

# **Micro-Enterprise Finance as an Empowerment Tool for Women-Owned Businesses: Lessons from Kenya and South Africa**

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By

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## **ABSTRACT**

The dualism of South Africa's economy is reflected, most notably, in the country's high Gini coefficient which in 2010 was recorded at 63.14. The recent labour and social unrest in the country may be attributed in part to the socio-economic disparity between the first and second economy. Twenty-one per cent of the population lives on R1 000 or less. The majority of the population, 52 per cent, lives on R1 800 a month. Furthermore, only 29 per cent of the adult population in South Africa is employed full time. The unemployment rate in 2011 was 24.9 per cent and the unemployment rate for women remained higher than the national average between 2008 and 2012. Although the unemployment rate for both men and women increased in 2012, women were 1, 2 times more likely to be unemployed than men.<sup>1</sup>

The South African government has made some strides in alleviating poverty through various interventions, including formulating a job creation strategy aiming to create 5 million new jobs by 2020, providing social grants to the poor and adopting policies such as the Broad-Based Black Economic Empowerment policy support to promote black-owned businesses. However, the financial services sector has not been sufficiently addressed in these interventions despite the pressing need for reforms. There are currently six leading or mainstream banks which provide the full spectrum of financial services to the South African population. Many of these banks provide little or no access to the marginalised groups in society including women and alternative sources of finance for the poor are also limited. This study proffers that microfinance can be an effective mechanism which can be used to deliver financial services to the unbanked or those who only have access to informal banking services. More specifically, it focuses on how microfinance can be used to empower women and promote the growth and sustainability amongst women.

The main objectives of the study are to identify and assess the critical success factors and shortcomings of the Kenyan microfinance model, which is well-developed and regulated and make recommendations for the South African microfinance sector. The study places specific emphasis on microfinance models tailored for women and women-owned businesses. The research approach adopted in this study was intended to be flexible, explorative and comparative. It draws from the lending models applied by Equity Bank in Kenya and Women's Development Business in South Africa. Both primary and secondary data was used in order to achieve the objectives of the study.

The key findings of the study reveal that, the critical success factors of microfinance institutions which lend to women include the adoption of a multi-faceted lending methodology, group-based and individual lending, encouragement and facilitation of savings. Other critical success factors are educational and business skills training interventions and product innovation and diversification to meet the needs of these women.

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<sup>1</sup> Statistics South Africa. (2012) Quarterly Labour Force Survey. Statistical release P0211- Quarter 1

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## GLOSSARY OF TERMS

ACCA	Association of Chartered Certified Accountants
AMFI	Association of Micro-Finance Institutions of Kenya
BEE	Black Economic Empowerment
CBK	Central Bank of Kenya
CGAP	Consultative Group to Assist the Poorest
DFI	Development Finance Institution
EBS	Equity Building Society
EDP	Enterprise Development Programme
GDP	Gross Domestic Product
GNI	Gross National Income
ICT	Information and Communication Technologies
IDC	Industrial Development Corporation of South Africa
IFC	International Finance Corporation
IPAP	Industrial Policy Action Plan II 2012/2013
ITC	International Trade Centre
LSM	Living Standards Measure
MCRO	Microcredit Officer
MDG	United Nations Millennium Development Goals
MEF	Microfinance Enhancement Facility
MFI	Microfinance Institutions
MFSA	Microfinance South Africa
NCA	National Credit Act, 34 of 2005
PAP	Poverty Alleviation Programme
SACCO	Savings and Credit Co-operatives
SAMAF	South African Micro Apex Fund
SEFA	Small Enterprise Finance Agency
SME	Small to Medium Enterprise
SMME	Small Micro and Medium Enterprise
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WDB	Women's Development Business
WDB-MF	Women's Development Business – Microfinance
WDB-IH	Women's Development Business – Investment Holdings

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# 1 INTRODUCTION

## 1.1 Research Area

Microfinance has become one of the most important development tools in the fight against poverty and promoting growth in developing countries. In an effort to promote international growth and development, the United Nations (UN) adopted the Millennium Development Goals (MDGs). Many countries and international organisations have boosted their trade activities to increase development. Poverty alleviation and economic growth are closely intertwined but difficult to achieve without the requisite macro-economic tools. Microfinance is one of the financing mechanisms which have been used in different countries to reduce poverty levels of the poorest sections of the population, primarily because this category of people do not have access to other forms of formal financing.

The Consultative Group to Assist the Poor (CGAP) noted that “access to financial services forms a fundamental basis on which many of the other essential interventions depend. Moreover, improvements in health care, nutritional advice and education can be sustained only when households have increased earnings and greater control over financial resources. Financial services thus reduce poverty and its effects in multiple, concrete ways.” (Elizabeth Littlefield, 2005).<sup>2</sup>

Microfinance has become one of the most predominant conduits of delivering financial services to poor communities. “Microfinance refers to financial services provided to low income people, usually to help support self-employment. Examples of microfinance products include: small loans, savings plans, insurance, payment transfers and other serviced that are provided in small increments that low-income individuals can afford. These services help families to start and build “micro” enterprises, the very small businesses that are important sources of employment, income, and economic vitality in developing countries worldwide.”<sup>3</sup>

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<sup>2</sup>Littlefield, E., Jonathan, M. & Syed, H. (2003). Is Microfinance an Effective Strategy to Reach the Millennium Development Goals? CGAP, Washington.

<sup>3</sup> Definition retrieved from the FINCA website: [www.finca.org](http://www.finca.org)

The primary providers of microfinance are microfinance institutions (MFIs) although this form of financing has long been utilised prior to the establishment of the more formalised institutions. A microfinance institution is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than clients who have access to traditional banking services.<sup>4</sup>

This research paper explores how two microfinance institutions in Kenya and South Africa have made financing accessible to women by developing products specifically tailored for women and women entrepreneurs. The first institution is Equity Bank, one of the largest microfinance banks in Kenya which has established subsidiaries in a number of countries in the East African region. The second institution is the Women's Development Business (WDB) Group, a microfinance institution which provides microcredit to rural poor women in South Africa. The aim of this study is twofold. Firstly, the paper explores the critical success factors which have made Equity Bank one of the leading microfinance institutions in Africa. Secondly, the paper draws on these successes in an effort to make recommendations for MFIs in South Africa. In the course of the paper, the positive features in both organisations are highlighted.

## **1.2 Problem Statement**

The economic development of a country hinges on a multiplicity of factors such as the implementation of sound macroeconomic policies, good governance, and a consistent and sound regulatory regime. One of the pillars of a strong democracy is the advancement of a socio- economic environment which grants equal rights to its citizens who can then productively contribute to that economy. Access to financial services in developing and developing nations has been minimal, hindering growth and economic development. Microfinance provides alternative forms of finance to the poor who are unable to access in the formal banking sector.

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<sup>4</sup>Definition retrieved from the CGAP website: [www.cgap.org](http://www.cgap.org)

Women, particularly in developing countries, have had little or no means to access funding due to a number of reasons, one of which is the ability to raise collateral. Even in developed countries, women are still marginalised from meaningful participation in the world's economic powerhouses. A recent example is the on-going debate in the European Parliament regarding the appointment of a candidate for the post on the European Central Bank's six-member Executive Board. "Not one of the 23 monetary policymakers making vital decisions for the euro zone is a woman."<sup>5</sup> The European Union parliamentarians criticized the Board for not putting much effort in searching for suitable women who could be appointed on the Board.

Economic development and the alleviation of poverty cannot be achieved if women are isolated from productive economic activities. Globally, the microfinance sector has placed increasing emphasis on empowering women by providing alternative sources of funding targeting the poor. This is also captured in the UN MDGs. Although South Africa has one of the highest number of female cabinet ministers on the African continent, the majority of South African women are still living in the most poor, undeveloped and underserved rural areas. One of the main criticisms levelled against the South African government by microfinance institutions operating in the country is that there is insufficient monetary, technical and regulatory support for these institutions to operate effectively and efficiently. In Kenya, the microfinance sector is relatively well-developed and robust. Equity Bank is considered one of the leading microfinance commercial banks in Africa, having won numerous accolades from various regional and international organisations.<sup>6</sup> This study therefore seeks to explore the main features of the microfinance sectors in both Kenya and South Africa and make recommendations for MFIs lending to women in South Africa based on the findings of the research.

### **1.3 Purpose and Significance of the Research**

The purpose of the research is to find ways in which to strengthen and increase the impact of microfinance organisations in South Africa but with particular focus on microfinance institutions which lend primarily to women. South Africa's rate of unemployment was 24.9 per cent in 2011. The South African government has

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<sup>5</sup>Toyer, J. (2012, November 5). Women Challenge Central Banking Men's Club. *Reuters*. Retrieved from <http://uk.reuters.com/article/2012/11/05/uk-ecb-women-idUKBRE8A40NJ20121105>

<sup>6</sup>Retrieved January 9, 2013, from Equity Bank's website <http://equitybankgroup.com/index.php/awards>

committed to reduce this unemployment rate by creating 5 million new jobs by the year 2020. One of the key obstacles the government faces in achieving this objective is the low skilled labour force. In the absence of a rigorous, multifaceted and accelerated education strategy which will increase the necessary skills of the majority of its citizens, the job creation objective may be unattainable by the year 2020.

Enterprise development enhanced by the use of microfinance, together with an appropriate job creation strategy, could be instrumental in alleviating poverty levels of the majority of South Africans living in the second economy.<sup>7</sup> Economic policies which target specifically marginalised women and the youth, will also contribute to economic development in the country. The WDB is currently going through a restructuring process which is intended to increase efficiencies and reach a wider group of poor women. The recommendations in this research paper may be beneficial to the organisation as it undergoes this transition.

#### **1.4 Research Questions and Scope**

The aim of this study is to identify and assess the critical success factors and shortcomings of the Kenyan microfinance model and make recommendations for the South African microfinance sector. The study will focus on the products offered by these institutions. The study will:

1. Firstly, identify the leading MFI which provides funding primarily to women and women-owned businesses in both Kenya and South Africa. The identification process will use set criteria such as, the objectives of the MFIs, the duration of existence of the MFIs, the funding thresholds for the MFIs and the post-investment monitoring mechanisms of the MFIs.
2. Secondly, identify the various lending structures and models within the specified MFI in Kenya, and assess where these have been successful and where they have failed.

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<sup>7</sup> See further discussion on the second economy in Chapter 2 par 2.4.

3. Thirdly, it will focus on microfinance in the context of the South African MFI and examine where there have been successes and shortcomings; and
4. Finally, evaluate critical success factors of the Kenyan MFI model(s) which can improve or enhance the South African MFI sector.

Key research questions to be answered:

1. *Research Question 1: Which kinds of financing products are provided to women by the identified MFIs in Kenya and South Africa?*
  - Sub-question 1: How are the identified MFIs in Kenya and South Africa funded?
  - Sub-question 2: What are the repayments terms for the identified MFIs, if any?
2. *Research Question 2: What are the lending policies of these MFIs in Kenya and South Africa?*
  - Sub-question 1: What or who determines the lending policies or guidelines?
  - Sub-question 2: What are the qualifying criteria for lending to women or women-owned enterprises?
3. *Research Question 3: What is the performance of the loan portfolio?*
  - Sub-question 1: What are the interest rates charged on the products offered and penalties for non-payment, if any?
  - Sub-question 2: What are the repayment rates on the different products?
4. *Research Question 4: Which forms of technical and/or other assistance do these MFIs offer?*
  - Sub-question 1: What are the criteria for providing technical and other forms of assistance?
  - Sub-question 2: How do they measure the impact of the funding provided?

Sub-question 3: How do they measure the impact of the technical assistance provided?

### **1.5 Research Assumptions**

The underlying assumption in this study is that microfinance impacts positively on women and women-owned enterprises. Although the debates and evidence seem to be inconclusive, microfinance is still a dominant financing tool particularly in developing countries. Secondly, in order to make comparisons between Kenya and South Africa, assumptions have to be made about the key socio-economic status of the women accessing microfinance. For instance, the Kenyan government does not provide social grants to single mothers or grandmothers caring for grandchildren. This may impact the number of women who approach microfinance institutions for funding and the frequency with which these kinds of funds are borrowed.

## 2 LITERATURE REVIEW

### 2.1 Microfinance and Development

The literature on microfinance is vast and inconclusive. There are numerous studies which have been conducted over the years, some which proffer its usefulness as a development tool, and others which question its real impact on the livelihoods of those it claims to advance. Most of this literature, however, seems to support the use of microfinance in alleviating poverty, financial development and economic growth.<sup>8</sup> The concept and practice of microfinance has been in existence in many forms for many centuries. Savings and credit groups such as 'susus' in Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia are, in substance, microfinance institutions which have been in existence since the early eighteenth century.<sup>9</sup> Institutions such as ACCION International in Latin America and SEWA Bank in India pre-date the Grameen Bank founded by Mohammed Yunus in 1976.

Grameen Bank was established as an action-based research project to alleviate poverty amongst the rural poor in Bangladesh. The successful outcomes of the project became a template or model for other microfinance institutions around the world, particularly in developing countries. Globally, the number of microfinance institutions has grown significantly over the last five decades most notably on the Asian continent such as Bandhan in India and ASA International in Bangladesh. Over time, microfinance as a financing mechanism has become prevalent because not only does it have the potential to alleviate poverty, but it also proves to be a model which can generate a profit.<sup>10</sup> Global pro-development organisations such as the United Nations, the World Bank, IMF and others have supported and encouraged the use of microfinance as a tool to reduce poverty and promote development.

Although the terminology takes various forms, the fundamental principle underlying microfinance is an undertaking to avail 'small' loans to those who cannot access or

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<sup>8</sup>Brau, J. & Woller, G. (2004) Microfinance: A Comprehensive Review of the Existing Literature. *Journal of Entrepreneurial Finance and Business Ventures*, 9 (1), 1-26.

<sup>9</sup>CGAP. The History of Microfinance. *The New Vision of Microfinance: Financial Services for the Poor*. Prepared for CGAP UNCDF Donor Training.

<sup>10</sup>Brau et al (2004), p.5

afford credit from mainstream commercial banks. As such, a reference to ‘microfinance’ is differentiated in the literature from ‘microcredit,’ with the former incorporating a broader range of services other than purely providing credit or savings. These additional services include the provision of insurance and insurance credit and money transfer. Microfinance, more generally defined, is not necessarily targeted at the rural poor but has evolved in form and substance to become a multifaceted finance model to fund the establishment and growth of small to medium enterprises. There are many forms of microfinance institutions but they can generally be categorised in terms of their funding models such as the bank guarantee model, the community or village banking model, microfinance associations and credit unions, the non-profit and for profit models and the rotating savings and credit associations.

The discussions regarding the advantages and disadvantages of microfinance primarily revolve around its social impact. The attraction to microfinance for many development finance proponents stems from the notion or concept of the double bottom line. Unlike mainstream commercial banking which focuses primarily on generating profits for their stakeholders, research studies on microfinance institutions seem to indicate, for the most part, that these institutions not only generate profit but have a socio-economic advantage which cannot necessarily be achieved by commercial banks. In a study of four microfinance institutions, USAID identified emerging business models such as “...corporate-social-responsibility and base-of-the-pyramid that offer an alternative to the more traditional social-enterprise business model seen in MFIs. While the new models may seem to dilute MFIs’ social mission, they stand poised to have a social impact that may be as great (if not much greater) than the social-enterprise model.” (Sousa-Sheilds, 2008).<sup>11</sup>

The social impact of microfinance institutions around the globe has itself been the subject of much debate because measuring social return is complex. It may be empirically possible to illustrate the growth and expansion of a business as a result of microfinance loans disbursed to a particular enterprise, but the same cannot easily be said about measuring better living standards and attributing these changes to microfinance interventions. Developing research methodologies which can measure the

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<sup>11</sup>Sousa-Sheilds, M. (2008). Microfinance and the Double Bottom Line: *Case Studies in Social Performance Management*. microREPORT #113 USAID, pp. 1-28.

impact of microfinance is difficult because such methodologies would have to “...isolate specific effects out of a complicated web of causal and mediating factors and high decibels of random environmental noise, as well as attaching specific units of measurement to tangible and intangible impacts that may or may not lend themselves to precise definition or measurement.”(Brau and Woller (2004)).<sup>12</sup> In addition to this, resource constraints, both human and capital, coupled with the costs associated with conducting such impact assessments, is prohibitive for many MFIs most of which rely on donor funding and/or meagre returns on their investments. The impact of microfinance is also “highly contextually specific”<sup>13</sup> such that it becomes increasingly difficult to make useful comparisons.

Nonetheless, the sustainability of MFIs is closely hinged on the impact of these institutions. Financial sustainability is critical to achieving the objectives of a given organisation but it is only one component of the assessment. Institutional sustainability, market sustainability, legal and policy sustainability as well as impact sustainability are equally important features of a successful microfinance organisation.<sup>14</sup> In some instances, these elements are not accounted for either during conceptualisation or the business planning stage of a new microfinance enterprise or after its establishment. These assessments are critical to whether microfinance will have longevity in its existence and impact long after it has dissolved or transformed.

The other contention between the advocates and the sceptics of microfinance as a development tool speaks to whether this financing mechanism does indeed alleviate poverty amongst the poor. Olsen (2008), for instance, refers to the aspiration paradox whereby the recipients of microfinance loans become over-indebted to micro financiers in the hope of achieving a certain socio-economic status.<sup>15</sup> In some instances, the issue of moral hazard plays a role in the effectiveness of microfinance loans when the funds obtained are not used for the purpose for which they were intended. Over-indebtedness could equally be a result of multi-borrowing from various sources with little knowledge or cognisance by the initial financier. One of the ways in which some MFIs mitigate this

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<sup>12</sup>Brau et al. (2004), p.7

<sup>13</sup>Ibid, p.29

<sup>14</sup>Sustainability in Microfinance. Retrieved April 10, 2011, from <http://www.sa-dhan.net>

<sup>15</sup>Olsen, W. (2008). Aspiration Paradox in Micro-Finance: A Difficulty and an Opportunity for Debate. International Conference on Microfinance (Tool to Eradicate Poverty), University of Pondicherry, pp. 1-27

risk is through the use of credit reference bureaus which provide credit histories of applicants.<sup>16</sup> Even with this plethora of challenges, microfinance has stimulated development and improved the socio-economic status of the poor and marginalised. Achieving an improved double bottom line requires effective implementation of macro-economic policies focussing on governance, banking regulation and related domestic reforms particularly in developing countries.<sup>17</sup>

## 2.2 Microfinance and Women Empowerment

The Microcredit Summit Campaign is an American organisation which aims to facilitate the provision of microcredit to the poor, especially women and thereby building self-sufficiency and ensuring social impact. In the organisation's 2012 report, it was noted that the campaign's greatest challenge "... is bridging the gap between its commitment to reaching the poorest and the lack of effective poverty measurement tools". (Maes and Reed, 2012).<sup>18</sup> In an effort to address this challenge, the organisation registers and verifies microfinance institutions and also develops and encourages the use of standardised poverty measurement tools which enables the organisation to uniformly assess the impact of the microfinance programmes implemented in the respective communities.

A critical cornerstone of the Microcredit Summit Campaign is the provision of microfinance to women. In the paper presented to the Beijing +5 Conference in New York in June 2000, the organisation stated that "... (m)icrocredit is about much more than access to money. It is about women gaining control over the means to make a living. It is about lifting themselves out of poverty and vulnerability. It is about women achieving economic and political empowerment within their homes, their villages, their countries." (*Empowering Women with Microcredit*, 2000).<sup>19</sup> This is in tandem with one

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<sup>16</sup> In South Africa, the Sibanye Cape Savings And Credit Co-Operative Limited which was registered with the Registrar of Co-operatives in 1997 approves loans subject to favourable ITC credit bureau checks. Calvin, B. & Coetzee, G. (2010) A Review of the South African Microfinance Sector, 2009. Successes, Challenges, And Policy Issues, p31

<sup>17</sup> Barr, M. (2005). Microfinance and Financial Development. *Michigan Journal of International Law*: Michigan. pp. 271 - 296

<sup>18</sup> Maes, P. & Reed, R. (2012). State of the Microcredit Summit Campaign Report 2012. Retrieved from [http://www.microcreditsummit.org/state\\_of\\_the\\_campaign\\_report/](http://www.microcreditsummit.org/state_of_the_campaign_report/)

<sup>19</sup> Section of the presentation by the Microcredit Summit Campaign in Beijing +5 Conference in New York – June 2000. Women's Empowerment and Microfinance: A 'Think Piece' for the Microfinance Field

of the MDGs which is to promote gender equality and the empowerment of women. Indeed, an increasing number of donors and NGOs have increased their funding to MFIs which provide financial assistance to women or women-run businesses. The beauty and impact of microfinance is that, as programs approach financial sustainability, they can reach far beyond the limits of scarce donor resources.

In an effort to increase economic growth and development, donor agencies and NGO's have developed strategies to alleviate poverty amongst women. United Nations Development Programme (UNDP) reported that of the 1.3 billion people living on less than \$1 day, 70 per cent of them are women.<sup>20</sup> Socio-economic development cannot be achieved through the advancement of only one segment of a population but rather requires a strategy which also incorporates and empowers women as participants and a productive group of the population. The discourse around gender equality and the empowerment of women has become increasingly important in the fight against poverty and the surge towards economic development.

If microfinance programmes are to be successful, constructive dialogue between and amongst the main role players is not only necessary but requires more pro-active, targeted and long term interventions. The paradigms and empowerment approaches found in the literature have a common theme, that financial independence for women is a critical element in the empowerment discourse. The common theme plays itself out in what numerous researchers refer to as 'virtuous circles'.<sup>21</sup> Some argue that access to financial services and financial independence would not only improve the general well-being of households and the socio-political welfare of women, but that microfinance used as an empowerment tool would lead to economic growth (See Figure 1 below).

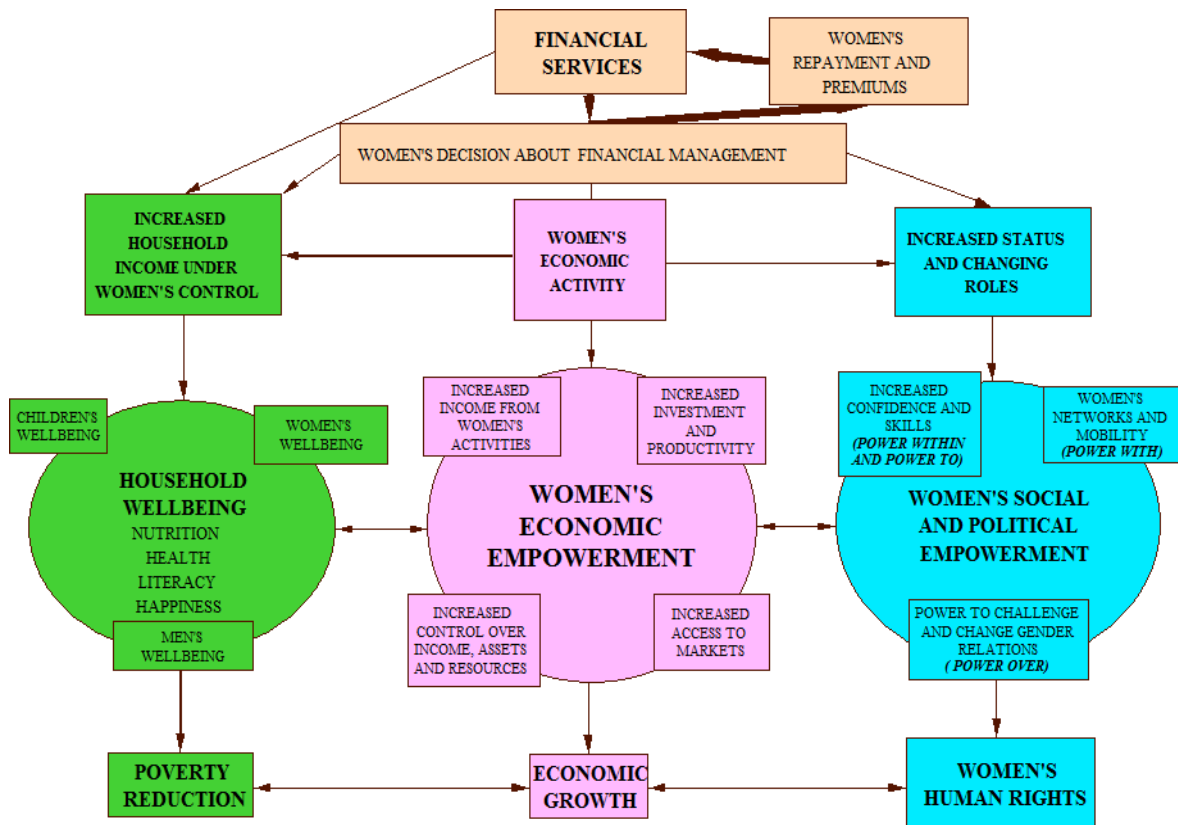
Figure 1: Virtuous Spirals: Paradigms Compared<sup>22</sup>

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<sup>20</sup> UNDP, 1995 *Human Development Report* (New York, UNDP, 1996), p. 4

<sup>21</sup> See discussion on 'virtuous circles' by Linda Mayoux (2012). Women are Useful to Microfinance: How Can We Make Microfinance More Useful to Women?

<sup>22</sup> *Ibid*, p.7



Source: Mayoux, L. (2012) Women are Useful to Microfinance: How Can We Make Microfinance More Useful to Women?

Microfinance literature on the empowerment of women is broadly categorised in three paradigms. The feminist paradigm is concerned with issues around gender equality and the promotion of strategies which address women's economic and socio-political empowerment.<sup>23</sup> The financial self-sustainability paradigm looks more at the ability of women to sustain themselves economically by earning and making a living without having to rely on their spouses or partners. The third paradigm focuses on poverty alleviation and its interpretations of empowerment through microfinance mainly dwelling on the advancement of women in terms of decreasing vulnerability and the ability to make their own choices. The paradigms are not necessarily mutually exclusive as shown in Figure 1, but they influence the manner in which different MFIs prioritise their goals and identify their target market.

<sup>23</sup> Women's Empowerment and Microfinance: A 'Think Piece' for the Microfinance Field (2000). Retrieved from <http://www.microfinancegateway.org/p/site/m/template.rc/1.9.41459/>

Figure 1 above demonstrates the feminist paradigm on the right hand side. Improving women's access to financial services where women can and do make decisions about financial management on a personal level and in the household, brings about changes in their roles and increases their social status. This leads to increased confidence and skills, what Mayoux (2012) refers to in Figure 1 as the "power within" and the "power to" do. In addition, depending on the form of microfinance, which the literature evinces as primarily group-based lending, the women's networks and mobility improve; that is, the increased status and changing roles of these women can be attributed to the collective strengthening of the group or the "power with". This in turn gives the women the power to challenge and change gender relations in the household but also in their communities ("power over") and ultimately re-asserts women's human rights, a fundamental objective in the United Nations' MDGs.

The financial self-sustainability paradigm represented on the left had side of Figure 1, shows how access to financial services coupled with the woman's ability to make decisions about her own finances can increase household income when the finances are under her control. This paradigm espouses the thinking that the wellbeing of the household, that is, women, children and even the partners/spouses eventually translates into the alleviation of poverty at a macro level. Wellbeing here includes indicators such as nutrition, health, literacy and general happiness. The literature is abound with case studies which show that repayment rates by women who receive funds under different microfinance schemes have better repayment rates than men.<sup>24</sup> This points to the self-sustainability theme in the second paradigm. The thinking then is that if a woman can sustain herself, the general wellbeing of her household is increased and the poverty levels reduced.

The third paradigm is illustrated in the centre flow diagram of Figure 1. This paradigm advocates for the empowerment of women on the strength that women's socio-economic empowerment would lead to economic growth. Increasing the ability of women to actively participate in the economy in turn increases productivity, income

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<sup>24</sup> Mayoux, L. (2005). Women's Empowerment through Sustainable Micro- Finance: Rethinking 'Best Practice' and Cheston et al (2002) Empowering women through microfinance in Harris, D. (2002). Pathways out of Poverty: Innovations in Microfinance for the Poorest Families. Bloomfield, CT: Kumarian Press: 167228; and the chapter by Felder-Kuzu, N. (2006) Micro-Credit, Micro-Franchising, and Women Entrepreneurs in Soto, H. & Cheneval, F. (2006). Realizing Property Rights. Swiss Human Rights Book Vol. 1. Zurich. pp. 247 -258.

levels and the ability to make investments. This means that women would be able to have increased control over income, assets and resources as well as increased access to markets.

There are two critical points which have been raised in this analysis. Firstly, the paradigms described in the literature and what Mayoux (2012) has tried to illustrate in Figure 1, is that these paradigms are not mutually exclusive, hence the ‘virtuous spirals’. The three objectives in microfinance for women as shown in Figure 1, that is, poverty reduction, economic growth and women’s empowerment, can be better achieved if the domestic policies which address development are informed by these three paradigms to achieve a positive impact. Secondly, the cornerstone or anchor of the success of microfinance empowerment programs lies in the ability of the women accessing these programmes and thereby increasing their ability to make independent decisions regarding their finances. The discourse on women empowerment through microfinance and poverty alleviation dwells primarily on the advancement of women in terms of decreasing vulnerability and the ability to make their own choices. This may not always be the case. A number of studies have shown that in many instances, women not only have little or no control over economic resources such as land and/or personal property, but income generated by women from their own initiatives and the use of such income, may be determined by their male partners/spouses.<sup>25</sup>

The literature also identifies different empowerment approaches, the key approaches being the participatory approach and the programme-related approach. The former promotes the inclusion of strategies around women empowerment into the policies adopted by an organisation.<sup>26</sup> The programme-related empowerment approach encourages the adoption of empowerment policies in the programmes created by different MFIs. The two approaches can be used simultaneously although the objectives and goals of an individual MFI may, in some instances, limit the application of both approaches.

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<sup>25</sup>Zukang, S. (2009). United Nations 2009 World Survey on the Role of Women in Development: New York, pp. 1- 132

<sup>26</sup> Ibid, p.92

In a report to the Commonwealth Secretariat Social Transformation Division, the gaps and constraints in gender responsive investment were considered. The report compared the patterns, resources and constraints in start-up businesses of men and women, the management of women owned businesses and how this affected the performance and growth of small and medium enterprises.<sup>27</sup> In its conclusion, it was found that the “...(c)oncepts of entrepreneurship are traditionally assumed to be gender neutral, but as quite a few well conducted studies have demonstrated, all research relies on notions of humanity and rationality that are masculinist.” (McPherson and Antonio, 2010).<sup>28</sup> It is therefore important to be aware of and sensitised to these concepts and to ensure that the approaches and strategies adopted, whether participatory or program-related are not based on models which seem to have worked for businesses owned by men.

The recurring themes in the literature which advocates microfinance as a development tool relate to the lack of access to finance for women primarily due to lack of collateral<sup>29</sup> and the motivation for increasing micro-financing for women due to the high repayment rates.<sup>30</sup> In addition, there are studies which have shown that the economic and social wellbeing of women can contribute to the reduction of gender violence. In 2007, a group of researchers conducted a study in South Africa in an effort to understand the impact of a microfinance-based intervention on women’s empowerment and the reduction of intimate partner violence in South Africa.<sup>31</sup> The results of this study indicated that “...women participating in the IMAGE intervention reported greater household communication and collective action, mobilizing their villages around a range of issues, including violence and HIV infection. There is evidence to suggest that these benefits also reached young people in their households, resulting in greater openness and communication around sexuality and HIV issues. Violence against

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<sup>27</sup>McPherson, S.L., & Antonio L. (2010). Financing Gender Responsive Investment: The Case of Small and Medium Enterprises. Report prepared for the Commonwealth Secretariat Social Transformation Division by WEDI International, pp. 1 – 52.

<sup>28</sup> Ibid, p.35

<sup>29</sup>Cheston, S. & Kuhn, L. Empowering women through microfinance. In: Harris, S.D, ed. Pathways out of poverty: innovations in microfinance for the poorest families. Bloomfield, CT: Kumarian Press, 2002: 167228 p7

<sup>30</sup> United Nations (2009a) 2009 World Survey on the Role of Women in Development. Women’s Control over Economic Resources and Access to Financial Resources, including Microfinance. Retrieved February 10, 2010 <http://www.un.org/womenwatch/daw/ws2009/>

<sup>31</sup>Kim, J., Watts, c., Hargreaves, J., Ndhlovu, L., Phetla, G., Morison, L., Busza, J., Porter, J., & Pronyk, P. (2007). Understanding the Impact of a Microfinance-Based Intervention on Women’s Empowerment and the Reduction of Intimate Partner Violence in South Africa. *American Journal of Public Health* 97(10), pp. 1794-1802.

women and girls remains a major public health challenge. This study shows that initiatives aiming to empower individuals and communities can contribute to measurable health outcomes and that such empowerment can form part of a viable public health strategy.”<sup>32</sup>

There also seems to be consensus around the importance of sound macro-economic policies to the success of MFIs. Therefore, whilst job creation is a critical link between economic growth and poverty reduction, macro-economic policies ought to incorporate the objectives and strategies of the microfinance sector to support those who remain unemployed. Although microfinance as a financing mechanism to reduce poverty amongst the poor has made much advancement over the last few decades, more can be achieved especially in relation to providing access to finance to women. Cheston and Kuhn (2002) noted in their study that even though the number of microfinance institutions had grown, the loans provided to women remain smaller than those of men.<sup>33</sup>

Product development and diversification may be one of the ways that microfinance can reach unbanked rural poor women. Pait (2009) notes that the accelerating commercialisation of micro-finance coupled with recent technological advances such as mobile and e-banking could stimulate the delivery of financial services to a wider community. However, she also notes that product development on its own is not sufficient. Microfinance institutions need to provide larger loans to women to enable them to grow their enterprises and potentially graduate to the more formalised banking sector. It is equally important for these institutions to identify ways of assessing the credit profile of their borrowers to avoid over indebtedness or fall under the demise of the aspiration paradox described by Olsen (2008).

### **2.3 Contextual Overview of Microfinance in Kenya**

One of the fundamental principles underlying many microfinance programmes is the objective of creating self-employment and promoting self-sustainability. At a macroeconomic level, the success of a microfinance institution will in part depend on

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<sup>32</sup>Ibid, p.1800.

<sup>33</sup>Cheston et al, (2002), p. 4

the environment in which it operates. In East Africa, Kenya has been a leading prototype for microfinance on the continent and in other developing countries.<sup>34</sup> In the 2013 IFC Doing Business Report, Kenya was ranked 12<sup>th</sup> out of 185 countries in terms of accessing credit. This indicator is important to financiers because it means that credit generally, the credit information system and the bankruptcy laws provide a progressive environment for operating business. To put the ranking in context, the United Kingdom ranks first, Rwanda is 23<sup>rd</sup> on the list, Botswana at 53, and the Sub-Saharan average is 109<sup>th</sup>.<sup>35</sup> Although Kenya ranks in the lower income category in the IMF Doing Business Report with a GNI per capita of US\$820, it is ranked 12<sup>th</sup> out of 185 countries. The International Finance Corporation's Doing Business in Kenya reports that there are at least 12 procedural requirements for starting a business in Kenya and takes at least 60 days to have a business registered at a cost of 0.40 per cent of income per capita with no paid-in minimum capital required.<sup>36</sup>

Kenya has embraced the microfinance model and utilised it successfully in alleviating poverty amongst women in both rural and urban communities. In the 1990's this number was in the single-digits. Many people in Kenya derive their income from establishing small and micro enterprises<sup>37</sup> because the formal sector cannot absorb the available labour force. The National Micro and Small Enterprise Baseline Survey of 1999 reports that 20 per cent of the country's total employment in 1999 was involved in microenterprises, contributing to 18 per cent of overall gross domestic product (GDP) and 25 per cent of non-agricultural GDP.<sup>38</sup> Xinhua (2011) notes further that women are the chief beneficiaries of microfinance in Kenyan MFIs.<sup>39</sup> To date, there are approximately 52 institutions registered under the Kenyan microfinance umbrella body,

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<sup>34</sup> See further literature: Cracknell, D. (2012) Policy Innovations to Improve Access to Financial Services in Developing Countries: Learning from Case Studies in Kenya. MicroSave Consulting Limited, Nairobi; Wright G. & Cracknell, D. (2008). The Market Led Revolution of Equity Bank. MicroSave Briefing Note # 63.

<sup>35</sup> IFC (2013) Doing Business in Kenya Report. Retrieved from <http://www.doingbusiness.org/data/exploreeconomies/kenya/>

<sup>36</sup> Ibid.

<sup>37</sup> Omino, G. (2005). Regulation and Supervision of MFIs in Kenya. Essays on Regulation and Supervision of Microfinance. Regulation and Supervision Resource Centre: CGAP

<sup>38</sup> Kalajian, L. (2007, January 24) Kenya Passes Microfinance Bill to Regulate Microfinance Institutions Operating Within its Borders. Microcapital. Retrieved from <http://www.microcapitalmonitor.com/cblog/index.php?archives/613>

<sup>39</sup> Xinhua, M. (2011). Kenya: Women in Kenya Benefit Most From Microfinance Sector. Retrieved 2013, January 10 from <http://microfinanceafrica.net/tag/kenya-women-holding/>

the Association of Micro-Finance Institutions (AMFI). This Association is based in the capital city, Nairobi and is funded by a USAID grant.

The increase in number of MFIs in Kenya has meant that there has been greater accessibility to microfinance for women. These institutions are lending to more women in rural, urban and peri-urban areas in Kenya. Many of these MFIs adopt the group-based lending methodology. 'Chamas' or rotational group financing models in Kenya have been in existence for a considerable period of time. Women have used this form of social capital to amass economic resources. Currently, chamas have become an increasingly popular mechanism for the acquisition of land which has seen spiked demand over the last decade, prompted in part by the recent economic boom in Kenya.<sup>40</sup> The predominant microfinance institutions in Kenya include Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans Fund (ECLOF), Vintage Management (Jitegemee Trust) and the Kenya Post Office Savings Bank (KPSOB) which only provides savings and money transfer facilities.

In East African countries such as Uganda and more recently emerging economies such as Rwanda and Ethiopia, microfinance is one of the key drivers unlocking regional trade. In East Africa, specifically in the agricultural sector, microfinance has played a significant role in availing streams of funding for farmers. The categories of microfinance providers dominant in this region mainly take three forms: (i) semi-formal registered savings and credit cooperatives; (ii) informal non-registered village banks and accumulated saving and credit associations and financial services associations; and (iii) informal non-registered groups such as rotating savings and credit associations. The services offered by these institutions are provided primarily to their members.<sup>41</sup>

In 2011, the International Trade Centre (ITC) published a technical paper which explained the role and importance of microfinance for women engaged in the coffee

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<sup>40</sup>See article on Chamas in Kenya: Rubadiri, V. (2012). Kenya: Chamas Urged to Tap into Vision 2030 Projects. Retrieved 2012, May 13 from <http://allafrica.com/stories/201204250026.html>

<sup>41</sup>Microfinance in East Africa (2011). International Trade Centre p7

sector in Kenya and Uganda.<sup>42</sup> The paper identified four current trends in the microfinance sector which have been both positive and negative for women in the coffee industry. The first trend which is evident in the region is the professionalization of credit and savings service providers. As the microfinance sector continues to grow, the need for better regulation and formalisation of this sector becomes increasingly important. This is important particularly for microfinance institutions which take deposits from the public. In Kenya, regulation of microfinance organisations began in 2006. By this time, there were a myriad of institutions offering microfinance through different programmes, most of which were unmonitored. Whilst regulation is important, the applicable governing laws should allow some form of flexibility to encourage innovation and development of financing products which meet the needs of the poor.

Secondly, commercial banks in East Africa and other African countries are also targeting microfinance clients. Although common barriers such as the need for collateral prevent commercial banks from participating more actively in the microfinance sector, some banks such as Kenya's Equity Bank, have adopted a more pro-active and inclusive strategy in its lending approach. The third trend noted by ITC is that microfinance providers are increasingly sourcing funds from the money market. This could be a positive trend because it may reduce MFIs reliance on irregular grant and donor funding or concessionary loans. The downside to sourcing funds from the money markets is that the interest rates which are more often than not higher than those offered by development finance institutions, may be passed on to the recipients of microfinance funding.

Fourth, increased competition in the microfinance sector may lead to the normalisation of financing costs and efficiencies in the delivery of the products. Innovations in technology enable these organisations to reach more people in the rural untapped markets. Critical to the success of these trends, however, is the presence of a robust and appropriate regulatory regime which can effectively monitor microfinance institutions whilst contemporaneously leaving sufficient flexibility to facilitate new developments in the sector.

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<sup>42</sup>Ibid

The regulatory framework for microfinance activities in Kenya was formalised in 2006. In trying to address the gaps and inherent risks in leaving the sector unmonitored, the Kenyan government enacted the Microfinance Act of 2006. Prior to this period, over two hundred MFIs were unregulated with the exception of those which voluntarily elected to subscribe to the parameters set by the AMFI.<sup>43</sup> The Microfinance Act stipulates, *inter alia*, that every deposit-taking microfinance institution must obtain a licence from the Central Bank of Kenya (CBK). Table 1 below summarises the formal microfinance landscape and the regulations governing the different institutions.

Table 1: Microfinance Regulatory Framework in Kenya (December 2010)

Institution	Number	Legal Basis for Regulation	Supervisory Authority
<b>Deposit-taking Microfinance institutions (DTM)</b>	3	Microfinance Act	Central Bank of Kenya (CBK)
<b>Credit only MFIs</b>	200 in October 2010 (Economist Intelligence Unit 10/2010)	Discussions on-going between CBK and various industry stakeholders to develop regulations in line with international best practices	Registrar of Companies, NGO Council, various based on form of registration
<b>Banks</b>	6 (with specialised focus on microfinance) and 6 with a microfinance department as of 2010	Banking Act	CBK
<b>Savings and Credit Co-operatives (SACCOs)</b>	Over 5000, of which nearly 230 offered front office services in October 2010 (Economist Intelligence Unit 10/2010)	SACCO Societies Act, 2008. This act applies only to an estimated number of 230 SACCOs with Front Office Service Activities (FOSAs)	SACCO Societies Regulatory Authority (SASRA) Non-FOSA (Front Office Service Activities) SACCOs supervised by the Ministry of Co-operative Development and Marketing (MoCDM)

Source: Transforming Microfinance in Kenya<sup>44</sup>

<sup>43</sup>Lisa Kalajian (2007) Kenya Passes Microfinance Bill to Regulate Microfinance Institutions Operating Within its Borders. <http://www.microcapitalmonitor.com/cblog/index.php?archives/613-Kenya-Passes-Microfinance-Bill-to-Regulate-Microfinance-Institutions-Operating-Within-its-Borders.html>

<sup>44</sup>Frankfurt School of Finance and Management (2012). Transforming Microfinance in Kenya: The Experience of Faulu Kenya and Kenya Women Finance Trust, p.20.

Table 1 illustrates that the CBK retains the supervisory authority over deposit-taking institutions whilst credit only MFIs and savings and credit cooperatives are regulated by other governmental authorities in the relevant ministries. The spirit and purport of the Microfinance Act in Kenya is primarily the protection of depositors but the Act also stipulates prudential ratios, reporting requirements and sanctions which may be imposed in the event of non-compliance. In addition to this, competent microfinance units were established within the Ministry of Finance and the CBK. These units are required to “...formulate policies and procedures to address the challenges facing microfinance institutions, especially in the rural areas, and to build a database to facilitate better regulation and monitoring of their operations.”(Omino, G. (2005).<sup>45</sup>The Economist Intelligence Unit (EIU) has ranked Kenya as possessing one of the best five deposit-taking microfinance intermediaries and is ranked overall as having the second best business environment for MFIs in all of Africa (and one of the top ten in the world).<sup>46</sup>

### **Overview of Equity Bank**

Equity Bank was initially established in 1984 as a building society called Equity Building Society (EBS). At the time, the primary function EBS was to provide competitive mortgage finance to the Kenyan middle class. However, after a period of almost ten years, EBS found itself facing liquidation. A number of factors, both internal and external, contributed to the demise of EBS. During this same period, the Kenyan government deregulated Kenya’s economy in an effort to encourage private sector development. Fierce competition from leading banks competing in the provision of mortgage finance worsened the situation for EBS. Internally, EBS had consistently suffered an increase in accumulated losses owing to the slow growth of its customer base, as well as the loss of deposits. These losses grew from Kshs 5 million in 1986 to Kshs 22 million in 1991. These factors together with the gross mismanagement of the company eventuated in insolvency.<sup>47</sup>

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<sup>45</sup>Omino, G. (2005) p. 4

<sup>46</sup>Schizas, E. (2011). The future of microfinance in Kenya. ACCA p3

<sup>47</sup>Ogbechie, C. (2006). Equity Bank Case Study (A): Empowering Kenyans to drive Kenya, Lagos Business School

James Mwangi, the current Chief Executive of Equity has been praised for successfully implementing a turnaround strategy for EBS which is now referred to as Equity Bank. With James Mwangi at the forefront, the primary agenda was turning the Bank's profitability and transforming Equity Bank into a leading microfinance institution. This turnaround strategy saw the bank's customer deposits growing from Kshs 31 million in 1993 to Kshs 124 million in 1995. The bank's profitability also improved from a loss of Kshs 5 million to Kshs 9.7 million during this period. In 2012, James Mwangi was named the 2012 Forbes Person of the Year by Forbes Magazine.<sup>48</sup> This award is given to individuals who have made a significant impact in business by creating employment and spearheading innovation and in so doing stimulating economic growth in the country. The bank's business model has been based on three principal areas: (i) market research and innovation with the objective of moving financial access further down the income pyramid; (ii) customer service as a key differentiator; and (iii) robust risk management practices.<sup>49</sup>

Today, Equity Bank has a much larger customer base with various financial products which targets the formally unbanked sector in Kenya. The bank offers retail banking services as well as microfinance products. The bank's annual report for 2011 records a growth in customer deposits from approximately Kshs 31.5 million in 2007 to Kshs 144 million by the end of 2011.<sup>50</sup> Equity Bank's gross loan portfolio has also grown considerably from approximately Kshs 22.2 million in 2007 to Kshs 116.1 million in 2011. This represents a growth rate of roughly 80 per cent in the bank's loan portfolio in the last five years. (See Appendix A)

Much of Equity Bank's success can be attributed to various factors. Wright and Cracknell (2008) outline the features which have contributed to its growth and achievements.<sup>51</sup> They highlight seven factors which, based on their findings, have revolutionised broad-based banking in Kenya. These factors are (i) Equity Bank's commitment to customer focus; (ii) the ability to harness a market-led approach which

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<sup>48</sup>Retrieved from the Equity Bank website: <http://www.equitybank.co.ke/index.php/blog/view/dr.-james-mwangi-wins-forbes-africa-person-of-the-year-award-2012>

<sup>49</sup>Equity Bank Annual Report and Financial Statements as at 31 December 2011, p. 3

<sup>50</sup>Retrieved from Equity Bank's website: [www.equitybank.co.ke](http://www.equitybank.co.ke)

<sup>51</sup>Wright, G. & Cracknell D. (2008). The Market Led Revolution of Equity Bank. MicroSave Briefing Note # 63. Retrieved 2013, January 7 from <http://www.microsave.org/sites/files/technicalBriefs/briefingNotes/BN-63-Equity-Bank.pdf>

involves marketing by word of mouth and managing public relations to stimulate growth; (iii) the ability to maintain good corporate culture; (iv) optimising corporate governance; (v) adopting sound human resource management practices; (vi) effective management of donor input; and (vii) continued commitment to remain broad based.<sup>52</sup>

Two of the seven factors identified by Wright and Cracknell (2008) stand out in this study and are commonplace in many MFIs. The first of these is the effective management of donor inputs. This is critical to the delivery and impact of microfinance products. There are a myriad of MFIs which have failed to make a positive impact in the communities in which they serve because of mismanagement of donor funds and other forms of funding. The study by Wright and Cracknell (2008) pointed out that Equity Bank had formed a steering committee which would work in partnership with the donors/funders in the implementation and use of the funds received. The study noted that even though the donor agencies and funders were involved in the steering committee, Equity Bank retained operational control with regard to the disbursement of funds and overall implementation of funded programmes.<sup>53</sup> This autonomy minimises undue interference in effectively delivering the services and financing needed by the targeted clients.

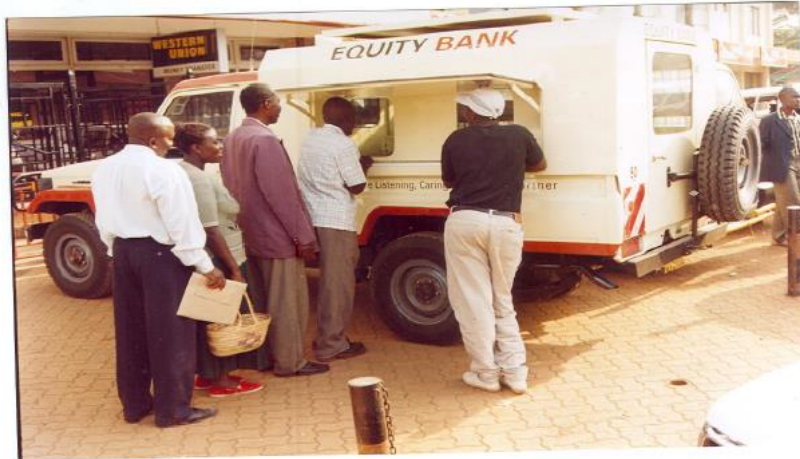
The second factor which the literature highlights as important to the success of microfinance organisations is the commitment to remain broad-based. In an effort to reach and attract more clients, Equity Bank introduced mobile banking and agency banking. In the case of the former, secured mini-vans have been customised by Equity Bank to replicate an accessible small branch office in areas where the bank does not have a physical presence. These mobile banks are stationed in strategic points such as informal markets on the days which coincide with local market days. This enables the rural community to have access to banking facilities without having to travel long distances into cities to make deposits, withdrawals or transfers. The image below depicts an Equity Bank mobile bank.

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<sup>52</sup>Ibid.

<sup>53</sup>Wright et al (2008) p. 2

## Taking banking services to the people Village mobile banks (rural focus)



Source: Presentation by Equity Bank, 2009

### 2.4 Contextual Overview of Microfinance in South Africa

South Africa is ranked in the upper middle income category by the IFC Doing Business Report 2013 with a GNI per capita of US\$ 6,960. It is ranked 39 out of 185 countries in the ease in which to conduct business. Comparator economies include countries such as Thailand, Mauritius Botswana and Turkey which rank 18, 19, 59 and 71 respectively. Several factors contribute to this ranking. Firstly, according to data collected by *Doing Business*, the procedural requirements for starting a business are minimal and take a maximum of 19 days. It costs 0.3 per cent of income per capita and there is no paid-in minimum capital required.<sup>54</sup> The ease and costs of starting a business are therefore favourable to aspiring entrepreneurs in comparison to Kenya.

Despite the favourable IFC ranking, South Africa's economy is complex and exists with a socio-economic dualism. Ex-president Thabo Mbeki once described this phenomenon in his State of the Nation Address in 2003 stating that South Africa is caught between "two parallel economies". The dominant "first economy" is globally integrated with the capacity to export manufactured goods, services and primary commodities. The "second economy" which exists alongside the first economy is one that is marginalised and consists of large numbers of the unemployed and the "unemployable".<sup>55</sup> The majority of

<sup>54</sup>IFC (2013) Doing Business in South Africa Report, p. 15

<sup>55</sup>Mbeki, T. (2003) State of the Nation Address. Retrieved from [www.info.gov.za/speeches/2006/06020310531001.htm](http://www.info.gov.za/speeches/2006/06020310531001.htm)

South Africans live in this second economy and do not benefit from progress in the first economy.

The passage below describes South Africa's second economy in more detail:<sup>56</sup>

*The second economy is characterised by underdevelopment, contributes little to GDP and has weak social capital. It is also characterised by poor skills, incorporates the poorest of the rural and urban poor, is structurally disconnected from both the first and global economies, and is incapable of self-generated growth. Interventions in the second economy require direct and active state action and leadership – the market cannot provide these solutions. Because the transformation of the conditions of those in the second economy will not happen in one fell swoop, comprehensive social security interventions are required. It is thus assumed that the slice of the fiscus allocated to social assistance support would decline over time as the second economy interventions start to make a significant impact.*<sup>57</sup> (Clarifying the Second Economy Concept, 2006 p. 2)

This socio-economic dualism is reflected in South Africa's Gini coefficient which, according to a World Bank report published in 2010, was reported to be 63.14 in 2009, one of the highest in the world.<sup>58</sup> In a presentation delivered by the University of Natal, May (1998) recorded that the percentage of households classified as poor, that is, earning less than R352.53 per month per adult equivalent was 50 per cent. Twenty per cent of the households earned less than R193.77 per month per adult equivalent and 21 per cent earned less than US\$ 1 a day.<sup>59</sup> The reality and consequences of these dismal statistics have been seen in the recent spate of strikes and social unrest reminiscent of those prevalent during the Apartheid regime.<sup>60</sup> Strategic poverty alleviation interventions are desperately required in South Africa.

Despite its criticisms, the South African government's Industrial Policy Action Plan 2012/2013 (IPAP II) is one of government's interventions to bridge the wealth gap between the small percentage of those living far above the poverty line and the poorest

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<sup>56</sup>Brief Synopsis: Clarifying the Second Economy Concept (2006). Retrieved from [www.thepresidency.gov.za/docs/pcsa/social/briefsynopsis.pdf](http://www.thepresidency.gov.za/docs/pcsa/social/briefsynopsis.pdf)

<sup>57</sup> Ibid, p. 2

<sup>58</sup>May, J. (1998) Poverty and Inequality In South Africa Centre for Social and Development Studies, University of Natal

<sup>59</sup>Ibid, p.2

<sup>60</sup>See reports on the Marikana mine workers strike action in August 2012 on the Lonmin Mine at <http://www.miningweekly.com/article/recent-strikes-a-symptom-of-underlying-humanity-issues-2012-12-07> and the Western Cape farm workers strike action at <http://www.timeslive.co.za/local/2013/01/08/western-cape-farmworkers-strike-to-continue>

in South African society. IPAP II places job creation as one of the key priorities in government<sup>61</sup> and targets creating 5 million new jobs by 2020, a figure which analysts and critics alike consider difficult to achieve in light of South Africa's current unemployment rate of 24.9 per cent in 2011, and the recent volatility of the global economy.<sup>62</sup> Other interventions such as the development and support of the SMEs have helped grow the number of entrepreneurs in South Africa.

Another intervention put in place by the South African government is the Broad Based Black Economic Empowerment Act<sup>63</sup> which was promulgated in 2003 with its main purpose of establishing a legislative framework for the promotion of black economic empowerment. Government procurement policies are determined in line with this empowerment policy. Government contracts are awarded to companies which meet the criteria of the Black Economic Empowerment Codes.<sup>64</sup> A significant cornerstone of these Codes is the promotion of women-owned or women managed businesses. A company which is wholly or largely owned or managed by women receives a higher BEE rating than one which does not. Recently, the BEE Codes of Good Practice were amended by the Department of Trade and Industry by increasing for more than 50 per cent of the black owned companies and more than 30 per cent of the black women-owned companies to 40 per cent and 12 per cent respectively.<sup>65</sup> Approximately 70 per cent of informal businesses in South Africa are owned and/or controlled by women.<sup>66</sup>

It is critical that the South African government achieves the job creation targets set out in IPAP II particularly to those living in the second economy. So too is the development of South Africa's microfinance sector. Should government and the private sector fail to reach these targets, microfinance can provide a promising alternative for the unemployed.

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<sup>61</sup>IPAP 2011/12 – 2013/14 - <http://www.info.gov.za/view/DownloadFileAction?id=144975>

<sup>62</sup> [www.thepresidency.gov.za/docs/pcsa/social/briefsynopsis.pdf](http://www.thepresidency.gov.za/docs/pcsa/social/briefsynopsis.pdf). Retrieved from

<sup>63</sup>Broad Based Black Economic Empowerment Act 53 of 2003

<sup>64</sup>This is done through verification agents mandated to issue Black Economic Empowerment certificates to qualifying companies.

<sup>65</sup>Amended Black Economic Empowerment Codes of Good Practice (2012). South African Department of Trade and Industry

<sup>66</sup> African Economic Outlook. (2012) South Africa. Retrieved from: <http://www.africaneconomicoutlook.org>

Calvin and Coetzee (2010) describe the overall profile of the South African microfinance sector as “...maturing...expanding and innovating”.<sup>67</sup> The microfinance providers in South Africa are diverse ranging from not for profit micro-enterprise lenders to retail development financial institutions. They categorise these institutions into six broad groups (i) primary banks (ii) alternative banks such as African Bank, Capitec Bank, Teba Bank, PostBank, and WIZZIT Payments Limited (iii) cooperative financial institutions (iv) salary-based micro-lenders (v) retail development finance institutions and (vi) not-for-profit microenterprise lenders.<sup>68</sup> Appendix A illustrates the different suppliers of microfinance and the stage of development.

South Africans who live in the first economy have a range of financial service providers from the mainstream financial providers, and even these are very few. Indeed “(t)he apartheid system severely distorted the South African financial system. A handful of large financial institutions, all linked closely to the dominant conglomerates; centralize most of the country's financial assets. But they prove unable to serve most of the black community, especially women. Nor do they contribute significantly to the development of new sectors of the economy. Small informal-sector institutions meet some of the needs of the black community and micro enterprise. They lack the resources, however, to bring about broad-scale development”. (Kirsten, 2006).<sup>69</sup> The black community constitutes the majority of the low income households in South Africa. They too need equal access to financial services including savings, transaction services, credit and insurance. However, studies have indicated that there are very few formal banking institutions which provide these services, particularly savings and credit to the poor.<sup>70</sup>

The IFC together with the FinMark Trust conducted a diagnostic study on access to finance for women entrepreneurs in South Africa which revealed that black women represent the smallest segment of the “formally banked” population at only 38 per cent against 44 per cent for black males and 94% per cent and 91 per cent respectively for white males and females. The study also revealed women have the lowest usage of most

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<sup>67</sup>Calvin et al, (2010). A Review of the South African Microfinance Sector: Successes, Challenges and Policy Issues. University of Pretoria

<sup>68</sup>Ibid, p.1

<sup>69</sup> Kirsten, M. (2006). Policy Initiatives to Expand Financial Outreach in South Africa. A paper delivered at World Bank/Brookings Institute Conference 30<sup>th</sup> and 31<sup>st</sup> May 2006. DBSA, Johannesburg.

<sup>70</sup>Paradigm Shift. The Microcredit Sector in South Africa. Retrieved from:  
[http://www.mfsa.net/new/index.php?option=com\\_content&view=article&id=2&itemid=3](http://www.mfsa.net/new/index.php?option=com_content&view=article&id=2&itemid=3)  
An Overview of the History, Financial Access, Challenges and Key Players.

financial products with the exception of savings clubs or stokvels.<sup>71</sup> Although this study was conducted in 2006, anecdotally the statistics today have not changed significantly.

The main providers of microfinance in South Africa include the Small Enterprise Foundation, Marang Financial Services, Women's Development Business Group, Tiisha Enterprise Finance, Akakani Finance Company and Paradigm Shift. Of these six major service providers, only WDB offers financing solely to women. Microfinance South Africa (MFSA), a representative body of registered and legal microfinance credit providers in South Africa, as at October 2012 lists 1427 members although the actual number of active registered enterprises is smaller.<sup>72</sup> Membership within MFSA is open to any person or organization involved in the micro lending industry prepared to commit to and comply with the Association's constitution, articles and code of conduct.<sup>73</sup>

The regulation of the microfinance sector can be dated back to the early 1990s when the erstwhile Minister of Trade and Industry implemented certain exemptions under the Usury Act 73 of 1968. The effect of these exemptions was to remove price controls on small loans which paved way for smaller financial service providers to facilitate funding for the unbanked population. There is no specific legislation regulating microfinance organisations in South Africa.

However, the National Credit Act 34 of 2005 regulates access to credit and provides a legal mechanism for both lenders and borrowers to manage over-indebtedness. The Act established the National Credit Regulator which, *inter alia*, performs an oversight role in the implementation and compliance with the Act. The South African Micro Apex Fund (SAMAF) was established to develop the microfinance sector in South Africa. SAMAF was riddled with internal institutional challenges and had minimum impact in this area. In 2012, SAMAF together with Khula Enterprise Finance<sup>74</sup> were merged

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<sup>71</sup>Naidoo, S & Hilton, A. (2006). Access to Finance for Women Entrepreneurs in South Africa. Gender Entrepreneurship Markets. Johannesburg.

<sup>72</sup> The MFSA membership comprises of both individual members and microfinance institutions. The figure 1427 includes both the individual members and the MFIs.

<sup>73</sup>Retrieved from the MFSA website:

[http://www.mfsa.net/new/index.php?option=com\\_content&view=article&id=2&itemid=3](http://www.mfsa.net/new/index.php?option=com_content&view=article&id=2&itemid=3)

<sup>74</sup>Khula Enterprise Finance was established by the Department of Trade and Industry to provide finance, mentorship services and small business premises to small and medium enterprises in South Africa through a network of partnerships and to encourage sustainable development of these enterprises. Retrieved: <http://www.khula.org.za/Admin/VMV.aspx>

under one entity, the Small Enterprise Finance Agency (SEFA) which is now a subsidiary of the Industrial Development Corporation (IDC), a government-owned development finance institution. SEFA is intended to meet the funding gap for small and medium and micro-enterprises which require loans of R3 million and below.

### **Overview of WDB**

WDB was established in 1992 by a group of South African women led by Zanele Mbeki and with an initial donation of R20, 000. This institution replicated the Grameen Bank model which seemed to have had a positive impact on the lives of the women in Bangladesh. The aim was to provide access to financing for the poor rural women. The final business plan was presented to prospective donors and governments for funding. The Kellogg Foundation, the Ford Foundation and the Japanese government were among the first financiers to make contributions to what started as WDB Group. The impetus for the founders of WDB is aptly stated in the 2007 publication which marked the tenth anniversary of WDB stating that the WDB “.....reconfirmed that if the goals of economic development include improved living standards, alleviation of poverty, access to dignified employment and the reduction of inequality, it is quite natural that ...(WDB) ...target women.”<sup>75</sup>

WDB is the only microfinance institution in South Africa which lends directly to women only. In South Africa, like many other countries on the African continent, women comprise the largest percentage of the very poor and therefore there was an opportunity for WDB to provide access to finance to these women to improve their living conditions. In addition, in the preliminary studies, WDB found that money earned by women tended to improve the living standards of the general household.<sup>76</sup>

In 1997, WDB underwent restructuring establishing the WDB Trust. The income generated from the business in WDB Microfinance (WDB-MF) was invested in various listed and unlisted entities and the value realised in the Trust was shared amongst the women funded under its programmes. In 1997, WDB Trust established WDB Investment Holdings (WDB-IH) with R2 million from its investments. WDB-IH

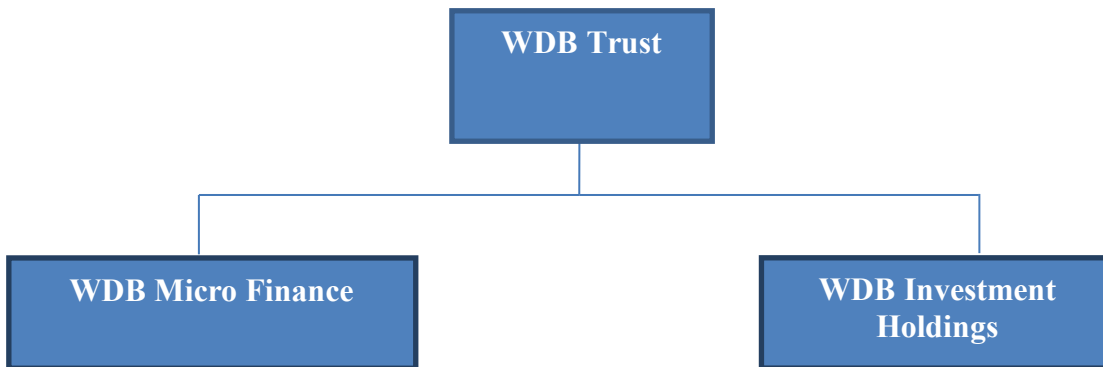
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<sup>75</sup>Westoll, H. (2007). *Velvet Gloves and Iron Fists*. Johannesburg: Warp Nine

<sup>76</sup>Ibid, p.13

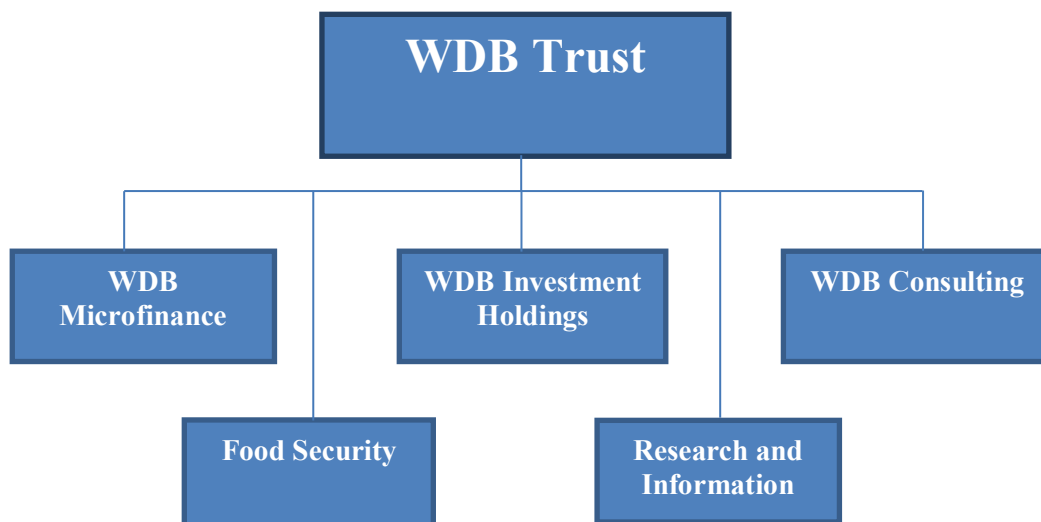
became the investment arm of the group and all earnings obtained from these investments are channelled to the WDB Trust. The diagram below illustrates the current WDB structure.

**Figure 2: Current WDB Structure**



WDB is currently engaged in a restructuring exercise which aims to improve the institution’s effectiveness in delivering its programmes. The restructuring will introduce new focus areas which WDB have identified as being critical to the success of the overall objectives of the organisation. WDB plans to establish a new an entity which will focus on conducting impact assessments. Another new entity will concentrate its efforts on food security and the livelihoods the women funded by the organisation, whilst a third will focus on research and innovation. Enterprise development training and ICT will be housed in a separate new entity. These new structures will be housed under the WDB Trust. The new structure of the WDB which shall be implemented in the near future is illustrated in the diagram below.

**Figure 3: Future WDB Structure**



## 2.5 Best Practice for Microfinance Funders

The Consultative Group to Assist the Poor (CGAP) is a group of 33 public and private development agencies working together to promote financial access for the world's poor. This consortium of development agencies has published widely accepted principles of good practice for donors and MFIs.<sup>77</sup> At an institutional level, the guidelines advocate for inclusive financial systems which with a wide range of financial services offered by different types of institutions through a variety of mechanisms.<sup>78</sup> These principles are summarised in the table below.

<b>CGAP KEY PRINCIPLES OF MICROFINANCE</b>	
<b>1. Poor people need a variety of financial services, not just loans.</b>	In addition to credit, they want savings, insurance, and money transfer services.
<b>2. Microfinance is a powerful tool to fight poverty.</b>	Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.
<b>3. Microfinance means building financial systems that serve the poor.</b>	Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system.
<b>4. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.</b>	Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.
<b>5. Microfinance is about building permanent local financial institutions.</b>	Institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.
<b>6. Microcredit is not always the answer.</b>	Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.
<b>7. Interest rate ceilings hurt poor people by making it harder for them</b>	Making many small loans costs more than making a few large ones. Interest

<sup>77</sup> CGAP (2006) Good Practice Guidelines for Funders of Microfinance. Microfinance Consensus Guidelines. 2<sup>nd</sup> ed. Washington

<sup>78</sup> Ibid, p.(viii)

<b>to get credit.</b>	rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people.
<b>8. The job of government is to enable financial services, not to provide them directly.</b>	Governments can almost never do a good job of lending, but they can set a supporting policy environment.
<b>9. Donor funds should complement private capital, not compete with it.</b>	Donors should use appropriate grant, loan, and equity instruments on a temporary basis to build the institutional capacity of financial providers, develop support infrastructure, and support experimental services and products.
<b>10. The key bottleneck is the shortage of strong institutions and managers.</b>	Donors should focus their support on building capacity.
<b>11. Microfinance works best when it measures and discloses its performance.</b>	Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. MFIs need to produce accurate and comparable reporting on financial performance (e.g., loan repayment and cost recovery) as well as social performance (e.g., number and poverty level of clients being served).

Source: CGAP (2006) Good Practice Guidelines for Funders of Microfinance.

## 2.6 Conclusion of Literature Review

Microfinance is a valuable financing mechanism which can provide greater access to financial and other services such as business skills training, creation of business networks and access to value-chains in various industries. There is still growing demand for microfinance services especially amongst the rural poor who remain otherwise unbanked. The literature has demonstrated that women constitute the majority of the rural poor who have little or no access to formal or informal banking services. Various studies also indicate that women who have access to microfinance have very good repayment rates, in some instances, better than the repayment rates of their male counterparts. Microfinance has and continues to make significant inroads to poverty alleviation and economic growth and the advancement of the basic human rights of women as espoused in the UN MDGs.

Access to financial services for the poor in both Kenya and South Africa requires directed efforts from all participants who directly or indirectly participate in the microfinance sector. Although the Kenyan economy has made positive improvements in the microfinance sector, there still remains a large segment of the population which remains unbanked. Amongst those who have access to microfinance lending, the financial services sector should see a growing number of people graduating from the informal to the formal banking system. In South Africa, the need to provide adequate and sustainable financing mechanisms is perhaps more urgent because the gap between the rich and the poor in South Africa has not significantly improved and the tension which culminates in social discontent amongst the majority of the population living in the second economy with the current status quo provides evidence of this.

The literature has also illustrated the significance of having a comprehensive but flexible regulatory framework particularly with regard to deposit-taking microfinance institutions. This flexibility is necessary to enable and facilitate innovation and development of microfinance products which suit the needs of the communities in which they operate. Technological developments particularly in mobile and e-banking could provide creative conduits for the delivery of microfinance programmes especially in rural and underdeveloped areas. There are many opportunities which MFIs and governments could seize to ensure that microfinance indeed empowers those that it serves.

### 3 RESEARCH METHODOLOGY

#### 3.1 Research Approach and Strategy

The research approach adopted in this study was intended to be flexible, explorative and comparative. The research paper draws on the Equity Bank (“Equity Bank”) microfinance model, specifically the microfinance products designed for and provided to women and women-owned businesses, and make recommendations for the South African context in an effort to increase accessibility, efficiency and suitability of the microfinance products offered to South African women. This involves conducting a product analysis of both MFIs by drawing data from the organisations directly as opposed to solely relying on secondary data.

The decision to compare Equity Bank, which is now considered to be a fully-fledged commercial bank, as opposed to a microfinance organisation with similar offering to WDB, is intentional. The aspiration is that the Equity Bank model may be useful not only to microfinance organisations in South Africa, but also to commercial banks, which urgently need to fill this gap if indeed job creation and economic equality is to be achieved.

Mustafa and Ismailov (2008) have provided a concise summary of the different approaches to research work.<sup>79</sup> They differentiate between inductive and deductive research by stating that the former is used when there is extensive literature or previous works on the subject matter. This enables the researcher to use a given theory based on the existing information, test that theory using a hypothesis and confirm it through observation. However with inductive research, the researcher begins by making observations, identifying patterns and making certain conclusions based on the tentative premises.<sup>80</sup>

The choice of one’s research approach and strategy, whether quantitative or qualitative will depend largely on what the researcher intends to achieve. Shank (2002) has used

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<sup>79</sup>Mustafa, M. & Ismailov, N. (2008). Entrepreneurship and Microfinance: A tool for empowerment of poor. The Case of Akhuwat – Pakistan. Malardalen University: School of Sustainable Development of Society and Technology, p. 10.

<sup>80</sup>Burney, S. (2008). Inductive and Deductive Research. Retrieved from: <http://www.drburney.net/inductive%20&%20deductive%20research%20approach%2006032008.pdf>

two metaphors of the lantern and the window, to describe these different approaches. The “lantern metaphor” helps to “shed light in dark corners” whereby the researcher provides clarity and meaning where previous research has not been successful.<sup>81</sup> This metaphor describes the qualitative researchers’ attempt at elaborating and simplifying multifarious observations. The “window metaphor” epitomises quantitative research as observations made by looking through a window to gain an accurate and objective picture of the subject matter whilst trying to accommodate for bias and errors. As Afrane (2002) states, each of these methodological research approaches, both qualitative and quantitative, have their own limitations and each has its appropriate time and place.<sup>82</sup>

This study provides a comparative analysis of two leading microfinance institutions in Kenya and South Africa, Equity Bank and Women’s Development Group respectively. The focus of the study is an exploratory review of microfinance products provided to women and women-owned businesses by these institutions by way of studying the structure, lending policies and impact of the funds advanced to women borrowers. The literature review conducted in the previous section evinces that Kenya has a well-developed and flourishing microfinance sector relative to South Africa and therefore the outcome of this analysis is to draw insights from Kenya for the South African microfinance sector.

There are numerous reasons why the qualitative methodology is useful, some which have been outlined by Ospina (2004) in her article on qualitative research as a tool to address questions around leadership, culture and meaning.<sup>83</sup> Amongst some of the reasons she proffers for qualitative research is that this research approach can be used to “...advance a novel perspective of a phenomenon well studied quantitatively but not well understood because of the narrow perspectives used before...” and “...to try to understand phenomena that are difficult or impossible to approach or to capture quantitatively...”. (Ospina, 2004 p. 9).<sup>84</sup>

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<sup>81</sup>Shank, G. (2002). *Qualitative Research: A Personal Skills Approach*. New Jersey: Merrill Prentice Hall

<sup>82</sup>Afrane, S. (2002) *Impact Assessment of Microfinance Interventions in Ghana and South Africa*. *Journal of Microfinance*, 4(1), p. 40.

<sup>83</sup>Ospina, S. (2004). *Qualitative Research*. *Encyclopaedia of Leadership*. London: SAGE Publications

<sup>84</sup>*Ibid*, p.9

Whilst this research paper may not necessarily be novel in its delivery, it aims to use qualitative research to do both. Microfinance as a development tool has been widely researched and discussed amongst scholars, financiers, government and others. What this study intends to do is draw inferences from the Kenyan microfinance bank and use the positive features of this lending model as a reference tool for South African microfinance institutions and possibly, the more formal commercial banks.

### **3.2 Data Collection, Frequency and Choice of Data**

Whether research work is categorised as inductive or deductive, data collection for a specific research project is generally categorised as qualitative and quantitative. A researcher may use one or both methods. In this instance qualitative data was gathered from both Equity Bank and WBG. This was done by firstly conducting a preliminary content analysis of their existing databases. The responses to the key research questions stated in the introductory chapter of this paper were obtained through direct contact with both Equity Bank and WBG. In addition, secondary data, in the form of previous research work carried out with both institutions is reviewed to enable an instructive comparative analysis.

The emphasis in quantitative research is predominantly the need for objectivity so that one may be able to confidently infer from the outcome of the research analysis. Qualitative research may be used exclusively or to complement quantitative research or generate hypotheses for work which can be undertaken in the future. Qualitative methods of data collection such as interviews and questionnaires enables the researcher some degree of flexibility to be able to obtain more information from the institutions under observation.

Whilst the existing literature offers different arguments for and against both qualitative and quantitative approaches to research, Ospina (2004), in her assessment of previous works, provides an impartial summary of the nature of the different methods of collecting data. She distinguishes between qualitative data and quantitative data by describing the former as an “inquiry from the inside” and the latter as an “inquiry from

the outside” (Ospina, 2004 p. 9).<sup>85</sup> These approaches to research differ depending on the breadth and depth of the researcher’s involvement with the research participants, physical involvement or the general experiential experience of the researcher.

### **3.3 Sampling**

Kenya has approximately 53 microfinance institutions which are registered with AMFI, whilst South Africa has close to 20 microfinance institutions. Equity Bank’s grassroots stemmed from microfinance and therefore has a wide-reaching network of clients. WDB has served over 45,000 clients through its microloan programs, a comparatively larger number than any of the other MFIs in South Africa. Equity Bank has a prominent presence in the East African region, marketing itself as the leading MFI in the countries in which it operates. It is therefore a good example of the successes of microfinance. The two institutions are therefore appropriate and suitable for purposes outlined in this paper. Owing to time constraints, the field work did not include directly approaching the clients serviced by these two MFIs but rather used the data gathered by both Equity Bank and WDB.

### **3.4 Data Analysis Methods**

Secondary and primary data was used in order to meet the objectives of the study. A preliminary analysis of the two institutions was carried out to determine their suitability for purposes of this study. The information sought from this analysis included the origin and inception of the two MFIs, portfolio sizes, product offering and funding structures, and default rates. This was done with the use of questionnaires with open-ended questions submitted to the MFIs. (Refer to Appendix C). The analysis has been conducted in three stages commencing with the “pre-investment stage”, the “investment stage” and the “post-investment” stage.

At the pre-investment stage, the analysis entails a discussion on the impact that the sources of funding and interest rates of the Equity Bank and WDB as well as the policies relating to lending to women-owned businesses. The analysis at the investment stage reviews the various products offered by each MFI and the interest rates charged

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<sup>85</sup> Ibid, p.4

thereon; qualification criteria for the different products; the performance of each portfolio by analysing indicators such as repayment rates and default rates and identifying and analysing the critical success factors of the best performing products. The post-investment stage of the analysis discusses the types of technical and other forms of support provided by each MFI, the qualification criteria for such assistance and the impact assessment of the technical assistance and the funding in its totality.

In addition, archival documents, reports, news articles, previous research work and case studies were studied. A search for similarities, consistencies and deviations was carried out to enable the identification of common themes or patterns.

### **3.5 Research Reliability and Validity**

Most of the data used for this research paper was obtained from the microfinance organisations. Questionnaires and other sources of information such as credit manuals and financial statements were obtained directly from the Equity Bank and WDB. Secondary data in the form of studies previously conducted on both institutions was also utilised. The research is therefore reliable and valid.

### **3.6 Limitations**

The primary limitation to this research work is the small sample size. However, considering the number of MFIs in both countries and the time available to conduct the research, it would not be possible to carry out the study on all the institutions in both countries. Secondly, the assumption that the size of the portfolio of women-owned businesses in each institution as well as default rates, directly translates to the success of the institution can be faulted because it is not in all instances in which the borrowers necessarily have successful businesses. However, as the literature review has revealed in the previous chapter of this paper, microfinance has lifted many women out of the poverty trap and in most instances has assisted in the growth of women-owned businesses.

## 4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

The purpose of this research is twofold. The first part of the study analyses two microfinance institutions which provide microfinance products to women and women owned businesses; Equity Bank in Kenya and Women's Business Development Group in South Africa. The second part of the study draws on the critical success factors in Kenya with the aim of making recommendations for South Africa. In addition to this, the critical success factors identified in the South African microfinance sector will be highlighted as key lessons for the Kenyan microfinance sector.

The study area as pointed out in the preceding chapter revolves around microfinance and the empowerment of women. The literature review has revealed, *inter alia*, that microfinance is not only a powerful tool for women as individuals and in their social setting, but it also a powerful tool which can be used to graduate women entrepreneurs from owning small businesses to large-scale enterprises. Microfinance has not only empowered women but the communities in which these women live.

Women's World Banking commissioned a study with the assistance of Accenture Development Partners in India and Colombia to assess the impact of the microfinance loans provided to business-women in targeted regions.<sup>86</sup> The study found that small loans to business nurture investments, foster growth and create additional jobs in the community.<sup>87</sup> This study also revealed that women tend to reinvest the income generated into their households and to enhance their businesses with the loans received more than men. Similarly, in his study of two projects implemented by two different MFIs which lend directly to women in South Africa and Ghana, Afrane (2002) noted, that in both projects the women-owned businesses achieved higher turnovers than their male counterparts in monetary terms".<sup>88</sup>

This chapter presents, discusses and analyses the findings of the research. The chapter begins by providing a descriptive background of Equity Bank and the Women's Development Bank. The literature review provided a general description of each of the identified MFIs, the structure, objectives and vision. The findings presented in this

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<sup>86</sup> Women's World Banking in collaboration with Accenture (2009). The Impact of Microfinance on Women and Economic Development : A Client Study

<sup>87</sup>Ibid, p.1

<sup>88</sup>Afrane, (2002), p. 53.

section delve into the types of products these institutions provide to women, their origination, idiosyncrasies and the impact that these products have on their recipients. The analysis undertaken thereafter is comparative, seeking insights into specific features such as the general institutional policies relating to women-owned businesses and the group-lending methodologies adopted by the Equity Bank and WDB as well as the macroeconomic features which enhance the impact of these organisations.

The ensuing discussion incorporates findings from similar studies conducted in other parts of the world with more emphasis on the third world. The discussion on the findings and the conclusion will canvass important features in the microfinance discourse which are manifest in this study, in particular the challenges for women in accessing microfinance services, institutional limitations in achieving maximum impact of their funding and suggestions for future improvements in the microfinance sector.

#### **4.1 Profiles of Equity Bank and Women's Development Business**

##### **4.2.1 Equity Bank**

Equity Bank is one of Kenya's largest commercial banks which offers both retail and microfinance services. It is considered by many as an innovative bank which consistently finds new ways of making financing accessible to the unbanked through mass targeting. Equity Bank adopts a low margin, high volume model which it has replicated in its subsidiaries in Uganda, South Sudan, Rwanda and Tanzania. The Bank prides itself in the implementation of strict operational performance measurements, robust risk management and a high degree of automation.<sup>89</sup>

In 2011, Equity Bank implemented an agency banking model which allows the Bank to "...leverage on third party infrastructure moving away from the traditional brick and mortar branch network model...". (*Equity Bank Annual Report, 2011 p.3*).<sup>90</sup> The Bank has increased the number of agents who facilitate transactions on its behalf in regions where the Bank does not have branch offices. These agents increased from 875 in the beginning of 2011 to 3,339 by the end of that year. The success of this model is evinced by the fact that more than 20 per cent of the bank's cash transactions are facilitated by

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<sup>89</sup>Equity Bank Annual Financial Statements 2013 p3

<sup>90</sup>Equity Bank Annual Financial Statements 2013 p10

the appointed agents. The Bank's CEO James Mwangi recently announced its strategy to adopt the agency model into the East African region in countries such as Rwanda, Uganda, Tanzania and South Sudan.<sup>91</sup> In its most recent annual report, Equity Bank attributes its own success to its targeted investments in ICT, alternative delivery channels, innovations in its banking practice and the social and impact investments which it has made over the years.<sup>92</sup>

#### **4.2.1 Women's Development Business**

The WDB was established by a group of women with an initial investment of R20, 000 which was received as a donation from the founders' close friend as a gesture of his support to the objectives of the new organisation. The objective of WDB is to provide funds to poor women in rural villages. The conceptualisation of the institution was modelled on the Grameen Bank in Bangladesh. Initial donor funds were obtained shortly after establishment from organisations such as the Ford Foundation, the Kellogg Foundation, the IDC, Macsteel and the Japanese government amongst others. Soon thereafter, WDB partnered with various South African organisations who pledged their support by way of loan contributions. Today, WDB has repaid the loans which it had initially borrowed from multilaterals and local financiers and now utilises a line of credit provided by SAMAF and grants from various government agencies.

The WDB is the only microfinance institution which provides funding solely to women and women-owned businesses. WDB's mission is to provide direct access to microcredit to enable the poor to gain access to productive resources so that they can improve their own living standards. The organisation targets women living in rural communities who have limited or no access to funding.

WDB's investment partners include BP South Africa, African Bank, Massmart and Kagiso Trust Investments. In October 2012, WDB signed a R30 million BEE transaction with Assupol, a demutualised South African insurance company, which will result in WDB-IH acquiring a 10 per cent stake in the company.<sup>93</sup> Since its inception in

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<sup>91</sup>Ibid, p.10

<sup>92</sup>Ibid, p.9

<sup>93</sup>Retrieved from WDB website: [http://www.wdb.co.za/resource-centre/news/assupol\\_deal.html](http://www.wdb.co.za/resource-centre/news/assupol_deal.html)

1997, WDB has grown its membership to more than 35,000 women living in different provinces in South Africa.

## 4.2 Financing Products provided by the MFI's

### 4.2.1 Equity Bank

Equity Bank's commitment to remain broad-based is reflected in its product development which is based on the needs of the market. This is important because, in order for a microfinance institution to have the desired impact in a given community, it must understand the needs of that community and tailor products which are suited to those needs. Any interventions which are unable to meet the needs of those it targets could prove to be futile.

Equity Bank offers both retail and microfinance services in the East African region. It was originally established as a building society but has since rebranded and changed its focus to microfinance. Over the years, it has evolved to become a mainstream commercial bank and is currently listed on the Nairobi Stock Exchange. (See Appendix C for a full list of financial products offered by Equity Bank).

The table below presents the general investment profile of Equity Bank looking particularly at the sources of funding, the products made available to women and women-owned businesses and post investment activities. The table is compiled using information gathered from the questionnaire which was completed by the Bank as well as additional institutional material and literature provided by the Bank. The table categorises the information obtained from Equity Bank into three segments; information relating to pre-investment by the Bank, the products available at the actual investment stage and the post-investment category. Table 2 below shows the product offering and features of the Fanikisha loans.

**Table 2: Equity Bank Microfinance Investment Profile**

<b>PRE-INVESTMENT:</b>	
<b>Sources of funding</b>	<ul style="list-style-type: none"> <li>➤ Equity subscriptions</li> <li>➤ International lenders such as DFIs and multilateral Bank</li> </ul>

## Lending Guidelines

- Registered/unregistered and licensed/unlicensed businesses which are legally acceptable
- Business operating for not less than 1 year
- Borrowers must have established business premises within an Equity Bank branch operational area
- Business-owner must reside within Equity Bank branch operational area
- Business must have regular cash flows (exceptions for agricultural related activities, schools, supplies and other depending on the business cycle)

## INVESTMENT:

Products	Features	Product offering
<b>Fanikisha Shaba (Bronze)</b>	<ul style="list-style-type: none"> <li>➤ Lending to groups of 15-30 members</li> <li>➤ Access to loans from 1,000 – 300, 000</li> <li>➤ Repayment period of up to 6 –12 months</li> <li>➤ Interest rate of 1.25% per month</li> </ul>	<ul style="list-style-type: none"> <li>➤ Access to Business Management Training</li> <li>➤ Flexible collateral requirements</li> <li>➤ Fast loan processing – within 24 hours after application</li> <li>➤ Sharing of business ideas with group members</li> </ul>
<b>Fanikisha Fedha (Silver)</b>	<ul style="list-style-type: none"> <li>➤ Lending to groups of 7- 10 members</li> <li>➤ Access to loans from Kshs 300,000- 1,000,000/-</li> <li>➤ Repayment periods of up to 18 months</li> <li>➤ Interest rates at 1.25% per month.</li> <li>➤ Monthly meetings</li> </ul>	<ul style="list-style-type: none"> <li>➤ Access to Business Management Training</li> <li>➤ Opportunity to graduate to next level</li> <li>➤ Opportunity to network and share business ideas.</li> </ul>
<b>Fanikisha Imara</b>	<ul style="list-style-type: none"> <li>➤ Lending to individuals</li> <li>➤ Access to loans from Kshs 30,000- 500,000</li> <li>➤ Repayment periods of up to 18 months.</li> <li>➤ Interest rates at 1.25% per month</li> <li>➤ Flexible meetings</li> </ul>	<ul style="list-style-type: none"> <li>➤ Access to Business Management Training</li> <li>➤ Flexible collateral requirements</li> <li>➤ Opportunity to graduate to next level with relaxed security requirements</li> </ul>
<b>Fanikisha Dhahabu (Gold)</b>	<ul style="list-style-type: none"> <li>➤ Lending to individuals</li> <li>➤ Access to loans from Kshs 500,000- 3,000,000</li> <li>➤ Repayment periods of up to 24 months.</li> <li>➤ Interest rates at 1.25% per month.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Structured overdrafts</li> <li>➤ Flexible collateral requirements up to 15% above normal margins</li> <li>➤ Access to Business Management Training</li> <li>➤ Opportunity to attend motivational talks and trade fairs</li> <li>➤ Opportunity to graduate to next</li> </ul>

		level
<b>Fanikisha Almasi (Diamond)</b>	<ul style="list-style-type: none"> <li>➤ Lending to individuals</li> <li>➤ Access to loans from Kshs 3,000,000-10,000,000</li> <li>➤ Repayment periods of up to 36 months.</li> <li>➤ Interest rates at 1.25% per month</li> <li>➤ Flexible meetings</li> </ul>	<ul style="list-style-type: none"> <li>➤ Structured overdrafts</li> <li>➤ Flexible collateral requirements up to 15% above normal margins</li> <li>➤ Access to Business Management Training</li> <li>➤ Opportunity to attend motivational talks and trade fairs</li> <li>➤ Opportunity to graduate to next level.</li> </ul>
<b>Fanikisha Platini (Platinum)</b>	<ul style="list-style-type: none"> <li>➤ Lending to individuals</li> <li>➤ Access to loans above Kshs 10,000,000</li> <li>➤ Repayment periods of up to 60 months.</li> <li>➤ Interest rates at 1.25% per month (negotiable).</li> </ul>	<ul style="list-style-type: none"> <li>➤ Access to structured financing</li> <li>➤ Opportunity to attend motivational talks and trade fairs</li> <li>➤ Access to Business Management Training</li> <li>➤ Flexible collateral requirements up to 15% above normal margins</li> <li>➤ Fast loan processing</li> </ul>
<b>POST-INVESTMENT:</b>		
<b>Non-financial Support Services</b>	<b>Category</b>	<b>Structure</b>
	➤ Social Intermediation	<ul style="list-style-type: none"> <li>➤ Formation of groups</li> <li>➤ Group training and networking</li> </ul>
	➤ Enterprise Development Services	<ul style="list-style-type: none"> <li>➤ Business training</li> <li>➤ Advisory services</li> <li>➤ Business counselling</li> </ul>
	➤ Social Services	<ul style="list-style-type: none"> <li>➤ Financial education through the use of schools and colleges</li> <li>➤ Pre-university mentorship programme</li> </ul>
<b>Impact Assessment of Loan and Nonfinancial Support</b>	Reports prepared by the Microcredit Officers (MCROs)	

The 2011 Equity Bank Annual Report and Financial Statements revealed that a larger portion of funds borrowed by the Bank and indeed Equity Bank Group is derived from DFIs such as China Development Bank Corporation, Ontwikelinlanden N.V (FMO) and KFW Bankengruppe, a German government-owned development bank. Microcredit funds, which are significantly larger when compared to the loan book, are obtained mainly from the Microfinance Enhancement Facility (MEF), ResponsAbility, Dexia Micro Credit Fund and Deutsche Bank Microfinance Fund.<sup>94</sup> (Appendix C). The

<sup>94</sup> Ibid, p.97

sources of funds are indicative of the nature of the Bank's operational outreach and target market.

There are six tailor-made products for women and women-owned businesses. These are categorised according to the target group to which they would be most suited. Equity Bank launched the Fanikisha loan products in partnership with the UNDP. "Fanikisha" is a Swahili word meaning "to enable" and in this context, the Fanikisha loan products enable women to expand their businesses and increase their competitiveness. This is in line with the overall vision of the Bank, that is, to be the champion of the socio-economic prosperity of the people of Africa.

The Fanikisha loan package was novel in the banking industry because it provided women with access to financial services with little or no security.<sup>95</sup> This loan package, which was the first of its kind in Kenya's mainstream banking industry, provides women with access to financial services without the traditional and inhibitive security requirement(s) that had locked out potentially successful women-owned businesses. The background to this initiative was informed by the demographics of the country particularly in the SME sector. Statistics published by UNDP revealed that 53 per cent of rural women and 63 per cent of urban women live below the poverty line. They further estimated that that 85 per cent of businesses in the informal sector and 48 per cent of small and micro-enterprises are owned by women who lack both business skills and access to financing.<sup>96</sup> As at 2009, 80 per cent of the microenterprises in Kenya were owned by women.<sup>97</sup>

The Fanikisha loan products are delivered to the target market in three ways:

- (i) the use of group-based lending methodology which disburses funds to women enterprise clubs;
- (ii) individual lending; and

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<sup>95</sup>Equity Bank Press Release (2010) Equity Bank Targets Women, Youth in Countrywide Financial Training UNDP Promoting Women in Business and Investment – Fanikisha Initiative. Retrieved from <http://www.undp.org/content/kenya/en/home/operations/projects/inclusiveeconomicgrowth/promoting-women-business-investment.html>

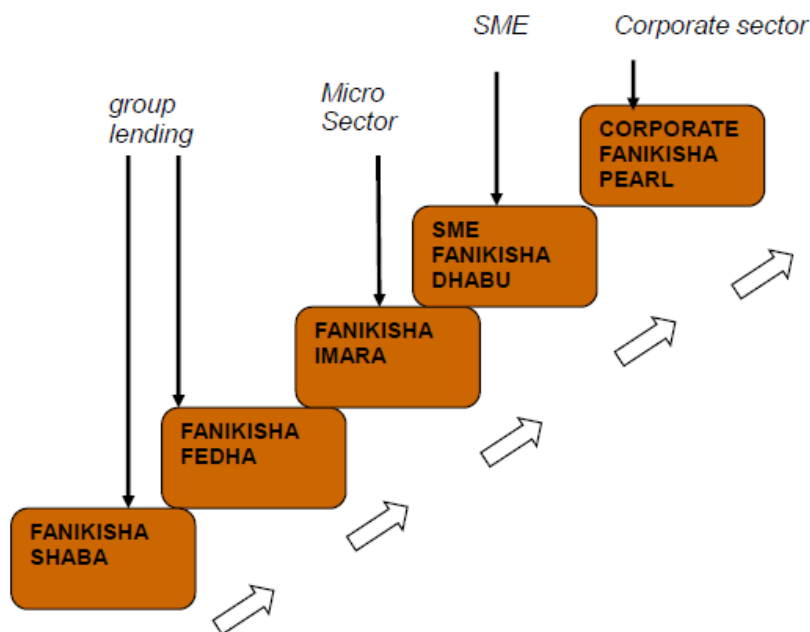
<sup>96</sup>UNDP. Promoting Women in Business and Investment – Fanikisha Initiative. Retrieved from <http://www.undp.org/content/kenya/en/home/operations/projects/inclusiveeconomicgrowth/promoting-women-business-investment.html>

<sup>97</sup>Kariuki, F. (2009). Financial Education Intervention-Examples of Equity Bank. MFW4A Conference, Accra, p.25

- (iii) financial education which is provided before and after club formation and service delivery.

The loan products are designed such that the borrower, over time and with the growth of the enterprise, would be able to graduate to the next level and access products which provide larger loans amounts and more technical support. Figure 4 below depicts the potential progression of a business which utilises the Fanikisha products.

**Figure 4: Fanikisha Product Evolution**



**Source:** [http://www.fepkenya.org/Resources/documents/Florence\\_Kariuki\\_FEFL.pdf](http://www.fepkenya.org/Resources/documents/Florence_Kariuki_FEFL.pdf)

The Fanikisha loan package can be categorised into (i) a generic product with basic services offered; and (ii) the more tailor made loan packages. The generic Fanikisha loan provides loans to groups of 15 to 30 members. These women can access loans ranging from Kshs 1,000 to Kshs 300,000. The repayment period is dependent on the needs of the members but must be between 6 to 12 months. As part of the offering under the generic Fanikisha loan, members have access to business improvement training at discounted rates, the ability to borrow up to 10 times the savings made and a flexible repayment period with the proviso that it must not exceed 12 months.

There are six tailored Fanikisha loans targeting women and women-owned businesses. The Fanikisha Shaba (Bronze) and Fanikisha Fedha (Silver) are suitable for the group lending methodology. Fanikisha Shaba is provided to a group of 15 to 30 members who

have access to loans from Kshs 1, 000 to Kshs 300, 000. Repayment periods are from 6 to 12 months. The interest rate charged on the Fanikisha loan is 1.25 per cent per month. Fanikisha Fedha targets smaller groups of 7 to 10 members and the loan size is larger than that of Fanikisha Shaba, ranging from Kshs 300,000 to Kshs 1,000,000. The interest rate is maintained at 1.25 per cent per month but the repayment period is extended to a maximum of 18 months. With the Fanikisha Fedha loans, members are required to meet on a monthly basis. These meetings are also attended by Equity Bank's microcredit officers ("MCROs") to track the club's progress. Fanikisha Shaba and Fanikisha Fedha products also provide the members with access to business management training, flexible collateral requirements and sharing of business ideas with group members. The Fanikisha Shaba loan can be processed by the Bank within 24 hours after application.

Fanikisha Imara (Strong) is designed to cater for individual women who own microenterprises. These individuals can access loans ranging from Kshs 30,000 to Kshs 500,000. Depending on her profile, the borrower need not necessarily have graduated from either the Fanikisha Shaba or Fanikisha Fedha although this is preferred by the Bank. Repayment periods are given up to eighteen months with an interest rate of 1.25 per cent per month. The collateral requirements are flexible and will depend on the cash flows of the business considered together with the security which the borrower can raise. The meetings between the MCRO and the borrower are flexible and not fixed on a monthly basis. A Fanikisha Imara client is able to graduate to the Fanikisha Dhahabu (Gold) upon assessment of the business' profitability and ability to absorb a larger loan facility. Fanikisha Imara provides additional services to the borrower such as access to business management training and the opportunity to graduate to next level with less arduous security requirements.

Fanikisha Dhahabu (Gold) is a product designed to attract women who own small to medium enterprises. The product is available to individual business women who would have either graduated from the Fanikisha Imara loan product or whose businesses qualify for funding. The loan amounts available range from Kshs 500, 000 to Kshs 3, 000,000 with flexible repayment periods of up to 24 months. The interest rate is maintained at 1.25 per cent per month. With this product, Equity Bank provides structured overdrafts to meet the needs of the business. There are also flexible collateral

requirements which are capped at 15 per cent above normal retail margins. Borrowers who qualify for this product also have access to business management training and the opportunity to attend motivational talks and trade fairs.

Fanikisha Almasi (Diamond) and Fanikisha Platini (Platinum) products are tailored for businesses which would ordinarily be categorised as corporate in the financial sector. Borrowers who perform well under the Fanikisha Dhahabu products may graduate to the Fanikisha Almasi and Platini products. Although the interest rates for both Fanikisha Almasi and Fanikisha Dhahabu are fixed at 1.25 per cent per month, Fanikisha Almasi provides loans ranging from Kshs3, 000,000 to Kshs10, 000,000 whilst Fanikisha Platini provides access to loans above Kshs10, 000,000. The repayment period under the Fanikisha Almasi loan is capped at 36 months. Fanikisha Platini allows for a longer repayment period of up to 1 year with the added benefit of access to structured financing. The collateral requirements for both products are pegged at 15 per cent above normal margins. These borrowers have access to business management training as well as the opportunity to attend motivational talks and trade fairs.

#### **4.2.2 Women's Development Business**

The WDB has two primary funding programmes, the Poverty Alleviation Programme (PAP) and the Enterprise Development Programme (EDP). The PAP provides funding to groups of rural women comprising of five members per group. This product is accessible to women who earn less or equal to R1068 per month for a family of 5 or per capita of R132 per month. Each member of the group can access loans ranging from R300 to R400. Once the borrower has repaid the first loan, she would be able to access subsequent loans of the same amount. The first loan repayment period is given for up to 4 months with subsequent loans being repayable within 4, 6, 9 or 12 months. One of the conditions required for funding by WDB is that each group must make a minimum mandatory saving of R100 per month in a bank or Post Bank. This is intended to encourage savings by the group members.

The second funding product offered by the WDB is the Enterprise Development Programme (EDP). This product targets women who are desirous of starting a business. The loan amounts are larger than those of PAP, ranging from R5000 to R10 000 per

group. Repayment periods fall between 4, 6, 9 or 12 months depending, *inter alia*, on the nature and cash flows of the business. The group members are required to meet on a monthly basis and each group is assigned a business mentor. The business skills training provided under the EDP are more substantive and in depth than the skills provided to groups utilising the PAP. Similarly to the PAP, members are required to make minimum mandatory savings of R100 per month.

Table 3 below summarises the information obtained from WDB over the research period. The table also includes information obtained from previous research carried out by various organisations, including the WDB itself, as well as data from existing portfolios. It compiles information relating to the sources of funding, lending guidelines, loan products and post investment activities carried out by WDB.

**Table 3: WDB Investment Profile**

<b>PRE-INVESTMENT:</b>		
<b>Sources of funding</b>	<ul style="list-style-type: none"> <li>➤ Initial donor funding</li> <li>➤ Investment partners</li> </ul>	
<b>Lending Guidelines</b>	<ul style="list-style-type: none"> <li>➤ Lending guidelines are shaped by WDB composition. WDB is divided into 3 divisions:               <ul style="list-style-type: none"> <li>○ WDB Micro Finance (core business)</li> <li>○ WDB Trust</li> <li>○ WDB Investment Holdings</li> </ul> </li> <li>➤ Objectives:               <ul style="list-style-type: none"> <li>○ Disburse loans to poor rural women</li> <li>○ Increase technical, managerial, leadership and other skills</li> <li>○ Strengthen community and women’s organizations</li> <li>○ Support, assist and conduct research programmes</li> </ul> </li> <li>➤ Disbursement of loans to poor rural women</li> <li>➤ Centres-based group lending methodology</li> </ul>	
<b>INVESTMENT:</b>		
<b>Products</b>	<b>Features</b>	<b>Product offering</b>
<b>Poverty Alleviation Program</b>	<ul style="list-style-type: none"> <li>➤ Lending to rural women earning less than R660 per month for family of 5 or per capita of R132 per month</li> <li>➤ Access to loans from R300 – R4000</li> <li>➤ First Loan: repayment period of up to 4 months</li> <li>➤ Subsequent Loans: repayment in 4, 6,9 or 12 months</li> </ul>	<ul style="list-style-type: none"> <li>➤ Minimum mandatory saving of R100 per month in a bank or Post Bank</li> </ul>
<b>Enterprise Development Program</b>	<ul style="list-style-type: none"> <li>➤ Lending to women who want to start a business</li> <li>➤ Access to loans from R5000 - R10 000 per group</li> <li>➤ Repayment periods of 4, 6, 9 or 12 months</li> <li>➤ Monthly meetings</li> </ul>	<ul style="list-style-type: none"> <li>➤ Each group is assigned a business mentor</li> <li>➤ More substantive business skills training provided by the Business Skills program</li> <li>➤ Minimum mandatory saving of R100 per month in a bank or Post Bank</li> </ul>
<b>POST-INVESTMENT:</b>		
<b>Non-financial Support Services</b>	<b>Program</b>	<b>Offering</b>
	<ul style="list-style-type: none"> <li>➤ ICT Program</li> </ul>	<ul style="list-style-type: none"> <li>➤ Computer based mother tongue literacy course and computer skills training course</li> <li>➤ Functional literacy provided to adult women in 10 – 12 weeks</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Business Skills Program</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provides practical marketing experiences and opportunities to</li> </ul>

		rural women
<b>Impact Assessment of Loan Provided</b>	Testimonials	
<b>Impact Assessment of Non-financial Support Services</b>	Testimonials	

### 4.3 Lending Policies

This analysis is useful in understanding the lending policies of an organisation because it informs criteria such as chargeable interest rates, loan repayment terms, and the industries targeted for that particular funding. For example, in many microfinance institutions, funds obtained for on-lending from DFIs are usually disbursed into specific programmes or industries in which those DFIs wish to invest either because of the foreseen potential social and economic impact that such funding could potentially have or the returns it can provide to the financiers, or both. The lending guidelines are often geared towards the specific market which that microfinance institution wishes to attract. These guidelines are also sometimes influenced by the funders, whether DFIs, multilateral banks or other financiers in the mainstream banking sector.<sup>98</sup>

#### 4.3.1 Equity Bank

At the pre-investment stage, the main considerations taken into account are the Bank's sources of funding and lending guidelines. The lending guidelines for the products availed to women and women-owned businesses are outlined in Table 3 above. It is important to clarify at the outset that Equity Bank, like many other microfinance providers, is cognisant of the lack of collateral in the market in which it plays specifically when developing products geared towards women-owned businesses. As such, the Fanikisha loan products discussed above are provided on the strength of the businesses' cash-flows rather than on the collateral available. A senior manager within the credit department of the bank advised that in some instances, where the borrower has personal household assets which could be hypothecated, Equity Bank will place a lien on those types of goods as security for the loan. This however does not always meet

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<sup>98</sup> For example, South Africa's government-owned development finance institution, IDC, through its Africa Unit, has identified strategic areas for investment on the rest of the African continent. This strategy is implemented by placing certain conditions precedent to the funding provided to regional DFIs or private investors.

the security ratios which would ordinarily be required in a mainstream commercial bank. In general, the Bank will not, as a matter of course, request security for the loan, rather each loan application is considered on a case by case basis.

When considering financing for women entrepreneurs, the Bank's guidelines enable it to consider registered or unregistered businesses for funding. These businesses can either be licensed or unlicensed but must be legally acceptable. Although Kenya is one of the most developed countries in the East African region, the costs associated with the registration of a business are very high<sup>99</sup> and therefore prohibitive to small businesses. Equity Bank, guided by its mass-targeting approach, lends to a wider range of entrepreneurs irrespective of the legal status of the business.

Equity Bank will consider funding for a business operating for a period of one year or more. On the one hand, this is often indicative of the borrower's commitment to the business and on the other hand provides historical information on the business' sustainability, thereby mitigating risk for the Bank. A number of development finance institutions similarly consider clients who have some experience. For instance, the Industrial Development Corporation of South Africa considers applications from businesses which have been in existence for a period of one year or more and such a business is required to provide audited financial statements to be considered for funding.<sup>100</sup>

It is critical for Equity Bank to ensure that the borrower has an established business premises from which the business operates. As stated above, Equity Bank would not always require collateral from its borrowers and therefore up-to-date information on the entrepreneur's whereabouts vis-à-vis the business and residential location is important in mitigating the risk of non-payment by the borrower. In instances where personal household goods have been hypothecated by the bank, the residential premises become all the more important. In addition to this, Equity Bank requires that business owners must reside within the Bank's branch operational area. The Bank's focus on innovations

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<sup>99</sup>Doing Business in Kenya Report 2013. Retrieved from:  
<http://www.doingbusiness.org/data/exploreeconomies/kenya/>

<sup>100</sup> For additional information see Industrial Development Corporation website:  
<http://idc.co.za/finance-by-sector/general-criteria>

such as mobile and agency banking is therefore critical to reaching a wider target market.

One of the most important criteria for a lender considering funding an enterprise is the businesses' cash flows. Cash flow in most type of lending activities determines the ability of the business to make timeous repayments.<sup>101</sup> The difficulty in obtaining collateral in the microfinance sector steers lenders to reliance on the cash flows of the business which need to be evaluated over a period of time. For Equity Bank, this period is a minimum of one year. In order for Equity Bank to fund a business, it evaluates the regularity and sustainability of the business' cash flows. The Bank however makes exceptions for agricultural related activities (which tend to be dependent on seasonality of the products grown), schools, supplies and other exceptions depending on the business cycle.

#### **4.3.2 Women's Development Business**

The lending guidelines are determined primarily by the composition of the WDB. The primary objective of the WDB is to empower women in rural villages through the centres-based group lending methodology. With microfinance as its core business, the WDB's main activities involve disbursing small loans to poor women as well as providing technical, managerial and leadership training to its members. It also strives to strengthen community and women's organizations by providing business support along the appropriate value chains. In order to qualify for funding, WDB conducts a verification process of the socio-economic status of the group members. The outcome of the verification determines the loan products which the women can access. In addition, each member of a group provides surety, or a guarantee, on behalf of the other members of the group.

#### **4.4 The Performance of the Loan Portfolios**

One of the challenges encountered during this part of the research was to obtain data on the impact of the funding and the post-investment training opportunities provided to both institutions. Most of the impact assessments are obtained by word of mouth in the form of testimonials. For instance, in a book titled *Velvet Gloves and Iron Fists*

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<sup>101</sup>This is critical in many kind of lending activities, more particularly in project financing.

published in 2007<sup>102</sup>, WDB presented 32 success stories from women who were recipients of WDB funding and had developed productive and profitable businesses as a result of the funding and training provided by WDB. Financial history and performance of the businesses highlighted in the publication was absent in all cases.

WDB is aware of the challenges of relying purely on testimonials and through its restructuring process, intends to address this issue. One of the key challenges which limit the WDB's capacity to carry out impact assessments is the massive costs required for the exercise. However, WDB's commitment to the empowerment of women is unwavering as evinced in the testimonials and the support garnered from its varied investment partners.

## **4.5 Additional Support Afforded by the MFI's**

### **4.5.1 Equity Bank**

There are three categories of intervention at the post investment stage, that is, social intermediation, enterprise development services and social services. Social intermediation at Equity Bank involves the formation of groups which support each other, either through the provision of counter-guarantees or networking. The members in these groups reside in the regional location where Equity Bank has a branch and has access to attend group meetings. Social intermediation also includes the provision of group training services, often in financial skills training and marketing. Enterprise development services are provided by the MCROs in the regional branches and would ordinarily be offered during the monthly (or other scheduled) meetings of the group members. These services include business training, advisory services and business counselling. The social services provided by Equity Bank primarily involve the promotion of financial education through the use of schools and colleges and pre-university mentorship programmes sponsored by Equity Bank.

### **4.5.2 Women's Development Business**

The WDB established and implements an ICT programme which comprises of a computer based mother tongue literacy course and computer skills training course. Groups of women are encouraged to attend the ICT program to increase both their

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<sup>102</sup>Westoll, H. (2007) *Velvet Gloves and Iron Fists*. Johannesburg: Warp Nine

literacy skills and the computational skills. Functional literacy courses are provided to adult women within a period of 10 to 12 weeks. Great emphasis is placed on basic literacy skills of reading and writing which WDB believes assists the borrowers in managing their businesses and the loans provided. The Business Skills Program provides practical marketing experiences and opportunities to rural women to grow their business and access larger markets for their products. Furthermore, the WDB believes that this sort of training is important for the women's' self-development and self-confidence.

#### **4.6 Success Factors**

The literature review shows that MFIs in Africa and more specifically in Kenya and South Africa are dynamic and varied in form. Many of these institutions, particularly those which are unregulated, lag behind other global MFIs in financial performance<sup>103</sup> and generally do not conduct impact studies to assess the impact in the communities in which they operate. Nevertheless, MFIs in Africa "...lead the world in savings mobilization, in both the number of clients served and the absolute volume of savings on deposit."<sup>104</sup> Their significance particularly in the developing world cannot be overlooked.

Kenya's financial sector is relatively well developed in comparison to the financial sector in South Africa.

*Kenya has a relatively well developed financial sector which comprises 43 commercial banks, 1 mortgage finance company, 7 Deposit Taking Microfinance companies (DTMs), some 3,500 active Savings and Credit Cooperatives (SACCOs), one postal savings bank - Kenya Post Office Savings Bank (KPOSB), 125 foreign exchange bureaus, a host of unlicensed lenders, and an Association of Microfinance Institutions (AMFI) with 56 members. Despite the abundance of financial institutions, the financial sector in Kenya is highly concentrated. Four financial*

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<sup>103</sup>Lafourcade, A., Isern, J., Mwangi, P. & Brown, M. (2005) Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa, p14

<sup>104</sup>Ibid.

*institutions, Equity Bank, Cooperative Bank, Kenya Post Office Savings Bank and Kenya Commercial Bank, account for two thirds of all bank accounts which numbered 14 million by mid-2012. In the traditional microfinance sector, more than 70% of the market is dominated by Kenya Women Finance, Faulu Kenya and Jamii Bora. In addition, similar high levels of concentration are seen with SACCOs. (Cracknell, 2012).<sup>105</sup>*

Different MFIs adopt multi-faceted approaches to lending depending on the objectives driving the organisation. In Kenya, the vast majority of MFIs implement multiple approaches ranging from group-based credit schemes and community based enterprises to individual disbursements. In South Africa, the microfinance sector is dominated by lenders who provide microcredit schemes which are minimalist in their approach whereby only credit is provided without any other form of assistance. This is prevalent predominantly with retail institutions which provide hire purchase credit services for basic household goods to products for consumption. Although the NCA has made some inroads in regulating the credit market in South Africa, avaricious microcredit providers which provide micro loans at high interest rates, also known as loan sharks, are still prevalent because they meet the funding gap which exists in the finance industry in South Africa.

The findings of the research reveal that institutional policies, efficiency and quality of loan products as well as post-investment and monitoring are important to the sustainability and success of microfinance institutions generally, but specifically those which lend directly to women and women-owned businesses. Equity Bank attributes its success to its targeted investments in ICT, alternative delivery channels, innovations in its banking practice and the social and impact investments which it has made over the years.

One of the similarities between Equity Bank and WDB is that both organisations adopt group-based lending. The success of the group-based lending methodology across many microfinance institutions stems from the requirement for counter-guarantees from each

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<sup>105</sup>Cracknell, D. (2012). Policy Innovations to Improve Access to Financial Services in Developing Countries: Learning from Case Studies in Kenya. MicroSave Consulting Limited, Nairobi.

member of the group. This encourages early or timeous repayment because other group members are able to exert some pressure on the borrowing member to make the repayments thereby reducing individual exposure to third party risk. Once a member achieves a certain level of growth in the business, these institutions provide mechanisms for graduating such entrepreneurs to enable them to access larger loans and tailored business training and development skills.

The requirement by Equity Bank that an applicant must have operated for a period of at least one year before consideration for funding, speaks to the sustainability of the business and sheds light on the consistency of the cash flows. This is important because MFIs are reliant on these cash flows for their operations.

Equity Bank's commitment to remain broad-based is also reflected in its product development which is based on the needs of the market. This is important because, in order for a microfinance institution to have the desired impact in a given community, it must understand the needs of that community and tailor products which are suited to those needs. Any interventions which are unable to meet the needs of those it targets could prove to be futile.

One of the positive features of the WDB is the mandatory savings required of each member. This enables the women to build a small capital base on which they can leverage in future. This model could be adopted by Equity Bank to promote savings amongst its members. Advancements in the ICT sector have enabled microfinance institutions to have access to areas in which they were previously unable to operate. The development of mobile banking by Equity Bank has provided rural communities the opportunity to conduct simple financial transactions on a regular basis. The implementation of agency banking in the regions which Equity Bank is unable to establish a physical presence has also enabled larger groups of people to have access to financial services.

The importance of impact assessments has been canvassed extensively in the literature on the empowerment of women and women-owned businesses around the world. Although testimonials are good measures of the impact of microfinance programs because the information is gathered from the primary recipient, they are not sufficient

on their own. Similarly, the success of multifaceted interventions should be outlined independently in the annual reports or statements prepared by the MFIs. Objective, quantifiable data is necessary to be able to measure real impact. In addition, the success of microfinance institutions, and perhaps any organisation, depends on its ability to track its own performance to ensure sustainability. In the case of WDB, the last set of audited financial statements and annual report dates back to 2009. There are no current financials or track record after this period. It is envisaged that the restructuring of the organisation will resolve these issues.

## 5 RESEARCH CONCLUSIONS

A large number of South Africans, particularly black women, have little or no access to financial services. The mainstream banks in South Africa are often unable to meet the needs of the poor. In a study conducted by FinScope in 2005, 53 per cent or 16.4 million of the South African adult population was excluded from formal financial services. This population did not have bank accounts. Ninety nine per cent of those without access to credit are black and 55 per cent are women.<sup>106</sup> Therefore, South needs to broaden its financial sector and provide access to financial services to a significant part of its population and specifically make these services more accessible to women. The literature shows that there is an opportunity to empower women in South Africa through government and industry strategies and policies.<sup>107</sup>

This study aimed to provide an analysis of the different lending models and products utilised in Kenya and South Africa with specific focus on the microfinance products tailored for women and women-owned businesses. The study identified Equity Bank in Kenya and WDB Group in South Africa as some of the leading institutions offering microfinance services to women. This analysis provides useful insights in making recommendations for the South African microfinance sector and more specifically accessibility of microfinance for South African women and women-owned businesses.

The WDB Group shares a number of similar features with Equity Bank. Both MFIs utilised the group based lending methodology in their funding approach, although Equity Bank in addition, provides individual loans. Another common feature between the two institutions is the flexibility of the repayment cycles offered on the loans. Both institutions also provide financial education and business skills training to the borrowers on a continuous basis. The CGAP Good Practice Guidelines for Funders of Microfinance promotes these post-investment training interventions mainly because they enable recipients to develop the skills required to operate a very small enterprise successfully and learn how to save small amounts of money in financial institutions.<sup>108</sup>

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<sup>106</sup> Kirsten, M. (2006). Policy initiatives to expand financial outreach in South Africa. This paper was delivered at World Bank/Brookings Institute Conference 30&31 May 2006.

<sup>107</sup> Naidoo, S. & Hilton, A. (2006). Access to Finance for Women Entrepreneurs in South Africa. Gender Entrepreneurship Markets. Johannesburg. p5

<sup>108</sup> CGAP (2006) Good Practice Guidelines for Funders of Microfinance. Microfinance Consensus Guidelines. 2<sup>nd</sup> ed. Washington

There are however some differences between the two institutions vis-à-vis the variety of products available to women and women-owned businesses. Equity Bank allows for more gradation in their product offering. The Fanikisha Shaba and Fanikisha Fedha loans are disbursed using the group-based lending methodology whereas Fanikisha Imara, Fanikisha Dhahabu and Fanikisha Platini are available to individuals. This enables women who have been able to grow their businesses and income to access larger loans individually. They no longer have to rely on the group-based model. This model is useful and can be adopted by WDB especially because women whose businesses or incomes grow beyond the amounts provided under the Enterprise Development Programme would only be able to turn to mainstream commercial banks for additional or larger loan amounts.

One of the notable attributes of the WDB funding models is that it mandates and facilitates group savings. These savings are used for unforeseen events or stock replenishment. These savings could also be used as collateral for larger loans when required. This is a positive feature of the model because the habit of saving can be perpetuated even outside the group structures.

The main challenge encountered during the course of this study was obtaining impact assessments of the funding provided to women and women-owned businesses. As a listed entity, Equity Bank is obliged to produce annual reports and financial statements. However, impact assessments provide a more holistic representation of the real impact which the microfinance interventions or products have on its recipients; that is, the double bottom line. WDB carries out impact assessments through the use of testimonials whereby entrepreneurs share their entrepreneurial journey with WDB. WDB last published its annual report in 2009. Impact assessments are not only critical for the MFIs stakeholders, but also for the institutions' own performance evaluation.<sup>109</sup>

It is also important for micro financiers to take advantage of the creativity and pace of technological innovations witnessed globally over the last few decades. Mobile banking,

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<sup>109</sup> CGAP (2006) Good Practice Guidelines for Funders of Microfinance. Microfinance Consensus Guidelines. 2<sup>nd</sup> ed. Washington

through the use of mobile phones<sup>110</sup> and agency banking has been precipitated by these recent inventions and has enabled Equity Bank to reach a broader client base. Branchless mobile banking, especially in areas where infrastructure and other basic services are inaccessible is an important consideration for any MFI focused on providing broad-based financial services.

The identification of appropriate sources of funds for on-lending particularly for MFIs is crucial for their sustainability. Donor funding and concessional loans wear thin over time either due to economic downturns or other unanticipated events. Diversification of funding sources is therefore equally important. Multilateral organisations and development finance institutions should be considered as complementary financiers together with donor funds.

### **Recommendations for future research**

One of the limitations to this study was to gather data relating to impact assessment of the microfinance products and services offered by the two institutions. Impact assessments are costly and would ordinarily be funded from the profits of the organisation. These funds are not always available but the assessment remains critical. More in-depth research on impact assessments is required to help chart a way forward for existing and future MFIs is required.

The potential and impact of branchless banking is an interesting area of study given the pace at which technology is developing across the globe. Mobile phones and internet services could be the next best conduits for delivering microfinance services. The prevalence of credit bureaus and the positive and negative effects of relying on these organisations to determine eligibility for microfinance (or other) loans could generate interesting discourse and ideas for action.

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<sup>110</sup> See more on the impact of M-Pesa mobile banking: Mbiti, I & Weil, D. (2011). Mobile Banking and the Impact of M-Pesa in Kenya. NBER Working Paper No. 17129. Retrieved from <http://www.nber.org/papers/w17129>

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APPENDICES

Appendix A: South African Microfinance Suppliers and Stage of Development

<b>PRODUCT</b>	<b>MICRO DEPOSIT SERVICES</b>	<b>SALARY-BASED MICROLOANS</b>	<b>MICROENTERPRISE LOANS</b>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>• Primary Banks</li> <li>• Alternative Banks</li> <li>• Financial Cooperatives</li> <li>• Development Finance Institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Primary Banks</li> <li>• Alternative Banks</li> <li>• Financial Cooperatives</li> <li>• Micro lenders</li> <li>• Development Finance Institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Primary Banks</li> <li>• Financial Cooperatives</li> <li>• Not-for-Profit Microenterprise Lenders</li> <li>• Development Finance Institutions</li> </ul>
<b>Stage of Development</b>	Maturing	Maturing	Early Stage

Source: Calvin, B. & Coetzee, G. (2010) A Review of the South African Microfinance Sector, 2009. Successes, Challenges and Policy Issues

# Appendix B: Equity Bank's Financial Highlights



EQUITY BANK LIMITED AND SUBSIDIARIES  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

EQUITY BANK LIMITED AND SUBSIDIARIES  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

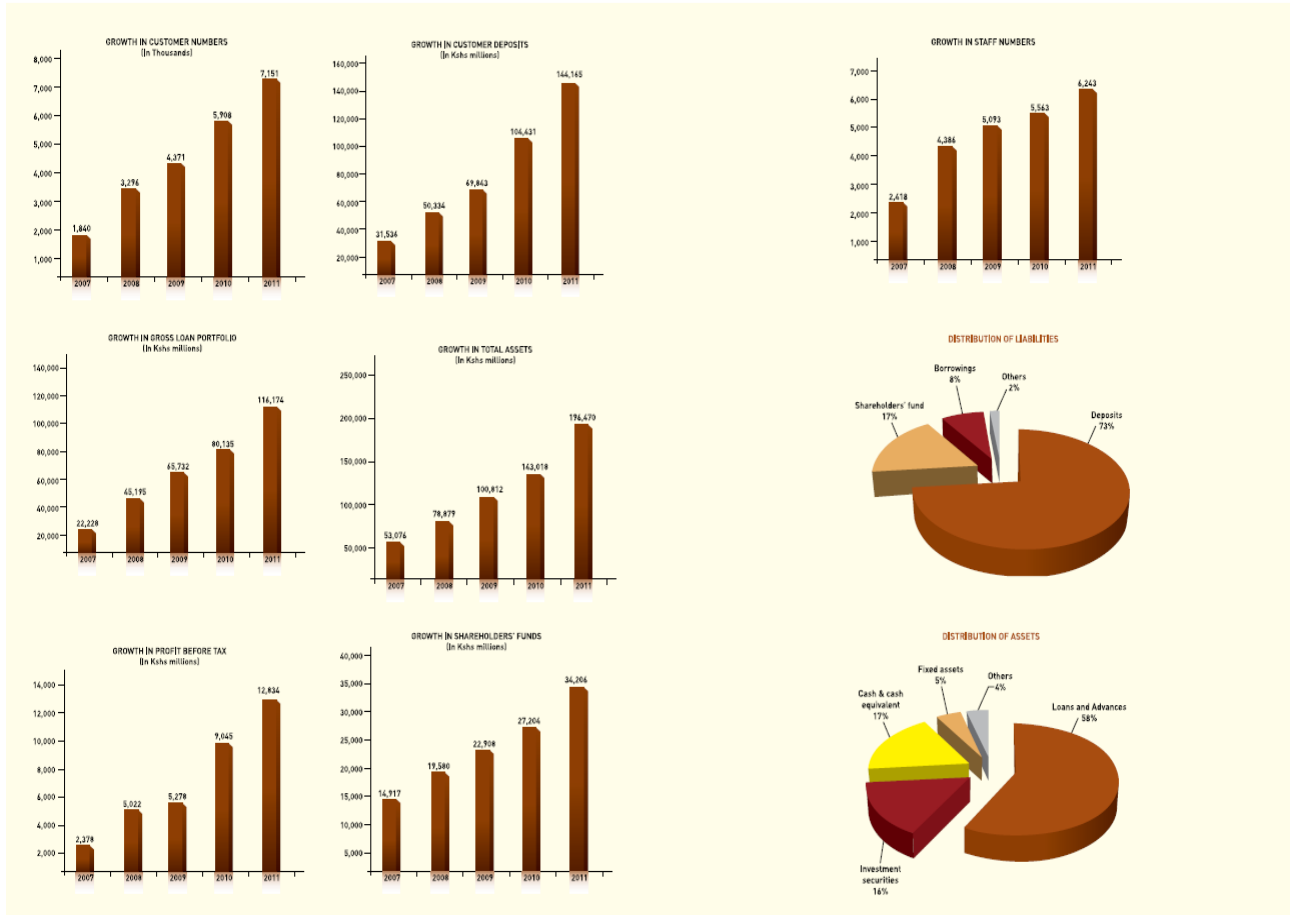


12

## Financial Highlights

## Financial Highlights

13



Source: Equity Bank Annual Report and Financial Statements 2011

Appendix C: Questionnaire submitted to Equity Bank and WDB

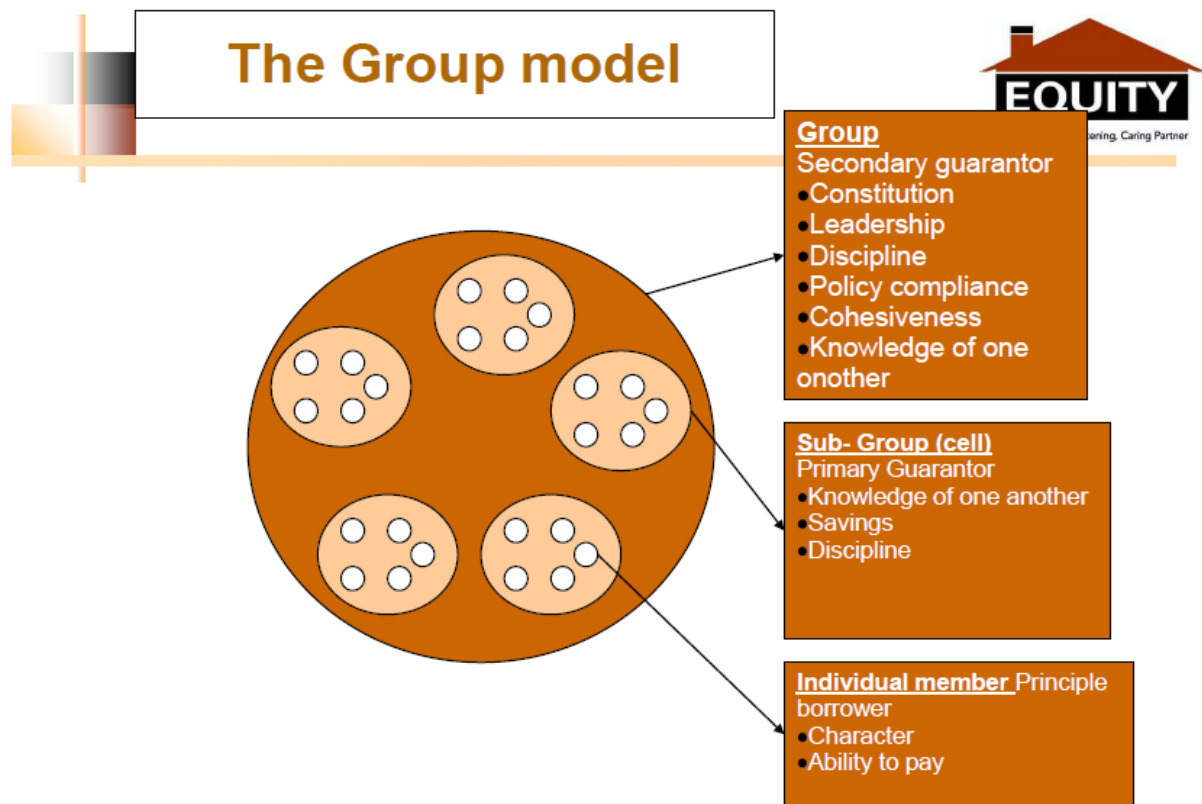
<b>Source of Funding</b>	What are the internal thresholds for these products	Comments
	How does the cost of borrowing affect the pricing on the product	
<b>Lending policies</b>	How are these policies formulated	
	How often are the policies reviewed	
<b>Loan Products</b>		
	What loan products does your organisation provide to women-owned businesses	
	What are the qualifying criteria	
	What are the repayments rates on these products	
	What are the default rates on the different portfolios	
	Which products have the highest uptake	
<b>Post investment monitoring</b>		
	Does your organisation provide technical and/or other forms of support services	
	List of technical and/or other support services	
	How do you measure the impact of the technical and/or other support services	
	How do you measure the impact of the funding/loans provided	

## Appendix D: Borrowed Funds – Equity Bank

<i>In millions of Kenya Shillings</i>	Group		Bank	
	2011	2010	2011	2010
Dexia Micro Credit Fund	1,108	1,051	1,108	1,051
Blue Orchard Loans for Development SA	852	808	852	808
Growth Management Limited	426	404	426	404
Deutsche Bank Microfinance Fund	605	574	605	574
China Development Bank Corporation	2,914	121	2,914	121
Ontwikelinlanden N.V (FMO)	3,221	3,221	3,221	3,221
Ministry of Youth Affairs	75	65	75	65
Micro Finance Sector Support Credit (Ministry of Finance)	344	23	344	23
Equity Bank Southern Sudan	-	391	-	391
Citibank N.A, Nairobi	-	806	-	806
Microfinance Support Centre	-	-	-	-
Microfinance Enhancement Facility (MEF)	1,278	-	1,278	-
ResponsAbility	1,278	-	1,278	-
KFW	1,668	-	1,668	-
Equity Bank Kenya limited	-	203	-	-
Tropical Bank limited-Uganda	86	70	-	-
Kenya Commercial Bank-Uganda	172	61	-	-
Diamond Trust bank-Uganda	65	60	-	-
Baroda Bank-Uganda	60	35	-	-
Eco Bank-Uganda	86	-	-	-
Imperial Bank	252	-	-	-
Barclays Bank-Uganda	-	70	-	-
Centenary Bank	34	-	-	-
Orient Bank	43	-	-	-
FINA Bank	138	-	-	-
Housing Finance Bank	87	-	-	-
	<b>14,792</b>	<b>7,963</b>	<b>13,769</b>	<b>7,464</b>

Source: Equity Bank Annual Report and Financial Statements 2011

Appendix E: Equity Bank's Group Model



Source: [http://www.fepkenya.org/Resources/documents/Florence\\_Kariuki\\_FEFL.pdf](http://www.fepkenya.org/Resources/documents/Florence_Kariuki_FEFL.pdf)

## Appendix F: List of Products offered by Equity Bank

Product Name	Loan Purpose	# Clients	% Urban	Loan Min	Loan Max	Loan Length (months)	Quoted Interest Rate	Interest Rate Type	# Loan Samples	APR (int + fee + ins)
<a href="#">Agricultural Commercial Loan</a>	Business Purchase of farm inputs and farm machinery.	744	41-60%	100,000	4,000,000,000	18	1.5 % / Month	Declining Balance	4	19.0% - 29.4%
<a href="#">Asset Finance</a>	Business Loan specifically used for purchase of assets.	2,853	41-60%	100,000	4,000,000,000	48	8.5 % / Year	Flat	4	20.4% - 21.7%
<a href="#">Biashara Imara</a>	Business	33,530	41-60%	5,000	500,000	9	1.5 % / Month	Flat	6	36.7% - 41.6%
<a href="#">Business Loan</a>	Business	5,686	41-60%	300,000	4,000,000,000	18	18.0 % / Year	Declining Balance	4	20.6% - 26.4%
<a href="#">Fanikisha "Fedha"</a>	Any Purpose	107	61-80%	300,000	1,000,000	9	1.5 % / Month	Declining Balance	4	35.1% - 35.5%
<a href="#">Fanikisha "Imara"</a>	Business	8,283	41-60%	30,000	500,000	9	1.5 % / Month	Declining Balance	5	36.5% - 38.7%
<a href="#">Fanikisha "Shaba"</a>	Business	32,096	41-60%	1,000	300,000	9	1.5 % / Month	Declining Balance	6	34.6% - 41.7%
<a href="#">Farm Input Loan</a>	Business Purchase of farm inputs	32,201	41-60%	1,000	100,000	6	1.3 % / Month	Flat	4	19.5% - 38.5%

Product Name	Loan Purpose	# Clients	% Urban	Loan Min	Loan Max	Loan Length (months)	Quoted Interest Rate	Interest Rate Type	# Loan Samples	APR (int + fee + ins)
<a href="#">Insurance Premium Finance</a>	Can only be used for financing insurance premiums.	5,092	41-60%	5,000	4,000,000,000	5	4.5 - 7.5 % / Month	Flat	6	16.1% - 35.6%
<a href="#">Viiana Business Loan</a>	Business	20,739	41-60%	1,000	100,000	6	8.0 % / Year	Flat	4	14.0% - 17.4%

**Source: <http://data.mftransparency.org/data/institutions/188/?currencyType=74>**