

Findings



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Kenya: A Micro-Finance Scheme for Women

Established in 1981 as an affiliate of Women's World Banking, the Kenya Women Finance Trust aimed to strengthen women's participation in the economic mainstream. It focused on a clientele that had little access to formal lending institutions and sought to strengthen their position by lending to women owners of micro-enterprises and providing the requisite training

Kenya Women Finance Trust: Case Study of a Micro-Finance Scheme examines the operations and performance of KWFT through an action research analysis and reports on key steps taken by the Trust in its progress towards sustainability.

Although KWFT started its operations in the early 1980s with several donors providing grants, that support dwindled in the latter part of the decade due to poor performance. By 1990, general mismanagement had resulted in a relatively high number of non-performing loans. Operations had largely ceased and donor confidence was badly eroded. The institution was subsequently restructured with a new board of directors, (comprising professional women), management team and staff. A focused group-based credit methodology was also adopted.

Financial Performance

Unlike the 1980s, the 1990s have been marked by increased support for the informal finance sector. The Government of Kenya (GOK) now provides support to the sector as a means of sustaining growth and generating employment opportunities. It has enacted policies in support of the sector and channeled resources to improve infrastructure and facilitate the flow of credit to

the sector. Donors have also showed considerable support to GOK as well as to private institutions that proved efficient.

Since 1991, KWFT has garnered financial support from the Ford Foundation, the Kenya Rural Enterprise Program, the International Fund for Agricultural Development (IFAD), the Belgian-Survival Fund, Barclays Bank of Kenya, the Kenya Gatsby Charitable Trust and the Netherlands Ministry for Development Cooperation. With this support from grants and subsidized loans, the KWFT portfolio has expanded from a total outstanding loan value of nearly Ksh. 1.5 million (approximately US\$ 48,000) in 1992 to about Ksh 19.8 million (approximately US\$ 340,000) in 1995 (since averaging the considerable fluctuations in the value of the Kenya shilling to the US dollar over the years 1992-1995 would not indicate the extent of growth in KWFT's financial activities, we have averaged that value for the individual years in question).

The outstanding loan volume per credit officer/manager has increased from Ksh 43,000 in 1992 to Ksh 990,000 in 1995. Operating income has increased also, covering about 52 percent of total operating expenses in 1995 (compared to only 13 percent in 1991). This improved performance is mainly due to a larger loan portfolio and correspondingly greater interest income for the Trust. Improved earnings are in line with KWFT's drive for sustainability. Yet overall sustainability, as indicated by the Subsidy Dependence Index (SDI), has been improving only slightly. The Trust's SDI stood at 1289 in 1994, which indicates continued heavy reliance on funding subsidies and donor grants.

The loan portfolio has performed well in recent years. In general, the Trust has not experienced default and arrears problems. KWFT annual reports place the average loan recovery rate above 97 percent during the years 1993-1995.

Credit operations are expected to generate a net profit from 1996-1997 onwards. As part of this plan, credit operations and accounting functions will be fully decentralized to the branches. The Trust expects to generate enough revenue to cover all its operating costs beginning in 1997 or 1998.

Access and Outreach

KWFT has developed a reputation among Kenyan women, especially rural women, as a reliable and quick source of credit. By providing women with credit, KWFT has been able to develop entrepreneurship in the coastal towns of Kwale, Kilifi and Malindi. Through a collaborative arrangement with Barclays Bank of Kenya, KWFT also facilitates larger loans to individual women. These loans are partially guaranteed by the Trust and the bank while the client provides collateral to guarantee the balance. This empowers women through the creation of additional sources of income and reduces their dependency. By bringing women together in groups, KWFT has also created some long-lasting relationships that contribute to solving some of the social problems in Kenyan society. Perhaps the most significant non-economic impacts of KWFT are creating credit awareness, developing a business-like attitude and reducing fear of banks and loans among KWFT clients.

As of December 1995, KWFT had granted over 5,000 loans to women entrepreneurs. For the period 1991-1995, a total of Ksh 70 million in loans was disbursed. Group savings (which are an integral part of the credit methodology) increased from Ksh 49,500 in 1992 to over Ksh 4.5 million in 1994 and Ksh 13.9 million in 1995. The total number of savers stood at 2,032 in September 1994 and 3,460 in December 1995.

KWFT now strives to be self-sustaining. By 1995, it had 7 branches and sub-branches and 41 employees - all serving exclusively women. During the current Managed Growth Plan (1994-1999), the Trust intends to increase the number of branches to 8. A total of 15,950 borrowers will be funded with total disbursements amounting to Ksh 1.6 billion. The Plan is set to increase the number of staff to 87, and a total of Ksh 1.2 billion will be mobilized from donors and banks.

Lessons Learned

The Trust tries to be innovative, making modifications based on an analysis of feedback from clients and the socioeconomic environment. Crucial to that process, the Trust works to identify problems early and assess the impact of programs and changes to them. During the period 1991-1994, KWFT transformed its operations to manage a portfolio in excess of Ksh 13 million. This transformation involved focusing sharply on group lending. In 1992, KWFT adopted the Biashara Scheme, a group-based model of intermediation adopted by the Kenya Rural Enterprise Program and similar to the model used by the Grameen Bank in Bangladesh. The scheme has been modified to fit Kenyan conditions and practices.

The Uaminifu Scheme was adopted in 1993. The scheme seeks to wholesale a unit loan to existing groups, which then retail loans to their members. This eliminates some of the expenses of group formation and loan administration, strengthens the groups and improves KWFT's outreach.

In other changes, flexibility has been introduced to ease administration and increase efficiency. Changes have been made to group size, loan repayment period, frequency of meeting, the loan review process and the frequency of savings transactions. Some changes vary from one branch to the next.

As part of its capacity-building strategy, KWFT realizes that it needs to develop capital funds to cover operational costs, fund innovations and leverage its activities with other institutions. Additionally, it needs to emphasize the review of its physical facilities, staff policies, financial products and services, business strategies and procedures and sustainability issues. The relationship with formal financial institutions is crucial as a basis for local mobilization of resources. KWFT will continue to require an infusion of funds from the outside, and commercial banks will remain an important alliance.

The Trust is committed to the on-going training of personnel and improvements in the management information system. To a large extent, the remuneration and training policies will determine the organization's ability to sustain a program of financial services delivery. Retaining qualified staff entails matching the remuneration policies of competitors.

KWFT has found that setting targets and strategies on a yearly basis (assisted by Women's World Banking) has added value to the management and evaluation of the credit program. However, there is no "off-the-shelf" system for monitoring the loan portfolio. Moreover, trying to develop one is expensive and requires considerable expertise.

Since lending is KWFT's core business, the strategy is to keep administrative costs down and link the growth in lending to the availability of funds. Sustainability is closely related to lending capacity and the level of repayment rates. Small loans are expensive to administer and KWFT can only survive as an institution by charging competitive interest rates, lending to many women and maintaining a high repayment rate.

Credit provision and access is crucial to low-income women. KWFT's experience has been that non-financial services such as client training enhance credit management performance. Therefore, it is important to provide access to these services, especially as part of the overall mission of the institution. However, while the credit program will become self-sustaining over time (as the program grows and greater efficiency is realized) non-financial services will require support for a long time. Therefore, KWFT has begun to reduce its provision of non-financial services and to develop new means for delivering those services. For example, KWFT's collaboration with the Kenya Management Assistance Program (KMAP) resulted in the Small Enterprise Professional Service Organization (SEPSO) , developed to train bigger clients under the Barclays Bank Guarantee Scheme. Further, the "best practice learning and market linkages" program has been developed to assist successful women entrepreneurs act as mentors for less successful women. These innovations represent a more useful approach than conventional training programs for illiterate and semi-literate women.

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