Examining the Effectiveness of Microfinance in Kibera

Azusa Pacific university  Master of Arts in Transformational Urban Leadership

Is this loan enough, or too much to handle?

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# Introduction



“The slow process of increasing income and building assets characterizes the road out of poverty.”

Cohen & Sebstad, 2005, p. 397



Over the last few decades, microfinance enterprises have taken the world by storm. Kicked off by the ingenuity of Yunus Grameen in Bangladesh, microfinance institutions can be found in most countries pervaded by poverty today. These microfinance institutions take many different forms and offer various additional services to their clients, however, they all hold this goal in common: “to create income and employment in poor communities through the development of local microenterprises and, in the process, increase the financial well-being of borrowers their families, and the community at large” (Osborn, n.d.). The true question remains whether or not they are able to reach or move closer to attaining this goal. Many microfinance institutions tout their success by quoting the remarkable percentage of loans repaid (some as high as 98 percent return rates). However, is this a true measure of success in poverty alleviation? Without proper complementary services, contextual program design, and Christian values, it is arguable whether or not microfinance institutions are able to improve the lives of their clients.

# Microfinance in Kibera

 Nairobi, and the slum of Kibera specifically, are a wealth of non-governmental organizations, community based organizations, and various other social services. Microfinance institutions are included amongst these throughout the villages of Kibera (some say 9 villages, others cite 13). Even with so many services available to the tenants of Kibera, the informal settlement remains largely impoverished, with many eating only one or two meals a day. How is this possible, if microfinance was truly successful? While microfinance has remarkable potential for transformation of lives and communities, it is also largely under-contextualized, inefficiently managed, and unfocused on the community’s needs and desires.

 According to Kenyan culture, most wealth, savings, and credit, takes a non-monetary form (Buckley, 1997). Additionally, the foundation of interest rates was created in a Westernized society where time is linear. In Kenya, and the majority of Africa, time takes a circular form, flowing more with the seasons than with the hours and minutes. How, then, should microfinance institutions create their programs? This is a complicated cultural standard, as most residents of Kibera are forced to sell their wealth and savings to acquire money to pay for loans and outstanding debts on a time table that makes more sense to Westerners than to Africans (Cohen & Sebstad, 2005). These are simply two examples of cultural values that conflict with credit and microfinance. Kinship networks, social role expectations, lack of land rights, corrupt governments, risk of failure, among others are also cultural deterrents to increased entrepreneurship and financial success in regard to microfinance loans. Additionally, many Kibera residents have access to bank accounts, as formalized banking institutions have moved more and more into the slums. While most of these accounts are negligible or inactive, the fact remains that the poor do have access to the banking system in Nairobi (Buckley, 1997). Microfinance institutions were created to provide the poor with the services of the formal bank, since they are unable to access them. In Kibera, this is simply not the case. Additionally, the application fees and interest rates of microfinance institutions are extremely comparable, if not higher, than the rates of the banks. According to earlier research done by Buckely (1997):

“There did not appear to be any movement toward self-sufficiency or graduation away from microfinance programs even for those who had received four or more credits. In fact, among those respondents from the Kenya Kibera sample there was a slightly greater number who needed more credit than among the random group where 97% of respondents had never received any type of formal credit. Furthermore, the impact of these credits on operations – measured in terms of increased sales, profitability or employment – was negligible and little different to the same set of variables recorded for those similar microenterprises which had not received credit” (p. 1087).

Clearly, microfinance institutions need to become more contextualized and understand the deeper implications of cultural values before they initiate their projects.

Microfinance Institution, Makina Market, Kibera

In the village of Makina within Kibera, there is currently an active microfinance institution providing loans to their community members. Promoting incredible loan repayment rates of nearly 96 percent, they claim to be an effective part of eradicating poverty within the informal settlement of Kibera. However, after some research and interviews of their clients, most complained that the interest rates, often over 22 percent, were much too high. Most also acknowledged that they were members of other economic empowerment groups called *chamas,* or merry-go-rounds, similar to the ROSCA model. Many said they were members of at least two or three of these other groups. Clearly, while this organization may have some positive impact on the community of Makina, they need to make adjustments to truly meet the needs of their clients and provide sufficient service.

 Another issue is the lack of appropriate management of microfinance institutions. Many microfinance institutions lack up-to-date technology, resulting in much slower processing of applications and other documents. For many clients, this means a much slower access to loans which can be detrimental to a business which relies on loans to purchase stock (Berlin, 2006). Even worse, the common practice among many microfinance institutions is to prioritize second and subsequent loans to the clients quickest at repaying (Oware, 2012). This ultimately results in the more active poor receiving greater aid than the poorest amongst the Kibera community. While the poorest sacrifice to make weekly and monthly loan repayments to keep their businesses alive, they are not rewarded for their commitment and responsibility. Microfinance institutions need to alter their management practices to include quick and responsible processing of applications and documents and fair treatment of all clients, not placing preferential treatment on those who are able to pay quicker and thus increase the wealth of the microfinance institution.

 In spite of all of these criticisms, there has been evidence of some effectivity of microfinance institutions at work in Kibera. According to Oware’s (2012) study, 81% said that MFI had effectively reduced poverty and 78% said that it has a positive effect on credit in the community. While there seems to be a positive view of microfinance in the community, the truth of the matter is that most people are not seeing much effects come from these institutions outside of providing an added income that eventually must be paid back.

# Business Management Training

 Crucial to successful microfinance loans and all means of economic empowerment is business and management training. Without this, an entrepreneur may find himself with a shop and stock, but no idea of how to properly advertise, market, budget, or manage his new business. While some microfinance institutions do offer business and management training, not all do and beyond that, not all clients realize the importance of said training. For one such microfinance institution, K-Rep, only 65% of their clients with loans had received business training (Oware, 2012). Beyond that, Buckley (1997) notes that, “less than 10% of all respondents who had received formal credit, including credit from NGOs, were able to demonstrate any type of change in technique or technology since they had received their first loan” (p. 1089). Additionally, there is a false belief held by most Kibera residents that increased stock will result in increased business and success (Buckley, 1997). While this is true to a point, it is not completely accurate. Those that act on this belief find themselves acquiring a loan, purchasing more stock, and stuck with looming debt and stagnant business. There is a huge need for business education among Kibera entrepreneurs and businessmen and women. When proper education and training becomes easily accessible, preferably as part of a program provided by the organizations giving out the loans, then the community may begin to ascend out of poverty.

# Christian Principles

Jacquelyn’s Story

Jacquelyn is a middle-aged mother, living in the neighboring slum of Kawangware. Each day, she travels from her home to the large “open-air” market of the burgeoning Kibera slum, Toi Market. Here, she displays all manner of children’s clothing and accessories for customers that pass by. While she recognizes that the location of her stall is not ideal, being further away from the main flow of traffic, she believes that she can attract more customers by purchasing more stock. After a few months of slow business, she purchased more stock, diversifying to also include clothing for mothers. Diversifying to include products that would be attractive to new mothers, the target clientele for Jacquelyn’s stall, is a smart business move, but it is not helpful for Jacquelyn whose income is already low. The purchase of this additional stock merely places her in greater debt with little access to the main influx of Toi Market shoppers. She is struggling to find means to advertise her stall and attract customers, as her stock crowds her small selling space, not visually enticing customers to stop. Jacquelyn could greatly benefit from appropriate business and marketing training.

 Arguably the most important aspect of any successful community development is the integration of Christian principles. Through Peter’s study in 2005, he recognized a number of cultural values that are not only deterrents to economic improvement, but are also anti-biblical. The two largest ones that he saw affecting Kibera were materialism and the demonstration effect of materialism. Materialism often reveals itself in the form of hording and also in the belief of increased stock leading to increased wealth. Demonstration effect of materialism is more subtle, often creeping in through the current trends and symbols of wealth, stripping the poor of what little money they have in exchange for status. In addition to this, there is largely practiced exploitation and manipulation in the Kibera market, as many entrepreneurs have creatively found ways to charge their costumers more for less of a product. Many people in Kibera have recounted stories where the shopkeeper who sells flour or various other grains creates a small hole in his measuring bucket so that the customer gets less than the amount that they pay for. Without changing these societal patterns and beliefs, Kibera, and the business market, will continue to struggle.

 If microfinance institutions want to be successful and effective in Kibera, they must seek to change the values of its business world. Mbola (2009) tries to do just that through the creation of his small business training manual, addressing the context of Kibera. Part one of his training manual addresses the origin of work, rest, and the need for stewardship and creativity in business based off of the biblical narrative. From there, he explains how these are essential to understanding how to start, grow and succeed in a business endeavor. In part two, he shifts his focus to business management and leadership, explaining the role man has to play in business as a steward and God as the true owner. He also emphasizes some practical applications to improve business success, such as being mindful of the place, price, product, and promotion of said business. Using his manuals in the Kibera context could provide the necessary foundation of biblical principles to encourage business growth with financial assistance from microfinance institutions.

# The Possibilities of Microinsurance

 While redefining the values of business in Kibera along with establishing effective management and contextualization of microfinance institutions are significant steps in the right direction, there are other factors at work in the business sector. One such factor is the risk of loss and sudden crises. While microfinance institutions often encourage their clients to save and make it a requirement for acquiring a loan, they often do not make these savings readily available to their clients. The same could be said of the popular *chamas*, or merry-go-rounds, which only give money out to members when it is their rotation. If a crisis hits and it is not yet their rotation, then that money is not available to them. This can lead to some very dangerous lending habits, such as using moneylenders, called *shylocks* in Kibera (Cohen & Sebstad, 2005). Some find themselves applying for loans from other microfinance institutions to acquire the money they need for the situation at hand, whether that is death of a loved one, illness or injury, or an economic decline. Clearly, there is a need to address the vulnerability of the poor in a way that meets their needs and is practical for their uses.

Grace’s Story

Grace is a young mother of two currently living in her family’s home in the village of Ayany in Kibera. In her life, Grace has dealt with many different crises, including marriage to an abusive husband for 11 years, death threats, and serious health issues involving her brain as a result of the abuse she received at the hands of her former husband and older brother. At one point, Grace admitted that she had been begging on the street so that she could feed her children. Now, Grace is selling handmade jewelry both locally and internationally. She has no shop, so she works from her home and sells them when she is invited to parties or other events. Grace cannot take out a loan, because she has no means of paying it back, as her money is largely used to cover health costs and feeding her children. If Grace had had access to microinsurance during those times that she experienced crises, she may have more money now that would enable her to take out a loan to further her jewelry business. As it is now, she is currently asking her friends for money that she can use to move out of her family’s house, as she is no longer able to put up with the abuse that she and her children suffer on a daily basis.

 One recent suggestion is to begin implement microinsurance through microfinance institutions, but doing so in a way that they are not necessarily linked together. According to Cohen and Sebstad (2005), “microinsurance is the protection of low income people against speciﬁc perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved” (p. 397). Through their research, they found that the poor only had access to self-insurance – that is, asking for loans through their kinship and friend networks, merry-go-rounds and other ROSCAs, taking out loans from microfinance institutions, and calling on debts of friends and family. This is the reason why so many people in Kibera have membership in two or more savings and loans schemes, as a form of protection against crises. Often times, in the event of a crisis, they need to use many of these routes to obtain the proper amount of money to address the issue. This often results in the additional selling of valuable possessions, sometimes from the business, resulting in greater debt and declined business. In order to ensure the safety of business enterprises and families in Kibera, Cohen and Sebstad (2005) suggest implement microinsurance practices. This way, families will not find themselves falling into greater poverty as the result of a crisis and their business can maintain a healthy status. With some insurance available to the poor, their use of microfinance loans may actually be used for the purpose of business rather than family needs, resulting in improved business and poverty alleviation.

# The Implications of M-Pesa

 While considering the implications of microfinance loans, business training, and microinsurance, it is prudent to examine other existing financial institutions – one of the newest and most popular being M-Pesa. M-Pesa was launched in 2007 by Safaricom as an electronic banking system for all Safaricom phone users (Omwansa, 2009). This gave un-banked and banked Kenyans alike a new, quicker way of storing, sending, and receiving money. Since it’s launching, M-Pesa has dramatically affected the use of money in Kenya. By 2010, 9 million Kenyans were using M-Pesa (Plyer, Haas, & Nagarajan, 2010). Not only is M-Pesa easy and efficient to use, the transaction costs are considerably lower than that of the traditional banking system, no set-up costs, and no service fees (Omwansa, 2009). This makes it highly attractive to the poor. Additionally, communities have been interviewed to determine the effect M-Pesa has on a community level. Most respondents said that it increased the circulation of money, thus improving business, and increased safety by lowering theft and mugging incidents, as money is stored on phones and is no longer held in its physical state (Plyer, et. al., 2010). How does this effect microfinance institutions in Kibera?

 According to the research, M-Pesa should be a positive factor and influence on microfinance institutions. This provides an even quicker and easier way for institutions to disburse their loans and for clients to make repayments. Instead of clients saving up money over long periods of time to make a repayment, making it very easy and tempting to spend the money on other pressing needs or desires, clients can now make those payments quicker and with less waiting time using M-Pesa. While some microfinance institutions are using M-Pesa for their programs, many are not. This would be an excellent way for microfinance institutions to update their technology use in a way that is already familiar to their clients.

# An Alternative: Group Savings and Loans

 While microfinance has its place in poverty alleviation, perhaps there are other, better routes to help the poor reduce the poverty gap. One such alternative would be the concept of group savings and loans. Not as widely known or recognized as microfinance institutions, ROSCAs or other financial enterprises, group savings and loans has the potential to significantly help the poor in a way that the others may not.

 Perhaps the greatest difference between group savings and loans and microfinance institutions is the focus of the program. While microfinance focuses on loans, group savings and loans focuses on savings. By altering the focus, these groups retain a much healthier emphasis on creating financial stability rather than borrowing it. Groups are formed by community members, who self-select their members, and then are trained by a local community based or non-government based organization. They learn how to stabilize a group, elect leaders, create regulations and constitutions, enforce rules, table banking, and basic money management skills. From there, the groups self-manage and begin to save money on either a weekly or monthly basis. Once the group has accumulated enough money to provide a loan for a member, they begin to loan to each other. Interest is charged at a rate that the group establishes, and the interest goes back into the group pot to be divided and disbursed at the end of the year. Most groups decide to only give out loans of the same monetary value that the group member has already saved, therefore ensuring that the loan will be paid, no matter what circumstances arise. Through this process, members are able to increase their savings, access loans to meet their needs, and gain interest on their savings and loans.

Samuel’s Story

Samuel is a young entrepreneur selling jewelry and art in the village of DC in Kibera. He started off selling without a shop, just walking around Kibera, displaying his jewelry on his arms. After a while, he was given a monetary gift to buy a shop in DC and begin selling there. However, since this gift, his business has barely picked up. While Samuel’s artwork is of good quality, his knowledge of marketing and advertising is limited. Additionally, he is afraid of joining a *chama* again, as his past experiences showed that most members will leave once they have received their payment, leaving the rest of the group to suffer as they depended on that member to contribute to their rotational payment. Samuel could benefit greatly from a group savings and loans program, as he would have no fear of a group member leaving and affecting his monetary gain. He would also benefit from some business and marketing training to really help his shop get off the ground.

 In many ways, this solves a lot of the issues facing microfinance institutions. It is extremely contextual, as it is mostly created by the community members themselves. There is no need to worry about appropriate management and preferential treatment, as the group is self-governed. Technology is not needed for processing loan applications or repayments, as the loans are typically of a manageable size for the members and is quickly processed in-house. There is a form of insurance established for loan repayment in only allowing what has been saved to be loaned out. The only aspects that are missing is access to business training and the inclusion of Christian principles into the group. For many organizations that provide the training necessary for group savings and loans to start, there is the ability to provide appropriate business training and follow-up, since their energy is not focused on managing the savings and loans of its clients. Therefore, business training is typically provided. Additionally, while Christian principles are not explicitly advertised, the concept of saving and only borrowing what can be repaid is very biblical and has shown to be very effective. Many of the groups were able to increase the amount they saved on a weekly basis over the years as a result of the previous years’ savings and business training received.

# Conclusion

 The issue of microfinance in Kibera is clearly complex and multifaceted. There is great need for internal and external evaluation of existing microfinance institutions within Kibera to determine how effective their programs are at alleviating poverty within their community. Focus needs to be placed on contextualizing the programs, improving management and processing, and incorporating business training strategies in order to make a lasting impact. Microfinance institutions should also consider the possibility of starting microinsurance programs to further help community members and training them on the importance of preparing for life crises. Additionally, it may be beneficial to incorporate the use of M-Pesa into existing programs to improve the use of technology and to increase the speed of loan repayments and processing. However, without the addition of biblical principles to these programs, change and improvement will be very slow, as corruption, manipulation, and materialism are rampant within the community and will fight any forward advances made through microfinance institutions. Finally, while it may seem counter-productive for microfinance institutions, it may be in the community’s best interest to pursue programs such as group savings and loans to make the greatest economic impact on poverty alleviation. For,



“It is, of course, not credit itself that levers the poor out of poverty, but their ability to save from income generated from the use made of credit.”

Buckley, 1997, p. 1085



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