July 2010

Turning Point Finance Programme Evaluation:

Opening doors for the Ultra-Poor

Turning Point is a Christian charity working in Africa's largest slum, Kibera, to **relieve poverty, transform lives** and **restore hope** amongst acutely vulnerable children and their families.

www.tptrust.org

Introduction....2
Background....2
Turning Point Finance Programme....4

Evaluation....5
Impact: To what extent are the objectives reached
Scope....5
Targeting the ultra-poor....5
Economic Impact....6
Empowerment....6
Effectiveness: What makes the programme work?
Flexibility....7
Simplicity....7
Support....8
Areas for Improvement
Repayment Discipline....9
Administration....9
Recommendations: Lessons for the future of TPFP
Workforce....10
Graduation....10
Scaling Up....10

Conclusion....10

Working Definitions....11
References....11

Introduction

The Turning Point Finance Programme (TPFP) was launched in late 2007 as part of the bundle of services offered by The Turning Point Trust (hereafter Turning Point). Turning Point is a UK registered charity and a registered NGO in Kenya established in 2003 with the aim of demonstrating God's heart for the poor through programmes that relieve poverty, transform lives and restore hope amongst vulnerable children and their families.

The aim of this report is to chart the course of the Turning Point Finance Programme and to evaluate the success of the scheme and to identify ways in which the programme could be improved.

Background

In the slum environment, factors rooted in poverty cause children to go to the streets to beg and scavenge for food or other recyclable items. Turning Point's aim is to enable families to stay together by partnering with parents, supporting them in their responsibilities towards their children. Turning Point's holistic support to families in Kibera includes:

Food	**Education**	**Health**	**Social**
> Feeding programme for out-of-school children > Provision of school lunches	> Preparation for street children to return to school > Support for children in Primary and Secondary school > Vocational training	> Regular health checks and de-worming for all children in the project > Assistance with treatment costs	> Extra curricular activities > Counselling for street children

Poverty increases with unemployment, which stands at 26% of Nairobi's slum population and 49% of women in those slums, whereas, the correlation between poverty and ownership of household micro-enterprises is negative (World Bank, 2006). This suggests that providing the capital and training required to start such a micro-enterprise would uplift household income and empower parents to provide for their families and dependants.

Turning Point had been approached by several parents asking for loans to start businesses, however, with no system of accountability in place the loans were rarely repaid. There are several Microfinance Institutes (MFIs) operating in and around Kibera but very few of the parents in the Turning Point scheme were accessing these loans. Research suggests that MFIs offer valuable banking services to the poor but are often inaccessible to the ultra-poor (see table 1). This was confirmed by Turning Point parents who reported that they were unable to complete the required weeks of savings before getting a loan from such an MFI.

Supply Side Factors	**Demand Side Factors**
Clients are favoured with stable household incomes, some assets and multiple sources of earnings.	Some ultra-poor clients opt-out of microfinance, not seeing themselves as 'credit-worthy' or fearing they don't have the resources to repay the loan.
MFIs strictly screen out risky clients	Lack of time
Fear that an ultra poor household would consume the loan or profits from their business.	Deterred by high interest rates on microfinance loans.
Vulnerable status (e.g. lacking permanent address, frequent illness)	Lack of knowledge of NGO services
	Low capacity to save and repay regularly

Table 1 (CGAP, 2001) (Mosley, P and Halder, S, 2004)

Though there is no universally accepted definition of the ultra poor, the World Bank (1996) offers the following criteria: no land or house ownership, manual labour as the only means of income, having no savings, inability to afford three meals a day or adequate clothing and no money to spend on education. According to the latest home studies[1] for children who joined Turning Point in 2010 around 75% of parents said they had no employment or relied on casual labour. 71% were considered to have poor or very poor clothing and all of the families with children of school-going age reported lack of funds as the reason for their children not attending school.

The Turning Point Finance Programme was therefore launched with the objective of making Microfinance available to ultra-poor parents in Kibera.

1 Home studies are the basic assessment forms used by Turning Point to gauge the situations of children on entry into the project.

The Turning Point Finance Programme

Turning Point Finance Programme was designed following extensive research into existing MFIs in Nairobi and studies in Microfinance for the ultra-poor. Much of the programme is similar to other MFI's services but with a few significant differences, namely: i) charging no interest ii) offering very small loans and iii) a focus on building strong relationships with every TPFP member. The following diagram shows how the scheme works:

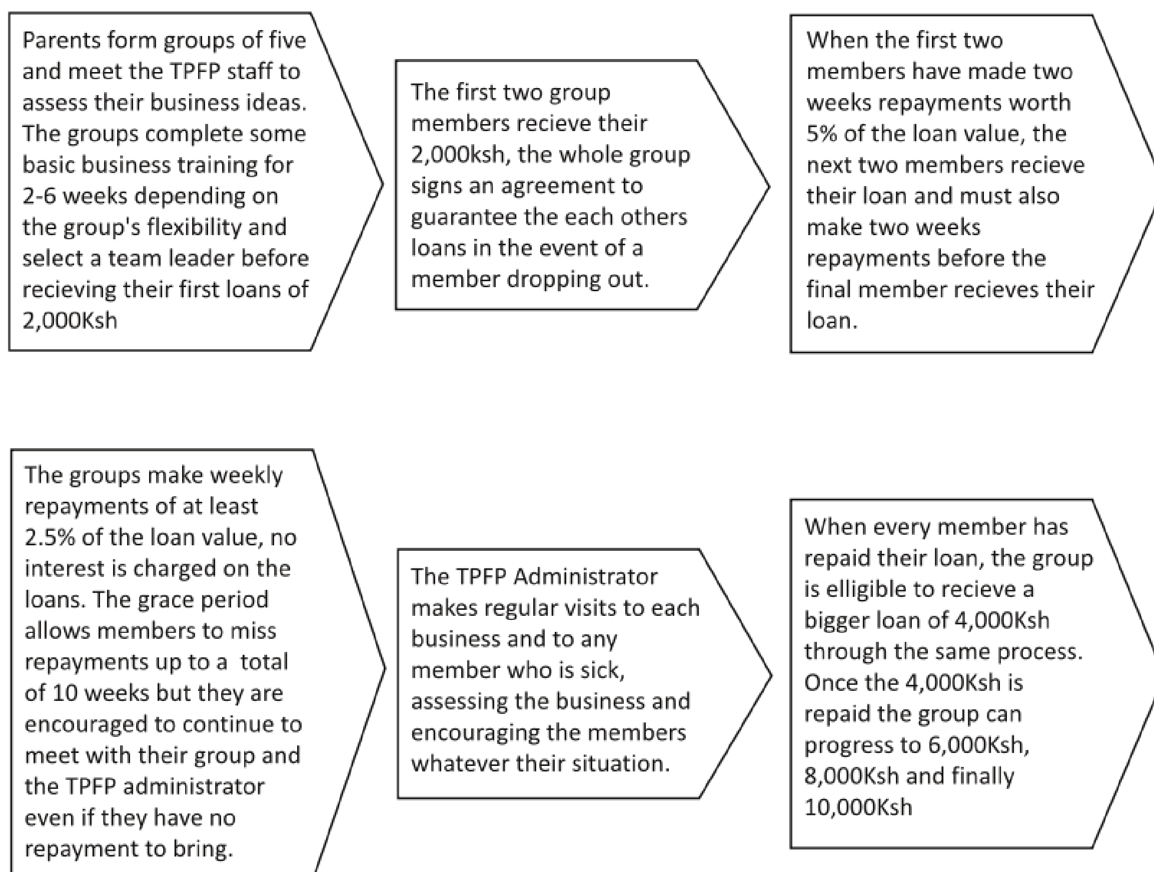

Diagram 1

As a new and pioneering programme, the details of the principles and procedures have evolved since the programme's launch as a result of regular monitoring. In April 2009 the following changes were made:

1) Originally, members were to repay 10% of their loan before the remaining group members received their loans. This resulted in the first loan recipients not investing the full loan amount in their business but rather holding some back to complete their first repayments quickly. Therefore, the initial loan recipients must now only repay 5% of the loan value over two weeks before the next group members receive their loan.

2) As the loan increment increased members were struggling to expand their businesses at a pace to match the greater repayments required. The only groups to exceed the maximum 50 week repayment schedule were those that jumped from a 4,000Ksh loan to a 8,000Ksh loan.

   In response, two changes were made: firstly, the loan increment was altered from 2,000Ksh; 4,000Ksh; 8,000Ksh to 2,000Ksh; 4,000Ksh; 6,000Ksh 8,000Ksh; 10,000Ksh. Secondly, a simple loan application form was introduced, ensuring that for every new loan the recipient defines how they intend to use the money to expand their business and are kept accountable by the TPFP Administrator and the other members of their group.

Evaluation

The following findings are the result of an internal evaluation in June 2010, two years into the scheme. The evaluation process involved interviewing the TPFP Administrator and beneficiaries along with reviewing the accounts.

Impact: To what extent are the objectives reached?

Scope

At the time of evaluation TPFP had issued loans to 110 parents in Kibera, 85 mothers and 25 fathers. Table 2 shows how these groups and individuals have progressed through the scheme. In total, nine members have dropped out of the scheme which means the programme has retained 88% of beneficiaries. The main reasons for members dropping out of the project were either alternative employment opportunities or a lack of commitment to the programme. Each group that has lost a member has repaid the individual's outstanding balance, therefore TPFP has a 0% default rate.

	No. of Loans		No. of completed loans	
Loan Amount	Groups	Individuals	Groups	Individuals
2000	22	110	15	75
4000	15	70	8	37
6000	6	25	0	
8000	2	8	1	3

Table 2

Targeting the Ultra-Poor

Entry into the programme is essentially through self-selection and thus the scheme has no criteria for entry to target the ultra poor. However, the loan product offered is so small that it is often unattractive to the relative poor. The TPFP Administrator reported a few cases of individuals requesting loans despite owning land and larger businesses in the slum. In each instance, the individual opted out once the administrator had explained the size of the loan and necessity to work in a team.

Several beneficiaries interviewed had previously struggled to supply three meals a day for their families and were unable to pay school fees. In each TPFP group 2-3 of the 5 members did not already own a micro-enterprise on joining the programme. Several also reported an inability to make the required savings for other MFIs. This suggests that the scheme has successfully targeted the ultra-poor. However, the evaluation process has highlighted the lack of information held about beneficiaries of the scheme making it hard to confirm that the objectives are being met.

Economic Impact

Enabling parents to start and own micro-enterprises creates job and income opportunities, furthermore, the capital input increases the stability of existing businesses. The findings suggest that businesses successfully generate enough profit to cover everyday consumption and household costs and in many cases to cover school fees.

When assessing the impact of the scheme, it is important to understand the role that TPFP loans play in the variety of strategies that poor families employ to meet their everyday needs. Financial intermediation is not alien to the poor but it is mostly informal and unreliable. It is the reliability of microfinance loans that these families value, in contrast to money lent to a friend who may be unable to repay immediately when the lender finds themselves in need (Collins et al, 2009). The poor are managing fluctuating incomes with no safety net of savings, in this context, TPFP offers a reliable and flexible source of finance. However, several beneficiaries still reported problems with paying for education and health care in times of sickness.

Empowerment

Beyond the economic impact, beneficiaries value the opportunity to use their skills, occupy their minds and stay active. There was unanimous praise for the support they receive from the TPFP staff. Beneficiaries are not only equipped with capital and business training but also empowered with ongoing coaching and encouragement. Each group has a team leader who is assisted in building their leadership and organisational skills.

A strong sense of teamwork is fostered amongst the groups and most beneficiaries asserted that they felt supported by the other group members, saying that they can go to other members for business advice. Though each group experiences problems at some stage the Administrator is trusted as a mediator to assist groups in moving forward together.

Effectiveness: What makes the programme work?

The strengths of the scheme can be organised into three areas: flexibility, simplicity and support summarised in diagram 2.

Flexibility

The repayment schedule on each loan requires borrowers to repay 2.5% of the loan value weekly for 40 weeks, a further 10 weeks grace period is added for times of sickness or family emergency when household funds need to be redirected for a time. In reality, most borrowers repay varying amounts each week depending on their business incomes, thus, an individual can miss more than 10 weeks of repayments but still repay within 50 weeks. Such flexibility ensures that each group can progress at their own pace. Members can visit the administrator and make these weekly repayments at a time convenient for them to fit with the long and variable hours of informal business.

Dispersal of loans is fast as the only requirement is for groups to complete sufficient training before starting their loan. The schedule for training is tailored to each group so that the dispersal of the loan depends on the groups availability. On average groups wait 5 weeks to receive a loan, those that waited longer than eight weeks became frustrated.

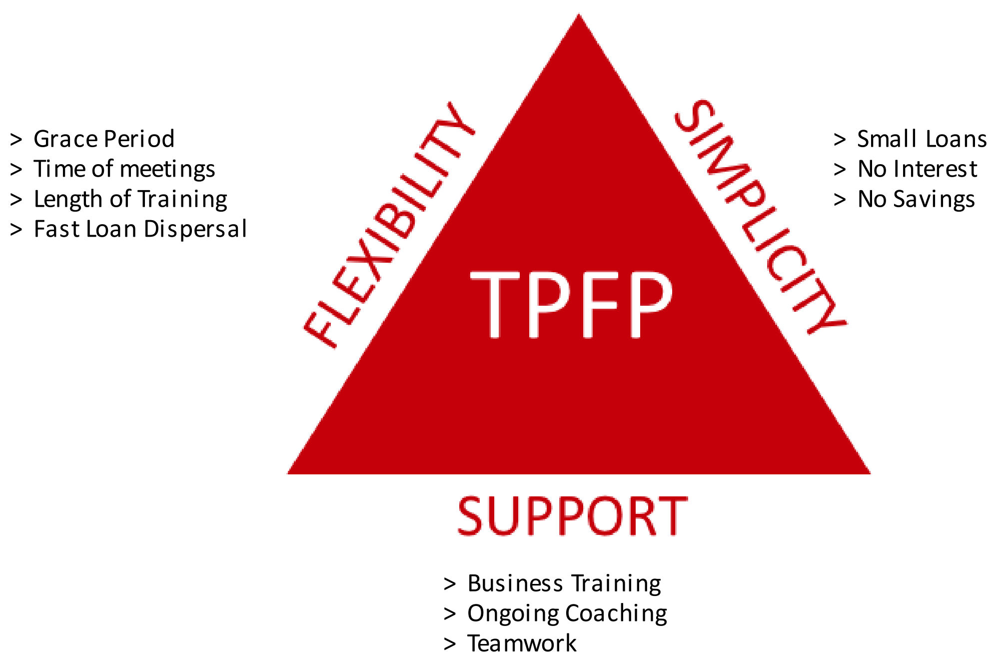

Diagram 2

Simplicity

There are risks involved in borrowing, circumstances may cause one member to drop out of a group, leaving the remaining members to repay their loan in order to advance to a larger loan. Starting with small loans ensures

that in the early stages when individuals are new to running businesses and groups are still forming the risk of one member dropping out does not have overwhelming consequences for the other group members. By the time groups advance to higher loans, they have learnt to deal with business problems, to trust each other and to navigate issues as a team.

TPFP charge no interest on the loans to make loans accessible to members who are deterred by the high interest charged by other MFIs. Other MFIs require groups to save for several weeks before accessing a loan. TPFP does not require savings because it discourages borrowers who want to receive their loan quickly and excludes the ultra-poor who are unable to make savings.

Support

The ultra poor have specific needs when accessing loans further to those of the relative poor. For Example:

i) The marginality of the ultra poor excludes them from social networks that provide valuable business information on markets, prices and the like.
ii) A history of living hand-to-mouth creates a short-term vision uncongenial for building a stable and sustainable business.
iii) Marginality robs self-esteem while a survival mentality can create a fierce independence that struggles to trust.
iv) Poor health and no safety net of savings means that crises are frequent and have a big impact on an individuals ability to continue their business.

'Programme quality matters much more to the most vulnerable' (BRAC, 2009:)

The TPFP administrator offers training and extensive consultation to each member equipping them with the knowledge and money management skills required to build a successful business and to manage their income and loan repayments sustainably. Ongoing coaching and the support of fellow group members builds confidence, morale and trust.

Staff focus on building strong relationships with every member so that in times of crisis when a member needs to stop repayments for a period, that member feels comfortable to keep the staff and group members informed and to seek personal support and advice on matters other than business.

Areas for Improvement

Repayment Discipline

Irregularity in repayments creates frustration within groups. Members are free to make repayments at different rates which results in some group members finishing their loans much earlier than others. Those finished members become impatient with their team-mates as they wait to receive the next loan.

The records show some groups intentionally staying together, matching each others repayments to graduate to the next loan together, particularly on the first loan. In other cases, members wait as long as 20 weeks for the rest of their group to finish. This waiting period increases with the size of loan. On average the first group member waits 2.79 weeks for the rest of the group to finish for 2,000Ksh loans, this increases to 8.29 weeks on 4,000Ksh loans.

The main causes of paused repayments are 1) poor health either stops a member opening their business or they use business profits to pay for healthcare for a family member. 2) Rising prices of commodities reduces the profits of certain businesses. 3) Other family needs take priority over loan repayments. Occasionally, halted repayments are due to a lack of commitment from a group member. This was the case with three of the nine members who dropped out of the scheme. Beneficiaries requested support from Turning Point beyond capital to assist their families with education and healthcare costs in particular. On the other hand, in times of plenty members reported that they did not like keeping money in the house because they knew it would be consumed. In these cases, members wanted to repay larger amounts when they were able.

A group savings scheme could smooth member's cash flow by offering a safe place to store surplus cash and a source of extra income in times of need. To offer such a service Turning Point would need to hold a valid licence, as written in the Banking Act (Amended 2004). However, a partnership between TPFP and a registered MFI may enable the scheme to legally offer savings. TPFP need to explore alternative mechanisms to stop members getting too far ahead of others.

Administration

Firstly, there was a gap in the information kept on each member that would be useful in measuring the project against its objective of targeting the ultra poor. Loan application forms should be redesigned to collect relevant information that will help with future evaluations.

Secondly, the current process of record keeping creates a lot of paperwork for the TPFP staff. A computerized system would make record keeping more efficient; decrease the risk of human error; and simplify regular monitoring of the scheme.

Recommendations: Lessons for the future of TPFP

Workforce

TPFP staff spend the majority of their time in consultation with members, training new groups and completing paperwork. The nature of the scheme requires a compassionate workforce and such flexibility in handling money demands high levels of accountability. The staff to member ratio should not exceed 1:100 to ensure quality support to every member.

Graduation

The aim of the scheme is for members who joined the programme as ultra-poor exiting the programme in a position to access continued finance from MFIs, owning a stable business, with experience in handling loans and repayments and confidence to approach an MFI. We hope that the process will not only create confidence in the members themselves but will create a record for each member that will inspire confidence in an MFI to lend to our past members.

At the time of evaluation, one group was close to receiving a 10,000Ksh loan. Turning Point needs to explore the options for graduation out of the scheme, particularly the possibility of partnering with an MFI that could offer larger loans. Members in transition from TPFP to an MFI will have to adjust to:

- Going from a zero interest loan to a loan with relatively high interest
- Moving to a structure that requires a different construction of groups
- Paying in savings for several weeks before receiving a loan

Scaling Up

The success of the scheme argues for the project to be pushed out further in Kibera. Word of mouth is currently the only way that TPFP is publicised, most current members heard about the scheme from either a TPFP member or a Turning Point staff worker. This has proven to be a successful method with a consistent flow of potential members making enquiries. A new office will be opened in 2010 in Kianda to run alongside the existing office in Mashimoni. In the future, offices in other areas of Kibera could promote the scheme further. Partnership with an MFI would enable the TPFP model to be rolled out on a much larger scale using the MFI's resources and expertise.

Conclusion

The evaluation shows TPFP has met its core objective of making finance available to the ultra-poor. This has seen over 100 parents moving out of their ultra-poor status into a more stable position, owning micro-enterprises and smoothing consumption. The TPFP model combines flexibility, simplicity and support to offer a high quality

service catered to the specific needs of the ultra-poor. The result is a 0% default rate and retention rate of 88%.

Furthermore, the evaluation has highlighted lessons for the programme 's future; adjustments to improve administration and repayment discipline are necessary and research should begin to lay a graduation pathway for those reaching the final 10,000Ksh loan. Partnership with an MFI could make group savings possible, create a transition into mainstream microfinance and offer the needed resources to reach more people with the programme.

Working Definitions

Ultra-poor: Here World Bank criteria are used to define the ultra-poor, that is: no land or house ownership, manual labour as the only means of income, having no savings, inability to afford three meals a day or adequate clothing and no money to spend on education (World Bank, 1996).

Street Children: Turning Point considers a street child to be a child under the age of 18 who spends most of their time going around the streets begging or scavenging for recyclable items to sell. Such a child may or may not have a home to return to at night.

References

Matin, I; Sulaiman, M; Rabbani, M (2008) 'Crafting a graduation pathway for the Ultra-poor: Lessons and evidence from the BRAC programme' Working Paper no.109

CGAP (2001) 'Linking Microfinance And Safety Net Programs To Include The Poorest: The Case Of IGVGD In Bangladesh' *Focus Note* no. 21

Collins, D; Morduch, J; Rutherford, S and Ruthven, O (2009) 'Portfolios of the Poor: How the World's Poor Live on $2 a Day' Princeton University Press

Mosley, P and Halder, S (2004) 'Working With The Ultra-Poor: Learning From BRAC Experiences' *Journal of International Development* Issue 16 pp.387–406

World Bank (1996) Cited in Mosley, P and Halder, S (2004) 'Working With The Ultra-Poor: Learning From BRAC Experiences' *Journal of International Development* Issue 16 pp.387–406

World Bank (2006) 'Inside Informality: Poverty, Jobs, Housing and Services in Nairobi's Slums' Water and Urban Unit 1, Africa Region, Report No. 36347-KE