



**An Evaluation of Micro-Finance Programmes
in Kenya as Supported through the
Dutch Co-Financing Programme**

With a focus on KWFT

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The evaluation process was co-ordinated by Ineke van Halsema and André Leliveld, research coordinators of the Steering Committee. The Steering Committee member Bert Helmsing was involved in the supervision of the study. Ellie Bosch acted as an external reader. Heleen Danen, from the Law and Governance Group of Wageningen University was of great help with the organization of interviews and some presentation of data. Heidi van Wakeren, from the Steering Committee, assisted in the production of the report. Sjoukje Riens was responsible for the layout.

List of abbreviations

ASCRA	Accumulating Savings and Credit Association
BASE	British Aid to Small Enterprise
CORDAID	Catholic Organisation for Relief and Development
CFA	Co-Financing Agency
CFP	Co-Financing Programme
DIDS	Diocesan Integrated Development Services
DFID	Department for International Development (of the UK)
EBS	Equity Building Society
FFBS	Family Finance Building Society
FSA	Financial Service Association
GoK	Government of Kenya
GOM	Gemeenschappelijk Overleg Mede-financiering (Consultation Group of the Co-Financing Agencies)
HIVOS	Humanistic Institute for Development Cooperation
ICCO	Inter Church Committee for Development
JCS	Jitigemea Credit Scheme (of the PCEA)
KCB	Kenya Commercial Bank
KDA	KREP Development Agency
KPSOB	Kenya Post Office Savings Bank
K-REP	Kenya Rural Enterprise Programme
KWFT	Kenya Women Finance Trust
MFA	Micro-Finance Agency
MSE	Micro- and Small Enterprises
NBFI	Non-Bank Financial Institution
NCKK	National Council of Churches of Kenya
NGO	Non-Governmental Organization
NGO-MFA	Non-Governmental Micro-Finance Agency
NOVIB	Netherlands Organisation for International Development Cooperation
PCEA	Presbyterian Church of East Africa
PRIDE	Promotion of Rural Initiatives and Development Enterprises
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
SISDO	Smallholder Irrigation Scheme Development Organisation
SME	Small and Micro Enterprises
SMEP	Small- and Microenterprise Programme
STEP	Saga Thrift and Enterprise Promotion Ltd.
WEDCO	Women's Enterprise Development Project

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USD 1.00 = Ksh 75

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1 Introduction

1.1 Background and objectives

This is the final report of the evaluation (2001-2002) of micro-finance programmes in Kenya as supported through the Dutch Co-Financing Programme (CFP). It is a synthesis of several studies and working documents prepared by (order of) the general coordinator and two senior Kenyan consultants (see Annex D). Using different methods to address the central questions and analyzing different elements or layers of the aid or credit chain, each one of them had specific tasks, yet common terms of references (see Annex A). Their efforts and this report have been organized to address the two central objectives of the evaluation study: to assess the role and importance of micro-finance as a tool for poverty reduction in Kenya and to assess what partners of Dutch Co-Financing Agencies (CFAs) consider the quality of the contribution of these CFAs as supporters of their financial services provision. This report will furthermore question the main legitimization and overall objectives of Dutch CFAs to support micro-finance programmes, based on an extensive case study and a broader analysis of the micro-finance market of Kenya – addressing the issues of impact, access and outreach. Finally, it will also serve as one of the major inputs to the synthesis document on micro-finance and poverty alleviation as supported through the Dutch CFP – together with a similar evaluation study done in Sri Lanka (Hospes et al. 2001), inventory studies of impact assessments in Bolivia (Athmer and Hospes 2001) and Bangladesh (Athmer and Hospes 2001), and an assessment of the policy development and supply of new financial instruments by Dutch CFAs (Athmer and Hospes 2002).

The evaluation has been conducted by order of the Steering Committee for the Evaluation of the Co-Financing Programme. This independent committee was commissioned by the Directorate General for International Cooperation of the Ministry of Foreign Affairs and the four CFAs participating in the Consultation Group of Co-Financing Agencies (GOM), to conduct the external evaluation of the CFP for a three-year period starting at the end of 1998. The Steering Committee, then called the Steering Committee for Impact Assessment and Effect Reporting, reviewed earlier programme evaluations and drew overall lessons from this (Bavinck 2000).

One of the major conclusions of the evaluations of programmes directed at income- and employment generation, was that ‘Programme Evaluations have proven unsuitable for evaluating the impact of IGA programmes’ (DGIS/Hivos 1995, PE 62, ES: iii), both in terms of ‘direct effects’ (increased employment and income) and ‘indirect effects’ (improved social capabilities, division and time use of labor, availability and access to resources and participation in decision making). As it was concluded that the inability to evaluate impact and measure effects was related to the emphasis put in earlier programme evaluations on assessing the organisational, management and technical capabilities of the counterpart organization (Hospes 1999), it was

proposed to take clients as the unit of analysis and to develop alternative methodological approaches for this purpose (Hospes 2000, Prosé 2000, Schreinemachers 2000).

Finally, the Steering Committee identified key areas for new evaluation research, each of them related to one of the main objectives of the CFP, namely poverty alleviation and civil society building. In this process, micro-finance was identified as one of the key areas for evaluation research on poverty alleviation. There were several reasons for this: first of all, in the international and changing world of development cooperation, micro-finance is increasingly seen as a highly potential and modern tool to address poverty. Second, new lessons and philosophies underlying micro-finance programmes have brought many to seriously question donor-driven and charity-based support modalities. Third, the increased attention to micro-finance has led to a great variety of studies and methodologies on impact assessments – together offering useful lessons and a methodological tool-kit for the evaluation study (see, for instance, Hulme 1997 and Hospes 2000). A brief explanation follows here.

It would be fair to argue that it were not international donor agencies but rather some enlightened practitioners and partners in the South that first came to believe in the 1970s and 1980s that the provision of savings and credit services is a key instrument for economic empowerment of disadvantaged people – provided some ground rules are taken seriously. One of their major lessons was that the provision of credit should not be organized as a sophisticated way to offer grants. They had concluded that such provision does not stimulate entrepreneurial activity and efficient use of loans, frustrates self-help through savings, hampers the financial sustainability of the provider of financial services, and undermines the development of a healthy local financial infrastructure and local economy. The fundamental decision to provide loans, not grants, to poor people and the simple lesson of not confusing loans with grants, have had great repercussions for the modalities and partnerships in the world of development cooperation. The logic and new world of micro-finance started to challenge the hegemony and mechanisms of the post-colonial aid machinery. This brings us to our second reason to select micro-finance as a field for evaluation studies.

Not only did donor agencies start to process and pass on lessons learnt from those partners experimenting with micro-finance or the provision of financial services to low-income people, they also started to question themselves whether grants are always the most appropriate financial instrument to support their partners and those involved in micro-finance and economic programmes in particular. The new wave of micro-finance of the 1990s came rolling back: 'If we recommend partners to provide loans, not grants, to enterprises and entrepreneurs, how about us financing these same partners with grants or rather loans?'. In the Netherlands, the GOM installed a working group in 1996 to propose and prepare the provision of loans and guarantees through the Dutch Co-Financing Programme, and with success: in 1997 the Dutch minister for development co-operation allowed the four CFAs to spend 100 million Dutch guilders on loans and guarantees to their Southern partners in the three-year period 1998-2000.

Both the increased recognition of micro-finance as a highly potential tool to address poverty and the provision of loans and guarantees in the period 1998-2000, did have an impact on the financial commitments of the four CFAs. In her background and policy study on ‘The provision of financial services by Southern counterpart organisations with support from Dutch Co-financing Agencies, Metz (2000) estimated the total volume of grants of CFAs committed to financial service programmes of their partner organizations at DFL 67.5 million in 1997, DFL 53.9 million in 1998 and DFL 53.5 million in 1999 (p.21).¹ The total volume of co-financing funds committed to loans, guarantees and equity was estimated at DFL 16.1 million in 1998 (of which DFL 11.7 million for the provision of financial services), growing to an estimated DFL 21.2 million in 1999 (of which at least DFL 11.5 for the provision of financial services).

The present report focuses on the lower ends of the aid chain, that is, on the outreach, access and impact of financial services of partners of Dutch CFAs and on the quality of the support of Dutch CFAs to partners providing financial services to low-income people. Whilst the evaluation of the policy development of new financial instruments by Dutch CFAs has been subject of a separate study (Athmer and Hospes 2002), some of the effects of the Loans and Guarantees Programme at the level of selection and support of partners in Kenya have been described in the present report. A comparison of policies and practices of Dutch CFAs with regard to the selection and support of partners in the field of micro-finance – together with insights on how Kenyan partners assess the support of Dutch CFAs – are meant to provide a picture of the quality of Dutch CFAs.

1.2 Legitimization and overall objective of Dutch CFAs to support micro-finance programmes

The preparatory and policy-oriented report of Metz (2000) shows that the main legitimization for Dutch CFAs to support partners involved in micro-finance, is limited or unequal access of poor and marginalized people in Southern countries to financial services (see Annex C). The overall objective of the support of the CFAs to financial service provision in the South is to contribute to a sustainable improvement of the living circumstances of poor and marginalized people (ibid). Of course, every CFA has developed its own wording, philosophies and spear-points. For instance, ICCO considers the promotion of ‘income security’ of the poor as one of its main concerns. As a member of the Oxfam Group, Novib is in the process of institutionalizing a ‘rights-based approach’, emphasizing among others that poor people have a right to a sustainable livelihood. At the same time, Novib is distancing itself (in latest drafts of policy guidelines on financing of economic programmes and projects) from a linear development view and expectation that (all) micro-enterprises will (always) grow and transform into small- and medium-sized ones. Anyway, older and newer philosophies of Dutch CFAs have in common that creating or improving access to financial services for the poor and marginalized is considered an important strategy to reach the objective of a more sustainable livelihood for these people.

The background study of Metz (2000) also shows that to assess the quality of financial services programmes of partners, Dutch CFAs use a wide set of

¹ The figures for 1997 and 1998 do not include the financial commitments of Hivos that were not available at the time of the inventory study of Metz (2000).

(more or less the same) quality criteria (next to technical ones concerning business plan, financial reporting, and monitoring and evaluation systems). The partner should aim to reach those who do not have access to formal banking services and should aim to contribute to a structural improvement of the social and economic position of the poor and excluded. At the same time Dutch CFAs have in common that they only wish to continue supporting partners that have reached or will reach high degrees of financial sustainability within a given time, that have separately and professionally organized the management of financial services, and have developed savings programmes and a strong client-orientation in developing products (which happens to be very much in line with the new micro-finance orthodoxy of the 1990s, see Otero and Rhyne 1996).

Finally, Metz (2000) found that every Dutch CFA has organized (in its own way) separate management and organisational structures to deal with loan applications (see forthcoming study on the use of new financial instruments), next to grant applications. The still common procedure is, however, that for the first assessment of any application, programme or country desk-officers serve as the intake-points. Since the introduction of separate management and organisational structures for loan applications, they have to decide at some point in time whether credit officers of the same regional bureau and/or a specialized unit have to be involved in the decision-making process or not.

1.3 Partners of Dutch CFAs operating in the micro-finance market of Kenya

Both the Government of Kenya, many international donor agencies and a large number of Kenyan NGOs consider micro-finance as a key instrument for micro-enterprise development and poverty alleviation. The Central Bureau of Statistics (1999) estimates the total number of NGOs providing financial services to low-income people at 130. This includes nine organizations that are (or until recently used to be) partners of Dutch CFAs, operating in the market of micro-finance next to a tiny selection of banking institutions, about 60 Financial Service Associations, some 4,000 Savings and Credit Cooperative Societies (SACCOs) and about 1 million ROSCAs.

All nine partners of Dutch CFAs are more or less specialized in the provision of financial services to low-income entrepreneurs (except two: DIDS and SISDO). Some three or four of them (KWFT, K-REP, WEDCO and SMEP) are considered exemplary and experienced NGOs in the field of micro-finance. The Family Finance Building Society (FFBS) is not an NGO but certainly a specialized in financial service provision. The other ones (PRIDE Africa Sunlink, PCEA/JCS) are newcomers, eager to play a professional role in the market of micro-finance, to increase their outreach and to set (another) example in using micro-finance as a tool to combat poverty. Five of the nine partners have been proposed or concretely offered a loan agreement by CORDAID (two partners), Hivos (two partners) or Novib (one partner). Three partners (FFBS, PRIDE Africa, SMEP) have accepted the loan agreement, two have refused (KWFT, WEDCO).

The number of partners in the field of micro-finance as supported through the Dutch CFP has remained constant during the last two or three years but not the composition of the partner portfolio. CORDAID, Hivos and Novib each support some two micro-finance agencies in Kenya. Yet, during the last

one or two years every one of these CFAs has stopped funding one or two organizations providing financial services to low-income people, and has started funding one or two other ones in the field of micro-finance. This is unlike ICCO that has committed itself to continuously supporting one agency in Kenya for some years now.

1.4 Central questions

The central questions of the evaluation study are:

- 1 What is the outreach, impact and valuation at the client level of the financial services as provided by organizations in Kenya that are financially supported by Dutch Co-Financing Agencies?
- 2 What has been the specific contribution of the Dutch co-financing agencies as financial supporters of organizations providing financial services in Kenya to low-income people and what has been the quality of this contribution according to these organizations?

To address these two questions, several principles and priorities were set and several choices and selections were made, given limited time and resources.

1.5 Organization and methodology

To address the issue of outreach, different (types of) providers in the market of micro-finance have been characterized in terms of geographical, quantitative and qualitative outreach (see Chapter 2). This has been helpful to assess whether the main legitimization of Dutch CFAs to support partners involved in micro-finance is correct or not. To specifically address the issue of qualitative outreach (that is, client characteristics), a case study has been made of one agency and its clients in addition (see Chapter 3).

To address the issue of impact and valuation of financial services of partners of Dutch CFAs, a bottom-up perspective has been taken to assess the impact of micro-finance agencies, as a first principle and starting point. Clients, not institutions, have been selected as the unit of impact assessment of micro-finance agencies because data collection at the level of the institution has been considered weak on showing who benefits and how. This has resulted into the organization of a client-centered impact assessment.

For the organization of the client-centered impact assessment, a multi-method approach was adopted. This approach is based on the belief that impact cannot be proved but only made highly plausible at best. As there is no single method that can prove impact – if this is possible at all – we need a combination of different methods, approaches, indicators and studies to assess impact (see Hulme 1997 and Hospes 2000). This, for instance, explains why focus group discussions, a sample survey using an unorthodox control-group method (pipeline approach interviewing different generations of borrowers), and indepth-interviews with borrowers have been organized for the present study. The selection of soft indicators (like people's perceptions) and hard indicators (regarding material wealth) provides another example of the multi-method approach.

For data collection and given limited time and resources for the impact assessment, that in terms of time and resources would be qualified as a 'simple' one according to international standards (Hulme 1997), it was decided to

concentrate on an experienced partner in the field of micro-finance. The complexity of an impact assessment provided another reason to rule out partners not considering micro-finance as their core-business. Because the twin evaluation study of micro-finance programmes in Sri Lanka (Hospes et al. 2001) could not include a partner of Cordaid, it was decided to give special attention to Cordaid partners in the present study. Based on these considerations, Kenya Women Finance Trust (KWFT) was selected as the partner for the impact assessment study (see Chapter 4 but also 3).

To address the issue of the contribution and quality of partners of Dutch Co-Financing Agencies, three approaches have been used: first, a characterization has been given of the kind of partners in the field of micro-finance that are supported by Dutch CFAs (see Chapter 2); second, an assessment has been provided of the support of Dutch CFAs by a selected number of Kenyan partners (see Chapter 5); thirdly, a comparison has been made of the policies and practices of Dutch CFAs in selecting and supporting partners in the field of micro-finance in Kenya (see Chapter 6).

1.6 Process implementation and limitations of the study

The preparations of the evaluation study have been very efficient and effective. The main concern of staff of Dutch CFAs and external experts was the ambitious character of the workplan. Therefore, this plan (see Annex A) was thoroughly discussed with the two senior Kenyan consultants: Muli Musinga and Milcah Ong'ayo. At this point, preparations greatly benefited from the experiences of the general coordinator with a similar but earlier completed study in Sri Lanka (Hospes 2001): possibilities were identified for combining or linking activities during research implementation, having one person being responsible for a longer 'track of activities', and for greater synthesis of results during the writing phase. Unforeseen personal mishap, together with competing assignments, rather than tight planning of the research, proved main causes for some delay of the process.

The assumption that the results of client-centered impact assessment studies of other agencies could be easily added up to the results of the impact assessment of KWFT proved wrong. Client-centered impact assessments of micro-finance programmes of partners of Dutch CFAs have hardly been organized by (order of) partners of Dutch CFAs on a regular basis or as a special project activity, let alone in similar ways. As a result, information about impact at the client level is often very limited or simply lacking. At best, such information is part of a broader programme evaluation. Only in the case of WEDCO, a quite comprehensive impact assessment has been done (see Annex H). In spite of these limitations, some careful generalizations can be made on impact at the client level of financial services as provided by micro-finance agencies as supported through the Dutch CFP – combining the diverse evidence on impact and data on outreach as collected for the present study for this purpose.

**1.7
Structure of
the report**

The structure of the report mirrors the principles for the organization and methodology of the study. Chapter 2 is about the Kenyan micro-finance market and the positioning therein of partner organizations of Dutch CFAs.

Chapters 3 and 4 provide the results of the client-centered impact assessment of KWFT. Chapter 3 addresses the question of who are the clients of KWFT, comparing the official description of the target group with the outcomes of a sample survey and participatory research on client characteristics. Chapter 4 addresses the question on impact and valuation of financial service provision of KWFT – primarily based on a sample survey that compares enterprise, household and individual characteristics of different generations of borrowers.

Chapters 5 and 6 are about the contribution and quality of the support of Dutch CFAs. Chapter 5 provides details about the type of support given by Dutch CFAs to Kenyan partners in the field of micro-finance and outlines how these partners qualify the support given by Dutch CFAs. Chapter 6 compares policies and practices of Dutch CFAs with regard to the selection and support of partners in the field of micro-finance in Kenya.

Chapter 7 is a summary and conclusion, providing answers to the central questions of the report.

2 A brief description of micro-finance in Kenya and agencies as supported by Dutch CFAs

The partners of Dutch CFAs that provide financial services to low-income people, are certainly not the only ones trying to do so. This chapter provides a picture of the various players in the field of micro-finance in Kenya, with special attention to the ones supported by Dutch CFAs. The first objective of this chapter is to assess whether one of the main justifications of Dutch CFAs to support micro-finance agencies is correct. This justification is: poor people have no access to financial services, more in particular to banking services. The second objective is to assess to what extent partners of Dutch CFAs are typical or rather unique, key players or rather unnoticeable in the Kenyan field of micro-finance. The third objective is to describe why and how partners of Dutch CFAs are providing financial services, ultimately with a view to assess whether these are in line or at least compatible with the general and more specific views and approaches of Dutch CFAs regarding micro-finance (see Chapter 6).

The first paragraph of this chapter pictures micro-finance in Kenya. It starts with a brief outline of the emergence of micro-finance in Kenya, explaining what agencies have played a critical role in boosting micro-finance as an industry in this country. To give an idea of the diversity of players in the field of micro-finance in Kenya, a typology of micro-finance agencies and then an overview of service delivery approaches are provided. The concluding section of this paragraph describes and assesses different dimensions of outreach of micro-finance agencies in Kenya.

The second paragraph of this chapter situates partners as supported by Dutch CFAs in the micro-finance world of Kenya, also providing details on their mission and objectives, governance structure, products and outreach.

In the third paragraph of this chapter some conclusions are drawn.

2.1 Micro-finance in Kenya

2.1.1 The emergence of micro-finance as an industry

As an industry, micro finance is a relatively new phenomenon in Kenya, with a few agencies starting about 20 or so years ago but the sector gaining the status of an industry only in the last 10 years.

The Government of Kenya (GoK) has indirectly provided a boost to the micro-finance sector. During 1992-1994, the GoK has been implementing a Structural Adjustment Program which has resulted in the liberalization of the economy. To counter the possible initial negative social impacts of the liberalization process, the Government of Kenya identified areas and project need-

ing external donor support, including small-scale and micro enterprises. Lack of access to credit was considered a major bottleneck for entrepreneurial development. The international donor community responded generously. Micro-finance agencies (in particular client-based ones) became donor darlings. A conservative estimate is that the micro-finance industry has received a total of USD 80 million.²

Government policy or development philosophy was not unambiguous. It is also said that the GoK wanted to promote the small-scale and enterprise sector as a means of accelerating economic growth and generating employment opportunities. In this view the small-scale and enterprise sector is seen as a motor of economic development, rather than a social safety net for micro-entrepreneurs to make a living.

Kenya Rural Enterprise Programme (K-REP) can be considered the pioneer of NGO micro-finance in Kenya. The experimental and financing activities of K-REP have had far-reaching consequences, influencing the outreach modalities and outreach of quite some other NGO-MFAs and maybe even the forms of assistance given by Dutch CFAs to micro-finance programmes in Kenya.

With generous support from USAID, K-REP was designed as an intermediary NGO in 1984 to provide credit and technical assistance to other NGOs in Kenya. In the early 1990s, K-REP recognized a potential danger in combining the provision of financial services (loans and deposits) with non-financial services (training and technical assistance). This problem arose from the difficulty in assessing the cost of non-financial services, leading to such costs undermining the financial sustainability of the institution. This resulted in the organization adopting a minimalist approach (loans without training or technical assistance). The targeting philosophy of this approach was to offer financial services to existing entrepreneurs, not people that could be trained to become an entrepreneur. The minimalist approach was one of the main results of the adoption of a business-oriented approach as opposed to the integrated approach, in which financial service provision was only a minor and often ill-defined part of a wide range of programmes and services.³ Driven by the motivation of self-sustainability, K-REP reduced the number of NGOs it supported from twelve to four. The number was subsequently increased to five with the addition of KWFT. These five all promoted the minimalist approach. For donors, including Dutch CFAs, this meant that there was little scope for them to finance non-financial services of micro-finance agencies. The 'only' remaining subsidy object was product development or financial-institutional innovation. This happened to be a core activity of K-REP from its very start.⁴

2 A large part of these donor grants has been invested in two, now leading, micro-finance agencies: Kenya Rural Enterprise Programme (K-REP) and Kenya Women Finance Trust (KWFT). K-REP reports to have received USD 23 million or more in its life-time (see Annex J) whereas KWFT reports that it has received Ksh 411 million (or about USD 6 million) in the period 1995-2001 (see Annex I).

3 In many, but not all, cases this resulted in limited awareness, data and insights about the costs or profitability of the financial service provision.

4 To further professionalize this activity and to optimize its governance structure, K-REP put all its activities related to product development under the auspices of K-REP Development Agency as a special entity of the K-REP holding.

Due to the pioneering and supportive roles of K-REP as well as donors much appreciating NGOs imitating the Grameen Bank approach, Kenya witnessed the emergence of quite some NGO-micro-finance agencies in the 1990s, using adapted versions of the Grameen Bank group-lending model. In this connection, one might say that Kenya evolved as the Bangladesh of Africa.

2.1.2 Types of microfinance agencies in Kenya

It is perhaps from this young age of the industry that there are still many unresolved issues and, indeed, what is currently termed as ‘micro finance’ constitutes a diverse range of practitioners, practices and body of knowledge. From this perspective the commonly accepted definition of micro finance as ‘the means of providing a variety of financial services to the poor based on market-driven and commercial approaches’ (Christen, 1997) does not strictly fit what has come to be commonly regarded as constituting micro finance in Kenya. Depending on the purpose, two approaches are generally used to categorize the different providers of micro finance services in Kenya. The first and most commonly used one is on the basis of formality where providers are categorized as formal or informal depending of the extent to which the provider is registered and regulated under formal law and transactions are governed under the various statutes of the law of contract or rather by self-regulation or group-based rules. The second categorization is based on the customer/provider relationship in the management and ownership of the financial service-providing entity. Under this categorization, micro finance providers could be dichotomized into client-based micro finance agencies (CMFAs) and member-based microfinance agencies (MMFAs).

Table 2.1 Typology of micro-finance agencies in Kenya

	Formal	Informal
Client-based	K-REP Bank, KWFT, Faulu Kenya, Wedco, Pride Africa – SunLink, Pride Kenya, SMEP, Jitegemea, Vintage, Ecluf, Pride Kenya, BIMAS, Coop Bank microfinance units, etc	Traders, shopkeepers, moneylenders, family and friends
Member-based	SACCOS, FSAs	ROSCAs, ASCRAs ⁵

Client-based microfinance agencies comprise of all microfinance providers, formal or informal, where customers are not also owners of the institution, have little direct involvement in the management of the institution, and do not have a share in the returns made by the institution. These include about 130 Non-Governmental Organizations (see Box 1), a small number of commercial

⁵ Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCRAs) are also locally known in Kenya as ‘merry-go-rounds’, *itega* or *giteti*. Some of them are registered at the Ministry of Social Affairs, others are not. As self-regulation or group-based rules provide the most decisive regulatory framework for ROSCAs and ASCRAs (in mobilizing, rotating, accumulating and disbursing money), they are all labelled as informal here – whether registered or not.

banks and private companies as well as hundred thousands of informal microfinance providers, such as traders, shopkeepers, specialized money lenders, family and friends. By mid 1999, it was estimated that the formal segment of this category comprised of 86 institutions, with a total of 134,612 active clients and a loan portfolio of Kshs 2.5 billion (K-REP, 1999).

BOX 1 – NGOs and NGO-MFAs

About 130 NGOs (see Central Bureau of Statistics 1999: 22) practice some form of micro financing in Kenya. About 20 of them practice pure micro financing and can be labelled as 'NGO-micro-finance agencies' (NGO-MFAs) while the rest practice micro financing alongside social welfare activities. Some of the major players in the NGO sector are K-Rep Development Agency (KDA), Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Kenya, PRIDE Africa (Sunlink services), WEDCO (formerly a program of CARE International), Small and Medium Enterprise Programs Limited (SMEP – formerly of the National Council of Churches of Kenya), Machakos Catholic Diocese, Kenya Small Traders and Entrepreneurs Society (KSTES), Business Initiatives and Management Assistance (BIMAs), Ecumenical Loans Fund (ECLOF) and Vintage Management Services.

Member-based microfinance agencies comprise of formal and informal mechanisms where resources are mobilized from members, management of the arrangement is in the hands of members and it is members who constitute the main target group for service provision. The formal segment of this largely comprise of both urban and rural Savings and Credit Cooperatives (see Box 2) estimated to number 4,000 by mid 1999 with a combined total of 2.9 mil-

BOX 2 – Savings and Credit Cooperatives (SACCOS)

The SACCO system is a mutual membership organization. It involves pooling of voluntary savings from members in form of shares. The savings/shares form the basis for extending credit to members. Credit is usually based on three times the level of savings/shares. SACCOS are regulated by the Co-operatives Societies Act.

SACCO societies respond to people's need for food and food production, housing, education, small enterprise, transport, medical care, clothing and expenses in marriage, birth and death. Additionally, they instill thrift, self-reliance, democratic principles, social concern, leadership and management.

SACCOS have grown rapidly over the years. There were over 4,000 SACCOS with 2.9 million members; share capital of Shs 29 billion and credit out-reach of Shs 22 billion in 1999. A number of the SACCOS are increasingly getting interested in offering a limited range of banking services. Few SACCOS are already offering such services, however, the legitimacy of their bank operations is a critical issue.

SACCOS are mainly organized as workplace or cash crop based savings and credit associations whereby people with a common bond, e.g. by working together in the same company or institution, save regularly, thus building enough deposits for lending within the group. There are two main umbrella SACCOS namely, Kenya Union of Savings and Credit Co-operatives (KUSCO) and Kenya Rural Savings and Credit Cooperative Society Union (KERUSSU).

lion members, an outstanding loan portfolio of Kshs 22 billion, and savings deposits standing at Kshs 29 billion.

The Financial Service Associations (FSAs) promoted by K-REP, and other similar membership-based arrangements promoted by many other organizations, could also be added into the formal segment of the category of MMFAs. The many rotating/accumulated savings and credit associations fall under the informal segment of this category of microfinance providers. For a long time though, the debate on microfinance in Kenya largely excluded MMFAs and it is only now that some of the agencies, such as SACCOs, are beginning to be recognized as microfinance providers. What has been clear to many people for a long time though, is that MMFAs, taken together, constitute a major source of microfinance services in Kenya. It is perhaps for this reason that some observers consider this as the segment of the industry with the highest hope for reaching large numbers of the poor in currently underserved areas of the country. Others, however, have sincere doubts about this. They argue that member-based organisations typically tend to exclude the poor and certainly the poorest. SACCOs, for instance, have so far mainly reached the not-so-poor cash-crop farmers and regular income-earners.

2.1.3 Service delivery approaches

Various approaches to credit for micro and small enterprises have been tried in Kenya by different institutions with varying degrees of success or failure. Major approaches include: minimalist versus integrated approaches; group-based lending versus lending to individuals; village banking and linkage programs.

Minimalist approaches and group-based lending have been very popular and much tried by leading NGOs in the field of micro-finance, like K-REP, KWFT and Faulu. Minimalist approaches basically concentrate on the provision of loans, giving no or at most some functional attention to training or technical assistance (Pederson and Kiiru 1997: 1). Group-based lending schemes have been very often based on the Grameen Bank method. This method has been designed and developed in Bangladesh with a view to deliver financial services to the poor, who have no access to formal banking services. Key features of the Grameen Bank method as applied in Kenya are:

- Group-lending approach: organization of clients into groups or use of informal groups for purposes of attaining economies of scale from the small sized transactions and instituting group guarantee mechanisms;
- Character-based credit appraisal: credit appraisal is based on character assessment, rather than traditional collateral (ownership of land or other assets) and viability of projects to be financed;
- Focus on micro-enterprises: a special focus on financing very small businesses and the poor.

A number of NGOs have also promoted Self Help Groups (SHG) registered under the Department of Culture and Social Services. These groups have been formed with the objective of developing inter-group associations and linkages with banks.

In the last three years, K-REP has introduced a new type of agency, based on membership in order to diversify its clientele and increase outreach in rural areas: Financial Services Associations (FSAs). These associations were started in poor rural areas that were neither covered by the solidarity credit systems of the Grameen model (as, for instance, practised by KWFT) nor by the SACCOs that mainly operate in cash-crop areas. FSAs are based on internal resources of members who buy shares to form a credit fund. Although they are still at the experimental stage, the low cost of their establishment and running indicates that they might achieve autonomy despite the weak economic environment. The evaluation study of Miller (2000), however, rather suggests the contrary (see Annex H).

Post Bank has five regional offices in Nyeri, Mombasa, Kisumu, and Nakuru, with its head office based in Nairobi. The bank has 58 directly controlled branches and sub-branches countrywide and also operates through 356 Post Office and 99 Postal Agents on an agency basis. Post Bank is currently collaborating with MicroPED and MicroSave-Africa, two of the major microfinance support organizations in the country, in training a broad range of its staff in microfinance, conducting research on new products, and developing a strategy for marketing these services. The bank is a founder member of the Kenyan Association of Micro Finance Institutions (AMFI), a voluntary network of leading MFIs deeply involved in developing a legal framework for licensing, regulation, and supervision of the evolving microfinance industry.

2.1.3.1 Savings services

Only MFAs registered under the Banking Act can legally mobilise deposits. Consequently, NGOs operating MFAs do not offer savings as an independent product and it is only banks that offer savings products.

Kenya Post Office Savings Bank has the largest network and number of bank accounts in the country. The outreach of Post Bank is very large (Table 2.2). By May 2001, the bank had 2.2 million accounts, out of which 1.8 million are active. The bank offers the widest range of savings accounts (10 in total) through 459 outlets in nearly every corner of the country, and has attracted the largest number of savings account customers. Of the 10 different types of savings products offered by the Bank, Bidii is the one product that has been developed deliberately for microfinance. Bidii savings accounts product was developed jointly by Post Bank and MicroSave, and was launched at the bank's Nakuru branch in July 2000 and at the second branch at the Kenyatta market in 30th March 2001. By May 2001, it had attracted a total of 900 customers and Kshs 4 million in deposits at the two branches.⁶

Post Bank's savings accounts are very popular because of the very low minimum balances and equally low transaction costs required in opening and maintaining these accounts. Furthermore, with Post Bank an account holder can deposit and withdraw cash at any of the 459 outlets without a charge. Interest on all accounts (apart from the fixed deposit) is tax-free. However, at the same time the tight liquidity situation of most Post Office outlets limits customers' access to their deposits when they want it.

⁶ Having said this, it is quite remarkable that the average size of Bidii savings accounts is higher than the one for ordinary savings (see Table 2.2).

Table 2.2 Post Bank Deposits Volume, 30th April 2001

Account type	Number of customers	Deposits volume (Kshs million)	Average size (in Kshs)
Ordinary Savings Accounts	2,179,769	6,554.7	3,007
Save-as-you-earn	24,877	154.7	6,219
Fixed Deposit Accounts	1,890	81.6	43,175
Premium Savings Accounts	1,038	264.0	254,335
Premium Bonds	N/a	80.0	N/a
Bidii Savings Accounts	738	4.0	5,420
Total	2,208,312	7,139.0	

The most common kind of 'savings' in MFAs is compulsory. Its function is to act as security (or collateral) for loans. A set sum has to be deposited at a set interval and there are penalties for failing to do so. The 'savings' are held for a given period (or succession of periods) because savings cannot normally be drawn down until a loan is fully paid (with repayment periods varying from 16 to 52 weeks).

Whether in line with banking regulations or not, MFA savings schemes often are very appealing to poor people. By keeping their savings locked in the MFAs, they safeguard themselves from trivial expenditure. Most MFA clients join these schemes in order to save for a major expenditure, like purchasing a plot of land or a building, paying wedding ceremonies or school fees. At the same time, many of them feel dissatisfied about the rigidity of weekly meetings and savings, and the lack of a special, customer-led and flexible savings policy of the MFAs:

- They have no control over the volume of savings. In most MFAs the weekly deposit is either fixed or is a fixed fraction of the current loan.
- They have no control over the frequency of savings deposits since deposits must be made, in the weekly MFA meeting schedule.
- There is uncertainty over the term of the savings. If other clients in the group are overdue in their loan repayments, release of savings can be held up for an unpredictable period.
- The mechanism for releasing savings is unsatisfactory, since in most cases clients have to forgo the right to make future savings (and the right to take loans) by leaving the MFA in order to access their savings. In some MFAs, re-entry is either forbidden or troublesome (since the client has to go through the training and waiting period again).
- Savings are at risk. Although there is little danger of the MFA failing, all compulsory savings are at risk of being confiscated by the group (or the MFA) to make up arrears (of both loan capital and interest) of defaulting fellow members.
- Transaction costs are high. For those primarily interested in saving, attendance of the weekly meeting (which can last from one to three hours and is normally held during working hours) is costly. Carrying out MFA rules, like recruiting new members when other members exit, or inspecting the businesses of prospective members, can be very time consuming, especially for group officials.

2.1.3.2 *Loan products*

Loans are provided by all the formal and informal providers of financial services and they all levy an interest. Interest rates are quoted in many different ways. The standard banking way is to quote annual interest rates based on the reducing balance method. Non-bank financial institutions and parastatals also use this method. However, NGO-MFAs and moneylenders tend to quote their interest rates based on monthly flat rates. This tends to reflect their interest rates as lower than the formal providers of financial services, although this is not in fact the case.

It has been observed that MFA clients with substantial businesses may take loans and invest them in businesses that prosper and grow, because they have means to satisfy their remaining needs for lump sums of cash. However, for the majority of poor clients, it makes sense to use a borrowed lump sum for whatever is the most pressing need at the time, and to repay it out of whatever capacity they have to save out of their normal cash flow.

Clients' attitudes to NGO-MFA loan products are varied. While many are appreciative, the following reservations are usually expressed, often related to aspects of the group-lending approach:

- They dislike the group guarantee system. It is unnerving to have to take into account the behavior of others, whom you scarcely know, when planning your finances and embarrassing to have to harass your friends about their business.
- Some clients dislike weekly meetings; most dislike the time it absorbs, older clients dislike being told what to do by young credit officers, and no one likes it when there are repayment difficulties that have to be resolved.
- Most would like more control over the size, timing and term of the loans.
- Some find the price of the loans high in relation to other devices, such as ROSCAs.

As a result, quite some experienced NGO-MFAs now try to develop products tailored to individual situations and needs. Though there is certainly a demand and market for individual loans, it remains to be seen whether, under what conditions and with what technologies, lenders can control transaction costs and keep up high repayment rates.

2.1.4 **Outreach**

In spite of Kenya's relatively large financial services sector and the mushrooming of micro-finance schemes among NGOs in the 1990s, it is hard to find reliable, more or less comprehensive and analytical reports on the financial landscape of Kenya. It is generally said that the bulk of the poor, most of whom live in the rural areas, have no access to formal financial services. The explanation is that most formal financial agencies do not exist in rural Kenya because of high transaction costs and perceived risks. As a result, most people in the rural areas cannot afford the time and money for a journey to a bank located in the major towns.

Available data suggest that outreach to micro- and small enterprises (MSEs) has been likewise very limited: the national survey of MSEs in Kenya held by the Central Bureau for Statistics estimated that only 10.4% of the total num-

ber of about 1.3 million MSE proprietors have ever received credit from any source (CBS/ICEG/K-REP 1999).⁷ Though not specifying what is meant with 'important', the baseline survey qualifies NGOs as the most important source of credit for MSEs: the 130 NGOs with credit programmes, together have reached 2.8% (or about 36,000) of the MSEs with their credit services. Given the outreach scores of other types of providers, this is not bad but still very low in absolute terms. Instead of using the qualification 'most important', it would be better to speak of the best of the poor performers in this connection. Having said this, the next 'popular' source according to the CBS baseline survey, are ROSCAs that have reached 2.5% of the MSEs. The outreach of cooperatives is estimated at a low 1.2%, which is less than half of the outreach of the group of NGOs or ROSCAs, but might be explained by the bias in service provision of cooperatives towards cash-crop farmers. Commercial banks and family and friends take an in-between position, each having reached 1.5% of the MSEs.

Dondo (1999) has also made an inventory of the supply of credit to MSEs (see Table 2.3). He estimated the total number of active clients of NGO-MFAs, commercial banks and building societies providing financial services to MSEs in 1999 at 134,612 (see Table 2.3). This is very much in line with the findings of the Baseline Study (1999) of the CBS.⁸ His estimation of the total number of clients being reached by the NGO sector is more than 85,000 but is unclear whether the category of active clients fully consists of MSEs or not.

7 In their baseline survey on micro and small enterprises (MSEs), the Central Bureau of Statistics, the International Centre for Economic Growth and K-Rep Holdings Ltd. define micro enterprises as business enterprises employing up to ten workers and including the working owner. Small enterprises are defined as enterprises employing more than ten and up to 50 workers. The term micro and small enterprises includes informal sector activities, which employ one or more persons, but also enterprises in the formal sector employing up to 50 persons. Whatever the site (home, street, mobile unit), an MSE may be undertaken as a main activity or as a secondary activity, and may be permanent, temporary, casual or seasonal. Additional criteria are that MSEs are non-farm business or farm-based activities involving some form of processing before marketing (1999: 4-5). The CBS estimates that the 1.3 million MSEs employ some 2.4 million people, which means that the average number of workers of MSEs is less than 2, including the owner (1999: 5). The study shows that about 26% of the total number of households in Kenya are involved in some kind of non-primary activity, that is, MSE activities that do not involve farming, fishing and other primary production (ibid).

8 Dondo is the executive director of K-Rep Development Agency. KDA is part of the K-Rep Holding, being one of the official contributors to the Baseline Survey.

Table 2.3 Number of active clients and portfolio outstanding of different formal suppliers of credit to MSEs in Kenya as at July 1999

#			Number of active clients	Portfolio outstanding (in Ksh)
A NGO MFAs				
1	KWFT	May, 1999	13,242	124,000,000
2	Faulu Kenya	June, 1999	10,073	146,777,405
3	CARE-WEDCO	July, 1999	8,478	79,000,000
4	NCKK-SMEP	July, 1999	6,737	104,000,000
5	BIMAs	July, 1999	2,650	19,217,142
6	ECLOF	July, 1999	3,500	70,000,000
7	K-Rep NGO (FSAs)	July, 1999	5,023	5,166,590
8	All other NGOs (estimate)		36,000	200,000,000
	<i>Sub-total</i>		85,703	748,161,137
B Commercial Banks				
9	K-Rep Bank	July, 1999	13,613	228,097,441
10	KCB	July, 1999	2,016	156,200,000
11	Barclays (DFID, Small Business and Training Scheme)	July, 1999	268	88,867,199
	<i>Sub-total</i>		15,897	473,164,640
C Others				
12	KIE			
	• formal	May, 1999	1,451	508,000,000
	• informal	May, 1999	2,234	163,294,000
13	KSTES		4,020	25,500,000
14	Family Finance Building Society		12,000	400,000,000
15	Vintage Management Ltd	July, 1999	13,307	250,000,000
	<i>Sub-total</i>		33,012	1,346,794,000
	Total : A + B + C		134,612	2,568,119,777

Adapted from: Dondo (1999).

Though maybe based on rough estimates, the policy paper of Streppel and others (2001) provides some useful indications of the outreach of different micro-finance agencies in Kenya in terms of (active) clients.

Table 2.4 Categorization of players in the field of micro-finance and their outreach in terms of numbers of clients

Type of Organisation	Deposit taking	Controlling body	Organisations	Estimated number of clients
Commercial Banks and Non-Bank Financial Institutions	Yes	CBK	KCB, Barclays, Co-operative Bank, K-Rep	50,000
Government Development Financial Institutions	No	None	ICDC, KIE, DJLB and KTDC	5,000
Kenya Post Office Savings Bank	Yes (no credit)	None	Kenya Post Office Savings Bank	2,000,000
Building Societies	No	None	FFBS	12,000
NGOs	Officially not	None	WEDCO, SMEP, BIMAs, KWFT, FAULU, Vintage, K-Rep (FSAs)	100,000
SACCOs	Yes (members)	None	Over 3000 active. Among other: Harambee, Posta and Mwalimu	3,000,000
ROSCAs	Yes (members)	None		1,000,000
Total				6,167,000

Source: Streppel and others (2001). HTF micro-finance policy for Kenya.

2.1.4.1 Banks

By the mid 2001, the banking system in Kenya comprised of 49 commercial banks, 4 non-bank financial institutions (NBFIs), 2 mortgage finance companies, 4 building societies and 47 foreign exchange bureaux.

Commercial banks operate purely on commercial basis and they are reluctant to lend to the MSE sector because MSE borrowers seldom have any credit history or marketable assets to use as collateral. Despite innovative methodologies for lending the sector that have emerged in the recent past, existing banking regulations do not allow for a loan portfolio with borrowers whose characteristics are substantially different from those of typical institutions specialized in the provision of micro finance. Consequently, only a few commercial banking institutions have endeavoured to provide financial services to MSEs. However, these few have not been very successful in reaching the wide spectrum of MSEs requiring credit, particularly in rural areas.

Of the total number of 106 banking institutions, only six (3 commercial banks, 1 NBFi and 2 building societies) were actively involved in the provision of microfinance. These include the Kenya Commercial Bank (KCB), Post Bank, Cooperative Bank, K-Rep Bank, Equity Building Society (EBS) and Family Finance Company. Table 2.5 shows some geographical outreach scores of five

of these institutions (excluding Family Finance Company) where data was obtained.

Table 2.5 Geographical outreach of banking institutions involved in microfinance (as per December 31st of 2000)

Basis for Comparison	KCB	Post Bank	EBS	Cooperative Bank	K-Rep Bank
No. of branches in cities and major towns	25	57	2	11	1
No. of branches in smaller towns, market centers and district headquarters	70 full time 32 satellites	437	10	19	21
Total branches	95 full time 32 satellites	494	12	30	22
Total number of staff	3,600	1,300	145	930	122
Total customers' deposits (volume) at year-end December 2000 (Kshs)	42 billion	6.9 billion	1.2 billion	15.4 billion	267.4 million
Volume of loans and advances year-end December 2000 (Kshs)	33 billion	N/A	607 million	11.6 billion	380 million
Total share capital and shareholder's equity fund (Kshs)	6.4 billion	270 million	194.5 million	1.4 billion	506 million

The five banking institutions involved in microfinance had a total loan portfolio of Kshs 1 billion and 28,288 loan customers as at the end of May 2001. More than 60% of this total are customers of K-Rep Bank. Deposits mobilized from 33,689 customers were over Kshs 467.3 million (see Table 2.6).⁹ More than 70% of this total are customers of K-Rep Bank but this is misleading as the total number of customers does not include the number of Post Bank customers (as per May 2001). Streppel and others (2001) estimate this number at about 2 million people in his short but most informative HTF micro-finance policy paper (2001-2002) for Kenya. However, only one of the 10 savings products of Post Bank has been developed deliberately for micro-finance (see 2.1.3.1).

⁹ For a further description of these five banking institutions and their outreach, see Annex F).

Table 2.6 Numbers reached by banking institutions with custom designed microfinance deposits and loans

Bank	Savings		Loans	
	Number	Amount (in Ksh million)	Number	Amount (in Ksh million)
K-Rep Bank Limited (June 2001)	24,124	344.6	17,255	446.4
Cooperative Bank (April 2001)	8,665	122.6	912	52.4
Equity Building Society (March 2001)			9,033	503.0
KCB	N/a	N/a	1,088	N/a
Post Bank – Bidii Savings Accounts (May 2001), see also Table 2.2	900	N/a	N/a	N/a
Total	33,689	467.2	28,288	1,001.8

On the whole, it is clear that, as a group, banking institutions have only a small proportion of their activities focused in microfinance. Data suggest that banks, if at all interested in micro-finance, tend to concentrate on the mobilization of small savings (see Table 2.5) rather than the provision of micro loans (see Table 2.6). K-Rep Bank is clearly the exception to the rule. It is the one and only bank specialized in micro-finance and providing the largest number of micro loans.

2.1.4.2 NGO-MFAs

The last decade has seen the mushrooming of NGO microfinance agencies (NGO-MFAs) operating alternative delivery mechanisms that were supposed to reach the poor. At the beginning of the 1990s, there was only one leading agency: K-REP. Some ten years later, micro-finance specialists speak of the big five or even the big seven, every 'big one' reaching about 10,000 people or more (see Table 2.7). This is quite a change or achievement.

However, two critical remarks should be made at this point. First, the total number of clients reached by NGO-MFAs in 1999 is not really impressive, when considering the total population of nearly 30 million people of Kenya and the estimated total of 1.3 million micro and small enterprises. Some argue that this has to do with the limited sources for on-lending to micro finance NGOs from donors. In 1999 donor grants available ranged from a low Ksh 5 million to over Ksh 200 million for some NGOs in any one single year. NGO-MFAs reported not be able to meet the huge demand for credit and financial services and felt hampered by the law not allowing them to collect voluntary savings.

Second, the distribution of these NGOs is skewed in favor of urban areas, wealthier rural areas and busy rural markets (like Nyeri in central Kenya) connected to main roads, thus leaving a whole spectrum of poor people living in marginal areas with no access to their credit and other financial services. The skewed distribution of major MFAs is well demonstrated in Table 2.8. This table examines the presence of MFA branches in the fifteen least poor and the fifteen poorest administrative districts in Kenya, as ranked in government publications.

Table 2.7 Geographical and quantitative outreach of some NGO-micro-finance agencies in Kenya

Name of organisation ¹⁰		Geographical coverage	Total number of clients	% of female clients
1	KWFT	Country wide	21,000	100
2	K-Rep (NGO)	Countrywide	16,000	49
3	Vintage Management Ltd.	Parts of Rift Valley Province	14,590	38
4	Faulu Kenya	Countrywide	13,000	50
5	Wedco Enterprise Dev. Ltd	Nyanza, parts of Western Province	9,540	95
6	KSTES	Countrywide	9,540	44
7	BIMAs	Nairobi	2,006	51
8	SMEP	Countrywide	8,540	65
9	ECLOF	Countrywide	4,285	62
10	Machakos Diocese	Machakos	786	52
11	MSEP	National	7	1
12	Jitegemee Trust Ltd	National	N/a	40
13	Kenya Gatsby Trust	National	N/a	1
Total			99,294	

Source: National MSE Baseline Survey 1999 (CBS, K-REP and ICEG)

Table 2.8 Geographical distribution of NGO-MFA branches

Micro finance Agency	Total branches Sampled	Presence in the 15 least poor districts		Presence in the poorest 15 districts	
		Number	% of total	Number	% of total
1. FAULU	6	6	100%	0	0%
2. WEDCO	2	2	100%	0	0%
3. KWFT	9	8	89%	1	11%
4. PRIDE	9	8	89%	1	11%
5. NCKK	8	7	87%	1	13%
6. KREP	11	7	64%	4	36%
Total	45	38	84%	7	16%

¹⁰ It is worth noting that most micro finance operations by NGOs are implemented as projects or components of projects by welfare NGOs, national and / or international. Others forms are grassroots associations registered as self help groups with the Ministry of Social Services. An interesting trend is the separation of micro finance activities from welfare activities by NGOs. Five welfare NGOs have, in the last five years, registered their micro finance programs as separate legal entities. Plan International registered BIMAs as a company limited by guarantee; Care Kenya registered Wedco Limited, Food for the Hungry registered Faulu Kenya; the National Council of Churches of Kenya (NCKK) registered SMEP, and most recently, World vision registered Cadet. The organisations listed in Table 2.4 have different legal forms and are registered under different acts, like the Banking Act, the Society's Act, the NGO Act, etc.

2.1.4.3 *Savings and Credit Co-operatives (SACCOs)*

Available information shows that there were about 4,000 SACCOs by the end of 1999 with a total of 2.9 million active members, a savings base of Kshs 29 billion and an outstanding loan portfolio of Kshs 22 billion. Estimates show that about 20% of the business of SACCOs is in the provision micro-finance services.¹¹

With the exception of Teachers' SACCOs which are found at almost every district in Kenya, most employer-based SACCOs are largely found in urban areas. While it is known that some proportion of the services of employer-based SACCOs are transferred to rural areas, it is therefore rural SACCOs that are more important in providing services in rural Kenya. By the end of 1999 it was estimated that there were 100 rural SACCOs in Kenya. These constituted former union banking units of the many crop-based cooperative unions which were spun off into autonomous entities beginning in the early 1990s when liberalization of the cooperative sector began. The most active rural SACCOs are those found in sugar, tea, coffee, pyrethrum and dairy areas of the country, generally fairly high potential agricultural zones. Estimates put the share capital of rural SACCOs at Kshs 4.0 billion and an outstanding loan portfolio of Kshs 1.5 billion.

While SACCOs are an important provider of financial services in rural areas, one major weakness has been their limited outreach capacity in areas without a major cash crop – the greater part of marginal areas in Kenya where the bulk of the poor live. This has particularly been the case following the collapse of cotton, sisal and cashew nut sub-sectors in Kenya since the 1970s – the main cash crops that used to be cultivated these marginal zones. A major challenge for the SACCO movement in Kenya is therefore the evolution of SACCO models that are geographic-based rather than crop-based. This has begun on a very modest scale with the organization of three Trader's SACCOs in the country by the end of 2000.

2.1.4.4 *ROSCAs and ASCRAs*

There is hardly any (reliable) information on the (urban, rural and cumulative) outreach of informal providers of financial services. Qualifications of these providers vary from 'major sources of micro-finance' to '50% of financial services accessed by the poor'. Particular types of informal providers that are often being referred to are rotating and accumulating savings and credit associations (ROSCAs and ASCRAs). Scanty evidence from evaluations, research reports and internal documents suggests that tens, if not hundred, thousands of women in the country have organized (themselves into) 'merry-go-rounds'.¹² In contrast to SACCOs (certainly the cash-crop based ones), ROSCAs and ASCRAs are most often a female affair. These associations have not gone unnoticed to NGO-MFAs. Quite some NGO-MFAs (like KWFT, also following the pioneering work of K-REP in this respect) have very explicitly targeted and used these groups for their financial service provision or taken their modus operandi as criteria and standards for group-based lending.

11 Oketch H.O. (1999) Credit and Finance in Mullei A.K. and Bokea C.eds: Micro and Small Enterprises in Kenya; Agenda for Improving the Policy Environment; ICEG, 1999.

12 The field studies of Susan Johnson (University of Bath) on the local financial landscape of Karatina offer a very interesting and relevant case study. Her reports demonstrate the popularity and importance of ROSCAs and ASCRAs (locally known as giteti) amidst a great variety of other providers, including a high concentration of NGO-MFAs in Karatina.

2.2 A profile of micro- finance agencies and schemes as supported by Dutch CFAs

This paragraph describes what kind of micro-finance agencies are supported by Dutch CFAs in the field of micro-finance in Kenya. The first section provides a general outline, explaining what these partners have in common but also pointing at their differences. The second section provides details of a selected number of Kenyan partners involved in micro-finance.

2.2.1 General profile

Nearly all nine partners of Dutch CFAs are operating in the NGO-MFA niche of the financial landscape of Kenya. The only exception is the Family Finance Building Society, considered by Hivos as a socially driven and friendly micro-finance agency, with a strong focus on lending to low-income female entrepreneurs in slum areas. The top five of NGO-MFAs in terms of numbers of clients reached (see Table 2.8) includes three organisations that are or used to be supported by Dutch CFAs until recently Kenya Women Finance Trust (KWFT), a former partner of Cordaid; Kenya Rural Enterprise Programme (K-REP), a partner of both Novib and Hivos; and WEDCO Enterprise Development, a Novib partner. One of the runners-up among NGO-MFAs in terms of outreach is Small and Micro-Enterprise Programme (SMEP), a very new partner of Hivos.

KWFT, K-REP and SMEP are reported to have the highest geographical coverage among NGO-MFAs (see Table 2.8). All of them target small-scale or micro-entrepreneurs. The operations of WEDCO are much more regionally concentrated. This also applies to the following agencies that do not appear at all in overviews of micro-finance agencies and their outreach in Kenya.

Two of the youngest partners of Dutch CFAs are the Jitegemea Credit Scheme (JCS) of the Presbyterian Church of East Africa (ICCO partner) and PRIDE Africa – Sunlink (Cordaid partner). Each of them is working among the hundred thousands of people living in Nairobi slums but still has a low outreach, that is, not more than 1,000 clients. Two old partners of Dutch CFAs also do not appear in overviews of outreach of micro-finance agencies but for other reasons: SISDO (Novib partner), providing credit and other services to small irrigation farmers, and Diocesan Integrated Development Services (partner of Cordaid) are not considered (specialized) micro-finance agencies. In contrast to the two young partners, the two old partners are not based in Nairobi and very much directed at supporting small farmers or fishermen in a particular region.

The next section provides a more detailed description of four of the just-mentioned nine partners that are (or used to be) supported by Dutch CFAs (until recently) – based on interviews and data collection with these partners by one of the consultants.¹³ FFBS, WEDCO, DIDS, SISDO and SMEP were not approached for these interviews and not included here for several reasons: FFBS was in a difficult time (see paragraph 6.3 on Hivos); for practical reasons, it was not easy to visit DIDS, SISDO and WEDCO; SMEP is a brand new partner of Hivos. In spite of these limitations, the remaining four partners (K-REP, KWFT, PCEA/JCS and PRIDE Africa-Sun Link) quite well mir-

¹³ For further details and a more extensive analysis of the selection and support of partners (involved in micro-finance in Kenya) by Dutch CFAs, see Chapter 6.

ror some of the common characteristics as well as the diversity and trends of the partner portfolio's of Dutch CFAs taken together:

The partners of Dutch CFAs are NGOs, specialized in the provision of financial services to low-income entrepreneurs in urban areas or rural trade centres; some of them have a relatively high outreach (that is, compared to other NGOs and given Kenyan conditions), others are young and struggling to increase outreach. All of them are very client-driven and/or directed at financial innovations. They are not integrating credit provision into a much wider package and do not focus on small farmers or fishermen in rural areas.

2.2.2 Specific profiles

2.2.2.1 K-Rep Development Agency (KDA)

From its inception in 1984, the mission of K-REP has been to 'empower low-income people, serve as a catalyst for them to increase their participation in the development process and enhance their quality of life'. Micro-enterprise development was defined as the core business of K-REP. For this purpose, K-REP not only provided financial services to MSEs but also technical, management and financial support to NGO's involved in micro- and small enterprises. A general objective of K-REP is to make financial resources available to the micro- and small entrepreneurs who hitherto have not accessed credit through the big banking institutions.

Organisational structure

With generous support of international donor agencies, K-REP professionalized its services, dividing the organization into three autonomous agencies: the non-profit organisation K-Rep Development Agency (KDA), the consultancy firm K-Rep Advisory Services and the for-profit K-Rep Bank Limited (see Annex F). These three make the K-Rep Holding, whose overall objective is to generate employment and increase incomes by expanding financial services to poor people. KDA is the research and development arm of K-Rep Group. It is the only part of K-Rep Holding that is presently supported by two Dutch CFAs.

Mission and objectives

KDA serves the original mission of K-REP. The strategic objectives of KDA are (1) to identify, test and develop new micro finance products, mechanisms and instruments that aim at increasing the access of financial services to the poor and (2) to establish appropriate institutions which can deliver such services on a sustainable basis.

Projects and outreach

KDA recognizes that the fight against poverty requires a broad range of strategies and products to be tested, refined and launched. For that reason, various projects have been developed. These include the Financial Services Associations (FSA) Program, which is directed at rural areas and low-income people who live in the same village; the Savings Mobilization Project, which is linked to the FSA Program and aims to mobilize savings from the poor in rural areas to be invested in treasury bills and bonds; the Smallholder Farmer Savings and Credit Project; the Low Cost Housing Finance Project; the

Renewable Energy Financing Scheme; the Health Care Financing; the Adolescent Girls Savings and Credit Scheme.

KDA has been operating in 21 districts, some of which are the poorest in the country. This has given a program coverage of about 50,000 people through all its pilot projects so far. The client composition by sex in various pilot projects includes 52% men, 44% women and 4% groups. Table 2.9 shows that the FSA Program is the project of KDA with the largest outreach in terms of numbers of loans disbursed. The FSA Program started in 1997 and is currently KDA's biggest pilot project covering 18 districts, which are among the poorest in the country. The specific aims of the project are: to access the poor in rural areas with financial services to enable them organize their lives financially; to mobilize under-utilized local financial resources for the development of the communities; and to strengthen the capacity of local grass-roots and other community based organization involved in delivering financial services for the poor (see Annex G for some consolidated statistics on the FSA Program of KDA).

Table 2.9 Loan disbursement of KDA pilot projects (by the year 2000)

Pilot Projects	Loan disbursement by sex							
	No. of loans disbursed				Amount of loan disbursed (Kshs)			
	Male	Female	Groups	Total	Male	Female	Groups	Total
FSA	3,567	2,969	138	6,674	23,430,371	14,166,859	859,300	38,456,530
Small Holder Credit Scheme	97	67	–	163	1,495,000	853,000	–	2,348,000
Young Adolescent Girls	0	94	–	94	0	1,135,700	–	1,135,700
Low-cost Housing	6	12	–	18	2,126,875	4,354,125	–	6,481,000
Total	3,670	3,142	138	6,949	27,052,246	20,509,684	859,300	48,421,230

KDA recognizes savings mobilization as a major element of microfinance development. In all its pilot programmes, KDA has introduced savings as an additional service to other microfinancial products being piloted. Table 2.10 provides details on saving mobilized from men and women per pilot project.

Table 2.10 Mobilized savings for different KDA projects (by the year 2000)

Pilot Projects	Savings mobilization by sex							
	No. of savers				Amount of savings mobilized (Kshs)			
	Male	Female	Groups	Total	Male	Female	Groups	Total
FSA	5,372	4,299	1,225	10,896	24,856,658	11,696,916	13,437,723	49,991,297
Smallholder Credit Scheme	122	113	0	235	102,825.40	97,260	0	200,095.40
Young Adolescent Girls	0	94	0	94	0	124,756	0	124,756
Low-cost Housing	25	7	0	32	117,187	32,813	0	150,000
Total	5,519	4,513	1,225	11,257	25,076,671.4	11,951,745	13,437,723	50,466,148.4

The pilot projects have been able to mobilize Kshs 50,466,148.4 (or USD 672,882) in the form of savings. Women contribute to 24% of the overall savings, men and groups contribute to 50% and 26% respectively. The proportion of women who contribute to savings is 40% of the total savers.

2.2.2.2 Kenya Women Finance Trust (KWFT)

Mission and objectives

Kenya Women Finance Trust (KWFT) was founded in 1981 as an affiliate of Women's World Banking (WWB) by professional women in Kenya to provide financial services to women in the country. KWFT's stated mission is to advance and promote the direct participation of economically active women in viable business to improve their economic and social status, by providing financial and non-financial services. The Trust's objectives are:

- 1 To access credit and other non-financial services to the largest number of women entrepreneurs.
- 2 To promote savings mobilization among members.
- 3 To develop and implement a flexible growth plan for the agency, with emphasis on decentralization.
- 4 To build and maintain human resources to manage KWFT's planned growth and a strong membership base.
- 5 To build and maintain relationships with other agencies and credibility with funding partners.
- 6 To evaluate impact on clients.
- 7 To become a self-sustaining agency.
- 8 To maintain a cost effective asset portfolio

Though formally speaking KWFT is more than 20 years old now, it is fair to say that the Trust started a new life in 1991 with the coming of the present managing director. This marked an end of a difficult period for KWFT and the beginning of a period of growth in terms of active members, disbursements, outstanding loans, number of staff and programme self-sufficiency

(as the performance charts of recent KWFT Annual Report and Accounts demonstrate).

Governance structure

Kenya Women Finance Trust is run by a Board of 11 Directors made up of professional Kenyan Women in banking, law, business, management, education, research and training. The Board formulates policies and provides strategic direction. The daily management is in the hands of the Managing Director, assisted by the Chief Programs Manager and the Chief Finance and Administration.

KWFT is operating through 6 regional offices: Mt. Kenya Region (since 1991), Nairobi Region (since 1995), Coast Region (since 1998), Rift Valley Region (since 1998), South Nyanza Region (since 1999) and Western Kenya Region (since 2000). Each of the six branch offices of KWFT is run by Branch Managers. The vastness of these branches (consisting of 4 to 6 units each) makes movement difficult, particularly in a district like Kwale, which is quite large. At unit level, each Business Development Officer (BDO) runs specific groups numbering about 15-20 in total. The BDOs attend weekly meetings of each group to ensure that repayments are on schedule and banking takes place. It is also during this (limited) time that loan beneficiaries are supposed to voice any constraints they may be facing.

Products and outreach

The KWFT credit schemes aim to provide women with credit and technical assistance as a means of facilitating their integration into development. KWFT lending is directed to women under two group-based schemes and a pilot scheme for lending to individuals:

a Type I: *Biashara* Lending Scheme (BLS)

The *Biashara* Lending Scheme gives loans to individual members through their groups. Loan amounts range from Ksh.10,000 to 50,000. Once a group is formed and registered, members go through training in loan application and repayment procedures. In order to qualify for a loan, each woman in the group saves Kshs. 200 per week for eight weeks. After this, three women out of five become eligible for a loan. Four weeks later, during which time the borrowers would have started repaying weekly, the remaining two women in each group of five also receive a loan. Loans are repaid weekly for a total of 52 weeks. The average annual interest rate of 18.57% is a flat rate, equivalent to approximately 33% on a reducing balance.

The BLS targets women groups that have business ventures. Women entrepreneurs organize themselves into six groups of five. Loans are given to individual women through these groups.

b Type II: *Uaminifu* Lending Scheme (ULS)

The *Uaminifu* Lending Scheme (ULS) gives credit to existing groups ('merry-go-rounds', *itega*, *giteti*, who in turn lend to individual group members. Security for the credit is provided by group savings and the co-guaranteeing system of members. Eligibility for a *Uaminifu* Loan depends on:

- Being in a *Uaminifu* designated area;
- Having members who are currently running small and micro-enterprises;
- Being registered with the Ministry of Culture and Social Services as a self-help group;
- Having at least 10% of the total amount they intend to borrow as a group;
- Having or agreeing to open a bank account for depositing members' savings;
- Having the intention and capacity to continue facilitating access to credit for members.

Preference is given to group members who operate manufacturing businesses and innovative ventures, especially those with a potential for creating substantial employment.

In a mid-term review of KWFT by order of DFID, it was concluded that, 'In essence, KWFT effectively has one group-based credit methodology with two versions which may be referred to as products' ((Mwaniki Associates, 1998: 16). It was also observed that, 'the two products are becoming increasingly similar. In particular, there are no significant process differences from the loan application stage' (ibid: 17). The evaluators also refer to the incidence of 'phantom members' in *Uaminifu* groups, that compelled KWFT to even screen individual group members of 'merry-go-rounds'.

c Type III: Barclays Bank of Kenya Credit Line Scheme (CLS)

The Credit Line Scheme (CLS) is the newest scheme of KWFT and is implemented in collaboration with Barclays Bank of Kenya. The Trust provides management skills, training and other technical services to clients while the bank meets their credit needs. Interest and bank charges are levied at commercial rates. To be eligible for CLS, the applicant:

- must be a member of KWFT;
- must be 100% owner of the business;
- must be running the business on a full-time basis;
- should operate the business in permanent buildings (rented premises must have a lease to cover the loan repayment period);
- must have been in operation for at least one year;
- should be easily accessible to both KWFT staff and bank officials.

Table 2.11 presents some outreach scores per region. KWFT reports and reviews (like the quite comprehensive mid-term review of 1998 by order of DFID) do not specify outreach per scheme or product. Assuming that the newest scheme of KWFT is still operating on a modest scale, it is likely that available data mainly refer to clients reached through group-based lending, be it *Biashara* or *Uaminifu*. To assess the performance, outreach and impact of the different products and for product development purposes, it would be necessary to avail of product-specific scores.

Table 2.11 Number of clients and total loan disbursed per region

Region	Total number of clients	Total disbursement in Kshs.	Average size of the loan
Mt. Kenya	6,922	135,180,000	19,529
Nairobi	5,351	125,000,000	23,360
Coast	3,713	66,459,000	17,899
Rift Valley	2,693	54,075,000	20,080
South Nyanza (new branch)	58	2,580,609	44,493
Western (newest branch)	n/a	n/a	n/a
Total	18,737	383,294,609	20,457

Source: KWFT Annual report, 2000.

2.2.2.3 Jitegemea Credit Scheme (JCS)

Mission and objectives

Jitegemea Credit Scheme (JCS) is a program of the Presbyterian Church of East Africa (PCEA) started in January 1998 to provide financial services to poor people operating micro- and small enterprises (MSEs) in Nairobi's low-income areas of Eastlands. The legitimations of the PCEA to start this micro-finance scheme were three-fold: first, the belief that there are areas and poor not being reached in Kenya by micro-finance agencies; second, the idea that the Church not only has to take care of the social security and religious well-being of people but also of their economic needs; third, the belief that the informal sector is the main source of income and employment for poor people in Kenya.

The stated mission of JCS is to promote and empower micro and small enterprises by providing financial services, technical advice and encouraging savings mobilization to enhance their direct participation in economic development. Its main goal is to raise the income levels of the households MSE owners and their workers. The mission and main goal are somehow related or meant to contribute to several broad objectives of JCS:

- 1 Poverty alleviation through accessing people with requisite financial services.
- 2 Pursuing and developing a self-sustaining credit scheme.
- 3 Empower the community where the program is operating.
- 4 Creation of job opportunities.
- 5 Link clients with specialized agencies for training in business management skills.
- 6 Use the lessons learnt in the pilot program to replicate in other parts of the country.
- 7 Provide market-driven products to its clients.

Governance structure

Jitegemea Credit Scheme is under a Board of Management appointed by PCEA Board for Social Responsibility (BSR). It is this board which provides leadership and governance to JCS. Currently, the Board is comprised of 9 members drawn from various organs of the Church. The JCS Credit Manager is the

Board Secretary and in charge of the day-to-day management of the program. The day-to-day management of JCS is vested in the Credit Manager though current arrangements provide for some direct managerial responsibilities for the Board.

Products and outreach

The purpose of loans is basically for business working capital or acquisition of business assets. The first loan can not exceed Ksh 20,000. The second loan can only be disbursed after full repayment of the first loan and is Ksh 40,000 at maximum. With every next loan, the loan ceiling goes up with Ksh. 20,000 – provided earlier loans have been fully repaid. Repayments are weekly (with a maximum repayment period of 52 weeks), there is no grace period, and the interest rate is 20% flat.

JCS provides loans to individuals who are in registered groups and who are already in business. The outreach level of JCS is (yet) fairly small. By June 2001, the Scheme had a total of 1,000 clients (68.4% of them women) organized into 41 groups. The outstanding loan portfolio was Kshs 9.0 million (with 597 borrowers) and savings mobilized amounted to Kshs 6.7 million. The repayment rate of the scheme was an impressive 97%.

2.2.2.4 PRIDE Africa – SunLink

Mission and objectives

PRIDE means Promotion of Rural Initiatives and Development Enterprises. PRIDE Africa is a micro finance and information group registered in the United States with operations in different countries in East Africa, including Tanzania, Uganda, Zambia and Kenya. PRIDE Africa's microfinance operations in Kenya are through its SunLink Services project, which was originally conceived as a research and development project in 1995. Its major role was to involve the commercial banks in Kenya in providing financial services to the poor. With time, the project has evolved from a research project to a micro finance service provider, commencing its operations in 1999 in Nairobi.

The stated mission of PRIDE Africa is to create a sustainable financial and information services network for small-scale entrepreneurs to increase incomes and employment and stimulate business growth in Africa. SunLink has defined its market niche in the still largely untapped market for financial services to MSEs in Kenya where less than 10% of the sector is estimated to have access to formal financial services. The strategic objectives of SunLink are:

- 1 To provide micro and small scale entrepreneurs access to credit services.
- 2 To generate business growth and increase employment opportunities.
- 3 To develop new financial products targeted in the micro enterprise sector.
- 4 To reduce the cost of serving the micro enterprise sector.
- 5 To forge sound business linkages between commercial banks and Kenya's micro enterprise sector.

Governance structure

The Project Manager of PRIDE Africa – SunLink is responsible for overseeing the entire project and reports to the Executive Director of PRIDE Africa.

The daily management of PRIDE Africa – Sunlink consists of the Executive Director, Project Manager, Administrative Manager, MIS Manager Finance Manager, Operations Manager and Branch Managers.

Products and outreach

By June 2001, SunLink had four operational branches in the greater Nairobi area: Kariobangi, Parklands, Naccico Plaza and Githurai. Up to that date, SunLink had disbursed a cumulative total of 7,406 individual loans amounting to Kshs 202.8 million averaging Kshs 27,382 per loan through its four branches (see Table 2.12). While SunLink may still be regarded as one of the small microfinance agencies in Kenya, still operating in Nairobi only, its performance over the short period of 21/2 years it has been in operation suggests that it may very well be considered one of the fastest growing microfinance agencies in the country.¹⁴

Table 2.12 Cumulative loan disbursement by branch and loans generation (as at 15/06/2001)

Loans	Kariobangi		Parklands		Nacicco		Githurai	
	Clients	Amount	Clients	Amount	Clients	Amount	Clients	Amount
Loan 1	722	66,444,000	1,865	18,791,000	973	8,906,000	146	1,450,000
Loan 2	323	6,091,000	1,199	23,681,000	439	7,998,000	50	1,000,000
Loan 3	137	4,030,000	716	20,791,000	186	5,260,000	5	150,000
Loan 4	41	2,025,000	369	16,992,000	83	3,870,000	1	50,000
Loan 5	3	300,000	135	12,263,000	16	1,500,000	0	0.00
Loan 6	0	0.00	7	1,110,000	0	0.00	0	0.00
Loan 7 or more	0	0.00	0	0.00	0	0.00	0	0.00
Total	1,226	78,890,000	4,291	93,628,000	1,687	27,534,000	202	2,650,000

2.3 Some conclusions

The justification of Dutch CFAs to support micro-finance agencies because poor people have no access to banking services in Kenya makes a lot of sense, certainly when it comes to provision of credit. As a group, banking institutions play a very limited role as providers of financial services to low-income people, with two or three exceptions: Post Bank has the largest geographical outreach with nearly 500 branches spread all over the country, together keeping more than 2 million savings accounts (with an average size of ordinary savings accounts of Ksh 3,200 or about USD 40 dollar). K-Rep Bank has a much more modest geographical outreach than Post Bank but in contrast to Post Bank it does provide loans through its 21 branches. Outstanding loans of K-Rep Bank number about 17,000, with an average size of Ksh 25,900 or about USD 350. Many practitioners and consultants do not consider this size of loans as the size of a typical micro-loan. Equity Building Society (EBS) is the banking institutions ranking second in terms of numbers of loans (about 10,000) disbursed through micro-finance schemes.

¹⁴ SunLink expects to cover a growing percentage of its operating and financial costs from revenues (client interest and fees) over the next 5 years. By the time of the assessment, it was estimated that projected revenue would cover 44% of all operational and financial costs in year 2001, 83% in 2002 and over 100% starting 2003.

Though SACCOs and ‘merry-go-rounds’ as a group of member-based organisations have a much larger geographical distribution and quantitative outreach in terms of numbers of clients than all NGO-MFAs together, let alone the smaller number of partners of Dutch CFAs, there is still enough reason for Dutch CFAs to support partners in the field of micro-finance. Membership of SACCOs mainly consists of cash-crop farmers and regular income earners. ‘Merry-go-rounds’, that are very popular among entrepreneurial women in Kenya, are not competitors to NGO-MFAs but rather inspiring models or building blocks for service provision.

Though the support of micro-finance agencies by Dutch CFAs can be very well legitimized in terms of poor people having no access to banking services and very few providers being open or targeted to poor people, the total number of clients reached by NGO-MFAs that are typically supported by Dutch CFAs, is very low, not exceeding 100,000 people. Maybe even worse or at least telling is that most of these NGO-MFAs do not operate in the poorest districts of Kenya but rather in the least poor districts, concentrating on urban areas, trade centres and rural market towns. Whether this low outreach is the price of putting financial sustainability first, targeting experienced micro-entrepreneurs only, keeping portfolio at risk and transaction costs at a minimum, or rather lack of loanable funds and appropriate technologies, remains to be seen. Obviously, Kenya is not Bangladesh, but does that mean that the objectives of reaching financial sustainability and high outreach can not be married in Kenya?

In the world of NGO-MFAs in Kenya, Dutch CFAs support key players in the field of micro-finance (KWFT, K-Rep), runners-up (WEDCO, SMEP), experienced innovators (K-Rep, Pride Africa – Sunlink), starters (Pride Africa – Sunlink and PCEA/JCS) and even the more traditional provision of agricultural credit (SISDO and earlier DIDS). Nearly all these partners typically focus on the provision of financial services to low-income entrepreneurs. Micro-finance is considered a major tool to promote micro-enterprise development and to reach poor people. Such development and outreach are again considered critical contributions to poverty alleviation. With regard to the provision of financial services to small farmers or rural dwellers at large, we can witness two things or even trends: partners providing traditional agricultural credit (as part of a wider package of services) form a minority and are on their way out from the Dutch CFP, whereas specialized micro-finance agencies that wish to experiment and branch out in rural areas with new products and projects with a view to reach (increasing) numbers of rural poor, enjoy special attention and strategic financial support through the Dutch CFP.

3 Who are the clients of KWFT

This chapter¹⁵ addresses the question of who are the clients of Kenya Women Finance Trust (KWFT) from three different angles: KWFT and its official targeting policy, an external evaluator and his sample survey organized for the present study, and the clients of KWFT ranking themselves in different wealth categories in focus-group discussions.¹⁶ This is done for several purposes and reasons.

The first purpose is to compare the official policy of KWFT with practice. The underlying reason is that one cannot simply assume that an agency that targets poor or low-income people, actually reaches these people. The second purpose is to provide a sharper profile of clients who are being labelled 'poor' or 'low-income people'. The underlying reason to do so is that one cannot simply assume the category of poor people to be homogeneous or one-dimensional. The third purpose is to provide a reference point for the impact assessment (described in Chapter 4). The underlying thought is that one needs insights on client profiles to put the (lack or particular) impact of a micro-finance agency at the client level into some perspective.

3.1 The official targeting policy of KWFT

3.1.1 Targeting of individuals

KWFT views itself as a micro-finance institution for low-income women and defines its target group as the *low-income women entrepreneurs* in Kenya. Low-income women are further defined as those who do not have access to credit from commercial sources and who earn their living from small businesses, run by themselves and their families, with no employees. KWFT estimates the average income of its clients per month at Kshs. 3,500 (US\$ 50), which is only slightly higher than the minimum wage in Kenya of Kshs 2500 (US\$ 35.7) per month. KWFT has made it clear to prospective clients and the public in general that its focus is on women already *carrying out business* and does not lend to those intending to start a business (KWFT Institutional Profile).

In determining the income levels of applicants and taking decisions regarding loan approval, KWFT makes use of 'client in-take forms', to collect information on family size type and size of business and other sources of income, among other aspects. This enables the field staff to assess the economic status of clients and ensure they meet the basic requirements in line with KWFT policy on targeting.

¹⁵ This chapter is based on the report of 'Focus Group Discussions as Part of the Client Impact Assessment of KWFT' by Milcah Ong'ayo (2001) as well as the sample survey of KWFT clients (May/June 2001) by Muli Musinga. In addition, policy documents and brochures of KWFT have been used as sources of information.

¹⁶ The methods and results of the focus group discussions have been extensively described in the attached Supportive Document. The sample profile and approach used for the survey will be briefly outlined in the next chapter.

3.1.2 Working through groups

KWFT works through groups to reach individual women clients and women applying for KWFT loans must be members of a group. This approach not only provides an opportunity for poor women to support one another socially and financially through individual and group saving, but also provides an important channel for women to access information and other services (KWFT works with existing groups, some of which have been functioning together for years doing various activities and saving through 'merry-go-round'. New groups of businesswomen coming together for purposes of saving and credit acquisition are also encouraged to work with KWFT as long as they meet the basic criteria of bringing together low-income women.

KWFT's approach of working through groups tends to exclude women from higher-income categories who may not have the time or interest to participate in regular weekly or monthly meeting required of KWFT borrowers. The small amounts of loans provided by KWFT act as a disincentive to higher-income women, especially considering the demands for regular meetings, high interest rates and short repayment periods. They have the alternative to consider other credit sources such as the commercial banks that will give bigger loans and longer repayment periods (KWFT loan sizes range from Kshs. 5,000 (US\$ 64) and Kshs. 10,000 (US\$ 128) for first loans, up to Kshs. 20,000 (US\$ 250) for second loans, and gradually increase to Kshs. 100,000 and Kshs. 150,000 in the 6th to 10th loans. For business purposes these loans are very small and do not attract women from higher-income categories. It is also expected that the groups will not allow women from higher-income categories to join the groups and to borrow, as they are likely to request for large amounts of money that could put the rest of the group members at great financial risk.

3.1.3 Targeting of areas?

Regarding geographical 'reach', KWFT does not specify what areas of the country are to be considered as a priority, or what criteria is to be used in determining its expansion to new areas. Until 1997, KWFT worked with 5,198 clients in three provinces; Eastlands in Nairobi, Karatina in central province, Kwale and Kilifi in Coast province. Since 1998, there has been substantial expansion to cover six administrative provinces (out of eight in Kenya) with a total membership of 18,820 clients spread out in over 20 districts as at the start of 2000. In the later part of the programme (after 1998), KWFT seems to have made a deliberate effort to diversify its areas of operation to include more rural poor areas and to move away from town centres. Inclusion of Tala in the semi-arid areas, Narok in Maasai land and Mbeere in Eastern province are examples of KWFT's move to reach a wider and more challenging target group.

KWFT works with different ethnic groups and does not make distinction regarding ethnicity or marital status. Age is considered a factor only as much as it differentiates adults from children: KWFT does not work with women below the age of 18 years.

3.2
Characteristics of
KWFT clients:
external
assessment

Data from the sample survey carried out as part of this assessment provide some insight on the characteristics of KWFT savers and borrowers.

3.2.1 Business enterprises

KWFT clients undertake a variety of enterprises ranging from small trade through hawking and different shops of service provision including running of private clinics, schools, hair salons and 'sale' of bathroom and toilet services in slum areas. Some clients are involved in agro-based production and marketing while a few undertake manufacturing of clothing items and food processing. Table 3.1 provides broad categories of the enterprises.

Table 3.1 Types of enterprises

Sector	Number	Percentage
Manufacturing	14	5.4%
Trade	219	86.5%
Services	21	8.1%
Total	253	100.0%

Source: KWFT client-impact assessment survey, May/June 2001

While a few of the businesses are operated in formal commercial places with business buildings and facilities, a majority of them take place in informal sites including the homestead or just under a tree, while many are mobile with no fixed abode. Table 3.2 shows the proportion of clients operating in different sites.

Table 3.2 Site location of enterprises

Site location	Number	Percentage
Homestead	34	13.5%
Commercial/shopping centre	118	46.5%
Open market	70	27.4%
Road-side	19	7.5%
Other (mobile/hawking)	13	5.1%
Total	254	100.0%

Source: KWFT client-impact assessment survey, May/June 2001

According to the sample survey undertaken as part of this assessment, a large proportion of clients do not have business structures. Table 3.3 gives details of types of structures.

Table 3.3 Structure of business enterprises

Type of structure	Number	Percentage
None	54	21.4%
Temporary	55	21.8%
Permanent	131	52.0%
Other (mobile/hawking)	12	4.8%
Total	252	100.0%

Source: KWFT client-impact assessment survey, May/June 2001

The majority (65.9%) of KWFT clients hold only one business, that is, the businesses funded by KWFT. A significant number (34.1%) however own more than one business with a few (2.3%) having up to three businesses. Analysis shows that ownership of more than one business is higher among clients who have received more loans than those with fewer loans. This would suggest that as clients expand their capital base through increased access to financial services, they tend to diversify their sources of livelihood by starting other businesses. A woman running a clothing shop for example, decided to use her next loan to start trading in cereals just outside her shop. A client doing tailoring may decide to diversify by starting a hairdressing unit within her shop.

On average, enterprises run by KWFT clients have been in existence for 8.2 years. About half (49.2%) of the enterprises are however fairly young having been in operation for no more than five years, with a significant percentage (17.2%) being only two years old or less (see Table 3.4). It is noteworthy however, that some of the businesses have been in operation for over 10 years.

Table 3.4 Age distribution of enterprises operated by KWFT clients

Age group (years)	Number	Percentage
Up to 1 year	17	6.8%
2 years	26	10.4%
3-5 years	81	32.0%
6-10 years	64	25.2%
11-20 years	49	19.4%
21+ years	16	6.3%
Total	253	100.0%

Source: KWFT client-impact assessment survey, May/June 2001

The sample survey shows that most of the enterprises (75%) are owned by the women clients of KWFT, while a few are jointly owned with the spouse. Table 3.5 gives details on ownership.

Table 3.5 Ownership of business operated by KWFT clients

Owner	Number	Percentage
Self – sole owner	192	75.3%
Spouse	32	12.6%
Jointly with a spouse	29	11.2%
Jointly with others	2	0.9%
Total	254	100.0%

Source: KWFT client-impact assessment survey, May/June 2001

While clients currently not married are largely responsible for making the final decisions on the use of their household resources, this mandate falls on only 8.6% of those who are married. As may be expected from a cultural perspective, the final decision on use of household resources is with spouses for 53.3% of clients. It is, however, noteworthy that for 38.2% of client households, final decisions on use of resources are made jointly by the client and spouse.

3.2.2 Age and marital status of KWFT clients

By design, KWFT accesses its financial services to women only and for this reason all its clients are women. Over half (57.0%) of clients are fairly young women aged forty years or below with 15.7% in the age bracket of 21-30 years. None of the KWFT clients is below 20 years (see Table 3.6).

Table 3.6 Age distribution of KWFT clients

Age group (years)	Number	Percentage
21-30	40	25.7%
31-40	105	41.3%
41-50	78	30.5%
51-64	27	10.8%
65+	5	1.8%
Total	254	100.0%

Source: KWFT client-centred impact assessment survey, June 2001

A majority of clients (68.2%) are married women living with their husbands, while 32% are single mothers (never married, divorced, separated or widowed). This number is slightly higher in urban areas than in rural areas:

Table 3.7 Marital status of KWFT clients by rural/urban differentiation

Marital status	Urban areas	Rural areas	Total
Single – never married	35 (22.6%)	16 (16.3%)	51 (20.2%)
Married	99 (63.5%)	74 (75.6%)	173 (68.2%)
Divorced/separated	13 (8.0%)	5 (4.7%)	17 (6.7%)
Widowed	9 (5.8%)	3 (3.5%)	13 (4.9%)
Total	156 (100.0%)	98 (100.0%)	254 (100.0%)

Source: KWFT client-centred impact assessment survey, June 2001

On average, the households of KWFT clients comprise of 4.57 members – very much the typical number of members to be found in a Kenyan household. It is noteworthy though, that a small but significant number (18.9%) of clients have large families with upwards of 7 members. On average 3 (64%) of the members of households are children – 94% of them are children of the client, while 6% are grand children or relatives. Analysis shows that three quarters (75%) of the children in households are in school, with school fees demands. The rest of the children are either too young to be in school (9%) or are out of school and not yet working (16%). It is here, among the children in the household more than perhaps in other area, that increased accessibility to financial services would be expected to make the highest difference, enabling the parents to invest in their future and address their nutritional and health needs.

Table 3.8 Number of members in KWFT client's households

Number of members	Number	Percentage
1-2	42	16.6%
2-3	96	37.6%
5-6	68	26.9%
7+	48	18.9%
Total	254	100.0%

Source: KWFT client-centred impact assessment survey, May/June 2001

3.2.3 Education levels among KWFT clients

Compared to the national profile of formal education attainment of Micro- and Small-case Enterprise (MSE) operators in Kenya (Baseline Survey 1999), KWFT clients can be said to be of higher formal education than the average Kenyan MSE proprietors. While at national level, 66% of MSEs are owned by proprietors only up to primary level education, this category is comprised of only 38% of KWFT clients. The majority of KWFT clients have secondary or higher formal level of education (see Table 3.9). To the extent that formal education is expected to be a factor in influencing the performance of an enterprise, it would be expected that KWFT clients be likely to perform better than the average Kenyan MSE.

Table 3.9 Educational levels of KWFT clients

Level of education	Number	Percentage
None	11	4.4%
Primary level:	85	33.6%
Lower primary	10	4.0%
Upper primary	75	29.6%
Secondary level:	150	58.7%
Lower secondary	22	8.5%
Upper secondary	128	50.2%
Higher than secondary:	8	3.1%
A level	7	2.7%
University	1	0.4%
Total	254	100.0%

Source: KWFT client-centred impact assessment survey, May/June 2001

Like in the case of formal education, an analysis of the number of KWFT clients who have received training beyond formal education suggests that many of KWFT clients are drawn from the segment of MSE's above the average in the sector in Kenya. While 83.9% of female proprietors of MSE's in Kenya have not received any training beyond their formal education, the corresponding figure for KWFT clients is 49.3% (see Table 3.10).

Table 3.10 Training beyond formal education received by KWFT clients

Type of training	Number	Percentage
None	125	49.3%
Professional	68	26.9%
Vocational	56	22.0%
Other (apprenticeship)	4	1.7%
Total	254	100.0%

Source: KWFT client-centred impact assessment survey, May/June 2001

3.3 KWFT clients as they define themselves

Perceptions of KWFT clients with regard to their wealth levels were collected through a series of focus group meetings held in different sample areas. The report of focus groups discussions (attached as Supportive Document) provides details of this.

Criteria for wealth as developed by the different groups include the following:

- Type and house in which the family lives.
- Size and type of business

- Assets the family has; these include land, other fixed property such as buildings and perennial crops, livestock, business and household items such as fridges, furniture, radios and television.
- Other sources of income such as employment of spouse or grown-up children.
- Type of school the children attend.

Means of transport such as bicycle or motor vehicle and number of employees one has were also identified by some groups as important markers of wealth. It has to be pointed out that some of the criteria given need to be considered from the point of view of gender-based ownership and control of resources at household level. Ownership of assets for example livestock, perennial crops, radios and televisions are, in many male-headed households, considered the property of men, whether or not the women bought these items. Among the Maasai in Narok for example, livestock, which is a key marker of wealth, is considered the property of men (husbands or sons).

Because of existing socio-cultural values and practices with regard to ownership and control of resources at household level, women's socio-economic status is often lower than that of men in the same households. This means that some KWFT clients, in particular those in male-headed households, may in practice be in a lower economic status than can be determined based on the criteria that has been formulated by the women.

3.3.1 Wealth levels of KWFT clients

The focus groups identified five wealth levels: *very poor*, *poor*, *not-so-poor (or medium)*, *rich*, and *very rich*.

The clients defined the *very poor* as those without regular means of livelihood, depend, on others for survival and often do not have enough to eat. In all the focus groups, none of KWFT clients were considered to be in this category. The argument given was that those without regular means of income will not raise the necessary payments and savings required by the groups, do not own household assets required for collateral and above all, will not be guaranteed by group members for KWFT credit as this would be too much risk for the other members.

The poor were defined as those with some means of livelihood such as farming or business, live in small, simple houses: In the urban centres, this will be in the slums or other low-income residential areas occupying one or two rooms as tenants. In rural areas, this category of families have small parcels of land, may own one or two livestock and live in simple temporary houses. Their sources of livelihood may be farming or agriculture, or a combination of these. Eastlands in Nairobi placed the highest proportion (59%) of clients in this category, while another 44% were placed in the *not-so-poor* category. This seems to agree with the result of the participatory poverty assessment (1997) which indicates that almost 50% of families in urban areas consider themselves poor, a majority of these are tenants in informal settlements (slums), which are crowded and with limited access to basic facilities such as water, electricity and even toilet facilities

The focus group in Tala in Machakos district placed 21% of their clients in the poor category and 73% in the not-so-poor category.

In the rural areas, those perceived to be poor have little or no land, depend on wage employment or small business for their livelihood and live in small temporary houses in the market centres or in their homes. Among the Maasai the poor in the rural areas have few or no cattle, have only one or two wives and often lack sufficient food. In other rural areas such as Embu and Tala, the poor are those with small pieces of land that are not productive and depend largely on small businesses. Karatina placed the lowest number of clients in the poor category.

The *not-so-poor* category was said to be composed of families with business capital between Kshs. 50,000 (US\$ 620) and Kshs. 100,000 (US\$ 1,240) may have an alternative source of livelihood such as farming or employment of spouse or other family member, lives in permanent or semi-permanent house and have a few assets such as a bicycle, radio and in the urban areas, may own a television. On the whole, the focus groups placed a majority of their group members in the *not-so-poor* category, very few in the rich and none in the very poor and very rich categories. Table 3.11 gives a summary of the clients' perceptions of wealth levels among KWFT clients.

Table 3.11 Client perceptions on wealth levels of KWFT clients

	Very poor	Poor	Not-so-poor (or medium)	Rich	Very rich	Totals
Eastlands	0	59 (56.6%)	44 (40.0%)	7 (3.4%)	0	110
Tala	0	21 (14.0%)	73 (84.7%)	2 (1.3%)	0	96
Limuru	0	28 (14.3%)	164 (84.1%)	3 (1.5%)	0	195
Narok	0	0	85 (92.3%)	7 (7.7%)	0	92
Karatina	0	4 (9.5%)	100 (86.2%)	5 (4.3%)	0	109
Embu	0	57 (52.7%)	68 (44.2%)	4 (3.1%)	0	129
Total	0	169 (23.1%)	534 (73.1%)	28 (3.8%)	0	731

3.3.2 KWFT groups

Many of the groups working with KWFT were formed for different social and economic reasons came into contact with KWFT while they were already in operation. Many of these had and still have their own savings and credit schemes (merry-go-round) and other collective activities. A second category of groups working with KWFT comprises of groups that are formed for the sole purpose of accessing credit. These tend to be business-oriented and often 'class based', bringing together businesswomen of similar socio-economic levels. The former category tends to pay less attention to economic levels of members and consequently has a greater mix of socio-economic 'classes' of women. It is observed that this category of groups seems to be more cohesive as the members often know each other well. In many cases, they are members of the same village or clan and often live in the same neighborhood.

According to staff, the group approach of lending makes it easy to get clients to repay the loans (peer pressure). In addition it is easier for staff to reach groups than individuals and hence it enhances outreach. However they recognize that there are some difficulties with the group approach;

- It is time-consuming both for staff and clients especially in following defaulters
- Some members are unwilling to work with groups for fear they might be held responsible for other's failure to repay

While group participation seems to be popular to most women, there are those who feel that the idea of impounding property of fellow-group members in case of default works against the spirit of mutual support and becomes extremely destructive, not only of the group, but to the community as a whole. Some women are too busy with business, farming or household responsibilities and find group meetings to take up too much of their time, while some men are reluctant to allow their wives to participate in groups for fear that women spend too much time away from home attending meetings and other group activities. A male community leader in one of the areas visited made his clear when he said:

Although some women can learn from the groups and as a result improve the care of their families, there are some who spend too much time in such groups and neglect their families. Some get negative influence from other women and take to bad ways.

For many of the clients met, however, groups provide a useful opportunity to meet and share information with others. They are a source of social and financial support in times of need. Groups also provide women the possibilities for saving. Some women feel that groups provide a kind of security for their businesses and improve their decision-making and use of loans. This is because their husbands are aware of the loans and consequences of non-payment. They therefore tend to give women 'more space' to utilize the loans so as to generate money and repay the loans. In this way, women are able to make decisions concerning their businesses and use of capital.

3.3.3 Savings and credit preferences

A number of savings and credit institutions operate in the sample areas. The informal merry-go-round schemes appear to be most popular because they offer flexible terms and inexpensive credit to the members. However most of them only offer small amounts of credit depending on the amount of money available. Among the formal micro-finance institutions, KWFT and K-REP seem to have the highest outreach in the areas visited. In Tala, K-REP has the largest number of clients (350), followed by KWFT.¹⁷ In Karatina, Limuru and Eastlands, KWFT has a strong presence in spite of the fact that there are several other MFI's operating these areas. Pride Africa in Eastlands seems to be growing fast, but KWFT has a much wider outreach in the area. It was observed that in some places the MFI work in the same small areas, creating stiff competition for each other. This is the case in Tala and Embu, where KWFT and K-REP work in the same areas and occasionally experience problems of double funding.

Important factors that seem to influence client's choice of savings and credit institutions are: awareness of clients of the services offered by a given institution, conditions of borrowing which include rate of interest, repayment

¹⁷ K-REP has been operating in the area since 1994.

period and level of savings required, time taken in processing the loans, clarity of procedures and reliability (certainty of getting credit if one meets the set requirements). KWFT scores well in a number of these aspects. However, clients in all the sample areas feel that KWFT credit is more expensive compared to other MFI's in terms of interest rate charged and administrative costs. Repayment period is also considered too short and does not consider loan size and type of business. In particular, clients feel that loans for agricultural enterprises such as dairy production, poultry and piggery should be given a longer repayment period. Monthly repayments seem to be preferred by most clients over weekly.

3.4 Conclusions

The official targeting policy of KWFT is to reach low-income women entrepreneurs in Kenya. However, the results of the focus-group discussion in which KWFT-clients were asked to rank themselves into different but self-defined wealth categories, show that a large majority (75%) of the clients define themselves neither as poor or very poor, nor as rich or very rich, but rather as not-so-poor. In an absolute sense and compared to western standards, these women might still be classified as low-income people, yet in a relative sense and according to women's own definitions of wealth and ownership of assets, they rather take an intermediate position. Having said this, the profile of the KWFT-clients may or may not be considered in line with the official targeting policy.

Like the focus group discussions, the sample survey suggests that the targeting policy of KWFT is effective indeed. KWFT-clients typically depend on their small business as their only source of livelihood, with many of the petty traders having temporary or no business structures. Also, a large proportion of KWFT's clients (more than 30% of the respondents of the sample survey) are female heads of households. By targeting them, KWFT is reaching some of the most vulnerable and resource poor of Kenya.¹⁸ However, the targeting policy leads one to easily overlook or underestimate the asset-base and non-income qualities of KWFT-clients. One of the most important assets of (new and old) KWFT-clients is business experience. Not surprisingly and a typical feature of experienced entrepreneurs, they are well aware of the pros and cons of different sources of credit and/or have access to them (though at the same time clearly indicating they rank KWFT very high, often second after 'merry-go-rounds'). A second and related asset is financial and management experience through participation in self-organized savings and credit associations ('merry-go-rounds'). A third major asset and distinguishing quality of KWFT-clients is a relatively high formal education.

Finally, the actual (geographical) focus of KWFT on urban areas or marketing places in rural areas further supports or nuances the official target policy of reaching low-income women entrepreneurs. KWFT has a strong presence in the slum areas in Nairobi and other urban centres. The Participatory Poverty Surveys (1994 and 1997) show that characteristics of poverty include lack of access to basic social and economic services and the opportunity to participate in economic, social and political processes that affect their lives. Many of the women living in the slums experience this kind of deprivation.

¹⁸ The Kenya HDR further shows that 25.8% of the poor households in Kenya are headed by women and that this number is fastly increasing.

The Kenya Human Development Report (1999) indicates that more than 75% of the poor live in the rural areas and that women form the majority of the rural poor. Since 1998, KWFT has continually expanded into the rural areas, some of which, like Tala in Machakos district, are considered poor districts.

4

Does KWFT make a difference?

The mission of KWFT is to advance and promote the direct participation of economically active women in viable business to improve their economic and social status. Like other microfinance institutions world-over, KWFT envisages that providing an accessible financial facility to its clients enables them to build-up a capital base through a spiral system of saving and borrowing that eventually translates into an expanded income base for the household. Since KWFT financial services are targeted at existing enterprises operated by women clients, the first level of impact such services are expected to have is at the enterprise level. The expectation is that increased accessibility of finance to an enterprise provides room for the business to expand, be more profitable and become better positioned to withstand adverse effects of the business environment. This way, the stability of the enterprise as a source of livelihood to the client's household is expected to improve.

Section 4.1 presents results of a quantitative analysis of the extent to which KWFT's financial services to clients have made any impact at the enterprise level and whether this has led to improved economic status of the household. A qualitative analysis of the degree to which clients' involvement with KWFT has made a difference in their lives is presented in section 4.2.

4.1 Quantitative analysis based on sample survey

The quantitative component of the study whose results are presented herein involved structured interviews with a randomly selected sample of 254 clients of KWFT drawn from its Nairobi and Mt. Kenya Regions. A multi-stage stratified sampling approach was used to select the clients for interview. Important considerations made here included:

- Rural versus urban location. For each of the two regions, two units were selected, one largely urban and the other largely rural. For Nairobi, Huruma unit was selected as urban (Eastlands) and Limuru (Narok) as rural while for Mt. Kenya, Karatina was selected as urban (within the town) and Embu (Mbeere) as rural.
- High versus low potential considerations. In the selection of the two units from each Region a further consideration was made of whether the unit can be regarded as low potential or high potential. It is from this consideration that clients from Narok/lower Jabini/Kijabe were selected from the Limuru Unit while clients from Mbeere were selected from the Embu Unit.
- Number of loans received by the client. On this count clients were categorized into three groups – 1st generation as those with 5 or more loans; 2nd generation – those with 3 or 4 loans; and 3rd generation – those with up to 2 loans including those without any loan so far. On this basis first generation clients sampled were 56, second generation were 80 and third generation were 119. A post survey analysis however showed that a re-stratification of 0-1 loans as third generation; 2-4 loans as second generation and 5 or more

loans as first generation made was more appropriate. Following this reclassification first generation clients sampled were 56, second generation -154, and third generation -44.

4.1.1 Impact at the enterprise level

4.1.1.1 Enterprise size

Table 4.1 shows that enterprises that have received more loans are larger in terms of workforce than those that have received fewer loans. On average, clients who have received five or more loans have 3.12 workers, those that have received 2 - 4 loans have an average of 2.65 workers while those that have received one loan or none have 1.92 workers. Knowing that the average number of workers among female owned micro and small enterprises (MSEs) in Kenya is 1.42, this would indicate that KWFT recruits its clients largely from above the average firm in the MSE sector in Kenya. After a period of about 2 1/2 years and an average of 3 loans totaling on average Kshs 87,351, these firms are able to expand their workforce by 38% to have on average 2.65 workers. By the time enterprises have been with KWFT for an average of 6.4 years and have received an average of 7 loans (totaling Kshs 335,306) their workforce has expanded by about three quarters (72%) to reach 3.12 workers. From a national perspective this, in a rough sense, suggests that the MSE sector in Kenya is capable of creating up to 250,000 new jobs every year from its vertical expansion it is accessed with financial services.

Table 4.1 Average number of workers by type and loan-based generation of client

Type of workers	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Full-time workers	2.67	1.90	1.46	2.00
Part-time workers	0.45	0.75	0.46	0.63
Owners	1.24	1.22	1.31	1.25
Paid workers	1.71	1.21	0.62	1.21
Unpaid workers	0.16	0.22	0.00	0.17
Female workers	2.02	1.71	1.21	1.69
Male workers	1.10	0.94	0.72	0.94
Total	3.12	2.65	1.92	2.63
Mean total amount of loans received (Kshs)	335,306	87,351	13,718	128,371
Mean number of loans	7	3	1	3.3
Mean number of yrs in KWFT	6.42	2.47	0.72	3.02

Source: KWFT client-centred impact assessment survey, May/June 2001.

Analysis of data obtained from the field during the impact assessment survey show that there is a strong and statistically significant correlation between the number of loans received by an enterprise and the number of workers in the business. This correlation is even stronger between the total amount of loans received and the number of workers in the enterprise. This suggests that, it is not just the number of loans a client receives but also the cumulative total amount of those loans that are important in determining the extent to which an enterprise is likely to expand its activities in a way that it requires to increase its workforce.

a Type of jobs created

Analysis shows that there is a higher dependence on paid workers among first generation clients than among their third generation counterparts (see Table 4.1). The proportion of paid workers in total enterprise workforce increases from 32.3% just after clients join KWFT to 45.7% by the time they are among second generation clients (2-4 loans) and to 54.8% by the time they have been with the program for approximately 6 years. The number of owners working at the enterprise largely remains unchanged (indicating no change in ownership structure) implying that the degree of dependence on owners as workers in the enterprise declines as enterprises receive more loans and expand their workforce.

Table 4.1 further shows that there is a higher proportion of full-time workers among enterprises that received more loans than among the ones who have received less number of loans. The proportion of full time workers in enterprise workforce increases from 76% among enterprises new in the programme to 84% among enterprises that have received five or more loans. Access to finance enables enterprises to regularize their operations and likewise their demand for labour.

It is interesting to note that women-owned enterprises engage more female workers than male workers. On average, the number of female workers among enterprises supported by KWFT is higher than that of male workers by more than two thirds. This proportion is maintained as enterprises increase their number of workers.

In terms of salaries/wages to workers, an interesting finding is that first generation clients do not just employ more workers in general but also pay them better salaries/wages. On average, first generation clients pay each worker Kshs 4,565 per month while second generation clients pay Kshs 2,459 and third generation clients pay Kshs 2,004 per month. This closely conforms to the general knowledge that the vertical expansion of enterprises brings better jobs (in terms of pay and stability) than the horizontal expansion of enterprises. The continued accessibility of financial services to enterprises is an important factor in promoting the creation of better quality jobs among enterprises.

Table 4.2 Mean monthly salary/wages paid to workers by generation of client

Generation of clients	Number	Mean salary/wage (Kshs)
First generation (5+ loans)	56	4,565
Second generation (2-4 loans)	153	2,459
Third generation (0-1 loans)	44	2,004
Total	253	2,889

Source: KWFT client-centred impact assessment survey, May/June 2001.

b Rural/urban; high potential/low potential influences on expansion of firms

Table 4.3 shows that enterprises operating in urban/high potential areas are larger in terms of workforce than their counterparts operating in rural/low potential zones. A look at the proportionate differences between generation of clients under each of these areas however suggests that financial services may have a higher influence on the capacity of enterprises to expand in rural/low potential zones than in urban/high potential areas. The number of workers among first generation clients is higher by 72% in rural/low potential areas compared to only 34% among similar categories of firms in urban/high potential areas. This difference is even more dramatic considering that enterprises in rural/low potential areas have received less number of loans, which are also smaller in size than those provided to enterprises in urban/high potential zones.

Table 4.3 Average number of workers by type and generation of client

Type of workers	Urban/High potential	Rural/low potential	Total
First generation (5+ lns):			
Number of workers	3.13	3.00	3.12
Number of loans	7	5	7
Amount of total loans (Ksh)	336,875	260,000	335,306
Second generation (2-4 lns):			
Number of workers	2.94	2.26	2.65
Number of loans	3	2	3
Amount of total loans (Ksh)	110,325	56,316	87,351
Third generation (0-1 lns):			
Number of workers	2.33	1.74	1.92
Number of loans	1	1	1
Amount of total loans (Ksh)	20,417	10,741	13,718
Total			
Number of workers	2.95	2.11	2.63
Number of loans	4	2	3.3
Amount of total loans (Ksh)	181,825	44,235	128,371

Source: KWFT client-centred impact assessment survey, May/June 2001.

This finding is a bit surprising given that the expectation would be that there are better opportunities for growth in urban/high potential areas that enterprises are able to take advantage of once accessed with financial services. What this finding suggests however is that it is likely that the converse holds: There is actually higher unexploited potential for growth in rural/low potential areas. Enterprises are able to seize this potential once accessed with financial services. Granted this interpretation, this finding would suggest that the resources of microfinance institutions have higher development returns (higher allocative efficiency) in rural/low potential zones than in urban/high potential zones.

c Influence on capacity utilization/number of hours worked

Assuming that the standard working pattern of microenterprises is six-days a week, 52 weeks a year, an analysis of the number of hours per day KWFT clients operate their businesses was made. Table 4.4 shows that on average, enterprises that have received more loans operate for more hours than those with less number of loans. While enterprises in the third generation open their business for an average of 10.4 hours per day, those in second and first generation operate for an average of 11.5 hours. What this may mean is that enterprises are able to quickly adjust to their full capacity after receiving the first few cycles of loans. It is after this adjustment to their full capacity that they start expanding their workforce (see Table 4.5). On average, enterprises work for 11.3 hours per day.

Table 4.4 Number of hours enterprises operate per standard day by generation of client

Number of hours business is open n a day	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Up to 4 hours per day	1 (2.0%)	6 (3.8%)	2 (5.1%)	9 (3.7%)
4-7 hours per day	6 (10.2%)	15 (10.0%)	7 (15.4%)	27 (11.0%)
8-9 hours (full day)	8 (14.3%)	21 (13.8%)	8 (17.9%)	36 (14.7%)
10+ hours per day	41 (73.5%)	107 (72.3%)	27 (61.6%)	176 (70.6%)
Total	56 (100%)	148 (100%)	44 (100.0%)	249 (100.0%)
Average number of hours	11.48	11.49	10.39	11.29

Source: KWFT client-centred impact assessment survey, May/June 2001.

d Ethnicity influence

Contrary to commonly held belief that enterprises owned by certain ethnic communities perform better on account of the ethnicity factor, findings from the impact survey indicate that there is no clear pattern of influence of loans on employment based on the ethnic group of client. This suggests that, accessed with financial services all social/ethnic groupings are able to equally take advantage of opportunities in the business environment to expand their enterprises and add more workers. This notwithstanding though, the data shows that, on average, businesses operated by clients of Kikuyu ethnicity seem to be larger than those operated by clients of other ethnic groups. This

seems to reinforce the common belief in Kenya that Kikuyus are more entrepreneurial than most of the other ethnic groups in the country.

Table 4.5 Average number of workers and ethnicity factor by generation of client

Ethnic grouping	1st generation (5+ loans)		2nd generation (2-4 loans)		3rd generation (0-1 loans)		Total	
Kikuyu	50	(2.70)	99	(2.93)	19	(2.18)	169	(2.78)
Mbeere	1	(1.64)	29	(2.24)	16	(1.64)	46	(2.05)
Kamba	3	(6.33)	8	(1.29)	1	(1.00)	13	(2.64)
Embu	–		8	(2.43)	3	(1.00)	11	(2.00)
Kuo	–		3	(2.67)	–		3	(2.67)
Kalenjin	–		1	(1.00)	2	(1.50)	3	(1.33)
Other	–		1	(2.00)	2	(4.00)	3	(3.33)
Total	55	(2.94)	153	(2.65)	44	(1.92)	252	(2.58)

Notes: Number in bracket is for mean number of workers, the rest represent sample size

Source: KWFT client-centred impact assessment survey, May/June 2001.

e Education factor

Correlation analysis shows that there is a positive (but not statistically significant) relationship between level of education and the capacity to expand following access to finance. For instance, among first generation clients, those with only up to primary level education have an average of 2.5 workers whereas those who have attained education level beyond secondary school have 5.8 workers.

Table 4.6 Employment size of enterprise by level of education and generation of client

Level of education	1st generation (5+ loans)		2nd generation (2-4 loans)		3rd generation (0-1 loans)		Total	
Primary	2.50		2.80		1.85		2.60	
Secondary	3.00		2.55		2.00		2.54	
Higher than secondary	5.80		2.00		1.00		4.57	
Total	3.12		2.65		1.92		2.63	

Source: KWFT client-centred impact assessment survey, May/June 2001.

f Age of entrepreneur

The age of the client is not a statistically significant factor in determining the extent a business is able to expand following access to financial services. The correlation is however positive up to the middle ages of 31-55 years after which a negative correlation appears to set in, which may be ascribed to the lifecycle of the client. After the age of 55, the interest for expanding might slow

down, the person is retiring, probably transferring business to other household members.

Table 4.7 Average number of workers and age of client by generation

Age group of client	1st generation (5+ loans)		2nd generation (2-4 loans)		3rd generation (0-1 loans)		Total	
21-30 years	5	(2.25)	22	(1.74)	13	(2.18)	39	(1.94)
31-40 years	22	(4.32)	66	(2.28)	17	(1.73)	105	(2.61)
41-50 years	24	(2.52)	43	(2.95)	10	(1.89)	78	(2.68)
51-64 years	5	(2.00)	21	(4.28)	2	(2.50)	27	(3.75)
65+ years	1	(1.00)	2	(1.00)	2	(1.50)	5	(1.25)
Total	56	(3.12)	153	(2.65)	44	(1.92)	253	(2.63)

Notes: Number in bracket is for mean number of workers, the rest represent sample size

Source: KWFT client-centred impact assessment survey, May/June 2001.

g Marital status as a factor:

Grouping single clients together with those divorced/separated or widowed on the one hand and those currently married on the other, there are indications that businesses operated by married clients are bigger in term of workforce and monthly sales volume, as well as more profitable (see Table 4.8).

Table 4.8 Enterprise performance by marital status and generation of client

Whether client is married or not	1st generation (5+ loans)		2nd generation (2-4 loans)		3rd generation (0-1 loans)		Total/overall	
Married:								
Number of workers	3.39		2.76		1.94		2.74	
Monthly gross sales (Kshs)	108,851		71,088		25,036		70,377	
Monthly gross profit (Kshs)	17,034		13,865		5,714		12,950	
Not married (single/divorced/widowed):								
Number of workers	2.38		2.46		1.88		2.38	
Monthly gross sales (Kshs)	83,269		56,182		22,188		57,327	
Monthly gross profit (Kshs)	16,936		9,168		4,200		10,027	
Total (All):								
Mean number of workers	3.12		2.65		1.92		2.63	
Monthly gross sales (Kshs)	101,923		65,554		24,452		66,206	
Monthly gross profit (Kshs)	17,009		12,300		5,420		12,100	

Source: KWFT client-centred impact assessment survey, May/June 2001.

While not statistically significant, data reveals that there may be a negative relationship between number of loans and the rate of separation/divorce among clients (see Table 4.9). The data do not tell us how to interpret this relationship. One explanation might be that loans empower women and

make them financially independent of their husbands. For some of them a divorce then becomes an option in case of marital problems. Another explanation is that divorced/separated women have more individual freedom to manage their business. For them it might be out of necessity to continue their business and applying for loans due to lack of access to other income sources from other household members.

Table 4.9 Enterprise performance by marital status and generation of client

Age group of client	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Not married (single/divorced/widowed)	15 (26.5%)	57 (37.3%)	9 (20.5%)	81 (32%)
Currently married	41 (73.5%)	96 (62.7%)	35 (79.5%)	172 (68%)
Total	56 (100.0%)	153 (100.0%)	44 (100.0%)	253 (100%)

Source: KWFT client-centred impact assessment survey, May/June 2001.

4.1.1.2 Enterprise turnover

KWFT's loans are designed largely to target the working capital needs of clients at initial stages while subsequent loans may address other financial needs of the enterprise. It is from this perspective therefore that an immediate area of influence KWFT loans are expected to have at the enterprise level is increased stock and, subsequently, increased sales volumes. Using an iterative approach of starting with the most recent period the client could recall and working backwards to an estimate for the month, data was obtained on gross sales during the previous month.¹⁹

Using information obtained from the survey, Table 4.10 shows that there is a significant difference between the sales volumes of different generations of clients. First generation clients record monthly sales volumes more than four times of those registered by third generation clients. On average, clients who have received over five loans register gross sales of Kshs 101,923, those with 2-4 loans have gross sales of Kshs 65,554 while those with one or no loan have sales of Kshs 24,452.

Table 4.10 Monthly sales volume of firms by generation of client

Type of workers	Mean monthly sales (Kshs)
First generation (5+ lns)	101,923
Second generation (2-4 lns)	65,554
Third generation (0-1 lns)	24,452
Total	66,206

Source: KWFT client-centred impact assessment survey, May/June 2001.

¹⁹ To 44.1% of those interviewed, this previous month was an average month in the year in terms of sales volumes while 16.1% considered this month above average. The remainder (39.8%) regarded the month for which data was obtained as a below-average month. This suggests that the figures presented herein are likely to be conservative.

4.1.1.3 Enterprise profitability

Tables 4.11 and 4.12 show that there are clear indications that KWFT loans make a significant difference in the profitability of enterprises. From an average monthly gross profit of Kshs 5,420 that is closely comparable to the Kshs 4,344 (in 1999 prices) registered on average by women-owned enterprises,²⁰ clients are able to increase the profitability of their enterprises to Kshs 17,009 per month by the time they have accessed five or more loans. This information is closely corroborated by the perceptions of clients (Table 4.12).

Like in the case of employment, Table 4.11 shows that even though overall profits are higher in urban/high potential areas, the impact of loans on profitability is much higher in rural/low potential areas than in urban/high potential areas.

Table 4.11 Enterprise profitability by generation of client (in Kshs)

Type of workers	Urban/High potential	Rural/low potential	Total
First generation (5+ lns)	17,126	12,000	17,009
Second generation (2-4 lns)	13,433	10,898	12,300
Third generation (0-1 lns)	8,010	4,280	5,420
Total	14,246	8,869	12,100

Source: KWFT client-centred impact assessment survey, May/June 2001.

Correlation analysis shows that education is a statistically significant factor in influencing the level of profitability of enterprises as they access more loans.

Table 4.12 Client perception of changes in profitability since joining KWFT by generation

Age group of client	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Increase	42 (75.5%)	105 (69.2%)	24 (65.6%)	171 (70.1%)
Largely same	3 (6.1%)	22 (14.3%)	8 (21.9%)	33 (13.6%)
Decrease	10 (18.4%)	25 (16.5%)	5 (12.5%)	40 (16.4%)
Total	56 (100.0%)	152 (100.0%)	36 (100.0%)	244 (100.0%)

Source: KWFT client-centred impact assessment survey, May/June 2001.

4.1.1.4 Enterprise stability

a Changes in management

Taking the degree of separation of enterprise finances from those of the household and different levels of record keeping as indicators of management practice of clients, information from the survey shows that there is no significant

²⁰ CBs, ICEG & K-REP: National MSE Baseline Survey 1999.

change in management practices among clients of KWFT after receiving various cycles of loans. On the whole, only about half of clients separate money for business from that for the household while 26% do not keep records.

This is a worrisome finding since theory and practice indicates that management capabilities are critical in the survival and stability of enterprises as they grow. After overcoming constraints of finance, management capacity is likely to become a more binding constraint to enterprise performance and growth than was the case before. This suggests that it may be important for KWFT to identify mechanism through which their client's management capabilities can be improved as they move to higher loan cycles and continue expanding. While increased linkages with providers of business management/advisory services is possibly the most appropriate way to address this need in the longer term, it may be important for KWFT to re-craft the contents of its interactive sessions with clients to include aspects of building the management capacity of the clients.

b Resilience to adverse events in the business environment

Asked whether there had been any events in the last one year that negatively affected the business, almost all (97%) of clients answered in the affirmative. These events, while diverse, can be grouped into two broad categories – those that affected the business by creating insecurity at the household level and those that affected the enterprise directly from the business environment under which it operates. Tables 4.13 and 4.14 shows that events affecting the insecurity of the household were ranked as most severe by KWFT clients. Heavy school fees demands particularly at the start of the year (and subsequently at the start of each school term), ill health of the client or a member of the household and death in the family were identified as the most common adverse events affecting the business during the year. These events place a heavy burden on the resources available for use in the business (finances, labour, and time among others) eventually translating in lost opportunities for the business. As would be expected therefore, economic insecurity at the household level is not just an area improved business performance resulting from accessibility to finance must impact upon, but it is also a major factor in determining the performance of the enterprise in the first place. It is from this perspective therefore, that the introduction of a school fees loan product by KWFT in early 2002 and efforts currently underway towards introduction of a health care financing product are viewed very favourably.

The depressed economy in Kenya²¹ affecting the purchasing power of customers, business calamities, rising inputs prices and increased competition from other businesses are among the adverse business-environment related events affecting enterprises operated by KWFT clients.

21 Kenya's economy has been on a steady decline since 1997 with GDP growth rate declining from 4.4% in 1996 to 2.3% in 1997, down to -0.2% in year 2000 and a mere 0.2% in 2001.

Table 4.13 Major negative event during last one year that adversely affected business

Event	Number affected	Per cent
None	8	3.2%
Pick school fees demands	62	24.2%
Ill health of client	27	10.8%
Medical expenses within family	15	5.8%
Death/funeral within the family	17	6.7%
Depressed economy	27	10.8%
Defaulting customers	19	7.6%
Business calamity	19	7.6%
Rising input prices	16	6.3%
Increased competition	14	5.4%
Other	26	10.4%
	251	100.0%

Source: KWFT client-centred impact assessment survey, May/June 2001.

Regardless of the generation of the client (or rather the number of loans received), the major fallback position for clients when faced with common adverse events is to borrow. In-depth discussions with clients however indicate that because the nature of most of the adverse events requiring borrowing is contingent, many times the clients end up having to borrow from sources that can respond to this urgent requirement for borrowing but are otherwise considered unfavourable. This is something that KWFT would need to take into consideration when designing its products for addressing this category of financial needs among its clients.

Beyond borrowing, data obtained during the impact assessment survey shows that there are good indications that continued accessibility of financial services by KWFT clients has increased their household security. Clients who have received more number of loans indicated that they rely on their business more to address adverse events in the year than clients with less number of loans do. It is also worthy noting that the number of clients relying on assistance from family/friends drastically reduces with increased number of loans from KWFT.

Table 4.14 First response to negative events in the last one-year

Event	Number affected	Per cent
Borrowed money	67	27.4%
Used savings	56	22.8%
Used business revenue/profit	54	21.9%
Used business working capital	5	1.9%
Helped by friends/relatives	7	2.8%
Did nothing	26	10.7%
Other	31	12.6%
Total	245	100.0%

Source: KWFT client-centred impact assessment survey, May/June 2001.

4.1.2 Impact at the household level

4.1.2.1 Contribution to household income

The link between household welfare and business financial services received is the contribution of the supported enterprise to household income. Table 4.15 shows that enterprises that have received more loans contribute a higher proportion to household income than those that have less number of loans.

Table 4.15 Contribution to household income

Proportion of household income from enterprise	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Less than half	20 (35.7%)	47 (30.8%)	21 (46.2%)	88 (34.8%)
About half	16 (28.6%)	48 (31.6%)	13 (28.2%)	76 (30.3%)
More than half	6 (10.7%)	23 (15.0%)	6 (12.8%)	34 (13.6%)
Contributes all h'hld income	14 (25.0%)	34 (22.6%)	6 (12.8%)	54 (21.3%)
Total	56 (100.0%)	152 (100.0%)	44 (100.0%)	252 (100.0%)

Source: KWFT client-centred impact assessment survey, May/June 2001.

It is, however, noteworthy that even though enterprises in the first generation generate higher profit than those in the second generation, the contribution of the two categories of enterprises to household income is more or less the same. This is largely accounted for by diversification of sources of income beyond the funded enterprise among clients who have accessed higher number of loans. For instance, first generation clients have on average 1.5 businesses while the average is 1.36, and 1.25 businesses among second and third generation clients respectively.

4.1.2.2 Housing

An analysis of various housing indicators among KWFT clients sampled shows that the number of loans a client has received has an influence on the quality of housing they enjoy. The major area of influence is the number of rooms per household and the related number of people in the household living in one room. This pattern holds even when adjusted for rural/urban differentials. There is a statistically significant negative correlation between number of people per room and number of loans so far received from KWFT.

From a statistical perspective, quality of house in other terms (roofing material, wall, floor; ownership etc) appears to be largely accounted for by rural/urban differentials/considerations than number of loans.

Table 4.16 Quality of housing by generation of client

Housing quality indicator	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Mean number of houses	1.65	1.52	1.63	1.57
Mean number of rooms in main house	4.43	3.50	3.44	3.72
Number of people per room	1.44	1.74	1.82	1.69
Type of wall:				
Stone	77.6%	67.9%	53.8%	67.6%
Mud	2.0%	9.7%	17.9%	9.5%
Wood	20.4%	11.2%	10.3%	13.1%
Type of roof:				
Corrugated sheets	81.6%	82.1%	92.3%	83.8%
Concrete	10.2%	10.4%	2.6%	9.0%
Tiles	4.1%	6.0%	2.6%	5.0%
Grass	–	0.7%	2.6%	0.9%
Type of floor:				
Concrete/cement	91.8%	87.3%	79.5%	86.9%
Mud	8.2%	11.2%	20.5%	12.2%

Source: KWFT client-centred impact assessment survey, May/June 2001.

It is however important to note that a small but significant number (14%) of clients have changed their residence since the time they joined KWFT. This number is much higher for those who have received more loans than among newer entrants into the programme – Table 4.17. Asked to compare the house they are now living in and the one they were when they joined KWFT, almost three quarters (72%) of those who have changed residence indicated that they considered the current houses better.

Table 4.17 Whether client still lives in same house as before joining KWFT

Whether still living in same house	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Yes	39 (69.4%)	136 (89.5%)	42 (97.4%)	217 (86.4%)
No	17 (30.6%)	16 (10.5%)	1 (2.6%)	34 (13.6%)
Total	56 (100.0%)	152 (100.0%)	43 (100.0%)	251 (100.0%)

Source: KWFT client-centred impact assessment survey, May/June 2001.

4.1.2.3 Assets

a Furniture

Sofa sets remain the main furniture item among client's households irrespective of the number of loans they have received. What is likely to change over time is the quality of those sofa-sets.

b Major electrical appliance

Television sets are the major electrical appliances among households of KWFT clients. There is however a higher prevalence of coloured TVs among clients with a higher number of loans than those with less. It is also noteworthy that impact data shows that more of first generation clients have more electrical appliances than second and third generation clients. This particularly applies to kitchen appliances, cookers and fridges.

Radio/radio cassettes considered are a major electrical asset among 3rd generation clients than among first generation clients. First generation clients have assets with a higher value than this.

c Transportation assets

Participatory poverty assessments show that ownership of transportation assets is a key qualitative indicator used by many communities in Kenya (as elsewhere in the world) to identify those considered better off in the society. Table 4.18 shows that slightly over half (51.6%) of KWFT clients own at least one transportation asset, largely bicycles and motor vehicles. From an impact perspective, the Table shows that there is a higher ownership of motor vehicles among first generation clients than among the other categories of clients while the bicycle is the major transport asset among third generation clients.

Table 4.18 Ownership of transportation assets among clients by generation

Asset	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
None	29 (51.8%)	72 (46.8%)	22 (50%)	123 (48.4%)
Bicycle	9 (16.1%)	36 (23.4%)	16 (36.4%)	62 (24.4%)
Motor vehicle	15 (26.8%)	23 (14.9%)	2 (4.5%)	40 (15.7%)
Other	3 (5.4%)	23 (14.9%)	3 (6.8%)	29 (11.4%)
Total	56 (100.0%)	154 (100.0%)	44 (100.0%)	254 (100.0%)

Source: KWFT client-centred impact assessment survey, May/June 2001.

d Land

There is no clear relationship between ownership of land and the number of loans so far accessed. What is clear though, is that the proportion of developed urban plots (i.e. with improvements such as houses or put in other pro-

ductive uses) is much higher among first generation clients than among those with fewer number of loans.

Table 4.19 Mean number of acres of agricultural land and urban plots owned

Ownership of land	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Acres of agricultural land (in acres)	3.42	4.79	2.81	4.12
Number of urban plots – undeveloped	0.79	1.31	1.24	1.17
Number of urban plots – developed	0.88	0.72	0.31	0.69

Source: KWFT client-centred impact assessment survey, May/June 2001.

e Livestock

Table 4.20 shows that there is no clear pattern of influence of increased accessibility to financial services to the number and type of livestock kept by clients of KWFT. This could partly be explained by the rural-urban mix of clients, the fact that ownership of large stock (cattle, camels, goats and sheep) has traditionally been the preserve of men, and perhaps the possibility that ownership of livestock is no longer considered a good way to build wealth. On the whole though, there are indications that first generation clients have higher numbers of the big stock than clients in the other two categories.

Table 4.20 Client perception of changes in profitability since joining KWFT by generation

Type	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Number of cattle	2.73	1.26	2.50	1.84
Number of goats	4.41	2.85	4.29	3.47
Number of chicken	4.54	5.25	9.94	5.90
Others	–	1.85	0.71	1.45

Source: KWFT client-centred impact assessment survey, May/June 2001.

4.1.2.4 Quality of life indicators

a Education

Using the amount of money spent on education as an indicator of the quality of education clients are able to afford to their children, Table 4.21 shows that the quality of education for children increases with loans. While there are no significant difference in the number of children in school between the different generation of clients, first generation clients spent an average of Kshs 54,521 per year on education, while third generation clients spent only half of this (Kshs 26,953).

Other than a small proportion (14.8%), all other clients of KWFT have at least one child in school. On average each client's household has 2.41 children in

school and, indeed over 43% of the clients have 3 or more children in school, with school fee demands at the start of each term. A significant number have more than 5 children in different levels of the school system at the same time. It is perhaps here, where the biggest impact of loans could have at the household level.

Table 4.21 Quality of children's education by generation

Measure of quality (5+ loans)	1st generation (2-4 loans)	2nd generation (0-1 loans)	3rd generation	Total
Type of school:				
Number in public schools	1.37	1.65	1.17	1.50
Number in private schools	1.07	0.97	1.08	1.01
Expenditure on education (Ksh)	54,521	38,369	26,953	40,300

Source: KWFT client-centred impact assessment survey, May/June 2001.

An analysis of survey data shows that, on average, each client's household has 2 children not in school because of school fees. These are children who are supposed to be going to school or college but money is in one way or another not yet sufficient to afford the type of course required. It is from this same pool that the enterprise largely draws its unpaid workers.

b Food

Impact data collected during the impact assessment survey shows that the diet of households of KWFT clients has improved over the years following continued access to financial services. For instance, those families having meat/chicken in their meals three or more time per week is upwards of 60%²² among first and second generation clients while it is only 42.1% among clients who are new in the institution – third generation clients. Corroborating this information, data on expenditure shows that first generation clients this spent an estimated Kshs 5,110 per month food, second generation clients spent Kshs 5,477 per month while third generation clients spent an average of Kshs 3,595 per month.

The foregoing information seems to suggest that improvements in diet is perhaps the first area of impact of improved access to finance at the household level and it is only after this has been achieved that improvements start being felt in other spheres of the household's life.

c Health

There are indications that clients start accessing higher quality health care services with the number of loans they receive. Taking private health-care service as of better quality than what is generally provided at public health facilities, a higher number of first generation clients are able to access this type of care than those in second generation or third generation.

²² This figure is 60.4% for first generation clients and 64.9% among second generation clients.

Table 4.22 Health-care provider for households by generation of client

	1st generation (5+ loans)	2nd generation (2-4 loans)	3rd generation (0-1 loans)	Total
Government health facility	19 (35.4%)	64 (41.8%)	24 (54.5%)	107 (42.6%)
Mission health facility	3 (6.2%)	15 (9.7%)	1 (2.6%)	19 (7.7%)
Private health facility	32 (58.3%)	74 (48.5%)	19 (43.6%)	125 (49.8%)
Total	55 (100.0%)	153 (100.0%)	44 (100.0%)	252 (100.0%)

Source: KWFT client-centred impact assessment survey, May/June 2001.

4.1.3 Overall changes

On the overall, clients were asked their opinion on whether there had been any changed aspect of their lives since joining KWFT. The majority (92%) indicated that they felt there had been positive change in their lives while 4.7% felt that there had been no change – largely because they had not been in the program for long. A few clients indicated that they had been adversely affected by their involvement with KWFT. Loss of property through auctioning (after defaulting) and the burden of indebtedness were pointed out as the major reasons for the negative effect.

Improved living conditions for the household was pointed as the key positive change experienced (85.9%) while business expansion (10.9%) and the creation of employment for self and family members were also pointed out as important positive changes that had occurred since joining KWFT.

4.2 Qualitative Assessment

This part of the assessment was conducted through in-depth discussions held with selected women clients and in some cases their families (spouse or grown-ups). The discussions were held at the business site, so observations could be made as well. In some cases, clients were visited in their houses.

4.2.1 Employment generation

For the last few years, the Kenyan economy has continued to decline and low-income groups in particular, have experienced serious difficulties. Small business enterprises have helped to create the much-needed employment and to support families, some of which might have become destitute. By injecting capital in form of credit to these enterprises, KWFT has not only helped to keep them going even in the most difficult times, such as the recent prolonged droughts (1999/2000), but also contributed to providing continued employment to the women and their families. The in-depth studies confirm results of the sample survey, showing that many of the clients have, over time, taken on and increased the number of employees in their businesses, either on temporary or permanent basis. The case study of Margaret (see Box 1) illustrates that through access to credit this business woman has not only been able to build a livelihood for herself and her family, but also to employ others.

BOX 1 – Case study of Margaret Wangui Kamau – Eastlands

Margaret Wangui is a businesswoman aged 40 years and single. She dropped out of primary school at class seven, when her parents divorced. She worked for three years as a housemaid before she got married. Four years later she divorced and had to fend for herself and her two young children. She started a small business trading in firewood in the slum areas where she lives. Through credit from KWFT, she has been able to expand and to diversify this business over time. Margaret now employs three people in addition to herself and her daughter who are fully involved in the business (for a full description, see Supportive Document on In-depth studies).

4.2.2 Growth of business enterprises

A very important question considered during the in-depth discussions (like in the sample survey) was the extent to which enterprises have grown as a result of available credit. A number of indicators were used, some of which were formulated by the women themselves.

a Increased stocks

A number of women have indicated their business stock has increased as a result of the credit available to them. In Karatina for example, some women indicated their businesses have more than tripled over the years. The increased loan sizes have enabled them increase their stocks gradually, while some have changed from small businesses such as retail shops to wholesale stores, from hawking of a few items to small and even large shops. Karatina seems to have the most obvious cases, perhaps because a large number of clients have had long relations with KWFT and other MFI's or perhaps due to the fact that Karatina is a well-known business centre, with a strong business culture

b Diversification

A more common strategy, especially among small businesswomen operating in open-air markets and small temporary structures, is the use of credit and increased incomes to diversify their businesses. Diversification enables them to take advantage of seasonal business opportunities and to secure income all throughout the year. For these women, this is where KWFT credit becomes handy. Because KWFT is reliable, they know they will get credit at the appropriate time when they need it, for example just after harvest so one can buy cereals and other food items cheaply and sell them a few weeks later when prices are good. Diversification also helps the entrepreneurs to increase business turnover and avoid slow moving items that could tie their capital. (For an illustrative case, see Box 2).

BOX 2 – Case Study of Phides Mwendia Nguku – Mbeere District

Phides Mwendia lives in a relatively dry area that is prone to recurring drought and periods of hunger. Phides first went into business in 1984 when she sold cereals and honey. Two years later, with some of the profit she had made from her trade she decided to join a school of dressmaking. On completion of her training, she started tailoring business, along with her business of honey and cereals. During the good season, Phides buys large stocks of grain which she keeps until the dry season when food is scarce. This way she is able to make good profits from this seasonal business. The rest of the year she concentrates on her tailoring and honey business.

c Increased assets

An important indicator of business performance is the increase and improvement of business and family assets. Box 3 provides an illustration of a regular borrower of KWFT who has been able to increase her business assets considerably over a period of more than 12 years.

BOX 3 – Case Study of Alice Nyathiyo – Karatina

Alice Nyathiyo is about 34 years of age, and lives in a small trading center, outside Karatina. In 1988, Alice started a small business of selling household goods at the open-air market. Her first three loans of Kshs. 20,000 (US\$ 250) each were used to increase and diversify her business stock. In 1997, Alice took a loan of Kshs 100,000 with which she opened a shop at the Kiamariga trading centre and increased her business stock. She repaid the loan within a year. In 1998, she took her biggest loan ever, worth Kshs. 150,000. Part of this was used for the purchase of a plot of land as well as broadening the range of products in the shop. This loan was also repaid within a period of 1 year. Alice has taken nine loans in total, the highest being Kshs. 150,000 (US\$ 1875). Her business, 'Alice General Merchants', is currently worth about Kshs 400,000 (US\$ 5000), at the same time she owns shop premises and a parcel of land.

Some of the women indicated that they have acquired valuable household items such as radios, television fridges and furniture as a result of increased incomes. Others have purchased residential and business plots while others have constructed residential or business structures that provide additional incomes. Ownership of farm plots or residential plots appear to be an important objective for many clients interviewed and those who have achieved it feel they have made important strides out of their situations of poverty. This also boosted their self-confidence and image, as one woman said; 'I feel I'm also somebody'. For many Kenyans, owning land and housing is considered a great achievement, an important step towards poverty reduction. In some cases clients have moved to more strategic locations and bigger, better-built structures.

In spite of this recognizable impact, many of the clients felt that their profits were substantially reduced compared to earlier times due to low business performance in the country, increased prices and increasing competition.

d Improved skills and strengthening of culture of savings

There is strong evidence from the in-depth studies that the clients of KWFT have gained substantial skills and experience in business management as well as saving and credit management. This is due to the exposure many of the clients have gained by being involved in business, borrowing and servicing loans and interacting with other group members and KWFT staff who provide advice on various aspects of business management. It is evident from the high rate of loan repayments that KWFT and other MFIs have greatly contributed to changing the attitudes towards loan acquisition and servicing. A few years ago, loans were perceived, especially by women groups, as 'gifts'. In the 70's and 80's, NGO's as well as the government gave grants and soft loans to women groups in efforts to integrate women in economic development. Most of these loans given as revolving funds to groups were never repaid, nor did they make much difference in terms of business generation and growth. KWFT's system of lending to individuals through groups and holding both individuals and groups responsible, seems to have changed this perception and greatly increased the rate of repayment. It has also strengthened the culture of saving, building on the existing systems of merry-go-round; a system that has continued to grow alongside the KWFT facilitated savings. Indeed, a number of women now save regularly with different groups while a few have started their own 'home banks'.

e Creativity and competitiveness

Access to credit has enabled more people to go into business. This has created an environment of positive competition and creativity among entrepreneurs, like Box 4 illustrates.

BOX 4 – Case study of Mary Wairimu Njogu – Eastlands

Mary Wairimu is about 41 years of age and married with five children. She and her family now live in Mathare, a large slum estate in Eastlands, Nairobi. Mary has so far taken 3 loans from KWFT, ranging between Kshs. 20,000 (US\$ 250) and Kshs. 80,000 (US\$ 1,000). Her first and second loans were used to boost her grocery and paraffin businesses. Her third loan however, was used to establish a water kiosk and to construct a public shower and toilet as a business venture. She is now able to sell clean tap water to the residents while she provides clean public bathrooms in an area where most residents do not have access to these facilities. The few communal ones existing are so dirty that it is impossible to use them. By investing in this rather peculiar business, Mary not only makes some income, but also provides an extremely important service.

In an area such as Eastlands where there are many small businesses competing for the small-income clientele, creativity is essential for business survival. Injection of credit provides the means to explore existing and new possibilities.

4.2.3 Transformation of gender relations

Due to existing socio-cultural values and practices, women in most parts of Kenya are perceived, and to a large extent, perceive themselves, as being subordinate to men. Limited access to, and control over resources of production, illiteracy and limited exposure and low participation in decision-making and leadership positions, all contribute to their low image in society and low confidence among the women themselves.

Provision of credit to women, exposure through groups and business activities and interaction with development agencies has contributed to increased self-confidence among women. There is evidence of greater recognition and respect for women by spouses and other family members as well as the wider communities in which they operate. One male community leader in Embu remarked that women have shown they can manage loans and carry out business contrary to the belief that they will misuse the money or run away to their families. The report of in-depth studies provides several cases to illustrate changes in the perceptions and images of women.

These changes have resulted in some women being included in decision-making fora such as development committees at the local level and even at higher levels, including election as councilors. One woman in Tala who is chairperson of one of the groups working with KWFT, was recently (in May 2002) elected as chairperson of a large co-operative society that has been led by male chairpersons for many years since its inception. Her well-performing business in the small town of Tala, her good relations with women and men in the area and her exposure all contributed to increase the recognition for her leadership abilities. The summarized case study in Box 5 offers an illustration of changes in gender relations at household and community level.

BOX 5 – Case study of Mrs. Eunice Nyambura Mwathi – Limuru

Eunice stays with her husband Mwathi in Kabuku, a few kilometers from Limuru, where their business is situated. She completed her Form 4 school certificate before training as a teacher. In 1993, she started a nursery school on their family land. With credit from KWFT, Eunice's school has grown from strength to strength and now employs several teachers and other staff. Her husband is employed in the school and speaks highly of Eunice's business abilities. He recognizes Eunice as the overall manager and supports her decisions regarding investments and management of the salary.

4.3 Conclusions and challenges

4.3.1 Conclusions

a Impact at the enterprise level.

The impact of the financial service provision by KWFT at the enterprise level is positive in many respects:

Enterprise size and employment generation

Both the quantitative and qualitative assessment show that the provision of loans by KWFT has helped women to keep them going even in the most difficult times, to contribute to providing continued employment to the women and their families, and to increase the number of employees in their business, either on temporary or permanent basis.

Some more specific but extremely relevant lessons from the sample survey are:

- Not only the number of loans a client receives but also the cumulative total amount of those loans is important in determining the extent to which an enterprise is likely to expand its activities in a way that it requires to increase its workforce.
- Relatively high levels of education among clients and the fact that KWFT recruits its clients largely from above the average firm in the MSE sector, may very well explain part of the success of KWFT in helping business women to expand and generate employment.
- Though traditionally targeting areas with relatively high business potential (close to cities and with high population), findings suggest that financial services may have a higher influence on the capacity of enterprises to expand in rural/low potential zones than in urban/high potential areas.

Enterprise turnover

The quantitative assessment shows that monthly sales volumes of first generation clients are more than four times of those registered by third generation clients. The qualitative assessment both confirms and nuances this finding. On the one hand, a number of women have indicated that their business stock has increased as a result of the credit available to them. On the other hand, women emphasized that KWFT has helped them to diversify their businesses and to take advantage of seasonal opportunities, herewith securing income all throughout the year.

Enterprise profitability

There are clear indications that KWFT loans make a significant difference in the profitability of enterprises. Like with enterprise size, the impact of KWFT loans on profitability is much higher in rural/low potential areas than in urban/high potential areas. Also, the education level of women seems to be very significant in influencing the level of profitability of enterprises as they access more KWFT loans.

Enterprise stability and skill development

The quantitative assessment shows that there is no significant change in management practices among clients of KWFT after receiving various cycles of loans; the number of owners working at the enterprise largely remains unchanged – indicating no change in ownership structure. The qualitative

assessment focussing on skill development, provides a different picture. The perception of many women clients is that they have gained substantial skills and experience in business management as well as saving and credit management. In addition, the qualitative assessment found that access and use of KWFT credit has created an environment of positive competition and creativity among entrepreneurs.

b Impact at the household level.

Though impact of KWFT credit at the enterprise level is quite impressive, improved living conditions for the household were mentioned in the sample survey as the key positive change experienced, not business expansion and the creation of employment. This suggests that the business women are primarily very much concerned and directed at improving household living conditions. They consider their businesses and KWFT loans as means to cope with events affecting the insecurity of the household (heavy school fees demands, ill health of the client or a member of the household and death in the family) that were ranked as most severe by KWFT clients.

To have or not to have impact at the household level is thus a critical thing. The most important findings of the sample survey regarding the impact at the household level are:

- Enterprises that have received more loans contribute a higher proportion to household income than those that have less number of loans.
- The quality of education for children increases with loans. The sample survey shows that first generation clients spent twice as much on education as third generation clients.
- The volume of living space increases. There is a statistically significant negative correlation between density of people per room and number of loans so far received from KWFT.
- Quality, rather than quantity, of household assets (furniture, major electrical appliance, transportation assets) is improving.
- The diet of households of KWFT clients has improved over the years following continued access to financial services.
- There are indications that clients start accessing higher quality health care services with the number of loans they receive.
- There is no clear relationship between ownership of land and the number of loans so far accessed.
- There is no clear pattern of influence of increased accessibility to financial services to the number and type of livestock kept by clients of KWFT.
- Regardless of the generation of the client (or rather the number of loans received), the major fallback position for clients when faced with common adverse events is to borrow. There are good indications that continued accessibility of financial services by KWFT clients has increased their household security.

The qualitative assessment confirms most of these findings, further explaining these findings with reference to the 'Kenyan context' and giving more attention to what the services and impact of KWFT mean to women. For instance, ability to pay school fees was cited by many women interviewed during the in-depth studies as the most important part of their interaction with KWFT. At a few points, the results of the in-depth study slightly differ with

those of the sample survey. For instance, ownership of farm plots and residential plots appeared to be an important objective for many clients interviewed and those who have achieved it feel they have made important strides out of their situations of poverty.

c Impact at the level of the self

The impact at the level of the household has boosted the self-confidence and image of women. For instance, for many Kenyans, owning land and housing is considered a great achievement. The provision of credit by KWFT has helped women to progress at this point and gain self-esteem. Not only the impact of KWFT credit at the level of the enterprise and household but also the exposure through groups and business activities and interaction with development agencies have contributed to increased self-confidence among KWFT clients. This self-confidence has also a lot to do with 'the other': there is evidence of greater recognition and respect for women by spouses and other family members as well as the wider communities in which they operate.

Whether or not the relatively high rate of separation/divorce among third-generation clients should be interpreted as an indication of increased self-confidence or negotiating power of women, remains a question. Loans may have empowered women and made them financially independent of their husbands. For some of them, a divorce then becomes an option in case of marital problems. It is, however, also possible that marriage breakdown has nothing to do with the access and use of KWFT loans. The relatively high popularity of KWFT loans among divorced/separated women can also point at women's necessity to continue their business and greater reliance on KWFT loans due to lack of access to other income sources from other household members.

4.3.2 Challenges

a HIV/AIDS prevalence

The HIV/AIDS pandemic has a devastating impact on all aspects of development. According to statistics from the Ministry of Health, 1.2 million Kenyans were diagnosed as HIV positive by 2000, while over 1 million children are orphaned as a result of HIV/AIDS-related deaths. A number of KWFT clients are taking care of the sick and orphans, while some are victims themselves. The current insurance policy only covers death of clients. It is well known that people living with HIV/AIDS can be ill and disabled for several months or years. Some of the groups are already feeling the pinch of having to pay loans of their sick members. This problem is likely to continue and even to get worse. KWFT and its funding partners need to seriously think and explore ways to deal with it. It is quite clear that it cannot be handled only by the clients, and measures are needed at the institutional level to integrate some of its effects.

b Individual and geographical targeting

The study has shown that KWFT reaches the slightly well-to-do business people (see sections 3.1, 3.2 and 4.1.1.1). The in-depth studies confirm this pic-

ture: nearly all KWFT clients met for in-depth studies were in business for quite some time before they joined KWFT. This might be an important factor contributing to KWFT success. Their focus is on women who are already in business and who have demonstrated interest and experience in business.

Many of these have some education and experience in savings and credit management as they were members of groups with merry-go-round schemes before joining KWFT. However, by focusing on women, KWFT took a certain amount of risk considering women's limited access to and control over resources of production and the negative perceptions towards funding to women groups. A few years later, KWFT has developed and strengthened mechanisms for working with low-income women, at least in a few areas, and has recorded relative success. Perhaps KWFT and its funding partners should consider making another bold step; this time to work towards developing products that attract not only the slightly well-to-do, but also can also be accessed by those poor and illiterate women, especially in the rural areas that currently find the products offered by KWFT and other MFIs out of reach for them.

Many of the areas KWFT started with are situated in relatively high business potential areas: Karatina, Eastlands and Limuru are all situated close to the city with good infrastructure and high population. Kwale and Kilifi in the coast are however exceptions to this as they are relatively poor areas with low business activity. In later years, KWFT has made deliberate efforts to move into the rural and other low business potential areas. It's presence in the semi-arid areas like Tala and Narok demonstrate this. Considering that a majority of the poor live in the rural areas, KWFT and its funding partners would play an important role in stimulating business activities in these areas especially those in low potential areas such as the arid and semi-arid areas as a means to reaching out to more people and strengthening livelihoods.

5 How do Kenyan partners assess the assistance by Dutch CFAs?

This chapter assesses the added value or distinguishing features of the contribution of Dutch CFAs to partners providing financial services to low-income people in Kenya, from the perspective of these partners themselves.²³ For what kind of reasons these partners are interested in what kind of financial support and supporting agency? Is this about the type and stipulations of the financial support, the extra-financial supporting services as financed or given by the donor or lending agency, or both? How do Kenyan partners of Dutch CFAs assess the forms of assistance given by these CFAs, also when compared with other donors and lenders?

The partners that have been visited, studied and consulted are: Kenya Women Finance Trust (KWFT), PRIDE Africa (Sunlink), K-REP Development Agency (KDA) and Presbyterian Church for East Africa/Jitigemea Credit Scheme (PCEA/JCS). Cordaid has until recently been a donor of KWFT and presently PRIDE Africa (Sunlink). Novib and Hivos are financially supporting programmes of KDA. ICCO is the donor of PCEA/JCS.

²³ When asked to list Kenyan partners in the field of micro-finance as per September 2000, the Dutch CFAs provided names and short profiles of the following 7 organizations, including one being partner of two Dutch CFAs:

- One partner of ICCO: Presbyterian Church for East Africa/Jitegemea Credit Scheme (PCEA/JCS).
- Three partners of Cordaid: Pride Africa (Sunlink), Diocesan Integrated Development Services (DIDS) and Kenya Women Finance Trust (KWFT).
- Two partners of Novib: WEDCO Enterprise Development and Kenya Rural Enterprise Programme Development Agency (KDA)/Saga Thrift and Enterprise and Enterprise Promotion (STEP).
- Two partners of Hivos: Family Finance Building Society (FFBS) and Kenya Rural Enterprise Programme Development Agency (KDA).

In 2001 the Small and Micro-Enterprise Programme (SMEP) became a new partner of Hivos. December that year, the newly appointed programme officer for East Africa of Novib surprisingly also mentioned SISDO as a partner providing credit services to irrigation farmers. For the assessment of the added value of Dutch CFAs from the perspective of their Kenyan partners involved in micro-finance, DIDS, WEDCO, SISDO, FFBS and SMEP were not visited. Time and financial constraints made it problematic to organize visits to DIDS and WEDCO. SISDO was simply mentioned too late and rather occasionally during an interview with a Novib programme officer in The Hague. Hivos strongly advised not to approach FFBS as this would be not very opportune, considering that FFBS had very high arrears and was summoned by HTF to immediately repay its loan. SMEP became a new partner of Hivos in 2001, that is, after the inventory of partnerships with Kenyan micro-finance agencies was made end of 2000 and visits had already been scheduled. Because Cordaid and its partners were not part of the evaluation study of micro-finance programmes as supported through the Dutch Co-financing Programme in Sri Lanka (December 2001), there was reason to concentrate (more) on partners of Cordaid in the present study. Whereas for the field visits it was necessary to make a selection of partners of Dutch CFAs involved in micro-finance, it was possible to access and analyze the project files of all mentioned partners at the head quarters of the Dutch CFAs in the Netherlands. These files were used both as an input for this and the next chapter.

In every case, also the different ways and approaches of mobilizing capital or fund raising by the Kenyan partner will be shortly described – such as a stepping stone towards assessing the distinguishing features of the contribution of Dutch CFAs. For two cases (KWFT and KDA), histories of grants and loans are being referred to as they are long and diversified enough to put the (financial) contribution of Dutch CFAs in context. In case of the other two partners (PRIDE Africa and PCEA/JCS), a Dutch CFA is the one and only donor (ICCO) or lender (Cordaid). To briefly introduce and characterize how the selected Kenyan partners have been supported by Dutch CFAs, a summary statement is provided here.

Table 5.1 Summary statement of financial support by Dutch CFAs of a selection of Kenyan partners involved in micro-finance

	Type of financial support (and donor)	Period	Volume (in Dutch guilders)	Purpose
KWFT	Subsidy (from Bilance)	1999-2000	1,600,000	General programme support
PRIDE Africa	Loan (from Cordaid)	1999-2003	1,446,550 (in two tranches)	General support of credit project
KDA	Subsidy (from Hivos)	1999-2000	290,000	Testing and development of FSAs in two districts
	Subsidy (from Novib)	1999-2000	210,000	Purchase of shares of SAGA
PCEA/JCS	Subsidies (from ICCO)	1997-2001	444,585	Seed money for loan capital, in-house training and exposure visit, operational deficit

5.1 The case of Kenya Women Finance Trust (KWFT)

To identify and to prepare applications for funding, KWFT studies the fashion of donors. Only those donors who operate in the areas of work of KWFT are identified as potential donors. KWFT talks with these donors in Kenya and abroad at several occasions. In addition, Women World Banking and international lists of donors are useful sources of information to track donors and identify their changing windows of finance. Finally, existing donors have introduced KWFT to other donors. For instance, IFAD introduced KWFT to the then called Bilance (now: Cordaid) that eventually decided to provide a two-year grant.

In terms of external relationships and fundraising, the managing director of KWFT is the central figure. Together with her chief programme officer and the chief officer of finance and administration, she prepares proposals – identifying priorities of funding of potential donors, discussing their own plans and activities, and calculating what is the expected financial deficit of KWFT for this purpose. Basically, the same proposals are presented to potential donors, though problem statements might have a different emphasis and numbers will have been adjusted to latest agreements reached with donors. Since 1995 KWFT invites donors to either fund the expected financial deficit, the revolving fund, or more incidental acquisition of fixed assets and costs of capacity

building. KWFT does not accept offers of donors to fund a regional office or plan only.

Agreements with donors are the result of a negotiation process. KWFT has so far never refused a donor grant. The oldest donors of KWFT are Ford Foundation, DFID and the Belgium Survival Fund through IFAD.

Cordaid, UNDP, Novib, CIDA and the Norwegian Government, used to be donors of KWFT. They pulled out as a result of a process of restructuring (Cordaid), change of the mandate or focus (UNDP, Novib) or problematic relationships with the Government of Kenya (CIDA, Norwegian Agency for Development). The large grant (1.6 million Dutch guilders) of Bilance (now: Cordaid) was very much appreciated by KWFT, believing this grant really helped KWFT to boost its lending operations. The end of the granting period in 2000 coincided with the finalization of a process of re-organization of Cordaid.²⁴ This was quite confusing to KWFT, not knowing whether the new finance unit and the country representative of Cordaid were really sharing the same perspectives or not. Anyway, in 2000 Cordaid concluded that KWFT was a partner that not any longer needed grants but should be supported with a loan from the finance unit. In the eyes of KWFT, Cordaid has changed, or to be more precise: KWFT has concluded that the finance unit of Cordaid only provides loans and is not as understanding as the earlier programme officer of Bilance who used to keep contact with KWFT.

According to the managing director of KWFT, a good donor has a clear vision, is understanding, does not impose its will, walks with you, and looks at the (own) institutional development of the partner. KWFT realizes that the organization cannot just wait and see for good donors to evolve. In fact, if need be, the managing director challenges donors to review their perspectives and approaches at the regularly held meeting of the donor consortium. Similarly, the chief programme officer of KWFT believes that a good donor does not approach KWFT as a project. Therefore, long-term grants that not only enable KWFT to start project activities but also to monitor progress and to see results, are much appreciated. Likewise, on-going support with two-year grants is also very much liked as it gives stability to the organization. Based on these criteria, the chief programme officer ranks DFID, Ford Foundation and the Belgium Survival Fund as their best donors.

Bilance (now: Cordaid) was not ranked among the best donors, yet for several reasons their assistance was greatly appreciated. First of all and as mentioned earlier, KWFT very much appreciated the generosity of Bilance. The total subsidy of 1.6 million guilders really helped KWFT to expand the loan portfolio and to boost credit operations at a time few donors were willing to do so. Related to this, the regular provision of quarterly contributions by Bilance was mentioned as very smooth and efficient. KWFT submitted quarterly reports and Bilance quickly responded to these with a money transfer. Thirdly, KWFT much liked the warm-hearted and genuine interest of the then Kenya desk officer of Bilance. Fourthly, the monitoring and advise by the I/C consultant was greatly appreciated as she showed a genuine and professional interest in the organization, not just producing another consultancy report

24 In 2000 Cordaid was established on the basis of a merger of Bilance (CFA) and the Catholic relief organisations Memisa and Caritas Netherlands.

but rather helping KWFT to reflect on a number of critical and concrete issues. For some reasons, this monitoring and advise during the project period was not mentioned or qualified as a form of assistance. No other types of support were given by Bilance to KWFT. Bilance was basically considered a generous and friendly donor.

KWFT has also articulated its relationships with governmental agencies of Kenya. The Kilifi Kwale District Development Programme (KKDDP) used to serve as a conduit for loans from IFAD. In 1996, the Government of Kenya renewed its tri-partite agreement with IFAD and KWFT that was earlier established in 1993. Regional managers of KWFT participate in the District Development Committees.

Borrowing money from banks and other agencies is not new to KWFT. In the period 1992-1994 the organization took loans from K-Rep, Barclays Bank and the Kenya Gatsby Charitable Trust. These loans have now been fully repaid – except the 10-years loan from K-Rep of Ksh 11 million.

Because of the staggering growth of the organization and the capital needed for lending operations, KWFT has applied for loans again in the recent past. An interesting development is that some of the traditional donors of KWFT now consider offering loans instead or next to grants to KWFT. Presently, KWFT is borrowing money from Ford Foundation and from the Jitigemea Trust. In 1999 KWFT concluded a loan agreement with Ford Foundation. The rate of interest of the 10-years loan of USD 2 million is very low: 1% per year. On top of this, every three months KWFT has to put 4% of the principal into a bank account to serve as a buffer to compensate for foreign exchange fluctuations as well 1% of the overall income. Ford Foundation has put 200,000 USD in the guarantee facility. The grace period of the loan is seven years, not including the interest payments. KWFT has also borrowed Ksh 8 million from Jitigemea Trust, a Kenyan financial wholesaler offering loans to micro-finance agencies, arguing that – from a business perspective – it is better to borrow locally (in Ksh) against 10% per year than to borrow from foreign lenders in foreign currencies against 7% per year. The duration of the loan from Jitigemea Trust is four years whereas the interest is 8% (reducing balance) per year. The Trust and KWFT have agreed that, in principle, KWFT can borrow another Ksh 6 million. Finally, there are good prospects that KWFT can borrow money (Ksh. 10 million for five years at a proposed 7% per year) from Barclays Bank and from the Micro Enterprise Support Project (MESP) of the European Union, offering a maximum of Ksh. 20 million. Both lenders are very interested in funding KWFT. Also, DFID is considering offering a loan to KWFT.

Agreements with lenders are the result of a negotiation process but in this case KWFT has sometimes reduced this process to a minimum or even refused to proceed. For instance, KWFT found the proposed loan agreement of Cordaid not attractive enough – suggesting to Cordaid to take the loan agreement with Ford Foundation as an example. KWFT is now awaiting the response of Cordaid, expecting that a new arrangement with Cordaid will come out in the future.

Annex I presents a historical overview of grants and loans given to KWFT.

5.2 The case of PRIDE Africa (Sunlink)

PRIDE Africa (Sunlink) is part of the PRIDE Group that operates in five East African countries: Tanzania, Uganda, Kenya, Malawi and Zambia. The chairman of the board of directors and chief executive director of PRIDE Africa has founded PRIDE Africa in 1993. One year later the Promotion of Rural Initiatives and Development Enterprises (PRIDE) was incorporated under the Companies Ordinance Act in Tanzania as a company limited by guarantee. The chief executive director has been very careful and selective in concluding a partnership with a lending agency to support the launch of a new micro-finance initiative in Nairobi, Kenya. The partner should have a business approach to lending to the poor and share the view and mission of PRIDE Africa 'to create a commercially sustainable financial and information services network for small-scale entrepreneurs to increase incomes and employment and stimulate business growth across Africa'. Rather accidentally, the executive director ran into Balance (now: Cordaid) at an international conference on micro-finance. He was pleasantly surprised by the sophisticatedness of the Business and Finance Unit of Balance and felt seriously attracted to its commercial approach, financial services (loans and equity) and lending conditions (debt in local currency).

At that time, PRIDE Africa was also exploring building relationships with other donors and lenders for opening a branch in Kenya but not a single one offered services under conditions compatible with the mission and views of PRIDE Africa. There were several reasons for this: first of all, PRIDE Africa was not interested in grants; second, it could not appreciate project philosophies and procedures of donors (like USAID), inviting development organisations to submit proposals for funding in line with priorities set by the donor agency itself. Finally, the executive director found out that, unlike in other countries, like Uganda, the world of micro-finance in Kenya is in-grown and politicized. His impression is that a small group of leading micro-finance agencies does not really appreciate newcomers and, in fact, controls relationships with and access to donor money. This may also explain why the world of micro-finance is (relatively) small in Kenya and certainly not impressive in terms of outreach (see Chapter 2) in spite of the millions of dollars pumped into the micro-finance industry by international donors since the mid-1980s (conservatively estimated at a total of 80 million US dollars by the executive director of Pride Africa).

The Business and Finance Unit of Cordaid provided a 4-year loan of USD 700,000 (Ksh 50 million) in 1999 to Pride Africa to start and expand the innovative Sun-link credit programme (see Chapter 2). The interest is 14% per annum, debt calculated in local currencies. In November 2001, the Unit disbursed (the first half of) a bridging loan of Ksh 19 million to PRIDE Africa to allow and help this partner to re-structure itself into a non-profit and for-profit organisation. PRIDE Africa very much appreciates the commitment of the Business and Finance Unit to institutional development and its strong concern with making sure that innovative products are not only being developed by PRIDE Africa but also actually delivered. PRIDE Africa does not regret that the Business and Finance Unit is not offering grants. On the contrary, even with the present institutional re-structuring the management prefers (discussing) loans and equity with local and foreign investors. The possibility to receive grants through another Cordaid channel was not even a central issue during the latest visit of the head of the Business and Finance Unit of Cordaid to his counterpart. According to the executive director of PRIDE Africa

explains, 'loans make one less tied than grants'. He explained that a donor wants the recipient of a grant to follow its objectives and priorities and to spend the money accordingly. In case of a loan, flexibility of operations is better guaranteed. The executive director does not consider the financial criteria and controls of the Business and Finance Unit as constraining the autonomy of PRIDE Africa but rather an incentive to perform as best as possible.

The executive director, who has a lot of hand-on experience, is innovation-driven and well informed about best practices in the international world of micro-finance, believes that the Business and Finance Unit of Cordaid is quite unique as a commercial lender that is seriously interested in working on poverty alleviation and micro-enterprise development. Asked about other Dutch lending agencies, he mentioned Oikocredit and Triodos-Bank. He found the lending conditions of Oikocredit too tough (with loans to be repaid in dollars) and – though not really able to provide clear examples – thought Triodos-bank to be too much more commercial than the Business and Finance Unit of Cordaid. He does not regret the lack of supportive granting (as an expression of 'flankerend beleid') by Cordaid at all, yet at the same time very much appreciates the technical monitoring-cum-advisory roles played by various staff members of the Business and Finance Unit of Cordaid during the short life-time of PRIDE Africa in Kenya. According to him, there may be many grant donors but only few lenders or investors who wish and know how to develop a commercial approach to micro-finance as a tool of poverty alleviation.

5.3 The case of K-Rep Development Agency (KDA)

The issue of accessing external capital takes different forms for every organization that falls under the holding company K-REP Group Limited. For one organization the issue of donorship is critical, for the two others it is not: The only shareholder of K-Rep Advisory Services (Consulting) is K-Rep Group Limited. The K-Rep Bank, that was established in 1999, is also a shareholder based organization but owned by different shareholders: K-Rep Group Limited holds 28.8% of the shares, International Finance Corporation 16.7%, Shore Bank of Chicago 13%, Asian Development Bank 13%, the Dutch Triodos Bank 11%, Kwa Astaf Cooperative Society 10% and the Dutch Finance Company for Developing Countries (FMO) 5%. Currently, the bank is negotiating a loan from the main office of Ford Foundation based in New York. Unlike the NGO K-Rep Development Agency, the bank is legally allowed to mobilize domestic savings.

K-Rep Development Agency (KDA) runs several micro-finance projects (see Chapter 2), all financed by donor grants, not loans. The three oldest donors of KDA are USAID (since 1984), Ford Foundation (since 1988) and DFID (since 1993). The newest generation of donors includes Hivos (since 1998), UNDP (since 1998), Plan International (since 1998) and Danida (since 1999). Hivos helps KDA to develop the village-banking model in Kwale and the drought-prone Turkana. Novib has given a small earmarked grant to K-Rep Group to enable this group to become major shareholder of SAGA, one of the projects under KDA. The newest generation has been attracted by the present managing director who 'started writing research proposals in 1997'. He either met representatives of bilateral and multilateral organizations at international conferences or got acquainted with their office and officers in Kenya.

The managing director is the key player in fund-raising, increasingly supported by his general manager.

All donors finance projects only, except for DFID and USAID that also finance the Nairobi-office. For different reasons, the managing director ranks DFID, Ford Foundation and Hivos as best donors. DFID and Hivos try to get the best out of KDA, patiently negotiating an agreement or scrutinously commenting on financial and progress reports. Of course, this commenting can be conceived as a form of technical assistance, certainly in the case of Hivos that has developed working relationships with the Triodos Bank and has employed economic specialists for assessing and monitoring economic programmes. Hivos is particularly applauded by the the managing director because of its willingness to invest in new areas and risky adventures. Hivos helps KDA to develop new financial instruments and to take risks for that matter. Related to this, the managing director also really appreciated the understanding of Hivos when the village bank of Turkana faced severe problems due to the drought of 1999-2000. He also remembered a training programme (organized by FACET BV and paid by Hivos) but did not qualify this form of support as an added value or distinguishing feature of Hivos compared to other donors. The managing director ranks Ford Foundation very high because he has the feeling that this organization really trusts KDA. Ford Foundation provides grants (up to a maximum of USD 300,000) up-front, that is, at the very beginning of every two-year agreement. The managing director is not really fond of donors who are very strict, bureaucratic and reconsider decisions too often, giving rise to too much haggling. They do not seem to trust you and simply cost too much time.

Next to the grant, K-Rep Development Agency has received no other form of assistance from Novib. Still, the grant was very much appreciated as it helped K-Rep to work on a new idea and instrument (SAGA). The Dutch CFAs Novib and Hivos each help K-Rep Development Agency to develop new products. Still, they can not be considered as unique donors in this respect as there are quite some other donors of KDA that want to help this agency to work on its mission: to develop new financial products directed at poverty alleviation.

Annex J gives a historical overview of grants given to K-Rep Development Agency.

5.4 The case of Jitigemea Credit Scheme of the Presbyterian Church of East Africa

The Jitigemea Credit Scheme (JCS) was started by the Presbyterian Church of East Africa (PCEA) who decided to operate a micro-finance scheme in some urban slums of Nairobi in 1996, next to its social and spiritual activities. PCEA believed that caring for each other should not only be in the form of spiritual assistance but also economic support. In addition, it was thought that the financial support of micro-enterprises was the best way to alleviate poverty in Kenya. Finally, the leadership of PCEA (including one director of K-Rep) believed that there was still a huge need and demand for micro-financial services among the poor, with K-Rep, KWFT and others only reaching a small fraction of low-income people.

For these reasons, PCEA consulted ICCO, a donor that was known to this church for a long time and eager to invest more in economic empowerment of marginalised people (either through new initiatives of their Christian part-

ners or new partners, not necessarily Christian organisations, see Chapter 6). ICCO hired I/C consult to help the PCEA to start operations. A qualified manager was appointed to manage credit operations. In 1997 ICCO provided a grant of Ksh. 4.6 million to build up the loan capital.²⁵

The coordinating director of the Board for Responsibility of the PCEA and the credit manager of the JCS are key players in terms of fund raising. They introduce the Scheme to potential donors, also providing the business plan and financial statements as they visit donors in Kenya or abroad. The coordinating director has a dual role here as he also tries to mobilize funds for the social programmes falling under the PCEA. Basically, the same but updated documents are handed over to prospective donors. In most cases PCEA/JCS has applied for a grant to fund the loan capital. However, in the five-year business plan for 2002/2006 as presented in April 2001, PCES/JCS has adopted a mixed source of funding. The plan shows that PCEA/JCS needs a total funding of Ksh. 63 million: an operational grant of Ks 4.5 million, a grant of Ks 28.5 million and a loan of Ksh. 30 million.

Quite a number of donors, next to ICCO, have been approached by the credit manager or the coordinating director with a view to mobilize funds. So far not a single donor, next to ICCO, has decided to provide grants to PCEA/JCS (that is, to the PCEA formally speaking). The Netherlands-based organisation Oikocredit (which is a strategic partner of ICCO) was not interested as the JCS did not meet their lending criteria. Even the offer of ICCO to act as a guarantor of loans did not prompt Oikocredit to reward the loan application. Ford Foundation considered JCS as too young, preferring to wait until JCS has grown large(r). A similar comment was given by the Micro-Enterprise Support Project (MESP) of the European Union. Christian Aid of London answered not to have facilities to provide grants for lending operations. The financial wholesaler Jitigemea Trust (so far) only services micro-finance agencies in ASAL-districts. Proposals have been recently submitted to USA-based churches and Kind In Not Hilfe. Finally, DFID and Grameen Trust are on the list of potential donors.

From their side PCEA/JCS is not prepared to accept just any grant offer. They were quite sceptical about an organisation like Oikocredit providing loans in US dollars. Once the Kenya Investment Fund offered a grant to PCEA/JCA on the condition that loans of a minimum of Ksh. 100,000 would be provided to individuals. JCS declined this offer as not matching with their philosophy and outreach modality. The general complaint of PCEA/JCS, however, was that most donors are only interested in K-REP, KWFT or Faulu. The agency experienced that small is not beautiful in the eyes of donors.

Because of the disappointing results of fund raising efforts, not only applications for grants but also loans have been recently made by PCEA/JCS. Though this was not the original idea or what was hoped for, extra support from ICCO was needed to fill deficits and bridge gaps. Awaiting new donors, PCEA/JCS expects to negotiate with ICCO on additional support from year to year. The fact that ICCO has not left them alone and has been prepared to act as a guarantor to lenders, has really been appreciated by PCEA/JCS. Also, the

25 See Table 6.4 for a full but short history of (ICCO) grants to JCS.

efforts of ICCO to build the capacity of PCEA/JCS as a small lender have been positively assessed.

Having said this, the coordinating director of the PCEA believes that a good donor is a donor that is not just giving money quickly but knows what are the real needs and what are the priorities of the country. In addition, a good donor is flexible. The credit manager qualifies a good donor as a donor that is interested in 'good practices' and not how big or old an organisation is. In addition, he believes that a good donor takes a holistic approach to development, also emphasising the need of training and civil education.

5.5 Some conclusions

Kenya Women Finance Trust

KWFT is a master in accessing external capital, more in particular grants and cheap loans from large, international donors. Their growth figures and main fund raiser really make an impression. Their public relations are diverse and well-kept. Though KWFT is enjoying both grants and soft long-term loans, one could still argue that the capital structure is quite one-dimensional, with savings, shares and commercial loans lacking. KWFT likes long-term and huge financial support, allowing the organization to scale up and to define its own way. KWFT dislikes three things, the mirrors of her likings: first, donors or lenders that want to impose their will or treat KWFT as just another project or borrower; second, evaluations that are not organized and implemented in close consultation with KWFT staff at different levels, and thirdly, commercial loans.

Given this, KWFT liked Bilance much better than Cordaid. Bilance provided a huge grant and facilitated additional assistance in the form of monitoring by an I/C consultant (who – and this is important given KWFT's bad experience with external assessments that were not based on a good understanding and communication with KWFT – did not operate in a top-down way, was very understanding and looking for concrete and constructive ways how to improve financial services of KWFT). After Bilance had turned into Cordaid, it was not a programme officer of a regional desk but the Finance and Business Unit that was supposed to work on the case. This was in line with earlier decisions made by Bilance that internally agreed to work on a loan agreement with KWFT as soon as the contract period of the two-year grant had ended. KWFT was willing to do so but not to accept the lending conditions of the Finance and Business Unit of Cordaid, simply advising this Unit to take the soft and long-term loan offered by Ford Foundation as an example.

PRIDE Africa (Sunlink)

This organization is very selective in accessing external capital and concluding agreements with supporting agencies. The young and small organization (being part of the PRIDE Group operating in four other East African countries) is not interested in (accessing) grants but loans and equity only, as it believes that a business approach to lending to the poor is critical.

The rather outspoken and critical view of PRIDE Africa (Sunlink) vis-a-vis grants and grant donors, seems rather exceptional or new when considering the type of support given to other member-organisations of the PRIDE Group. The Annual Reports show that the other non-Kenya PRIDEs have enjoyed considerable grants from a total of 7 bilateral and multilateral funding agen-

cies for the following purposes: transformation and commercialization of the PRIDE network, strengthening of accounting systems, evaluation of operations, capacity building and strategic development, and startup of new programs and projects.

Anyway, PRIDE Africa felt strongly attracted to the Business and Finance Unit of Cordaid, believing that this Unit is quite unique as a commercial lender that is seriously interested in working on poverty alleviation and micro-enterprise development. The provision of additional grants through another Cordaid channel is not an issue. The distinguishing feature of the Business and Finance Unit of Cordaid is its commercial and professional approach to poverty-lending, much more than the form of assistance itself. Sharing the same vision, PRIDE Africa and this Unit have developed their relationship, their partnership. From this, PRIDE Africa also appreciates the technical advises of the Unit and its commitment to the present re-structuring of the organization. Cordaid is their one and only lender. When the re-structuring has been completed, PRIDE wishes to put more efforts in accessing local or international investors providing equity.

K-Rep Development Agency

Kenya Rural Enterprise Programmes (and later KDA as one of the three entities of the K-Rep Group) has raised funds very successfully and for many years from bilateral and multilateral donor agencies. K-Rep has been the pioneer on micro-enterprise development in Kenya in the 1980s, later also presenting itself as one of the leading agencies in the field of micro-finance in Kenya and few examples of best practices in Africa. It has a very good international reputation and the organization of its activities into one for-profit unit (K-Rep Bank) and two non-profit units (K-Rep Development Agency and K-Rep Advisory Services) not only proved efficient for the organization of financial services, financial innovation and consultancy services but also easy and effective in convincing potential investors, lenders and grant donors to fund what entity of K-Rep Group for what purpose.

Given this, KDA really appreciates the grants given by Hivos and Novib to help KDA to invest in the development of new financial products and organizations. The form of assistance given by Hivos and Novib consists of not more than subsidizing a very specific, region- or time-bound, project only: village banks in some dry districts and a new financial organisation. KDA seems to wish not more than that, yet appreciates that Hivos, unlike quite some other donors, shows a keen interest in progress and problems with the village banks. For Hivos and Novib there is little or no role to play to support the K-Rep Bank, that mobilizes domestic savings, is owned by two domestic and five international investors (including Triodos Bank and the FMO) and discusses loan agreements with large international funding agencies, like the Ford Foundation.

Presbyterian Church for East Africa/Jitegemean Credit Scheme

The PCEA is desperately looking for grant donors to scale up the operations of its young Jitegemea Credit Scheme (JCS) and to reach some higher degrees of financial self-sufficiency of the credit operations in the near future. So far PCEA/JCS has only one donor: ICCO. Nearly 10 attempts to raise funds with local and international donors failed. Even the strategic partner of ICCO in supporting micro-finance, the Netherlands-based Oikocredit, re-

fused to offer a loan to PCEA/JCS, not even with ICCO acting as a guarantor. A general complaint of PCEA/JCS has been that most donors are only interested in funding the larger and well-known micro-finance agencies, like K-REP, KWFT and Faulu.

Given this, PCEA/JCS really appreciates the support and patience of ICCO, not only funding operational deficits but also investing in capacity building with grants and technical support by the I/C micro-finance consultant. They also appreciate that ICCO is willing to act as a guarantor to potential lenders. Unfortunately, the ICCO-Oikocredit tandem (with Oikocredit acting as a lender and ICCO as its guarantor) could not give PCEA/JCS a ride as Oikocredit preferred having an old debt being returned rather than providing a new loan to PCEA. Given the failure of PCEA/JCS to access grants from other donors, one can draw some, rather strange, conclusions about the distinguishing features and added value of the contribution of ICCO to PCEA/JCS from the perspective of the latter one: ICCO is the only organisation that is willing to support them and to help them grow larger. As JCS is a baby-child of the PCEA and ICCO has had long-term relationships with large Protestant churches, like PCEA, in Kenya, it is not very likely that other donors would have considered co-parenthood as well in 1996 when the JCS was launched. In this light the appreciation of PCEA/JCS for the various forms of assistance by ICCO (grant, moral support, technical assistance, loan guarantees, exposure to best practices) has to be considered. The only form of assistance that is lacking is the provision of a loan.

This all shows that it is not easy to draw general, yet meaningful, conclusions on how Kenyan partners like or dislike the support from Dutch CFAs – also in comparison to other providers of support. This is because every organisation has its own history, approach to alleviate poverty, and views on how it can best be supported. In addition, there are differences between what a young organisation wants and what a mature organisation wants. Another complication is that Dutch CFAs have organized their support differently, based on different views on why and how to select and support partners (for more on this, see Chapter 6).

Having said this, still some interesting observations can be made on how Kenyan partners assess the quality and distinguishing features of the support of Dutch CFAs. If the CFA and partner share the same view on how the partner can best be supported to reach its objectives, the Dutch CFA is highly valued. If not, then the CFA is not highly valued, also in comparison with other donors. This explains why the semi-commercial approach and loans offered by CORDAID are disliked by one partner (KWFT) and liked by another one (PRIDE Africa). This also explains why the subsidies from Novib and Hivos are greatly appreciated by KDA that needs grants for the costly development and testing of new financial products and innovative schemes. Finally, ICCO is much liked by PCEA/JCS because the donor and partner both believe that at the early stages of its development the credit scheme needed a wide range of support services, including technical and financial ones.

For different reasons, four different approaches of Dutch CFAs to support micro-finance agencies are liked or disliked by different Kenyan micro-finance agencies:

- 1 the bulk finance approach, providing a large sum of money to help a partner that has a good record, effective client-selection approach and outreach modalities as well as strong organizational capacities, to considerably increase its loan portfolio and outreach and to reach another stage of its development and service provision;
- 2 the minimalist or commercial approach, concentrating on the support of a micro-finance agency with a loan;
- 3 the integrated or nurturing approach, providing technical and financial support to small and young agencies; and
- 4 the research and development approach, providing grants to experienced agencies to test and develop new products and schemes.

This brings us to the next chapter, again assessing the ways in which Dutch CFAs actually support Kenyan partners, but now in terms of their own policies.

6

CFA policies and practices of selected and supporting partners in the field of micro-finance in Kenya

This chapter²⁶ assesses the policies and practices of Dutch CFAs in selecting and supporting partners providing financial services to low-income people in Kenya. On what basis have they selected partners in this field? Are the characteristics (the vision and approaches) of these partners in line with the problem analysis of Dutch CFAs for Kenya, the priorities set and the specific views and approaches of these CFAs regarding the role of micro-finance in poverty alleviation, or what else? How do they support these partners? Are the selected forms of assistance in line with the policies and procedures on how to support micro-finance agencies?²⁷ How have organisational changes of Dutch CFAs and, more in particular, the positioning of special units on microfinance or loans and guarantees within every Dutch CFA affected policies and practices in selecting and supporting partners in the field of micro-finance?

For every case, information has been added about the duration and volume of financial support given to partners providing financial services to low-income people in Kenya, also as a percentage of total support given to all partners in Kenya.

6.1 CORDAID

When asked to provide information about partners involved in micro-finance in Kenya for the present study, three organisations were identified by CORDAID as per end of September 2000 of a total number of about 25 partners, namely: PRIDE Africa (Sunlink Programme), Diocesan Integrated Development Services (Lake Basin Land Use Programme, Labulu) and Kenya Women Finance Trust (Credit Programme). They were selected and awarded grants at a time CORDAID did not yet formally exist, that is, before the merger of Bilance, Memisa and Caritas Netherlands into CORDAID, and the related re-organisation of the head quarters in The Hague in 2000. One of the outcomes of this re-organisation that is very relevant for the present study, has been the establishment of the Business and Finance Unit, next to six region-

²⁶ This chapter is based on semi-structured interviews as well as studies of partner and programme descriptions, assessment files, internal memo's, official correspondence, financial statements and policy documents. The interviews were held with programme officers and micro-finance specialists: the programme officer for East Africa (Novib) or Kenya (ICCO), the economic policy officer Africa (Hivos), the head of the credit desk (ICCO), staff of the Financial Services Unit (Novib), the regional credit officer for Africa (Business and Finance Unit of Cordaid) and the former programme officer for Kenya (CORDAID).

²⁷ Given the central issue of granting versus lending, emphasis will be put in this chapter on discussing the financial form of support (loans, subsidies, guarantees). In Chapter 5 not only financial but also non-financial forms of assistance have been assessed (from the perspective of the partner).

al teams and an office for Emergency Aid. Most importantly, this Unit has an own budget and is directed at boosting the provision of loans to old and new partners.²⁸ Finally, it should be noted that the three counterpart organisations were selected and awarded grants before the opening of the CORDAID field office in Nairobi in January 2000 that was delegated powers to formulate, implement and monitor the country policy for Kenya.²⁹

DIDS used to be a partner of Memisa whereas KWFT used to be a partner of Bilance (formerly known as Cebemo). The programme officer for Kenya of the regional bureau for Africa of Bilance used to be the contact person for KWFT. According to her, KWFT was selected as a partner because of the overall gender policy of Bilance. At that time, the subsidies of Bilance were used to invest in human rights and democratisation (55%), basic services (35%) and livelihood (10%). KWFT was simply labelled under the priority theme of livelihood and much welcomed as a new partner by Bilance in its efforts to establish more partnerships with non-Church based organisations. PRIDE Africa was not a partner of Bilance but was identified and selected by the Business and Finance Unit of Cordaid.

As a result of the merger, re-organisation and delegation of powers to the field office, the question of who would become the front-door officer for what counterpart organisation became quite delicate indeed: the regional credit officer for Africa, the director of the field office of Nairobi or the programme officer of the main office in the Hague that used to keep contact with the Kenyan counterpart organisations? Interviews with CORDAID staff (both in the Hague and in Nairobi) learnt that they have different ways of understanding what has been 'agreed upon'. Anyway, the Business and Finance Unit screened the project descriptions and discussed the 'handing over' of programmes with the Africa Desk.

28 See Athmer and Hospes (2002) for an assessment (in Dutch) of steps taken by Dutch CFAs with regard to the provision of loans and guarantees in the period 1998-2001. In this period the CFAs were allowed by the Minister for Development Cooperaton to spend up to 100 million Dutch guilders for loans and guarantees out of their regular co-financing budget.

29 First and draft working programmes of the Nairobi-based office of Cordaid suggest that the future policies of this regional office will be much in line with past priorities of Cordaid (then called: Bilance) for the region and also Cordaid's overall and latest definition of priority areas (quality of urban life, HIV/AIDS and conflict prevention, resolution and reconciliation). In the annual plan of 2001, the field office decided to concentrate on pastoralist areas and urban areas. The basic reason for this is that Cordaid considers these areas to host the most vulnerable and marginalized people of Kenya. Urban poverty alleviation has been on the agenda of Cordaid for more than 20 years. Since 1996 pastoralist development has been a priority theme of Cordaid, also explaining why Cordaid has supported a variety of partner organisations in this field in East Africa. The field office is currently drafting the four-year country policy for Kenya (2002-2006), proposing a redistribution of the budget in favor of civil society building (up to 35%) and policy influencing (up to 25%), with less means directed to direct poverty alleviation (down to 40%). Pastoral and urban development remain central concerns in the future. At two points, innovative action using micro-finance as a tool has been started in 2002. The first is lobbying for access to micro-finance facilities for a highly marginalized and vulnerable group of HIV/AIDS affected people. The second one is about the establishment of a new MFI with an innovative approach linked to structural poverty alleviation. For the latter an agreement with the Business and Finance Unit of Cordaid is foreseen. Both innovative actions may be very much in line with the focus on either pastoralist or urban development. However, the latest version (February 2002) of the Kenya Work Programme does not specify this. The initiative of establishing a new MFI is labelled under the theme of 'access to markets'. The question, however, is whether this is a kind of third priority area, next to pastoralist and urban development, or rather a cross-cutting theme, addressing, for instance, the demand for financial and insurance services in urban slums.

The Business and Finance Unit was not eager to 'take over' the Labulu programme of DIDS as earlier targets to reach financial sustainability were not reached, management and operational costs were high, projections of growth of membership were unrealistic and DIDS was about to receive quite a substantial amount of subsidized credit from KWFT (!). DIDS, that has been a partner of the Cebemo (later Bilance, then Cordaid) since 1983 and is not specialized in micro-finance, remained with the Africa Desk – with the file to be transferred to the field office in Kenya.

The innovative character and the professional management of the new Sunlink Programme of PRIDE Africa really made an impression on the Business and Finance Unit that did not take long to decide to support the linkage programme (see Chapter 2) with a loan of 810,000 Dutch guilders (first tranche). The contact with PRIDE Africa was established by a (former) employee of Finance.

In the handing-over memo for KWFT, the Africa Desk and the Business and Finance Unit agreed that 'all proposals for donations and/or loans will go via Finance'. This is not surprising as the huge two-year grant of 1.6 million Dutch guilders given to KWFT in 1997 by Cebemo was a one-and-only grant given with a view to boost the loan capital. The expectation was that after these two years, the relation with KWFT would be continued on the basis of loan from Finance. The ambition of KWFT to become a bank also made it kind of logical for the Africa Desk to hand over this partner to Finance. In fact, September 1999 KWFT clearly expressed its interest in continued collaboration with Bilance at the end of the grant period, suggesting Bilance to become one of the major shareholders of KWFT Bank and to provide a loan to KWFT on terms to be agreed upon. As a terms of reference for the latter, KWFT kindly referred to the loan agreement with Ford Foundation, offering a long-term loan with a low rate of interest. But, for some reasons, the contact between CORDAID and KWFT then withered. KWFT gave up its ambitions to establish a bank, possibly because of a newly proposed act (Donde Bill) that will very much regulate interest rates of banks – if enacted (see Chapter 2). KWFT had no need for additional funding and was very pleased with the loan arrangement with Ford Foundation. The offer or services of Finance were simply not (yet) needed or appreciated by KWFT.

Table 6.1 Kenya expenditures of CORDAID (in Dutch guilders)¹

	1997	1998	1999	2000	2001
Total expenditures for Kenya ¹					
KWFT	439,230	500,000	650,000	0	0
DIDS	0	0	0	56,325	100,000
Sub-total partners with micro-finance component	439,230	500,000	650,000	56,325	100,000
Sub-total as percentage of total expenditures					

¹ The total expenditures per year of Bilance/Cordaid for Kenya could not be collected.

² This does not include the loan of 810,000 Dutch guilders (first tranche) as disbursed by the Business and Finance unit and given to PRIDE (Sunlink) in December 1999 and the loan of 636,550 Dutch guilders (second tranche) in December 2000 (source: PDS archive of Cordaid).

Source: Cordaid Headquarters, The Hague.

To conclude, the selection of two of the three organisations involved in micro-finance and identified by Cordaid as per September 2000 is in line with the policies and priorities of organisations that formally not exist any longer and have merged into Cordaid. For instance, KWFT was selected because of the gender policy, policy of addressing livelihood, and look for non-Church based organisations of Bilance. After the merger the Business and Finance Unit was approached to take over DIDS and KWFT. According to the financial assessment and selection criteria of this Unit, DIDS was too light and could not stand the test. KWFT was considered a candidate borrower but refused to accept the terms of the Unit, profiting from access to alternative, cheaper sources of funding. One could say that KWFT did not like the support modality (semi-commercial loans) of the Unit, preferring softer, long-term loans instead. As these were or could not be provided by a regional office, the discussion and contact with KWFT withered away.

In the case of Kenya, the hand-over of partners from the Africa Desk to the Business and Finance Unit has thus not yielded much for this Unit. The strategic decision of CORDAID to set up a special unit on Business and Finance with budgetary powers to invest in micro-finance with loans, may have had an unintended consequence, that is, the loss of or drifting apart from 'old partners', that is: partner organizations involved in micro-finance and originating from the partner networks of Bilance, Memisa or Caritas Netherlands. At the same time, the installation of the special unit has attracted a new partner in the Kenyan field of micro-finance. This new partner has a very strong commercial approach to poverty lending, which is in line with the approach of the Business and Finance Unit of Cordaid. This is the only partner in Kenya so far that is not only considered eligible for loans by the Business and Finance Unit but also feels very much attracted to the philosophy, approach and financial support modalities of this Unit (see Chapter 5).

Finally, it is not clear whether the new division of decision-making and budgetary powers within Cordaid is uncontested or based on a shared understanding. Related to this, new routines, clear procedures and smooth working relationships have not yet been established between the different offices of CORDAID after the merger, reorganisation and decentralisation of powers to the field office. Without further improvement, this will no doubt negatively affect mutual (working) relations, the efficiency of service delivery by CORDAID and, even worse, the understanding, use and appreciation of these services by old and new partners.

6.2 Novib Novib has about 20 counterparts in Kenya. Currently, there is no specific Novib country-policy document for Kenya in use. Instead, Novib, being part of the Oxfam International group, tries to set and adjust its priorities in consultation with the other members of this group. For this purpose five general Aims and global-level Strategic Change Objectives (SCOs) have been defined first. According to Oxfam International, fighting poverty and related injustice in a globalizing world means undertaking a concerted effort to address and to safeguard poor peoples' right to a sustainable livelihood, right to basic social services, right to life and security, right to be heard, and right to equity. From this general and normative terms of reference, steps have been taken to develop the joint Strategic Programme Business Plan (SPBP) for 2001-2004 as well as regional-specific SCOs, for instance, for East and

Central Africa. These regional-specific SCOs have been used to assess and qualify the existing partner portfolio. Addressing food and income security (Aim 1) as well as securing civil and political rights (Aim 4) are given top priority for East and Central Africa, though attention is also given to other Aims. It is, however, unclear whether eventually all or just one or two Aims will be pursued in Kenya by the Oxfam International group and what will be the special role for Novib to play in this.³⁰ One of the examples of the scope of the first aim (right to a sustainable livelihood) is 'equitable access to markets, credit and other alternative development finance facilities for those excluded by poverty from the economic mainstream'. The three counterparts of Novib that are currently involved in micro-finance have been each selected by Novib on different grounds and before Novib embraced the Aims-approach. Yet, one can see quite some continuity when comparing past and present priorities for East Africa and Kenya in particular.

WEDCO Enterprise Development was first contacted on the basis of guidelines outlined in the document entitled 'Guidelines for Resource Allocation Policy' (1998). Using this document as a terms of reference for the selection of partners in Kenya, it was proposed to thematically focus on lobbying, human rights and civic education. Next to this, it was decided to focus on direct poverty alleviation, identifying economic programmes for this purpose. Western Kenya was targeted because of the large number of poor people living there (30% of the total Kenyan population) and because it was believed that poverty alleviation programmes would have more of an effect in a not-so-poor area compared to unfavorable zones or pastoralist areas, like in Northern Kenya. WEDCO Enterprise Development is operating in this area (Kisumu). WEDCO was also considered an interesting partner on the basis of the two-fold approach of the East Africa bureau to select partners involved in micro-finance (in Tanzania, Uganda and Kenya). The savings and credit specialist of this bureau has played an important role in the design of this approach. The first part of the approach has been to select two established micro-finance agency (with considerable outreach) for every country whereas the second has been to support experimental programmes. WEDCO was selected on the basis of the first approach. Novib characterizes WEDCO as a fastly-growing organisation with the objective to alleviate poverty through the provision of loans to groups of rural poor women in Western Kenya and such in a sustainable manner. Some 450 groups consisting of about 10,000 rural poor women were being reached in 1999, making a micro-finance specialist of Novib proclaim that 'WEDCO is on track to become the second biggest provider of micro-credit in the country (after K-REP)'.

Novib granted a total of 532,438 Dutch guilders to WEDCO to cover the operational deficit in the years 1999-2001 (see Table 6.2). This was the first financial support given by Novib to WEDCO. The idea was that Novib would also support the revolving fund but with a loan instead of subsidizing it. These days (1999) the plan was that Oikocredit would monitor the loan portfolio quality of WEDCO. But for several reasons the loan transaction and tripartite relationship did not materialize: first, WEDCO did not have the right legal constitution to enter a loan agreement. The registration of WEDCO as a com-

30 In practice, this means that programme officers have to see to it that the budgeted amount is being spent for each and every 'strategic change objective' (being specifications of the five, more general aims). Programme officers have mixed feelings about this: some find this a helpful tool, others quite a bureaucratic exercise, full of rather arbitrary decisions.

pany limited demanded quite some time and efforts, leaving little time and energy to invest in the expansion of loan operations. A loan from Novib to boost these operations was not opportune at that time. In addition, after they had registered as a company limited, WEDCO staff re-considered their loan application to Novib as they got access to alternative sources of funding (DFID and CARE), that is, cheaper loans and also grants. The Financial Services Unit of Novib was not amused, certainly because they had given a positive advice to lend money to WEDCO. The tripartite arrangement (concerning the second loan application of WEDCO in 2003) did not materialize because Novib gradually came to the conclusion that for reasons of cost-effectiveness it was better to monitor the loan transaction itself instead of delegating this to Oikocredit.

The Saga Thrift and Enterprise Promotion Ltd (STEP) of K-REP Development Agency was selected in 1998/99 as a micro-finance agency for funding because of its experimental and innovative nature. STEP wants to facilitate and deliver financial services to people excluded from banking institutions by low income, ignorance, distance, service terms and logistics. It targets its capacity building services to accumulating savings and credit associations (ASCAs). The plan is that STEP will act as an intermediary – collecting surplus savings as mobilized by some of these group-based savings clubs to be lent to other clubs. Novib granted a subsidy of 210,000 Dutch guilders to K-REP to buy shares of STEP.

Unlike WEDCO and STEP, the Small-Holder Irrigation Scheme Development Organisation (SISDO) has not been subject to appraisal by the Financial Services Unit of Novib. SISDO is not a specialist micro-finance agency but rather a more traditional agricultural credit institution directed at uplifting the living standard of small farmers. SISDO provides in-kind loans (farm-inputs) and also financial and technical services to small irrigation farmers. Novib wants to help SISDO to recover from a crisis period by financing the re-organization process and subsidizing the revolving fund. If SISDO is doing well, then Novib will consider providing a loan to the revolving fund.

Table 6.2 Kenya expenditures of Novib (in Dutch guilders)

	1998	1999	2000	2001
Total expenditures Kenya	1,588,327	2,293,667	2,086,569	1,496,871
Approved grants to WEDCO	0	523,438	0	Minus 20,000 ¹
Expenditures WEDCO	0	200,000	237,438	75,000
Approved grants to KREP-STEP	0	210,000	0	0
Expenditures KREP-STEP	0	90,000	70,000	50,000
Approved grants to SISDO	0	449,200	0	88,542
Expenditures SISDO	0	200,000	249,200	88,542
Sub-total expenditures for partners with a micro-finance programme	0	490,000	556,638	133,226
Sub-total as percentage of total expenditures	0%	21.3%	26.7%	8.9%

¹ An evaluation study was cancelled.

To conclude, the selection of the two micro-finance agencies as supported now by Novib in Kenya is in line with former country-policy documents that are now not operational any longer as well as the two-fold approach of the East Africa bureau to select partners involved in micro-finance. The selection of a third partner of Novib that also provides credit services in Kenya is not in line with these documents and approach. However, this partner is not a more or less specialized micro-finance agency but rather a traditional agricultural credit institution, using an approach dating from the 1970s. Typically, it has not been appraised by the Financial Services Unit, in contrast to the two micro-finance agencies. Still, one could question what would have happened with the partner relationship if the Financial Services Unit would have been invited to appraise this organization and to assess the effectiveness and relevance of Novib's (type of) support to it.

The Financial Services Unit has produced both very accessible and advanced policy papers, with the former addressing the ABC of micro-finance³¹ and the latter including latest but also controversial insights on micro-finance and poverty alleviation. Broadly speaking, one could say that the two-fold approach of selecting partners involved in micro-finance is in line with these papers and the philosophy of the FSU. Here the role and influence of the FSU as knowledge provider and advisor is visible. At the same time, one can see that the role of the FSU is not decisive. This can be seen from the continued support of a traditional credit institution but even more in the support modalities. Whereas the FSU strongly advises against subsidizing revolving fund, this remains a practice of the programme officers for Kenya. The Financial Services Unit (that started operations in 1997) has not put to an end the rather traditional way of financing savings and credit operations in Kenya, that is, the use of subsidies to finance both the operational deficit, capacity building and revolving fund. Though the FSU has been launched to discuss the broader and tailor-made use of financial instruments for economic and micro-finance programs, the provision of a loan to the credit portfolio (in the case of Kenya) is either just an intention of Novib that wants to offer a loan when the present subsidy period will have ended, or has been declined by the partner. In the latter case, cheaper sources of funding were preferred instead of the Novib loan. Whether the partner will reconsider borrowing from Novib at a later stage (when it might need more money to expand the loan portfolio) remains to be seen and is much dependent on access to other sources of funding.

The regional or country officers of Novib have the largest and, more important, final say in the decision-making process regarding the selection of partners and the use of subsidies or loans for micro-finance programmes. The installation of the Financial Services Unit (that was neither given an own budget nor budgetary powers) was not meant to change this and it has indeed not done so. Still, the influence of the advisory FSU, its practical knowledge and its philosophies are visible. This is certainly so with regard to the selection of partners, however much less so in the choice of supporting modalities. Finally, it is also worth mentioning that in-house monitoring (by FSU in combination with the savings and credit specialists of the regional bureaus) of programmes with a micro-finance component has become much more a routine than monitoring by a third party and lending agency, like Oikocredit.

31 Micro-finance for Dummies, by Herman Abels (2001).

This is in line with the policy shift of Novib from external monitoring of micro-finance programmes to monitoring by in-house specialists.

6.3 Hivos

Hivos has about 20-25 partners in Kenya. The regional plan for East Africa contains some broad problem analysis as well as priorities of Hivos for every country. According to Hivos, a major hindrance to social and economic development in Kenya is the combination of large-scale corruption, abuse of powers, tribal conflicts and oppression of political opposition. A second major problem is HIV/AIDS, with Hivos most concerned with social and economic problems of people affected. The third element of the problem analysis of Hivos is about the adverse business environment, notably the lack of access to credit and difficulties to find attractive markets for small companies. According to Hivos, the micro-finance market only meets a small part of the demand for financial services.

The main priorities of Hivos for Kenya are two-fold. First of all, Hivos wants to invest in organisations that contribute to the struggle of human rights, political changes and the fight for democratisation. The second priority of Hivos for Kenya is the economic sector. Hivos' activities in the economic sector (will) focus on relatively large micro-finance organisations that have the potential to reach large numbers of micro and small entrepreneurs. The latter includes support (earlier) given to three counterparts providing financial services to low-income people (see Table 6.3): Family Finance Building Society (FFBS), K-REP Development Agency (KDA), and Small and Micro-Enterprise Programme (SMEP). The (financial) relationship with FFBS lasted 5 years, ending December 2000. The last grant to KDA was for the period March 1999 to October 2001, that is: 2.5 years. Hivos is presently considering a new grant to KDA. The contract period of the 3-year loan for SMEP started in November 2001.

In collaboration with the Triodos Bank, Hivos has formulated its micro-finance policy for Kenya. The document 'HTF Micro-finance Policy Kenya 2001-2002' contains a short description of the outreach and threats to the financial sector. An estimation has been included of the total number of clients of all micro-finance agencies together: 6,167,000. Nearly all of these people are considered to be clients of one of the three member-based or savings-based agencies: 3 million people own shares with SACCOs, 2 million people save with the Kenya Postal Office Savings Bank, and 1 million people participate in ROSCAs. NGOs only reach a total of 100,000 clients. The HTF policy paper also mentions that the majority of MFIs in Kenya focus at clients in the (semi-) urban markets. Hivos and Triodos Bank do not know to what extent increasing competition can be expected in these markets. At the same time, HTF concludes that there is a large demand for financial services among small-holder farmers and rural small and medium-sized enterprises (SMEs).

Hivos and Triodos are worried that the enactment of the Donde Bill (basically regulating interest rates) will make it very difficult if not impossible for regulated institutions to offer micro-finance products in a sustainable way. Notwithstanding the threat of the Donde Bill, Hivos and Triodos Bank believe that there is scope for growth and expansion of the relatively young micro-finance sector in Kenya. They are particularly interested to cooperate

Table 6.3 Kenya expenditures (grants and loans) of Hivos

Hivos' grants in Kenya (in Dutch guilders)						
	1998	1999	2000	2001	2002 (plan)	grant for
Total expenditures	1,897,425	2,537,991	2,697,000	2,650,805	3,085,886	
Expenditures economic sector	348,425	502,500	300,000	847,130	1,153,075	
FFBS	–	–	–	–	–	–
K-REP Development Agency	–	205,000	150,000	140,000	–	1
K-REP Development Agency (phase 2)	–	–	–	–	150,000 ⁵	2
SMEP	–	–	–	77,130	163,075	3
Sub-total mf grant component	–	205,000	150,000	217,130	313,075	
Sub-total in % of total budget	0.00%	8.08%	5.56%	8.19%	10.15%	
Hivos' loans in Kenya (in Dutch guilders)						
	1998	1999	2000	2001	2002 (plan)	loan for
Total expenditures	1,897,425	2,185,132	2,697,000	2,650,805	3,085,886	
Expenditures economic sector	348,425	502,500	300,000	847,130	1,153,075	
FFBS	155,925	–	–	–	–	4
K-REP Development Agency	–	–	–	–	–	–
SMEP	–	–	–	630,000	–	4
Other MFI (not yet sure which)	–	–	–	–	500,000 ⁵	
Sub-total mf loan component	155,925	–	–	630,000	500,000	
in % of total budget	8.22%	0.00%	0.00%	23.77%	16.20%	
Sub-total mf loan and grant	155,925	205,000	150,000	847,130	813,075	
Sub-total in % of total budget	8.22%	9.38%	5.56%	31.96%	26.35%	

1 Capacity building FSAs, monitoring and some initial investments.

2 Consolidation phase, strengthening of existing FSAs.

3 Training of staff and board and some investments in MIS.

4 Loan capital.

5 These are only intentions. No contractual obligations exist. An elaborate assessment still needs to be done.

Source: Hivos main office, The Hague.

with one or two relatively well-established MFIs and also believe that there is scope for Hivos' seed capital to assist building up young institutions to a sustainable level. HTF is not interested in cooperating with specialised rural MFIs in the near future, mainly due to high risk profiles but suggests that Hivos might consider to selectively support innovative rural initiatives from its development perspective.

The 'HTF micro-finance Policy Kenya 2001-2002' also specifies the division of labor between Hivos and Triodos Bank in assessing loan applications. Roughly speaking, Hivos assesses proposals and progress in terms of development objectives (access, ownership, gender) whereas the Triodos Bank uses financial criteria (solvency, portfolio at risk) to assess proposals and clients.³² Triodos Bank is the lending agency whereas Hivos acts as a guarantor (for 90% of the value) of loans provided. HTF very much wants to 're-entry the

Kenyan scene'. Much to its regret, HTF was not any longer active in Kenya since a loan to its Kenyan client (FFBS) was withdrawn in 2000.

In 1999 HTF granted a loan of Ksh 15 million to FFBS. However, meeting the financial criteria – not the development criteria – was not easy for FFBS. Serious questions were raised by the Triodos Bank about the prospects of FFBS to gain financial self-sufficiency: FFBS was considered relatively cheap compared to other micro-finance agencies. The arrears were much higher (up to 40%) than agreed upon in the loan contract (not more than 10%, calculated from one day late payment). Related to this, the MIS and the reporting on the loan portfolio were weak. This was not the first loan given to FFBS. Already in 1996 HTF lent a much smaller two-year loan of Ks 1.5 million to FFBS as a credit facility for women groups related to the Women Support Programme of the Kenya Entrepreneurship Promotion Programme (KEPP).³³ An evaluation of FFBS at the end of 1997 already pointed at weaknesses of its management information system. Apparently, FFBS could not stand the test of monitoring and managing the risk of a much larger loan few years later. Hivos agreed with Triodos Bank that immediate action was necessary, not considering muddling through or re-scheduling the debt as an option. FFBS repaid its debt in a few instalments. Hivos much regretted this turn of events as they much liked FFBS, providing financial services to low-income female entrepreneurs in slum areas, and the cooperation of FFBS with the Kenya Enterprise Promotion Programme (KEPP), providing training services to these same entrepreneurs. Hivos was impressed by the results of the evaluation of a pilot phase in 1997, showing that many of KEPP's and FFBS' clients, who are single mothers or divorced, were in a better position to meet family expenses, to pay school fees, to improve houses/business premises or even to buy land from the income generated by the businesses.

The mission of counterpart organization KREP Development Agency (KDA) is to empower low-income people by developing, testing and promoting the adoption of appropriate microfinance models for improving the accessibility of financial services to low-income people. HTF does not consider KREP Development Agency as a potential investment object or borrower. Hivos was approached by this NGO to subsidize the capacity building and monitoring of Financial Service Associations in very difficult areas (like Turkana district) and has done so accordingly. Even K-REP Bank is not considered a potential borrower or investment object by Hivos, according to the HTF micro-finance policy for Kenya (2001-2002). This may be related to the fact that this Bank enjoys considerable interest of other lenders and investors, including Triodos Bank being one of the smaller shareholders of K-REP Bank.

Something similar applies to other 'strategic opportunities' for HTF and Hivos in the present micro-finance sector (like funding of WEDCO, KWFT, BIMA, FAULU and SMEP). Most donors are interested in only a small segment of the micro-finance sector: the donor-dependent NGO-sector. At this point

³² The economic policy officer for Africa participates in the credit committee on behalf of Hivos. Using information and comments from her economic programme officer, who is the front-door officer for the micro-finance counterparts in Kenya, she formulates a preliminary advice. This advice is commented or checked by the head of the regional bureau who has powers to overrule her. She then formulates the point of view on behalf of Hivos at the HTF credit committee.

³³ Quite remarkably, the second loan included 'the continuation' of the first loan.

HTF and Hivos have to compete with large and often cheap moneylenders like DFID, Ford Foundation, USAID, UNDP and MESP. The economic policy officer of Hivos regrets this unfair 'competition' and calls for 'a code of good donorship practice', following the example of Uganda.

Anyway, HTF and Hivos succeeded in providing a loan to SMEP. SMEP is 'a Christian organisation based on broad Christian values' with the aim 'to contribute significantly to the reduction of poverty and the creation of employment through the provision of financial and non-financial services to micro and small enterprises'. To reach the loan agreement, the concern of Triodos Bank with the lack of commercial awareness of SMEP was not considered reason enough to reconsider the loan agreement. According to Hivos, it is one of those relatively few agencies with a clear development objective but also the ambition to grow. In June 2001 Triodos Bank provided a loan of 630,000 Dutch guilders (with a guarantee of 90% by Hivos) to SMEP. The same year a subsidy of 77,130 Dutch guilders was given by Hivos for training of staff, board and investment in monitoring and information systems. Hivos legitimizes its support to SMEP, believing that its niche in Kenya might be to support those organizations that do not have an impressive outreach yet but the potential to reach some 10,000 people and higher degrees of financial self-sufficiency at the same time.³⁴

To conclude, the selection of FFBS, KDA and SMEP is in line with an element of the problem analysis of Hivos for Kenya: lack of access to credit is a major barrier for small companies and micro-enterprises. It is, however, unclear what is the development philosophy of Hivos underlying their support of micro-enterprises (being the motor for broader economic development or rather a safety net for micro-entrepreneurs to survive?). The selection of SMEP is in line with the HTF-policy of selecting a partner with considerable outreach (close to 10,000 clients). As Triodos Bank and Hivos have agreed that new initiatives might deserve seed money from Hivos, not a loan from HTF, the selection of KDA also makes sense but clearly for another reason. The ending of the loan agreement with FFBS is in line with the financial criteria as set by HTF and monitored by Triodos Bank. It is maybe not in line with the development criteria as set by HFT and monitored by Hivos. An earlier evaluation concluded that FFBS had a very positive impact on women's ability to meet household expenses and strengthen their asset base. However, as borrowers from HTF have to meet both types of criteria, the decision to drop FFBS is in line with the HTF-policy to which Hivos has committed itself when it comes to provision of loans to partners.

The very modest partner portfolio of HTF in Kenya can be explained by two factors. First, it is the result of serious screening and tough criteria by HTF itself. So far the development criteria primarily seem selection criteria whereas the financial criteria are much more used as both a selection criteria and

³⁴ The total outreach of the three micro-finance counterparts of Hivos together can be estimated at some 10,000 borrowers as per end of 2000:

- At the end of 2000, SMEP had 8,535 loans outstanding.
- With financial support from Hivos, K-REP established 7 financial service associations in Kwale District and 2 in Turkana district. The 9 FSAs had a total of 3,034 shareholders by September 30th of 2001, who have bought shares worth Ksh 2,213,000. A total of 835 loans worth Ksh 5,123,400 has been made by the FSAs.
- By the end of 1999, the total portfolio outstanding of FFBS was Ksh 8,435,000 to a total of 465 clients, divided in about 90 groups.

monitoring device. Second, it is related to tough (or is unfair?) competition at the wholesaling side in the field of micro-finance, with large and cheap moneylenders not giving much room to HTF in Kenya, offering 'attractive' loan agreements to potential partners.

As Hivos has committed itself to HTF, it would be a bit unfair to conclude that Hivos or its development objectives are being overruled in the HTF by Triodos Bank and its financial criteria. However, it is clear that the ambition to combine and test development and financial objectives simply has its price and is not easy to realize. Besides, it is the money of the Triodos Bank that is being lent. Also, communication between Hivos and Triodos Bank does certainly not take place in a sphere of antagonism. The rules of the game and the division of labour are very clear. The choices of the financing modalities perfectly match with these rules, policies and agreements: Triodos bank provides loans to partners, Hivos offers guarantees or subsidies. The cooperation with Triodos Bank is a kind of lever for Hivos to improve access to financial services and financial sustainability for players at two different levels of the credit chain: partners access foreign loans and clients of these partners access (local) loans. At the same time it is a kind of quality control as HTF selects and monitors suppliers of financial suppliers that reach high degrees of financial self-sufficiency and relatively large numbers of poor people at the same time.

6.4 ICCO

ICCO has about 20 partners in Kenya, including the Presbyterian Church of East Africa (PCEA), running the Jitegemea Credit Scheme (JCS). To a large extent, collaboration with partners is much more an issue of tradition than selection. Traditionally, ICCO collaborates with large Protestant churches and Christian organisations in Kenya, that have played important roles in the struggle for social, economic and political justice and/or as caretakers in the fields of education and health care.³⁵ However, to circumvent some of the limitations of working together with these large, powerful but not so innovative and unorthodox church-based organisations and to address emerging issues in Kenya through alternative organisations, ICCO has started collaboration with new, smaller partners (of which some do still originate from church-based organisations).³⁶ The acting front-door officer for Kenya explained that the country policy of ICCO (as outlined in annual plans and the country policy document 2000-2002) has been to address four issues in Kenya, namely HIV/AIDS and health care; democratisation, human rights and conflict resolution; sustainable forest management; and organisation/institution building, addressing corruption and improving accountability, transparency and financial sustainability of organisations.

Micro-finance has not been a distinctive theme or top priority for ICCO in Kenya, also because other Dutch CFAs are more involved in this field in Kenya. It is not even explicitly mentioned in the country policy document of 2002 under one of the four country-specific themes, yet one might consider the support of ICCO given to PCEA/JCS as falling under the last-mentioned issue of contributing to ethnically and financially 'sound' organisations. The

³⁵ The average duration of (financial) relationships of ICCO with seven large Christian counterpart organisations is slightly more than 10 years (as per January 2002).

³⁶ The average duration of (financial) relationships of ICCO with the other 13 counterpart organisations is nearly 5 years (as per January 2002).

project assessment file (KID-BEMO) concerning the supplementary funding of the training and capacity building of PCEA/JCS only mentions that the project is 'in line with the new policy guidelines on Credit'. The assessment in terms of general ICCO policy is equally short and formalistic. The credit scheme of PCEA is simply considered to be in line with the general policy of ICCO to promote the economic empowerment of marginalized people (ibid). Still, ICCO is very eager to help the small Jitegemea Credit Scheme of PCEA to grow larger, become financially sustainable, mobilize savings and external capital, and set an example for the East African region as a credit programme that 'effectively combats poverty and makes a sustainable difference in the lives of many women and their families, such with limited support from ICCO' (country policy document 2000-2002, *our translation*). In fact, the micro-finance specialist of ICCO very much believes that to help small organisations in the field of micro-finance to grow larger and to serve people in areas that are not or hardly reached by the larger 'established' non-governmental micro-finance agencies (like K-Rep, KWFT and Faulu), is the special mission of ICCO in this field. The intention of ICCO is not to fund small and young organisations, like PCEA/JCS, forever but to withdraw its support and – if necessary – to act as a guarantor for a loan from a third party as soon as such an organisation has reached a break-even point (expected in 2001 for PCEA/JCS).

ICCO has provided grants ('seed money'), not loans, for the revolving loan fund and has heavily invested in training and capacity building of PCEA/JCS, right from its start in 1997 (see Table 6.4). A local consultancy firm, I/C consult and the micro-finance specialist of ICCO have provided technical inputs (baseline study, feasibility study, etc.) and/or monitored progress of JCS closely.³⁷ Recently, an exposure of staff and board members of PCEA/JCS to ICCO's partner ASA in Bangladesh has been financed. In spite of these investments, PCEA/JCS has failed to attract new donors and lenders. Even Oikocredit, ICCO's Netherlands-based partner in equity finance, decided (in August 2001) not to award the application of PCEA/JCS for a loan, even with the offer of ICCO to guarantee the loan. According to the micro-finance specialist (and also the credit manager of JCS), Oikocredit was not very clear about its refusal. Possibly, the fact that PCEA still has a debt outstanding with Oikocredit has played a role in the unexpected decision of Oikocredit not to lend money to PCEA/JCS. Also, he believes that Oikocredit does not have the problem of lack of loanable funds but rather lack of sound investments with reliable returns, that is, good organizations with a good repayment record, a category to which PCEA/JCS does not (yet) belong to. Finally, it is possible that Oikocredit, unlike ICCO's technical advisors who are also very much aware of this problem, has drawn consequences from the fact that JCS is not a legally independent organisation but just a scheme, governed by a church. In the world of micro-finance, this means there is a problem with the governance structure, with the ownership of the scheme, with the incentive-structure to guarantee efficient handling of money and sound management of savings and loans. In the world of micro-finance, such a 'bad' governance structure – in combination with the small size of the scheme – works like a red signal, scaring off potential lenders (which, unfortunately, has been the expe-

³⁷ Though the programme officer for Kenya is the front-door officer for PCEA/JCS, she very much relies on advises of the ICCO micro-finance specialist and the I/C consultant, both of them paying visits to this organisation. Yet, she and her superior (regional manager) are the ones to formally decide on whether or not to provide grants to PCEA/JCS.

rience of PCEA/JCS, see Chapter 5). Also, these days it is very difficult for a small and young church-based organisation, like PCEA, to compete with larger, specialized and reputed ones, like KWFT and K-Rep, to re-set the micro-finance market and to win the favours and money of (inter)national donors and lenders. One could say that the initiative of PCEA to launch a credit scheme in Kenya has come too late, is too small and undertaken by the wrong party in the eyes of (potential) lenders adhering to the new orthodoxy and principles of micro-finance (as already proclaimed by Otero and Rhyne in 1996).

Table 6.4 Kenya expenditures of ICCO (in Dutch guilders)

	1997	1998	1999	2000	2001
Total expenditures ¹					
PCEA/JCS	150,000	100,000	100,585	130,000	64,000
Expenditures PCEA/JCS as percentage of total expenditures					

¹ Data on annual expenditures could not be collected. The total volume of grants committed to on-going projects supported by ICCO in Kenya in 2001 was 2,132,764 Dutch guilders. The average duration of the on-going projects in 2001 was 6.5 years.

² The total volume of grants provided by ICCO to JCS in the period 1997-2001 is Ksh. 20.2 million. Nearly half of this amount (Ksh. 9.3 million) was earmarked as a contribution (seed money) to the loan capital. ICCO's contributions to cover the operational deficit and to provide capital to break even amounted to Ksh. 4.0 million. The costs of in-house training and exposure to ASA in Bangladesh amounted to Ksh. 2.2 million. Finally, ICCO's grants included a sum of Ksh. 1.5 to pay for the costs of an evaluation.

Sources: ICCO and PCEA/JCS administration.

Anyway, ICCO decided not to let PCEA/JCS down and provided a bridging grant, covering the operational deficit in 2000 and 2001. Though the specific rationale of ICCO to start and fund the credit scheme of PCEA is clear, the question is whether PCEA/JCS will indeed succeed in attracting new lenders and donors. If it fails to do so, then this will also be a failure of ICCO, not doing much good to the relationship with the counterpart organisation. The micro-finance policy of ICCO of upgrading small and young organisations is more or less explicitly directed at ending the granting of subsidies to partners and their micro-finance projects.³⁸ This is, of course, acceptable if the counterpart organisations have learnt to stand on their own feet but not really if these organisations cannot be effectively linked to lenders, remain fully subsidy-dependent on ICCO or fall apart. Presently, the credit desk of ICCO considers the provision of a loan by ICCO itself, possibly in collaboration with other development organisations.

³⁸ The problematic situation of PCEA/JCS is not unique. ICCO recently funded a study of profiles of micro-finance institutions based on the following problem description and legitimisation: 'A substantial number of ICCO partner organisations are involved in micro-finance. An increasing number of them are challenged to make their micro-finance programmes financially sustainable and to finance their expansion with loan capital or savings deposits. Examples are ECLOF (Philippines), PCEA/JCS (Kenya), SFPI and AVFS (Ethiopia)'.

The current country-specific priority fields for Kenya do not clearly legitimise support of micro-finance schemes. However, one of the general policy objectives of ICCO (that is, economic empowerment of marginalised people) does. In this connection, the present ICCO policy discussion concerning the issue of concentrating on a smaller number of themes, partners and countries, and the need of a more pro-active selection of partners, is relevant. If the main theme of sustainable and fair economic development will not be adopted for Kenya and the record of ICCO of supporting micro-finance in Kenya will not improve, it is likely that the regional manager will not easily accept new applications for funding of micro-finance schemes in Kenya. However, if the 'green-house' approach to nurturing small micro-finance plants remains uncontested within ICCO, then also regional managers might be willing to accept the price. But for how long?

6.5 Some conclusions

Cordaid

The selection of the studied organisations involved in micro-finance is in line with policies and priorities that formally do not exist any longer as they were formulated by organisations that have now merged into Cordaid. Before the merger, micro-finance was not approached as a distinctive theme and sector in Kenya. At that time, the selection and support of partners involved in micro-finance was rather an example of the policy interest of Bilance in supporting livelihood programmes of counterpart organisations, or underlining the gender policy of Bilance, considering micro-credit as a tool to serve economic interests of low-income female entrepreneurs. The traditional financial modality used to support partners was the grant. After the merger, the screening and support of micro-finance agencies became the primary responsibility of the Business and Finance Unit of Cordaid, very eager to boost the provision of loans to old and new partners. In the case of Kenya this did not work out for the old partners, that either were not acceptable to the Unit or not willing to accept the semi-commercial lending conditions of the Unit. The new financial modality for the support of micro-finance agencies became the semi-commercial loan (with debts calculated in local currency). The loan stipulations, and more basically, the commercial and professional approach to poverty-lending of the Unit may have scared off one or two old partners in Kenya, a new one felt very much attracted to it: PRIDE Africa (Sunlink). This newcomer in the field of micro-finance in Kenya simply wants to be supported with a (semi-commercial) loan, not a grant. Whereas it is hard to say what exactly are the development objectives or philosophy of the Unit, it is at least fair to conclude that the approach of PRIDE Africa is very much in line with the approach of the Business and Finance Unit.

Novib

The selection and monitoring of partners involved in micro-finance is framed and caught between three sets of criteria. The Guidelines for Resource Allocation Policy (GRAP) for Kenya were used in 1998 to select new partners and to continue or to stop support of new ones. Direct poverty alleviation through economic programmes was identified as one of the priority themes for support of partners in Kenya. Due to Novib's affiliation with the Oxfam International group, a new strategic and budgetary planning tool was put in place, starting with global change objectives, moving towards regional-specific and country-specific ones. The impression is that it has not been difficult to legitimize continued support to those Kenyan micro-credit partners

that were selected or not phased out on the basis of GRAP, on the basis of the newly drafted regional-specific and Kenya-based change objectives. Equitable access to credit is one of the examples of securing the right to a sustainable livelihood, the first Aim of the Oxfam International group. The third set of criteria concerns the micro-finance policy of the East Africa bureau of Novib: to support both one or two established micro-finance agencies (with a relatively considerable outreach of 10,000 people or more) and experimental programmes. Practice is in line with this policy (except for one partner that was not labelled a micro-finance agency and was not monitored by the Financial Services Unit of Novib).

The form of financial support given to lending operations of micro-finance partner is still the subsidy. The Financial Services Unit advised to provide a loan to the one partner that had reached a considerable outreach. However, this partner declined the offer, being busy transforming its legal status and gaining access to other, cheaper sources of funding. The granting of the innovative scheme of the other micro-finance partner is in line with the policy of Novib to provide subsidies to experimental programmes.

Hivos

The support of micro-finance agencies is an integral and explicit part of the country policy for Hivos. One of the main priorities of Hivos is to develop the economic sector by concentrating on relatively large micro-finance organisations. Hivos explicitly states that lack of access to credit is a major hindrance to the development of small companies and micro-enterprises. It also believes that the micro-finance market only meets a small part of the demand for financial services. The selection of SMEP, much more than FFBS, is in line with these views and country policy.

Unlike ICCO and Cordaid, Hivos has developed a special micro-finance policy for Kenya, such in cooperation with the Triodos Bank. The HTF micro-finance policy is a short-hand but certainly more comprehensive than the operational guidelines of Novib for the selection of micro-finance agencies in the East African region. Of course, Triodos Bank is very eager to know what are the niches and threats of operating in the Kenyan market as it is the provider of loans to partners, using own money, not (category IV) co-financing means. On the basis of a market analysis, the Bank states that it is not interested to fund specialized rural MFIs due to the high risk profiles. Instead, it believes that there is a role for HTF to play in urban markets. This is a bit strange because HTF recognizes that most MFIs in Kenya focus at clients in (semi) urban markets and also does not know what increasing competition can be expected in these markets.

The recent selection of SMEP and the abrupt ending of the loan agreement with FFBS are in line with the criteria and procedures for selecting and monitoring partners as agreed upon in the HTF micro-finance policy for Kenya. With regard to the ending of the loan agreement with FFBS, the financial assessment by the Triodos Bank seems to have been more decisive than earlier positive assessments of FFBS in terms of securing livelihood of women and strengthening their asset base. But will Hivos also be quick to propose to end the relationship with, for instance, SMEP if a positive impact cannot be demonstrated?

Triodos Bank and Hivos believe that when it comes to supporting MFIs with higher risk profiles (like in rural areas), Hivos might consider using subsidies to support innovations. The selection and type of support given to KDA is in line with this policy agreement.

ICCO

Since 1997 ICCO supports the Jitegemea Credit Scheme of the Presbyterian Church of East Africa, a small and urban-slums-based credit scheme in Nairobi. The assistance of ICCO consists of grants (for the revolving loan fund, training and exposure to best practices), moral support and technical assistance. The selection of PCEA/JCS is in line with one of ICCO's general objectives of contributing to 'economic empowerment of marginalized people'. It is less so when looking at what ICCO considers major problems of Kenyan society and in what fields ICCO wishes to concentrate its support: health, forest management, civil society building and organisation/institution building, with an emphasis on anti-corruption, accountability and transparency. As 'financial sustainability' is also briefly mentioned as part of organisation/institution building, one could put the contribution of ICCO to PCEA/JCS under this label. However, at the country level, it is civil society building, much more than direct poverty alleviation in the form of supporting economic and financial agencies, that characterizes the ICCO problem analysis and approach for Kenya. The selection of PCEA/JCS is partly in line with the intention of ICCO to diversify its partner portfolio, not to include large Protestant churches only, partly it is not: JCS is a relatively young and small scheme, yet it is governed by the PCEA.

The selection of PCEA/JCS is completely in line with ICCO's 'green-house' philosophy of nurturing small and young micro-finance schemes, helping them to grow large and reach higher degrees of financial self-sufficiency. The support given to PCEA/JCS is also in line with ICCO's wish to heavily invest (with grants) in capacity building, not providing loans itself, but rather trying to interest third parties to offer loans – with ICCO acting as a guarantor. The mission and objectives of PCEA/JCS are compatible with the general objective of ICCO to contribute to 'economic empowerment of poor people' as PCEA believes that economic support should be given to poor people, not only non-material support. Related to this, PCEA believes that micro-enterprise development is a key towards poverty alleviation in Kenya, a view that is not explicitly mentioned in the country policy of ICCO. PCEA further believes that there is room and need for other non-governmental micro-finance agencies in Kenya, next to the established ones. This is in line with the ambitious objective of ICCO to promote and develop a new example, another best practice in the East African region.

In nearly all aspects the practices of ICCO in selecting and supporting a partner in the field of micro-finance in Kenya match with its policies. The tragedy, however, is that PCEA/JCS has failed to scale up and faces operational deficits. Without new financial support, it will soon wither away. As numerous third parties have shown no interest in granting or lending money to PCEA/JCS so far, the case of PCEA/JCS offers a serious test-case of the 'green-house' approach of ICCO.

7 Summary and conclusions

This chapter provides answers to the two central questions of the evaluation study. In the first paragraph, the question of outreach of micro-finance agencies, including partners of Dutch CFAs, will be dealt with. The second paragraph is about impact and valuation of financial services of partners of Dutch CFAs at the level of clients, highlighting the case of Kenya Women Finance Trust. The third paragraph is about the quality of the support of Dutch CFAs, based on an assessment by Kenyan partners and a comparison of policy and practice of Dutch CFAs regarding the selection and support of partners in the field of micro-finance.

7.1 Outreach of micro-finance agencies in Kenya

There are two major types of micro-finance agencies in Kenya: client-based micro-finance agencies (CMFAs) and member-based micro-finance agencies (MMFAs). The first type comprises of all providers where customers are not also owners of the institution and have little direct involvement in the management of the institution. CMFAs includes banking institutions and NGOs. The second type comprises of providers where resources are mobilized from members and the management is in the hands of members. MMFAs includes Savings and Credit Cooperative Societies (SACCOs), Financial Service Associations (FSAs) and Rotating Savings and Credit Associations (ROSCAs).

Geographical outreach

Overall speaking, geographical outreach of CMFAs in Kenya is low and biased to urban areas. Only 6 of the total of 106 banking institutions are actively involved in micro-finance. Kenya Post Office Savings Bank (KPOSB) has the highest branch density with some 500 offices all over the country. Kenya Commercial Bank (KCB) ranks second with nearly 130 offices. Cooperative Bank (30 offices) and K-Rep Bank (22 offices) rank third and fourth in this respect. Only 20 of the total of 130 NGOs are more or less specialized in micro-finance. About one third of the 20 specialized NGO-MFAs are not just Nairobi-based or working in a particular region of the country but are active in quite a number of districts. Yet, the presence of the NGO-MFAs and their branches is very much skewed in favor of the least poor districts of the country. Nearly all partners of Dutch CFAs providing financial services to low-income people, belong to the category of NGOs that are more or less specialized in micro-finance.

Overall speaking, geographical outreach of member-based micro-finance agencies (MMFAs) in Kenya is higher and more oriented towards rural areas than client-based ones. The category of MMFAs includes the very large group of registered and unregistered ROSCAs, estimated at some ten thousands in

Kenya;³⁹ the cooperative sector, with some 4,000 Savings and Credit Cooperative Societies (including 100 rural ones); and the much smaller and younger group of about 60 Financial Service Associations (FSAs). One Dutch CFA is indirectly contributing to latter segment of the MMFAs: Hivos supports K-Rep Development Agency with the design, testing and development of FSAs in low-potential rural areas.

Quantitative outreach

Kenya Post Office Savings Banks (KPOSB) is the bank that has the largest number of clients, that is, savers: the Post Bank keeps a total of nearly 2.2 million ordinary savings accounts. K-Rep Bank had a total of about 24,000 savings accounts as per June 2001 whereas the Cooperative Bank had attracted a total of nearly 9,000 savings customers as per April 2001. NGOs are not legally allowed to attract and keep savings, though many of them do in an alternative way, requesting cash savings to serve as alternative collateral for lending.

K-Rep Bank is the banking institution providing the largest number of small loans: more than 17,000 as per June 2001. At the end of April 2001, outstanding loans to micro- and small-scale businesses of the Equity Building Society amounted to about 9,000. Cooperative Bank and Kenya Commercial Bank had a much lower performance in this respect, each having disbursed about 2,000 micro-enterprise loans per that date (see also Annex F). The best of the NGO-MFAs (in terms of numbers of clients) is doing better than the best of the banks. KWFT has some 21,000 clients. Three NGO-MFAs each reach 13,000 to 16,000 clients, whereas another three reach 8,000 to 10,000 with credit services. The total number of clients of NGO-MFAs is estimated at some 100,000 people, which is a fraction of the adult population, yet at least twice as much as the total number of borrowers of all the banking institutions together.

The total number of active members of SACCOs is estimated at some 2.9 million whereas the savings base of all SACCOs together was Kshs 29 billion by the end of 1999. The total number of savers with ROSCAs is estimated at 1 million in the country. The total number of savers with the 57 FSAs as supported through the K-Rep Development Agency Program was more than 14,000 as per May 2001, with a total value of savings of nearly Kshs 76 million.

Though outstanding loan volume of all SACCOs was Kshs 22 billion by the end of 1999, precise data on the number of loans could not be accessed. Sources say that only about 20% of the business of SACCOs is in the provision of microfinance services but it is unclear whether this means that one fifth of all active members (or 600,000 people) are small borrowers or micro-entrepreneurs. Given the orientation towards cash-crop farmers in rural areas and the bias towards regular income-earners, it is likely that this number is much smaller. The total number of loans disbursed by the 57 FSAs as supported through the K-Rep Development Agency was nearly 9,000 as per May 2001.

39 Streppel and others (2001) estimate the total membership of ROSCAs at 1 million people. If we assume that average membership per ROSCA is 20, then the total number of ROSCAs in Kenya would be 50,000.

Table 7.1 provides a summary of quantitative outreach scores of different (types of) micro-finance agencies, including three partners of Dutch CFAs (Pride Africa – Sunlink, KWFT, PCEA/JCS) and one type of provider (FSAs) that is indirectly supported by a Dutch CFA (namely: Hivos).

Table 7.1 Quantitative outreach scores of different (types of) micro-finance agencies in Kenya

	Number of loans	Volume of loans (in Ksh million)	Average size of loans	Number of savings accounts	Volume of savings (in Ksh million)	Average size of savings account
Coop Bank (end of April 2001)	2,192 <i>Biashara loans</i>	152.8	69,710	8,665	122.6	14,149
KCB (by December 2001)	1,853	97.8	52,780	N/a	N/a	N/a
K-Rep Bank (end of June 2001)	17,255 incl 12,496 <i>Juhudi loans</i>	446.4 234.8	25,870 18,790	24,124	344.6	14,285
Postbank (April 2001)	0	0	0	2,179,769 and 738 <i>bidii</i> savings accounts	6,554.7 and 4.0 for <i>bidii</i> savings accounts	3,007 and 5,420 for <i>bidii</i> savings accounts
Pride Africa – Sunlink (June 2001)	7,406	202.8	27,383	0	0	0
KWFT (disbursed in 2000)	18,737	383.8	18,737	N/a	N/a	N/a
PCEA/JCS (by June 2001)	597	9.0	15,075	N/a	6.7	N/a
SACCOs (end of 1999)	N/a	2,200.0	N/a	2,900,000	29,000.0	10,000
FSAs (as per May 2001)	8,941	52.9	5,916	14,214	75.9	5,314

According to the Central Bureau for Statistics, ICEG and K-Rep Holding (1999), only slightly more than 10% of the total number of 1.3 million MSEs has ever received credit from any kind of source. The best of the still poor performers is the group of 130 NGOs, that together have reached 10% (or 36,000 MSEs) with their credit services. ROSCAs rank second and together have reached an estimated 32,000 SMEs. Though one would expect much of help from family and friends for micro entrepreneurs (with an average of less than two workers in Kenya, including the proprietor), the baseline survey estimates that only 1.5% of all MSEs has ever been helped with credit from family and friends. The given figure for commercial banks is an expectedly low 1.5%, given their traditional difficulties with handling small loans and servicing clients who cannot meet their standard collateral requirements. The score of the cooperative sector is even lower (1.2%) but this is maybe not that surprising given the fact that most of the SACCOs are servicing regular income-earners in urban areas and cash-crop farmers.

Qualitative outreach

Three approaches can be distinguished to assess qualitative outreach, that is, characteristics of clients. The first approach is a general or institution-led one, taking the official description of the target group of the institution to qualify client characteristics. For what it is worth, one can generally say that the (targeted) clients of all client-based micro-finance agencies are low-income people, often specified as micro-entrepreneurs. Only one of these agencies is targeting low-income women entrepreneurs: KWFT. For member-based MFAs, the picture is different: SACCOs are targeting cash-crop farmers in high-potential rural areas as well as regular income earners in urban ones. FSAs try to reach low-income people in low-potential rural areas.

The second approach is a product-oriented one. This approach is based on the assumption that financial products that are used by clients tell us something about these clients themselves (certainly when these clients repeatedly make use of these products). One example is about the size of loans. If we assume that the smaller the size of loans, the less high-income people (medium- and large enterprises) feel attracted to loans, we can conclude the following on the basis of scores on average size of loans of different providers (see Table 7.1): micro-finance products of Cooperative Bank and KCB reach a top segment of the general target group of low-income people, with an average loan size of more than Ksh 50,000; the poverty-oriented K-Rep Bank and the commercially-oriented Pride Africa are reaching a middle segment of low-income people, with an average loan size of about Ksh 25,000. KWFT, PCEA/JCS but also K-Rep Bank with its Juhudi loan product, are reaching a low segment of the low-income people, with an average loan size between Ksh 15,000 and 20,000. The Financial Service Associations (FSAs) are reaching the lowest income segments, with an average loan size of close to Ksh 6,000.

The third approach is a client-oriented one. It is the most time-consuming and costly way to assess qualitative outreach. Clients are being approached by researcher(s). They are either asked to describe themselves according to their own criteria (on the basis of participatory methods) and/or are being described by the researcher(s) on the basis of his or her own checklist, perception, special interest or social-scientific insights. Sample surveys of clients of WEDCO and K-REP showed that a large majority of the borrowers (some 80-90%) is in commerce and trade. For the present study, the third approach could only be extensively used to describe a sample of clients of KWFT. These clients define themselves neither as poor or very poor, nor as rich or very rich, but rather as not-so-poor in local terms. A large minority of KWFT's clients consists of female heads of households. Though their incomes can be qualified as low in general terms, new clients of KWFT are not poor in terms of business experience, formal education, and financial management experience.

This all means that the statement or assumption of Dutch CFAs that poor people in Kenya have no or very limited access to formal banking services is correct. However, whether a disqualification of the performance of NGO-MFAs or rather a challenge, the fact is that NGO-MFAs individually and as a group are not doing much better than banks in reaching large numbers of poor: in total, not more than 100,000 people are reached by all NGO-MFAs together, with a bias of working in least poor districts of Kenya. In spite of the heavy

investments in technology development, micro-finance as an industry has hardly found appropriate answers to substantially increase outreach and to address poverty on a large scale in Kenya. Also, full-fledged financial intermediation in the micro-finance market has hardly evolved in Kenya. Quite some players in this market concentrate either on savings mobilization or disbursement of small loans. Finally, micro-finance in Kenya, in particular the category of client-based micro-finance agencies, is biased towards urban and/or densely populated areas hosting large numbers of micro-entrepreneurs in a relatively small area. At the same time, different agencies hold different promises: Post Bank and SACCOs attract millions of savers; K-Rep Bank is the best intermediary in the micro-finance market, mobilizing micro-savings and disbursing small loans. KWFT has the largest outreach in terms of numbers of micro-loans disbursed to women-entrepreneurs; FSAs experiment in low-potential rural areas and offer the smallest loans. Only KWFT and, in a limited and indirect way, FSAs are supported by Dutch CFAs.

Concentrating on numbers of people reached by NGO-MFAs, the experience with the provision of financial services to low-income people in Kenya in the 1990s is both hopeful and disappointing. We have seen a few agencies increasing their outreach from less than 1,000 to more than 10,000 clients during this decade. We have also witnessed a change from the 'big one' to the 'big five' or even seven plus a larger number of smaller agencies entering the field of micro-finance. From this we may learn that it is easy to reach some 1,000 people as a newcomer but also that it takes considerable time, energy and professionalism to expand and diversify the client base both in quantitative and geographical terms, reaching more distant areas and poorer districts – keeping portfolio at risk at a minimum, old and new clients satisfied, old and new staff motivated, and product development going.

The scale of micro-finance in Kenya is still 'micro' in Kenya. An important question is whether this industry, that is not that young anymore, is still in its infancy or has simply reached the maximum score in terms of geographical and quantitative outreach? Can we expect the 'big five' to be the 'mega five' ten years from now, each reaching 100,000 low-income people or more, followed by an emerging class of some 20-30 micro-finance agencies, each reaching some 10,000 people? What could stop this industry from growing: technology development, staff development, financial support, government regulation and supervision, what else? The adoption and adaptation of Grameen-bank principles in Kenya – together with generous financial support from some governmental and non-governmental agencies – were major ingredients of a financial technology (r)evolution in Kenya in the 1990s. Can we expect another one this decade?

7.2 Impact and valuation of financial services by partners of Dutch CFAs at the level of clients

The general conclusion is that the repeated access to KWFT loans indeed does make a difference at the level of enterprises, households and individuals. KWFT has helped women not only to keep them going in difficult times but also to increase the number of employees of their business. Enterprise turnover and profitability of old generations of KWFT borrowers have significantly increased. It is, however, improved living conditions of the household (in particular ability to pay school fees, quality of housing, ownership of residential and farm plots) that were mentioned by KWFT clients as the key pos-

itive change experienced, not business expansion and creation of employment. Finally, KWFT has boosted the self-confidence of women.

A question is how much of this success can be explained because KWFT reaches experienced business women, who operate in rather densely populated and/or urban areas, who are relatively high educated, and who have had great exposure to 'merry-go-round' schemes. Another question is how to explain and value the relatively high rate of separation/divorce among repeated borrowers of KWFT loans. Challenges for KWFT might be to include more low potential business areas and poor women in rural areas and to explore ways on how to deal with the HIV/AIDS pandemic, affecting women's businesses in many direct and indirect ways.

Client-centered impact assessments of micro-finance programmes of other partners of Dutch CFAs have hardly been organized, let alone in similar ways. As a result, it is not easy to compare the results of the impact assessment of KWFT with evidence of impact of other agencies. The impact assessment study (Maalu 1999) of WEDCO is an interesting exception to the rule. Like KWFT, WEDCO has adopted a minimalist and group-lending approach to financial service provision. Like the impact assessment of KWFT conducted for the present study, the impact assessment of WEDCO was based on a multi-method approach, using different methods to describe and interview different generations of borrowers. Interestingly enough, some of findings of this study, however, quite differ with those of the KWFT impact assessment. Though WEDCO clients emphasized during focus group discussions that the loans they had received from WEDCO had helped them to increase their stocks and to remain in business, this was not strongly confirmed by the quantitative survey, showing a weak evidence of a link between recipient of the first loan and growth in business profits and also no direct significant impact of participation in WEDCO on individual income growth or business employment growth. Possibly, the impact of WEDCO differs from the impact of KWFT because of different client characteristics: whereas micro-entrepreneurs borrowing from KWFT were higher educated than micro-entrepreneurs not borrowing from KWFT, WEDCO borrowers were less educated than candidate borrowers. Whereas women who have repeatedly borrowed from KWFT enjoy better housing facilities than those who borrowed only once or not yet, those of have not yet received a loan from WEDCO have invested more in housing than those what have already received one or more loans. This would suggest that there is a trade-off between impact on the one hand and qualitative outreach (or client selection and characteristics) on the other.

The evidence on impact of other micro-finance agencies is limited but positive, also pointing at interesting differences in terms of impact between different categories of households and enterprises : (1) A qualitative assessment as part of a case study of K-REP (Pederson and Kiiru 1997) showed that clients generally agree that credit from K-REP has resulted in improved incomes, increased output and growth in their businesses (either in size or numbers of employees). There was however a noticeable difference in the impact of credit on those who had large businesses and those who had small businesses. Those with smaller businesses reported greater impact. (2) An evaluation (Cheruiyot and Kioko 1999) of the Financial Service Association Programme (as supported by K-Rep Development Agency) concluded that improved incomes to shareholders through increased business activities has been real-

ized, adding that benefits have been significantly inclined to the middle income households as compared to the poorer households. (3) An assessment of the Family Finance Building Society (1997) concluded that many of the clients, who are often single mothers and divorced, were in a better position to meet family expenses, to pay school fees, to improve their houses/business premises, or even to buy land from their income generated by the businesses.

Combining the results on measuring outreach and assessing impact, we may conclude that micro-finance as an industry is doing poor in terms of the provision of large numbers of micro-loans but well in terms of impact of micro-loans at the client level. Quantity of services is poor, quality of services is good. The next paragraph addresses the role of the support of Dutch CFAs in this.

7.3 The quality of the support of Dutch CFAs

In this paragraph the findings on the quality of the support of Dutch CFAs will be put together. Three different approaches have been used to assess this quality: as a kind of general and external assessment, profiles of partners are provided to give an idea of what kind of agencies in the field of micro-finance have been supported through the Dutch Co-Financing Programme (see 7.3.1); as a kind of external and partner-based assessment, the views of Kenyan partners on the quality of the support of Dutch CFAs will be outlined (also in 7.3.1). Finally, policies and practices of supporting and selecting partners in the field of micro-finance will be compared as an assessment of internal processes and the quality of policy development and implementation (see 7.3.2).

7.3.1 Profiles and views of partners of Dutch CFAs

Dutch CFAs have traditionally selected and financed client-based micro-finance agencies in Kenya and, more recently but indirectly, member-based micro-finance agencies (FSAs through KDA). Presently, Dutch CFAs support two categories of client-based micro-finance programmes or agencies: the first category consists of newcomers, small organisations or innovative financial programmes (like PCEA/JCS, KDA/FSA, KDA/STEP, Pride Africa-Sun Link) and the second category consists of more established, larger micro-finance organisations (like KWFT, FFBS, WEDCO, SMEP). Given the generally poor outreach of micro-finance in Kenya, including those of NGO-MFAs (!), this two-fold strategy makes a lot of sense.

The first category is very diverse. In all cases (except ICCO), Dutch CFAs basically act as a granting agency that closely monitors progress and problems, not more. The partners who have started new programmes are quite experienced in the field of micro-finance (except in one case: PCEA/JCS). They do not need support for technical assistance, training programmes or networking. They can innovate exactly because they are experienced. The financial support of Dutch CFAs is appreciated because this enables them to start and try new programmes directed at marginalized people in urban slums, sparsely populated or pastoralist areas. Though all programmes are young and small, one partner (Pride Africa – Sunlink) insists on being treated in a commercial way as it also treats its clients (urban micro-entrepreneurs) in a commercial way. This partner very much appreciates the (semi)commercial loan from the Business and Finance Unit of Cordaid and considers it unique as a

supporting agency. The pioneering agency of micro-finance in Kenya, K-REP, appreciates the subsidies of Hivos and Novib for investment in innovative schemes to reach marginalized people and areas, but unlike the case of Pride Africa and Cordaid, there is less of partnership being developed. For K-Rep Development Agency, Hivos and Novib are much appreciated granting agencies, willing to invest in risky and innovative programs.

In one case of the category of newcomers, a Dutch CFA acts as an agency providing a nearly 'all-in package'. The support given by ICCO consists of financial support (for the loan capital, training activities and operational deficit), technical assistance, exposure to best practices, guarantees to third parties, and moral support. The commitment of ICCO and the investment in human resource capacities is very much appreciated by the partner organisation PCEA/JCS, not being experienced in the field of micro-finance but willing to learn and to grow, serving poor people in urban slums of Nairobi. ICCO is like a mother who very much wants its child to grow up. For this purpose, ICCO wants to provide everything – except loans. Unfortunately, the nurturing or green-house approach of ICCO has not been very successful yet: PCEA/JCS has not succeeded in accessing alternative funding (in spite of many attempts), has not considerably scaled up its lending operations, and has not reached a high degree of financial self-sufficiency.

The second category consists of established or emerging micro-finance agencies, belonging to the so-called big five client-based micro-finance agencies in Kenya (see 2.1.4.2). This includes KWFT, WEDCO and SMEP, each reaching about 10,000 clients or more. Dutch CFAs wish to support these 'mature' partners with the provision of loans instead of grants. In addition to regular assessments by programme officers, the partner and its application are subjected to the assessment of a special unit or banking partner of the CFA. Loans are not offered on soft conditions but rather semi-commercial ones (interest rates not much lower than bank rates, debt calculated in local currency).

However, partners who have earlier been given a subsidy by the CFA either do not accept the lending conditions, enjoying access to other, cheaper sources of funding, or cannot meet the criteria set by the special unit or banking partner of the CFA (resulting in a denial of access to the loan facility or even a breaking up of the loan contract). Though in theory one could argue that the semi-commercial loans, as a follow-up service of subsidies earlier provided, offer a competitive edge to the CFAs, this is not true in practice as loan agreements simply are either not concluded or ended abruptly. The partner and the special unit or banking partner of the CFA are not on the same wave length.⁴⁰ This puts some big question marks with the special role or added value of CFAs as providers of loans and guarantees to (existing) partners: the loans (or rather: some of the loan stipulations) are not appreciated. The discomfort comes from two sides: also CFAs, in particular the special unit or banking partner, are very critical about the (potential) borrowers of the CFA or banking partner. Possibly, selecting new partners makes a difference, certainly when the special unit of the CFA has been given room or powers to do

⁴⁰ This applies to the Financial Services Unit of Novib and its partner WEDCO, the Business and Finance Unit of Cordaid and its former partner KWFT, Triodos Bank and its borrower FFBS (partner of Hivos), but also to Oikoscredit, banking partner of ICCO, refusing to provide a loan to PCEA/JCS, a partner of ICCO.

so. The impression is that it is easier to offer a loan to a new, commercially oriented partner (see the case of SMEP but also Pride Africa) than to an existing partner. This suggests that as long as the partner portfolios of the regional bureaus of the Dutch CFA remain the main client base for the provision of loans, the use of loans as a new financial instrument might remain problematic, not reaching impressive volumes.

Whether Kenyan partners like or dislike the support from Dutch CFAs or not, is very much dependent on the phase of its life-cycle and its own views on how it can best be supported to reach its objectives. If the CFA and partner share the same views on how the partner can best be supported, the Dutch CFA is highly valued. If not, then the CFA is not highly valued, also in comparison with other donors. This explains that for different reasons, different approaches of Dutch CFAs to support micro-finance agencies are liked or disliked by different Kenyan micro-finance agencies:

- 1 the bulk finance approach, providing a large subsidy to help a partner that has a good record, effective client-selection approach and outreach modalities as well as strong organizational capacities, to considerably increase its loan portfolio and outreach and to reach another stage of its development and service provision; the subsidy has a leverage function;
- 2 the minimalist and commercial approach, concentrating on the support of a micro-finance agency with a loan;
- 3 the integrated and nurturing approach, providing technical and financial support to small and young agencies; and
- 4 the research and development approach, providing grants to experienced agencies to test and develop new products and schemes.

The practising by Dutch CFAs of the minimalist and commercial approach in supporting micro-finance agencies is in line with the new orthodoxy of the 1990s in the world of micro-finance in general and in Kenya. It is also in line with the Loans and Guarantees programme as part of the Dutch Co-Financing Programme.⁴¹ One could, however, question whether it is in line with one of the central missions of the Dutch Co-Financing Programmes directed at poverty alleviation. Should minimalist and commercial approaches be distinguishing features of support by Dutch CFAs? In one way or another, all approaches – including the minimalist and commercial approach – might be considered instrumental to poverty alleviation through the Dutch Co-Financing Programme. For every approach, a relationship between the approach on the one hand and some kind of poverty alleviation can be defined and expected. Another argument is that an increasing number of large and professional partners simply want to be approached in a minimalist and commercial way. Different points of view on this, fear of losing the opportunity to practice an approach, and difficulties in comparing results of different approaches, might very well hamper comparative analysis and an open discussion.

Anyway, Bilance has practised the first approach, Cordaid the second one. ICCO is a believer of the third approach whereas Hivos and Novib (among

⁴¹ For more details about the Loans and Guarantees Programme, please consult the special working document (in Dutch) entitled 'Het Leningen- en Garantieprogramma in het kader van het Medefinancieringsprogramma: een inventarisatie van werkwijzen en verkennende beleidsanalyse', as prepared by Athmer and Hospes (2002).

others) have practised the fourth approach. This is not to say that Dutch CFAs have monopolized these approaches. Other supporting (multilateral and bilateral) agencies have also practised one or more approaches. Partnership relations and networks, pro-active identification and selection of partners but also casual encounters rather than distinctive features of Dutch support explain why Dutch CFAs have been able to actually offer their support to a few leading NGO-MFAs and some promising innovators and newcomers in the field.

7.3.2 Policies and practices of Dutch CFAs

What can be concluded about the general policy, country and micro-finance policy of Dutch CFAs to select and support Kenyan partners providing financial services to low-income people? Are these policies consistent with, or even: nested in each other? Are practices of Dutch CFAs in selecting and supporting Kenyan partners providing financial services to low-income people in line with these policies and procedures?

To begin with, a seemingly quite meaningless conclusion has to be drawn. For every CFA, the selection of partners that provide financial services to low-income people is in line with one or more of the many policy documents, guidelines or selection criteria of a CFA. However, with some CFAs this is much more explicit, grounded in a coherent set of policy documents, and routinized than with others. If one tries to put the four organisations on a continuum with full (internal) consistency of (general and specific) documents and a perfect match of policy documents and practices in selecting and supporting micro-finance agencies on the one extreme and the complete lack of this on the other, the following picture results:

Hivos

This CFA is closest to the extreme of full internal consistency and perfect match of policy and practice. Hivos has the most explicit and well-defined approach in selecting and supporting micro-finance organisations. Practices very much reflect policy guidelines and procedures. Procedures have very much become routines. Much of this can be considered the fruits of the clear working relationships of Hivos with Triodos Bank and the definition of the complementary roles of HTF and Hivos to support economic programmes. HTF focuses on the provision of loans to runners-up and established micro-finance agencies in urban markets. In terms of geographical outreach, use of financial instruments, target group and size or life-cycle of the micro-finance agency, Hivos plays a complementary role: it targets and supports innovative schemes directed at low-income people in rural areas with subsidies. This is all based on a strong belief of Hivos in the congruence of agency and instrument. Hivos considers itself a trustee of public means that should use these means to provide subsidies, not loans. By guaranteeing loans provided by Triodos Bank, it has found a way to overcome its own limitations and to do what it does not want to do, yet remaining loyal to its own belief. The HTF micro-finance policy for Kenya does not stand alone. It is very much in line with the broader country policy of Hivos, in which the support of economic programmes is one of the corner stones.

Novib

The current approach of Novib to select micro-finance agencies is much in line with the (former) country policy guidelines of Novib – giving a central place to direct poverty alleviation through support of economic programmes (like Hivos). The actual selection has also been very much in line with this approach and guidelines. However, the on-going search and efforts of Novib to define and re-define internal and external relationships have not really been a very enabling condition or structure for this. Related to this, procedures have not really become widely shared, routines and uncontested.

The search of Novib to define external and internal relationships first of all refers to Novib's attempts to cooperate with investor Oikocredit and to build in-house expertise in the field of financial service provision. Secondly, it refers to Novib's embracing of the AIMS-approach, being part of the Oxfam International Group. Whether this embracing will have drastic consequences for the partner portfolio of Novib in Kenya in general and its support to micro-finance agencies in particular, remains to be seen.⁴² For the present study, the first point is more relevant and telling:

Novib put quite some energy in establishing a working relationship with Oikoscredit and building in-house expertise. As the anticipated cooperation with Oikoscredit proved not to be that easy, and for some was quite disappointing, Novib put more efforts in building its own knowledge and advisory unit. In collaboration with micro-finance specialists of the regional bureaus, this unit helped those regional bureaus that were interested in supporting micro-finance agencies (like the one of East Africa, including Kenya) to develop an approach to select such agencies in line with their regional or country policy. Though Novib has put in place a special unit on financial services and procedures on assessing applications from economic partners and micro-finance agencies involving this unit, the mobilisation and actual role of the special unit is very much dependent on the personal views of officers of the regional bureaus on when and with what financial instrument to support economic partners and micro-finance agencies. The fact that the regional bureaus – not the unit – have budgetary powers, certainly plays a role in this.

ICCO

The micro-finance policy of ICCO can be seen as an operationalization of ICCO's general objective of economic empowerment of marginalized people, yet this policy is difficult to legitimize in terms of the Kenya country policy of ICCO. The practices of ICCO in selecting and supporting a small credit scheme of a partner in Kenya with subsidies are in line with general objectives and micro-finance policies but, not surprisingly, not so much with its country policy that does neither consider support of economic programmes as a cornerstone nor support of micro-finance as a spearpoint. The real problem, however, in the case of the Kenyan partner is not a mismatch of ICCO policy and practice but rather the disappointing results (so far) of the all-in-

⁴² If Novib wants to specialize in supporting micro-finance as part of the Oxfam Group (and some documents clearly suggest this), it can easily do so and legitimize this support with reference to the right to a sustainable livelihood. Whether Novib should not do this because other Dutch CFAs are doing this or whether other Dutch CFAs should not specialize in supporting micro-finance because Novib intends to do so as part of the Oxfam Group, remain difficult but valid questions, also depending on why and how CFAs wish to specialize on supporting micro-finance agencies.

package and nurturing approach of ICCO, that may even lead ICCO to review its micro-finance policy. This policy is to target and upgrade small micro-finance schemes up to a point where they can stand on their own financial feet and become bankable in the eyes of lending agencies. ICCO's intention is then to imitate Hivos and to act as a guarantor. Unfortunately, this intention has so far not materialized in Kenya. In spite of the financial and non-financial assistance by ICCO, the credit scheme of the partner is still relatively small and facing losses. As a result, third parties cannot be interested to act as lenders. This has again consequences higher up the aid chain: the performance of the partner offers a sincere test-case for the small group of micro-finance policy designers of ICCO. As a relatively small sum of money is involved and the approach is in line with the micro-finance policy as well as the general philosophy of ICCO to economically empower marginalized people, fierce internal debates on the effectiveness and efficiency of ICCO's support to the Kenyan partner and its credit scheme may not come up at all. One could say that ICCO is still at the beginning of the learning curve. As a result of its approach of nurturing small partners, this curve is relatively long, giving much room to make but also to avoid difficult policy decisions.

Cordaid

The issue of (lack of) internal coherence of policy documents and guidelines and the (mis)match of policies and practices in selecting and supporting micro-finance agencies, can not be described and understood apart from the present phase of the institutional transformation or life-cycle of Cordaid. Unlike Hivos and much more than Novib and ICCO, Cordaid has been recently involved in a complex and drastic process of re-defining, re-shuffling and transferring of powers, mandates, functions. For instance, policymaking and budget powers are being or will be transferred from The Hague to newly established field offices. Shortly after the merger of Bilance, Memisa and Caritas Netherlands, many economic programmes and micro-finance agencies were brought under the supervision of the Business and Finance Unit. This unit got budgetary powers and was supposed to decide whether or not partners are eligible for loans. As a result of the many institutional changes of Cordaid, policies, arguments, routines and decisions that were used to legitimize the support and type of assistance given to a partner before the re-organization process may not be valid or fitting anymore as the mandate to assess partners and applications may have been shifted to another office of Cordaid, developing or holding different views, approaches and criteria. As a result, in some cases partnerships (like with KWFT) are being discontinued whereas at the same time new partners (like Pride Africa Sunlink) are being identified.

However, this is not to say there is no continuity and congruence at all in old and new documents, in old and new offices of Cordaid. For instance, the decision of the Nairobi-based field office to concentrate on pastoralist and urban areas is much in line with past priorities of Cordaid/Bilance for the region. However, the enormous grant to KWFT was not justified in terms of this well-established priority of Cordaid but primarily with reference to the general gender policy of Bilance. Considering the present drafts of the country-policy of the Cordaid field office, prospects for a clear-cut and easy justification of present and future support to micro-finance agencies in Kenya are quite dim, except if 'access to markets' will be adopted as one of the priority country themes. To a large extent, this again will be non-issues if the Busi-

ness and Finance Unit will be allowed to – more or less independently – exercise its newly acquired powers with regard to the selection, support and monitoring of micro-finance agencies. The impression is that the merger of three agencies into Cordaid in practice was followed by a divide of the new organization Cordaid into two parts: the thriving Business and Finance Unit providing loans on the one hand and the regional bureaus of the Hague providing subsidies on the other, the latter gradually giving way to newly established field offices. This may have been the unintended consequence of the authorization of the Business and Finance Unit as a line department with budgetary powers and also be typical for a re-organization process during and after which new routines, information flows, modes of consultation, have to be established. Anyway, a parallel structure evolved with two (or even three) different front-door offices (field office, regional office of The Hague, Finance and Business Unit of the Hague). An important question is whether this parallel structure should and will gradually give way to a new and clear hierarchy of missions, mandates and criteria, or not. The issue is not so much whether actual selections and support modalities are in line with policies but to what extent different (internal) beliefs, routines, experiences and criteria of different parts of the Cordaid-family can be better articulated, leading to a more efficient organization, realizing economies of scale, leaving room for professionalization, yet remaining dedicated to one mission.

Annex A Workplan for the Evaluation of Micro-Finance Programmes in Kenya as Supported Through the Dutch Co-Financing Programme

1 Introduction The general Terms of Reference for this study have been established in the document ‘Terms of Reference for the Evaluation of Micro-Finance as Supported Through the Dutch Co-financing Programme’. The methodological terms of reference of a key methodological approach proposed for this study have been outlined in the ‘Global Framework and Proposal for Impact Assessment Studies of Micro-Finance Programmes’ (Hospes, April 2000). This ‘Global Framework’ provides an explanation for taking the client as unit of impact assessment, defines objectives of such assessment, and provides arguments and ideas on how to measure (what) impact.

This document contains the specific workplan for the evaluation of micro-finance programmes in Kenya as promoted through the Dutch Co-Financing Programme and as such functions as the Terms of Reference for this evaluation. The key methodological approach for this evaluation is a client-centered impact assessment of one of the leading micro-finance agencies of the country: Kenya Women Finance Trust (KWFT). A preparatory and exploratory visit of Otto Hospes (together with Ineke van Halsema) to Kenya/KWFT was organized in February 2001 to discuss the ‘Global Framework’ and this draft workplan with KWFT, to meet candidate researchers for evaluation studies, and to explore possibilities how to profit from experiences of other partners of Dutch CFAs with impact assessments.

2 The Selection of Kenya and KWFT The provision of financial services to large numbers of poor people is a very difficult affair, certainly when conditions are not really conducive. This applies to many parts in Africa characterized by one or more of the following conditions: harsh ecological conditions, rural underdevelopment, sparsely populated areas in combination with fastly growing urban populations, AIDS, and political and financial-economic instability. Though microfinance has to abide to certain principles to increase outreach and remain financially sustainable (Otero and Rhyna), every provider, every country, has to find its own ways of doing so under different and often difficult conditions.

Given this, we felt particularly attracted to an African country hosting well-known and leading micro-finance organizations that have demonstrated an impressive repayment record, staggering increase of active clients and borrowers and/or continuous experimenting: Kenya. In addition, Kenya seems to be a better place for client-centered impact assessment as leading MFOs have worked with generations of clients and avail of some form of baseline data and borrower profiles. A final reason why Kenya was considered as interesting option and field for evaluative studies is that in some respects Kenya seems to be a second Bangladesh, that is, the Grameen-bank model has inspired quite some non-governmental micro-finance organizations (NGMFO)

to adapt and adopt the group-lending methodology of the Grameen Bank to the (diverse) Kenyan situation.

The exploratory visit of Otto Hospes and Ineke van Halsema (February 2001) confirmed their assumption that the evaluation of micro-finance NGOs of Kenya can very well contribute as a country study to the overall assessment of the Dutch Co-Financing Programme as geared towards poverty alleviation. The critical issues here concern outreach, group lending approaches versus individual lending, donor subsidies versus loans, and coping with political-financial instability. Exploration of these issues will directly or indirectly contribute to the policy debate on micro-finance and poverty alleviation as well as on the organization and quality of the aid and/or credit chain.

This first and foremost applies to outreach: notwithstanding ambitious plans or impressive growth rates of active clients and loans outstanding over the last years with some NGMFOs, the total number of (poor) people served with financial services by Kenyan NGMFOs (in absolute and relative terms) is limited; in addition, operations seem mostly concentrated in either urban areas and/or high-potential rural areas, both of them quite densely populated.

Next to the central problem of outreach, there seem to be some other challenges or problems that not necessarily seem limited to the Kenyan situation but have wider significance as common problems of NGMFOs:¹

- a Outreach modality: groups or individual? There is pressure on the group-lending model from two sides: in some cases, members prefer larger and individual loans whereas in other cases members do not (any longer) show up at group meetings as those 'who are present at a meeting are expected to contribute for the installment due from absent members' (mid-term review of KWFT, 1998: 16).
- b Size of loans: less than 50 USD, 50-100 USD, 100-200 USD, 200-500 USD or more?
- c Legal status: seek bank status or keep NGO status, that is, to be allowed or not be allowed to attract savings and use them for lending purposes
- d Provide loans from own resources or access bank loans with guarantees from donors?
- e Sources for lending: subsidies, guarantees, loans and/or equity? The Jitgemea Credit Scheme finds it difficult to grow and expand the client base without (extra) donor subsidies; at the same time JCS feels to have little options but to try and access Oikos Credit for a loan to increase outreach and lending operations; KWFT wants to gradually decrease its donor (subsidy) dependency by negotiating soft loans first; the K-REP group has established K-REP Bank (enjoying equity finance from FMO and Triodos), K-REP Development Agency (enjoying a subsidy from Hivos) and K-REP Advisory Services. Sunlink of Pride Africa enjoys a short-term guarantee from Cordaid that helps her to access loans from Standard Chartered Bank.
- f Shock-proof or not? There is much of turbulence or at least tension in the political, economic and financial system of Kenya. Related to this, the government seems to be involved in creative management of foreign exchange flows. All this might very well affect operations of microfinance NGOs when

¹ Issues a, b and c together seem very much to reflect the debate on poverty-lending vs micro-banking.

'the system' breaks down (at times of elections, turn of the powers, economic mishap or financial mismanagement). How shock-proof are Kenyan micro-finance NGOs?

Currently, there are four providers of micro-finance in Kenya that are being financed by one or more Dutch CFAs: KWFT, K-REP, Jitegemea Credit Scheme and Pride Africa (Sunlink). As regards the selection of the host organisation and main case study for the client-centered impact assessment, one could say that both Jitegemea Credit Scheme and Pride Africa (Sunlink) are too young, yet too small, and/or too much involved with experiments and design (though one should add here that all operations of Pride in African countries taken together are of a considerable volume and pretty mature). K-REP and KWFT have been much longer involved in micro-finance business in Kenya. They are both leading MFOs in the country, enjoy quite impressive repayment records, and have – relatively speaking – considerable outreach. At the same time they are certainly not satisfied with their outreach – also explaining their search for alternative outreach modalities. The K-REP Group includes the K-REP Bank, K-REP Development Services and K-REP Advisory Services whereas KWFT provides different group-lending products through its six regional offices and has established a working relationship with Barclays Bank with a view to serve clients with individual loans.

At this point secondary criteria of selection have become decisive. In the case of the earlier conducted evaluation study of micro-finance in Sri Lanka, a Novib-partner happened to be the host organization and main case study for the client-centered impact assessment. If we want to have another Dutch CFA more closely involved in the evaluation with the Kenya country study and get insights in an aid or credit chain involving another Dutch CFA, then we should not select a Novib-partner in the case of Kenya. Therefore, in the end KWFT (a partner of CORDAID) was selected instead of K-REP. The presence of a CORDAID regional office and the different ways of support from CORDAID to different Kenyan MFOs provided additional arguments in favor of selecting a CORDAID-partner as host organization and main case study for the client-centered impact assessment, namely KWFT. However, K-REP will certainly receive special attention with regards to the planned partner-centered assessment (see below: 4) as K-REP currently enjoys support from several Dutch funding agencies (Novib, Hivos, FMO and Triodos).

3 Central Objectives and Research Questions

- The central objectives of the evaluation of micro-finance programmes and organizations in Kenya as supported through the Dutch Co-Financing Programme are:
- 1 to assess the role and importance of micro-finance as a tool for poverty reduction in Kenya on the basis of analysis of the outreach, valuation and impact* at the client level** of the financial services as provided by organizations that are financially supported by Dutch Co-Financing Agencies
 - 2 to assess the quality of the services and financial instruments of Dutch Co-Financing Agencies that have been used to support partner organizations in Kenya addressing poverty through provision of financial services to their clients

The central research questions are:

- 1 what is the outreach, valuation and impact at the client level of the financial services as provided by organizations in Kenya that are financially supported by Dutch Co-Financing Agencies?
 - 2 what has been the specific contribution of the Dutch co-financing agencies as financial supporters of organizations providing financial services in Kenya to low-income people and what has been the quality of this contribution according to these organizations?
- * Following conventions in the international debate on the provision of financial services to low-income people, this study uses the term 'impact' in the meaning where other evaluations by order of the Steering Committee would use the term 'effects' to refer to short-term and middle-term results of development interventions.
- ** Clients and non-clients will be classified in terms of gender, age, socio-economic status, education, ethnicity and/or possibly other relevant client characteristics; a selection of these characteristics (certainly including gender and socio-economic status) will be used to determine how they define access to and use of financial services; finally, valuation and impact of financial services will be measured for every respondent category.

4 Organization and Methodology

4.1 Organization and activities

To address the central objectives and research questions, it is proposed to study all organizations in Kenya that provide financial services to their clients and that are being supported by one or more Dutch CFAs (preferably for this purpose). However, in only one case, the case of KWFT, this can and will be done in a very comprehensive way through a client-centered impact assessment and extensive partner-centered assessment of Dutch CFAs. In all other cases, use will be made of secondary sources and interviews with staff to collect data and gain insights on both the issue of outreach, valuation and impact at client level and the issue of valuation and ranking of Dutch CFAs. As preparatory and background studies for the client-centered impact assessment of the selected organization, it is proposed to make a service profile of this organization. To situate this organization next to others and to provide some background to interviews with other micro-finance organizations, it is necessary to conduct an analytical outline of the financial landscape of Kenya.

To summarize this and to address the central objectives and research questions, the following activities are thus proposed:

Preparatory and background studies:

- a Short description of structure and dynamics of financial landscape of Kenya.

The specific objectives of this activity are:

- to provide a general but analytical outline of how major but Kenya bound (combinations of) economic developments, political systems and changes, ecological conditions and/or cultural practices have affected the development of (formal and informal) providers of financial services – this all with a view to make clear that whatever has been achieved by KWFT is another achievement than similar organizations have realized in other countries

- to put KWFT in perspective vis-a-vis other (formal and informal) providers by describing types of financial products per provider (adapting and using Moll and Hospes, 1995, for this purpose), with results also serving as an input for the design and implementation of ranking exercises.

- b Profiling of KWFT (in terms of objectives, financial products, quality of loan and savings portfolio, client profiles) in Kenya:

A desk-study is proposed with KWFT on problem analysis, objectives, types of financial products, quality of the loan and savings portfolio of KWFT, numbers and profiles of clients, and changes herein over the last 5 to 10 years (period to be specified).

Client-centered impact assessments:

- c Client-centered impact assessment of KWFT

The specific objectives of this assessment are closely connected to the central objectives of the evaluation, showing that the client-centered impact assessment is a key methodology and part of the evaluation:

- to provide profiles of generations of KWFT clients (of savers and borrowers)
- to rank savings and credit preferences of clients and non-clients of KWFT
- to describe and assess the access and use of KWFT clients to various sources of credit and savings, and how such relationships and networks of KWFT borrowers and savers affect such access and use
- to assess what difference does the micro-finance intervention of KWFT make to the individual client – being member of a household, group and/or an enterprise at the same time

- d Inventory of reports and knowledge/experiences (objectives, methodologies, results) of client-centered impact assessment with providers of financial services in Kenya (other than KWFT yet also) supported by Dutch CFAs

Partner-centered assessments of CFAs:

- e Partner-centered assessment of one or more Dutch CFAs (in casu COR-DAID) as suppliers of financial services to KWFT
- f Valuation and ranking of Dutch CFAs as suppliers of financial services in the eyes of their partners (other than KWFT yet also) providing financial services to low-income people in Kenya

Studies of desk officers:

- g Assessment of policy formulations, intentions, procedures, and practices at the Kenya desks of Dutch CFAs (which has to be conducted in The Netherlands and is a functional part of the activities for this TOR but will be budgeted under the TOR for Netherlands-based desk studies and studies of desk officers, see General TOR)

Workshop (optional):

- h Workshop/Feed back session with KWFT to discuss experiences, methodologies and results of c) and their possible implications for the mission, outreach modality, targeting, financial products, product development, data collection on clients, impact monitoring and impact assessment

4.2 Methodology

For every activity (mentioned under 4.1), another combination of data collection, methods and analysis is required:

Preparatory and background studies:

- a Desk study and interviews with key informants from the banking, NGO, consultancy and academic worlds.
- b Desk study with KWFT, possibly mobilizing contacts with the funding CFA (CORDAID) for this purpose and/or the researcher for g).

Client-centered impact assessments:

- c The client-centered impact assessment offers the key methodology of the evaluation. It will be organized and sequenced as follows:
 - I Sample survey that starts with participatory research methods to generate data and insights on a) client profiles and b) ranking of savings and debt preferences, and then continues with c) asset research, comparing clients and non-clients as well as different generations of clients.

Availability of client records or impact monitoring systems (or the lack of it) and sampling of respondents are very decisive for the organization and results of the IA. As the impression is (see Metz 2000 and also Report of Visit to KWFT of Kenya by Hospes, February 2001) that KWFT does not avail of very comprehensive and sophisticated client recording and impact monitoring systems, preparation of the sampling becomes very critical (also because experiences elsewhere show that sampling can be very time-consuming).

Rather than sequencing products (offering different products or outreach modalities through time to clients on the basis of a graduation procedure), KWFT seems to offer one main product (thru the group-lending schemes) in all its regions and one or two other products (in collaboration with Barclays Bank; village banking) in only a few places, that is, on a limited or experimental scale. The lack of a graduation procedure implies that other ways have to be identified on how to identify different generations of clients for the generation-bound client-centered impact assessment (using the so-called pipeline approach). Possibly, the sampling of different generations of units and groups (served by the same unit) might offer a way-out. Anyway, certainly at this point close collaboration with KWFT-staff is critical.

Comparison between clients and non-clients can also offer relevant insights, provided one can select a control-group that is similar to the client-group in terms of age, gender, ethnicity, occupation, socio-economic status and edu-

cation. This study also aims to include clients of other micro-finance organizations in the control-group in an attempt to assess what agency (with what objectives, financial services and outreach modality) contributes most to poverty reduction of its members (leaving out the question here whether the organization reaches a large or small number of people).

It should be emphasized, however, that client-centered and multi-method impact assessment can not be organized without and before profiling of clients and non-clients (quality of outreach). It is proposed to draw these profiles on the basis of wealth-ranking exercises, taking local concepts and definitions of rich and poor as guiding points. A next step will be to rank the savings and credit preferences of both clients and non-clients (valuation) per wealth rank. Measuring quality of outreach and valuation together form the basis for the client-centered impact assessments (see also General TOR and Global Framework).

- II Qualitative research (borrowing from the humanitarian tradition of anthropologists and sociologists) on how access and use of different financial services have affected social and political relationships and the other way around.

When it comes to analyzing access and use of financial services and how such access and use affect social and political relationships and the other way around, the natural-scientific approach has little to offer. Instead, the humanities tradition can be mobilized for this purpose, using participatory observation, semi-structured and informal interviews, event analysis, life-histories and/or extended case-studies as key methods. Such methods can be of particular importance to unravel loan fungibility as a vital strategy of low-income individuals, households and micro-entrepreneurs (see Global Proposal).

The client profiling, ranking exercises and sample survey will hopefully generate a wealth of useful information but at the same time will and can not provide answers to a number of (other) questions. The more anthropological research on access and use can compensate for the limitations of the three first-mentioned and planned methods. At the same time, the idea is that the more anthropological research should really benefit from the client profiling, ranking exercises and asset research, taking their (provisional) results and (new) questions as an input (in the form of background information, hypothesis or starting point for further investigation).

As social and political relationships can include anything from gender, age, ethnicity, patron-client relationships, kinship, class, political affiliation to religious association, certainly choices have to be made. Husband-wife and other gendered relationships but possibly also ethnicity- or religion-based relationships seem very critical and fruitful social fields in the case of KWFT and Kenyan society at large to investigate the two-way process of social conditioning and impact of the access and use of savings and credit services. Anyway, the final selection of such relationships for study purposes will be done in consultation with the contracted Kenyan researcher (with the special assignment to address this complex issue) and depends very much on a thorough understanding of social and social-political relationships of clients.

For a general account of the issues with and components of client-centered impact assessment, please consult the Global Framework for Impact Assessment Studies of Micro-Finance Organizations (Hospes 2000).

- d Desk studies, interviews with informants, and interviews with staff of organizations that are funded by Dutch CFAs and provide financial services to their clients

Partner-centered assessment of CFAs:

- e Data collection, desk studies and interviews with former and current staff of KWFT, with a view to generate data and insights on how KWFT values and ranks the financial services of the Dutch CFA in comparison to other funding agencies
- f Data collection, desk studies and interviews with former and current staff of other providers of financial services that are funded by Dutch CFAs, with a view to generate data and insights on how these other providers value and rank the financial services of the Dutch CFA(s) in comparison to other funding agencies.

Studies of desk officers:

- g Analysis of reports, statements, checklists, policy documents and interviews with officers at the Kenya desks of Dutch CFAs, with a view to assess policies, procedures and practices with the selection and support of partners providing financial services to their clients.

Workshop/ feedback session (optional):

- h Organization of a workshop

5 Selection of the geographical areas of research for the client-centered impact assessment of Kenya

Kenya numbers 8 Provinces with a total of 70 districts. KWFT now operates in 6 so-called regions that in some cases are part of a province, yet in other cases include areas of two provinces. The regions are: Mt Kenya Region, Nairobi Region, Coast, Rift Valley, South Nyanza and Western Kenya.

Mt Kenya Region is the oldest region (1991). Coast is the second oldest but has probably faced quite some renewal of clientele due to upheaval and ecological crisis. Nairobi Region (1995) ranks third in terms of age. The younger ones include Rift Valley (with the regional office starting January 1998), South Nyanza (starting date: March 1999) and Western Kenya (2000).

To select two regions for research, the following criteria (corresponding with those used for the evaluation study in Sri Lanka) have been used:

- 1 the two regions should be old enough to allow for identification of different generations of clients
- 2 every region should include a high and low potential area or unit
- 3 every region should include an urbanized and rural area or unit
- 4 preferably one or more microfinance NGOs should operate in the area as well

- 5 the area or unit should not be overresearched to minimize the problem of evaluator bias (with respondents being tired of researchers or given 'pre-fab' answers)

Taking these criteria into consideration, one of our first propositions was to select Mt Kenya Region and Coast. However, the changes among the client-base in Coast as a result of political instability and ecological crisis made us drop Coast and select Nairobi Region instead (with the latter being proposed by Dr Jennifer Riria as well).

The 1996-report on Borrower Profile of KWFT based on research in Mt Kenya by McCormick and others, might not only provide useful insights but also reason to consider the same areas for evaluation research in Mt Kenya Region (to incorporate something of a longitudinal approach in the evaluation study).

6
Operational
Aspects: who will
do what?

As the client-centered impact assessment offers one of the most crucial stages of the evaluation study, this section starts reasoning from this point and then further to the other activities.

A multi-method has been proposed (see Global Proposal) as there is no single method that can yield complete insights on the impact of micro-finance programmes (if such insights do exist at all) at the client level. This not only means that one has to define different but complementary methods but also identify (different) researchers who can each tackle a specific type of research and research methodology. Last but not least, this means that the researchers not only have to be (one of) the best in their fields of expertise but also have synergetic capacities, being able to define how he or she can tackle or use the assumptions, approaches and findings of the other member of the research team in a constructive and creative way.

Given this and on the basis of an exploratory visit of Otto Hospes in February 2001, the following composition of the evaluation team and division of responsibilities and tasks is proposed (see 4.1 for the description of the activities):

- Mr. Muli Musinga (research manager of ACEG- African Centre for Economic Growth), coordinator/team leader, responsible for the quantitative part of the client-centered impact assessment and supervision of background/preparatory studies plus partner-centered assessments
- Mrs. Milcah Ong'ayo (PET Development Consultants), responsible for the two qualitative parts of the client-centered impact assessment (participatory approaches and anthropological methods)
- Dr. Dorothy McCormick (University of Nairobi, Institute of Development Studies): advisor/commentator to the two aforementioned persons

Activity c), method I: *client-centered impact assessment studies*

- Mr. Muli Musinga will be responsible for the design, implementation and reporting of the quantitative part of activity c, method I, and at this point work together with and use the insights from
- Mrs. Milcah Ong'ayo, who is experienced with participatory methods of research, and responsible for the qualitative part of activity c, method I.

- For each of the two selected districts, a maximum of 6 enumerators will be selected and trained for the sample survey to support Mr. Muli Musinga.

Activity c), method II: *client-centered impact assessment studies*

- Mrs. Milcah Ong'ayo will be responsible for the design, implementation and final reporting. For the implementation of this activity and writing of case-studies, she can work together with two qualified junior researchers.

Activities a) and b): *background and preparatory studies*

- This can be done either fully by Mr. Muli Musinga (approaching Susan Johnson and Aleke Dondo, borrowing from their works) or partly done by Muli Musinga and shared with others.

Activity d): *client-centered impact assessment studies (cntd)*

- This can be done by the same person(s) mentioned for activity a) (or under his or their supervision) as the former activity provides an insightful basis and social infrastructure for activity d).

Activity e): *partner-centered impact assessment studies*

- This can be done by the same person(s) mentioned for activity b) (or under his or their supervision) as the former activity provides an insightful basis and social infrastructure for activity e).

Activity f): *partner-centered impact assessment studies*

- This can be done by the same person(s) mentioned for activity a) (or under his or their supervision) as the former activity provides an insightful basis and social infrastructure for activity d).

Activity g): *studies of desk-officers*

- This can be done by either the general coordinator or someone operating under close supervision of the general coordinator. In any case, the researcher has to exchange provisional results with the researchers of e) to enable synergy, the analysis of policies and the understanding of policies, and herewith the evaluation of the quality of interfaces.

Activity h) is optional: *workshop*

- All three senior researchers participate in the workshop (if any) and (in consultation with each other and the principle research coordinator) decide how to present the approach and findings
- For the practical part of the organization of the workshop, Mr. Muli Musinga works together with Dr. Jennifer Riria (executive director of KWFT) or one of her deputies.

This all shows that the team of the three mentioned senior researchers is critical for the evaluation study, not only with respect to the client-centered impact assessment but with regard to the organization and/or implementation of all other activities as well.

Though every member of this team has his or her own responsibilities and tasks, there is need of a manager to coordinate this, to discuss problems and progress with the principle research coordinator and to act as the principle agent between the team and KWFT. For these tasks we want to make Mr.

Muli Musinga responsible in the capacity of Southern research coordinator or manager.

Mr. Muli Musinga maintains close contact with the general coordinator of the evaluation dr. Otto Hospes, who bears the final responsibility for the outputs of the evaluation.

- 7** • Activities a en b: March, April 2001 (2 or 3 weeks in total)
- Time Frame: when what will be done?** • Activity c, part I: preparation during March (2 weeks), field studies in March, April (4 weeks), writing in April or May (2 weeks)
- Activity c, part II: starting April (lasting 2 months)
 - Activity d: follow-up of (or together with) activity a) in April (2 weeks)
 - Activity e: follow-up of (or together with) activity b) in April (1 week)
 - Activity f: follow-up of (or together with) activity a) in April (2 weeks)
 - Activity g: 2 weeks in May
 - Activity h (optional)
 - Writing of final report (in June 2001) (4 weeks)

8 **Outputs**

- 1** Working document(s) per activity (see 4.1):

Background studies:

- a Report (25 pages) describing and analyzing the structure and dynamics of the financial landscape of Kenya and the (changing) positions and profiles of the micro-finance sector, in terms of financial products, numbers of clients (out-reach), outreach modalities and capital structure (savings, shares, donor subsidies)
- b Report (10 pages) that provides a profile of KWFT in terms of problem analysis, objectives, financial products, quality of loan and savings portfolio in Kenya and changes herein over the last 5-10 years (period to be specified)

Client-centered impact assessment studies:

- c Report (75 pages, excluding annexes) that contains the objectives, research questions, methodologies and results of the multi-method client-centered impact assessment of KWFT. The core of the report might consist of two main parts: a part that outlines results of client profiling, ranking of saving and credit preferences and asset research (see I of 4.2 c) and a part that outlines result of the social impact and conditioning of the access and use of different financial services, including those of KWFT (see II of 4.2 c). In the concluding part of the report the central questions of the TOR should be addressed, with a focus on KWFT).
- d Report (25 pages) that provides an analytical inventory of reports and knowledge/experiences (objectives, methodologies, results) of client-centered impact assessment with providers of financial services in Kenya (other than KWFT yet also) supported by Dutch CFAs

Partner-centered assessment studies of CFAs:

- e Report (15 pages) that provides an overview of donors, shareholders and lenders of KWFT (over the last 5-10 years) and demonstrates how different KWFT staff and former staff value and rank Dutch CFAs in comparison with other financing agencies. (An annex should contain a description of the methods, approach and the list of questions used.)
- f Report (25 pages) that provides an overview of donors, shareholders and lenders of other providers of financial services in Kenya that have enjoyed financial support of Dutch CFAs and demonstrates how these providers value and rank Dutch CFAs in comparison with other financing agencies. (An annex should contain a description of the methods, approach and the list of questions used.)

Studies of desk officers:

- g Report (20 pages) that assess policy formulations, intentions, procedures, and practices at the Kenya desks of Dutch CFAs.
- 2 Final (synthesis) report written by Otto Hospes in cooperation with Kenya Coordinator Muli Musinga according to a format to be established by the Steering Committee. Major considerations in establishing the format of the report (40-45 pages) are that it should be readable and short, and that it should have a format similar to other Steering Committee evaluation reports.

3 Workshop in Kenya (optional):

See 4.1 h: workshop with KWFT (with possibly other micro-finance organizations participating) and workshop report or publication (that either provides a full account of all activities or focuses on a methodology, poverty or policy debate, or provides a more selective description and analysis of KWFT, based on activities b), c) and e).

9 Organization and Contractual Arrangements

Wageningen University and Research Centre (WUR) will be the main contractor for the entire exercise. Otto Hospes will act on behalf of WUR as the general research coordinator. He will work together with the team of three Kenyan senior consultants-cum-researchers, including the Kenyan research coordinator. WUR sub-contracts each and every Kenyan researcher on a bilateral basis.

Funds will be made available by the Steering Group as per the agreed budget and contract and the main contractor, WUR, will be provided with an adequate advance to start the work and pre-finance Kenyan inputs. Accounting will follow the procedures common to work with DGIS. A clear distinction will be made between The Dutch and the Kenyan part of the budget. WUR will handle the entire budget, and will only charge a management fee for handling the Kenya budget. Fees to be charged for Kenyan researchers will be net, i.e. without any overhead of profit charges by WUR.

- 10**
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Annex B Questionnaire for the client level impact assessment study of Kenya women finance trust

	Serial Number:	SERNUM
Name of the Enumerator: _____	ENUM	_____
Date of Interview: _____		
Location: _____	LOCATION	_____
District: _____	DISTRICT	_____
KWFT Region: _____	REGION	_____
KWFT Unit: _____	UNIT	_____
Rural or urban area: _____	RURURB	_____
High or low potential area: _____	HIGHLOW	_____
Generation of client: _____	GENERATN	_____
(1=5+lns; 2=3&4 lns; 3=0-2 lns)		

A Personal details of respondent

- 1 Name of respondent: _____

- 2 Ethnic group of respondent _____ 2ETHNIC: _____

- 3 Year born _____ 3YRBORN: _____

- 4 Marital Status of respondent _____ 4MARSTAT: _____
 1=Single 3=Divorced/separated
 2=Married 4=Widowed

- 5 Highest level of education attained: _____ 5EDUCATE: _____
 1=None 4= 'A' Level
 2=Primary school 5=University
 3=Secondary school 6=Literacy classes

- 6 Other training received: _____ 6OTHTRN1: _____
 1=None 3=Vocational training 6OTHTRN2: _____
 2=Apprenticeship 4=Professional training
 5=Other (specify) _____

- 7 Please indicate the following with regard to the various members in your household

# of members	Members in household using relationship to respondent (1=Spouse; 2=Child; 3=Parent; 4=Grant parent; 5=Grand child; 6=Sibling; 7=Employee; 8=Other)	Gender (1=Female 2=Male)	Age (years)	Main occupation (1=Baby/child not in school; 2=Student; 3=School leaver/unemployed; 4=Wage employed; 5=Business; 6 = Farmer; 7=Domestic worker; 8=Other)	Education (1=None; 2=Primary; 3=Secondary; 4=Higher)	Other training (1=None; 2=Apprenticeship; 3=Vocational; 4=Professional; 5=Other)	Marital status (1=Single; 2=Married; 3=Divorced/S4=Widowed)	Residence (1=Resides within; 2 =Resides elsewhere)
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

8 Who makes the final decisions with regard to the use of your household resources? _____ 8DECIDE _____
 1=Self; 3=Another member of my household (specify _____)
 2=Spouse; 4=Other (specify _____)

B Information on enterprise

9 Type of enterprise activity: _____ 9TYPEBUS _____
 1= Manufacturing
 2= Trade
 3= Services

10 Year enterprise was started _____ 10YRSTAT _____

11 Is this the same business you were running when you joined KWFT? _____ 11SAMEBU _____
 1=Yes
 2=No

- 12 (a) Who according to your business trade license/registration is the owner of this business? _____ 12OWNTYP _____
 1=Self - sole owner 4=Jointly with others (not members of household)
 2=Spouse 5=Other (specify _____)
 3=Jointly with spouse/others in h'hld
- 13 Site location of business: _____ 13LOCATN _____
 1=At home 6=Roadside -kiosk
 2=Commercial site/shopping centre 7=Roadside - open ground
 3=Industrial site - including Jua Kali sheds 8=Mobile
 4=Market stall 9=Other (specify _____)
 5=Open market
- (b) Is this the same site location you were when you joined KWFT? _____ 13LOCHAG _____
 1=Yes; 2=No
- (c) IF NOT, what was the location of your business by the time you joined KWFT? _____ 13LOCBEF _____
- 14 Structure of business premises _____ 14STRUCT _____
 1=No structure - open
 2=Temporary
 3=Permanent
 4=Other (specify _____)
- (b) Is this the same type of structure you had when you joined KWFT? _____ 14CHANGE _____
 1=Yes; 2=No
- (c) IF NOT, what was the structure of your business premises by the time you joined KWFT? _____ 14STBEF _____
- 15 What is the ownership status of your business premises? _____ 15OWNPR _____
 1=Own
 2=Lease (No. of years _____)
 3=Rental
 4=Temporary occupation license
 5=Squatting/free occupation
 6=Other (specify _____)
- (b) Is this the same type of ownership you had when you joined KWFT? _____ 15OWNCH _____
 1=Yes; 2=No
- (c) IF YES, what was the ownership by the time you joined KWFT? _____ 15OWNBEF _____
- 16 Working patter of business:
 (a) Number of hours open (from _____ to _____) 16HRSOPN _____
 (b) Number of days per week open 16DAYSOP _____
 (c) Number of months in a year open 16MTSOPN _____

17 Please indicate the number of different categories of workers in your business:

Type of workers	Full-time		Part-time		Total	
	Female	Male	Female	Male	Female	Male
Owner (s)						
Paid (wage/salaried)						
Unpaid						
Total						

18 Degree of separation of enterprise from household:

(a) Do you keep business money separate from money for personal/household expenses? _____

18SEP

1=Yes; 2=No

(b) Are you able to calculate the profit (or loss) of your enterprise of your enterprise? _____

18CAL

1=Yes; 2=No

(c) IF YES, how frequently do you do this? _____

18FRE

1=Daily; 2=Weekly; 3=Monthly; 4=Annually; 5 = Other (specify _____)

(d) Do you pay yourself a wage/salary for your work in the business? _____

18WAGE

1=Yes; 2=No

(e) Do you keep business records? _____

18REC

1=Yes; 2=No

19 Approximately, what were the TOTAL SALES from your business last month? (in Kshs) _____

19SALE

20 How do you compare this from your normal sales in a month? _____

20COMP

1=Above average; 2=Average; 3=Below average

21 What expenses did you incur in running your business last month?

Expense item	Amount in Kshs
Purchase of supplies	
Salaries/wages	
Rent	
Transportation	
Utilities: Electricity/water/telephone	
Other expenses:	
Total expenses	

- 22 Did you make a profit last month? _____ 22PROF _____
1=Yes; 2=No
- 23 What is the estimate amount of profit (or loss) you
made last month? PROFIT Kshs _____ 23PAMT _____
LOSS Kshs _____ 23LOSS _____
- 24 How do you compare the profitability of your business now and the
time you joined KWFT? _____ 24PCOMP _____
1=Increased; 2=largely remained the same; 3=Decreased
- 25 Contribution to household income:
(a) What proportion of your household income comes
from this business? _____ 24CONTR _____
1=Less than half; 2>About half; 3=More than half; 4=All
- (b) How do you compare this with the time you joined KWFT? _____ 24CHANG _____
1=Increased; 2=Remained the same; 3=Decreased
- 26 (a) What events have negatively affected your business
(in the last 1 year) _____ 26EVENTS _____
1=None
2=Ill health - self
3=Peak school fee demands
4=Marriages/births in family
5=Death/funeral in family
6=Medical expenses of household member
7=Business calamity (e.g. fire/theft)
8=Rising of input prices
9=Defaulting of customers or suppliers
10=Increased competition from other businesses
11=Power/water shortages
12=Depressed economy - low demand
13=Other (specify _____)
- (b) How did you respond to this problem? _____ 26RESP _____
1=Did nothing
2=Borrowed money (from whom/what agency _____)
3=Used own savings
4=Used business revenue/profit
5=Used business working capital
6=Helped by friends/relatives
7=Solved in another way (specify _____)

C Profile as a borrower

- 27 When did you join KWFT? _____ / _____ / _____ 27DATEJN _____
- 28 How many loans have you so far received? _____ 28NUMLNS _____

- 29 For each loan so far received please indicate the approximate amount you utilized for different use categories:

Ln.	W. Capital	Equipment	Other (same business)	Another business	Non business	Total received
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						

- 30 Access to credit

(a) From what persons or institutions have you EVER BORROWED money?

(please tick in 2nd column of the table below)

(b) From what persons or institutions do you currently have money borrowed from?

(tick below)

(c) Please give your overall assessment of the persons/institutions you have ever borrowed from?

(indicate below)

Person/institution	Ever borrowed (tick)	Currently borrowing (tick)	Degree of satisfaction 1=Dissatisfied; 2=Neutral/mixed feelings - no problem; 3=Satisfied
1 Relatives/friends			
2 Supplier			
3 Money lender			
4 ROSCA/SCA			
5 KWFT			
6 Another MFI which _____			
7 NGO specify _____			
8 Cooperative/SACCO			
9 Employer			
10 Commercial Bank which _____			
11 Other specify _____			

(d) Who/what is the person or institution you like MOST to borrow money from?

(e) What exactly makes you prefer to borrow from this person/institution?

- | | | |
|--|---------|-------|
| _____ | 30PRLN1 | _____ |
| 1=Proximity of lender/offices/officers | 30PRLN2 | _____ |
| 2=Fast processing of loan | 30PRLN3 | _____ |
| 3=Simple application procedures | | |
| 4=Easy loan security system | | |
| 5=Loan size (appropriate to my needs) | | |
| 6=No restrictions on loan use | | |
| 7=Gender sensitivity | | |
| 8=Repayment (term, installment, grace period) is adjusted to my cash-flows | | |
| 9=Interest rates | | |
| 10=Able to get other services | | |
| 11=Repayment easily rescheduled or adjusted in case of misfortune | | |
| 12= Other _____ | | |

(f) What areas of improvement would you wish to see in the provision of services from KWFT? _____

- | | | |
|---|--------|-------|
| _____ | 30IMP1 | _____ |
| 1=None (I am happy with the way things are) | 30IMP2 | _____ |
| 2=Proximity offices/officers | 30IMP3 | _____ |
| 3=Faster processing of loans | | |
| 4=Simplify application procedures (specify _____) | | |
| 5=Change loan security system (specify _____) | | |
| 6=Increase loan size ceilings | | |
| 7=Provide loans for non business needs (specify _____) | | |
| 8=Change loan repayment terms (specify _____) | | |
| 9= Provide other services (specify _____) | | |
| 10= Lower interest rates | | |
| 11=Be more considerate in case of misfortunes | | |
| 12=Other _____ | | |

31 Savings

(a) With what persons or institutions have you EVER SAVED money till now?

(please tick in 2nd column of the table below)

(b) From what persons or institutions do you currently save money with?

(tick below)

(c) Please give your overall assessment of the persons/institutions you have ever saved with?

(indicate below)

Person/institution	Ever saved with (tick)	Currently saving with (tick)	Degree of satisfaction 1=Dissatisfied; 2=Neutral/mixed feelings - no problem; 3=Satisfied
1 Relatives/friends			
2 Supplier			
3 Money lender			
4 ROSCA/SCA			
5 KWFT			
6 Another MFI which _____			
7 NGO specify _____			
8 Cooperative/SACCO			
9 Employer			
10 Commercial Bank which _____			
11 Other specify _____			

(d) Who/what is the person or institution you like MOST to save with?

(e) What exactly makes you prefer to save with this person/institution?

- _____ 31PREF1 _____
- _____ 31PREF2 _____
- _____ 31PREF3 _____
- 1=The only alternative available nearby
- 2=It is secure and reliable
- 3=It forces me to save/savings discipline
- 4=Proximity
- 5=Money can be easily deposited
- 6=Money can be easily withdrawn
- 7=It gives me prestige
- 8=Able to get other services (_____)
- 9=Good rate of return (interest rate)
- 10=Other _____

D Household profile

32 Housing:

(a) What is the total number of people living in your house/home? _____ 32PPL _____

(b) What is the ownership status of the house you live in? _____ 32HSE _____

1=Owned; 2=Rented; 3=Accommodated by someone else (inc. employer); 4=Other

(c) Number of separate house units _____ 32UNITS _____

(d) Number of rooms in main unit _____ 32ROOMS _____

(e) Structure of main unit:

- Wall (1=Mud; 2=Wood; 3=Bricks; 4=Stone; 5=Other) 32WALL _____
- Roof (1=Grass; 2=Corrugated iron sheets; 3=Concrete; 4=Tiles; 5 other) 32ROOF _____
- Floor (1=Mud; 2=Wood; 3=Concrete; 4=Other) 32FLR _____

- (f) Connection to utilities:
- Water 32WAT _____
 - Electricity 32ELEC _____
 - Toilet/Bathroom 32ABL _____
- 1=Yes; 2=No
- (g) Are you living in the same house as you were when you joined KWFF? 32SAME _____
1=Yes; 2=No
- 33 Household assets:
- (a) What are the THREE MAJOR furniture items you own? 33FURN1 _____
- 1=Sofa set 5=Beds (# _____) 33FURN2 _____
 - 2=Wordrobe 6=Coffee set 33FURN3 _____
 - 3=Wall unit 7=Other _____
 - 4=Dining set
- (b) What are the THREE MAJOR electrical appliances you own? 33ELEC1 _____
- 1=TV - Black & white 5=Video 33ELEC2 _____
 - 2=TV - Colour 6=Radio/cassette player 33ELEC3 _____
 - 3=Fridge/deep freezer 7=Microwave
 - 4=Electric/gas cooker 8=Other (specify _____)
- 34 What transportation assets do you own? 34TRANS1 _____
- 1=Bicycle 4=Tractor 34TRANS2 _____
 - 2=Motor Bike 5=Animal/human drawn cart
 - 3=Motor Vehicle 6=Other _____
- 35 Land:
- (a) What is the size of agricultural land you own? (in acres) _____ 35AGRLD _____
- (b) What number of urban plots do you own? _____ 35PLOT _____
- 36 What number of livestock do you own?
- Cattle 36CATT _____
 - Goats/sheep 36GOAT _____
 - Chicken 36CHICK _____
 - Other (_____) 36OTH _____
- 37 Education: (for those with children in educational institutions – refer to question 7)
- (a) What is the number of your children in:
- Public learning institutions 37PUBL _____
 - Private learning institutions 37PUBL _____
- (b) What is the approximate amount of money spent on education per year? Kshs _____ 37SHEDU _____
- (c) Do you have any child(ren) not in school/college because of fee difficulties? 37EDDIF _____
1=Yes; 2=No

38 Food:

(a) How frequently do you have following types of food in your household?

Type of food	Frequency (# of times per
1 Wheat products	
2 Rice	
3 Meat/chicken/fish	
4 Eggs	
5 Milk	
6 Fruits	

(b) How much do you estimate your household spends on food per month?

Kshs _____ 38SHFOOD _____

39 What type of healthcare provider do you NORMALLY go to for medical attention? _____

39HEALTH _____

1=Government health facility

2=Mission health facility

3=Private health facility

4=Traditional healthcare provider

5=Other

E Self assessment of impact

40 Is there any changed aspect of your life (including business & household) that you could attribute to the services you have received from KWFT? _____

40IMPACT _____

1=Yes; 2=No

41 IF YES, please list the main changes that have occurred since you joined KWFT?

(a) Positive changes: _____

(b) Negative changes: _____

42 In your view, what is the overall effect (net) of these changes in your life? _____

42NETEFF _____

1=Positive; 2=Negative; 3=Neutral

Thank you very much

Annex C Policies of the Dutch CFAs regarding the provision of financial services by Southern counterpart organisations²

This annex is a synthesis of the CFAs' policies regarding the relevance and support of the provision of financial services by Southern counterpart organisations. It deals with the problem analysis on which CFAs base their work in this field, their objectives, and the quality criteria that are applied to assess the requests for financial support that CFAs receive. The annex also describes the strategies of the CFAs to put these policies in practice.³

1 Problem analysis The question on why to be active in supporting the provision of financial services does not receive much attention in the recent policy papers of the CFAs. The discussion generally concentrates on the question how to do this. Nevertheless, the report of this inventory study starts with a brief overview of the overall (more or less implicit) problem analysis as found in the policy papers.

Central in the problem analysis of the four CFAs is the assumption that poor and marginalised people in Southern countries have limited or no access to capital, more precisely put, to financial services. This limited access reduces the chances of households and small-scale entrepreneurs to undertake successful income-generating activities and therefore leads to household income insecurity and poverty. Other, parallel, causes of income insecurity and poverty are: limited access to land; unfair distribution of knowledge and education; unequal opportunities in general, among others, the lack of say and control over investments, income and assets. These inequalities exist at the global and national level, at the local and the household level, and between women and men.

The policy notes distinguish the following causes for the limited access to financial services:

- a *The demand for saving and credit facilities exceeds supply.* This is the case in most countries and regions. According to the CFAs each intervention should be based on an analysis of the financial context at the appropriate level, since it is important to know in what context financial actors operate. In some cases the financial context is different, with the supply exceeding the demand, leading to competition between providers – which can have adverse effects too.
- b *Poor people have limited access to 'regular', existing, formal saving and credit facilities.*
 - 'Regular' financial institutions have the largest expansion opportunities in financial services provision to clients with bigger financial strength.

² Adapted from Metz 2000: chapter 2.

³ Please note that a difference between the various financing instruments at the disposal of the Dutch CFAs is not being made in this annex. The use of new financial instruments by Dutch CFAs has been introduced in Chapter 3 of Metz (2000) and will be further analyzed in a separate document.

- The amount requested by poor clients is generally too small.
 - Poor clients are considered as not sufficiently solvent by conservative lenders, as unable to pay interest, and (especially women) as incapable of taking up responsibilities.
 - Poor clients cannot show a business plan or account (for instance, because of illiteracy).
- c *Only a few institutions provide good quality, adequate services to poor people.*
- Financial institutions have not tuned the service supply optimally to existing demand.
 - Poor clients have not articulated their needs optimally.
 - Existing saving and credit programmes are not optimally effective because:
 - financial sustainability is often weak, therefore no long-lasting effect;
 - risk that outreach is limited to the 'better-off' within the poor beneficiary groups;
 - pressure of donors to show immediate effects, both regarding financial sustainability and regarding outreach;
 - service providers are both subject to and actor in local (competitive) markets, influencing, and possibly disturbing existing economic processes;
 - donors do not always provide the most appropriate financing instruments.

2 Objectives

The overall objective of the CFAs' support to financial services in the South is to contribute to a sustainable improvement of the living circumstances of poor and marginalised people. Access to the market for those without income and employment is considered as an important strategy to reach this objective.⁴ The role of the CFAs and their CPOs is to provide the necessary support to these development processes.

The more specific objectives of the Dutch CFAs' contribution to the financial service provision can be summarised as follows:

- Improved, equitable access of poorer groups of society to financial services, both in terms of quantity and in terms of quality. This implies that existing obstacles for the use of these services need to be addressed while social and environmental clauses are taken into consideration.
- Improved conditions for poorer groups of society to undertake their economic activities for which they use the capital obtained by the financial services programmes. This involves the appropriate support to these economic actors by means of all kinds of ancillary activities that facilitate their access to and acquirement of knowledge, skills and means.

Both objectives are related to the overall development policies of the CFAs in the countries in which they work, which generally consist of a range of other actions addressing causes of poverty and encouraging empowerment and organisation of poor groups of society.

The first specific objective is the common denominator for the work of all CFAs promoting financial service provision. The second objective is considered

⁴ Though all actors in the sector agree that the provision of microcredit could play a role in the alleviation of poverty, there appears to be a decreasing confidence among these actors in the actual effects of microcredit on poverty. Though not stopping what they are doing, actors have adopted more realistic points of view: the influence of (world) markets on poverty levels is much bigger than that of the various microcredit programmes.

important as well, but the relative attention paid to these support activities is slightly different among the different CFAs.

3 Quality criteria

The following section describes the general quality criteria that the CFAs apply to assess the quality of financial services programmes of Southern organisations in various stages of the project cycle. The relative importance attached to each of the criteria varies from case to case depending on the context of each programme. Still, the criteria that the CFAs apply have much in common. Therefore, the major part of the list below reflects the ‘common sense’ of all four agencies. Only in a few cases reference is made to a specific CFA.

General criteria for the assessment of financial services programmes

- A programme should contribute to a *structural improvement in the social and economic position of poor and excluded beneficiary groups*, offering increased opportunities for employment and income (security) and/or improved access to financial services.
- With regard to these beneficiary groups, all CFAs aim at reaching poor and marginalised groups of society with lack of income and employment – which is in conformity with the mandate of the CFP. More specifically, they all aim at reaching *those groups that do not have access yet* to formal financial institutions. ICCO explicitly mentions that it is important that the programmes reach large numbers of people and that there is a good strategy for growth of the outreach. Hivos for example is most in favour of group credit systems, arguing that these systems enable the poorest people to have better access to credit.
- The programme must be based on the own initiative of the beneficiaries. This is related to the condition that the organisations that apply for support should have a local basis, and a clear beneficiary group strategy. Beneficiaries should participate in the design, implementation and evaluation of activities, and provide an own contribution. The programme should demonstrably take account of the interests of the clients and of the local context; the notion of ‘tailoring’ services to the needs of the beneficiaries receives attention in various policy documents.
- The programme and the implementing organisation should be *financially sustainable*. All CFAs require that programmes are designed in such a way that financial sustainability will be attained within a given time frame. In order to prevent the CPO’s lasting dependency from the Dutch financing agency, and to verify the scope for continuity, the future development of the organisation including an ‘exit route’ is a discussion item between CFA and partner organisation from the beginning. For this reason, feasibility studies and business plans are common instruments. If necessary, a specific planning may be proposed for organisational strengthening activities that need to be undertaken.
- Financial sustainability at the level of the beneficiary groups is expected to have more chances if beneficiaries are actively encouraged to save. The fact that *beneficiaries invest their savings* in a programme also demonstrates their commitment to the programme.

- It is required that *maximum use is made of locally existing facilities*. This is linked to the overall vision of the CFAs, as well as to a number of other criteria in this list (financial sustainability, own initiative, and savings). Local savings funds and local credit facilities, if at all present, should be considered as a serious option first before external financial support is searched for. The same is true for services such as advice and training, which should by preference be found locally. Only if there is no access to local financial services, a role may be played by an external financial services provider. Novib for example, asks an explicit justification from the applying organisation that local financial services are not accessible.
- The *CPO must have the capacity to professionally implement the financial services programme*. This is important for all CFAs, since it is the basis for quality (financial and other) services, which are timely, accurate, and client-oriented, and it is the basis for sustainability. For Novib, good management, organisational efficiency and excellent portfolio management are among the top priorities.⁵ ICCO also mentions the institutional sustainability, of which the track record could be a good indicator, and proposes to check, among others, the real interests of the CPO in financial sustainability and the provision of quality services.
- *Separate organisation and management structures for the financial services programme*. Linked to the previous notion of the professional capacity of the organisation, are the more specific requirements about the organisation and management structure of the applying organisation. At the moment, a more specialised approach is being promoted by the CFAs. All CFAs prefer working to an increasing extent with specialised financial service providers such as microfinance institutions. Some of the CFAs demand explicitly from CPOs that they have financial services provision as a core activity if they are to become eligible for support in this sector. CPOs that carry out multi-sectoral programmes, however, can still be eligible too, on condition that they create specific, separate O&M structures for their financial services. Or, if that is applicable, on condition that they concentrate on their core business (e.g. agricultural extension) while cooperating with a specialised financial services provider. The background of these requirements is rooted in the international developments in the financial sector: an international trend is going on towards more specialisation and separate management structures. These factors are considered crucial for the sustainability of organisations and programmes in this sector, among others, because separate structures often have better (legal) opportunities to attract local savings. In certain countries (e.g. Ethiopia, Peru, Bolivia), recent changes in the national law have increased opportunities for NGO-related financial services providers to start working through separate, legal, structures. At the same time, the national law in certain other countries does not allow NGOs to become a specialised credit providing institution (Bangladesh, for instance). In these cases the CFAs make exceptions to the general principle.
- A programme must be in accordance with *gender, human rights and environmental standards*. Especially gender criteria are explicitly paid attention to in the various policy notes, and some gender-specific products have been devel-

⁵ To screen potential partners on these aspects, Novib gives preference to the use of peer comparison methodologies. These are generally not donor-driven and can also serve other purposes of the CPOs.

oped. Bilance for example offers Dutch savers the opportunity to invest the interest on their deposits accounts with ASN Bank in Women's Saving & Credit programmes in the South. And Hivos (through HTF) prefers to support organisations that actively strive for women's economic empowerment.

Technical criteria for the assessment of financial services programmes

Here a short list is provided, which is closely related to the above general criteria:

- Feasibility of a business plan (with use of various financial indicators), including the expected stage/date of reaching financial sustainability.
- Quality of the planning, monitoring and evaluation systems: these should be appropriate, cost-effective and participatory, and closely watch (positive and negative) development effects!
- Good quality of business plans and financial reports, including transparency in the presentation of objectives and strategies.
- When it concerns an experimental programme, the question that needs to be answered is whether the 'learning effects' are expected to be big enough in order for the programme to meet the criteria of outreach, financial sustainability and development effects, in the near future.

4 Strategies As a result of the trend towards specialisation and a more professional approach, many changes have taken place in the course of the last years in the strategies of the Dutch CFAs:

- Changes in quality requirements. This has led to a step-wise, ongoing revision of the partners and project portfolio of the CFAs, and to re-organisation processes at the level of the partner organisations. The current criteria for the assessment of the quality of programmes were described above; the translation of these criteria into practice follows here.
- The adaptation of the financial instruments that the CFAs use in their work with Southern partners, and experiments with these new instruments (see Chapter 3 of Metz 2000).
- Changes in the CFA's own organisational structure (see Chapter 3 of Metz 2000).

These changes have taken place within all CFAs though the speed and the scale at which these have taken place differ from one CFA to the other.

The general strategy of the CFAs is relatively similar, and linked to the two objectives described above. For all CFAs it consists of a combined approach of the following actions:

- a Continue to support partners that reach the poor with their financial services.** The CFAs generally continue to support those organisations in their Southern network that succeed in effectively reaching poor groups of society with their financial services, which are most often credit programmes or savings & credit programmes. In some cases it concerns organisations that do not provide credit themselves but facilitate the contact between their beneficiary groups and formal credit institutions such as banks. The support to these partner organisations may consist of grants or other financing instruments. It is often the case that the same organisations also

receive CFA support for the ancillary activities (see b) they undertake for the same beneficiary groups.

b Continue to support the ancillary activities undertaken for the benefit of the same poor beneficiary groups.

Besides capital, beneficiary groups undertaking economic activities need a range of other support activities such as technical advice, skills or business training, and the opportunity to exchange with others. Therefore, ancillary activities are undertaken, either by the same organisations that provide financial services (the integrated approach) or by other organisations, and have as objective to provide the necessary support to the beneficiary groups in order for them to optimally benefit from the financial services provided. All CFAs agree that these ancillary activities are important for the success of economic activities of beneficiaries and they regularly support this type of programmes.

c Investing in the quality and effectiveness of the programmes referred to under a and b.

All CFAs invest in the quality and effectiveness of the programmes referred to under a and b.

This consists of the close monitoring of the implementation of S&C projects by the Southern partners, regular missions, thorough discussions before decisions on further funding are taken, the instigation of feasibility studies, audits and evaluation studies and the requirement of professional business plans.

Within their general policy to encourage professional planning, monitoring and evaluation systems among CPOs, the CFAs also instigate to evaluation studies or impact assessment studies of the financial services programmes and/or the support programmes. The development of effective tools for evaluation and impact assessment of financial services programmes is among the major issues in the international debate on microfinance (see Chapter 6 of report of Metz, 2000).

The monitoring and support role played by the CFAs in this process, asks increasing competence of the CFAs' own staff, especially since financial services programmes become more and more complex. For that reason, CFAs have invested (to varying degrees) in their own staff capacity building, in the employment of more specialist staff and in new internal organisation and management structures (see Chapter 3 of report of Metz, 2000).

d Investing in the quality and effectiveness of organisation and management structures of the organisations referred to under a and b, and – if necessary support a reorganisation process.

Closely linked to the monitoring and support role of CFAs mentioned under c, is the investment of CFAs in the quality and effectiveness of organisation and management structures of CPOs. This is the area in which the most substantial changes have taken place in the recent past (see paragraph 2.3 of Metz: 'separate organisation and management structures'). The requirements of CFAs (and other donors) on the O&M level force existing partners to start reviewing their organisational structures. This very often leads to important changes within the existing organisation or to the establishment of completely new legal structures. When looking at the list of organisations that were found in the rapid portfolio inventory for the eight selected coun-

tries, it is clear that the discussion on O&M concerns all partners of the CFAs and that for many partners, this implies reorganisation of their organisation and management structures. The CFAs often provide support in this process of change towards a new structure. They finance the institutional development costs for the organisation itself, provide additional grants for starting-up phases of new working structures, and finance feasibility studies and advisory missions by consultants.

e Finalising the funding of programmes and organisations that do not meet quality criteria.

Some CPOs do not have the capacity or the willingness to apply the required organisational changes, or meet the other quality criteria for financial services programmes. If after a certain period that could have been used to put the new requirements in practice, there is still no improvement, the CFAs will stop contributing to the financial services programme of the partner, or finalise the relationships with these partners. There are slight differences in strategy between the CFAs here.

f Identifying new partners that (could) reach the poor with their financial services.

All CFAs consider it important to identify new partners in the microfinance sector in several Southern countries, since the sector is developing rapidly and since it is expected that there are many opportunities to find good partners that are able to reach the poor. These should in principle meet the O&M criteria and other requirements from the beginning. Given the trend towards specialisation, the CFAs actively search for specialised institutions such as IFI (intermediary financial institutions) and MFI (microfinance institutions). In some countries, such as Ethiopia, the potential is big since recent changes in the Ethiopian financial law have led to the creation of a number independent MFIs originating from the NGO sector (see Annex D of Metz, portfolio inventory on Ethiopia). The CFAs are interested in cooperating with these new structures, and are ready to invest in the organisational set-up and processes of institutional building.

To conclude this list of strategies, it is emphasised again that the strategies aimed at better quality of the work of the Southern partners, are closely linked to the practice of using new financing instruments such as loans, guarantees and equity participation.

Annex D Reports, articles and papers used for this study

Main field reports and data

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Annex E List of interviewed people and resource persons (clustered per organisation in alphabetical order)

Cordaid

- Mr. Gauke Andriessen (regional responsible credit programmes Africa, Central and Eastern Europe)
- Ms. Martine Benschop (former programme officer for Kenya)
- Mr. Peter Spaarman (director regional office Nairobi)

Hivos

- Ms. Carolijn Gommans (economic policy officer – Africa)

ICCO

- Ms. Hester Foppen (programme officer Eastern Africa – HZM)
- Mr. Cor Wattel (head of credit desk)

Kenya Women Finance Trust

- Mr. Mwangi Githaiga (chief finance and administration)
- Ms. Rosemary Macharia (chief credit operations)
- Ms. Jennifer Riria (managing director)

K-Rep Development Agency

- Mr. Aleke Dondo (managing director)

Novib

- Ms. Resi Jansen (credit specialist of East Africa bureau)
- Mr. Igor van der Vlist (programme officer East Africa)

Presbyterian Church for East Africa – Jitegemea Credit Scheme

- Mr. Francis N. Kihiko (co-ordinating director)
- Mr. Ezbon Nyoike Karigi (credit manager)

PRIDE Africa – Sunlink

- Mr. Jonathan Campaigne (executive director)
- Mr. Allan Joseph Chintendza (technical advisor)
- Mr. Patrick L. Ponge Oteng (manager sunlink project)

Resource persons

- Ms. Ellie Bosch (I/C Consult)
- Ms. Dorothy McCormick (professor of University of Nairobi, Institute for Development Studies)
- Mr. Johan de Waard (DGIS/DRU)

Annex F Description of financial products and outreach of a selected number of banking agencies

1 Equity Building Society (EBS)

EBS serves a cross-section of clients who include small and micro entrepreneurs in the formal and informal sectors, employees from all sectors, pensioners, and small holder-farming households, etc. At the end of April 2001, it had over 90,000 bank account customers and slightly over 20,000 borrowers. Out of this number, 9,033 loans were loans to micro- and small-scale businesses, including tea farmers. The bank's products are competitively priced, for instance, the minimum balance for ordinary savings account is Kshs 400 and other bank charges are quite low. The savings products include an Ordinary Savings Account, Business Savings Account (which is the equivalent of a current account), Remittance Savings Account, Fixed and Call Deposits Account, Save As You Earn Pension Account, and Children Savings Account. Total deposits at the end of March 2001 were Kshs 977.8 million.

2 Cooperative Bank (CB)

The two products being provided by the CB have been custom designed for the bank's target market. The *Haba na Haba* (little by little) savings account was designed to meet the needs of low-income people. The target market for the *Haba na Haba* savings products are people who intend to build sufficient savings to cover family emergencies, such as illness or realize the dream of acquiring a household/business asset. At the end of April 2001, the bank had attracted a total of 8,665 savings customers and Kshs 122.6 million in deposits through its *Haba na Haba* savings product. The product was first launched in February 1999 in the bank's Meru branch. By May 2001, the product was available in 24 of the bank's 28 branches and five agencies. Demand for the product has grown steadily at 6.8% a month since it was introduced. The average account balance for this product is Kshs 14,044.

On the loan side, the bank has disbursed 2,192 loans totaling Kshs 152.8 million (with an average loan size of nearly Kshs 70,000) through the Biashara (business) Plus loan product. The total amount outstanding at the end of April 2001 was Kshs 52.4 million. From the time it was introduced, the portfolio-at-risk associated with this loan product has remained low at an 18-month average of 2%.

3 K-Rep Bank

K-Rep Bank limited has custom designed five loan products for the microfinance market. Two of its earliest group-based loans (*Juhudi* and *Chikola*) continue to address the needs of the smallest enterprises and the least able to provide security of any type in the market. It then introduced another loan product; still group-based but bigger, to deal with the problem of graduating its very small customers whom gradually became bigger: the *Kati Kati* loan

addresses the needs of individuals who are not too small to fit in with the group lending and yet not big enough for the big banks. The fourth product, retail loans, is K-Rep's loan product for the public and individuals that eventually get too big for group lending (*Juhudi*, *Chikola* or *Kati Kati*). The fifth product concerns loans offered to SACCOs for on-lending.

Table 2.3 K-Rep's Microfinance Loans Products, June 2001

Loan product	Numbers reached	Numbers as percentage of total number	Portfolio (in Kshs million)	Average size of loan (in Kshs)
<i>Juhudi</i> (group-based lending)	12,496	72.0	234.8	18,790
<i>Chikola</i> (group-based lending)	3,124	18.0	53.9	17,254
<i>Kati Kati</i> (addressing individual needs thru group-based approach)	916	5.3	55.7	60,808
Wholesale (intermediary SACCOs)	670	3.9	36.0	53,731
Retail (individual)	49	0.3	50.1	1,022,449
Others	101	0.6	16.1	159,406
Total	17,356	100.0	446.6	25,732

The National MSE Baseline Survey indicated that K-Rep Bank countrywide had some 13,040 clients in 1999, of which 55% were women.

4 Kenya Commercial Bank (KCB)

KCB has developed seven micro enterprise loan products since 1986. By December 2000 the bank had disbursed 1,853 loans totalling Kshs 97.8 million (with an average loan size of nearly Kshs 53,000), representing just about a half (51%) of the total funds set aside by the bank for microfinance. The Graduate Loan Scheme is the oldest, having been introduced in October 1991. It was available in 36 branches and had an allocation of Kshs 30 million, of which Kshs 26.5 million had been disbursed to 224 graduates. The Women's Credit Scheme, was established in February 1992 with an allocation of Kshs 10 million, out of which Kshs 8.1 million had been disbursed to 378 individuals by May 2001. This product is available at 26 outlets. By May 2001, KCB had disbursed 232 loans totalling Kshs 5.7 million out of an allocation to the portfolio of Kshs 10 million to the *Jua Kali* loan scheme. The product was available at 31 outlets throughout the bank's network. In February 1993, KCB established a Kshs 50 million loan scheme known as small-scale enterprise programme. This product was available in 21 branches. By May 2001, 185 loans totalling Kshs 32 million out of the funds allocated had been disbursed. Another loan product established in August 1993 was the ILO/KYTEC loan scheme, which was a three-year loan guarantee project funded by the ILO. This Kshs 21 million-guarantee fund was initially with the Barclays Bank, but was later transferred to KCB and Victoria Finance Bank. KCB had disbursed Kshs 3.3 million in 104 loans before the end of the project. Another loan product developed by KCB in 2000 is the Tea and Coffee loans scheme, which was available throughout the bank's outlets. By May 2001, 618 loans had been made out of this Kshs 1.3 billion scheme. No details were available at the time of this survey on how many of these loans have been repaid.

The small outreach level of KCB in the provision of microfinance services, even when it is the bank with the largest network of outlets in the country and one of the second largest in terms of deposits, has made many observers argue that the bank is only involved in microfinance services as a public relations activity and not as a serious initiative in their banking services.

5 Post Bank

Post Bank is prohibited by the Post Bank Act from getting involved lending to the public. It is however the institution with the best national network for mobilizing savings and providing financial transfer services in the country. Set up to utilize the postal service network in the Kenya, Post Bank has the capacity to reach remotest parts of the country. For the last three or so years, discussions have been going on for possibilities of the Act governing its operations being amended to allow for provision of credit. Current thinking, however, is that even if this was allowed, the institution would target wholesale financing to intermediary institutions that provide microfinance services (among other types of borrowers) and not get involved directly in the provision micro-credit services. Whatever the case however, there is significant optimism that, allowed to do full financial intermediation, Post Bank would most likely become one of the key players in the provision of microfinance services in Kenya.

The National MSE Baseline survey of 1999 indicated that KPOSB country-wide had some 200,538 clients in 1999, of which 48% were women.

Annex G A summary of consolidated statistics of the FSA Program of K-Rep Development Agency as at May 2001

District	T/Taveta	Marsabit	MKS/ Kitui	Suba/ Migori	Bornet/ Buret	Kilifi	Kwale	Meru South	Busia/ BGM/TSO	Carissa	Makueni	Turkana	Total
A Number of FSAs in the district	9	5	5	5	6	6	6	1	6	3	3	2	57
B Total number shareholders	3,685	935	1,294	2,093	7,148	1,926	1,944	605	1,870	857	754	553	23,664
C Total number of shares	14,464	2,334	3,010	7,358	15,519	5,687	5,072	6,141	4,856	2,876	932	2,563	70,812
D Value of shares	4,339,200	700,200	903,000	2,207,400	4,655,700	1,706,100	1,521,600	1,842,300	1,456,800	862,800	279,600	768,900	21,243,600
E Total number of loans disbursed	3,122	518	948	771	1,813	427	529	135	274	316	42	46	8,941
F Total number disbursed	15,911,246	2,599,950	3,260,914	4,817,500	15,447,640	1,855,100	2,955,000	1,955,300	1,519,900	2,011,800	122,500	414,800	52,871,740
G Total number of savers	2,972	90	911	2,032	2,775	1,293	1,272	427	1,261	226	411	544	14,214
H Value of savings	10,182,257	558,258	5,170,464	33,567,519	8,501,597	5,103,342	2,534,018	1,813,373	6,394,236	532,202	992,275	1,200,892	75,918,430
I Total income	4,625,537	522,333	920,339	1,156,191	2,893,046	516,555	653,847	104,694	502,504	273,684	100,182	74,426	12,343,338
J Total expenses	1,864,667	157,241	406,864	458,369	565,330	396,790	326,446	242,198	325,062	214,875	92,007	76,326	5,125,174
K Profit/loss KSHS	2,760,870	365,092	513,475	697,882	2,327,716	120,765	327,402	(135,504)	177,442	58,809	8,175	(1,900)	7,218,164
L Delinquency rates	19	35	38	294	7	7	30	-	42	13	0	-	15
N Quantitative repayment rate	90	64	72	79	60	65	75	55	120	52	118	67	79
O Qualitative repayment rate	67	32	64	71	57	59	71	49	98	49	85	59	72

Source: K-REP Development Agency.

Annex H Some results of impact assessment at the client level of micro-finance programmes of partners of Dutch CFAs (other than KWFT)

Client-centered impact assessments of micro-finance programmes of partners of Dutch CFAs have hardly been organized by (order of) partners of Dutch CFAs on a regular basis or as a special project activity, let alone in similar ways. As a result, information about impact at the client level is often very limited or simply lacking. At best, such information is part of a broader programme evaluation. Only in the case of WEDCO, a quite comprehensive impact assessment has been done (conducted by an external agency). The strong tradition of experimenting and testing of K-REP is exceptional. The impact assessments of schemes of K-REP often concern young and innovative programmes. The evidence of impact of FFBS is interesting and positive but short.

- 1 Impact assessment of the WEDCO Enterprise Development Project**
- WEDCO's mission is 'to increase incomes and social benefits which permit improved family life by providing financial services and strengthening communities and individuals through a sustainable institution' (Maale and others, 1999: 14). WEDCO is based in Western and Nyanza Province, reaching some 8,000 operators of small-scale enterprises in 1999. 'WEDCO has adopted the village banking methodology of lending which involves working with existing groups, mainly of women, registered at the Ministry of Culture and Social Services. WEDCO uses the minimalist approach in lending to these groups. This means that credit is seen as the single most important factor in the development of micro and small enterprises' (ibid: 15).

The purpose of the impact assessment study of WEDCO (by Maalu and others, 1999) was to examine the extent to which DFID/BASE support to WEDCO has contributed to the realisation of enhanced off-farm, self-employment and increased household incomes. The impact assessment of WEDCO, like the one conducted of KWFT for the present study, was based on a multi-method approach, including a questionnaire-based survey of WEDCO clients, a qualitative enquiry using focus group discussions, key informants and group interviews, and finally, review of documents. Another striking resemblance with the impact assessment study of KWFT, is the comparison of different variables according to loan cycles of clients.

The sample profile showed that about 81.0% of the respondents were married, 16.7% were widowed, 1.5% were single and 1.0% divorced. A large majority (92.8%) of the respondents was in business, with retail being the dominant activity among the clients. A wide variety of enterprise assets was reported by the 352 respondents: the most common were cash at bank (44.6%), debtors (34.7%), stock (12.5%) and hand carts (3.1%).

Profiling of the different generations of borrowers showed that clients who have not yet received a loan and are on the waiting list (called 'pipeline clients'), are more educated than those who have received a loan twice or more. Another significant result is the average amount spent on housing, with those who have not yet received any loan, investing more in housing than those who have already received one or more loans. These findings are quite different from – if not contrasting with – the findings of the client profiling of KWFT (see Chapter 3), showing that clients of KWFT are more educated than the average small and micro-entrepreneur and that those women who have repeatedly borrowed from KWFT enjoy better housing facilities than those who borrowed only once or not yet. Another interesting finding of the impact assessment of WEDCO related to education was that men (forming a small minority of total clientele and sample) spend significantly more than women on education.

With regard to impact, the researchers concluded that, 'During focus group discussions, WEDCO clients emphasized that the loans they had received from WEDCO had helped them to increase their stocks and remain in business' (p.x). However, the quantitative regression analysis provided 'weak evidence of a link between recipient of a first loan under WEDCO and growth in business profits' and also 'no direct significant impact of participation in WEDCO on individual income growth or business employment growth' (ibid). This is again quite different from the findings of the impact assessment of KWFT, demonstrating a significant impact of KWFT at the enterprise level in terms of employment generation, turnover, profitability and resilience against adverse events (see Chapter 4).

2 a Kenya Rural Enterprise Program: Case Study of a Microfinance Scheme

Outreach and impact of K-REP and Financial Service Associations

Pederson and Kiiru (1997) conducted an action research on the operations of Kenya Rural Enterprise Programme, documenting the experiences, innovations and changes in the performance of this micro-finance institution and sharing this within the community of MFIs. Chapter 4 of the report is about outreach, access and impact.

With regard to outreach and client profiles, the evaluators noted that from 1992 to 1995 the total number of borrowers increased from 2,851 to 14,844. Yet, client profiles remained more or less constant in the period 1992-1995: 77% to 85% of K-REP borrowers was in commerce and trade, the rest in manufacturing and services.

With regard to impact, the authors concluded that, 'Clients generally agree that credit from K-REP has resulted in improved incomes, increased output and growth in their businesses (either in size or numbers of employees). There was however a noticeable difference in the impact of credit on those who had large businesses and those who had small businesses [...] Those with smaller businesses reported greater impact' (p.27/28). The explanation given by Pederson and Kiiru is that, 'Borrowers who operate larger businesses complained that [...] loan sizes were too small to meet their financing requirements' (p. 29).

b Financial Service Association Program Evaluation Report.

Cheruiyot and Kioko (1999) conducted an evaluation mission on Financial Service Associations, interviewing 781 shareholders in two districts (Taita Taveta and Marsabit) for this purpose. The kind of results of the study seemed to have been determined before the start of the evaluation: 'The motivation was not only to confirm the encouraging performance indicators of the FSAs but also to find out whether the program is meeting its initial objectives and the extent to which the program can be institutionally sustainable with respect to organization and management' (executive summary, v)

With regard to outreach and client profiles, the evaluators concluded that, 'For the thirteen FSAs launched by the end of May 1999, there were 3,658 shareholders of which 49.4% are men, 45.1% were women and 5.2% were groups. 23.5% are both investors and borrowers, they have utilized Ksh. 4.1 million in terms of loans and 37.8% have utilized savings facilities offered by the FSA' (p. 16, see also p. 47).

The conclusions with regard to short term impact of FSAs suggest that FSAs have a positive economic impact but low potential to reach the poorer households: 'The study found out that improved income to shareholders through increased business activities has been realized. There were however, variations in the sense that the benefits have been significantly inclined to the middle income households as compared to the poorer households' (p.50). Interestingly enough, this is very much in line with the results of the impact study of KWFT (see Chapter 4). The results, however, lead us to question the effectiveness of FSAs as a special tool or approach meant to reach poorer households in remote rural areas.

The conclusions with regard to the influence of FSAs on other rural financial institutions suggest that FSAs are used as banks of last resort: 'The only major pointer of FSA's influence on other rural financial institutions is in the sense that it has become a major source of funds in case of urgent needs' (p. 50).

c Good Fences, Good Neighbors: Final Paper on Findings of the Review of K-REP Holdings FSA Programme.

Three years after the start of operations of the FSA Program, Miller and others (2000) have evaluated the effectiveness of this program in gathering the benefits of neighborliness and capitalizing (literally and figuratively) on them to create new institutions that bring financial services to remote communities and poor people.

With regard to client profiles, the impression of the evaluators was that from the 10 FSAs visited, which mostly were operating in poor areas but not in the remotest parts of Kenya, most borrowers were not 'very poor but likely to be 'poor'.

With regard to outreach, the evaluators report that 43 FSAs operate in 17 districts of Kenya, many very remote, with a total of 16,200 shareholders as per July 2000. The evaluators, however, have found that in spite of formal ownership, local people are not strongly watching their FSA – which is contrary

to the assumption beneath the FSA model supposing that when people's money is at stake they will be strongly concerned and committed. This seems not that surprising when the authors report that most of the collected total savings of nearly Ksh 5 million in 8,000 transactions had been withdrawn as of June 2000. This suggests that the assumption beneath the FSA model might still be correct but distrust in the agency or other fellow shareholders the fundamental problem. Anyway, Miller and others conclude that the FSAs in Kenya are all suffering serious management and governance difficulties.

Though acknowledging that it is too early to begin assessing the efficiency or true sustainability of the FSA program, the evaluators are impressed by the early achievements of the FSA program in terms of reaching people who would not otherwise have had access to financial services and in terms of building a foundation or distribution system through which a large number of people can be educated on financial management, ownership and wealth and even civic responsibility. At the same time, however, the evaluators report that default rates are high and K-REP subsidies have been enormous compared to the financial flows through the FSA program. They report that 'the loan portfolios of all the FSAs reviewed are in serious trouble (except two of the new ones, where there has not been yet time for defaults to emerge), and the levels of delinquency and default seem to be worsening' (p.16). Also, the evaluation team notes that 'in the areas visited they have experienced a confusing and often harmful array of past interventions from outsiders, whether a fraudulent commercial bank that disappeared with investors' and depositors' money, or well intentional non-profit activities that made many promises only to disappear in several years when donor funding ran out or priorities changed' (p. 6). Somehow this finding is not related to the lack of trust and commitment of poor people to the FSAs. It also suggests that it is not so much the lack of providers of financial services in remote areas being the major problem but rather the (bad) quality of the services of these providers, being fraudulent or very much donor-driven.

Finally, it is worth mentioning that Miller recommends that, 'In addition to tracking management performance, K-REP should begin to develop some proxy measures for the remoteness and poverty level of the people served. I am not suggesting a full impact study, which should be done several years from now' (p. 23).

3
Assessment
Organisation Family
Finance Building
Society

In October 1997 the pilot phase of the Women Support Programme of Kenya Entrepreneurship Promotion Programme (KEPP) – in which Family Finance Building Society (FFBS) offered the credit facilities – was evaluated. The conclusion was that 'many of KEPP's and FFBS' clients, who are often single mothers and divorced, were in a better position to meet family expenses, to pay school fees, to improve their houses/business premises, or even to buy land from their income generated by the businesses' (Assessment Organisation FFBS, 16 July 1998).

Annex I History of grants and revenues of KWFT (1995-2001)

Particulars	1995	1996	1997	1998	1999	2000	2001	Totals
	Amt in Kshs	Amt in Kshs	Amt in Kshs	Amt in Kshs	Amt in Kshs	Amt in Kshs	Amt in Kshs	Amt in Kshs
a Government Agencies' Grants								
IFAD/BSF	4,544,748	7,125,467	605,419	8,972,392	4,588,776	0,950,000	5,767,500	42,554,302
IFAD/Japanese				505,000	3,594,000		461,400	4,055,400
UNDP	913,368	1,472,456	10,909,223	701,720	294,948			13,800,047
USAID	3,577,908			207,500	497,494			4,574,576
SNV ¹				289,200				704,994
Netherlands Embassy	628,242	157,061	1,156,800	49,206,841	20,169,174	41,173,173	34,128,154	2,231,303
DFID	1,616,091	2,006,783	33,330,860		385,753	2,285,933	2,700,000	181,631,076
APS Italy ²				13,292,330	14,998,432	21,563,445		5,371,686
BILANCE					10,495,032	12,804,878		49,854,207
C-GAP								23,299,910
Sub-total	11,280,357	10,761,767	46,209,802	73,464,978	54,526,115	88,777,429	47,209,654	332,230,102
b Non government Grants								
Ford Foundation	5,950,000	8,227,400	6,937,400	18,772,277	3,144,227	34,575,384		77,606,688
Women's World Banking	794,050	31,000	55,044					880,094
Barclays Bank of Kenya Ltd								500,000
Sub-total	6,744,050	8,758,400	6,992,444	18,772,277	3,144,227	34,575,384		78,986,782
c Total Grants	18,024,407	19,520,167	53,202,246	92,237,255	57,670,342	123,352,813	47,209,654	411,216,884
d Revenues								
Interest on loans	3,408,647	5,987,378	10,687,243	16,828,181	27,986,286	51,698,222	76,488,463	193,084,420
Investment income	2,223,446	1,854,691	2,180,132	7,199,544	10,994,251	3,749,455	6,529,339	34,721,858
Other income	1,377,628	2,050,623	2,769,656	8,184,117	6,879,256	11,816,376	15,146,135	48,223,791
Sub-total	7,009,721	9,892,692	15,637,031	32,211,842	45,859,793	67,255,053	98,163,937	276,030,069
GRAND TOTALS	25,034,128	29,412,859	68,839,277	124,449,097	103,530,135	190,607,866	145,373,591	687,246,953

¹ SNV: Funds from the Royal Netherlands Government.

² APS: Funds from the Italian Government.

Source: KWFT main office, Nairobi.

Annex J Historical overview of grants given to K-REP (1984-2001)¹

#	Donor	Year grant made	Amount in USD (unless specified in other currency) ²	Amount in Kenyan Shilling	Grant number
1	USAID (RPE)	1984	7,700,000		615-0220-A-00-45005-00
2	PACT	1987			
3	USAID (PDE)	1987	5,938,958		615-028-A-00-2026-00
4	Ford Foundation 1	1988	190,000		880-0318
5	Ford Foundation 2	1990	138,500		880-0318
6	Ford Foundation 3	1991	353,100		880-0318-2
7	Ford Foundation 4	1993	1,250,000		880-0318-3
8	ODA	1993	– 966,293 = 1,352,810		ODA/AFR/Q3-95/RO1
9	ODA (Addendum)	1995	– 546,473 = 765,062	38,000,000	ODA/AFR/Q3-95/RO1
10	ODA (Arifu)	1995			
11	USAID	1997	662,000		623-A-00-97-00039-00
12	Ford Foundation 5	1997	300,000		?
13	DFID	1998	– 879,000 = 1,230,600		
14	Population Council	1998	74,145		198.45X
15	UNDP	1998	120,000		KEN/95/300
16	Danida 1	1999		29,046,600	04.KEN.120/K-Rep
17	Ford Foundation 6	1999	300,000		970-1393-1
18	HIVOS	1999	DFL 290,000 = 116,000		536/KEO 2301
19	Novib	1999	DFL 210,000 = 84,000		KEN 065-99-001
20	Ministry of Labour	2000			KEN/97/301
21	USAID (HIV/AIDS)	2000	300,000		623-A-00-97-00039-00
22	Plan International 1	2000		3,213,748.20	
23	Ford Foundation 7 (K-Rep Book)	2001	100,000		
24	Ford Foundation 8 (Philanthropy)	2001	86,250		
25	Ford Foundation 9	2001	320,000		970-1393-2
26	Plan International 2	2001		1,606,175	
27	Danida 2	2001		48,425,910	104.KEN.131/K-Rep
28	MESP	2001		2,187,150	ISCB/Q1/01/05
Total			22,588,275		

¹ From 1997 onwards: to K-Rep Development Agency.

² Exchange rates used to calculate or reconvert value of donor grants in USD: – 1.00 = USD 1.40 (for 1995 and 1998); USD 1.00 = DFL 2.50 (1999); USD 1.00 = Ksh 70 (for 1999-2001)

Source: K-Rep Development Agency.

