MICRO-Finance Industry in Kenya:

Problems and Suggested Solutions

By:
Kenneth MbAABU Muchiri

United States International University
In Nairobi

(USIU), Nairobi, Kenya

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MICROFINANCE INDUSTRY IN KENYA:
PROBLEMS AND SUGGESTED SOLUTIONS

BY:
KENNETH MBAABU MUCHIRI

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2000
STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work. It has not been submitted to any institution, college or university other than USIU in Nairobi for academic credit.

Kenneth Mbaabu Muchiri

Signed: [Signature]  Date: 03/03/2001

This thesis has been presented for examination with my approval as the appointed University Supervisor.

Signed: [Signature]  Date: 03/03/2001

Prof. Isaac Riak

Signed: [Signature]  Date: 03/03/2001

Dr. Meoli Kashorda
Dean, School of Business

Signed: [Signature]  Date: 03/03/2001

Deputy Vice Chancellor
Academic Affairs

(i)
ABSTRACT

This research project aims at establishing the major causes of poor growth of microfinance industry in Kenya and get possible solutions. The realization that demand for Micro-finance services in Kenya far exceeds the supply prompted me to carry out this study. Another concern is that many firms have entered and exited this industry. The study, therefore, aims to establish the factors that have hampered the growth of Microfinance Industry (MFI) in Kenya and seek practical solutions.

This research will be found useful in providing solutions to a sector that can help the poor and especially women. Women form the largest category of clients for Micro-finance firms. Women prefer these institutions for credit provisions because they do not require formal collateral like the mainstream banks. Focus on the poor will also assist the country to achieve its goal of poverty eradication. Recommendations set out can also help Kenya to achieve its goal of being fully industrialized by the year 2020.

Specific objectives of this study were:- to establish the factors that have hampered the growth of microfinance industry in Kenya, to appreciate what has been done to improve microfinance industry in Kenya, to establish the viability of microfinance institutions and to come up with practical solutions that would develop the industry.

The hypotheses for this study are:

i. Poor financial viability is the major cause of poor growth of micro-finance industry in Kenya.

ii. Decline in donor funding is the most important factor affecting the growth of MFI industry in Kenya.

A detailed and critical literature review was done to get a feel of other works done on the subject or relevant to the subject. Review of local works relating to Kenya as well as other parts of the world was done.
Data was collected from the major players in the microfinance industry by means of structured questionnaire that was administered on a face-to-face basis. Organizations interviewed include K reps, Faulu Kenya, Kenya Women Finance Trust, Micro-Ped, Plan International and others. Key personnel from Central Bank were also interviewed to give a feel of the industry. Bar graphs and pie charts are used to indicate the popularity of specific reasons of low growth of the industry and specific remedies.

Findings of the study revealed that lack of financial sustainability is a far greater problem in the industry than others. However, other problems such as inconsistent donor funds, lack of supervision, poor economic growth and unfair competition clearly came out. A clear finding of the study was that long run survival of the industry depends more heavily on financial viability than any other factor. It also became clear that donor funds cannot be relied upon for long run survival of the industry. In addition, the research also found out that an average microfinance institution requires an average of five years uninterrupted funding before it can stand on its own feet to finance its operations. Another finding was that regulation of the industry is crucial and removal of legal laws unfriendly to the industry such as refusal of micro enterprise firms to mobilize deposits should be addressed by the government as a matter of urgency.

The research has brought out salient factors that hamper the growth of micro-finance industry. Solutions have also been suggested. In summary the industry’s future growth depends on a consistent effort and a multi-dimensional approach by all stake holders including the government.
ACKNOWLEDGMENTS

I am very grateful to all the people who contributed to the success of this study. A number of firms, and in particular K-rep, Faulu Kenya, Kenyan Women Finance trust and KIE, gave me very positive Contribution.

Special thanks also go to my supervisor Prof. Isaac Riak for his insightful guidance.
DEDICATION

I dedicate this thesis to my parents who instilled in me a great value of education. To our whole family and especially my wife and our children, Mugambi and Koome whose patience was paramount as I tried to fulfill the requirements for my MBA.
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CHAPTER ONE: PROBLEM STATEMENT

1.1 Introduction

The performance of microfinance industry over the past twenty four months has been mediocre at best. It is imperative that MFIs (micro-finance institutions) seriously address the issue constraining growth and development of the Industry, and capitalize on the positive development taking place in the industry. (Report on the Inaugural Kenya MFI executive Discussion Forum by the Kenyan Microfinance Institutions Executive forum, September 22, 1998, p1.)

In Kenya, micro-enterprises are popularly known as "Jua Kali" and constitute small-scale farmers, mechanics, artisans and traders. The sector forms a big segment of Kenya's informal sector, which has numerous problems. In the area of Credit and Finance, lack of access, to credit facilities has been mentioned as a major handicap to the sector's expansion and development.

Microfinance activities started way back in the 1980s in Kenya mainly through Non-governmental organizations. A microfinance enterprise is an institution that lends funds to the small and medium size enterprises (SME) without necessarily taking deposits from the borrowers. There are over 50 institutions that provide some form of micro financing. Out of these, about 10 practice pure micro financing while others provide micro-financing alongside social welfare activities. (Supervision and Regulations of Micro-Finance Institutions in Kenya: The Way Forward, July 1999, p2)

In the last decade a broad category of institutions have been providing some form of micro-finance and business advisory services. They include: International and Local Non Governmental Organizations (NGOs), Foreign Government agencies, Branches of United Nations, Banks and Non-Bank financial institutions and Savings and Credit Societies (SACCOs).

Funding for most of the institutions has been obtained from local and external donors. Among the major players in the NGO sector are K-REP (Now Licensed as a Bank), Pride Africa, Faulu Kenya, KWFT, Pride Ltd., WEDA, NCCK-SSBE, ECLOF, BEMA - Plan International and Jitegemee. These institutions received donations ranging between Ksh 20 million to Ksh 154 million per institution per year during 1998-99. (Supervision and Regulations of Micro-Finance Institutions in Kenya: The Way Forward, July 1999, pp2-3)
Financial institutions involved in the sector are Kenya Commercial Bank, Family Finance Building society, Barclays Bank and Co-operative Bank of Kenya. These institutions have channeled funds from organizations like USAID, OPEL fund, IFC (International Finance Corporation) and Danida. Kenya Post Office Savings Bank has since 1910 provided deposit services to microsavers. Today Postbank successfully operates 57 manned branches and 450 Postal corporation’s outlets spread all over the republic. It was one of the founder members of the Association of Micro Finance Institutions (AMFI) (East African Standard, Friday March 31, 2000 p. 44).

1.2 Problem Statement

Despite having an early start in this country, it is documented that the growth of this industry has been very slow. The industry is characterized with high entry and exit of firms. In addition, the demand for micro-finance services far exceeds the supply. In the recent study, the demand for micro-credit alone was estimated to be in excess of Kshs. 4.3 billion per year while provision of the same was approximately Kshs 1 billion. (Supervision and regulation of micro-finance institutions in Kenya. The way forward, July, 1999 p. 1) This indicates a gap of over 3 billion Kenya shillings. In the same study it was revealed that Microfinance clients were less than 100,000 while 1.5 million micro finance business clients are in the country. This is a gap of 1.4 million clients in the country. (Supervision and Regulations of Micro-Finance Institutions in Kenya: The Way Forward, July 1999, p. 1)

The study was intended to answer the following questions:

What factors have hampered the growth of micro-finance industry in Kenya?
What can be done to enhance growth in micro-finance industry in Kenya?

1.3 Objectives of the Research

The following were the objectives of this research:

(i) To establish the factors that have hampered development of micro finance industry in Kenya
(ii) To appreciate what had been done to improve the micro-finance industry in Kenya
(iii) To establish the viability of the micro finance institutions
(iv) To come up with practical suggestions that would help to develop the industry.
1.4 Research Justification

The majority of the Kenya's population lives below the poverty line. Over 80% of the population is composed of the rural poor while over 70% of the urban population lives in shanties such as the Kibera, Korogocho, Mathare, Mukuru and Kangemi. All these groups cannot access credit facilities and services from the mainstream Banks that require collateral and are more commercial oriented.

Women also form a significant percentage of the disadvantaged rural population. They are further dis-empowered by the social structures in the country that do not favor them when it comes to inheritance of wealth; in most African societies including Kenya's, women do not inherit property especially land. This means that they do not have access to credit facilities due to lack of collateral.

This research was meant to help majority of Kenya's women and the poor as it intended to improve the sector that concentrates in financing and providing financial services to the poor. This view is supported by Sarah M. Kitemi’s study of 1997 as she observed: Illiteracy is also a less of a handicap for men borrowers, as literacy rates for African men are higher than those of women (World Bank, 1995 in, Loan Repayment Trends by women in the services industry. A comparative study of Nairobi’s K-Rep clients by gender. Sarah M. Kilemi, 1997. p 3)

The usually lengthy and complicated bank lending procedures (e.g. provision of financial statements, investments plans, provision of other numerous documents etc) are likely to favour men than women. Limited education on part of women does also mean that unlike men, they are less likely to exude the confidence necessary to go through loan borrowing procedures. Finally, the linking of formal financial borrowing to collateral (title deeds, log books etc) tends to favour men borrowers over women.

In the absence of adequate formal lending opportunities, women have tended to opt for informal borrowing (Liedholm and Mead, 1987 pp17), thus for many small scale women entrepreneurs, their main financiers are relatives, friends, neighbours, trading partners, suppliers, creditors and women groups. Women turn to these sources because of their simple lending terms; flexible repayment schedules; low interest rates (or no interest); non requirements of collateral; convenience due to proximity and sympathetic disposition in the event of defaulting (Masinde and Nzioki, 1991 in Sarah M. Kilemi, 1997. pp9-10)
The poverty eradication goal of the government will also find this research useful. This is because it addressed credit access to the poor. We cannot eradicate poverty without stepping up credit access.

Kenya's aim is to get industrialized by the year 2020. Kenya's industrial boom will take place through the so-called "Jua Kali" industry because of the huge numbers and diverse sectors involved. Industrial revolution cannot take place when business - small and medium are not given adequate financing. Recommendations that will assist improve Microfinance industry will assist Kenya to achieve its goal of industrialization.

Impact of mainstream Banks is decreasing by day due to decline in purchasing power and general economic conditions.

"The January 2000 Monthly Economic Review from Central Bank of Kenya indicated the following trend in real GDP growth:

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*Source: Central bank of Kenya, Monthly Economic Review Volume No. 1 Issued in January year 2000pp. 3*

The above trend means that the mainstream Banks are continuously accessing a lesser proportion of the Kenya's population due to declining GDP. This phenomenon again justified this research since it would enhance the micro-finance sector.
1.5 Research Questions/Hypotheses

I had the following hypotheses for my research: -

H (1) Poor financial viability is the major cause of poor growth of Micro-Finance Industry in Kenya.

H (2) Decline in donor funding is the most important factor affecting the growth of micro-finance industry in Kenya.

1.6 Anticipated Problems

I anticipated the following problems during the course of my research: -

1.6.1 I expected to have time constraint since I intended to finish the project in 5 months; I did not think that there would be enough time to interview primary consumers.

1.6.2 Getting very accurate data because a number of micro-finance institutions are small and not computerized.

1.6.3 I can foresee a problem of getting honest answers for judgmental questions I intend to ask. These will be related to causes of failure to grow.

I will deal with this problem by getting a wider sample to reduce the effect of bias. Questions that require management to indicate the cause of failure for growth may not be objectively answered by senior managers within the firm.

1.6.4 Information on success cases in the world was not expected to be easily available.

1.7 Variables and their conceptual and operational definitions

It is of utmost importance to identify variables and give their definitions both conceptually and operationally. Major variables are detailed below:
1.7.1 Growth

Growth is an act or process of growing. Increase in size or value. (The Oxford Dictionary for the Business World. Oxford University Press, 1993, p.359)

Operationally and especially for this research, growth will be seen as the increase in loan portfolio and also in the number of people served (outreach). These two parameters will be easily measured by getting the yearly loan portfolios and total clients from 1995 to 1999. It is worth noting here that increase in the number of microfinance institutions is not necessarily growth for the industry but rather the total number of clients reached and served. Both loan portfolio and Outreach are dependent on the amount of funds available. Sources could either be local or foreign. These sources will also be evaluated for the same period.

1.7.2 Financial Viability

Conceptually a financially viable project is one that gives a return satisfactory to the investor. This means that total revenues less total costs would yield a surplus sufficient to meet objectives of the institution. Viable means feasible. Especially economically capable of developing and surviving independently. (The Oxford Dictionary for the Business World. Oxford University Press, 1993, p. 924.)

Operationally, financial viability is determined by the ratio of total revenues to total expenses. Revenues include net interest income, fees and interest on investments. Expenses are categorised as operating expenses (administration costs, depreciation of fixed assets and losses from loan defaulters) and total expenses (all of the above plus the cost of loan funds and allowance for inflation). (The informal sector and microfinance institutions in West Africa. World Bank Regional and Sectorial Studies, Leila Webstar and Peter Filder, 1996, p. 59). A ratio of 100% is indication that the institution can cover all its operating costs from its own revenues and in a while it may not need to rely on external or local funding to finance its operations.

A graph with financial viability ratio as the independent variable and number of clients reached and total loan portfolio as dependent variables can give us a correlation whose analysis can lead to conclusions as to the importance of financial viability in the growth of both clients and loan portfolio. The results of this analysis would be interpreted considering factors like donor funding that may cause growth other than re-investment through financial viability.
It is worth noting that financial viability is one of the indicators of sustainability. Others include operational efficiency and institutional durability. These concepts will be further explored in the next chapter.
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

I have made extensive reading on literature that directly and indirectly relates to micro-finance industry in Kenya and, that border the subject. This chapter will highlight micro-finance problems as discussed within the country in some important forums. There will be a brief view of micro finance activities by commercial banks; a look at the West African experience and the operational aspects of few Kenyan micro-finance institutions will be explored.

2.1 Micro-Finance Industry Problems

In a report dated 22\textsuperscript{nd} September, 1998 on the inaugural Kenyan MFI Executive Discussion Forum by the Kenyan Microfinance Institutions (MFI) Executive forum which, is a joint initiative between K-Rep Holdings LTD and USAID\textsquotesingle s Micro PED Project, it was agreed that the industry had experienced a marked slump over the past 2 years to the date of the paper.

Report on this Luncheon highlighted the following issues:

- Client desertion was high with some MFIs losing up to 50\% of their clients. It was noted also that this is not a unique trend to Kenya as some Latin American MFIs have also been experiencing high client dissertation rates.

- A relatively large number of MFIs collapsed, or were on the verge of collapse or had stagnated to a level of insignificance.

- While the leading MFIs received increased funding support, this had not translated into increasing outreach and growth of loan assets. Financial and profitability based performance and efficiency remained mediocre, with no new or significant market penetrations, and the largest number of clients reached remained at the 15,000 level.

The growth of Micro-finance industry in Kenya may as well be tied to reasons for growth of small and medium-sized enterprises (SMEs). This is because their rate of growth has a bearing to the rate of growth of the financiers. In an investigation into the reasons why some SMEs grow and others don\'t, Hey concluded that “over the long term it is the internal rather than the external barriers to grow that exert the decisive influence upon SME’s rate of growth. The key internal growth constraint is managerial capacity and the unwillingness on the part of owner-manager to incur the risks associated with growth”. (\textit{Journal of Small Business Management. Volume 37 no.3. July 1999, Fredrick C. Scherr. p. 52.})
The "big five" MFIs continue to dominate the scene with no significant entrance of new big players.

- The ownership, governance and institutional form of NGO-MFIs were and are still not seriously addressed.
- Regionally (East Africa) though Kenya started MFIs early, it had/has not made a significant progress in the regulatory environment and entrance of new commercial actors to the sector.

In a paper entitled "Promoting Microfinance institutions in Kenya" prepared by AMFI for discussion with stakeholders and regulatory agencies in 1999, the following impediments to the development of microfinance business in Kenya were identified:

(i) Institutional form

Most MFIs are registered as NGOs, under the Non Governmental Organizations co-ordination Act. Some MFIs are also registered both as NGOs and as companies limited by guarantee, Trust or associations.

The predicament is that these forms of registration do not address issues regarding ownership, governance and accountability. They have also contributed towards poor performance and eventual demise of many MFIs. Further, the introduction of a regulatory framework for MFIs may require them to have a more acceptable form to registration that clearly delineates the responsibilities of owners, directors and management.

(ii) Capacity

Another impending factor is the capacity to govern and manage MFIs effectively. At present any individual or institution can set up an MFI, with burden of due diligence left to donors who fund the institution, some who have little or no capacity. This has made the industry susceptible to unscrupulous operators that give microfinance a bad name. Further, it has led to waste of resources and client money. Finance and banking business requires sound management regardless of the size of its transactions. Poor management of financial institutions not only affects the institution in question but also the economy.
(iii) **Outreach**

Kenyan MFIs have a very limited outreach in the number of people they serve. This is a problem in Africa at large. An important fundamental micro finance institution is serving a large number of clients. This is necessary for both financial viability (given the small size of transactions) and developmental impact.

Other reasons for low outreach include inappropriate lending and saving technologies, management capacity, cultural structures and set-up or an enabling legal and regulatory framework. If micro finance is to develop, Microfinance institutions must come up with a Solution to this predicament.

(iv) **Unfair competition**

This is practiced when MFIs operate in the same area and result to stealing clients from one another using unfair means. This unfair competition works against the industry.

(v) **Access to funds**

The forum noted that today the only source of funding for MFIs is donor funds, which is shrinking.

It was noted also that most donor funding comes in bits which make it difficult for MFIs to plan effectively.

Although some MFIs do put to use deposits collected from their clients, this is not a common practice and the law prohibits institutions from taking deposits unless they are appropriately Licensed.

Related to the access to funds is the impediment to developing new products, particularly savings products. These are not only important as a source of funds to MFIs but more so as a service that is even in greater demand than credit.

Again, regulatory provisions constraining MFIs ability to take deposits hinder this development.
(vi) Legal and Regulatory Framework

It was noted that there is no specific legislation for the MFI sector or a set of laws to guide its operation. This leaves the industry to develop in a disorganized manner. For improved performance and sustainability, MFIs need an appropriate and enabling legal and regulatory framework in order to have an orderly development of the industry. The paper also noted unfair competition from subsidized Micro Credit Programs that are seen by government agencies and institution that are not committed to the development of the sector. This was claimed to have undermined the development of credit discipline and will in the long run hurt the financial sector in the industry.

The point on Regulatory framework was also echoed by the Standard Newspaper:
Microcredit Institutions are currently operating in a vacuum although they are becoming more aggressive in the mobilization of savings and are each day inching closer to banks in provision of services and products. The introduction of savings accounts by these organizations, in particular makes it even more imperative for the government to take a fresh look at the regulatory framework for the Microcredit Institutions to ensure strict money management. (Financial Standard, Tuesday August 24, 1999, p. 3)

(vii) Negative Image

The Kenyan populace - individuals and public institutions have a very negative image of the MFIs. They perceive them to be a source of lendouts and moneys that is never to be repaid. This comes out from the fact that the sector is not officially recognized as part of the financial sector by authorities. It has been observed that the law courts usually treats cases brought to them for recovery with the attitude: ‘They really do not have to pay since the funds come in as grants to you’. This indicates lack of co-ordination in public education on MFIs.

2.2 Small-scale credit schemes by Commercial Banks

Some Commercial Banks have entered this field in Kenya. The main Banks in this type of lending include Kenya Commercial Bank and the Barclays Bank of Kenya.

For the Barclays bank, the scheme is funded by British Aid to Small Enterprise (BASE) office of the Department for International Development (DFID). The aims of the project is mainly to encourage lending to viable business activities, launch a fee charging loan guarantee fund that
continues to operate when the project ends and help potential borrowers meet Bank requirements for completion of loan applications. (Letter to Central Bank – Bank supervision department “Deregulation of Financial Services – Panel of Specialists, Dr. IA Onyango for Permanent Secretary. Ministry of Planning & National Development, 10th May 1999, pp 1-3)

However, for Barclays Bank the Scheme targets small-scale enterprise run by people with previous business experience. As a rule the business should have been in existence for three years and loans are for diversification of enterprises and excludes primarily agricultural activities. The collateral requirements are 25% of the amount of the loan.

The above problem of excluding the agricultural sector and giving facilities only to businesses of over 3 years limits Outreach.

Kenya Commercial Bank special loan scheme also targets micro enterprises. It was set up in 1991 with 131 million for leading. The scheme also places minimal emphasis on conventional collateral for securing the loans. Seven schemes including the Graduate Scheme, Jua Kali Loan Scheme, Women Credit Scheme etc all do not use the traditional collateral as security.

The issue of security by women was also echoed by Fredrick C. Scherr. Apart from the demographic characteristics of the business (size, age and standard industrial classification) women-owned business may not be given the opportunity to succeed because they lack financial and human capital resources. Research in the early 1980s suggested that women-owned business were under capitalized primarily because banks were reluctant to lend money to them (Hisrich and Bush 1984; Humphreys and McClung 1981). The lack of success in securing adequate financial resources was blamed on the high percentage of women-owned businesses in low growth highly competitive industries (Humphreys and McClung 1981). In addition women may lack the managerial experience and access to key information networks that would increase the probability of success (Hagan, Riuchun and Sexton 1989). (Journal of Small Business Management. Volume 37 Issue No. 2 July 1999, Fredrick C. Scherr, p. 2)

Guarantees of parents or guardians must be obtained, original certificates submitted to the Bank and Chattels mortgage taken over the assets purchased with loan funds as security for graduate scheme.
Women credit scheme is given to one belonging to a group of between 2 and 6 members for purpose of cross guaranteeing each individual borrowing. The important thing to note is that for Commercial Banks - the prevailing Commercial rates are used for interest.

2.3 West African Experience

Studies have been done by the World Bank on Microfinance industry in West Africa. In their study of 1996, Leila Webster and Peter Filder indicated that outreach and sustainability are key to the success of a microfinance institutions.

Outreach

The study observed that the objective of microfinance programs is to reach a large number of poor people with financial services; the scale of operations indicates the extent to which this has been achieved. Achieving scale in both lending and savings operations is also a key factor in achieving financial sustainability: if loans are very small, it takes a large number of them to generate substantial revenues; if average savings accounts are very small, it takes many savers to mobilize significant funds.

Attaining outreach is not easy (continued Leila & Filder) as research conducted in West Africa reported. In sum, most of the microfinance institutions reviewed were successful in building large institutions, but only one (Kaflo Jiginew) was able to translate this growth into large numbers of borrowers and savers *(The informal sector and microfinance institutions in West Africa. World Bank Regional and Sectorial Studies, Leila Webstar and Peter Filder, 1996, p. 53)*

Credit Institutions had kept their loans-to-savings ratio fairly low, at roughly 0.3 – 0.5. This can be seen as prudent, because all savings are demand deposits and these institutions had no access to long term sources of funds that would support higher levels of exposure *(The informal sector and microfinance institutions in West Africa. World Bank Regional and Sectorial Studies, Leila Webstar and Peter Filder, 1996, p. 53)*.
Sustainability

Indicators of sustainability are operational efficiency, financial viability and institutional durability. Financial Viability was discussed in Chapter one. I will now focus on operational efficiency and institutional durability as seen by Webstar and Fielder.

(i) Operational efficiency

There is no single measure of efficiency for microcredit institutions but rather a series of indicators that, taken together are highly indicative (*The informal sector and microfinance institutions in West Africa. World Bank Regional and Sectoral Studies, Leila Webstar and Peter Filder, 1996, p. 56*)

In the above case two sets of indicators were employed. The first set looks at overall institutional efficiency by calculating:

1. operating costs as a percentage of the loan portfolio
2. operating costs minus expatriate costs as a percentage of loan portfolio
3. salaries as a proportion of outstanding loan portfolios and
4. salaries as a multiple of GDP.

The second set looked at productivity of staff members in service delivery and includes the number of savers, value of savings, number of loans and the value of the average portfolio each on a per staff number basis.

The report indicated that ratios of operating costs to average loan portfolio offer insights into operational efficiency. High ratios suggest high administrative costs, small loan portfolios or some combination of the two. Lowering this ratio depends on decreasing the numerator (lowering costs) and increasing the denominator (expanding the size of the loan portfolio).

(ii) Durability of Organizational Structure

An assessment of this indicator would look at the balance that has been achieved between social and financial objectives; issues of governance, such as levels of decentralization and participation, staff incentive and training systems and plans for local people to assume leadership; and factors in the environment that increase the institution’s chances of survival in the future.
Long-term sustainability probably depends in some part on expatriates giving up the helm to local people (Leila Webstar and Peter Filder, 1996, p. 64)

My research will recognize the above mentioned methods of calculating sustainability with appropriate modifications and additions to suit the Kenyan picture.

2.4 Principles of Sustainable Lending

With sustainability becoming a major concern as seen in a number of other studies, including the West African one, world banks’ Regional and Sectional studies section came up with the principles for sustainable lending. Included in these principles was work from Malhotra 1994; Rhyne and Holt 1994. These principles are enumerated below:

Ten principles for sustainable lending to micro entrepreneurs.

1. Offer short-term loans. Offer initial loans of three to six months with frequent repayment periods.

2. Offer small initial loans. Start with very small loans appropriate for meeting day-to-day financial requirements of microenterprises and motivate repayment by offering larger loans as incentives for repeat customers.

3. Concentrate on working capital to firms with proven track record. New businesses have high failure rates, and initial financing should be left to friends and families. Microfinance institutions should focus on providing working capital to existing enterprises.

4. Specialize services, diversify portfolio, ignore the temptation to target. Institutions should specialize in the provision of either technical assistance or financial services, but not both. It is the loan portfolio not the range of services, that should be diverse. Portfolios should be diversified to counter supply-driven, targeted credit programs and to reduce the risks associated with a homogeneous portfolio.

5. Simplify services. Make the credit program customer-friendly. Use a simple application process (often less than one page) appropriate to low levels of literacy and numeracy and streamline operations to minimize staff time per loan.

6. Localize services, focus on scale. Locate close to entrepreneurs. Select staff from local communities, including people with lower levels of education (and salaries), rather than from staff in formal banks. Locate where there is a critical mass of clients in order to reduce transaction costs. Microfinance programs reach sustainability in part by making large volumes
7. Shorten turnaround time. Limit the time between loan application and disbursement. Since the majority of microloans are for working capital, speed is ideal for borrowers and saves administrative costs for lending institutions. Turnaround time can be lowered by relying on solidarity groups to screen clients and by decentralizing loan approval.

8. Motivate repayment. Motivate repayment via group solidarity and joint liability. Group lending is efficient because it externalizes costs. Character-based lending to individuals (as opposed to groups) can be effective where the social structure is cohesive and there is little potential for political abuse.

9. Recognize that the poor do save. Credit programs are more sustainable when they are financed with personal savings. Savings are often the forgotten half of informal finance. However, accepting deposits is labor-intensive and therefore quite costly. Moreover, unstable programs can rob the poor of their savings. Great care must be taken when an institution accepts fiduciary responsibilities.

10. Charge full-cost interest rates (factoring in inflation, loan losses and delinquency, and the cost of loan funds). The administrative costs of lending to the poor require interest rates that are substantially higher than rates charged by commercial banks. Microentrepreneurs have shown a willingness to pay high rates for services that meet their needs. *(The informal sector and microfinance institutions in West Africa. World Bank Regional and Sectorial Studies, Leila Webstar and Peter Filder, 1996, p 30)*

Admittedly, I would say that Kenyan MFIs to some extent adhere to the above principles by World Bank. However, Kenyan law does not allow these institutions to take deposits from public else they register as banks (a case in point is K-Rep that was registered as a bank and can take deposits from savers). Regulatory framework (as pointed earlier) has been pointed out as one of the impediments to growth of this industry.

### 2.5 Operational aspects of few Kenyan Micro-Finance Institutions

I would like to briefly quote a recent East African Standard on operations of two major microfinance institutions in Kenya.
Faulu Kenya

Faulu Kenya, started by Food for the Hungry International in 1992, has made over 40,000 loans amounting to Kshs 600 million. Its major supporters include the Department for International Development (DFID) of the British Government, and USAID. Other sponsors are compassion Canada, CIDA, Kenya Children's Fund (KCF), Tear Fund and Enterprise Development International (EDI). Currently, it is serving about 500 customer communities with a client portfolio of about 12,000 people in Kenya alone. Faulu Kenya (one of the major microfinance institutions) offers its services in the whole of Nairobi and its environs, Central, Eastern Kenya provinces and some districts of Western Kenya and Rift Valley. Typical Faulu clients include shopkeepers, vegetable sellers, carpenters, welders, blacksmiths, tailors, butchers, hairdressers and others involved in service, sales and light industry. (Financial Standard. Tuesday August 24, 1999, p. 4)

K-Rep

K-Rep started in 1984 as a non-governmental organization with a goal of providing financial support and technical support to small and micro enterprise (SMEs) to facilitate poverty alleviation and development process. Its initial mandate was to provide financial and technical assistance to local NGOs involved in credit delivery to SMEs.

In 1990 K-Rep started their direct lending programme through Juhudi & Chikola credit systems. Groups established under Juhudi system are called KIWA (Kikundi Cha Wanabiashara—Meaning a group of Business people) which has a further three to seven small groups known as watano (five). Chikola system as group based lending system uses already existing groups that have been in existence for at least one year. K-Rep provides credit facilities for a wide range of activities ranging from manufacturing, trade and services. Individual applicants must be Kenyans, over 18 years of age and owner/operator of micro or small business. The loan size and repayment period for first time borrowers is limited to a maximum of Shs 30,000/= and 3 months respectively with preference being given to women groups. (Kioko, 1995 in Sarah M. Kilemi, p22)

Pride Africa

From very humble beginnings back in 1993, Pride Africa has grown by heaps and bounds into the largest network of micro-finance institutions (MFIs) in Eastern Africa and Southern Africa. Pride group currently extends micro credit to over 70,000 clients in Kenya, Malawi, Tanzania, Uganda and Zambia through a network of 44 branches. (East African Standard, Friday, March 2000, Business section, p. 44)
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Research Design

The research will primarily focus on firms that give some form of microfinance services. It is hoped that an appreciation of the problems faced by these firms will be the major reasons for poor performance of the industry in total. Key people in NGOs and mainstream Banking dealing with microfinancing will be interviewed. I make a presumption that key personnel directly dealing with microfinancing are best placed to indicate both the problems and possible solutions.

I do not intend to interview various borrowers as their problems are expected to be covered at the organizational level. The focus of this research is therefore ‘institutional’ given the premises that individuals would give problems of their organizations and firm’s problems sum up to industrial problems.

3.1 Population of the Study

3.1.0 Area

Most Micro Finance Institutions in Nairobi were covered. These were the same Institutions that have branches upcountry. Commercial Banks were also covered through their head offices in Nairobi. Write ups from The Association of Micro Finance Institutions in Kenya were also utilized.

3.1.1 Target Population Units of Analysis

I intended to target the five (5) major Micro Finance Institutions and the Association of Micro Finance Institutions.

3.2 Data and Data Sources

The research used both Primary and Secondary data. For secondary data, write-ups from Central Bank of Kenya and Association of Micro Finance Institutions, were of great use. Data was also collected from institutions visited.
3.3 **Data Analysis and Design**

I will get data from Association of Micro Finance Industry and write-ups from the Central Bank of Kenya.

I will also get information contributed on Industry from the Central Bank of Kenya.

3.4 **Surveying Technique**

I will use non-probability-sampling techniques because taking the big five (5) Micro Finance Institutions plus a few others can make 90% of the work.

3.5 **Data Collection**

I used survey method and collected data through a structured questionnaire. Face to face questionnaire was also used so as to elicit immediate answers.

3.6 **Data Analysis**

I will use a line graph to show the trend of growth (in Kenya Shillings) in customer clientele and loan portfolio. Growth will be analyzed against funding and also against financial viability. As pointed earlier, interpretation of the graphs showing growth verses financial viability will be made after taking into account growth that is related to funding.

A bar graph will be used to indicate the popularity of specific reasons for failure of growth and specific remedies.

I will plot another graph of weighted ‘causes of failure and suggested remedies’. Weights will be numbers of clients. This will help to give relative weight to big players basing it on the assumption that they have more experience than the smaller ones.

3.7 **Methodology**

I to used the survey method to collect the necessary information.

A selected sample of key MFIs was made. It was be representative of the total population. Sampled institutions included K-rep; Pride Africa, Faulu Kenya, Micro Finance Association of Kenya, Plan International, Kenya Industrial Estates and others.

I included other institutions other than Micro Finance Institutions that give Micro Finance credit. Banks such as Kenya Commercial Bank and Co-operative Bank were included as well.
3.8 Conceptual Frame Work

The research will use Line Graphs to show the rate of growth in numbers (outreach) and loan portfolio in Kenya Shillings. This will be done with funding as an independent variable and later with sustainability as independent variable.

I will make calculations of sustainability to try to establish the relationship between sustainability and growth.

3.9 Use of Review

The review assisted me in identifying the common problems affecting the Micro Finance Industry. It also gave me an insight on the Micro Financing that is done by Banks. This was useful in evaluating the possible future changes Microfinancing may bring to the Banking Sector.

I also acquired appreciation of the Micro Finance Industry in other countries especially the West and Central African countries.

An insight into International Competitiveness of Micro Finance Industry was also acquired. I did get an appreciation of possible solutions to problems facing this Industry.

The case study on credit repayment by women helped to highlight that women are a potential market that needs to be tapped to eradicate poverty and a major customer of MFIs.

However, my literature review had a gap in that none of my references emphasized or detailed solutions to Kenyan micro finance industry. I will minimize the effects of this limitation by clearly exploring on problems and getting suggestions to solutions through my questionnaire. These two should enable me to put forward practical suggestions to problems in the industry.
CHAPTER FOUR: RESEARCH FINDINGS

4.0 Introduction
In this chapter the main findings of the research project will be reported. The first section will tabulate problems in the industry with the following categories: sources of funds, sustainability, macro reasons, outreach and other factors. The next section will look at the solutions as suggested by the industrial participants. Broad classifications will include: funding; financial viability and other reasons.

4.1 Problems in Micro Finance Industry

This section will indicate various responses given by respondents. An effort has been made to group responses in broad categories as indicated above. Details of various categories are detailed below:

4.1.1 Sources of Funds

TABLE 1: SOURCES AND TYPES OF FUNDS

<table>
<thead>
<tr>
<th>Sources and types of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% Donor funds</td>
</tr>
<tr>
<td>70% Local funds</td>
</tr>
</tbody>
</table>

The above graph shows that on average the popular opinion in the industry is that at present micro-finance industry in Kenya relies on donor funds. From the research it became clear that at present donors contribute approximately 70% of all MFI funds. Out of the eight respondents, non disagreed with the proposition that the industry relies on donations.

In the same graph it can be seen that external funding is most common. 87.5% of respondents indicated that local funding is not the major source of funds. However, 50% of respondents indicated that the slow growth of the industry is not caused by reduction in donor funds while the other half tied poor industrial growth to reduction in donor funds.

4.1.2 Sustainability

Financial sustainability could not be done as previously planned because most respondents did not fill the section that could have given the best response data. Most of the institutions sited confidentiality while others could not get the information because of lack of detail. However, due to lack of adequate figures, reliance on institutions’ view on reliability has been used to derive the same information. Table two below is the response given by participants when asked to comment on whether on average MFI’s can survive without donor funds after an initial five years of consistent donor funding.
TABLE 2: SURVIVAL OF A MICRO-FINANCE FIRM WITHOUT RELIANCE ON DONOR FUNDS

A microfinance firm can survive without reliance on donor funds

12.50% 12.50%

Do not agree
Agree
Strongly agree

75


This is a strong indicator of the industry opinion that survival does not depend on the donor funding though a hundred percent of the respondents agreed that it currently relies on donor funds. There is a big gap therefore between the reality and what a long run solution to the problems could be.

4.1.3 Viability, Interest and Expenses.
The study looked at interest payment and expenses in respect to financial viability. Below is a summary of the answers given by respondents on these factors.
TABLE 3: INDUSTRIAL OPINION ON FINANCIAL VIABILITY OF MFIs

Financial viability

12.50%

37.50%

50%

Do not agree
Agree
Strongly agree


From the above it will be seen that 62.5% of respondents felt that the industry has had a poor growth because of not being run in a financially viable manner. However, 37.5% of the respondents felt that the industry in general has been run as prudently as possible. One of these respondents was K-Rep which is one of the most successful micro-finance institutions. The feeling must be that since the organization has been doing well and growing despite the slow growth of the whole industry, then this must have been due to sound financial management. There is need to note also that some organizations such as K-Rep have grown from a small non-governmental organization to a bank.
TABLE 4: INDUSTRIAL OPINION ON INTEREST RATES AND FEES PAYMENT BY MICROFINANCE CUSTOMERS.


All sampled respondents (100%) were in agreement that most clients of micro-finance industry do pay the interest and fees charged. This is to do with default rate. At present Non-performing advances in the Kenyan banking industry is at a level of 34% of total advances (Monthly Economic Review – Central Bank of Kenya, May, 2000, p15.). Though figures were not available to clearly isolate the percentage of non performing loans in the micro-finance industry, this response is an indicator that the percentage can be contained and does not seem to be a major threat to the industry at the moment.
### TABLE 5: EFFECT OF EXPENSES REDUCTION IN MFIs. FINANCIAL VIABILITY

<table>
<thead>
<tr>
<th>Expenses reduction</th>
<th>37.5%</th>
<th>12.5%</th>
<th>50%</th>
</tr>
</thead>
</table>

![Chart showing expenses reduction percentages]


On reduction of expenses, 62.5% of respondents felt that expenses can be reduced to increase financial viability.
TABLE 6: INTEREST AND FEES COVERAGE OF OPERATING EXPENSES.

![Interest and fees adequacy chart]


37.5% of respondents felt that operating expenses are not covered fully by interest and fees while 62.5% maintained that interest and fees adequately covers operating expenses.

To increase sustainability a number of cost reduction measures were suggested by respondents:
- 50% of participants suggested that personnel costs should be reduced.
- 37.5% felt that Telephone and Transport cost can be reduced to increase sustainability.
- 25% were of the opinion that costs related to information symmetry and loan loss provision can be reduced to improve sustainability if MFIs engage in aggressive debt collection.
- 12.5% interviewees suggested a reduction in postage and overhead costs related to shallow client base.

Most Non Governmental Organizations use vehicles that can manage the poor Kenyan roads. This means the use of four wheel drive vehicles whose consumption and maintenance is fairly high. Some micro-finance firms have controlled this expense by sub-contracting or buying small vehicles for staff and paying them mileage instead of using institution’s vehicles. Reportedly, this has
worked and transport expenses have been reduced to maintainable levels. The main concern of this paper is slow growth which can be measured by outreach. 87.5% of respondents felt that if MFI’s can reach more clients, growth can be enhanced. This is supported by the fact that loans lent to individuals are usually small in value. In his Paper Mr. Aleke Dondo indicated the average loan to be Kshs. 15,036 for eleven micro-finance institutions in Kenya. The sample included the big five MFI’s (*Broadening the outreach of MFI’s in Kenya* Aleke Dondo, 2000, p3).

Participants suggested a number of reasons as the causes of poor outreach:

- 50% felt that poor outreach is caused by poor lending techniques and Technology and insufficient funding.
- 37.5% indicated reliance on few products, mainly lending as a reason for poor outreach.
- Poor infrastructure, overcrowding (on urban areas mainly), and legal constraints such as refusing MFIs to mobilise deposits are reasons for poor outreach according to 25% of participants.
- 12.5% felt that poor outreach is caused by lack of capacity by MFIs, inadequate resource mobilization, skepticism by target group and general lack of aggressiveness by MFI’s.

### 4.1.3 Macro-economic Factors

Various macroeconomic factors were evaluated to see the extent to which industrial participants believed that these factors are causing the slow growth. Below is are diagrammatic representations of responses from interviewees on the macro factors affecting the industry.
TABLE 7: EFFECT OF LACK OF AN ESTABLISHED REGULATORY SYSTEM ON MFIs


75% of the respondents were positive that lack of an established regulatory system is a cause of poor growth of the industry. However, 25% felt that regulation is not paramount to the growth of this industry.
TABLE 8: IMPACT OF DEPOSIT MOBILIZATION ON GROWTH OF MFIs

Deposit mobilization

- 12.5%
- 37.5%
- 50%
- Do not agree
- Agree
- Strongly agree

In the case of deposit mobilization, the majority (87.5%) of the firms felt that it is crucial to have MFI’s allowed to mobilize deposits. However, one respondent did not agree to this proposition.

TABLE 9: IMPACT OF THE GENERAL ECONOMIC DECLINE ON GROWTH OF MFI

Economic decline

- 37.50%
- 25%
- 37.50%
- Do not agree
- Agree
- Strongly agree

75% of respondents either agreed or strongly agreed that decline in general economic standard has adversely affected the growth of the industry with the balance (25%) arguing that this factor is of no significance.

TABLE 10: IMPACT OF UNFAIR COMPETATION WITHIN THE INDUSTRY

![Unfair competition chart]


50% of respondents felt that unfair competition is affecting growth while the rest felt that this factor is less important.

4.1.4 Other Factors

According to 50% of participants, MFI are managed properly and management is not a significant factor contributing to poor performance. 37.5% felt that investments in systems such as computers, accounting packages and others can not ensure long run survival of the industry. Other reasons given by respondents for poor growth include the following:

a) Donor focus other than client focus

b) Non exposure of MF staff to new paradigms in micro-finance.

4.2 Suggestions to the Industry problems (as given by interviewees)

Suggestions to the industry problems will be discussed in categories such as finding solutions, financial viability solutions, regulatory systems and other solutions.
4.2.1 Solutions to funding problems.

Does long run survival of MFI in Kenya depend on donor funding? This question is key to this research and the results are tabulated in the following pie chart.

**FIGURE 1: FOR LONG RUN SURVIVAL, MFI SHOULD STOP RELYING ON DONOR FUNDING. (SEE ANSWERS BELOW)**

![Pie chart showing responses to MFI survival funding](image)

**Source: Survey of Problems and Solutions of Micro-finance Industry in Kenya, 2000.**

From the above figure 1, 62.5% of respondents felt that MFIs in Kenya should stop relying on donor funds for long run survival. However, 37.5% felt that the industry cannot survive in the long run without donor funds. A more direct question whether the industry can survive without donor funds received 75% disagreement meaning that respondents clearly believe that the industry can do without donor funds. This contradicts the current practice in that there is heavy reliance on donor funding. However, as noted in the problem section of the this paper, most respondents felt that survival is grossly affected by financial management.

4.2.2 Financial Viability

All participants (100%) were in agreement that financial viability is key to survival of the industry. They all concurred that the following methods can be used to improve financial viability:

- (a) Micro-finance institutions should be allowed to source deposits from their clients
- (b) Charging appropriate interest and fees to cover all costs. It should be remembered that
respondents did not seem to worry about default rate which has been a problem in the banking sector.

(c) Reduction of unnecessary costs (refer to section 4.13 for details of such costs).

4.2.3 Regulatory System

The question as to whether the industry should be regulated for its long run survival received 100% agreement with 50% of respondents strongly agreeing to the proposition.

**FIGURE 2:** MFI SHOULD BE REGULATED FOR LONG RUN SURVIVAL

![Circle Diagram]


Respondents stated a number of areas where regulation should address or focus as follows.

(a) Deposit taking and mobilization
(b) Interest rates charged
(c) Operational costs
(d) Service regulation based on risk factors
(e) Creating a conducive environment for the sector
(f) Legal issue in debt collection
(g) Use of collateral for loans
(h) Arbitration on clients and organizations
(i) Unfair competition

33
4.2.4 Other Solutions

Additional solutions to problems facing the industry included the following:

All respondents (100%) felt that management should be improved

25% of respondents suggested the following:

- Sensitizing the public on the industry's functions.
- Development of credit ratings and centralized data base
- Research and development for new products
- Institutional capacity building

12.5% of respondents suggested the following:

- Improvement of infrastructure
- Improve efficiency in delivery of services
- Prudent reaction to perceived competition
- Development of clear cut market niches
- Encouraging savings
- Research in rural outreach
- Establishment of best practices board
- Trust fund to channel deposits.
CHAPTER FIVE - RECOMMENDATIONS

5.0 Introduction.
In this chapter, I will make a summary of the project. Recommendations on problems and solution will be given as per the research paper.

5.1 Recommendations on Important Problems in the Industry

Many problems were evaluated and some important recommendations can be made as below:
At present MFI in Kenya relay on donor funding. This was a popular feeling which can be taken to be correct for the industry. Despite this factor, it can be said that changes in donor funds has not necessarily been the main cause of the poor performance of the industry. A number of MFIs have come up and exited (closed) purely because of lack of focus, strategic management and lack of capacity. With little regulation the industry has been getting a number of non-serious members some of whose aim has not been purely focused in the sector.

Financial viability was commonly agreed to be the most important factor affecting long-run survival of the industry. This can be achieved through prudent management, maximization of revenue and strict control of expenses. Other important factors that have been put forward as problems include lack of regulatory systems, slow growth of Kenyan economy, outreach, capacity and legal constraints such as prohibiting MFI’s from taking deposits. The regulatory systems is undeveloped occasioning many unethical and short lived players who have left the MFI with a bad name. The regulatory system should look into all aspects such as capital base requirement, Deposit mobilization, guidelines, unfair competition and others.

Economic growth is also a crucial factor. Infrastructure in this country is currently at its worst. Banks are pulling out of the rural areas (MFI’s are partners to Banks in resource mobilization since they use banks for their financial banking), GDP has been declining for the last five years and interest rates are too high and keep on fluctuating. These factors all lead to high costs of services hence curtailing outreach and making financial viability rather elusive.
Most MFI’s also have extremely small capacity that does not enable them to reach many clients. UNDP has started a microstart program that will eventually lead to increased outreach of currently smaller MFI’s. These and other intervention measures should be used to step up capacity for the small firms.

Legal constraints that prohibit MFI from taking deposits is also a problem in the industry. Contrary to the old believe that the poor people do not save, it has now been established that even the poor do save. MFI’s should not be denied this opportunity to mobilize their clients savings especially now that donor funding has been getting unstable.

5.2 Suggested Solutions to MFI Problems

Solutions to the industry problems can be best derived from a micro to a macro level. This is to say that each MFI should critically look at its problems and try to solve them. This with other macro aspects such as regulations will see the industry grow.

Every top management in each MFI should have a clear vision of his/her institution and adopt strategic plans that will ensure financial viability in a reasonable time. Targets should therefore be made more ambitious but practical. Ways of funding should be sort other than waiting for donations.

Financial viability should start with increase in innovation on product range. A reliance on mono product that is credit should be stopped. New product development should be a concern for every firm. Good financial planning and strategic planning is a key. Costs should be kept to the bear minimum so long as this does not affect efficiency. More cost saving measures should therefore be put in place.

Donations though good should not be over-relied upon by the industry. It has been argued that reliance on donations has made MFIs less creative and innovative. Five years of consequently receiving donations should be enough for an average MFI to establish itself as felt by the participants of this research project. However, donations are key when shifting the scale of operation for an MFI. What should be discouraged is over reliance or “going to sleep” to await donations. In Kenya there is a big gap between the big five MFIs (K-rep, KWFT, Faulu, CARE-WEDO and SMEP) and the rest of the institutions. Whereas the big five have received and continue
to receive substantial financial and technical support, the other institutions are carrying out their work with little financial and technical assistance and with little exposure (Aleke Dondo, 2000, p10).

A regulatory system should be urgently set up to regulate MFI. Without such a system, there will be abuse and misuse of clients’ funds and this will only worsen the poor state of the industry. Such a system should look into aspects such as deposit mobilization, credit rating system, establishment of best practices board, debt collection, provisions for bad debts, arbitration, unfair competition and other aspects.

Priority to legal contracts in the market should also be addressed by law enforcing agents such as courts, Parliament and Central Bank. This can be facilitated by a regulatory system that can look into details of improving MFI. The Kenyan current legal system takes long to resolve cases and this is not conducive for MFI industry. More often than not, courts view defaulters with sympathy and unfairly rule against financiers. It is worse for MFI where the feeling is that "After all they got these funds as a donation, They have no reason to charge so much interest".

MFIs should also try to increase outreach by working through informal financial organizations. Such organizations are many and part of the successful MFIs such as K-rep and KWFT work through some of them. Other MFI should identify possible partners and work closely with them.
REFERENCES


APPENDIX 1: QUESTIONNAIRE

Questionnaire No. ______________
Name of Institution _______________________

Please tick on each of the following and make any comment you may deem necessary.

PROBLEMS IN MICROFINANCE INDUSTRY

PART A:

1. At present Micro-finance Industry in Kenya heavily relies on donor funds.

   [ ] Strongly Disagree  [ ] Do not Agree  [ ] Agree  [ ] Strongly Agree

2. A major reason for general slow growth of the industry is reduced donor funds.

   [ ] Strongly Disagree  [ ] Do not Agree  [ ] Agree  [ ] Strongly Agree

3. Donor funds have been generally untimely within the industry.

   [ ] Strongly Disagree  [ ] Do not Agree  [ ] Agree  [ ] Strongly Agree

4. Local funding is a major source of funds for micro-finance firms.

   [ ] Strongly Disagree  [ ] Do not Agree  [ ] Agree  [ ] Strongly Agree

5. If local and foreign donations are properly utilized for about five years or so years, an average microfinance firm can service on its own without further reliance of such funds.

   [ ] Strongly Disagree  [ ] Do not Agree  [ ] Agree  [ ] Strongly Agree
6. Micro-finance industry in Kenya has had poor growth because the industry has not been run in a financially viable manner.

   □ □ □ □
   Strongly Disagree Do not Agree Agree Strongly Agree

7. Most clients in the industry pay interest and fees charged by micro credit firms.

   □ □ □ □
   Strongly Disagree Do not Agree Agree Strongly Agree

8. The interest rates and fees charged to customers in the industry do adequately cover operating expenses.

   □ □ □ □
   Strongly Disagree Do not Agree Agree Strongly Agree

9. Expenses in most micro-finance institutions can be reduced fairly to make the firms financially viable.

   □ □ □ □
   Strongly Disagree Do not Agree Agree Strongly Agree

10. If you agree with question 9, please indicate which expenses can be generally reduced without compromising efficiency

    1.
    2.
    3.

11. Poor outreach (failure to reach many clients) is a major reason for poor growth of the industry.

    □ □ □ □
    Strongly Disagree Do not Agree Agree Strongly Agree

12. If you agree with question 11, what would you suggest as the causes of poor outreach.

    1.
    2.
    3.
13. Lack of established regulatory system is a major cause of poor growth of the industry.

- [ ] Strongly Disagree
- [ ] Do not Agree
- [ ] Agree
- [ ] Strongly Agree

14. If allowed to take deposits from clients, most microfinance institution will survive without relying on donor funding.

- [ ] Strongly Disagree
- [ ] Do not Agree
- [ ] Agree
- [ ] Strongly Agree

15. Micro Finance Industry has not grown as desired mainly because of the slow growth of the general economy.

- [ ] Strongly Disagree
- [ ] Do not Agree
- [ ] Agree
- [ ] Strongly Agree

16. Unfair competition among existing and new firms has been the major reason for poor growth of the industry.

- [ ] Strongly Disagree
- [ ] Do not Agree
- [ ] Agree
- [ ] Strongly Agree

17. Management is a major problem affecting performance of micro finance industry.

- [ ] Strongly Disagree
- [ ] Do not Agree
- [ ] Agree
- [ ] Strongly Agree

18. With good investment in systems such as accounting packages, computers etc, most MFI can survive.

- [ ] Strongly Disagree
- [ ] Do not Agree
- [ ] Agree
- [ ] Strongly Agree

19. Please indicate any other reasons (not covered above) for poor growth of MFI.

1. 
2. 
3. 
4.
PART B: SOLUTIONS TO PROBLEMS IN MICROFINANCE INDUSTRY

1. For long run survival MFI should stop relying on donor funding.
   - [ ] Strongly Disagree
   - [ ] Do not Agree
   - [ ] Agree
   - [ ] Strongly Agree

2. With no donor funds the industry cannot survive.
   - [ ] Strongly Disagree
   - [ ] Do not Agree
   - [ ] Agree
   - [ ] Strongly Agree

3. Financial viability is key to survival of this industry.
   - [ ] Strongly Disagree
   - [ ] Do not Agree
   - [ ] Agree
   - [ ] Strongly Agree

4. Financial viability can be reached through the following.
   a) Firms being allowed to source deposits from their clients.
      - [ ] Strongly Disagree
      - [ ] Do not Agree
      - [ ] Agree
      - [ ] Strongly Agree
   b) Charging appropriate interest and fees to cover all costs.
      - [ ] Strongly Disagree
      - [ ] Do not Agree
      - [ ] Agree
      - [ ] Strongly Agree
   c) Reducing unnecessary expenses
      - [ ] Strongly Disagree
      - [ ] Do not Agree
      - [ ] Agree
      - [ ] Strongly Agree
d) Sound financial management

5. An established regulatory system is most crucial for survival of the industry.

6. If you agree with question five please indicate areas that such a system should address.
   1.
   2.
   3.
   4.
   5.

7. General management of MFIs should be improved for eventual survival.

8. The public should be sensitized on operations of MFIs for their survival.

9. Please indicate other solutions to problems facing this industry.
   1.
   2.
   3.
   4.
PART C: SPECIFIC FIRM TRENDS

Questionnaire No. ____________

Institution ____________

Please indicate the following trends for your organization

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<tr>
<td>A. Total number of your clients (persons)</td>
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1. Total loan portfolio

2. Sources of funds
   a) Foreign
   b) Local

   Total Funding

|          |      |      |      |      |

3. Revenues
   a) Fees
   b) Interest
   c) Other

   Total Revenues

|          |      |      |      |      |

4. Total Operating E

|          |      |      |      |      |