Comparing Apples and Oranges:
Different Microfinance Strategies in Kenya

Warner P. Woodworth

Marriott School, Brigham Young University

warner_woodworth@byu.edu

Comparing Apples and Oranges:
Different Microfinance Strategies in Kenya

Warner P. Woodworth

Abstract

During summer 2007 the author conducted field research on two microfinance institutions (MFIs) in Kenya. One site was in the country's central mountainous region of urban Nairobi where it has become the largest and fastest growing NGO in the country. Most of its clients live in or near a million-person city slum. The other microfinance organization was in the southern rural area, along the coast where they had enjoyed relative peace, but extreme poverty. One-on-one client interviews were conducted at the two research sites, along with observations of staff leaders, village banking meetings, and so on. These materials became the sources of data gleaned during the study of both organizations. This study delineates similarities and differences among microfinance NGOs that provide economic development services to poor families in East Africa, focusing on those having two different strategies, unique client services, and so forth. The paper concludes with an assessment of their socio-economic impacts, and offers several suggestions for Kenya to pursue in facilitating this emerging movement.

Comparing Apples and Oranges:

Different Microfinance Strategies in Kenya

Microfinance has grown into a rapidly expanding global movement to reduce human suffering by providing small amounts of capital, known as microcredit, to impoverished individuals so that they may begin the process of lifting themselves out of poverty. The literature on this relatively new phenomenon is expanding rapidly [1, 2, 8, 10].

This paper reports on my field research in two areas of Kenya, East Africa. The paper starts with a brief historical overview of the nation's history, political and economic situation. I then engage in the matter of national development issues, particularly that of microfinance. I will describe, analyze, and contrast the major differences between two non-governmental organizations (NGOs) which seek to address African rural and urban hardships. The conclusion will suggest that while both organizations share similar objectives, their areas of focus, strategies used, and outcomes are quite different. They point to my argument that there is no one best approach or universal model by which microfinance may operate successfully. Thus, we may say this study will compare apples with oranges.

KENYAN OVERVIEW

For many decades Kenya was a British colony which provided immense natural resources to the British crown. Along with South Africa, it was one of the big success stories in Africa's history. The British had transferred elements of their education system and built a number of cities that were known for their cleanliness and order. They transported tens of thousands of laborers and technicians from India to to Kenya to build the railway system that would facilitate transportation of goods. The nation enjoys rich and fertile soils for agricultural produce, and is known world-wide for the quality of its coffee and tea, among other products. It benefits from high mountainous regions in the north and central part of the country, where the temperate climate is enjoyable because of the altitude. It also has a more tropical climate in the southern regions, and along the coastline.

In terms of Kenya's independence from the UK, this transition originated in the 1950s with the ferocious Mau Mau rebellion. When independence was declared in 1963, Britain sought to leave a portion of its systems intact so that Kenyans could benefit, as well as the British themselves. The country has had a relatively stable political system with varying degrees of democracy and participation. There are a number of schools and universities, as well as a large cooperative sector of the economy. Nairobi, in particular, is home to various UN and other multilateral offices, which help to generate international awareness, as well as being a multicultural melting pot. Thus, Kenya has enjoyed considerable peace and plenty, especially in comparison with many other African nations.

While still considered to be a Third World country, its largest cities are somewhat modern, have functioning electrical grids, and the per capita income is $1,600, roughly in the middle of its neighbors on the continent. The safari industry, owing to the extensive wildlife and national parks for the preservation of nature, has been a huge boon to the country. A number of its unique cultures, such as the Maasai, have attracted scholars and tourists from around the globe seeking to study the many subcultures and languages of the wilder regions of Kenya.

Although many features of Kenya are positive, recent years have also brought troubling complications. For one, the nation suffers from hoards of refugees, who have crossed central African nations, where civil wars have raged, to the more secure camps inside the borders of Kenya. These masses have flooded to the cities looking for work, as well as causing instability in smaller towns and rural areas. Then there has been the complete collapse of Somalia's government to the east. Conditions along that border are much worse and much more violent. Along the entire coast of Kenya, there is also the problem in recent years of pirate activity, including the hijacking of ships, as well as robberies and murders. Perhaps the most blatant illustration of public danger was the terrorist attack on the U.S. Embassy in 1998, which killed hundreds of people, injured thousands, and destroyed a section of downtown Nairobi.

The most recent and shocking events of Kenya's modernization difficulties occurred just a year ago at the end of 2007, when national elections occurred. The regime in power, that of the President's Party for National Unity, suffered losses at the polls, but refused to step down. Chaos ensued and tensions between the opposition party and the President's grew into huge hostilities. First were mass demonstrations by one side or the other, and those were followed by shootings and roaming gangs of extremists, who invaded homes, wrecked businesses, and terrified the general population. Perhaps the most graphic incidents were the machete beheadings of individuals from the giant Kibera slum, whose bodies were then laid in the middle of the road for everyone to see.

In spite of its problems, the population of Kenya has grown to approximately 30 million. Nearly half of the rural population and about 30 percent of those in urban areas live in conditions of absolute poverty. The unemployment rate ranges between 25-35 percent in different regions. Microfinance began to emerge as a strategy for poverty reduction over a decade ago. Today it is estimated that some 3,500 legally constituted microfinance providers function throughout the country, along with almost 4,000 savings and credit cooperatives. Four commercial banks and some 60 microfinance institutions make up the major entities providing financing for the poor.

Among the most prominent microfinance institutions (MFIs) are K-Rep Bank, WEDCO, Equity Bank, KADET Bank, and the Aga Kahn Foundation. Two others are Jamii Bora Trust and Yehu Microfinance, both of which are the areas of focus in this paper. I will report on each of them below.

CASE 1—YEHU MICROFINANCE

This organization, Yehu, was launched from Utah in 2000 by a CEO named Louis Pope, the head of an industrial diamond producer. He had gradually learned about Third World problems and developed the desire to address them, especially the poverty of Africa. Pope was on the board of an NGO called CHOICE Humanitarian and had been engaged in various projects in both Ethiopia and Bolivia. The more he learned about microcredit as a strategy for building the lives of rural families, he determined to launch his own project in Kenya. In particular, he focused, with other members of his family, on the south eastern region of the country in the rural villages around Mombasa. With several years of small experiments using local consultants and Pope's financial resources, Yehu was transformed from simply being a series of projects into becoming a microfinance organization.

As of 2007, Yehu consisted of 6 microfinance branches, has some 40 employees, and has a current client base of approximately 13,000 members. Thus far Yehu has given out over 17,000 loans with a repayment rate of 88 percent. Loan sizes range between $71 and $2,000. Presently the NGO has an outstanding portfolio of $375,000 [9]. Working with both Muslim and Christian women, the delicate balance between the two cultures has been effectively maintained by Pope and his staff at Yehu Microfinance.

The goal of Yehu is to help women and their families move toward self-sufficiency.

Below is a summary of the typical Yehu client:

- Years of schooling: 3.7
- Gender: 80% female
- Average age: 42
- Literacy rate: 54%
- Income under $2 per day: 97%
- Income under $1 per day: 83%
- Clean water access: 3.6%
- Pit latrines: 80%
- Electricity in home: 1.5%
- Children enrolled in elementary school: 95%
- Children enrolled in middle school: 25%
- Supporting more than 6 dependents on their income: 9%
- Supporting a terminally ill dependent: 11%
- Have had a recent death in the household: 21.5%

One of the ways Yehu has succeeded is that is has drawn upon volunteer university interns, many of whom have been my MBA and undergraduate students who have studied microfinance in the courses I teach at Brigham Young University (BYU). The Marriott School of Management has developed a number of initiatives to foster Third World development. Starting in 1990 the first NGO was created out of my courses, known as Enterprise Mentors International, which operates in the Philippines and Latin America. Since then some 22 other NGOs have emerged from the courses I teach. My classes function as a kind of NGO incubator and have led to practical programs like NGO creation, and hundreds of field studies around the globe. These efforts have also given rise to numerous faculty/student publications, theses, and eventually the establishment of the Center for Economic Self-Reliance.

Among other NGOs designed and implemented with BYU involvement, a number of students have done projects with Yehu Microfinance in Kenya. These Yehu internships, most of which are volunteer labor and expertise, funded by the students themselves, have helped to provide Yehu with considerable pro bono consulting services offered by students with a passion to change the world.

Another unique feature of Yehu Microfinance is that Pope established his own Pope Family Foundation. Five of his married children and their spouses have been involved with Yehu in various degrees. A son-in-law and one of Pope's daughters, for example, moved to Mombasa and lived there in a tent for 6 months, where they helped design and implement the initial structures of Yehu Microfinance. Another son, who has an MBA from Cornell, has been the ongoing manager of Yehu operations from a managerial point of view. All of the Pope family members contribute of their personal funds, and most travel at least once a year to Kenya to volunteer with specific short-term projects for the Pope Family Foundation.

Perhaps the most significant and unique aspect of Yehu is that Pope recently decided to establish a for-profit business venture in Mombasa that would create jobs and generate profits to further expand the microcredit NGO. This enterprise is known as Coast Coconut Farms, an economic development project launched in 2005. The company's mission is to provide sustainable employment, as well as management and ownership opportunities for rural Kenyans. This is done by giving the rural poor access to capital, equipment and training, to create organic coconut oil, which is harvested from wild coconuts growing along the coastline of Kenya. The plan being implemented is to use profits to help scale up Yehu's work, thus generating more loan capital for microfinancing. Coast Coconut Farms' vision is to create thousands of sustainable livelihoods for the rural poor using Fair Trade Principles [6].

Essentially, Coast Coconut Farms functions as follows: Women and their children gather raw coconuts that have fallen to the ground in the jungles. From their homes, they use the labor of their own hands to husk the coconut, crack it open, and shred it. The shredded, raw material is then taken to Pope's Coast Coconut factory in a nearby rural village. There it is pressed and processed to produce high quality products. Some of it is sold as natural, organic oil for cooking and other consumption purposes in the United States as a healthy, natural food. The other platform is the product's transformation into natural oils and lotions for women's skin care that has no artificial ingredients, fragrance, or colors. In this form, it is bottled, labeled and shipped to the United States where it is sold as Basa Body Products, named after the women of Mombasa.

With this background on Yehu Microfinance as a case of Kenyan microcredit, let us now turn to another model, one which is located primarily in an urban setting.

CASE 2—JAMII BORA TRUST

A somewhat different NGO is the center of the next case. Jamii Bora Trust (JBT) was established in Nairobi, Kenya in 1999. At the time, several individuals who had been beggars or slum dwellers approached the head of the African Housing Fund, Ingrid Munro, an ex-pat from Sweden, to help them improve their living conditions. After several discussions, Munro became interested in the idea, and together these people launched a small savings program from which JBT has evolved into becoming the largest microfinance institution in the country [4].

Munro, impressed by the pleas of the poor, agreed to help raise some initial funding and began to improve the housing and other features of her clientele. The primary targets of JBT are slum dwellers who live in Nairobi's largest shantytown, the nearly million member community of Kibera. Early clients were primarily alcoholics, street beggars, gang members, prostitutes, drug addicts, and others in similar situations. Many suffered from HIV-AIDS and virtually none had jobs. Their wretched existence was somewhat typical of the poorest of the poor in large Third World cities around the globe.

I first started traveling to Kenya in 1999-2000, where I conducted considerable research on community poverty and family struggles in the greater Nairobi area [7]. That data suggested that in many neighborhoods *de facto* unemployment was 60-80 percent, far above the official government statistics. The poor lived in shanties overrun with two or three families crowded into a single unit built with their own hands. Many adults suffered from illiteracy, and their children lacked opportunities for formal schooling.

I began interviewing JBT participants in 2003 and have held various meetings with members of its staff since then. By 2004 the organization experienced its first profitable quarter. In 2007, I spent several weeks in Kenya, a part of that time which was devoted to research and interviews at Jamii Bora's headquarters [5]. The main agenda of JBT was and still is to reduce human suffering in Kenya. Its holistic approach focuses on poverty alleviation, but in contrast to Yehu Microfinance, it initially served the urban population of one of Africa's biggest cities, Nairobi. Also, it has become quite large, in contrast to Yehu's current client base of some 13,000 people. By 2007, JBT had mushroomed to 167,000-plus individuals while offering a variety of services and products.

With a range of social and economic programs gradually developed during the first several years, JBT has gained a national reputation for building positive changes in the lives of its members and clients. A number of the Jamii Bora staff I have met and discussed its work with are now ex-addicts, ex-alcoholics, and ex-prostitutes who now are successful managers and staff in the organizational structure of JBT. Another distinct feature is that, in contrast to most MFIs around the world, approximately a third of its clients are men. The very name, Jamii Bora, in Swahili means "good families."

One side of JBT's focus might best be described as social services. It has rehabilitation programs such as orphan outreach, alcohol rehabilitation, street beggar transition, and family counseling. A large staff of what might be considered to be social workers provides JBT individual and marital counseling, literacy training, health care services, and multiple other services. Whereas in industrialized nations, like the United States, federal and local governments provide these services, in much of the Third World, they do not. Any and all such resources must therefore derive from the private sector. In this sense, JBT is a privatized social and health institution for its growing clientele.

On the other hand, JBT has become the largest microfinance sector in Kenya. It offers microentrepreneurial training, business plan consulting, and microcredit loans. Its philosophy is to empower the poor by helping them become economically self-reliant. A client's initial loan may range between $80 and $800. After some success and growth of one's microenterprise, a client may later qualify for larger business loans from $900 to $9,000.

While JBT had its launch in the impoverished and violent slums of Kibera, it has gradually spread to dozens of other branches in virtually all large cities in Kenya. Two years ago, it established the JBT Business Academy to provide more formal and sophisticated training for microentrepreneurs who are growing their businesses from tiny microenterprises into a category we may call small businesses, where instead of 1 or 2 people work, 5-10 may be employed. Thus, larger amounts of capital are needed for financing and more complex business skills are required.

By 2004, JBT's success had leveled off with about 65,000 borrowers. It was unable to continue escalating its growth due to funding constraints. One of the MFIs I had co-founded, Unitus, which friends and I started in 2000, decided to help JBT expand more rapidly. Unitus operated a global strategy for accelerating microfinance, yet had no programs in Africa. After an in-depth assessment of JBT's operational systems and managerial abilities, we gave Munro's organization $1.4 million in new capital with the goal of speeding its growth, and ensuring it could achieve greater scale and impacts. This joint venture became a major innovation in the microfinance movement. It assured Unitus that its model could have quick and significant outcomes, which in turn, inspired it to soon create several other such partnerships. It also impressed other MFIs with large capital holdings to begin doing the same. In the four years since the Unitus-JBT partnership, the Kenyan organization was able to more than double its client base to over 180,000 today.

A recent JBT development on the social side is that of the *Tumaini* program. It has an exclusive focus on providing social services to beggars on the street. One-on-one counseling, medications and other products are provided to help those who otherwise are condemned to a life of handouts. The ultimate goal of *Tumaini* is that of assisting beggars to enjoy a better quality of life by making better decisions and obtaining an education and employment.

Another innovation has been the development of *Kaputei*, a new housing community. The logic of this JBT strategy is that rather than bring people out of the slums, train them, help them start businesses, and then go back to the conditions of the slum to live, a clean break is needed. *Kaputei* is essentially the start of a clean slate, a newly designed community started from scratch out in the rural, peaceful area away from the slums and the congestion and chaos of Nairobi as a whole. JBT has raised significant funds and works with corporate partners in the design and implementation of this new community. The clients can buy fairly inexpensive, simple homes with their own sweat equity and a mortgage payment of from $20-$35 per month. This is about the same amount as the monthly rental payments the poor pay to live in the slums. Whether or not this new housing model will be able to grow to scale to serve tens of thousands of JBT clients is still uncertain. But the power of this idea, to establish a new start for JBT families who are on the road to a better future, is impressive [5].

CONCLUSIONS

As with apples and oranges, the cases of Yehu Microfinance in Kenya and Jamii Bora Trust in Kenya, have a number of both similarities, as well as differences. Whether we study the larger, urban example of JBT or the smaller, rural case of Yehu Microfinance, they and the microcredit movement in Kenya have had both some successes and problems.

It should be noted that on a global scale, the microfinance movement has been greatly accelerated since my colleague and advisor to many of my MFI start-ups, Muhammad Yunus who founded the Grameen Bank of Bangladesh, received the 2006 Nobel Peace Prize [11]. Yet there are also many critics of the movement as evidenced by the recent book, *What's Wrong with Microfinance* [3]?

In the cases of Yehu and JBT, the interview and observational data I have collected, suggest a promising future. On the success dimension, both are operational and growing, and enjoying ever increasing sources of funding and impacts. Kenya now has established a networking umbrella for these types of NGOs called the Association of Microfinance Institutions (AMFI). A draft microfinance bill to regulate the industry was finally passed by Parliament in 2006 and took effect in May 2008. Country wide awareness of microlending as a development strategy was greatly enhanced during the UN's International Year of Microcredit in 2005. Faulu, Kenya became listed on the stock market as Equity Bank, a full service microfinance organization.

In spite of such positive trends, there are also stresses and strains. Donor funds for Africa are still extremely limited, and all in all, there is little government support for the microfinance sector. Another challenge in Kenya is the lack of technical skills of managers and staff for such NGOs.

Drawing on the examples of Yehu and Jamii Bora, several suggestions for moving microfinance in Kenya forward may be appropriate. First, the national government should ease the process for establishing and registering microfinance institutions. The educational structure of Kenya at the university level needs to design courses and programs that will provide better training for a future generation of managers in operating MFIs. Incentives such as certificates and diplomas ought to be established. Finally, both large Kenyan businesses and multinational firms operating in the country ought to develop partnerships that link their for-profit agenda with that of Corporate Social Responsibility in providing support and funding to empower the Kenyan poor.

Hopefully, if government, educational and business sectors can collaborate more effectively, the result will be that not only will Yehu and Jamii Bora prosper, but the entire MFI industry in Kenya will be more successful. This will benefit not only tens of thousands of their clients, but the nation's poor as a whole.

REFERENCES

1. Aghion de, Beatriz Armendariz, and Morduch, Jonathan. (2005). *The Economics of Microfinance.* Cambridge, MA: MIT Press.

2. Counts, Alex. (2008). *Small Loans, Big Dreams.* Hoboken, NJ: John Wiley & Sons.

3. Dichter, Thomas, and Harper, Malcolm. (eds) (2008). *What's Wrong with Microfinance?* Warwickshire, UK: Practical Action Pub.

4. Woodworth, Warner. (2006). Ingrid Munro interview about Jamii Bora Trust at the global Microcredit Summit, Halifax, Canada, November.

5. Woodworth, Warner. (2007). Jamii Bora Trust managers/staff interviews about structure and results, Nairobi, summer.

6. Woodworth, Warner. (2006) Louis Pope interview about Coast Coconut Farms, at BYU in Provo, Utah, April.

7. Woodworth, Warner. (1999). Nairobi community interviews and survey data, 1999-2002.

8. Woodworth, Warner. (2001). (3rd ed.) *Small Really Is Beautiful: Micro Approaches to Third World Development - Microentrepreneurship, Microenterprise, and Microfinance*. Ann Arbor, MI: Third World Think Tank.

9. Woodworth, Warner. (2007). Yehu Microfinance interviews and site visits, Mombasa and surrounding rural villages, summer.

10. Yunus, Muhammad. (2007). *Banker to the Poor: Micro-Lending and the Battle Against World Poverty.* New York, NY: Public Affairs.

11. Yunus, Muhammad. (2008) *Creating a World Without Poverty: Social Business and the Future of Capitalism*. New York, NY: Public Affairs.