



AN OVERVIEW OF THE MICROFINANCE INDUSTRY IN KENYA

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**PRESENTATION TO THE UNEP FINANCE INITIATIVE EAST
AFRICAN ROUNDTABLE ON SUSTAINABLE FINANCE
OPPORTUNITIES AND CHALLENGES.
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1. INTRODUCTION

- **THE KENYAN MICROFINANCE SECTOR COMPRISES OF A LARGE AND DIVERSE GROUP OF INSTITUTIONS:**

- **THE INSTITUTIONS CAN BE GROUPED IN 3 BROAD CATEGORIES;**
 - **THE INFORMAL**

 - **THE FORMAL SUBSIDISED**

 - **THE FORMAL NON-SUBSIDISED**



2. THE INFORMAL CATEGORY ■

- **COMPRISES OF GRASSROOT ORGANISATIONS EG ROSCAs, ASCAs AND MONEY LENDERS. THERE ARE TWO STRIKING FEATURES OF INFORMAL MICROFINANCE INSTITUTIONS.**
 - **MOST OF THEM INVOLVE SAVINGS TRANSACTIONS**
 - **MOST ARE MEMBERSHIP BASED.**

THE NUMBER OF INFORMAL ORGANIZATIONS IS NOT KNOWN WITH CERTAINTY. THE SUM OF MONEY TRANSACTED IS ALSO NOT KNOWN BUT IT RUNS IN BILLIONS OF SHILLINGS ANNUALLY



2.1. INFORMAL FINANCIAL ORGANISATIONS

<u>TYPE OF ORGANISATION</u>	<u>NUMBER</u>
(I) ACCUMULATING SAVINGS AND CREDIT ASSOCIATIONS (ASCAs)	ABOUT 5,000
(II) ROTATING SAVINGS CREDIT ASSOCIATIONS (ROSCAS)	18,000
(III) MONEY LENDERS	10,000



3. THE FORMAL SUBSIDIARY CATEGORY

COMPRISES OF FORMALLY REGISTERED ORGANISATIONS WHOSE FINANCIAL OPERATIONS ARE NOT REGULATED.

THE MAIN INSTITUTIONAL ACTORS IN THIS CATEGORY ARE MICROFINANCE INSTITUTIONS REGISTERED

- AS NGOS**
- AS COMPANIES LIMITED BY GUARANTEE**
- AS LIMITED LIABILITY COMPANIES.**



3.1. DISTRIBUTION OF FORMAL SUBSIDISED INSTITUTIONS BY FORM OF REGISTRATION.

ORGANISATION TYPE	NUMBER
➤ MICROFINANCE NGOS	56
➤ COMPANIES LIMITED BY SHARES (e.g. Faulu Kenya, Opportunity International, wedco, Kwft, Micro Kenya)	4
➤ COMPANIES LIMITED BY GUARANTEE(e.g SMEP, Jitegemea credit and Kenya ECLOF)	4
➤ PARASTATALS (KIE and AFC)	2
➤ FINANCIAL SERVICES ASSOCIATIONS	71



4. FORMAL NON-SUBSIDISED CATEGORY

COMPRISES OF FORAMALY REGISTERED AND REGULATED INSTITUTIONS

DISTRIBUTION OF FORMAL NON-SUBSIDISED INSTITUTIONS.

TYPE OF ORGANISATION	NUMBER
MICROFINANCE BANKS (K-Rep, Equity and Family)	3
COMMERCIAL BANKS DOWNSCALLING (Co-operative, Barclays, KCB and Fina)	4
SACCOS	3,500
SAVINGS BANK (Post Bank)	1



5. WHOLESALE LENDING INSTITUTION

THERE ARE FOUR WHOLESALE LENDING INSTITUTIONS IN KENYA NAMELY;

- **JITEGEMEE TRUST**
- **MESP TRUST**
- **OIKO CREDIT**
- **STROMME FOUNDATION**



6. FEATURES OF THE KENYAN MICROFINANCE SECTOR

6.1 DIVERSE LEGAL FORMS

KENYAN MICROFINANCE INSTITUTIONS ARE REGISTERED UNDER 9 DIFFERENT ACTS OF PARLIAMENT.

ACTS OF PARLIAMENT

- 1) BANKING**
- 2) COMPANIES**
 - LIMITED LIABILITY COMPANIES**
 - COMPANIES LIMITED BY GUARANTEE**
- 3) NGO CORDINATION**
- 4) BUILDING SOCIETIES**
- 5) COOPERATIVE**
- 6) TRUSTEE**
- 7) KENYA POST OFFICE SAVINGS BANK**
- 8) KENYA INDUSTRIAL ESTATES**
- 9) SOCIETIES**



REGISTRATION

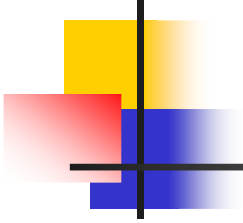
- **INFORMAL MFIs ARE ALSO REGISTERED THROUGH THE LEGAL STATUS IS FEEBLE E.G FSAs, ASCAs AND ROSCAs ARE REGISTERED AS SELF HELP GROUPS NOT BY THE REGISTRAR'S OFFICE BUT BY THE MINISTRY IN CHARGE OF SOCIAL SERVICES, CURRENTLY MINISTRY OF GENDER SPORTS AND SOCIAL SERVICES**



6.2 TRENDS IN NUMBER OF BORROWERS AND SAVERS.

i). MFIs AND POST BANK

YEAR	NO. OF SAVERS	NO.OF BORROWERS
2003	1,536,635	300,983
2005	2,206,022	506,873



ii). SACCOS

YEAR	NO. OF SAVERS	NO.OF BORROWERS
2003	2,300,000	1,400,000
2005	4,600,000	3,200,000



6.3 OUTREACH

- **TRENDS IN OUTSTANDING PORFOLIO OF FORMAL MFIs AND SACCOS**

	MFI	SACCOS
YEAR	AMOUNT IN KSHS. BILLION	AMOUNT IN KSHS. BILLION
1999	1.3	29.1
2000	2.3	38
2001	3.3	49
2002	5.1	60
2003	7.4	66
2005	16	84



7. THREE MAIN CHALLENGES

OF MICROFINANCE INDUSTRY IN AFRICA

- **EXPANDING OUTREACH TO LARGE NUMBERS OF PEOPLE.**
- **DEEPENING OUTREACH TO POORER CLIENTS.**
- **REDUCING COST TO IMPROVE THE SUSTAINABILITY OF SERVICES.**



7.1 THE CHALLENGE OF EXPANDING OUTREACH TO LARGE NUMBER OF PEOPLE

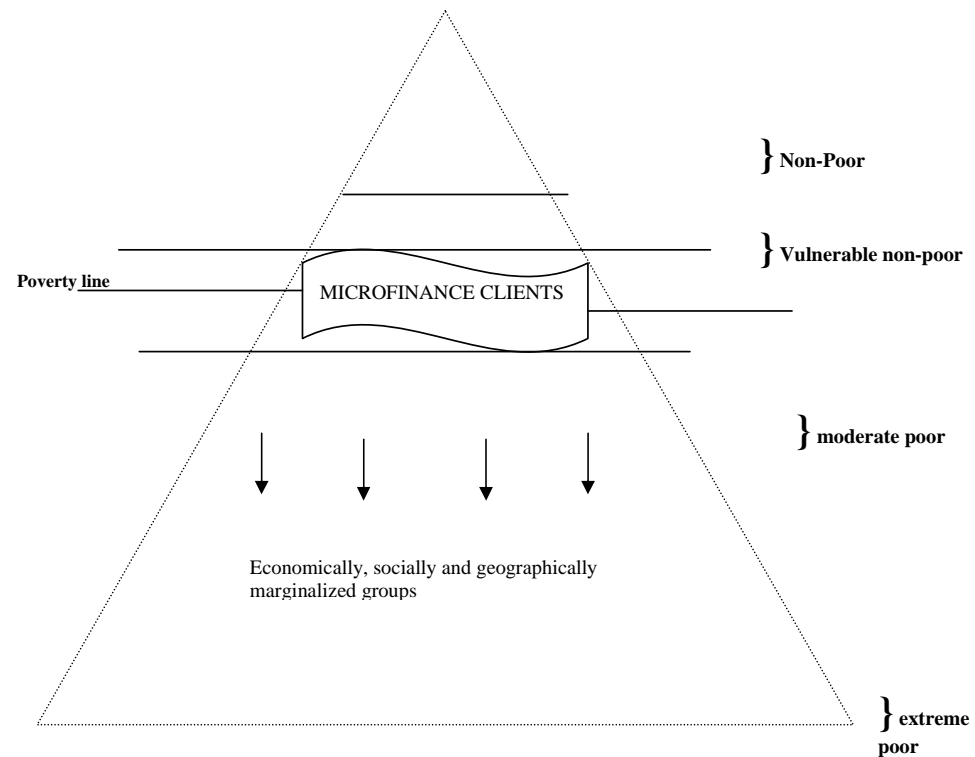
FORMAL MFI IN AFRICA IS CHARACTERISED BY THREE BIASES.

- **URBAN**
- **CREDIT**
- **OPERATORS OF MSEs**

LIMITED OUTREACH TO RURAL AREAS

- **POOR COMMUNICATION AND INFRASTRUCTURE**
- **LOW POPULATION DENSITY**
- **LITTLE DIVERSITY IN ECONOMIC ACTIVITIES**

7.2 THE CHALLENGE OF DEEPENING THE OUTREACH OF MICROFINANCE IN AFRICA





7.3

REASONS MANY MICROFINANCE PROGRAMMES DON'T REACH THE VERY POOR.

- **ONE SIZE FITS ALL APPROACH**
- **GROUPS SELECT OUT THE VERY POOR**
- **CREDIT DRIVEN MODEL**
- **MINIMALIST APPROACH**
- **POOR NOT A TARGET GROUP**



7.4 THE CHALLENGES OF REDUCING COST TO IMPROVE SUSTAINABILITY OF SERVICES

AFRICAN MICROFINANCE PROGRAMMES ARE EXPENSIVE WHEN COMPARED TO PROGRAMMES IN ASIA AND LATIN AMERICA DUE TO INTER ALI HIGHER COSTS OF

- **COMMUNICATION**
- **PERSONEL**
- **GENERALLY THEY ARE LESS EFFICIENT**

7.5 UPSCALLING AFRICAN MICROFINANCE PROGRAMMES



- **SUSTAINABILITY**
- **TRANSFORMATION**
- **APPROPRIATE AND REGULATORY ENVIRONMENT.**



7.6

COMMON FEATURES OF AFRICAN MF PROGRAMMES THAT HAVE SUCCESSFULLY UPSCALED

- **STRONG COMMITMENT TO UPSCALE**
- **IMPROVED LEGAL AND REGULATORY ENVIRONMENT (MDI-UG)**
- **TAILORED PRODUCTS AND SERVICES.**