Return of Equity (Annex O graph 2). The improvement in profitablity is demonstrated clearly in Annex O's Self sufficiency graph 3 which shows the operating and financial self-sufficiency indicators.

6.17 An examination of the detailed management figures for the last eighteen months to June 1997 shows that a positive real return on equity was achieved for the first time in July 1995 and was maintained until November 1996. In the first half of 1997 the combination of an apparent decline in profitability and rising inflation reversed that position. While seasonal factors will be partially responsible for the negative trend in profitability, a comparison of first half figures for 1997 with those for the first half of 1996 suggests there has been some downward movement. Average sustainable return on equity in the first half of 1996 was 13% compared with an average of 8% for the first half of 1997.

6.18 The performance must be related to the context of K-REP's growth path and development strategy. In the three years to December 1995, K-REP expanded its portfolio very rapidly as indicated by the Return on Equity graph (Annex O graph 4) This rapid

19 It should be noted throughout the discussion that K-REP has a cash rather than accrual based accounting system.

growth produced the scale necessary to achieve the economies of lending required to move towards financial self-sufficiency. Following this period, K-REP took the strategic decision to consolidate before embarking on a second phase of growth.. This strategy is described as one of intensification rather than extensification, that is concentration on quality rather than quantity. Whilst rapid expansion of the portfolio will often deliver immediate gains in profitability, such gains can mask inefficiencies and shortcomings in institutional capacity. From 1996, K-REP dramatically reduced the scale of disbursements, reducing the size of the portfolio substantially as existing loans were paid off. At the time of writing, K-REP was about to embark on a second stage of growth as indicated by the slight up-turn in portfolio size in the second quarter of 1997.

6.19 The vindication for the strategy can be seen in the improvement in profitability during 1996. K-REP has improved profitability, to the point where it has achieved full financial self sufficiency, at a time when its portfolio has actually reduced by nearly 15% from 1995 to 1996, in terms of value.

6.20 A key element in the improved profitability has been the control of costs. Although the portfolio had shrunk, K-REP did not intend to downsize the organisation because the consolidation period was intended to be only a relatively short-term strategy. The relatively minor increase in the operating cost ratio from 1995 to 1996 is therefore a somewhat positive outcome Annex O graph 5).

*Liquidity*

6.21 Liquidity does not present a difficulty for K-REP. As a result of deliberately reducing loan disbursements, K-REP is currently highly liquid. As at June 1997, the quick ratio was greater than 35 and in the past eighteen months has not fallen below 2. As the lending programme is resumed liquidity may become more significant. The quantitative repayment rate over the past three quarters has averaged less than 90%, a level which, while it will impose some burden on liquidity, is not one which poses any threat to the institution.

*Capital Adequacy*

6.22 K-REP has not, as yet, used debt to fund its lending programmes. Gross gearing remains extremely low (less than 1% as at June 1997). Until formal conversion to bank status, K-REP does not and will not (as a matter of policy) on-lend the compulsory or voluntary savings of its clients. The provisions made for loan losses have not made any impact on the organisation's capital strength. Over the 14 months to June 1997 for which figures are available, the equity:reserve ratio peaked at a value of 15% and has since declined to 13%, offering a substantial margin of comfort.

*Portfolio Quality*

6.23 A major element of K-REP's 'intensification' strategy has been to examine critically issues of portfolio quality. Substantial provisions for bad and doubtful debts were made in the years 1995 and 1996. Provisioning policy has been modified significantly to take a more conservative and pessimistic approach. Most of the provision made in 1995 and 1996 relates to lending made in earlier years.

6.24 A number of changes have been made in the last two years in response to the portfolio quality issues raised. Substantial provision has been made for just two area offices and for particular field offices within those areas. Some problems encountered with staff-related losses necessitated a strengthening of the internal supervisory and audit function. Areas of vulnerability to delinquency were also identified in the lending products, primarily the Chikola. Changes in delivery and supervision have been made to reduce risks here. K-REP has not yet, as a matter of policy, written-off loans, because a write off could send the wrong signals to loans officers and branch managers who might then reduce their efforts to recover such loans.

6.25 Cumulative loan loss for K-REP direct credit activities now totals approximately Kshs 18.5 million, after write-backs. Major provisions for loans in the Juhudi and the Chikola programmes, of roughly Ksh 15 million, were raised for the first time in 1995 and, in 1996, of nearly Ksh 8 million.

6.26 A key issue is the extent to which the provision accurately reflects likely losses. Provisioning policy has changed significantly over the past two years. A major shift in policy was effected at the end of 1996. Moving from a purely quantitative approach, K-REP now assesses the status of loans using a combined qualitative and quantitative methodology. Credit officers and branch managers are required to assess all the loans individually within their portfolios at least annually to determine as precisely as possible whether a provision is required. Where a loan is in arrears for more than 120 days, it is expected that a provision would normally be raised. Where, however, it is judged that there is a reasonable likelihood of recovery, the loan may be retained within the portfolio. Conversely, where it is known that a loan at any stage is no longer likely to be recovered then a provision will be raised. The aim of the new policy is to be relatively stringent with respect to provisioning and, consequently, to err on the side of pessimism rather than optimism, regarding portfolio quality.

6.27 Assessing the likely accuracy of the provision is not easy. The stringency of the policy can be judged to a degree by the extent of collections made against loans for which provisions have been raised. During 1996 approximately 40% of the amount provided for was collected. In the first six months of 1997, Ksh 1.8 million was collected from loans that had been provided for in the previous two years. This suggests that the provisioning policy has been rather pessimistic.

6.28 Examination of the arrears pattern can be used as a proxy for portfolio quality (though of limited reliability, especially where lending policy is in some flux). First, however, it should be noted that the approach to recording arrears has been tightened. In the past a loan was not declared at risk until 30 days after a loan repayment had fallen due and been missed. The loan is now defined as being at risk from the first day the payment is missed. This policy was introduced in 1996 and is held to be the explanation for the significant rise in the portfolios at risk (high and low) indicated in Annex O's Portfolio Quality graph (No 6). Indications are that both these ratios had reached a plateau by the second quarter of 1997.

6.29 Despite the caveats mentioned above, the arrears do point to a more pessimistic picture of portfolio quality. Even following the significant improvement in June, the portfolio at high risk (defined as the proportion of loans - by value - in arrears of more than 120 days) was still over 13% of the portfolio, against a portfolio at low risk of nearly 29% (defined as proportion of loans in any arrears).

6.30 The pattern of arrears by age shows a relatively large arrearage in the category of 1-30 days. This would be expected since it is common for a number of loans to fall into arrears by a single payment period before rectification in the next period (where the payment cycle is monthly - corresponding to the 30-day breakdown). This transitory delinquency can suggest an exaggerated picture of portfolio quality problems. The appearance of short-term arrears will be very strongly dependent on details of the methodology (especially mechanisms for payment collection). Of vital importance is the extent to which such arrears translate into arrears of the second (31-60 days) and subsequent categories.

6.31 There is some evidence of the expected pattern of a strong fall-off in the size of arrears moving up the arrears ladder until the final category of 120 days plus. However it is also worth noting from an examination of the dynamic trend that there is also some evidence of arrears (of the order of KShs 3-5 million) moving up the ladder in successive months without significant attenuation. If such a pattern were to become clearly identifiable in future months there may be some concern that there remains a significant under-lying loan loss potential.

6.32 The existence of significant arrears in the 120 days plus category is of more immediate interest. According to current provisioning policy, all loans falling into this category will have been considered for transfer to non-performing loans and an appropriate provision raised. That the loans have been retained in the active portfolio indicates that the loan officer/branch management believes there are reasonable prospects for final recovery. Clearly the question which must be raised is whether such an assessment is over-optimistic.

6.33 In June 1997, 58% of these arrears were found in two (Mt Kenya East and Mt Kenya West) out of the five area offices, whose combined active portfolio now constitutes only 28% of the total direct lending portfolio. The basic portfolio quality data for the first half of 1997 for these two offices are summarised in the two tables in Annex O.

6.34 For Mount Kenya West, there has been a concentration on collection of loans, evidence for which is the decline in the portfolio (more than 20% in the six months). The net hard-core (representing the on-going provision) has reduced by 10% in this period, as collections have been made. The portfolio at high risk, however has increased both proportionately and in absolute terms. Although this upward movement may be partly attributable to a shift in policy on measurement of arrears, the data do not suggest that the long overdue loans are yet being collected in significant numbers.

6.35 The situation at the Mount Kenya East office appears more dramatic. A very substantial part of the performing portfolio has been in arrears of more than 120 days. In June a large provision (of the order of KShs 8 million) was made from these long-term arrears. The implication is that the previous provisioning had erred on the side of optimism. Clearly this should not be taken to imply that a similar pattern will necessarily be repeated across all other offices. It does, however, suggest that there must remain an element of uncertainty at present about the final loan losses which the programme must bear.

6.36 As noted earlier, a substantial number of the provisions made relate to the Chikola group-lending scheme. K-REP has examined this product critically and made a number of important changes. Fundamentally, the degree of supervision has been very strongly increased. Whilst previously a loan officer was only required to met groups on a monthly or sometimes even quarterly basis, such meetings may now be held weekly or fortnightly according to need. Attendance at meetings by borrowers is mandatory and is now monitored by loan officers and their line managers. The individual loan applications within the group require the approval of the loan officer who visits and assesses the viability of the applicant's business (as in the Juhudi scheme).

6.37 The supervision of loan officers has also been enhanced since a number of the worst problems are directly attributable to failures at this level. Greater accountability has been introduced - loan officers must be able to explain all variations in the performance of their portfolios to their line managers in monthly meetings. These meetings directly precede the regular senior management meeting at which area office managers must in turn explain their overall portfolio performance. An element of performance dependency has been included in the remuneration of officers. The annual salary increment will depend on performance in the year. An area office bonus is paid on the basis of aggregate performance in the branch.

6.38 Finally, an interesting innovation has been an attempt to empower K-REP's borrowers. This is again aimed at increasing the checks and balances on the loan officer and branch management. Client seminars are held by head office credit staff at which clients are encouraged to be more critical of the K-REP programme if appropriate. They are made aware that they always have the option to appeal to the head office in case of dispute with the loan officers or branch managers.

6.39 These changes are expected to have a significant impact on the future quality of the Chikola related portfolio. It will however take a considerable time for such changes to become manifest in the aggregate indicators of portfolio quality, especially given the relatively low rate of disbursements in the period since their introduction. Close attention will be needed to the performance of the new portfolio to establish the efficacy of the changes in improving portfolio performance. There is, perhaps, a case for disaggregating the new portfolio to determine more readily the impact of the policy changes.

*Operational efficiency*

6.40 The strong improvement in profitability has been underpinned by significant improvements in operational lending efficiency in the past four years. This is clearly shown in the strong downward trend in operating cost per Ksh over the period illustrated in the graph.

6.41 Looking at the more detailed monthly data, the cost per Ksh in the portfolio fell to below Ksh 0.10 at the end of 1995. However, the cessation of rapid portfolio growth together with the preparation for rapid growth has inevitably exerted an upward pressure on the aggregate average cost of lending. This has increased again substantially in the eighteen months to June 1997. For much of 1997 the average cost per KSh has been substantially higher than KSh 0.20. The peak of nearly KSh 0.30 in April can be attributed to the back-dated (across the board) pay increase in that month. The quarter to June 1997 has seen an improvement in operating efficiency but the trends do not offer any indication of the operating level at which it will stabilise. The changes in supervision policy will very clearly have an impact on the final achievable cost-income structure and efficiency indicators.

6.42 Underlying the changing operating efficiency ratios is performance at the loan officer level. Following a sustained rise, peaking at the end of 1995, there has been considerable variation through 1996 (attributable primarily to fluctuations in staff numbers) with a clearer sustained downward movement through much of 1997. Much of the movement can be correlated with changes in staff numbers. The downward movement in 1997 can be attributed to the recruitment of new staff in preparation for expansion of the portfolio.

6.43 The variations in portfolio per loan officer can be explained in terms of the movements in the average loan size and average number of loans per loan officer (illustrated above). The peak in portfolio per loan officer at the end of 1995 corresponded with a rise in both average loan sizes and number of loans per loan officer. A figure of 300 was reached during this period. The most recent performance has shown the figure reduce significantly to around half that level.

6.44 There are two factors involved in this reduction. The first is the portfolio consolidation referred to earlier. During this period it is reasonable to suppose that there was some capacity under-utilisation. The second is that additional loan officers have been recruited for the planned expansion. It is therefore anticipated that the current level represents a trough, with steady increases in the immediate future. The crucial issue is to what sustainable level this indicator will return; in other words what will be the new loan officer capacity under the new policies. Changes in loan supervision policy suggest that the previous peaks of 300-350 loans per loan officer will not be attainable. Furthermore the planned re-expansion of the portfolio will be based on a “back-to-basics” strategy. Whilst the growth in larger loan sizes contributed to delivering improved lending efficiency during 1995, it is believed to have had a negative impact on portfolio quality and inevitably raises questions regarding outreach. The impact of the strategy is therefore likely to result in a significantly lower sustainable portfolio per loan officer than seen previously. This then raises the question of whether there will need to be changes on the income side in order to produce a cost-income structure which can deliver financial self-sufficiency.

6.45 The Ferrand Report 1997 concluded that the results for 1996 reveal an important break-through for K-REP’s credit division with the achievement of full financial self-sufficiency in the year for the first time. The report states that under any circumstances this is an excellent result. However, a key feature of this performance is that it has been achieved in the context of a strategy that has placed institutional development and long-term sustainability ahead of achieving gains in short-term indicators. There has been a careful and deliberate concentration on quality throughout the credit programme. Whilst this has resulted in a significant contraction in the portfolio size, the organisation is now far better placed for a further significant expansion stage.

TERMS OF REFERENCE ANNEX A

PROJECT BRIEF

### 1. *Title of Project to be covered by the Evaluation Study*

Components of the British Aid to Small Enterprises (BASE) Programme in Kenya: K-REP's Juhudi Credit Small Scale Enterprise Development (JCS).

### 2. *Project Duration*

K-REP JCS. five years of DFID inputs from FY l99l/92. But the project has already ended, earlier than expected, as all targets were achieved and all monies spent.

### 3. *Project Objectives*

The broader goal of BASE is to provide additional off farm employment, especially for poorer people, and enhance incomes through increased productive capacity. The programme objective is to develop the capacity of private sector intermediary institutions to promote the growth of micro and small enterprises (MSEs) on a sustainable basis. Specifically, the project objectives are (i) to develop a number of effective private sector organisations able to provide financial services to MSEs on a cost covering basis; (ii) to develop complementary alternative 'Models' for the provision of-non-financial support services to MSEs on a sustainable basis; (iii) to strengthen the Kenyan capacity to assess the impact and effectiveness of intervention to promote the small enterprise sector, and (iv) to develop the institutional capacity to evaluate the Government policies and bring about necessary changes.

The long-term aim of K-REP is to promote sustainable credit programmes including its own, which can serve to simulate not only income generation and employment within the informal sector, but also long term development both within the enterprise assisted, their households and the communities in which they are based. Within K-REP, JCS was developed in 198'7 to provide loans at market interest rates to individual small scale entrepreneurs using group based method of lending modelled after the Grameen Bank of Bangladesh. It involves the formation of groups of five borrower-savers, federated into a higher larger groups. This grouping system ensures mutual accountability among participants. Loans are individual while guarantee is collective.

## 4. *Project Activities*

a. Foundation of two Area Credit Offices;

b. Associated training of staff, research, monitoring activities for improvements and for management and administration systems.

## 5. *Project Inputs*

An initial DFID grant of £966,293 was agreed to finance the JCS, including operating capital, together with the provision of training, research, monitoring & c as described under 4(b) above. This grant was subsequently increased to £1,752,000, partly to finance additional activities such as capacity building and recruitment and training of new staff for headquarters and branch positions.

## 6. *Objectives of the Evaluation*

This study is one of a series of evaluations of programmes of assistance small and medium enterprises commissioned by Evaluation Department which will culminate in the production and issue of a sectoral evaluation synthesis study in 1997. The synthesis will draw on the findings of the individual evaluations and of a small number of Output-to-Purpose Reviews undertaken during the same period and with which the Evaluation Department expects to be closely associated.

The main objective at the study will be to assess the outcome of the assistance programme against its objectives; to assess all aspects of its direct and indirect impact, whether economic, social or institutional and taking account of gender issues and of the interests of the very poor; to assess whether the benefits of the interests of the very poor of the assistance justified the cost incurred in generating them and to draw out the main lessons with a view to informing policy on future interventions in this sector.

## 7. *Approach*

Small and medium enterprises are a fairly specialised subject which will therefore require the contracting-in from outside of DFID of key personnel with detailed professional knowledge. On the other hand it is possible that a member of Evaluation Department will take part in the fieldwork, either as Team Leader or in a supporting capacity. Minimum team composition would consist of ant SME specialist and an economist. To ensure the widest possible degree of ownership of the study, local participation by appropriate stakeholders would also be invited.

The inputs required for the evaluation by all staff concerned will total approximately 10 staff-weeks in the UK and 5 staff-weeks in the field.

The Terms of Reference for the evaluation are attached.

Evaluation Department
October 1996

## TERMS OF REFERENCE FOR THE EVALUATION OF ONE COMPONENT OF THE BRITISH AID TO SMALL ENTERPRISES (BASE) PROGRAMME IN KENYA: THE JUHUDI CREDIT SMALL SCALE ENTERPRISE DEVELOPMENT (JCS)

### *I OVERALL PURPOSE OF THE EVALUATION*

1. to assess, in terms of fulfilment of objectives and overall impact, the degree of success of DFIDs assistance to the selected components of the British Aid to Small Enterprises (BASE) Programme in Kenya;

2. to arrive at a judgement as to whether the costs of the assistance programme can be justified by its measured or perceived benefits.

3. to enable the Kenyan authorities and the British Government to learn from the experience of the programme and draw appropriate conclusions which can be applied to future phases or components, or to similar programmes elsewhere.

### *II MAIN OBJECTIVES OF THE EVALUATION*

4. to assess in general how far the objectives of the assistance programme have been, or are being, realised in terms of its effects on the establishment and strengthening of local micro, small and medium scale enterprises, and also on the wider community;

5. to assess whether the original objectives were correctly identified in relation to the overall goal, and if not what steps were taken to refocus their assistance during the course of the programme;

6. to assess all aspects of the direct and indirect impact of the assistance, whether economic, social or institutional, including a focus on benefits according to (i) gender and (ii) the poorest members of the community; and to identify any

negative impacts;

7, to establish how far the views of the various local stakeholders were sought and taken into account during the planning and implementation of the programme;

8. to assess whether, overall, the assistance was the most cost-effective means of helping to achieve the objectives of the Programme.

## *III APPROACH*

9. The evaluation will be carried out in accordance with the standard Guidance Notes provided by Evaluation Department and making full use of the Project History;

10. The evaluation will focus primarily on the immediate and wider impact of the assistance and on judgements of overall success, cost-effectiveness and value-for-money. Issues relating to identification, design, appraisal and implementation of the assistance programme are important but should be considered primarily in the light of the impact findings (as detailed in "6" above); in these respects the evaluators should consider the following aspects where relevant.

### *Identification, Design and Appraisal*

a. how the programme was identified as a priority area for financing;
b. how far and how well the Logical Framework technique was used in managing the programme and monitoring the achievement of objectives;
c. how far the programme conformed with the Government of Kenya's broader policy priorities;
d. the criteria used to select programme personnel;
e. whether adequate conditionality was attached to DFID's assistance;
f. how far the DFID's assistance complemented any contributions made by other donors;
g. how effective were the channels and methods used for this type of aid, how far they might be improved, or which alternatives might be considered in future;
h. the extent and effectiveness of the strategies adapted by the assistance programme to bring about effective institutional strengthening wherever this was needed.

### *Implementation*

i whether the assistance programme met its targets for physical implementation and how accurately those targets reflected the potential for achievement; and if targets were not met, the main reasons for under-achievement.

LIST OF PERSONS MET ANNEX B

| | |
|---|---|
| James Copestake | Consultant, Bath University.<br>Wednesday 9th July |
| Ben Dickenson | British Council<br>Tuesday 8th July |
| Aleke Dondo | General Manager, Kenya Rural Enterprise Programme.<br>Monday 30th June, Tuesday 8th July, Thursday 17th July. |
| John Dulu | Financial Analyst. K-REP.<br>Tuesday 8th July, Thursday 17th July. |
| Peter Landymore | DevDiv, DFID, Nairobi.<br>Thursday 3rd July, Friday 18th July. |
| Allistare McCormick | Consultant, Bath University.<br>Wednesday 9th July |
| Mesheck Guandaro | Credit Officer, Line Saba Field Office, West Nairobi ACO<br>Wednesday 9th July |
| Phil Harding | Social Development Adviser, DFID, Nairobi.<br>Friday 18th July |
| Catherine Masinde | Assistant Programme Coordinator, British Aid to Small Enterprise. DFID Kenya.<br>Monday 30th June, Thursday 3rd July, Friday 18th July. |
| Fred Masingu | Area Manager, Nyeri ACO.<br>Monday 14th July, Wednesday 16th July. |
| Stephen Mereru | Financial Services Division. K-REP<br>Monday 30th June, Tuesday 8th July. |

| | |
|---|---|
| Joseph Mrabu Mwero | Credit Officer, Nyeri ACO.<br>Monday14th July |
| Juliana Muthoka | Credit Officer, Nyeri ACO.<br>Monday14th July |
| Kimanthi Mutua | Managing Director. K-REP.<br>Tuesday 8th July, Thursday 17th July. |
| Rose Mwaniki | Regional Manager. K-REP.<br>Tuesday 8th July |
| Thomas O. Njesa | Credit Officer, Nanyuki Field Office, Nyeri ACO.<br>Tuesday 15th July. |
| Lucy A. Opiyo | Assistant Area Manager, West Nairobi Area Office, K-REP.<br>Wednesday 9th July, Thursday 17th July. |
| Hugh Scott | Regional Coordinator, Enterprise Development. DFID Kenya.<br>Monday 30th June, Thursday 3rd July. |

PROJECT FRAMEWORK. ANNEX C

| | |
|---|---|
| PROJECT TITLE: | Kenya, K-REP - Support for Juhudi Credit Scheme |
| BRIEF DESCRIPTION: | Support for K-REP to expand their microenterprise credit programme. |
| PERIOD OF FUNDING: | FY 1992/93 - 1997/98 |
| TOTAL ODA FUNDING: | UK £966,293 |
| DATE FRAMEWORK PREPARED: | Revised September 1992. |

| PROJECT STRUCTURE | INDICATORS OF ACHIEVEMENT AND VALUE | HOW INDICATORS CAN BE QUANTIFIED OR ASSESSED | CONDITIONS, RISKS AND ASSUMPTIONS |
|---|---|---|---|
| OBJECTIVES<br>To improve SSE incomes and generate employment | Increased business profits<br>New jobs created and existing jobs secured<br>Cost per job created relatively low compared to formal sector of the economy | Household and business surveys | Domestic economy strengthens<br>Business profitability maintained and improved |
| To establish a financially viable SE credit mechanism | Branches covering operating costs by the end of year 2<br>Juhudi Credit Scheme operating as a separate accounting entity with a high % level of cost recovery after 5 years | P&L statements<br>Balance sheets<br>Annual reports of Juhudi and K-REP | High repayment rates maintained<br>Loan demand continues to be strong<br>Interest rate covers costs in full |
| To research issues of credit sustainability | Publication of statistically valid research, monitoring and financial reports<br>Juhudi progress with the development of a sustainable credit delivery model to be fully documented | Assessment of quantitative information contained in commissioned research and other reports | External and internal research and monitoring activities being carried out as planned<br>Baseline surveys implemented in time |
| INTERMEDIATE OBJECTIVES<br>To increase SSE/Household Income, savings and employment | a) Average jobs increase 40% per borrower<br>b) 1,440 new jobs created 3,600 existing jobs secured<br>c) Each ACO to mobilise savings to value of:<br>in Year 1 of op. - KSh 1.40m<br>in Year 2 of op. - KSh 4.04m<br>in Year 3 of op. - KSh 4.67m<br>A total savings fund of KSh 36.55m built up by the two ACOs over the 5-year period<br>Savings at a minimum 30% of loans outstanding by year the end of year 3 | Commissioned M & E<br>MIS reports | Past pilot project performance maintained<br>Savings requirements adhered to |

| PROJECT STRUCTURE | INDICATORS OF ACHIEVEMENT AND VALUE | HOW INDICATORS CAN BE QUANTIFIED OR ASSESSED | CONDITIONS, RISKS AND ASSUMPTIONS |
|---|---|---|---|
| To recover branch operating costs in full by end of year 3 | a) Each ACO to make operating profit/(loss) of:<br>in Year 1 of op. - KSh (1.22m)<br>in Year 2 of op. - KSh (0.36m)<br>in Year 3 of op. - KSh 0.34m<br><br>Each ACO will make an operating profit of KSh 1.35m over the first 5 years<br><br>Each ACO will break even on P&L account during the third year<br><br>b) Administration costs per branch at max 10% loans outstanding by end of year 3 | Credit office P&L statements | Loans volumes build up as expected<br><br>Over 95% on-time loan recovery maintained<br><br>Loan loss fund developed, and<br><br>Adequate cost control maintained |
| IMMEDIATE OBJECTIVES<br><br>To establish area credit offices | 2 offices established in first year, the second six months after the first<br><br>Each ACO to have 1,080 members after one year and a full membership of 1,800 after 20 months | MIS reports | Credit officers can manage 300 borrowers each<br><br>Discipline of loan making and recovery maintained |
| To disburse and recover credit to SSPs | Each ACO to disburse loans as follows:<br>in Year 1 of op - 720 loans<br>in Year 2 & subsequent years - 1,800 loans<br><br>A total of 14,760 loans to 3,600 entrepreneurs over 5 years (including repeat loans)<br><br>Each ACO to disburse loans to value of:<br>in Year 1 of op. - KSh 6.12m<br>in Year 2 of op. - KSh 17.28m<br>in Year 3 of op. - KSh 22.95m<br><br>A total of KSh 202.7m disbursed by the two ACOs over the 5-year period<br><br>Each ACO to recover credit* to value of:<br>in Year 1 of op. - KSh 2.70m<br>in Year 2 of op. - KSh 13.73m<br>in Year 3 of op. - KSh 23.04m<br><br>A total of KSh 196.24m recovered by the two ACOs over the 5-year period<br><br>On-time recovery rate to average 95%<br><br>* credit recovery amounts include principal and service charge | MIS reports | Demand for funds in new location positively identified |

| PROJECT STRUCTURE | INDICATORS OF ACHIEVEMENT AND VALUE | HOW INDICATORS CAN BE QUANTIFIED OR ASSESSED | CONDITIONS, RISKS AND ASSUMPTIONS |
| --- | --- | --- | --- |
| INPUTS<br><br>Institutional development of K-REP and Juhudi Credit Scheme | Staff training - 16 staff training sessions & exchange visits to Asian credit programmes<br><br>Improved control systems - monthly MIS reports with MD within 15 days of month end<br><br>Information dissemination - published M&E reports, seminars, consultancies etc | MIS reports<br><br>K-REP MIS manual finalised and systems operational<br><br>Published M&E reports | Training modules finalised<br><br>Arrangements made for exchange visits<br><br>System design finalised, audit team established<br><br>Corporate strategy document (Managed growth plan) prepared before start of project |
| Loans<br><br>No loans disbursed<br><br>Yr1 Yr2 Yr3 Yr4 Yr5<br>1 720 1800 1800 1800 1800<br>2 180 1260 1800 1800 1800<br><br>Total loans<br>900 3060 3600 3600 3600<br><br>KSh value of loans<br><br>1 6120 17280 22950 29700 36450<br>2 1530 11205 19440 25650 32400<br>7650 28485 42390 55350 68850<br><br>14,760 loans disbursed over 5 years with KSh 202.725 million | ACOs successfully started and loans disbursed according to the projections contained in Annex A, schedule 7 | Monthly MIS reports (see Monthly Monitoring form in Annex B)<br><br>6 Monthly K-REP programme reports | |
| OUTPUTS<br><br>(UK £'s)<br><br>Juhudi operating capital 57,321<br>Juhudi startup + fixed costs 24,291<br>Juhudi loan fund capital 636,364<br><br>Training department 48,228<br>Research/Monitoring Dept 48,657<br>Management & Admin Dept 79,150<br><br>Contingency 15% 134,102<br>Interest on Juhudi loan (61,818)<br><br>TOTAL 966,293 | For detailed cost estimates see Annex A | Quarterly reports by K-REP<br><br>External and internal audit reports<br><br>External evaluation after 18 months | Loan take-up is as forecast |

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Buckley, G. in Hulme, D. and Mosely, P. (1996) *'Finance Against Poverty.'* Routledge. London and New York.

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*Conditions*

Set out each individual project condition - initial and subsequent amendments - in the table below and for each rate whether the condition was:

1 : Wholly met

2 : Largely met

3 : Partially met

4 : Largely unmet

5 : Not met at all

For ratings 1 and 2 only assess to what extent *compliance* had on the achievement of objectives, and for 3-5 only assess to what extent the *lack of compliance* had on the achievement of objectives:

A : Major Positive Effect

B : Significant Positive Effect

C : Minor/Negilgible Effect

D : Significant Negative Effect

E : Major Negative Effect

Conditions can be extracted from intergovernmental agreement, Logical Framework, or approval document.

Additional space will be created within the table if insufficient space exists.

| CONDITIONS | COMPLIANCE (1-5) | For Rating: | |
|---|---|---|---|
| | | 1,2 | 3,4,5 |
| | | Effect (A-E) | Effect (A-E) |
| Initial: | | | |
| (a) The grant agreement with K-REP will not become effective until K-REP has produced a statement of corporate strategy (managed growth plan- see Appendix II Section 7) setting out its mission, objectives, strategies, location policy, projections of funding requirements and likely sources of funds, and staffing needs, including a policy to guarantee that sufficient staff time is dedicated to the proposed project. | 1 | B | |
| (b) The grant agreement with K-REP will be subject to the following arrangements for monitoring and evaluation being adhered to throughout the period of the project: | | | |
| K-REP will provide ODA's Small Enterprise Programme Coordinator (SEPC) with access at all times to the ACO premises, and all financial and other records relating to the ODA supported ACOs, and will ensure that the SEPC receives monthly monitoring reports (as set out in Annex B) within 30 days of the end of the month. | 3 | | C |
| K-REP will provide the SEPC with monthly reports on the operation of the two existing ACOs that have been set up at two locations in Kenya, Nairobi (Kibera area) and Eldoret detailing any delays or problems with repayments. If these reports reveal any substantive problems the SEPC will immediately advise ODA who may decide to withhold further ODA disbursement. | 2 | C | |
| K-REP will facilitate three-monthly review visits by the SEPO to the K- REP HQ and the two ODA funded ACOs to monitor the use of ODA funds. | 2 | B | |
| K-REP will provide all necessary data, access to records and facilities to enable this project to be reviewed annually by the SEPC and an ODA appointed consultant; also for an external evaluation after 18 months. | 2 | B | |

| CONDITIONS | COMPLIANCE (1-5) | For Rating: | |
|---|---|---|---|
| | | 1,2 | 3,4.5 |
| | | Effect (A-E) | Effect (A-E) |
| Initial: | | | |
| (c) The long term sustainability of the proposed lending operation will depend on K-REP building certain features into its design. Conditions for project support are:- | | | |
| Creation of separate profit and accounting centres within K-REP for each Juhudi Area Credit Office (ACO) and the JCS as a whole under which all programme costs (including provision for K-REP overheads) are transparent; | 1 | A | |
| K-REP will on-lend ODA grant monies for loans to ACOs at an interest rate of 1O% a year. The rate of interest will be reviewed six monthly. | 1 | C | |
| Annual audit of JCS accounts by reputable firm of chartered accountants acceptable to ODA: K-REP internal auditors will carry out quarterly and spot-check audits of ACOs. ODA will receive copies of audit reports within six weeks of the final date of the audit period. | 3 | | D |
| No officer or employee of K-REP or the Juhudi Credit Scheme shall be eligible for loans through the Juhudi Credit Scheme and no one borrowing money shall be associated with, or related to, anyone in K-REP or the ACOs. | 1 | B | |
| K-REP will consult and agree with the SEPC on the level of loan ceilings and on the loan terms and conditions (including attendance of meetings). | 3 | | C |
| K-REP will consult and agree with the SEPC on training programmes for staff. | 2 | C | |
| Loans provided by the two ACO's supported under this project will not be made available for non-revenue earning activities. | 2 | B | |
| (d) K-REP will be expected to host or find a sponsor to host regular coordination meetings of its donors. | 3 | | C |

| CONDITIONS | COMPLIANCE (1-5) | For Rating: 1,2 Effect (A-E) | For Rating: 3,4,5 Effect (A-E) |
|---|---|---|---|
| (e) ODA will make funds available to K-REP on a quarterly basis (Annex A. schedule shows the estimated grant disbursement schedule). The procedure and conditions for the disbursement of funds are: | | | |
| A sum of £31,154 will be issued to K-REP for the first quarter following completion of the exchange of letters covering this project and when K-REP have fulfilled special conditions 3.1. | 1 | C | |
| A sum of £55,512 will be released to K-REP at the beginning of the second quarter. | 1 | C | |
| Funds for third quarter will be released in advance on receipt of a request channelled to, and endorsed by, the SEPC. This request will provide a detailed estimate of requirements for the third quarter and details of expenditure on the first quarter. The request will seek approval to a payment equal to the estimated requirement for the third quarter, less any balances remaining from the payment made on the first quarter. | 1 | C | |
| Thereafter, all further quarterly trenches will be released to K-REP in advance on the receipt of a request channelled to, and endorsed by, the SEPC. This will provide a detailed estimate of requirements for the quarter in respect of which the advance is sought. and a detailed statement of the expenditure of the previous quarter but one against the advance provided. The request will seek approval of a payment equal to the estimated requirement for the quarter concerned, less any balance remaining from the advance payment in respect of the previous quarter but one. | 1 | C | |
| It is of the utmost importance that K-REP submit the statement of actual expenditure incurred during the March quarter as soon as possible after 31 March, and at the latest by 30 April each year, to enable charges against the project to be registered against the UK financial year in which they fall. | 1 | C | |
| Detailed accounting instructions for the project are contained in the Financing Agreement, the contents of which form part of the Special Conditions of ODA support. | 1 | C | |
| Subsequent Amendments: | | | |
| (a) The funding mechanism was changed from accountable grants tocontributions when the addendum was approved. | 1 | A | |

### *Explain and Comment*

It was not helpful to have three pages of special conditions. This simply displayed ODA's lack of Confidence in the project - earlier displayed by taking over two years to approve the project which caused difficulties for K-REP and a large amount of additional work (and Cost) for ODA.

GROUP QUESTIONNAIRE ANNEX F

(This indicates the questions used when interviewing K-REP KIWAs.)

LOCATION:______________________________ DATE:__________

GROUP NAME:___________________________

1. When did the group form?

2. Who are the group members?

3. How were group members selected?

- geography [neighbours? Living in the same village or area?]
- same enterprise/sector
- similar socio-economic or socio-cultural group (including tribe)
- already in a group for some other reason
- other factors

4. How did the group decide on who to exclude form membership?

5. Who suggested that a group was formed?

6. What are group member's motives for forming the group?

- peer support
- K-REP information and extension services
- other

7. What do you think are the benefits of group membership? [including non-financial benefits]

8. Who in the group has a first, second or third loan? (can I get this from secondary data?)

9. What is the largest and the smallest loan size?

10. Who are the group officials?

11. How are loan applications processed?

12. How are savings and loan repayments administered?

13. How much do most members save per week?

14. What does the group do if someone does not
    - attend the meeting?
    - bring or send their loan repayment to the meeting?

15. If someone is in default what action will the group take?

16. What do the members feel are the costs of group membership?

17. Do you want to comment on K-REP, or tell us anything else?

INDIVIDUAL ENTREPRENEUR QUESTIONNAIRE ANNEX G

(This indicates the type of questions asked when interviewing K-REP Clients.)

NAME__________________________________

KIWA_____________________

1. What enterprises do you own?

    - type
    - size
    - sector
    - establishment date?
    - does the enterprise still exist?

2. Describe your loan history (dates of loans, amounts, repayment period, use).

3. Have you used K-REP loan capital to invest in another enterprise?

4. Do your enterprises employ anyone?

    - family labour?
    - non-family labour?

5. Has there been employment growth since joining K-REP?

6. Do you know figures for sales volume, and growth?

7. Do you know profit figures? Has profit grown since joining K-REP?

8. Has your membership of K-REP had any other impact(s)? (for example, has the household's standard of living improved?)

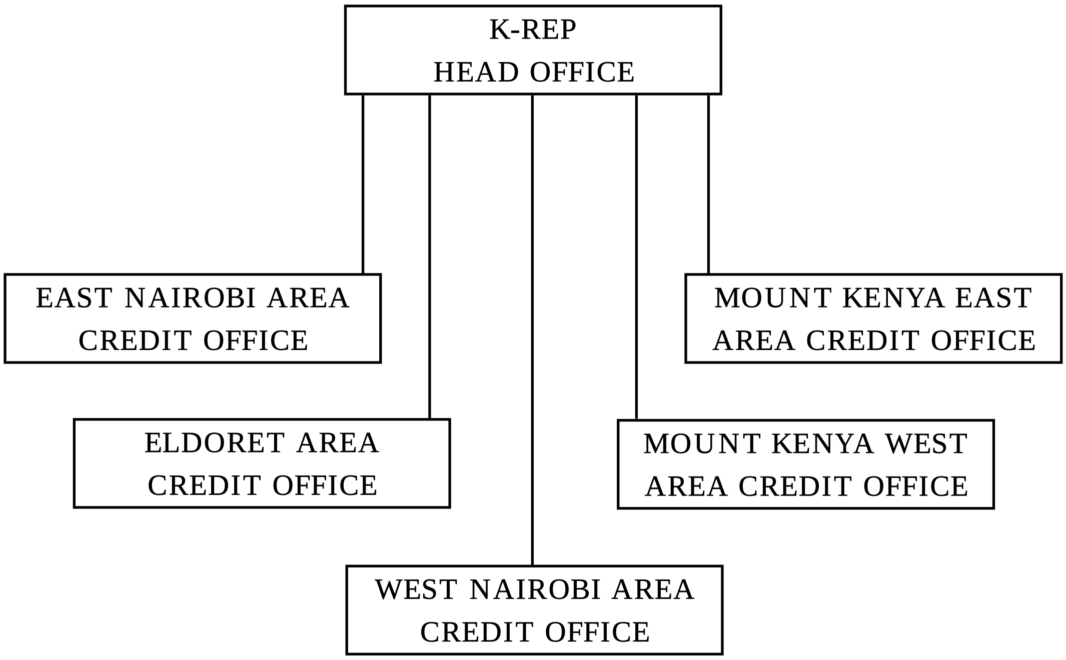
9. Do you have any comments on K-REP's services?

10. Do you have access to other forms of credit?
    - Which?
    - When?

11. Do you have any savings accounts (other than K-REP)?

## K-REP AREA CREDIT OFFICE STRUCTURE — ANNEX H

*DIAGRAM 1: K-REP'S ACO STRUCTURE.*




*FIELD OFFICES UNDER EACH OF THESE ACOS IS AS FOLLOWS:*

1. East Nairobi Area Credit Office

   Thika Field office

   Machakos Field office

   Kajiado Field Office

   Tala Field Office

   Kitui Field Office

2. West Nairobi Area Credit Office

   Line Saba Field office (Kibera)

   Olympic Field Office Kibera

   Limuru field Office

   Karagware Field Office

3. Eldoret Area Credit Office

   Kitale Field Office

   Huruma Field Office

   Langas Field Office

4. Mount Kenya West Area Credit Office.

   Nyeri Field Office

   Nanyuki Field Office

   Nyahururu Field Office

5. Mount Kenya East Area Credit Office

   Embu Field Office

   Kerrugoya Field Office

   Meru Field Office

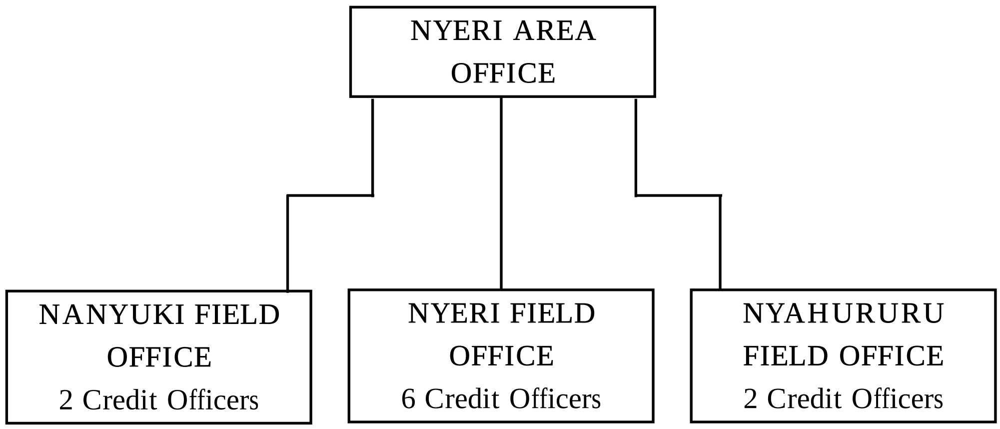
## AREA CREDIT OFFICE STUDY 1: NYERI ANNEX I

*Mount Kenya West Area Credit Office. Nyeri.*

I1. The Mount Kenya West Area Credit Office, is located in Nyeri, between the Aberdares and Mount Kenya. The town functions as the administrative headquarters of the Central Province and is a busy market town with strong service and retail links with the surrounding intensively farmed and productive upland.

I2. The diagram below indicates the basic structure of the Nyeri Area Office and its three Field Offices. The tables following it detail staffing distributions and provides some basic information concerning their loan portfolios.

*Diagram 2: Mount Kenya West Area Credit Office and Field Offices.*




I3. The figures in Table 16 are broken down in the tables below, which indicate KIWAs grouped by Credit Officer, with statistics on group drop-out levels and ‘portfolio at risk’ percentages. An aggregation of the ‘portfolio at risk’ figures indicates that 37.44% of the Mount Kenya West office portfolio was on alert (30th April 1997). At that point in time, the quantitative repayment rate was 86.60% and the qualitative repayment rate was 83.98%.

I4. Portfolio at risk figures are calculated according to loans that have fallen due. The are separated into categories, those up to 30 days in arrears; those between 31 and

60 days in arrears; those 61 to 90 days in arrears and those 91 to 120 days in arrears. From this information a defaulters watch list is prepared. Any loans more than 120 days in arrears are recognised by K-REP's board as being in default, but interest continues to be charged and efforts are made to recover both the principal and interest.

*Table 16: Mount Kenya West Staffing and Group Distribution.*

| Nyeri ACO | | | | |
|---|---|---|---|---|
| Field Offices | Credit Officers | KIWAs | Chikolas | Total Number of Clients (May1997) |
| Nyeri | Benedict Loloh | 10 | n/a | 276 |
| | Joseph Mrabu Mweru | 12 | 1 | 183 |
| | Juliana Mwende | 7 | 2 | 163 |
| | Jeremy Nyaga Imanene | 8 | 7 | 204 |
| | Titus Chweya | 11 | 7 | 319 |
| | Francis Mwangi | 5 | 3 | 120 |
| | | | | |
| Nanyuki | Helen Muthamia | 1 | 15 | 204 |
| | Thomas Ondon Ngesa | 4 | 3 | 188 |
| | | | | |
| Nyahururu | Mary Kahuro | 0 | 9 | 191 |
| | James Nzuki Mwai | 0 | 6 | 135 |

*Table 17: Client Groups Supervised by Benedict Loloh, Credit Officer, Nyeri Field Office.*

| Benedict Loloh - Nyeri Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Mweiga Kihoto | April 1994 | 5 | 5 | 0 |
| 2 | Witheithie SHG* | December 1993 | 47 | 10 | 88.83 |
| 3 | Mwiyetheri SHG | February 1994 | 32 | 18 | 0 |
| 4 | Kwigitia Women SHG | November 1993 | 48 | 3 | 63.12 |
| 5 | Kinduwandu Wakand SHG | April 1994 | 15 | 15 | 41.29 |
| 6 | Kamakwa Kihoto SHG | September 1993 | 36 | 13 | 27.44 |
| 7 | Kamakwa Youth SHG | April 1994 | 8 | 8 | 7.18 |
| 8 | Jitegemee SHG | March 1994 | 47 | 6 | 82.29 |
| 9 | Jishinde Ushinde SHG | March 1994 | 48 | 20 | 89.7 |
| 10 | Bidi SHG | February 1994 | 32 | 13 | 1.61 |
| Subtotals | | | 318 | 111 | 40.2% (average) |
| Chikola | 5 Groups | | | | |

*SHG = Self Help Group.

*Table 18: Client Groups Supervised by Joseph Mrabu Mwero, Credit Officer, Nyeri Field Office.*

| Joseph Mrabu Mwero - Nyeri Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br>1 | Thageini SHG | September 1995 | 22 | 8 | 12.14 |
| 2 | Goodhope SHG | February 1994 | 33 | 5 | 15.06 |
| 3 | Uiguano SHG | September 1995 | 19 | 5 | 24.54 |
| 4 | Mitumba SHG | February 1994 | 37 | 6 | 89.88 |
| 5 | Haraka SHG | February 1994 | 37 | 13 | 5.49 |
| 6 | Wigiritia SHG | September 1993 | 35 | 6 | 90.30 |
| 7 | Ndararua | August 1993 | 36 | 7 | 100 |
| 8 | Umoja One SHG | September 1995 | 30 | 7 | 21.11 |
| 9 | Prosperity SHG | September 1995 | 31 | 8 | 0 |
| 10 | Tawa SHG | September 1993 | 30 | 8 | 36.30 |
| 11 | Amanth | September 1993 | 32 | 7 | 0 |
| 13 | Kwinyitia Mukaro SHG | November 1993 | 35 | 9 | 28.33 |
| Subtotal | | | 377 | 89 | 32.55% (average) |
| Chikola | 1 Group | April 1994 | | | 100 |

*Table 19: Client Groups Supervised by Juliana Mwende, Credit Officer, Nyeri Field Office.*

| Juliana Mwende - Nyeri Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br>1 | United SHG | January 1996 | 32 | 9 | 13.03 |
| 2 | Salama SHG | October 1995 | 39 | 20 | 36.83 |
| 3 | Mwitindia | January 1996 | 32 | 18 | 6.22 |
| 4 | Mwana Mwirei | October 1993 | 41 | 6 | 80.38 |
| 5 | Kigukumo SHG | April 1994 | 24 | 19 | 28.04 |
| 6 | Kiahungu SHG | September 1993 | 36 | 2 | 0 |
| 7 | Kagoki SHG | October 1995 | 39 | 15 | 0 |
| Subtotal | | | 243 | 89 | 23.5% (average) |
| Chikola | 2 Groups, declined from 6 | April 1994 | | | 4.5 |

*Table 20: Client Groups Supervised by Jeremy Nyaga Imanene, Credit Officer, Nyeri Field Office.*

| Jeremy Nyaga Imanene- Nyeri Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br><br>1 | Kimuru SHG | February 1994 | 47 | 18 | 81.23 |
| 2 | Amani SHG | April 1994 | 41 | 15 | 28.15 |
| 3 | Tumaini SHG | February 1997 | 5 | 4 | 53.04 |
| 4 | Mwihoko SHG | April 1994 | 25 | 11 | 59.90 |
| 5 | Muthinga Meniam Business SHG | April 1994 | 41 | 14 | 88.10 |
| 6 | Mageria SHG | April 1994 | 33 | 9 | 31.94 |
| 7 | Kigongo Water Tank | January 1994 | 8 | 8 | 46.02 |
| 8 | Hawkers SHG | September 1993 | 42 | 18 | 24.02 |
| Subtotal | | | 242 | 97 | 51.55% (average) |
| Chikolas | 7 (originally 14) | April 1994 | | | 41.12 |

*Table 21: Client Groups Supervised by Titus Chweya, Credit Officer, Nyeri Field Office.*

| Titus Chweya - Nyeri Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br><br>1 | Urumwe SHG | February 1994 | 33 | 11 | 38.88 |
| 2 | Ngoro Imwe SHG | March 1994 | 34 | 22 | 29.26 |
| 3 | Mwitirithi SHG | March 1994 | 29 | 4 | 97.95 |
| 4 | Mawega SHG | March 1994 | 27 | 4 | 1.65 |
| 5 | Kirichu SHG | March 1994 | 27 | 13 | 2.60 |
| 6 | Kariko | February 1994 | 12 | 9 | 0 |
| 7 | Jakaze | February 1994 | 31 | 10 | 9.07 |
| 8 | Jaribu SHG | August 1994 | 40 | 15 | 43.84 |
| 9 | Chaka Jitegemee SHG | April 1997 | 20 | N/A | 0 |
| 10 | Winyitie SHG | March 1994 | 37 | 4 | 0 |
| 11 | Umoja SHG | December 1993 | 36 | 15 | 80.86 |
| Subtotal | | | 326 | 115 | 27.37% (average) |
| Chikolas | 7 Groups (originally 8) | April 1994 | | | 30.32 |

*Table 22: Client Groups Supervised by Francis Wwangi, Credit Officer, Nyeri Field Office.*

| Francis Mwangi - Nyeri Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br>1 | Bakaka SHG | April 1994 | 24 | 12 | 5.88 |
| 2 | Gichira SHG | April 1997 | 15 | 3 | 0 |
| 3 | Kaga SHG | April 1994 | 31 | 15 | 28.52 |
| 4 | Mweiga | July 1993 | 32 | 10 | 28.60 |
| 5 | Mwieri SHG | July 1993 | 28 | 20 | 14.75% |
| Subtotal | | | 130 | 60 | 15.55 |
| Chikola | 3 Groups | April 1994 | | | 0 |

*Table 23: Client Groups Supervised by Helen Muthamia, Credit Officer, Nanyuki Field Office.*

| Helen Muthamia - Nanyuki Field Office | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br>1 | Gotoria SHG | April 1997 | 17 | 7 | 0 |
| Subtotal | | | 17 | 7 | 0% |
| Chikola | 15 Groups (originally 17) | April 1994 | n/a | n/a | 74.56 |

*Table 24: Client Groups Supervised by Thomas Ondong Ngesa, Credit Officer, Nanyuki Field Office.*

| Thomas Ondong Ngesa - Nanyuki Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br>1 | Mworoto SHG | April 1994 | 10 | 9 | 10.01 |
| 2 | Ngwataniro SHG | April 1996 | 15 | 13 | 44.86 |
| 3 | Sadiki SHG | April 1994 | 11 | 11 | 6.7 |
| 4 | Thagakaki SHG | April 1994 | 10 | 10 | 28.04 |
| Subtotal | | | 46 | 43 | 22.4% (average) |
| Chikola | 3 Groups (originally 4) | April 1994 | n/a | n/a | 29.88 |

Table 25: Client Groups Supervised by James Nzuki Mwai, Credit Officer, Nyahururu Field Office.

| James Nzuki Mwai- Nyahururu Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | none | | | | |
| Chikola | 6 Groups (Originally 12) | April 1994 | n/a | n/a | 8.86 |

*Table 26: Client Groups Supervised by Mary Kahuro, Credit Officer, Nyahururu Field Office.*

| Mary Kahuro - Nyahururu Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | none | | | | |
| Chikola | 9 Groups (originally 13) | April 1994 | n/a | n/a | 28.93 |

J1. The West Nairobi Area Credit Office is located in Kawangware, a densely populated slum area in the West of Nairobi. West Nairobi used to be served from Kibera, but the status of Kawangware Field Office was elevated to that of Area Office in May 1994 and then merged with the Kibera Office in September 1994, to become the area's headquarters. The ACO covers Lanata and Dagoretti divisions of Nairobi, the Kikuyu and Limurur division in Kiambu district and Ngong division in Kajiado district.

J2. Diagram 3 below indicates the basic structure of the West Nairobi Area Office and its Field Offices. This information is expanded upon in tables showing information concerning individual clients officer's Juhudi and Chikola groups.

J3. A short description of how the portfolio at risk figures are calculated can be found at Annex I (para 2.4).

*Diagram 3: West Nairobi Area Credit Office and Field Offices.*

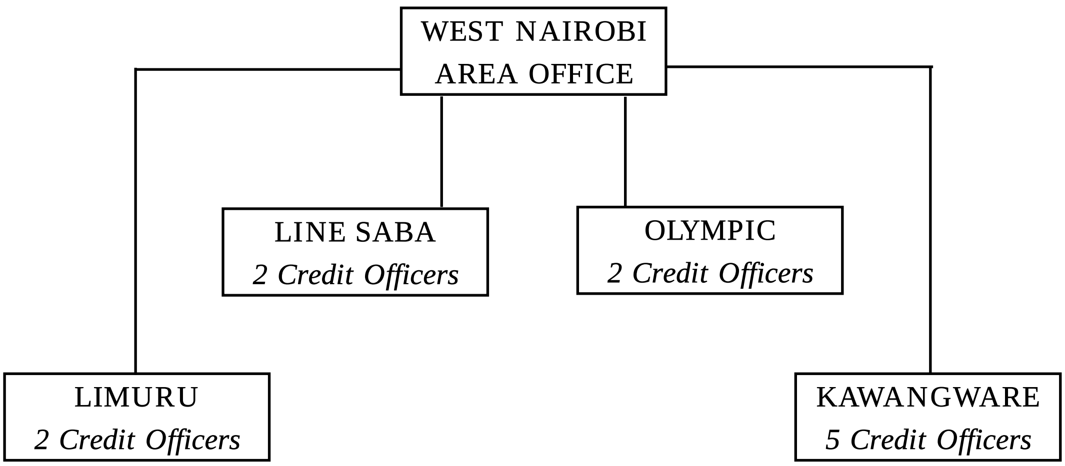


*Table 27: West Nairobi ACOs' Staffing and Group Distribution.*

| West Nairobi ACO | | | | |
|---|---|---|---|---|
| Field Offices | Credit Officers | KIWAs | Chikolas | Total Number of Clients (May1997) |
| Line Saba | Gerald Kavuti | 12 | 0 | 243 |
| | Roseline Kivuva | 11 | 4 | 240 |
| | | | | |
| Olympic | Tom Tito Odhiambo | 12 | 1 | 267 |
| | James Nderitu | 13 | 0 | 187 |
| | | | | |
| Limuru | Nancy Wairimu | 0 | 24 | 293 |
| | Elizabeth Mutie | 0 | 15 | 159 |
| | | | | |
| Kawangware | Kipsang Sang | 10 | 0 | 180 |
| | Stephen Wanjala | 10 | 0 | 160 |
| | Meshak Gurandaru | 13 | 0 | 246 |
| | Beatrice Omolo | 11 | 1 | 243 |
| | Rosemary Ogongo | 11 | 1 | 146 |

*Table 28: Client Groups Supervised by Gerald Kavuti , Credit Officer, Line Saba Field Office.*

| Gerald Kavuti - Line Saba Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Amua | 1991 | 38 | 23 | 0% |
| 2 | Fairlady | 1991 | 30 | 14 | 10% |
| 3 | Jasho | 1991 | 30 | 9 | 0% |
| 4 | Bahati | 1992 | 30 | 17 | 0% |
| 5 | Trust | 1992 | 30 | 23 | 21% |
| 6 | Kaza Moyo | 1992 | 30 | 14 | 0% |
| 7 | Golf Course | 1993 | 30 | 12 | 2% |
| 8 | Mwireri | 1995 | 39 | 16 | 0% |
| 9 | Tusaidiane Sisi kwa Sisi | 1996 | 38 | 26 | 0% |
| 10 | Subira | 1993 | 40 | 23 | 0% |
| 11 | Bimaundu | 1996 | 32 | 30 | 0.2% |
| 12 | Wema | 1996 | 36 | 35 | 0% |
| Chikola | None. | 0 | 0 | 0 | |
| Totals | | | 403 | 242 | 0 |

*Table 29: Client Groups Supervised by Roseline Ndome Kivuva - Credit Officer, Line Saba Field Office.*

| Roseline Ndome Kivuva- Line Saba Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Mabiashara | 1991 | 19 | 19 | 3% |
| 2 | Maakini | 1992 | 13 | 13 | 10% |
| 3 | Ukame | 1992 | 20 | 23 | 3% |
| 4 | Wekawaka | 1991 | 12 | 12 | 46% |
| 5 | Onestep | 1991 | 22 | 22 | 8% |
| 6 | Mawingo | 1992 | 18 | 18 | 5% |
| 7 | United | 1991 | 26 | 24 | 9% |
| 8 | Kieka | 1991 | 16 | 11 | 0% |
| 9 | Baraka | 1992 | 19 | 14 | 5% |
| 10 | Revival | 1992 | 11 | 11 | 4% |
| 11 | Mvumo | 1994 | 13 | 13 | 0% |
| Chikola | | | | | |
| 1 | Otiende Sisters | 1992 | 15 | 15 | 0% |
| 2 | Taabu | 1995 | 15 | 15 | 0% |
| 3 | Elamo | 1994 | 15 | 15 | 4% |
| 4 | Kang'ere | 1991 | 15 | 15 | 0% |
| Totals | | | 249 | 240 | 6.5% (average) |

*Table 30: Client Groups Supervised by Tom Tito Odhiambo, Credit Officer, Olympic Field Office.*

| Tom Tito Odhiambo - Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (Shown as Ksh.??) |
| KIWA<br>1 | Kupendana | October 1990 | 30 | 23 | 18,916 |
| 2 | Ujasiri | October 1992 | 30 | 9 | — |
| 3 | Moyoni | March 1991 | 30 | 18 | — |
| 4 | Unity | December 1990 | 30 | 12 | 132,693 |
| 5 | Ndizi | March 1991 | 30 | 17 | — |
| 6 | Muungano | January 1991 | 30 | 16 | — |
| 7 | Jamii | May 1991 | 30 | 17 | — |
| 8 | Tumaini | February 1991 | 30 | 23 | 75,247 |
| 9 | Shughuli | February 1992 | 30 | 22 | 4,417 |
| 10 | Nuru | December 1993 | 20 | 12 | — |
| 11 | Gwekonya | May 1991 | 30 | 8 | — |
| 12 | Haki | August 1995 | 22 | 14 | — |
| 13 | Hejokad | October 1996 | 23 | 10 | — |
| 14 | Tasama | December 1996 | 20 | 23 | — |
| 15 | Tuaminiane | January 1997 | 31 | 31 | — |
| 16 | Tukazane | May 1997 | 29 | 29 | — |
| Totals | | | 455 | 284 | 231,273 |

*Table 31: Client Groups Supervised by James Nderitu, Credit Officer, Olympic Field Office*.*

| James Nderitu - Olympic Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end July 1997 | Portfolio at Risk (Total, shown in Ksh???) |
| KIWA<br>1 | Ajubalus | January 1991 | 30 | 24 | 523,600 |
| 2 | Tawi | September 1995 | 30 | 16 | — |
| 3 | Demona | April 1994 | 30 | 10 | — |
| 4 | Tujaribu | March 1991 | 30 | 8 | 77,965 |
| 5 | Manufaa | July 1995 | 30 | 8 | — |
| 6 | Ahadi | February 1993 | 30 | 10 | 169,803 |
| 7 | Jamkibera | March 1991 | 30 | 10 | — |
| 8 | Umoja | April 1991 | 30 | 12 | 3,700 |
| 9 | Mchanganyiko | September 1993 | 30 | 11 | — |
| 10 | Mafaru | June 1993 | 30 | 15 | — |
| 11 | Ndovu | November 1990 | 30 | 12 | — |
| 12 | Sr. Chapchap | February 1991 | 30 | 18 | — |
| 13 | Rafiki | March 1997 | 28 | 28 | — |
| Totals | | | 388 | 182 | 775,068 |

* The figures in this table were collected on 30th July 1997.

*Table 32: Client Groups Supervised by Nancy Wairimu, Credit Officer, Limuru Field Office.*

| Nancy Wairimu - Limuru Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%)* |
| KIWAs | None | | | | |
| Chikola | | | | | |
| 1 | Githeni Kia Nyamweya | July 1995 | 38 | 24 | N/A |
| 2 | Kabuku Poultry & Marketing | April 1995 | 31 | 12 | N/A |
| 3 | Ngamba Aka | February 1995 | 23 | 18 | N/A |
| 4 | Magegania | March 1993 | 29 | 25 | N/A |
| 5 | Kiracha | August 1995 | 12 | 21 | N/A |
| 6 | Akimi Anyinyi | April 1995 | 21 | N/A** | N/A |
| 7 | Ngecha Njokekio | February 1995 | 10 | 7 | N/A |
| 8 | Ngenia Aiko | April 1997 | 10 | 10 | N/A |
| 9 | Mujendu | August 1993 | 9 | 7 | N/A |
| 10 | Mwietheri | March 1995 | 21 | N/A** | N/A |
| 11 | Rugweto | January 1993 | 14 | 14 | N/A |
| 12 | Mwireri Mwamuki | August 1996 | 9 | 8 | N/A |
| 13 | Beera | February 1995 | 23 | 12 | N/A |
| 14 | Ndeiya Poultry | August 1995 | 15 | 14 | N/A |

| | | | | | |
|---|---|---|---|---|---|
| 15 | Ngecha Bidii | April 1995 | 14 | 10 | N/A |
| 16 | Kimende Traders | October 1995 | 20 | 19 | N/A |
| 17 | Kabuku Poultry | January 1993 | 16 | 10 | N/A |
| 18 | Ngecho Anthi | April 1995 | 18 | 16 | N/A |
| 19 | Kabuku Wedani | April 1995 | 9 | 9 | N/A |
| 20 | Kaneni Friends | June 1995 | 20 | 18 | N/A |
| 21 | Rika | April 1994 | 13 | N/A** | N/A |
| 22 | Muthiori | June 1995 | 20 | 20 | N/A |
| 23 | Bera Men & Women | July 1996 | 7 | 7 | N/A |
| 24 | Rwamburi | April 1993 | 17 | 10 | N/A |
| 25 | Muga | February 1993 | 20 | N/A* | N/A |
| Totals | | | 439 | 291 | |

* K-REP was unable to provide this information, as portfolio at risk figures had not been calculated.

** The data provided do not make clear whether or not these groups had disbanded.

*Table 33: Client Groups Supervised by Elizabeth Mutie, Credit Officer, Limuru Field Office.*

| Elizabeth Mutie - Limuru Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWAs | None | | | | |
| Chikola | | | | | |
| 1 | Bidii Set | October 1996 | 9 | 9 | — |
| 2 | Ngaranga Njugi | June 1995 | 8 | 8 | — |
| 3 | Karima | September 1995 | 10 | 19 | — |
| 4 | Upper Njenji | February 1995 | 10 | 9 | — |
| 5 | Manjiri | September 1997 | 10 | 7 | — |
| 6 | Samure | February 1997 | 12 | 12 | — |
| 7 | Lari Kumenyana | February 1997 | 9 | 9 | — |
| 8 | Kinyogori Witeithie | July 1995 | 14 | 11 | — |
| 9 | Kigima | February 1997 | 12 | 12 | — |
| 10 | Ihiga Rimwe | December 1994 | 10 | 7 | — |
| 11 | Bebirioni | October 1995 | 9 | 9 | — |
| 12 | Limuru Mixed | September 1995 | 11 | 7 | — |
| 13 | Mwenda Andu | April 1995 | 10 | 9 | — |
| 14 | Romasseh | March 1995 | 10 | 8 | 14% |
| 15 | Mutiruithania | May 1997 | 16 | 13 | — |
| Totals | | | 160 | 149 | — |

*Table 34: Client Groups Supervised by Kipsang Sang, Credit Officer, Kawangware Field Office.*

| Kipsang Sang - Kawangware Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Border | July 1995 | 38 | 13 | 2.2% |
| 2 | Stem | August 1995 | 34 | 22 | 2.1% |
| 3 | Mwamba | August 1995 | 40 | 21 | 9.5% |
| 4 | Rwama | October 1995 | 41 | 29 | 1.5% |
| 5 | Riri | March 1996 | 40 | 15 | 0% |
| 6 | Kivuli | April 1996 | 29 | 15 | 0% |
| 7 | Ndambuki | April 1997 | 31 | 18 | 0% |
| 8 | Effort | April 1997 | 27 | 20 | 0% |
| 9 | Rafiki | April 1997 | 36 | 15 | 0% |
| 10 | Muigwithania | May 1997 | 32 | 32 | 0% |
| Total | | | 348 | 200 | 1.5% |

*Table 35: Client Groups Supervised by Stephen Wanjala Credit Officer, Kawangware Field Office.*

| Stephen Wanjala - Kawangware Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA<br>1 | Heshima | September 1993 | 36 | 23 | 34% |
| 2 | Bila Shaka | October 1993 | 34 | 14 | 18% |
| 3 | Damutho | April 1994 | 38 | 13 | 9% |
| 4 | Stahili | March 1994 | 40 | 13 | 29% |
| 5 | Tarajio | February 1995 | 38 | 18 | 0% |
| 6 | Wamwanjo | May 1994 | 32 | 21 | 0% |
| 7 | Riziki | March 1995 | 32 | 12 | 0% |
| 8 | Vitendo | October 1994 | 34 | 15 | 0% |
| 9 | Tenda Kitendo | May 1995 | 31 | 15 | 0% |
| 10 | Witikio | May 1995 | 32 | 16 | 5% |
| 11 | Thogoto Kimunda | February 1995 | 30 | 16 | 0% |
| Totals | | | 377 | 176 | 8.6% (average) |

*Table 36: Client Groups Supervised by Meshak G. Guandaro, Credit Officer, Kawangware Field Office.*

| Meshak G. Guandaro - Kawangware Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Pamoja | September 1993 | 30 | 12 | 1% |
| 2 | Jasho | March 1994 | 30 | 20 | 1% |
| 3 | Mwangaza | May 1994 | 34 | 17 | 1% |
| 4 | Mbalamwezi | February 1995 | 35 | 18 | 1% |
| 5 | Gucharia | April 1995 | 35 | 14 | 0% |
| 6 | Kirungie | October 1994 | 20 | 8 | 1% |
| 7 | Eni | August 1995 | 27 | 23 | 2% |
| 8 | Umoja | June 1995 | 37 | 30 | 2% |
| 9 | Ushindi | May 1994 | 35 | 18 | 3% |
| 10 | Thingira | September 1994 | 33 | 22 | 3% |
| 11 | Kabete Rural | August 1994 | 28 | 16 | 1% |
| 12 | Uthiru Sunset | December 1995 | 20 | 25 | 1% |
| 13 | Ndutheka | December 1995 | 26 | 21 | 0% |
| Total | | | 390 | 244 | 1.07% |

*Table 37: Client Groups Supervised by Beatrice Omolo, Credit Officer, Kawangware Field Office*

| Beatrice Omolo - Kawangware Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Dag. Amani | September 1993 | 30 | 28 | 0% |
| 2 | Hapa Kura Hap | February 1994 | 36 | 20 | 4.6% |
| 3 | Time | August 1994 | 30 | 20 | 0% |
| 4 | Faraja | May 1994 | 35 | 20 | 0% |
| 5 | Crescent | April 1994 | 33 | 14 | 0.48% |
| 6 | Lumta | September 1994 | 28 | 26 | 0% |
| 7 | Businep | May 1994 | 26 | 22 | 0% |
| 8 | Umeme | September 1994 | 30 | 26 | 0% |
| 9 | Mavuno | December 1994 | 30 | 22 | 0% |
| 10 | Forest | July 1995 | 24 | 13 | 9.14% |
| 11 | Highwest | September 1996 | 28 | 23 | 0% |
| Chikola | | | | | |
| 1 | Enkware | June 1994 | 9 | 9 | 0.8% |
| Totals | | | 339 | 243 | 1.25% |

*Table 38: Client Groups Supervised by Rosemary Ogongo, Credit Officer, Kawangware Field Office.*

| Rosemary Ogongo - Kawangware Field Office. | | | | | |
|---|---|---|---|---|---|
| Group Type | Group Name | Establishment Date | Client Numbers at establishment | Client Numbers at end May 1997 | Portfolio at Risk (%) |
| KIWA | | | | | |
| 1 | Matawi | May 1994 | 36 | 11 | 0% |
| 2 | Kujiweza | September 1993 | 32 | 7 | 26% |
| 3 | Bidii | May 1995 | 32 | 12 | 3% |
| 4 | Cenya | October 1994 | 35 | 16 | 1% |
| 5 | Jeema | November 1995 | 29 | 21 | 0% |
| 6 | Ngameno | October 1995 | 15 | 11 | 1% |
| 7 | Nuru | March 1995 | 36 | 19 | 1% |
| 8 | Mwakunda | April 1995 | 32 | 19 | 1% |
| 9 | Mzingi | November 1994 | 18 | 7 | 0% |
| 10 | Santac | November 1994 | 25 | 7 | 0% |
| Chikola | Matunda | October 1994 | 31 | 5 | 31% |
| | Wamwaki | April 1995 | 15 | 7 | 38% |
| Totals | | | 336 | 142 | |

K1. The following set of case studies are the result of interviews with KIWAs and individual Juhudi clients. Cases are drawn from Kibera, Kawangware and Kangemi Field Offices under the West Nairobi Area Credit Office, and from Nyeri, and Nanyuki Field Offices under the Mount Kenya West Area Credit Office. The case studies have been organised so that interviews with KIWAs are followed by case studies of clients from that group.

## CASE STUDY 1.

KIWA: Eni.

Watanos: N/A.

Location: Line Saba Field Office, Kangemi, West Nairobi / Kawangware ACO.

Credit Officer: Mesheck Guandaro.

Established: 1995.

Portfolio on alert: N/A

This first KIWA was visited briefly in order to pilot our questionnaire. As the group discussion was not preceded by individual interviews the analysis and comments contained in this case study are of an introductory nature.

*Group Composition*.

The group has 23 members, only 2 of whom are women. Numbers have declined from 26, with 3 members leaving before loans were disbursed (two were asked to leave as they were perceived as being too much of a risk, and the third left because of obtaining capital through a land sale.)

*Group Formation and Characteristics*.

All the KIWA members knew each other before the group was formed. They all live within 10km of each other, grew up and have family networks in the area. This appears to have assisted in the formation of a cohesive and democratic group with low levels of default. As in rural areas, where mobility is low, the shame of default is a powerful deterrent. In addition, many of the group members have been a member of a co-operative in the past, and are well versed in the ideas of collective self help. In addition, the group has an above average age profile and therefore the members are, perhaps, owners of more established and stable businesses than the average K-REP client.

There is a wide range of enterprises represented within the group, including:

- hardware store
- construction company
- horticulture
- metal fabrication
- butcher
- carpenter
- café
- dairy

Two members of the group are in paid employment in addition to having their own enterprises. One is a college lecturer and another works at a technical training office - providing a clear example of people outside K-REP's target group being attracted to the financial services that it offers.

All members of the KIWA have loans (some are on their 4th or 5th K-REP loan). In addition, some additional financial services had developed within the group. Although the KIWA did not run either a ROSCA or a merry-go-round, some of the Watanos meet separately during the week and operate their own merry-go-rounds.

*Comments on K-REP Services.*

The group was concerned by the high interest rates charged by K-REP, and the confusing way in which it, and the K-REP's loan management mechanisms, were explained to members. For example, the group's CO had stated that the interest was set at 18%, whereas they calculated it to be 35%. In addition, the group felt that K-REP's procedures should be made consistent between groups and should be made public, in order to ensure transparency. They did not perceive the flexibility in rule formation and maintenance as a benefit.

## CASE STUDY 2.

KIWA: Thingira

Watanos: N/A.

Location: Line Saba Field Office[20], Kangemi, West Nairobi / Kawangware ACO.

Credit Officer: Mesheck Guandaro[21].

Established: May 1997.

Portfolio on alert: N/A

*Group Composition.*

The group formed two month ago by merging 2 KIWAs, Thingira and Haki, which had declined substantially in membership. The newly formed KIWA has retained one of the original names.

| | |
|---|---|
| Group A (Thingira). | Started in 1994 with 36 members. Membership dropped to 14. |
| Group B (Haki). | Started in 1994 with 35 members. Membership dropped to 7. |

The original KIWAs, experienced a steady attrition of members throughout 1995 and 1996. A high proportion of members left due to default. This resulted in the other members of their Watano, who had co-guaranteed their loans losing savings. Despite leaving the KIWA, a number of defaulters are still attempting to repay their former groups.

The group members interviewed stated that defaults were rarely wilful, but were the result of short loan repayment periods at high rates of interest. The perception of K-REP's lending policies being at fault appeared to have been encouraged by a comparison with two international NGOs working in the area, World Vision and Breast Feeding Information Group. Both of these NGOs were providing loans at subsidised rates of interest, with gentler repayment schedules. This had clearly distorted clients' expectations of what is reasonable in the micro-credit sector.

20 The line saba Office has two Credit Officers, and 504 clients disbursed amongst 28 KIWAs.

21 This CO currently has 244 Juhudi clients in 13 KIWAs.

However, default was not the sole cause of drop out with some clients repaying their loan prior to their departure. Records provided by the Credit Officer indicated the following as being common causes of drop-out in the two groups that were combined to form the new KIWA:

- business instability
- business closure
- default
- misinvestment of loan, resulting in default
- alternative loan source preferred (NGO)
- inability to attend the weekly meetings
- individual moving out of the area
- health problems
- loss of savings due to the default of others

The Credit Officer stated that the relative poverty and lack of education in this group had been a significant factor in the level of business failure and default. He commented that business decisions were likely to be less sound, and that miscalculation and misinvestment were more likely. If true, this may be compounded by businesses being extremely small and therefore more vulnerable to shocks. The Credit Officer suggested that K-REP might be able to be more supportive to micro-entrepreneurs by offering a longer grace period and by having a more flexible attitude concerning clients' use of savings. If savings could be accessed and used to inject capital into a business at a critical moment, it might be possible to halt business failure.

*The New Group's Composition.*

The joint KIWA now has 23 members (14 women and 9 men) most of whom are on their 3rd or 4th loan, but one of whom is on his 7th loan (see Case Study 1, below) Within the group the largest loan is currently Ksh.150,000, and the smallest is Ksh. 60,000. There is similarly a wide range of enterprises represented by the group including:

- vegetable stall
- clothes selling (3)
- matatu (mini-bus)

- small shop
- bar
- shoe maker
- butcher's shop
- café
- waste disposal/recycling
- cereal retailer (dry goods)

*Group Procedures.*

The group is in the process of attempting to stabilise. Like others, it has a set of institutional rules and procedures. The group is clearly attempting to stamp out ill-discipline, and fines late comers Ksh.20-50 and non-attendees Ksh.50-100. If members miss three consecutive meetings, other members of the KIWA will visit their house to investigate.

In terms of default, the group has a similar set of procedures to many other groups but they appear to seize collateral items later in the process than some. Their preferred order of response is as follows:

1. Draw on Watano savings
2. Draw on KIWA savings
3. Seize items promised as security (if the person is likely to become 'difficult' or has absconded, a lawyer will be asked to write a letter. Where the hiring of a lawyer is deemed necessary, K-REP becomes involved and shares costs).
4. Items are auctioned
5. Individuals are forced to leave the KIWA (apparently K-REP allows someone to default three times before they are asked to leave. It was not made clear whether this rule applies to three late payments, or three defaults resulting in loan write-off).

Although intra-group lending occurs, in order to help members meet loan repayments and other expenses, they are not common.

*ROSCAs and Merry-Go-Rounds.*

The KIWA has a merry-go-round, but only some members of the group are members.

*Clients interviewed from this KIWA:*

- Client 1- Waste Recycling Business.
- Client 2 - Butcher's Shop(s)
- Client 3 - Bar

Client 1 - (male)

*Field Office:* Line Saba Field Office, Kangemi. West Nairobi / Kawangware ACO..

*KIWA:* Thingira.

*Watano:* n/a

*Credit Officer:* Mesheck Guandaro

*Enterprise:* 1. Waste Recycling Business. *Est.* 1992.

2. Charcoal Burning Stoves. Retail. *Est.* N/A.

3. Metal Working Business (Manufacture of metal boxes and sale of metal pieces to saucepan manufacturers.) *Est.* N/A.

The main enterprise, the Waste Recycling Business, involves the collection of metal, plastic, bones and paper from dumps and private houses. Although some individuals collect or store materials to sell to the business directly, most of the materials are collected by the entrepreneur's twenty casual workers. Once collected, the materials are sorted and sold to factories by the truckload. For example the bones are sold to factories producing pet food, and the scrap metal to metal rolling companies.

*Employment.*

The owner's time is split between this and two other enterprises he owns and manages. The recycling enterprise uses the labour of 20 youths who are paid on a piece rate for materials collected. This number includes two of the owner's brothers.

*Employment Growth.*

Casual employment has grown from two members of staff to twenty. The client believes that the growth of the enterprise would have been much slower without access to K-REP loans.

*K-REP Loan History.*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | - | - | stock increases |
| 2 | 40,000 | - | - | stock increases and cash flow |
| 3 | 100,000 | - | - | 20,000 invested in the business<br><br>80,000 invested in the purchase of land |
| 4 | 150,000 | - | - | construction costs of a house on the plot purchased with the last loan(the house is now rented out for 6,000/month) |
| 5 | 100,000 | - | - | stock increases |
| 6 | 60,000 | - | - | stock increases |
| 7 | 120,000 | - | - | construction costs for 6 rooms being constructed on the land purchased with loan 3. When completed will command a rent of 1,200 each/month. |

*Profit.*

The entrepreneur is not sure of profit figures, but believes that he makes about a 50% profit on the material sold. Sales fluctuate substantially, and at the time of the study were being affected by political uncertainty, with factory purchases in decline.

*Access to alternative forms of credit.*

The respondent has no alternative sources of credit.

Other Businesses.

1. Selling charcoal burning stoves (no additional employees)
2. Making metal boxes. Metal pieces are also sold to craftsmen making saucepans. (employs a metal worker.)

Client 2. (male)

*Field Office:* Line Saba Field Office, Kangemi, West Nairobi / Kawangware ACO.

*KIWA:* Thingira.

*Watano:* N/A

*Credit Officer:* Mesheck Guandaro

*Enterprise:* 1. Manyatta Butcher's Shop. Est. 1990. (Went into partnership in 1990, set up on his own in 1994.)

2. Butcher's Shop. Est. 1994/5

*Background.*

When the client joined K-REP he had a small butcher's shop, since then he has expanded his premises and has started another butcher's shop on a separate site.

*Employment.*

The two stores between them employ five full time staff, plus the owner and his wife (part-time, also working on her own business, making and selling samosas.)

*Employment Growth.*

When he started his business he worked alone, he now employs five full-time workers.

*Profit.*

He makes a profit of about Ksh. 20,000/month from the two shops, from selling 50-70kg of meat per day (He thinks that he makes a profit of about Ksh.15/kg.). His volume of sales has grown from 10-15 kg per day in 1994.

The loans have helped him to expand the amount of stock he carries, and to start slaughtering cows for the shops himself.

*Access to alternative forms of credit.*

The respondent has no alternative sources of credit.

*Other Businesses.*

None.

*Other impacts of K-REP loans.*

He is now able to meet all household expenses from his businesses.

He was able to bring his wife and three children from the countryside to join him in the city, and he has seen their standard of living increase. The children are attending a better school and the family are living in a slightly improved house.

*K-REP Loan History*

| Loan No. | Amount (Ksh) | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1994 | 1 year | Ksh.5,000 was used to purchase stock. Ksh.5,000 was used to bring his family to Nairobi and to cover household expenses. |
| 2 | 25,000 | 1994/5 | 9 months | Started another butcher's shop. Spent Ksh.30,000 on 'goodwill' (in otherwords bought the clientele of a pre-existing butcher's shop) Employed 2 people to look after the shop |
| 3 | 40,000 | 1995 | 9 months | Spent on expanding stock (Started buying live animals for slaughtering. Each costs Ksh.18-20,000.*) and one scales for each shop. |
| 4 | 90,000 | Nov 1996 | 7 months | Ksh.80,000** went on the cost of a plot of land. Ksh.20,000 on costs related to the purchase. Finished repayment last week. |
| 5 | Application pending. Requested 150,000, will get 100,000 | | | |

* Will buy a cow every 2 days, and a half carcass (@ Ksh.8,000) for the second store. He sells Ksh. 8,000 worth of meat at the slaughter house. The money goes directly to him.

** He requested 100,000 but the CO would not let him have the full amount.

*Savings.*

The client has a separate savings account where he saves about Ksh.6,000/month. Until recently when his daughter became ill, he had a balance of Ksh.40,000. He now has about Ksh.20,000. His K-REP savings account has a balance of 32,000. He had 35,000 but he lost some recently due to the default of someone else in his group. This illustrates the vulnerability of savings held in a K-REP account and the necessity for holding accessible savings elsewhere in case of household emergencies.

Client 3. (female)

*Field Office:* Line Saba Field Office, Kangemi. West Nairobi / Kawangware ACO.

*KIWA:* Thingira.

*Watano:* N/A.

*Credit Officer:* Mesheck Guandaro

*Enterprises:*
1. Riverside Bar and Restaurant. *Est.* 1992.
2. Freight Company. *Est.* 1996/7.

*Background.*

The enterprise started selling a herbal alcoholic drink in 1992. In 1995 the enterprise began to sell Kibuku beer, a cheap and popular beverage brewed from Sorghum. Although the entrepreneur would like to start selling 'proper' beer, she does not have sufficient cash-flow to do so.

The business has a low capital base, and produces a low income. However, the entrepreneur spread risk and increased household income though purchasing a vehicle with one of her K-REP loans. This vehicle is now the basis of a second enterprise, transporting goods, which employs two men, one of whom is her son.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1994/5 | 6 months | Purchase of stock |
| 2 | 100,000 | 1995 | 1 year | Expansion. She was able to obtain larger premises which allowed her to expand |
| 3 | 100,000 | 1996/7 | 1 year | Purchase of a vehicle (she contributed her own savings as well). Still repaying loan. Balance due = Ksh.12,000 |

*Employment.*

The bar employs three people (in addition to herself, her husband and two of her grown-up children, who are all unpaid).

*Employment Growth.*

When the bar was first established the owner employed just one person. In 1995 she added two more full-time members of staff.

*Profit.*

She sells two products, bottled Kibuku beer at Ksh25/bottle (cost price Ksh.20. Bought by the crate of 25 for Ksh.500), and cups of Kibuku porridge at Ksh.6/cup (cost price Ksh.8/litre). She will sell 50 bottles of Kibuku and 60 litres of porridge per day.

Sales volumes have grown over time. Originally, sales would value around Ksh.1,000 per day, they are now between Ksh.2,500 and Ksh.3,000.

The labour costs are Ksh1,000 per paid staff member per month. Other costs are simply water charges and kerosene, as the property is owned by the family.

*Access to alternative forms of credit.*

The respondent has no alternative sources of credit.

*Other impacts of K-REP loans.*

None mentioned.

*Savings.*

She used savings to cover part of the purchase cost of the truck. But no current savings were mentioned, other than those held by K-REP.

## CASE STUDY 3.

*KIWA:*. Jasho Self Help Group.

*Watanos:* N/A

*Location:* West Nairobi Field Office, Kawangware ACO, Kawangware Field Office.

*Credit Officer:* Meshak G. Guandaro.

*Established:* 1992

*Portfolio on alert:* N/A

*Group History.*

The group is drawn from individuals living (and mostly working) in Kibera, a substantial and well established slum settlement in the west of Nairobi. A function of the area is that it is poorly provided with infrastructure and is unlikely to be able to support growth within a single enterprise beyond a certain size.

Since Jasho's establishment in 1992, the group has declined in membership from 30 to 9. The current membership claim that many of the initial members who received loans between 1992 and 1993 believed that K-REP was in the business of grant giving, and did not anticipate that they would actually have the repay the principal with interest. This led to high levels of wilful default, with members 'running away' to avoid repayment. The remaining members had to cover these defaults with their savings, but since they were small - in the Ksh5-10,000 range - it was possible to achieve this without the total collapse of the group.

Since the group all knew each other and lived in the same area at the establishment of the group, there are indications that perhaps social collateral and co-guaranteeing of loans in an urban setting, with high population mobility, is less secure than in other settings.

Another tentative conclusion may be drawn about the impact of irresponsible NGO and politically motivated disbursements masquerading as loans.

The group's numbers now appear to have stabilised. They see themselves as being survivors and are so confident about their future that they are contemplating starting a joint enterprise renting rooms.

Current group membership includes a range of enterprises:

- hotel (in this context a small, and relatively basic, café)
- butcher's shop
- green grocer's kiosk/cooking and selling food
- general retail kiosk (3)
- general retail shop*
- hairdresser**
- soda wholesale
- water seller*
- paraffin retail*
- rental properties (27 Kibera based one-room units* and 4 Kibera based one-room units**)
- charcoal seller

[* these four enterprises were, unusually, all the property of one man, who was clearly at the upper end of the Kibera socio-economic ladder.

** these enterprises, though indicating success, were all micro-enterprises indicating almost more than anything vigorous horizontal expansion.]

Despite, or perhaps because of this diversity, the group feel able to provide each other with non-financial support by discussing business problems, and run a merry-go-round fund. Each group member contributes Ksh.300, Ksh200 of which goes to the merry-go-round which is distributed to a different member each week, and remaining Ksh.100 of which joins an accumulating group savings fund, which is held in a commercial bank account. The group savings fund is seen as being a resource for emergencies and capital for their future joint venture. In case of a group member needing to draw on the fund (due to sickness in the family or a business cash-flow problem making K-REP loan repayments difficult) they are expected to repay with interest.

Within the group, members are now on their 4th or 5th loan, which range from Ksh.80-200,000 in size. They now require an affidavit indicating items pledged as security against the loan, and are currently in the process of taking some of their former group members to court in order to recoup their savings lost in order to cover defaults.

They are generally happy with the services offered by K-REP and feel that though the interest rates are comparable with the commercial sector there are fewer regulations and collateral requirements, allowing smaller enterprises to access credit that would otherwise be unavailable. However, members of the group commented that they would be happy to see a standardised charge for loan processing (which is currently determined by the size of the loan), and (as frequently mentioned elsewhere) they would benefit from a longer grace period and the option to repay loans on a monthly basis. Unlike some other groups, they were quite happy to not have access to savings, seeing this as a key element of securing their fellow group member's loans.

Three clients from the KIWA were selected for in-depth interviews.

1. Client 4 - Grocer

2. Client 5 - General Store (and three other enterprises)

3. Client 6 - Charcoal Retailer

*Client 4.* - (female)

*Field Office:* Kibera

*KIWA:* Jasho SHG

*Watano:* Sun View

*Credit Officer:* N/A

*Enterprise:* Grocery Stall, *Est.* 1982

*Background.*

The interviewee has a market stall, outside the main settlement of Kibera, which is allocated to her by the city council at a cost of Ksh.400/month. If it were not allocated to her, she would have to rent it from someone at a cost of Ksh.4000/month. The store sells cooked corn cobs, and vegetables.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1992/3 | 6 months | Stock purchase, and payment of school fees |
| 2 | 15,000 | 1993/4 | 9 months | Stock purchase, and payment of school fees |
| 3 | 40,000 | 1995 | 1 year | Funeral expenses for husband (30,000), stock purchases (10,000) |
| 4 | 90,000 | 1996/7 | 1 year | Stock purchase, and payment of school fees.<br>Balance of loan still outstanding. |

*Profit.*

She believes that sales volumes amount to between Ksh800-1000/day, making a profit of about Ksh.200 per day.

*Employment.*

There has been growth in employment since joining K-REP, but in the form of unpaid family labour who are, nevertheless, supported as members of her household. Two of the entrepreneur's adult daughters work with her. One daughter has a small baby, which is looked after at the stall by another granddaughter.

*Access to alternative forms of credit.*

None. She would like to access other forms of credit, but they are not available. However, her KIWA has a merry-go-round and an emergency fund, both of which she has access to.

*Other Businesses.*

None.

*Other impacts of K-REP loans.*

The K-REP loans have helped her to expand her business and to carry more stock, but the payment of school fees has limited the growth of her business. Paying rent and school fees would have been very difficult following the death of her husband, had it not been for the K-REP loans.

*Savings.*

She has no savings, other than those held in K-REP.

*Other Comments.*

Belonging to a group provides non-financial support in addition to access to capital. She mentions particularly the support that she was given when her husband died.

*Client 5.* - (male)

*Field Office:* Kibera

*KIWA:* Jasho SHG

*Watano:* N/A

*Credit Officer:* N/A

*Enterprises:* 1. General Store, *Est.* 1992

2. Hairdressers, *Est.* 1995 (within this enterprise, is a subsidiary source of income in the form of a sewing machine and tailors bench)

3. Soda Wholesalers, *Est.* 1996

4. Four one-room rental units, adjacent to business premises (part of an 1 room 'barrack'. *Est.* N/A

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1992/3 | 1 year | Purchase of stock for general retail kiosk |
| 2 | 15,000 | N/A | 1 year | Purchase of a sewing machine |
| 3 | 40,000 | N/A | 1 year | Renovation of premises (including an enterprise previously undisclosed in the form of 4 one-room rental units*) |
| 4 | 120,000 | 1996 | 1 year | Establishment of the Soda Wholesale business, and purchase of additional stock for his general retail kiosk. |

* These create an income stream of Ksh.2,000/month, as they are rented out at Ksh.500/month, which is at the bottom of the normal price range in Kibera of Ksh.500-700/month.

The interviewee stated that although he has not yet applied he would very much like to obtain a 5th loan for Ksh.200,000.

*Employment and Employment Growth.*

Employment growth has clearly occurred alongside the expansion of this entrepreneur's linked businesses. When he first joined K-REP he employed one person in his shop, in addition to himself. He now employs four people, one in the shop, two in the hairdressers kiosk, and one daughter, who works as a tailor, and although unpaid is supported as a member of his household. Each of the paid members of staff receives a salary of Ksh.1,500/month.

*Profits.*

He believes that between the general retail kiosk, the hairdressing/tailoring and the wholesale businesses he makes a profit in the range of Ksh.2,000/month, with an additional income of Ksh2,000 a month from the rental properties.

*Access to alternative forms of credit.*

None mentioned.

*Other Businesses.*

The interviewee has invested in the horizontal and vertical expansion of his entrepreneurial base. This has had a significant positive impact on his business and his standard of living.

*Savings.*

The interviewee has accumulated Ksh.21,000 with K-REP in addition to a Post Office Savings Bank account and an account with the Co-operative bank.

*Other impacts of K-REP loans.*

The positive impacts of K-REP membership have, for this individual, come with a very definite price tag. He has personally paid through loss of savings for the default of three members of the group. His losses amount to a Ksh 900 contribution to clearing one account, a Ksh.650 contribution to another, and a Ksh75,000 debt which the group is still to cover.

*Other comments.*

He would support the introduction of a grace period, as the increase in income and cash-flow following an investment in stock is not immediate, frequently making it difficult to meet the first loan repayment.

*Client 6.* - (male)

*Field Office:* Kibera

*KIWA:* Jasho SHG

*Watano:* Gakenia

*Credit Officer:* N/A

*Enterprise:* Charcoal Selling *Est.* 1974

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 20,000 | 1993 | 9 months | Purchase of stock, and a small plot of land (for Ksh7,000) |
| 2 | 40,000 | N/A | 9 months | Purchase of stock, the majority towards payment of school fees |
| 3 | 60,000 | N/A | 9 months | Purchase of stock, the majority towards payment of school fees |
| 4 | 90,000 | July 1997 | 1 year | Purchase of stock, the majority towards payment of school fees |

*Employment and Employment Growth.*

This is a micro-enterprise with only the owner-manager employed. Employment growth has not occurred since the interviewee joined K-REP.

*Profit.*

The sales are apparently in the Ksh.1,000-3,000/day range making a daily profit of around Ksh300/day (Ksh.9,000/month). Interestingly, this is one of very few interviewees to have claimed that neither his sales volumes nor the value of sales have increased since obtaining a K-REP loan. However, the client felt that the fact that he could hold more stock was a benefit in its own right. (Having visited the site, which is adjacent to a number of other charcoal selling businesses, it is possible that the market is saturated, and with an undifferentiated product it is difficult to gain market share. Increased profits may be difficult to attain without diversification, and as the client is in his late middle-age he may be too old to wish to take on more work. Another factor may well be the investment of funds in his children's education, diverting capital away from his enterprise.)

*Access to alternative forms of credit.*

Due to his involvement in small scale coffee growing, he is a member of a coffee co-operative, and therefore has a Co-operative Bank account. In the 1970's he obtained a loan for investment in his farm, but has not used the Bank as a source of credit since then.

*Other Businesses.*

He has a shamba (or farm) planted with coffee.

*Other impacts of K-REP loans.*

The loan has helped him to sustain his business in addition to covering household and other expenses.

*Savings.*

See above.

## CASE STUDY 3A.

*Client 7.* - (male)

*Field Office:* Kawangware, West Nairobi ACO.

*KIWA:* Wendani

*Watano:* N/A

*Credit Officer:* N/A

*Enterprise:* Dry Goods/Grocery Store. Est. 1991

*Background:*

The following case study is of one of the few defaulters from the West Nairobi ACO that the evaluation team was able to trace. It should be emphasised that although the story appeared to be absolutely genuine, it has not been verified by K-REP staff, and may therefore contain inaccuracies.

Following the disbursement of the seventh loan, a member of the interviewee's KIWA requested a loan of Ksh.80,000 in order to supplement his K-REP savings. This, he hoped, would enable him to access a more substantial loan himself. The loan was witnessed by two other members of the KIWA, but nothing was written down, and no security was pledged. The recipient failed to repay this amount and left the KIWA. The investment in the interviewee's business had not been adequate to generate the required weekly repayment flows, and delayed repayment was followed by default. In March 1997 he could no longer afford to pay the rent of the premises housing his enterprise and he was forced to close it down. He is now unemployed, no longer able to support his 12 dependants, and forced to rely on a relative in employment for handouts.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1993 | 3 months | Purchase of stock. |
| 2 | 10,000 | 1993 | 3 months (repaid in 2) | Purchase of stock, and covering household expenditure. |
| 3 | 25,000 | 1993 | 6 months (repaid in 4) | Purchase of stock, and payment of school fees. |
| 4 | 50,000 | 1994 | 1 year (repaid in 7 months) | Purchase of stock, and payment of school fees. |
| 5 | 80,000 | 1994/5 | 1 year (repaid in 8-10 months) | Purchase of stock, and payment of school fees. |
| 6 | 120,000 | 1996 | 1 year | Purchase of stock, and payment of school fees. |
| 7 | 200,000 | 1997 | 1 year (currently in default)* | Purchase of stock, and payment of school fees. |

* The client claims to have repaid 100,000 of the loan before getting into difficulty. The cause of the problems appears to have been an unsecured intra-group loan.

The interviewee hopes to be able to start a micro-enterprise or get some cash employment in the near future. If he does, he intends to repay his K-REP loan in full.

*Employment and Employment Growth.*

Prior to the collapse of the business, it provided full-time employment for both the entrepreneur and his wife, but employment had not grown following the receipt of K-REP loans.

*Pre-default Profits.*

Sales used to be in the Ksh.1,000-3,000 range, but the interviewee was unable to indicate how much of this would have been considered clear profit.

*Access to alternative forms of credit.*

None.

*Other Businesses.*

None.

*Other impacts of K-REP loans.*

Until the default the impact of the K-REP loan was clearly positive, both in terms of strengthening the business and enabling the extended household to meet its costs. However, once default occurred, the pressure of attempting to meet loan repayments resulted in business collapse and a loss of livelihood.

*Savings.*

He currently has no savings. His K-REP savings have been seized as partial coverage of his outstanding balance.

*Other Comments.*

Prior to the default the interviewee's enterprise was growing slowly, and had adequate stock to attract customers. Covering children's school fees and diverting funds into looking after a large number of dependants appears to have prevented adequate investment in the enterprise, limiting its growth.

The interviewee's comments on K-REP reflect his recent experiences. He feels that weekly repayments do not adequately take account of a normal enterprises cash-flow variations, and that monthly repayments should be introduced. His comments concerning how the repayment schedule for his 7th loan was determined were worrying. He requested a 2 year repayment schedule but was refused it and asked to repay within a year. Apparently a large number of loan applicants within his KIWA were requesting long repayment periods for large loans at the time he applied. This suggests that either the Credit Officer, or the Area Office wanted to see some income flowing into the organisation more rapidly. This may well be a distortion of events, in which case problems of communication of procedures with clients becomes the issue.

## CASE STUDY 4.

*KIWA:* Goodhope.

*Watanos:* None.

*Location:* Nyeri Field Office under Nyeri ACO.

*Credit Officer:* Joseph Mrabu Mweru

*Established:* 1993

*Portfolio on alert:* 15.06%

*Group History.*

The KIWA was started in 1993 during a period of rapid expansion of K-REP operations in the Nyeri area. The original group had 33 members who, unusually, were not divided into Watanos. Apparently this was fairly common in Nyeri at this time, perhaps indicating an impact of overly rapid client-base expansion. Senior K-REP officials deny that this was the cause of the problem stating, instead, that the poor quality of some field staff was to blame. The current CO suggests that the CO supervising the group at the time did not train the group adequately, or explain to them the importance of Watanos in terms of tight peer supervision and loan guaranteeing, and that as a result, the full group of 33 chose not to establish Watanos, but instead to approve each other's loans and act as guarantors, as they felt that this would distribute risk more widely amongst the group.

This KIWA's first loans were disbursed in 1994. Everyone received Ksh.10,000, and all loans bar one were repaid. The second set of loans of Ksh.25,000 were disbursed and collected with no defaults. However, problems set in when the third loans were disbursed. On this occasion, the loan amounts ranged from Ksh.30,000 to Ksh.80,000. Some group members started having repayment problems. This appear to have been due to the lack of Watano structures within the KIWA; the shift to a range of loan sizes within the group; and the change in Credit Officers supervising the group. The original Credit Officer left K-REP in January 1996, and was replaced by Joseph Mrabu Mweru. During the period when he was becoming familiar with the group, default problems started to emerge. This indicates the crucial functions of both Watanos as a loan screening and guarantor mechanism and the Credit Officer as overall supervisor.

During this period four members of the group defaulted.

1. One group member was ill, and had to stop work for a time (see Case Study 9 below)

2. One person did not use the loan for business investment. The strain of meeting loan repayments caused the business to collapse.

3. Two group members (a couple) moved away without warning. This appears to have been the only case of wilful default.

One of the defaulters (no. 1) had items that had been pledged as loan security sized and sold in order to cover the loan. Another defaulter (no. 2) had her loan partially covered by her savings and partially covered by the seizure of savings of other members of her KIWA. She has been repaying this amount gradually to the group. A lawyer was hired by the KIWA to attempt to trace the couple and a warrant has been issued for their arrest but so far there has been no success.

At the time of the default problems the group had 30 members, 20 of whom had completely repaid their loans, and 6 of whom still had part of their loan to repay. The savings of the twenty who had fully repaid their loans were used to cover the four loans under default, while the six who still had part of their loan to repay had their savings taken to cover the balance of their loans. Following this crisis a number of group members left, due to the loss of their savings (the group as a whole lost Ksh.200,000), which was compounded by poor communication with K-REP officials concerning progress on their pursuit of defaulters (see Case Study 9, below), and the freezing of all new loan disbursements for a year.

The KIWA has now stabilised at one third its original size. The meeting attended by the evaluation team had ten members present, six women and four men. The group commented that they now feel that they are a strong and coherent group, and that they have been strengthened as a group by their rough start, as they now know each other extremely well and trust each other. Despite this trust, they now have much tighter expectations of members applying for loans, with those applying for small loans being required to pledge household items as loan security (e.g. furniture, sewing machines and other consumer durables), and applicants for larger loans being asked to pledge title deeds to land or vehicle log books. These affidavits must be signed by the loan applicant's spouse or next of kin to ensure their compliance in case of default and seizure.

The credit officer now supervising the group hopes that once the group has fully stabilised, it will begin to grow again. Once this happens he intends to introduce the Watano system, which is still not being used.

*ROSCAs and Merry-Go-Rounds.*

An illustration of the group's new vitality is the savings scheme started in April of this year. Group members each make weekly savings of Ksh.50 (and above), which are recorded by the KIWA treasurer in a savings and loan book. The fund is held in a group account in a commercial bank. Once the fund has grown adequately, a rotating emergency loan will be established, which will be for group members requiring consumption loans and those having temporary difficulties meeting Juhudi loan repayments.

*Membership of other Self-Help Groups.*

Interestingly, although none of the group has a commercial bank loan, most are members of other self-help-groups, and therefore have access to alternative sources of savings and credit in the form of merry-go-rounds and ROSCAs.

*Comments on K-REP Services.*

When invited to comment on the services provided by K-REP, members of the group stated that an extended grace period would be very useful. Lenders repaying on a weekly basis are permitted only two weeks grace. This is a theme which emerged a number of times with other groups.

*Group Members Selected for Interview.*

Two former group members were interviewed in an attempt to gain a deeper understanding of the group dynamics and issues in a loan group undergoing crisis. One interviewee had left following the loss of her savings, due to the default of other group members. The second interviewee had left following defaulting on her third loan.

Client 8 - Dry Goods Stall (former group member, non-defaulter)

Client 9 - Dry Goods Stall (former group member, defaulter)

*Client 8.* - (female)

*Field Office:* Nyeri ACO.

*KIWA:* Goodhope.

*Credit Officer:* Joseph Mrabu Mwero

*Enterprise:* Market Stall, selling grains

*K-REP Loan History*

The client joined K-REP in 1994 and left in 1996 due to the loss of her savings following the default of other KIWA members.

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1994 | repaid over 10 months | Purchased stock |
| 2 | 25,000 | 1995 | repaid over 10 months | Purchased stock |

*Employment and Employment Growth.*

During the period of K-REP membership the stall employed three people on a full-time basis, the owner, her husband and another worker. This has since declined to owner and her husband.

*Profit.*

A rough estimate indicates that the enterprise brings in about Ksh.10,000 per month in profits. The owner believes that this has declined from a higher level during the period of K-REP membership. Profits are estimated from the volume of stock purchased in a month. During the period of K-REP membership purchases were in the order of Ksh.150,000 per month, but have now declined to Ksh.100,000 per month.

*Access to alternative forms of credit.*

None.

*Other Businesses.*

None.

*Other impacts of K-REP loans.*

During her period of K-REP membership her business prospered. She used at least part of the loan capital to invest in stock. As a result her sales and income increased.

*Savings.*

She currently has a savings account with the Co-operative Bank. She lost the Ksh.10,000 that she had saved with K-REP due to the default of members for whom she was co-guarantor.

*Other Comments.*

Following the client's loss of savings she decided to leave K-REP. She felt that her loss of savings was a heavy penalty as she had repaid her loan regularly with interest. She was also suspicious about the events surrounding the seizure of members' savings, as a lawyer had already been employed to recoup the defaulted loans and the items pledged as security by the defaulters had already been repossessed. However, the defaulters' possessions were not auctioned but were returned to them. At this point the KIWA would have expected to have received money to cover the loans in default but this did not happen and the KIWA had to cover the default. The defaulters lost their savings but appeared to avoid any other penalties[22].

As a result of these problems the client would be more interested in obtaining an individual loan from K-REP in the future. As her husband has recently bought a car, the log book could be used as collateral. However, if she would be happy to rejoin a reliable group, if offered a place as she was basically happy with K-REP prior to the loss of her savings. She felt that the loans made a noticeable positive impact on her business, and that by increasing and diversifying her stock she was able to increase her volume of sales and therefore income.

*Client 9.* - (female)

*Field Office:* Nyeri ACO.

*KIWA:* Goodhope.

*Credit Officer:* Joseph Mrabu Mwero

*Enterprise:* Market Stall, selling grains. Est.: 1993.

[22] *This interpretation of events was countered by the group's CO. Whichever version of events was correct, the poor communication between K-REP and the KIWA members concerning progress in clearing bad debts is clearly a problem.*

*Background.*

Prior to starting her market stall in December 1993, she was employed in a bar/hotel in town.

*K-REP Loan History*

The client was a member of the Goodhope KIWA between 1993 and 1996, when she left due to default.

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1995 (July) | 6 months | Purchase of stock. Prior to the loan, the client's stall stocked horticultural products. Following the loan, the client began selling grains. Purchase of some household items. |
| 2 | 15,000 | 1995 (Oct.) | 6 months | Purchase of stock to expand the business. Purchase of some household items. |
| 3 | 25,000 | 1996 (Feb.) | Defaulted* | Purchase of stock. Purchase of some household items. |

* The client's loan repayments fell into default when she was admitted into hospital. She lost Ksh.6,000 in savings, and her KIWA (at that point 25 people) had to cover the balance of Ksh.1,900. She has just finished repaying the members of her KIWA who lost savings in order to cover her loan.

*Profit.*

The interviewee did not keep records and found it very difficult to estimate her enterprises profits.

*Employment.*

She has never employed anyone at her stall.

*Access to alternative forms of credit.*

None.

*Other Businesses.*

She has access to land at her father's shamba (farm) where she grows horticultural crops, maize, potatoes, and beans. Although the food is mostly for subsistence, she will sometimes sell small amounts of surplus produce at her stall.

*Other impacts of K-REP loans.*

As a result of the loan capital she was able to purchase some furniture, and bring her two children to come and live with her. They had previously lived with her mother. As she is unmarried and has no other source of income it was important that her business income improved before she brought her dependants to live with her. The K-REP loans therefore had a very real impact on the welfare of her family.

*Savings.*

She has a savings account at the Post Office Savings Bank. She is also a member of two Merry-go-Round schemes organised by the market traders.

1. The group has five members each of whom makes a daily contribution of Ksh.15. Every five days she will get Ksh.75. She uses the money to supplement her household expenditure.

2. The group has 33 members each of whom makes a daily contribution of Ksh. 100. Every month she will get approximately Ksh.3,000 which she uses to invest in her business. (After each monthly circuit has been completed new members can join and people can leave, they will also determine the order of disbursements within the group for the following month.)

*Other Comments.*

She would like to rejoin K-REP as she felt that the loans had a very positive impact on her business and her lifestyle. She can reapply as a new member, and is on Goodhope's waiting list in case anyone drops out and a replacement is needed.

## CASE STUDY 5.

*KIWA:* Sadiki Self-Help-Group.

*Watanos:* Tumaini, Haraka, Rafiki.

*Location:* Nanyuki Field Office, under Nyeri Area Credit Office.

*Credit Officer:* Thomas Ondong Njesa.

*Established:* April 1994, with 11 member, now has 15 members.

*Portfolio on alert:* 6.70%

*Group History.*

The members of each Watano knew each other quite well before they joined the group, and were acquainted with the other members of the KIWA. Most of the members of the KIWA were members of a pre-existing self-help group which ran a merry-go-round. This could partially explain the absence of problems with default and drop out. However, the group members were very cautious and before a prospective member was admitted to the group the existing members visited the home and business to assess their credit worthiness.

*Group members.*

| Watano | Client | Enterprise | Date Joined |
|---|---|---|---|
| Baraka | 1* | Tailors etc. | April 1994 |
| | 2 | Knitting | April 1994 |
| | 3 | Grocers | April 1994 |
| | 4 | Tailor | April 1994 |
| | 5 | Music Stall | Jan 1997 |
| Rafiki | 6 | Music Stall | April 1994 |
| | 7 | Hardware Shop | April 1994 |
| | 8 | Music Stall | Jan 1997 |
| | 9* | Leather Goods | April 1994 |
| | 10 | Hardware Shop | Jan 1997 |

| | | | |
|---|---|---|---|
| Tumaini | 11 | Matatu Operator | Dec 1997 |
| | 12 | Second Hand Clothes | Dec 1997 |
| | 13 | Tailoring and Cloth | Dec 1997 |
| | 14* | Mechanic | April 1994 |
| | 15 | Barber | April 1994 |

* (selected for interview)

*Loans.*

Eight members of the group have received their 1st Loan, and four members their 2nd Loans. No-one had yet received a 3rd Loan. Two members of the group do not currently have a loan.

*Method of Securing Loans.*

Each loan is secured with household or business items equal to or more than the loan.

*Drop out and default.*

No-one has left the group yet, and there have been no defaulters, so no-one has yet lost savings due to the default of another group member.

*ROSCA or Merry-go-round.*

The group does not run a ROSCA, but it does have a merry-go-round. All KIWA members contribute Ksh.200 per week. The collected amount is divided amongst two members, who are selected at random using a raffle system. Once someone has received the fund they sit out the raffle until all members have received, when the process starts again.

*Savings.*

The KIWA members save as much as they want. Most save more than the minimum Ksh.50 per week.

*Committee Posts.*

These are determined by elections held every 2 years. The group Chairman described the roles as very time consuming and stated that he would be pleased when the time came to relinquish the post.

*Additional Comments.*

An exceptional feature of this group is that members are given the option of repaying on a weekly or a monthly basis. This is because originally K-REP did not have a bank account in Nanyuki, so all funds collected from clients had to be sent down to Nyeri by bankers draft. As it was an expensive procedure, the office only did this on a monthly basis. The Nanyuki office now has a bank account, but has retained the optional monthly loan repayments. The CO commented that loans repaid on a monthly basis were more likely to get into arrears, and he advised clients to repay weekly where their business cash flow allowed them to do so. (He argued that due to interest being calculated on a declining balance, they would pay less interest if repaying weekly.)

Another exceptional feature, is that when K-REP became involved with the pre-existing self help group some members had to be persuaded to take loans as they had never had debts before and were anxious.

The group is young and prosperous looking, with only one member beyond middle age. The group appeared to be very well disciplined and organised, and clearly followed a set procedure each meeting. Funds were collected by each Watano treasurer and counted, records were up-dated in members books and the money passed to the KIWA treasurer. The Watano treasurers also made a verbal report (which was minuted) about absences and amounts collected in loan repayment and savings from their sub-group.

Although the members were generally very happy with K-REP procedures they explained that they would like to see the introduction of a more extended grace period for loans repaid weekly.

*Client 10. -* (female)

*Field Office:* Nanyuki Field Office, under Nyeri ACO.

*KIWA:* Sadiki Self Help Group.

*Watano:* Baraka

*Credit Officer:* Thomas Ondong Njesa.

*Enterprise:* Retail Store, selling clothes, hair products and selling and renting videos. *Est.* 1992.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 30,000 | 1996 (Dec.) | 5 months | Added stock. Uniforms, jumpers, clothes. School fees. Bought a shamba (farm) |
| 2 | 60,000 | 1997 (July) | aims to repay in 3 months | Diversified the business, by purchasing video tapes for sale and rental. (Cost Ksh.100,000. She added her savings to the loan amount.)* |

* she is now able to use business profits to pay the school fees.

*Employment and Employment Growth.*

Employment within the enterprise appears to have been fluctuating recently. The enterprise used to employ two of the owner's relatives. They have now left, and been replaced by one employee. However, from November 1997 staff will increase again by two people.

*Profit.*

The client estimated that prior to receiving a loan from K-REP her sales were in the region of Ksh.80,000 per month, and that since then they have risen to over Ksh.100,000 per month. She further estimates that she now makes between Ksh.20-50,000 per month in profit, except in December and January, when sales are exceptional, and she can expect to take about Ksh.200,000 in a month.

*Access to alternative forms of credit*

She does not currently use an alternative source of credit although she used to make use of an overdraft facility at a commercial bank but found the interest repayments too high.

She has two bank accounts, a current account at Standard Chartered Bank and a savings account at Barclays Bank.

*Other Businesses.*

She does not have any other clearly distinct enterprises. However, the staff she employs work both in the shop and knit sweaters for sale in the shop, using knitting machines she owns. She also has a sewing machine which she uses to make school uniforms for sale on a seasonal basis, and has a two acre shamba, which she bought a year ago, where she grows potatoes, beans and maize. The produce is mostly for household use but also creates a marketable surplus.

*Other impacts of K-REP loans.*

She has been able to expand and change her stock and to therefore attract more customers and increase her sales volume. This, and the use of loan capital for increasing household liquidity has resulted in an improvement in her standard of living. She can feed and clothe her children better than before, and no longer has money worries.

*Savings.*

She has a savings account at Barclays Bank.

*Other Comments.*

As she has collateral she would be able to access a loan from the commercial sector, but she chooses not to. She finds the interest rates charged by K-REP fairer and she likes the frequent repayments which encourage her to repay the loan quickly.

She does not belong to another self-help-group.

*Client 11.* - (male)

*Field Office:* Nanyuki Field Office, under Nyeri ACO.

*KIWA:* Sadiki Self Help Group.

*Watano:* Rathiki

*Credit Officer:* Thomas Ondong Njesa.

*Enterprise:*
1. Leather Worker Est. 1982[23]
2. Farming
3. Ownership of rental properties (a) residential, and (b) commercial.

[23] Files held at the ACO state that the enterprise was first established in 1968

*Background:* The enterprise is located at a stall at the roadside in Nanyuki town. It employs both the owner and his son adding trim to bags, making key rings, mending shoes.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 10,000 | 1997 (March) | 6 months (but paid more rapidly) | Purchased stock. (zips, paint, polish etc.) |
| 2 | Application pending. Has requested 40,000 | - | | Will invest in the business. |

*Employment and Employment Growth.*

The enterprise employs the owner's adult son full-time, but although all his expenses are met, he is not formally paid. There has not been any employment growth as his son has worked with him for many years.

*Profit.*

This is very difficult to estimate due to the fluctuations in order, sales and cash-flow, but files held at the ACO state that monthly sales are in the region of Ksh.8,000.

*Access to alternative forms of credit.*

Although the interviewee does not currently have access to any alternative forms of credit, he took a Government Loan in 1985, which was disbursed through the Trade Board. This was for Ksh10,000, and was repaid over 18 months, with interest payments amounting to Ksh.2,000. The money was used on school fees for his children.

As he owns land and property he would have adequate collateral for accessing a commercial loan. However, the client prefers to access credit through K-REP as he believes the interest rates to be lower than those charged by the commercial banks, and because applicants do not have to bribe anyone to get their loan application processed. In addition, the K-REP loan application procedure is simpler and applications are processed more rapidly. The other features of K-REP that the client appreciated was the general lack of corruption and fraud in K-REP, and the openness of discussions and transparency of decision-making.

*Other Businesses.*

1. Two farms. (i) 12 acres

   (ii) 20 acres

The combined produce makes a profit of up to Ksh.30,000 per year. (This is shared through a joint bank account with the son who works the farm). The incomes of the farm and the leather work business are kept separate.

2. Rental properties. (3 rooms bringing in a rent of Ksh.450/month each).

   He also plans to build more rooms.

3. Rental kiosk. (Bringing in a rent of Ksh.12,000/year)

*Other impacts of K-REP loans.*

His business is better known, and he believes that his sales and income have increased, improving his self-reliance.

*Savings.*

In addition to his savings with K-REP, he has a joint account with the son of his who works the farm.

The son helping him with his leather working business belongs to a ROSCA and has assisted the business a couple of times in the past although he is under no obligation to do so.

*Client 12.* - (male)

*Field Office:* Nanyuki Field Office, under Nyeri ACO.

*KIWA:* Sadiki Self Help Group.

*Watano:* Tumaini

*Credit Officer:* Thomas Ondong Njesa.

*Enterprise:* 1. Car Mechanic *Est.* 1994[24]

2. Spare Parts Retail. *Est.* 1997.

*Background.*

The entrepreneur had a small mechanics business before he joined K-REP, but it is now enlarged, and he has been able to add a spare parts shop.

*Employment and Employment Growth.*

Since starting his spare parts business he has been able to employ his wife on a full-time basis. He also employs two apprentices. In their first year of apprenticeship they place a security with him of Ksh.5,000. After the end of their second year he begins to pay them. Their wages start at Ksh.500 per month and increase to Ksh.1,500 per month. They generally leave for other employment soon after their apprenticeship is completed and he replaces them with a new apprentice.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1* | 20,000 | 1995 | 1 year | bought a battery charger costing Ksh.27,000 |
| 2 | 20,000 | 1997 | 1 year | Started a linked enterprise selling spare parts. (still has Ksh.12,000 to repay) |
| 3 | Application for a loan of Ksh.60,000 is planned | - | - | To expand his spare parts business. |

* (He started off in K-REP in another KIWA, however, the group collapsed after a number of people defaulted. He repaid his loan in full and asked the credit officer to find him another KIWA to join. The KIWA Sandiki was just in the process of formation at this point, so he was able to join them.)

[24] Files held at the ACO state that the enterprise was first established in 1991

*Profit.*

He estimates that before he joined K-REP his sales volumes were around Ksh.4-5,000 per month. They are now in the region of Ksh.13-14,000 per month. Of this, about 50% is profit. The spare parts business is making a sufficiently good profit to enable him to repay the current loan fully from its profits.

*Access to alternative forms of credit.*

He does not have access to any alternative sources of credit.

*Other Businesses.*

A linked car spares enterprise.

*Other impacts of K-REP loans.*

As a result of the K-REP loans his family's standard of living has increased. He is more able to support his household, which is composed of his wife and child and his sister's two children. In addition, the household has been able to move to better quality rented accommodation.

*Savings.*

He has a current account and plans to open a savings account when he obtains his 3rd K-REP loan.

## CASE STUDY 6.

*KIWA:* Mwitindia

*Watanos:* Mwihoko, Matumaini, Ngai Ndethya, Ebenezer, Mwithirithia.

*Location:* Othaya, under Nyeri Field and Area Credit Office.

*Credit Officer:* Juliana Mwende

*Established:* The group was established in January 1996, with 26 members. Numbers have now declined to 23 (ten men and thirteen women)[25]

*Portfolio on alert:* 6.22%

[25] The figures gathered in group meeting do not match those taken from reports in the ACO which stated that the group started with 32 and declined to 18. Jane Gitonga, a member of the group indicated that the KIWA had asked 10 'untrustworthy' members to leave before loans were distributed, giving another set of figures.

*Group History:*

This is a fairly recently formed group, with members either in the process of applying for their first loan (1), repaying their first (12) or second loan (7) or in between loans (3). The loan sizes are small, ranging from Ksh.12,000-40,000, indicating both the newness of the group and the relatively slow rate of savings accumulation by individuals.

The group is extremely well disciplined, with a clear delegation of responsibility to Watano treasurers. The Watano treasurers collect the savings and loan repayments from their group, update the members' books, make an oral report to the group summarising the figures and attendance, and pass their records to the Credit Officer and KIWA treasurer, in order for them to update their records. This system appeared to result in a rapid completion of business. So far the group has avoided any problems with default or delayed payments.

During the meeting, at which the evaluation team were present, the group were discussing the procedure for repaying ROSCA and Juhudi savings to three members of the group who had recently left. The drop-outs had left before receiving their first loan, for the following reasons:

1. A female member of the group was having marital problems and her husband requested the group not to guarantee a loan for her;
2. Lack of clarity over the ownership of a member's business made it impossible for the group to guarantee a loan;
3. Undisclosed.

*ROSCAs and Merry-Go-Rounds.*

The group has both a merry-go-round and a ROSCA. Members contribute Ksh.20 per week to the merry-go-round fund, the total is then sub-divided into three lots of Ksh150and allocated to a different three members each week. Any balance is banked. The members each have a loan of Ksh.1,140 from the group's ROSCA. They repay over either 3 or 6 months on a weekly basis with a weekly interest charge of Ksh.20.

Despite the apparent coherence of the group, and the additional benefits to members of access to both a ROSCA and a merry-go-round scheme, the group apparently does not discuss business problems. So, the group functions very much on a financial basis, rather than having a broader entrepreneurial support function.

*Comments on K-REP's Services.*

When invited to comment on K-REP, the group indicated that they all benefited from belonging to the group and felt that the K-REP programme was excellent. They did, however, have some fairly specific complaints. One was that they would benefit from a longer grace period. It emerged that it takes up to three weeks for K-REP cheques to clear, meaning that clients have to start loan repayment before the loan fund has left the K-REP account and entered theirs. It seemed quite reasonable that clients would object to starting repayment and paying interest on money not yet received, out of business incomes not yet benefiting from capital injection. One group member suggested that if K-REP cannot alter its repayment dates, it should give clients the option of collecting their loans in the form of a cash payment from a K-REP cashier.

Another point that has been made before, but was made quite strongly by this group, was that some businesses do not have the type of cash flow that suits weekly repayments of equal size. Some members of the group felt that they would benefit from monthly repayments. This highlights the impact on clients of the inconsistency in K-REP policy which permits groups in Nanyuki to select weekly or monthly repayment schedules but fails to give the same freedom to clients serviced by Nyeri.

*Transfer of Transactions Costs.*

One member of the group challenged K-REP to explain why KIWAs must hire a lawyer themselves to chase defaulters, incurring expenses and wasting individuals' time, rather than referring cases of default to a lawyer hired by K-REP.

A related point was K-REP's failure to open a bank account in Othaya, resulting in KIWA members having to make a long journey by public transport to Nyeri with large amounts of cash (+/- 45 minutes each way) .

*Client 13.* - (female)

*Field Office:* Nyeri

*KIWA:* Mwitindia

*Watano:* Matumaini

*Credit Officer:* Juliana Mwende

*Enterprise:* 1. Clothes (Retail, Market Stall, Othaya) *Est.* 1987

2. Dry Goods Stall - run from home. *Est.* 1994

*Employment.*

Employment growth has not occurred in either enterprise during the interviewees membership of K-REP. She has employed her brother-in-law (Ksh.1,500/month) for some time.

*Profit.*

The interviewee believes that her businesses have grown since receiving her first loan. She sees this as a result of being able to use the K-REP loans as working capital in order to carry a greater range and quantity of stock.

Although she was not able to give us profit figures, a rough estimate of sales in the period 1996-1997 shows an increase from Ksh.4,000 to Ksh.6,000 per month.

*Access to alternative forms of credit.*

The only other form of credit that she has ready access to is the ROSCA within her KIWA. This offers loans of Ksh.1,000 for a maximum period of three months, at an interest rate of Ksh.20 per week.

The fund, managed by the KIWA treasurer, now stands at Ksh.50,000, and is slowly accumulating as individual members pay interest on their loans. Members are expected to contribute Ksh.50 per week to the fund, but may withdraw their contribution if they wish to leave the group.

*Other Businesses.*

She runs both a clothes stall and a dry good store with minimal assistance from additional staff. He clothes stall (est. 1987) is open from 7.00 a.m. until 6.00 p.m., while her dry goods stall (est. 1994) is open from 6.00 a.m. until 10.00 p.m. She runs between both enterprises, staffing the dry goods clothes stall from 6.00 a.m. until 10.00 a.m., the clothes stall 10.00 a.m. to 5.00 p.m. and back to the dry goods stall from 5.00 p.m. until 10.00 p.m. Her brother-in-law covers the enterprises while she is not there. In addition to these enterprises, her family owns a small plot of land. However, it is apparently too small to be productive.

*Other impacts of K-REP loans.*

Due to the improvement in sales, she is now more able to meet household and business expenditure. She has also seen an improvement in her standard of living.

*Savings.*

Other than KIWA savings and saving through the ROSCA, the interviewee also has a current account with one of the large commercial banks, which she uses to manage her business cash-flow.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 20,000 | 1996 | 6 months (but repaid in 3 months) | Purchase of stock. |
| 2 | 40,000 | May 1997 | 6 Months | Purchase of stock. Investment in her second enterprise, a dry goods store. |

*Client 14.* - (male)

*Field Office:* Nyeri

*KIWA:* Mwitindia

*Watano:* N/A

*Credit Officer:* Juliana Mwende

*Enterprise:* Tailor (Othaya) Est. 1993

*Field Office:* Nyeri ACO.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 13,000 | Dec. 1996 | 6 Months | Purchase of a sewing machine (Ksh.7,240), and materials. |
| 2 | Application pending Ksh.15,000 | — | — | Aim: to purchase more stock. |

*Employment and Employment Growth.*

In 1996 he was working on his own with a leased machine. He now employs two tailors on a piece-work basis, and has purchased a sewing machine to add to the one he leases. The staff are generally fully employed due to the high levels of orders.

*Profit.*

He believes that his current sales are in the order of Ksh.8,000 which leaves him with a profit of approximately Ksh.5,000.

*Access to alternative forms of credit.*

Other than K-REP and the ROSCA run within his KIWA (see KIWA 6 Case Study), the interviewee does not have access to any alternative forms of credit.

*Other Businesses.*

The household has an additional income stream as his wife has paid employment in a private surveyors office. Apparently they do not use her salary to cross subsidise to his business. A small additional income accrues from a small shamba (farm) which is planted with coffee.

*Other impacts of K-REP loans.*

Prior to the receipt of K-REP loans the interviewee used not to keep business records of any kind. He now keeps records to ensure adequate allowance was made for loan repayments. Regular savings and loan repayments have, therefore, clearly introduced a new level of business discipline.

*Savings.*

Other than saving with K-REP and his KIWA's ROSCA he has a Co-operative Bank account through his membership of a coffee producers' co-operative. However, due to the current poor price of coffee he does not have any money in this account.

*Other Comments.*

Although pleased with the K-REP programme, the interviewee commented that loan repayment schedules were too tight, causing particular problems when a business is going through a rough patch. He also stated that it would be good to be able to repay the loans in monthly as opposed to weekly instalments when cash flows were variable,

*Client 15.* - (male)

*Field Office:* Nyeri

*KIWA:* Mwitindia

*Watano:* Mwitirithia

*Credit Officer:* Juliana Mwende

*Enterprise:* Shoe Stall - Second Hand (Othaya) *Est.* 1993/4

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 20,000 | 1996 | 3 months | Purchase of stock. |
| 2 | 40,000 | July 1997 | 9 months | Purchase of stock. (Ksh.20,000) Another Ksh.20,000 will be spent on stock within a month. |

The interviewee stated that he would like to repay his second loan rapidly in order to obtain a 3rd loan which he will use to establish a shop selling both new and second hand shoes.

*Employment and Employment Growth.*

Prior to accessing K-REP loans, he worked alone. He now employs two people (salary Ksh.1,000/month plus lunch) who move around town hawking shoes.

*Profit.*

The interviewee stated that before obtaining a K-REP loan, his profits were in the region of Ksh.500 per week. This has now increased to Ksh.1,700 a week.

*Access to alternative forms of credit.*

Other than K-REP and the KIWA's ROSCA (see KIWA 6 Case Study) he does not have access to an alternative source of credit.

*Other Businesses.*

None.

*Other impacts of K-REP loans.*

Second hand shoes are sold in bulk packages, sorted according to whether they are men's, women's or children's. Unless an entrepreneur has adequate working capital it is impossible to purchase the full range of shoes. As a result of the K-REP loans the interviewee is now able to stock and adequate range and therefore attain better sales. This has improved his cash-flow greatly, strengthened his business and improved his household's standard of living.

*Savings.*

Other than saving through K-REP and with his group's merry-go-round and ROSCA, he has also been able to open a savings account with a commercial bank since joining K-REP. The high threshold placed on savings accounts in commercial banks stops many micro-entrepreneurs from opening accounts. The fact that the interviewee had been able to open an account and had more saved in it than in his account with K-REP gives an indication of his improved income since accessing a loan.

*Other Comments.*

As a result of his loans his business is stronger and better stocked. The business profits are now adequate to cover household expenditure more comfortably. He believes that he will soon be able to purchase land with funds accumulating out of business profits. He plans to build some small rental properties, thus creating an alternative income stream.

*Client 16.* - (male)

*Field Office:* Nyeri

*KIWA:* Mwitindia

*Watano:* N/A

*Credit Officer:* Juliana Mwende

*Enterprise:* 1. Bata Shoe Shop (Othaya) *Est.* 1980

2. Farm. *Est.* N/A

*Background.*

The enterprise, located in a formal shop premises in Othaya, started its history manufacturing shoes, however, staffing problems led the owner to shift solely into the retail of shoes, umbrellas and bags.

The owner feels that the market is far from saturated and with further capital injection would be able to expand its market.

*Employment and Employment Growth.*

Employment growth has not occurred as a result of the loans, but has remained stable with two young women being employed (salary Ksh.1,500/month) in addition to the labour of the owner and his wife.

*K-REP Loan History*

| Loan No. | Amount | Year | Repayment Period | Use |
|---|---|---|---|---|
| 1 | 20,000 | July 1996 | 3 months | Purchase of stock |
| 2 | 40,000 | May 1997 | 6 months | Purchase of stock |

*Profit.*

The interviewee's loan application form stated that enterprise sales stood at approximately Ksh.300,000 per month in 1997. In interview, he estimated that profits were currently in the order of Ksh.20-30,000 per month, an increase from Ksh.15-20,000 per month prior to the K-REP loan disbursements, and the subsequent growth in sales.

*Access to alternative forms of credit.*

This entrepreneur is clearly at the upper end of K-REP's client profile, as he is the only client interviewed during this investigation who has been able to access a substantial loan from a commercial bank prior to joining K-REP. He borrowed Ksh.200,000, which was repaid over 3 years, using land as collateral. He also belongs to another self-help group in town with 55 members, and accesses their revolving loan from time to time. However, as the interest charged is 10% per month he prefers to use K-REP loan funds.

*Other Businesses.*

The interviewee has a relatively large shamba (farm) with 200 coffee plants bringing in an income of Ksh.30-40,000 per year in addition to the supplement to household consumption from subsistence crops and livestock products.

*Other impacts of K-REP loans.*

The interviewee stated that the discipline of loan repayments had resulted in him being more committed to his business, and in his household making a downward adjustment in expenditure. Despite this adjustment he felt that their standard of living had improved.

*Savings.*

In addition to his savings with K-REP, where he generally saves much more than the Ksh.50/week minimum, he has a savings account with a commercial bank which he opened in 1980 at the time of establishing his business, and a Co-operative savings bank (connected with his coffee production).

*Other Comments.*

The interviewee commented that although K-REP runs an excellent scheme, he would like use his proven track record to be able to obtain larger loans.

He may well be the type of client who will benefit from the individual loans that K-REP is likely to launch following its graduation to bank status. Despite being able to access commercial sources of credit, he preferred K-REP due to its low interest rates and the ease of loan processing.

*The Methodology and its Limitations.*

L1. In order to assert with confidence that K-REP's group-based lending has delivered the intended benefits of employment and income growth, evaluators would need to be able to trace the impacts of the loans. It would be important to assess whether the loans resulted solely in capital injections to the clients' enterprises, or whether the funds improved general household liquidity. It would therefore be necessary to disaggregate and assess the impact of other factors both in the broader economy and within the entrepreneur's household, recognising the importance of multiple income streams and complex livelihood systems. Beneficiary impact assessment would therefore ideally attempt to capture changes in household welfare.

L2. An evaluation of this nature would also require thorough baseline data and an effective mechanism for tracking both clients and a control group. This would allow the evaluation to determine causation of changes in welfare by providing a 'with and without' assessment as opposed to a 'before and after' comparison. The evaluation team, therefore, recognises the limitations of 'one moment' evaluations which not only make it difficult to capture the multiple, interdependent nature of household income systems of low-income entrepreneurs, but also fail to reflect accurately the dynamic nature of client membership. (Oketch and Kioko 1995.).

L3. Despite the methodological advantages of longitudinal surveys (Kumar 1988 in Oketch and Kioko 1995:15), the nature of this evaluation has made it impossible to collect data in time series. Despite this clear limitation, the team believe that the use of case study material supported by the ample secondary data generated by previous studies of K-REP is sufficient in order to be able to draw fairly firm conclusions on impact.

*The Selection of Study Areas.*

L4. The investigation into K-REP's outreach and financial sustainability was institution wide, covering not only all Area Offices, but both the Chikola and Juhudi Credit Schemes. (see the box below, for a list of Field and Area Offices). However, in order to gain an adequate depth of understanding, it was necessary to determine a clear focus. ODA funding was originally intended to support the opening of two new Area Credit Offices (ACOs), West Nairobi, and Mount Kenya West, and the expansion of the Juhudi Credit Scheme (JCS) in the two areas served by them. The team decided to retain this focus in its client based investigation despite the broadening of the project following the Addendum of 1995.

*K-REP Area of Operation, in July 1996.*

Three regions are covered:

1. Eastern Region
2. Western Region
3. North Rift Valley

1. Eastern Region.

This area has three Area Credit Offices.

(i.) Mount Kenya West.

The ACO, located in Nyeri, started operations in May 1993 with funding from DFID. There are field offices located in Nyeri, Nanyuki and Nyahururu.

(ii.) Mount Kenya East.

The ACO, located at Embu (NB: problem ACO, corruption, high levels of default, sacking of credit officers etc), has two operative field offices in Meru and Kerugoya.

(iii.) East Nairobi.

The ACO, located in Buruburu, has field offices at Machakos, Thika, Kajiado and Kitui.

2. Western Region.

This area has one area office.

(i.) West Nairobi.

The ACO, in Kawangware merged with Kibera ACO in September 1994. There are field offices in Kawangware, Kibera (Olympic and Laini Saba*), and Limuru. *(Elsewhere 'Line Saba')

3. North Rift Valley.

This area has one area office.

(i.) North Rift Valley.

The ACO is located in Eldoret. There are field offices in Eldoret, Kitale, Hurum and Langas.

L5. The Karangware Field Office, which later merged with Kibera ACO to form the headquarters of the West Nairobi Area Office, was visited first. Field visits were made to KIWA groups and individual clients in Karangware, Kibera and Kangemi. Following this the team visited the Mount Kenya West Area Office, based in Nyeri, and visited both groups and individual clients in Nyeri, Nanyuki and Othaya.

*The Selection of KIWAs.*

L6. In Nyeri, Nanyuki and Othaya, it was possible to select both the KIWAs and individual clients from patterns or areas of interest emerging from a review of the Consolidated Monthly Reports. An attempt was made to balance an investigation of urban and peri-urban groups, stable groups and groups that had recently been in crisis. The selection of KIWAs in Nairobi was controlled by K-REP staff, although the team were given complete freedom in their selection of clients for in-depth interview, and there was no indication that K-REP was attempting to skew findings.

*The Selection of Individual Clients.*

L7. The team accompanied K-REP Credit Officers to KIWA meetings, and drew individuals from these groups for further discussions. Interviews were conducted with these clients at their enterprises over a number of days. An additional client (in default) was interviewed at Karangware Area Office.

L8. In Nyeri client selection occurred having first reviewed KIWA and individual client files. Delays in the start of the Nairobi based field work prevented this from happening prior to visits in Karangware and Kibera.

*Interview Technique.*

L9. Interviews were conducted by two or three members of the evaluation team, one of whom, Elizabeth Mwene, acted as a translator. Discussions with both groups and individuals were guided by a checklist of key questions (see Annexes F and G), with care being taken to follow up interesting responses.

L10. The information provided by these interviews was supplemented and cross-checked with information extracted from client intake forms, loan application forms, K-REP monthly consolidated registers, and interviews with K-REP staff, and have been written up to form Annex K.

*The Effectiveness of Group Lending Methodologies in a Kenyan Context.*

L11. As mentioned earlier in this report, K-REP uses microfinance delivery mechanisms adapted from those developed by the Grameen Bank in Bangladesh. An essential part of this evaluation is to investigate the implementation of these methods in an African context, and to recommend any changes that DFID may wish to make to its support of African microfinance organisations in the future.

L12. Self-help groups have a long and established history in Kenya. Producer and marketing co-operatives are common, and ROSCAs (Rotational Saving and Credit Associations) and Merry-go-Rounds (saving clubs) being a popular response to poorly formed capital markets. The USAID Final Evaluation found that 56.2% of women and 20% of men in the Juhudi Credit Scheme belonged to a self-help-group in addition to their KIWA. However, a question remains as to whether group lending schemes based on those developed in Asia, using social collateral and co-guaranteeing systems will work in an African socio-cultural, economic and geographic context.

*Potential Problems.*

L13. Social collateral is designed to reduce default, but is most likely to be effective where wilful default is a key cause of bad debt and where mobility of the population is low. There must be high group cohesion supporting both a willingness to accept K-REP methodologies and to 'punish' defaulters.

L14. If groups are to be effective, internal discipline must be high, and it must be supported by mutual trust. Where group members believe that another member of the group is likely to default, a situation approaching the Prisoner's Dilemma is likely to be approached (where distrust of each other increases the likelihood of default and group breakdown). In addition, the costs of membership in terms of controlled savings, time expenditure, the effort of setting and maintaining rules and the potential loss of savings must be seen to exceed the benefit of access to loan capital.

L15. Factors which may additionally influence the effectiveness of group-based schemes in a Kenyan context are numerous. Although the area in and immediately around Nairobi is densely populated, much of Kenya is sparsely populated. This makes it more difficult to find a sufficiently large pool of microentrepreneurs from which to draw clients able to meet regularly in a central place. In addition, the poor roads lengthen journey times; the Kenyan population is not homogeneous and tribalism may be a factor in group formation which leads to the exclusion of some and the inclusion of others.

*Nested Institutions.*

M1. The K-REP JCS KIWA can be regarded as a form of institution, with nested institutions within it. The most obvious subgroup is the Watano. The ability of an individual member of a KIWA to save, borrow and make prompt and complete repayments depends, in part, on the success of the KIWA. The success of the KIWA depends on the cohesiveness of the individual Watanos, on the abilities of the Watano treasurer, on the Watano members' effectiveness at screening loan applications and preventing default amongst their group. This interdependence may lead to the emergence of other institutions within the boundaries of the KIWA.

M2. In 1992 it was found that 64.1% of sampled JCS members belonged to a KIWA which had started its own rotational savings and credit plans (ROSCAs, tontines) to supplement their savings and improve their business investments (Oketch 1992:41). Of the six KIWAs visited during recent field work, one group had started a ROSCA, four groups had merry-go-rounds, one group had a group savings account which will be used as a loan fund and emergency or insurance fund when there is sufficient capital. In addition to this, some Watanos met separately and ran their own merry-go-rounds.

M3. It could be viewed as a sign of health where a group has one or more self-help institutions functioning within it. The existence of these nested institutions appears to indicate good communication; high levels of trust; and the ability to discuss, form, maintain and adapt systems of rules.

*ROSCAs.*

M4. ROSCAs (Rotational Savings and Credit Associations) are traditional institutions in Kenya, where they fill a niche in the relatively poorly developed financial markets. The groups are popular as members are free to use the loans as they wish, and are not constrained by collateral requirements.

M5. Individuals organise themselves into groups, and determine the rules of the group. Weekly contributions are common, but the amount varies widely between groups depending on the wealth of the group members. Loans, usually of a fixed size, are distributed according to the rules of the group. This may be on strict rotation, with the rotation order changing on the completion of each cycle, or it may be determined by lottery, with loan recipients 'sitting out' once they have received their loan. The repayment schedules and interest rates are determined by the group but interest rate above commercial levels are common, allowing for default and ensuring the growth of the fund.

*Merry-Go-Rounds.*

M6. Merry-Go-Round schemes share a number of common features with ROSCAs. They are traditional mechanisms which fill a niche in poorly developed financial markets, are popular with those with limited access to the commercial banking sector, especially the poor, and are formed by local people without external support. Like ROSCAs it is common for the group members to meet briefly once a week, though an individual may simply act as a co-ordinator, visiting members in order to collect weekly contribution and distribute the lump sum(s). Unlike ROSCAs, the contributions do not form an accumulating capital sum, and loans are not distributed. Each week, contributions are drawn together and one or more individuals are selected (either through a lottery or a group ordering system) to receive the lump sum, or a division of it. The scheme therefore functions as a saving mechanism for those with small and erratic cash flows and a limited ability to accumulate savings.

*Table 39: Income and Expenditure Statement - Mt Kenya West (Nyeri) ACO, 1993 - 1996 (Ksh)*

| Year | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|
| Income | | | | |
| Loan Interest | 77,666 | 1,391,957 | 9,850,478 | 13,862,813 |
| Loan Application Fees | 16,910 | 279,095 | 883,660 | 491,570 |
| Registration Fees | 54,150 | 132,150 | 62,915 | 89,700 |
| Passbook Fees | 23,465 | 57,460 | 30,310 | 67,405 |
| Sub-Total | 172,191 | 1,860,662 | 10,827,363 | 14,511,488 |
| Interest on Savings and Deposits | 0 | 955,915 | 278,405 | 1,164,031 |
| Interest on Staff Loans | 0 | 43,419 | 0 | 0 |
| Other Income | 13,189 | 400 | 45,821 | 16,084 |
| Total Other Income | 13,189 | 999,734 | 324,226 | 1,180,115 |
| Total Income | 185,380 | 2,860,396 | 11,151,589 | 15,691,603 |
| Expenses | | | | |
| Salaries | 854,492 | 2,113,746 | 3,878,482 | 4,320,753 |
| Office Expenses | 139,728 | 128,382 | 815,746 | 668,219 |
| Depreciation | 40,152 | 98,044 | 120,295 | 174,303 |
| Training Expenses | 4,250 | 0 | 68,348 | 78,754 |
| Travel & Accomodation | 74,561 | 206,919 | 511,540 | 511,738 |
| Professional Fees | 0 | 0 | 0 | 78,922 |
| Audit Fees | 30,000 | 100,000 | 150,000 | 100,000 |
| Bad Debts Provision | 0 | 0 | 3,420,835 | 3,865,440 |
| Other Expenses | 3,140 | 386,420 | 230,184 | 568,987 |
| Interest on Head Office Loan | 100,000 | 1,432,100 | 3,303,964 | 0 |
| Total Expenses | 1,246,323 | 4,465,611 | 12,499,394 | 10,367,116 |
| Net Profit/(Loss) | -1,060,943 | -1,605,215 | -1,347,805 | 5,324,487 |
| Profit/(Loss) B/F | 0 | -947,968 | -2,553,183 | -3,900,988 |
| Adjustments | 112,975 | 0 | 0 | 0 |
| Profit/(Loss) C/F | -947,968 | -2,553,183 | -3,900,988 | 1,423,499 |

*Table 40: Balance Sheet - Mount Kenya West (Nyeri) ACO, 1993-1996, (Ksh)*

| Year | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|
| Fixed Assets | 653,191 | 606,608 | 934,908 | 1,296,869 |
| Current Assets | | | | |
| Stocks | 111,451 | | | |
| Programme Loans /Loan Debtors | 513,893 | 8,415,107 | 31,424,300 | 76,801,834 |
| Debtors | 216,447 | 288,042 | 0 | 674,267 |
| Due from Other Credit Scheme Office | 0 | 0 | 9,270,369 | 0 |
| Head Office Current Account | 0 | 6,744,995 | 10,325,483 | 0 |
| Treasury Bills and Fixed Deposits | 0 | 5,617,399 | 0 | 12,963,561 |
| Cash and Bank Balance | 1,257,730 | 1,270,899 | 7,237,166 | 5,040,839 |
| | 2,099,521 | 22,336,442 | 58,257,318 | 95,480,501 |
| Current Liabilities | | | | |
| Creditors | 23,897 | 176,050 | 493,070 | 538,686 |
| Due to Other Credit Scheme Office | 175,239 | 99,639 | 0 | 0 |
| Head Office Current Account | 0 | 0 | 0 | 2,170,019 |
| Members Savings | 0 | 0 | 0 | 0 |
| Bank Overdraft | 0 | 0 | 0 | 0 |
| | 199,136 | 275,689 | 493,070 | 2,708,705 |
| Net Current Assets | 1,900,385 | 22,060,753 | 57,764,248 | 92,771,796 |
| Net Assets | 2,553,576 | 22,667,361 | 58,699,156 | 94,068,665 |
| Financed By: | | | | |
| Head Office Loan Account | 2,000,000 | | | |
| Programme Loan Fund | 0 | 19,616,586 | 63,479,543 | 79,284,834 |
| Operational Fund | 1,743,665 | 6,488,59 | | |
| Net Profit/(Loss) | -1,190,089 | -3,437,819 | -4,780,387 | 15,151,347 |
| Capital Reserve | | | | -370,516 |
| | 2,553,576 2 | 2,667,361 | 58,699,156 | 94,065,665 |

*Table 41: Mount Kenya East ACO (Embu), Income and Expenditure Accounts 1995 and 1996 (Ksh)*

| Year | 1995 | 1996 |
|---|---|---|
| Income | | |
| Loan Interest | 8,825,548 | 8,562,464 |
| Loan Application Fees | 516,803 | 144,750 |
| Registration Fees | 0 | 37,050 |
| Passbook Fees | 58,510 | 41,925 |
| Sub-Total | 9,400,861 | 8,786,189 |
| | | |
| Interest on Savings and Deposits | 242,946 | 809,380 |
| Interest on Staff Loans | 0 | 0 |
| Other Income | 0 | 561 |
| Total Other Income | 242,946 | 809,941 |
| Total Income | 9,643,807 | 9,596,130 |
| | | |
| Expenses | | |
| Salaries | 2,186,038 | 3,013,806 |
| Office Expenses | 752,714 | 769,609 |
| Depreciation | 88,852 | 94,092 |
| Training Expenses | 90,967 | 18,705 |
| Travel & Accomodation | 570,913 | 568,636 |
| Professional Fees | 0 | 410,837 |
| Audit Fees | 150,000 | 50,000 |
| Bad Debts Provision | 7,165,450 | 1,818,563 |
| Other Expenses | 237,995 | 492,269 |
| Interest on Head Office Loan | 719,294 | 0 |
| Total Expenses | 11,962,223 | 7,236,517 |
| Net Profit/(Loss) | -2,318,416 | 2,359,613 |
| Profit/(Loss) B/F | -89,098 | -2,407,514 |
| Profit/(Loss) C/F | -2,407,514 | -47,901 |

*Table 42: Balance Sheet 1993 to 1996 - West Nairobi (Kawangware) Area Office(Ksh)*

| Year | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|
| Fixed Assets | 653,191 | 606,608 | 934,908 | 1,296,869 |
| Current Assets | | | | |
| Stocks | 111,451 | | | |
| Programme Loans/ Loan Debtors | 513,893 | 8,415,107 | 31,424,300 | 76,801,834 |
| Debtors | 216,447 | 288,042 | 0 | 674,267 |
| Due from Other Credit Scheme Office | 0 | 0 | 9,270,369 | 0 |
| Head Office Current Account | 0 | 6,744,995 | 10,325,483 | 0 |
| Treasury Bills and Fixed Deposits | 0 | 5,617,399 | 0 | 12,963,561 |
| Cash and Bank Balance | 1,257,730 | 1,270,899 | 7,237,166 | 5,040,839 |
| | 2,099,521 | 22,336,442 | 58,257,318 | 95,480,501 |
| Current Liabilities | | | | |
| Creditors | 23,897 | 176,050 | 493,070 | 538,686 |
| Due to Other Credit Scheme Office | 175,239 | 99,639 | 0 | 0 |
| Head Office Current Account | 0 | 0 | 0 | 2,170,019 |
| Members Savings | 0 | 0 | 0 | 0 |
| Bank Overdraft | 0 | 0 | 0 | 0 |
| | 199,136 | 275,689 | 493,070 | 2,708,705 |
| Net Current Assets | 1,900,385 | 22,060,753 | 57,764,248 | 92,771,796 |
| Net Assets | 2,553,576 | 22,667,361 | 58,699,156 | 94,068,665 |
| Financed By: | | | | |
| Capital | 2,000,000 | 19,616,586 | 63,479,543 | 79,284,834 |
| Operational Fund from Donors | 1,743,665 | 6,488,594 | | |
| Net Profit/(Loss) | -1,190,089 | -3,437,819 | -4,780,387 | 15,151,347 |
| Capital Reserve | | | | -370,516 |
| | 2,553,576 | 22,667,361 | 58,699,156 | 94,065,665 |

*Table 43: Income and Expenditure Statement, 1993 to 1996 - West Nairobi (Kawangware) Area Office (Ksh)*

| Year | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|
| Income | | | | |
| Loan Interest | 10,548 | 727,811 | 6,385,426 | 21,316,346 |
| Loan Application Fees | 6,350 | 157,480 | 680,030 | 1,190,550 |
| Registration Fees | 24,750 | 133,050 | 105,150 | 76,120 |
| Passbook Fees | 10,725 | 58,500 | 52,585 | 76,350 |
| Sub-Total | 52,373 | 1,076,841 | 7,223,191 | 22,659,366 |
| Interest on Savings and Deposits | 0 | 979,894 | 1,125,423 | 1,971,798 |
| Interest on Staff Loans | 0 | 44,261 | 0 | 0 |
| Other Income | 10,442 | 0 | 0 | 560,676 |
| Total Other Income | 10,442 | 1,024,155 | 1,125,423 | 2,532,474 |
| Total Income | 62,815 | 2,100,996 | 8,348,614 | 25,191,840 |
| Expenses | | | | |
| Salaries | 832,885 | 2,200,530 | 3,613,124 | 5,667,509 |
| Office Expenses | 181,748 | 187,475 | 855,458 | 1,282,988 |
| Depreciation | 48,763 | 107,105 | 132,561 | 213,181 |
| Training Expenses | 14,200 | 20,150 | 21,283 | 145,996 |
| Travel & Accomodation | 33,363 | 131,049 | 333,642 | 364,590 |
| Professional Fees | 0 | 0 | 0 | 101,039 |
| Audit Fees | 30,000 | 100,000 | 150,000 | 150,000 |
| Bad Debts Provision | 0 | 0 | 935,800 | -346,946 |
| Other Expenses | 138,678 | 729,333 | 362,493 | 734,775 |
| Interest on Head Office Loan | 50,000 | 873,048 | 3,286,821 | 0 |
| Total Expenses | 1,329,637 | 4,348,690 | 9,691,182 | 8,313,132 |
| Net Profit/(Loss) | -1,266,822 | -2,247,694 | -1,342,568 | 16,878,708 |
| Profit/(Loss) B/F | 0 | -1,190,089 | -3,437,783 | 0 |
| | 76,733 | | | |
| Profit/(Loss) C/F | -1,190,089 | -3,437,783 | -4,780,351 | 16,878,708 |

*Table 44: Income and Expenditure Statement, 1992 to 1996 - West Nairobi (Kibera) Area Office (Ksh)*

| Year | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Income | | | | | |
| Loan Interest | 1,335,997 | 1,734,363 | 2,448,174 | 5,449,057 | 21,316,346 |
| Loan Application Fees | 61,700 | 110,263 | 150,277 | 271,510 | 1,190,550 |
| Registration Fees | 51,200 | 58,890 | 39,005 | 13,650 | 76,120 |
| Passbook Fees | 27,500 | 42,890 | 23,030 | 19,435 | 76,350 |
| Sub-Total | 1,476,397 | 1,946,406 | 2,660,486 | 5,753,652 | 22,659,366 |
| Interest on Savings and Deposits | 613,436 | 823,336 | 898,389 | 12,306 | 1,971,798 |
| Interest on Staff Loans | 0 | 0 | 23,149 | 0 | 0 |
| Other Income | 39,110 | 15,505 | 0 | 0 | 560,676 |
| Total Other Income | 652,546 | 838,841 | 921,538 | 12,306 | 2,532,474 |
| Total Income | 2,128,943 | 2,785,247 | 3,582,024 | 5,765,958 | 25,191,840 |
| Expenses | | | | | |
| Salaries | 1,246,296 | 1,701,346 | 2,313,283 | 1,563,144 | 5,667,509 |
| Office Expenses | 367,657 | 524,327 | 83,291 | 404,411 | 1,262,988 |
| Depreciation | 107,855 | 42,077 | 90,586 | 108,340 | 213,181 |
| Training Expenses | 1,500 | 0 | 0 | 0 | 145,996 |
| Travel & Accomodation | 110,185 | 121,664 | 108,741 | 81,054 | 364,590 |
| Professional Fees | 0 | 15,500 | 5,000 | 5,000 | 101,039 |
| Audit Fees | 204,000 | 75,000 | 150,000 | 100,000 | 150,000 |
| Bad Debts Provision | 1,000,000 | -500,000 | 0 | 1,139,332 | -346,946 |
| Other Expenses | 28,886 | 74,491 | 656,162 | 281,662 | 734,775 |
| Interest on Head Office Loan | 0 | 0 | 0 | 0 | 0 |
| Total Expenses | 3,066,379 | 2,054,405 | 3,407,063 | 3,682,943 | 8,293,132 |
| Net Profit/(Loss) | -937,436 | 730,842 | 174,961 | 2,083,015 | 16,898,708 |
| Profit/(Loss) B/F | 514,171 | -423,265 | 798,052 | 973,013 | 0 |
| Profit/(Loss) C/F | -423,265 | 798,052 | 973,013 | 3,056,028 | 16,898,708 |

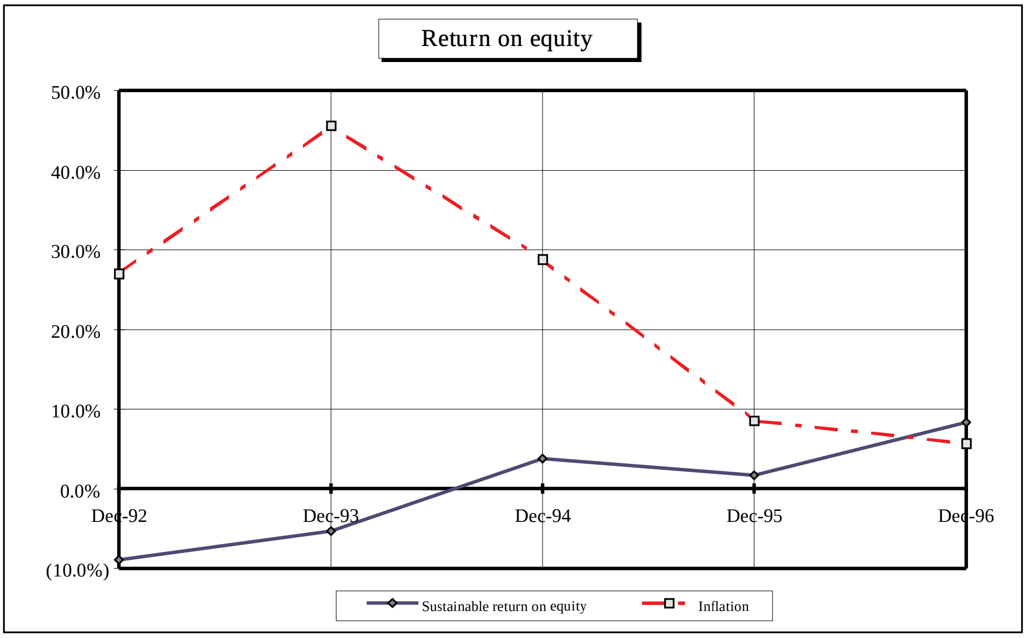
*Table 45: Balance Sheet, 1992 to 1996- West Nairobi (Kibera) Area Office (Ksh)*

| Year | 1992 | 1993 | 1994 | 1995 | 1996 |
|---|---|---|---|---|---|
| Fixed Assets | 0 | 497,398 | 438,423 | 632,083 | Merged with Kawan-gware 1996 |
| Current Assets | | | | | |
| Stocks | 0 | 23,489 | 0 | 0 | |
| Loan Debtors | 4,441,919 | 8,303,964 | 17,892,397 | 24,629,404 | |
| Debtors | 570,692 | 519,757 | 262,957 | 27,800 | |
| Other Credit Scheme Office | 0 | 175,239 | 99,639 | 0 | |
| Head Office Current Account | 0 | 0 | 0 | 0 | |
| Treasury Bills and Fixed Deposits | 0 | 0 | 0 | 0 | |
| Cash and Bank Balance | 6,438,242 | 9,695,712 | 1,671,659 | 4,054,809 | |
| | 11,450,853 | 18,718,161 | 19,926,652 | 28,712,013 | |
| Current Liabilities | | | | | |
| Creditors | 112,886 | 181,267 | 299,830 | 417,358 | |
| Other Credit Scheme Office | 0 | 0 | 0 | 9,240,164 | |
| Head Office Current Account | 0 | 0 | 262,072 | 363,607 | |
| Members Savings | 135,280 | 4,391,128 | 3,331,581 | 460,760 | |
| Bank Overdraft | 0 | 6,112 | 286 | 886 | |
| | 248,166 | 4,578,507 | 3,893,769 | 10,482,775 | |
| Net Current Assets | 11,202,687 | 14,139,654 | 16,032,883 | 18,229,238 | |
| Net Assets | 11,202,687 | 14,637,052 | 16,471,306 | 18,861,321 | |
| Financed By: | | | | | |
| Head Office Loan Account | 0 | 0 | 0 | 0 | |
| Programme Loan Fund | 9,860,000 | 13,528,354 | 13,528,354 | 15,805,293 | |
| Operational Fund | 1,765,952 | 310,646 | 1,969,939 | 0 | |
| Net Profit/(Loss) | -423,265 | 798,052 | 973,013 | 3,056,028 | |
| Capital Reserve | | | | | |
| | 11,202,687 | 14,637,052 | 16,471,306 | 18,861,321 | |

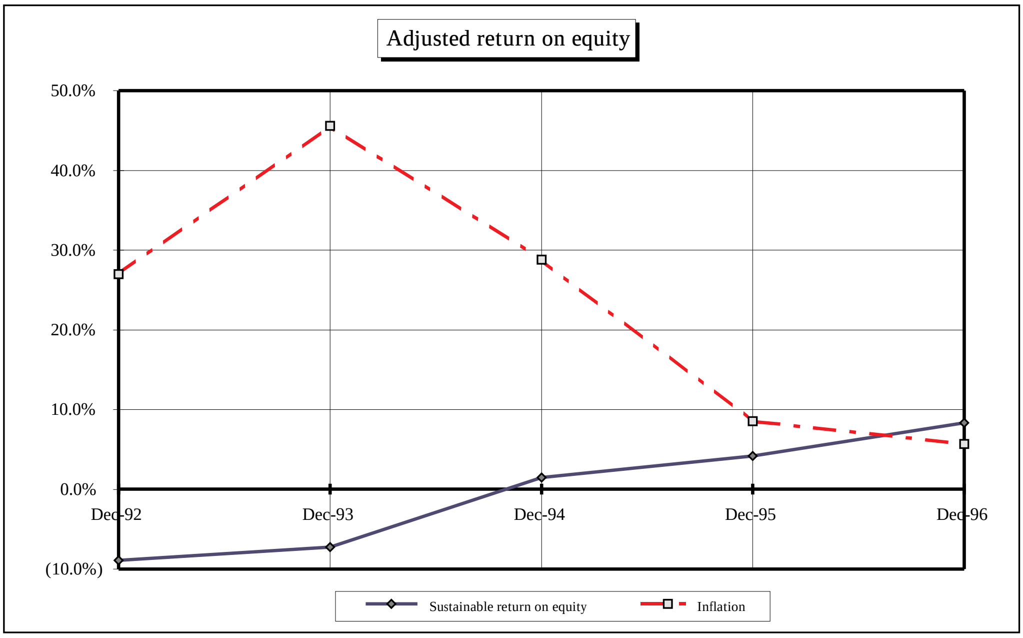
K-REP FINANCIAL SERVICES (FERRAND REPORT) ANNEX O

EXTRACTS FROM INTERNAL REPORT QUOTED IN CHAPTER 6

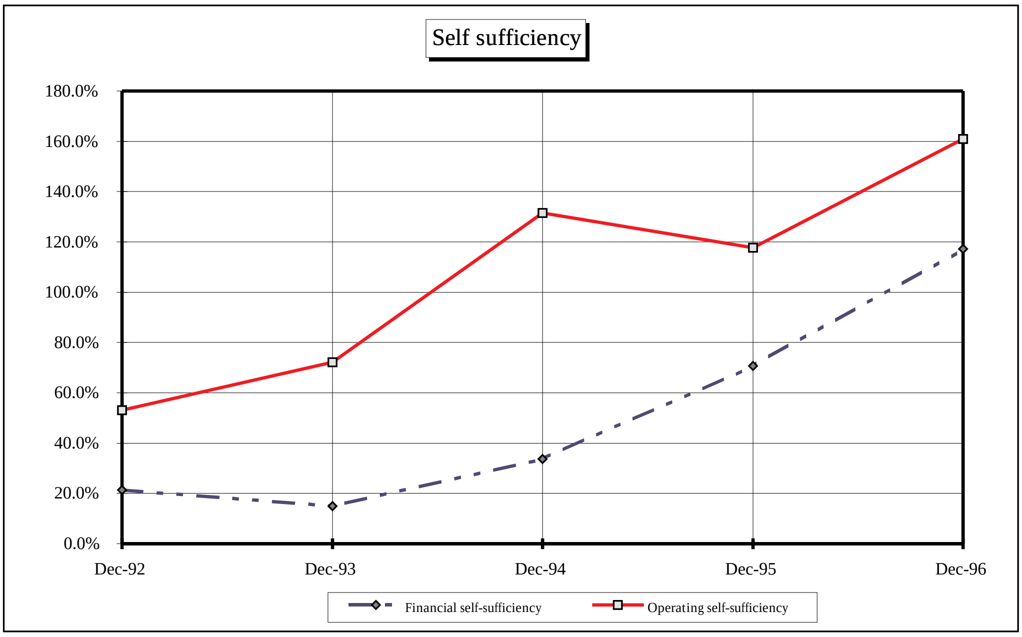
| PARAGRAPH NUMBER | GRAPH/TABLE NUMBER | TITLE |
|---|---|---|
| 6.2 (Footnote 17) | Graph 1 | Return on Equity |
| 6.15 | Graph 1 | Adjusted Return on Equity |
| 6.16 | Graph 2 | Adjusted Return on Equity |
| | Graph 3 | Self-Sufficiency |
| 6.18 | Graph 4 | Return on Equity |
| 6.20 | Graph 5 | Cost-Income |
| 6.28 | Graph 6 | Portfolio Quality |
| 6.33 | Table 1 | Mount Kenya East: Portfolio quality first half 1997 |
| 6.33 | Table 2 | Mount Kenya West: Portfolio quality first half 1997. |



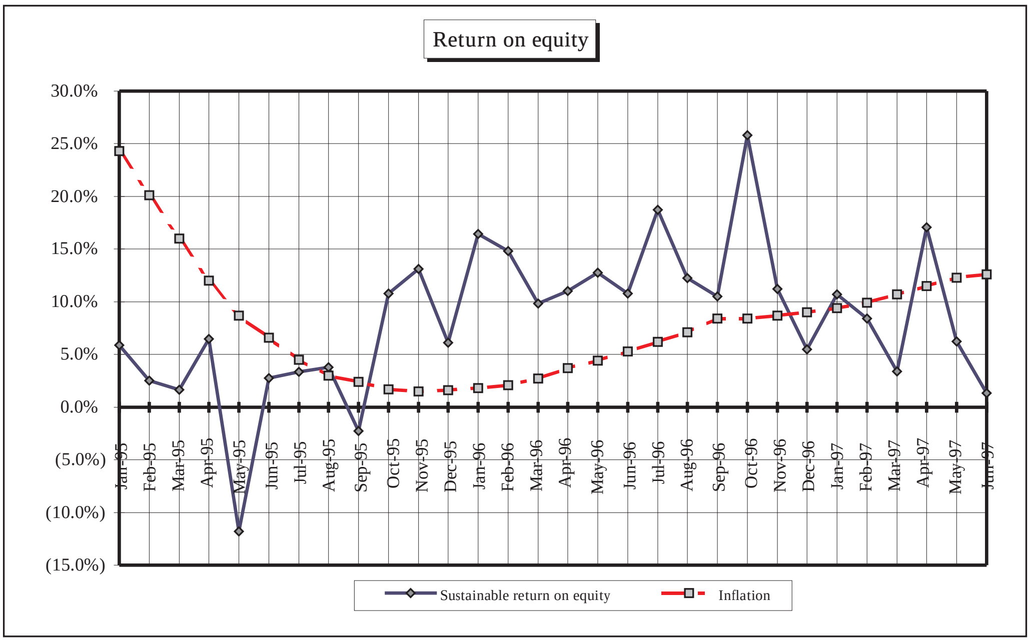

*Graph 1*



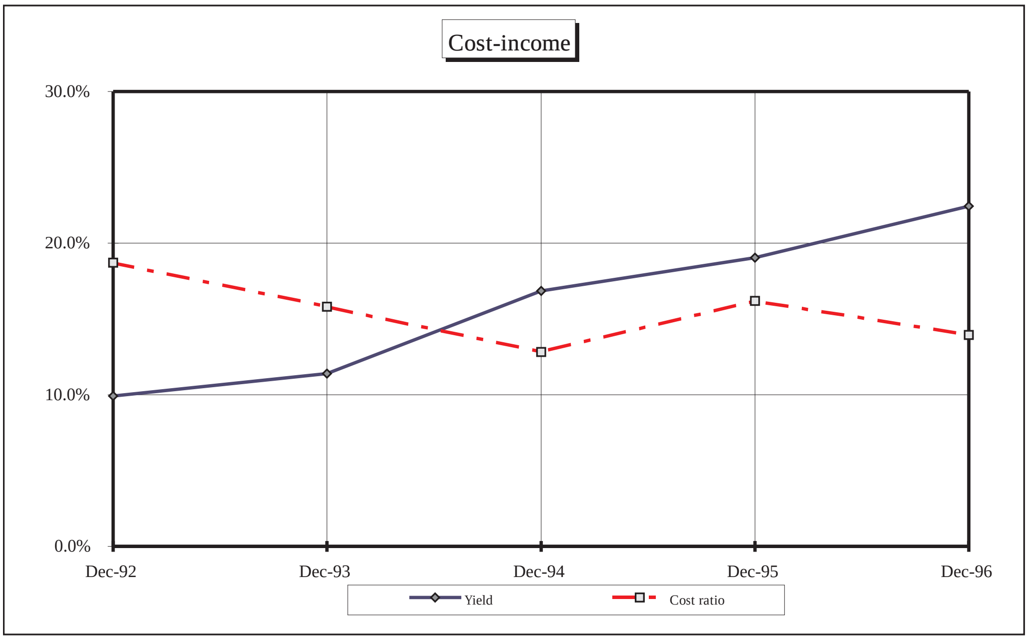

*Graph 2*



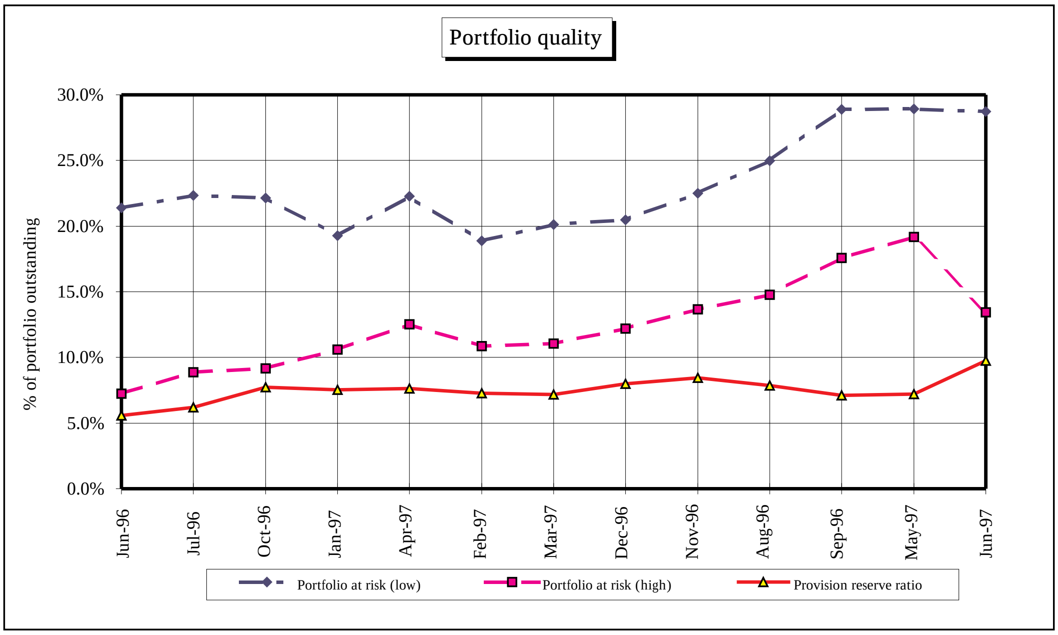

*Graph 3*




*Graph 4*




*Graph 5*




*Graph 6*

Mount Kenya East : Portfolio quality first half 1997

| 1997 | Total active | Arrears | 1-30 | 31-60 | 61-90 | 91-120 | >120 | Portfolio at high risk | Net hardcore | Reserve ratio |
|---|---|---|---|---|---|---|---|---|---|---|
| Jan | 20,336,606 | 14,787,848 | 259,894 | 1,284,374 | 688,891 | 1,160,688 | 17,264,586 | 85% | 5,576,106 | 22% |
| Feb | 19,067,423 | 13,493,969 | 1,187,496 | 667,239 | 898,614 | 337,461 | 17,748,788 | 93% | 5,321,982 | 22% |
| Mar | 21,714,515 | 15,875,266 | 704,928 | 845,591 | 485,741 | 468,108 | 18,091,200 | 83% | 5,269,082 | 20% |
| Apr | 23,285,027 | 16,107,366 | 436,954 | 718,130 | 1,061,400 | 368,738 | 18,205,710 | 78% | 5,243,332 | 18% |
| May | 25,309,222 | 16,098,195 | 441,806 | 245,806 | 308,873 | 571,938 | 18,254,529 | 72% | 4,152,070 | 14% |
| Jun | 25,790,096 | 12,302,107 | 458,459 | 375,990 | 198,327 | 209,979 | 8,060,810 | 31% | 12,178,030 | 32% |

*Table 1*

Mount Kenya West : Portfolio quality first half 1997

| 1997 | Total active | Arrears | 1-30 | 31-60 | 61-90 | 91-120 | >120 | Portfolio at high risk | Net hardcore | Reserve ratio |
|---|---|---|---|---|---|---|---|---|---|---|
| Jan | 44,188,262 | 13,642,681 | 994,606 | 614,703 | 554,886 | 2,944,838 | 6,665,883 | 15% | 4,557,227 | 9% |
| Feb | 39,998,217 | 8,401,746 | 1,541,854 | 752,183 | 389,885 | 2,554,273 | 6,425,536 | 16% | 4,554,727 | 10% |
| Mar | 37,889,478 | 8,085,117 | 513,319 | 1,296,365 | 407,543 | 2,312,776 | 6,199,969 | 16% | 4,546,027 | 11% |
| Apr | 35,665,786 | 8,115,592 | 942,645 | 299,259 | 691,919 | 1,822,981 | 6,638,185 | 19% | 4,374,502 | 11% |
| May | 35,980,332 | 7,857,657 | 1,087,348 | 332,444 | 246,017 | 431,935 | 8,111,808 | 23% | 4,152,070 | 10% |
| Jun | 34,983,809 | 8,549,768 | 651,276 | 816,918 | 343,478 | 152,250 | 8,247,857 | 24% | 4,097,419 | 10% |

*Table 2*

The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty.

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