USAID/Co-operative Bank of Kenya Microfinance Program

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Evaluation Report

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1 EXECUTIVE SUMMARY

Background

This report is the end of Project evaluation of the Co-operative Bank of Kenya's 5 years (1999 to 31st March 2004) Micro Credit Unit Project supported by USAID. The initial period for this pilot project was 3 years (1999-2001) but the same was subsequently extended to 5 years.

Main Findings

The overall findings by the evaluators clearly confirm that the Project had achieved its set objectives and in a number of aspects exceeded these set targets/milestones. For example, the Project attained break-even point just two years of the start of operations and on having operations in 14 locations.

Specifically, the Program's clients outreach locations had increased from 3 in December 1999 to 27 as at 31st March 2004 achieving a savings client outreach of 86,000 and loans clients outreach of 3,738 by the end of the Program. This presents a major challenge of narrowing the savings outreach to loans outreach ratio of 1:20 as at 31st March 2004 through effective product market research.

The Program has demonstrated that it is feasible to directly deliver MSEs responsive financial products and services effectively, efficiently, competitively and on profitable basis through a commercial bank system/mechanism and the general environment.

Provision of financial services directly to MSEs through appropriately designed mechanisms and strategically located Bank branches/agencies has been demonstrated by the Program to have high potential as a viable, profitable and sustainable business for the Bank.

The Program has demonstrated that MSEs sector market if appropriately supported has great potential for expansion and growth which can significantly contribute to income and employment creation necessary for the general economic development of the country.

The Program has also demonstrated that MSE development is also essential for ensuring that majority of low income people in Kenya have requisite access to financial products and other banking services, which can significantly contribute to the reduction of poverty through income generation and the employment creation.

The Program had significantly contributed to the Bank's positive behavioural change of culture/attitude towards low-income clientele by demonstrating that this target market is bankable and profitable Bank business. By March 2004 the Program's contribution to the Bank's bottom line was 15% while accounting for 5% of the Bank's total savings of over Kshs.27 billion.

Main Lessons

The Program support strategy adopted by USAID has over the Project period, leveraged significant resources (upto **Kshs.1.6 billion** of loans disbursements and **Kshs.155 million** in operations support compared to total USAID support of **Kshs.80million**) from a private commercial bank for the development of SMEs sector. This approach provides to other development partners and commercial banks clear lessons on how to effectively support this important sector without distorting the market.

Overall, the Program’s concept has great potential for replication by development partners, commercial banks and other key stakeholders for the promotion and development of MSEs sector.

Recommendations

Based on the key findings of this evaluation and to take full advantage of the great potential clearly demonstrated by the Program, it is strongly recommended that the Bank should consider institutionalising the Program's operations as one of its core business.

However, prior to institutionalising the Micro Credit Unit operations as its core business, the Bank should first ensure the effective management, control and maintenance of PAR at <5%. This will greatly help the Bank to consolidate on the significant gains made by the Program to-date.

To effectively handle the competition from key players like FOSAs/SACCOs and other MFIs to its advantage, it is recommended that the Bank continues to actively pursue strategies aimed at initiating collaborative and complementary linkages with these stakeholders.

The Bank’s franchising arrangement under the Financial Integration Services (FIS) should continue to be pursued as a strategy towards consolidating and positioning the Bank in this high potential sub-sector of the country’s economy.

2 INTRODUCTION

2.1 Background and Design of the Microfinance Program

The Co-operative Bank of Kenya Limited was registered under the Co-operative Societies Act in June 1965 and licensed as a commercial bank under the Banking Act in 1968. The bank is one of the four largest banks in Kenya.

The evolution of the Micro and Small Enterprises (MSEs) Program of the Bank started in 1996 when the Bank through the Denmark government support began exploring the idea of getting involved in MSEs. Based on these initial feasibility studies, the Bank decided to design the Pilot Microfinance Project with a view to determining its potential as a viable and profitable business for the Bank.

The Bank was encouraged to get into this unique and challenging sector for traditional commercial banks by the realisation that it was already indirectly involved in microfinance institution's type of operations through co-operatives. The Bank perceived that it could address among others, the needs of many SACCO members who were retiring from employment and had plans to become Micro and Small Entrepreneurs.

In August 1998 the Bank submitted a solicited proposal to USAID-Kenya in response to their request for application (RFA) for the support of the 3 year (1999-2001) Pilot Microfinance Program. This was subsequently extended to 5 years.

2.2 Program Goal, Objectives and Activities

2.2.1 Goal

The overall goal of the Program is to promote the growth of MSEs by increasing their access to appropriately designed financial services through strengthening the Bank's capacity to effectively, efficiently and appropriately deliver financial services to this sector.

Considering the unique characteristics of the sector, the Bank had to adopt a totally different strategy from the traditional commercial banking approach and practices in the delivery of financial services under the Pilot MSEs Program. To successfully implement the Program, the Bank had to hire Micro Credit Officers (MCOs) and train them on the overall operations and management of microfinance activities including getting them exposed to best practitioner MFIs in Kenya and other countries like Uganda, Indonesia, Tanzania, etc.

The Program strategy, which specifically targets a relatively under served segment of the financial market, is consistent with the Bank's overall New Business Development Approach. The Program addresses one of the key seven objectives of this New Business Approach for the Bank: "The identification and development of new business areas that have the potential to attract and increase customers from non – agriculture segments."

2.2.2 Overall Objective

The overall objective of the MSEs Program is to provide financial services directly to MSEs through newly established and appropriately located Bank Agencies and existing Branches.

2.2.3 Specific Objectives

In pursuit to the above overall objective, the Program has the following four main specific objectives / products, among other banking financial services, which are appropriately designed to respond to the needs of MSEs:

a) *Biashara* Plus Loan Product for entrepreneurs qualifying for loan sizes of between Ksh 15 000 and 300 000.
b) *Biashara* Premium Loan Product for entrepreneurs qualifying for loan sizes of between Ksh 301 000 and 600 000.
c) *Haba na Haba* Savings Product.
d) Automated Teller Machines (ATMs) Visa Debit Cards.
e) Business Advice, Foreign Exchange and other Banking Services.

2.2.4 Broad Activities

To successfully achieve its goal and objectives, the MSEs Program has two broad activities:

a) Services provision related activities with the main ones being:

i) Outreach, promotion and marketing of the Program's products and services to the target clients.
ii) Identification and screening of the Program's potential target clients.
iii) Potential clients' intake and appraisal of the Program's loan facilities including approval.
iv) Advising clients of approvals and processing of loan security/collateral and other documentation necessary for disbursement of approved loans.
v) Monitoring administration, reporting and ensuring recovery of the Program's loans including re – possessing items pledged as security for loans only as a last result or fall back position.
vi) Overall monitoring and reporting on the Program's performance to Bank Management and other stakeholders.

b) Staff and Institutional Capacity Building related activities with the main ones being:

i) Micro Credit Unit (MCU) Staff internal training aimed at internalising to them on the Program's products, operations, policies and services delivery procedures requirements and inculcating knowledge and skills in marketing and risk assessment/loan appraisals.
ii) Program Staff external training through exposure exchange visits/study tours to best practitioner MFIs in Kenya and other relevant countries.
iii) Microfinance Agency infrastructure establishment.
iv) Microfinance Agency operating Cost Support
v) Information Technology (IT) Support.

2.3 Program Funding

In the original proposal to USAID, the Bank was committed to contribute Kshs 660 million Projected for loan disbursements, to cover any Program operations losses over the 3 year pilot period and to finance infrastructures with respect to the establishment of new agencies. The USAID financial support required was on technical assistance for the Program's requisite capacity building.

However, the Nairobi 7th August 1998 Bomb Blast on the United States Embassy and the Bank's house, drastically affected the Bank's financial capacity to undertake the Program without external financial support.

In a prudent reaction to the above changed scenario, the Bank reviewed its priorities. As expected, the MSEs Project, being a new pilot initiative was not a top priority at this difficult times and the Bank planned to shelf its implementation. However, given the prevailing and compelling circumstances, USAID strongly felt that the Bank, more than any other time, deserved all the support possible at this critical moment in order to sustain faith and confidence it had built over the years with its customers, other stakeholders and the community at large.

Based on the above context, the Bank and USAID discussed and revised the Program's original budget proposal, which was subsequently approved by USAID. This led to the signing of a 3 year partnership agreement in September 1998 for a total financial support of US$ 992 949. This USAID support was to finance the following Program activities:

a) Study tours/exchange visits to best practioner microfinance institutions.
b) Microfinance Agency Infrastructure.
c) Microfinance Agency operating costs support for 2 years at 100% in year one and 50% in year two.
d) Information Technology Support.

The table below provides details of the USAID financial support and expenditure as at 31st March 2004.

Table 1: USAID Programme Support Budget and Expenditure

Expenditure Item	Budget (USD $)	Percentage %	Expenditure 31.03.2004
Study Tours	87,000	9	87,000
Microfinance Agency Infrastructure	456,667	46	456,667
Microfinance agency operating cost	124,282	12	124,282
Information Technology	295,000	30	295,000
Audit	20,000	2	3,794
Evaluation	10,000	1	-
TOTAL US $	**992, 949**	**100**	**966,743**

Source: Co-operative Bank of Kenya

The USAID also designated the Bank to participate in the USAID/Micro-PED Loan Guarantee to microfinance institutions.

Under the revised Program funding, the Bank was to finance loan disbursements and all personnel related costs of the MCU staff.

2.4 Purpose of the Evaluation

The purpose of this evaluation is to determine the extent to which the Project has achieved its objectives over the implementation period of 1st October 1998 to 31st March 2004 and to assess its efficiency and effectiveness in the overall delivery of services with a view to providing the Bank and stakeholders, with specific recommendations that could guide in future development of initiatives, strategies and frameworks of supporting the MSEs sector.

2.5 Scope of the Evaluation

The mandate of the evaluators was to undertake a comprehensive evaluation of the Project activities with particular focus on the following 10 key areas:

a) Assessment of the achievement of the USAID support
b) Assessment of the efficiency and effectiveness of the overall Project implementation.
c) Determining if the Project's target clients were appropriately served
d) Assessment of the status and quality of the Project's products and services
e) Assessment of the agencies location, profitability and viability
f) Assessment of the Project's impact to the Bank using pertinent critical indicators such as profitability, change of attitude/behaviour/policy, management etc
g) Assessment of the impact of both local and outside country training to Bank staff with respect to micro credit business sector
h) Assessment of the Bank's IT capacity building with respect to micro financing
i) Determining the main lessons learned from the Project and challenges
j) Advice on the way forward for the Program and provide practical recommendations for improving future initiatives/projects and frameworks for effectively and efficiently supporting MSE sector.

The terms of reference detailing the scope of the evaluation is provided as **Annex 5.6** of this report.

2.6 Evaluation Methodology and Approach

The methodology used in undertaking the evaluation involved overview review of the Bank's mission statement and objectives; comprehensive review of key Program design documents, operations manuals, periodical and annual performance reports and financial statements; interviews with key Bank Head Office, selected branches and the Program's 4 agencies staff, interviews with a sample of the Program clients and USAID.

In order to enhance the value of the evaluation, a participatory process and approach was adopted in carrying out the exercise. The specific details of the methodology and criteria used in selecting branches and clients for participation in the evaluation and basic tools to guide the interviews are provided as **Annex 5.3 and 5.4** of this report.

3 MAIN EVALUATION REPORT

3.1 Program Design

The MSEs Program design was based on thorough field feasibility studies by the Bank staff who included the present Program Manager and the Field Co-ordinator. In undertaking these critical studies, the Bank, through financial support by DFID received technical assistance from a microfinance expert with rich experiences from Bank Rakyat Indonesia (BRI) one of the world leaders in microfinance.

Apart from financing the above studies, DFID provided significant support to the Bank in form of long term (upto two years) in-house Technical Assistance in microfinance. The TA was very instrumental to the development of a comprehensive and sound microfinance policy framework and perspective including its internalisation at all levels of the Bank, particularly at the Board level. This provided an enabling environment for the implementation of the Program.

The feasibility studies determined microfinance to have high potential as a viable and profitable business for the Bank and made recommendations for its adoption and implementation by the Bank on a pilot basis. The Bank approved the Program design and set a clear strategy for rolling over the Program in all potential branches based on the success and lessons of the pilot.

On the adoption and approval of the MSEs Program in 1998, the Bank established the Micro Credit Unit as a strategy and structure for implementing the Program. The Bank also committed necessary resources for staff costs and for loanable funds (up to Ksh. 660 million for the initial 3 years) under the *Biashara* Plus / Premium Loan product of the Program.

Due to financial difficulties caused by the August 7th 1998 Bomb Blast, the Bank approached USAID for additional resources to finance: staff capacity building through exposure visits to best practioner MFIs, infrastructure costs of establishing 5 new Agencies, initial operating cost for the agencies and Information Technology both Hardware and Software.

Prior to the start of the Program implementation, the Bank developed a comprehensive program operational manual, setting out specific objectives/targets, policies and procedures for governing and guiding the Program's services delivery mechanisms, processes, management, administration, monitoring and reporting.

The Program's operational manual had very detailed policies and procedures with respect to the two main products: *Biashara* Plus / Premium Loan product and *Haba na Haba* Savings product. The manual had particularly very clear targets for *Biashara* Plus/ Premium loan product, because of its unique features as a potential profitable business of the Bank subject to effective and efficient risk management. As a consideration to this fact, the manual had very clear targets for the MCOs, who are primarily "costs and profit/ (loss) centres" of any microfinance operation. Each MCO had a target to reach and serve 175 clients, with an average outstanding loan portfolio of Ksh. 5 million while maintaining a loan portfolio at risk (PAR) of less than 5%.

By the end of the year three of the Program implementation (31/12/01) the Bank had financed up to Ksh 320 million of the loanable funds under the Program's *Biashara* Plus/Premium loan product.

The initial 1998/99 MCU Structure and Staffing comprised a total of 10 staff: 3 at Head Office (Manager and 2 Supervisors) 4 MCOs, 2 each at the branch level of the 2 pilot branches (Meru and Karatina), the 2 Branch Managers and 1 Technical Advisor.

Before the start of the Program implementation, the Bank conducted a very thorough and comprehensive capacity building training and exposure programmes to best practitioner MFIs in Kenya and outside the country for the MCU Managers, MCOs, the Branch Managers of the pilot branches and other relevant Bank management staff.

3.2 The Program's Implementation Efficiency and Effectiveness

The micro credit project implementation started in 1998 with two independent appropriately designed savings and loans products that were tailored to micro entrepreneurs operating MSEs. An add-on debit card - ATM was also incorporated to go along with the savings account to enhance secrecy, convenience to clients, confidentiality and to avoid the then unpopular passbook.

The design of the Project required the bank to implement the micro credit Program through the Bank's branch-network to capitalize on existing infrastructure and the five low cost microfinance agencies that were funded by USAID. The implementation process took into account this two-pronged approach.

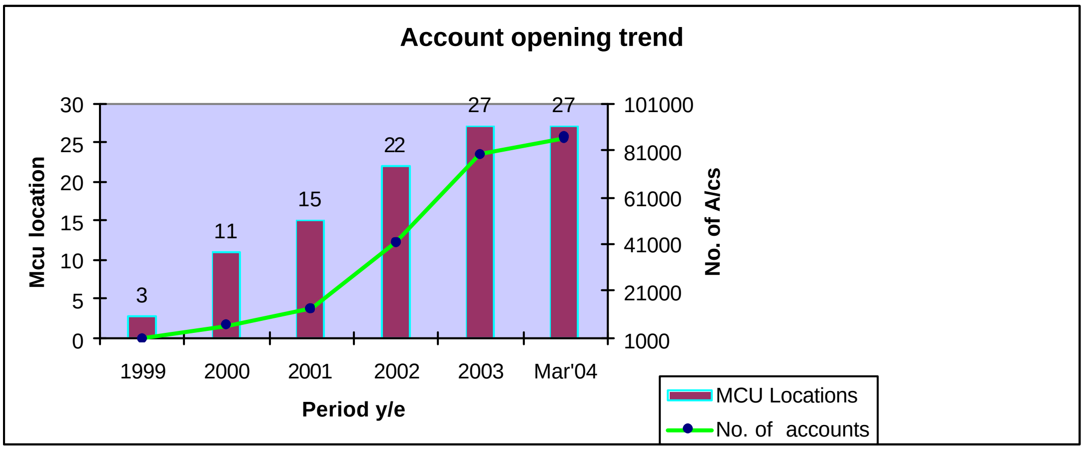
Operationalization of the Program was piloted with two rural branches in Meru and Karatina by year-end 1998 (September/October). The pilot started outside Nairobi where infrastructure was lacking with a view that success would be easy to replicate within Nairobi. Nairobi was also considered a risk market. A relaxed business environment was also necessary given the unique nature of the products. Although the bank believed strongly in the MSE market potential, it chose to cautiously move in this new strategic direction.

Two microfinance agencies earmarked to be started in Nairobi were constructed by year-end 1998. These were Kariobangi and Kawangware agency sites. Unfortunately the Buruburu site lease took too long forcing the bank to move to Kariobangi instead.

As indicated above training of staff preceded the start of the Project. All recruited micro credit staff were taken through a two week orientation and training before being posted to the pilot branches/agency for on-site training. Training focused in internalising to the staff on the Program's design requirements and the general bank operations.

Both the savings and MSE loan facility were marketed to individual micro entrepreneurs on a one-to-one basis. Specific messages were designed together with brochures for creating awareness within a radius of 30 kilometres from the Bank branch/agency offices.

Haba na Haba savings product was targeted to small savers and was well received due to its attractive features that were unmet by competition. Small savers who were afraid to save with commercial banks became interested in banking with the Bank. **Graph 1** below demonstrates the effectiveness of the savings product over the five year period.

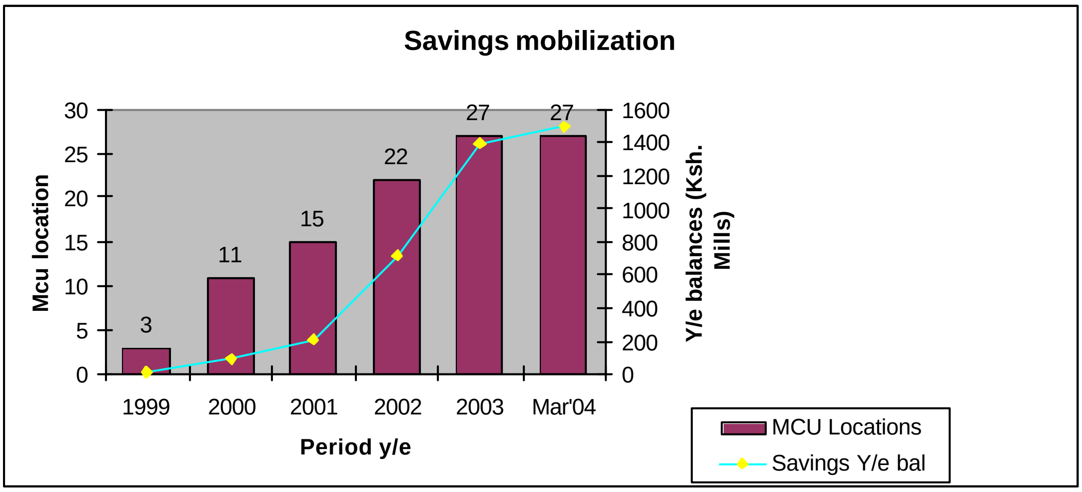


Graph 1: MCU Savings growth

The *Biashara* plus/premium loan product marketing approach was on a one to one visit to potential MSEs within the surroundings of the Bank locations and through brochures. The evaluation team established that the marketing process was cost effective and went on smoothly. The individual lending system was unique to this clientele who were keen to move away from group lending practiced by microfinance institutions.

The loan processing time, from application to loan disbursement initially took two weeks for new loans while repeat loans took a week on average. After gaining experience, this turnaround time improved to 7 days for new loans and 3 days on average for repeat loans. In terms of risk management, the evaluators found that MCOs visited late payers after three days of missed payment indicating efficient monitoring procedures. The MIS provided information on timely basis to facilitate effective default management.

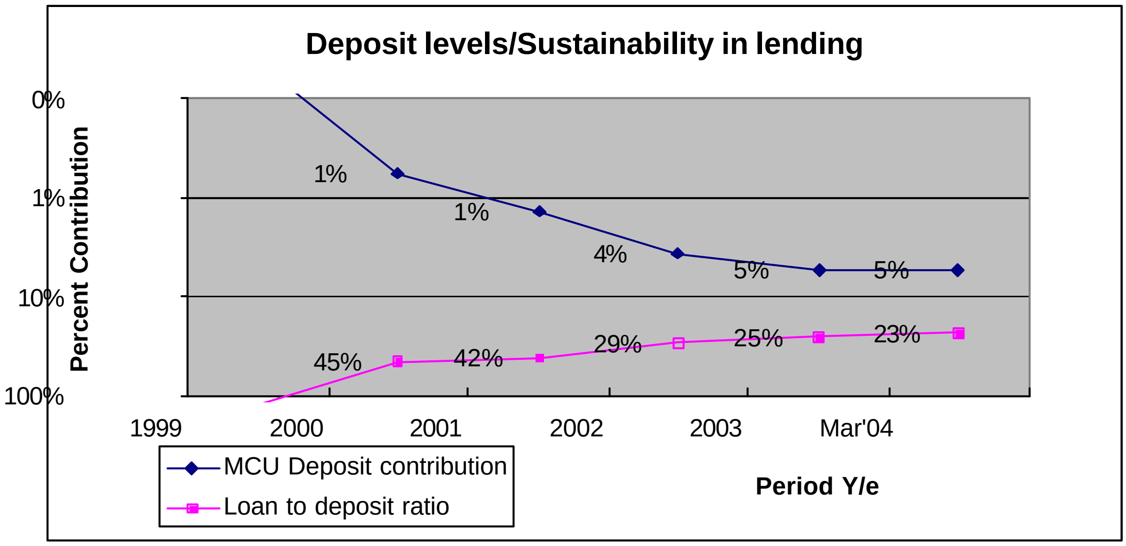
The graphical analysis below demonstrates the results for the Program's products for the five year period. Deposit levels had increased from Kshs 6.6million (Dec/1999) to stand at 1.5 billion (Mar/2004) in the 27 locations offering both MCU products.



Graph 2: Savings mobilization

Analysis shows that *Haba na Haba* deposits has grown to dominate total deposits in branches with MCU operations. In 2003, *Haba na Haba* accounted for 83% of overall total deposits in the 27 MCU locations combined; while in 6 locations offering savings only, *Haba na Haba* accounted for only 17%. This is a commendable success for the savings product.

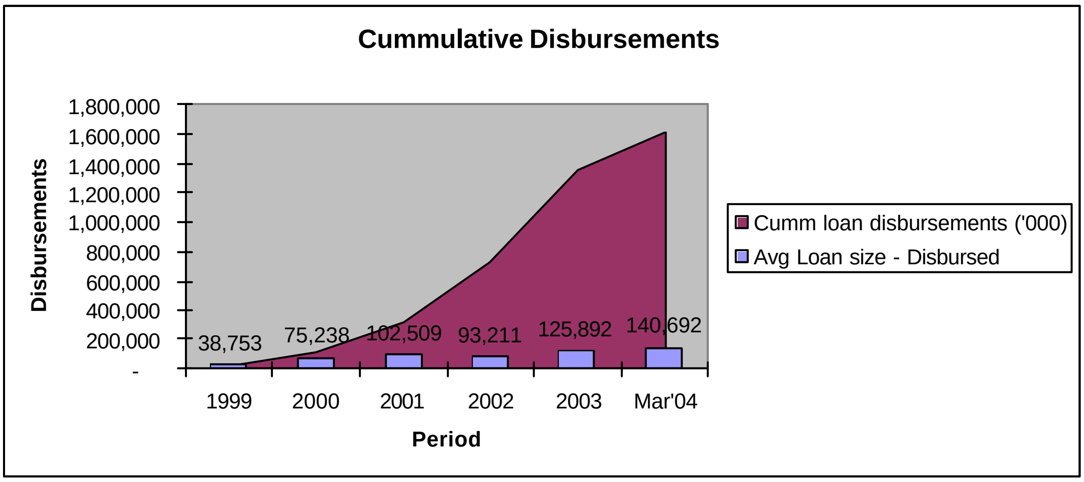
Sustainability for on–lending funds has also improved. The loan to deposit ratio has continuously decreased with increased deposits. Only in 1999 December when the bank had four MCU locations was this ratio more than 100% (**Graph 3**). This ratio stood at 25% by year end 2003 against the benchmark of 80/92% recommended for commercial banks in Kenya. This implies that the bank is saving on cost of funds through use of MCU deposits to on–lend.



Graph 3: Sustainability in lending

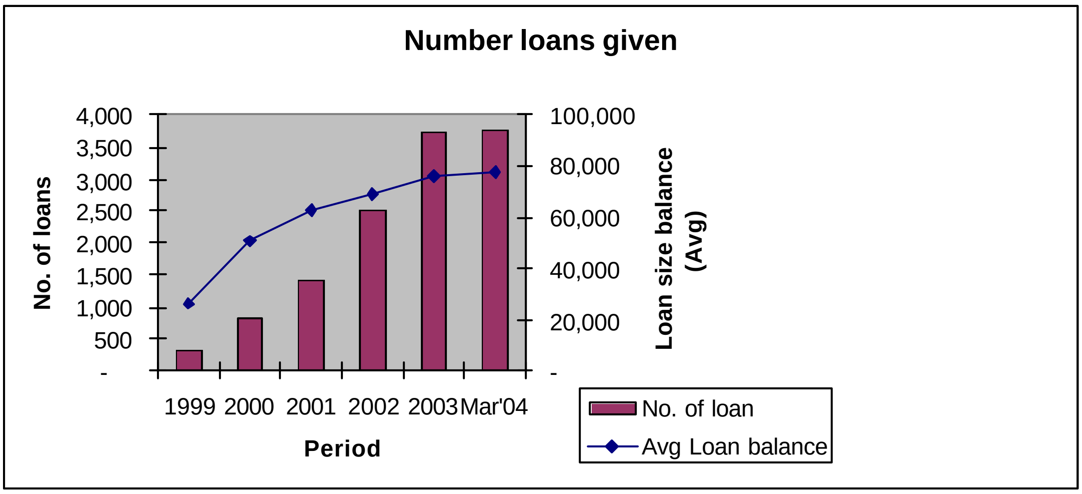
The individual loan delivery mechanism proved successful in comparison to the competition. It seemed to solve the problems of group lending while offering a unique service to clients – that of maintaining confidentiality in their affairs. Most attractive to MSEs was the ability to borrow with simple collateral (household items and business assets), fast delivery of loans, and personal attention accorded to clients by micro credit officers. This success in effective delivery of services is attributed to thorough training of MCOs, and commitment by all involved in the Program.

Cumulatively, the disbursements have continued to increase each year since start of Program showing acceptability of the loan product. Amounts disbursed per loan have also increased indicating that clients are accessing and moving to higher and higher loan cycles. Average disbursed loan size is Kshs. 140,600 up from 38,700 when Program started five years ago. This indicates low drop out rate and high repeat loans, which is a good sign of customer satisfaction. A field visit to clients showed that most clients have accessed more than 3 loans, with some businesses on their 7/8th loan cycle.



Graph 4: MCU Loan disbursements

The low number of loans however shows a slow intake of new clients given the number of MCU locations. This is attributed to restrictions on lending especially when the PAR for a loan officer is > 5%. The growth seen in the **Graph 5** below comes from new locations.



Graph 5: Growth in number of loans

3.3 The Quality of the Program Products and Services

Overall, the quality of the Program products and services delivery mechanisms has been determined by the evaluation team to be very satisfactory especially when compared to other Bank products. Some of the key indicators of quality, particularly for microfinance operations, that lend credibility to this ascersion include:

3.3.1 The Program's portfolio quality as measured by PAR of >7 days has been very satisfactory at an average PAR of <5% from the Program inception in 1999 up to mid – 2003, when significant decline set in to settle at around 10% PAR[*]. The MCU management associates this decline in portfolio quality largely to changes in Branch management, MCU staff transfers, increase in loan sizes (above Ksh. 200,000) and the prevailing economic hardship arising from the tightening of expenditure by the new government. The MCU PAR compares unfavorably with the industry standard of <5% and very favorably with the country's average PAR for commercial banks of >35%.

3.3.2 The evidence of high subsequent repeat loans of up to 8th loans for MCU borrowers is a strong statement and indicator of the satisfaction the clients have on the quality of loan product and services delivery mechanism. Repeat loans constitute about 70% of the loanees.

3.3.3 The high demand for the Program's *Haba na Haba* savings product as compared to other Bank savings products is a clear indication of the product's quality which keeps MSEs savers satisfied and therefore continuing to highly patronize the Program's products and services.

3.3.4 The Program's products and services have attracted clients from key MFIs players like Equity Building Society, K – Rep Bank, Family Finance Society and others, which is a clear evidence of the satisfaction these clients have in the quality of products and services provided by MCU.

3.3.5 A number of clients interviewed have been very active in promoting and marketing the Program's products and services to the business community. This is a clear expression of the confidence these clients have on the quality of the MCU products and services.

3.3.6 A cross section of the MCU clients interviewed was very appreciative of the speed and timeliness of the *Biashara* Plus loans processing and disbursements, which is a good indication of the quality of loan product delivery processes and mechanisms. However, some clients viewed the loan application form to be lengthy, too detailed and problematic for their handling and suggested the need for its simplification.

3.3.7 The ATM Visa debit card service was rated by some of the clients interviewed as below average due to its frequent faults. Although the service was appreciated, there is need for its improvement including availing the same for use out of the country.

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[*] The PAR rate would have reflected a different position if the Bank had written off bad loans as per the policy.

3.4 Overall Program Performance

3.4.1 Key Statistics on the Overall Program Performance

The table below provides selected key statistics on the overall performance of the MCU between 1999 and 31st, March 2004:

Table 2: MCU Overall Performance over the Program Period

No.	Description #	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Mar-04
	Outreach						annualized
1	No. of MCU locations @	3	10	14	21	27	27
2	No. of MCU agencies	0	3	3	3	4	4
3	Cumulative loan disbursements Kshs. ('000)	17,904	114,586	319,659	731,151	1,356,358	1,607,508
4	No. of loans	298	830	1,413	2,504	3,719	3,738
5	Outstanding Portfolio Kshs. ('000)	7,835	42,037	88,457	173,377	283,329	290,357
6	Average loan balance Ksh	26,292	50,647	62,602	69,240	76,184	77,677
7	Bank portfolio Kshs. ('000)	14,609,326	13,318,966	14,801,097	17,896,572	18,094,478	31,377,887
8	MCU portfolio contribution (%)	0.05%	0.32%	0.60%	0.97%	1.57%	0.93%
9	MCU savings clients	714	6,660	13,684	41,825	79,547	86,660
10	Savings Kshs. ('000) **	6,656	93,029	212,294	719,702	1,388,914	1,500,652
11	Average savings (Kshs.)	9,322	13,968	15,514	17,207	17,460	17,317
12	Bank Total deposits ('000)	14,889,023	16,650,278	15,685,510	19,869,455	26,160,124	27,495,017
13	MCU deposit contribution (%)	0.04	0.56	1.35	3.62	5.31	5.46
	Efficiency/productivity						
1	No. of MCOs	4	21	32	45	49	49
2	No. of Loans per MCO	75	40	44	65	76	76
3	Outstanding Portfolio/MCO Kshs. (Million)	1.96	2.00	2.76	4.48	5.78	5.93
4	Cost per loan made Kshs.	4,797	14,085	17,932	9,732	10,984	13,077
5	Cost per Kshs. Lent (Cts.)	0.12	0.19	0.17	0.10	0.09	0.09
6	Portfolio yield (%)	22%	45	49	51	47	46
	Loan portfolio Quality						
1	PAR (> 7 days - %)	3.52%	2.10	5.57	5.45	8.06	9.72
2	P.A. provision Kshs. ('000)	226	1,294	482	3,676	15,507	18,444
3	Provision/loan portfolio ratio %	2.9%	3.1	0.5	2.1	5.5	6.4
4	Write-offs	0	0	0	0	0	0
	Profitability						
1	Total revenue ('000)	1,721	11,280	31,645	66,671	108,332	131,326
2	Total operating expenditure ('000)	2,216	17,902	25,176	43,005	59,498	69,360
3	MCU net profit ('000)	(951)	(9,698)	(1,069)	9,278	22,237	50,020
4	Operational expenses/portfolio ratio (%)	28%	72	39	33	26	24
5	Financial self-sufficiency (%)	64%	54	97	116	126	197
6	Bank profit/(loss) ('000)	(107,567)	(2,353,955)	(802,901)	146,864	180,521	335,392
7	MCU profits contribution (%)	0.9%	0.4	0.1%	6.3	12.3	14.9

Source: Co-operative Bank of Kenya, Micro Credit Unit
** This also includes deposits from branches, which only offer *Haba na Haba*
# The reporting date applicable USD exchange rate is Kshs. 77.80/US $
@ This includes the agencies

3.4.2 Analysis of the Key Program Performance Areas

a) **Overall Outreach**
The MCU clients outreach locations increased from 3 by end of December 1999 to 27 as at 31st, March 2004 with savings clients outreach growing from 714 in December 1999 to 86,660 as at 31st, March 2004 and loans clients' outreach of 298 in 1999 to 3,738 by end of March 2004.

b) **Staff Growth**
To support the above growth, the number of MCU staff increased from 10 in 1999 to 54, (49 being MCOs and 5 Management and Supervisory Staff at Head Office) as at 31st March 2004.

c) **Portfolio Growth**
The MCU loan portfolio has grown from Ksh. 7.8 million by the end of 1999 to Ksh. 290 million as at 31st March 2004 with corresponding savings portfolio growth of Ksh. 6.7 million in 1999 to Ksh. 1.5 billion by end of March 2004.

d) **Efficiency and Productivity**
With respect to efficiency and productivity, the Program had average loan clients per MCO of 76 against the set target of 175 and industry standard of about 200 for individual delivery methodology. This industry standards however, needs to be appropriately interpreted within the context of the branch/agency location (urban vis a vis rural), population of MSEs ,social and cultural factors, level of infrastructures within the branch/agency location, etc.

It is also important to observe that the Bank's focus is to address the needs of the "missing middle entrepreneurs" above traditional MFIs and below traditional commercial bank market. To enhance the number of loans per officer, the Bank may need to re-examine the location of branch/agency and broadening the range of MCU financial products and services.

With respect to loan portfolio, the Program exceeded the set target for the average loan amount per MCO of Kshs. 5.5 million by recording an average loan amount per MCO of Ksh. 5.78 million as at 31st March 2004. This is as a result of advancing average loan size amounts of about Kshs. 78 000 compared to country MFIs average loan size amount of about Ksh. 35,000; which favourably compares to the Kenya per capita income of Ksh. 30,000(US$ 370). The per capita income is the standard measure for poverty focused MFIs lending Programs.

As at march 31, 2004 the Program had achieved a loan portfolio yield of 46%, which compares favourably with the industry benchmark for MFIs of 42.4%.

e) **Loan Portfolio Quality**
The Program had a very satisfactory loan portfolio quality from the start in 1999 up to end of 2002 with PAR of between 3.5% and 5.45%, which compares favourably with the microfinance industry of <5%. However, starting mid – 2003 the portfolio quality began to be a real challenge with PAR declining to about 10%. Through aggressive follow-up and re-possession of the collateral held during the year, the PAR improved

to 8% by 31st December 2003 with a decline on PAR being experienced at the beginning of 2004 to stand at 9.72% by 31st March 2004.

The PAR has since been stabilised and contained at below 9%. The loan arrears management and control remains a real problem for the Program. As a result of this decline in portfolio quality, the percentage of loan provision to loan portfolio rose from 2.9% in December 1999 to 6.4% as at 31st March 2004 compared to the industry standard of 2%.

f) **Loan Write offs**

Although substantial loan provisions have been made yearly amounting to a total of nearly Ksh. 150 million by March 2004, no loan write offs have been effected as per the policy. The decision to write off has been withheld as a result of the overall Bank weak reserves as a result of the August 7th 1998 Bomb Blast which literally brought the Bank to near bankruptcy. With the return to the overall Bank profitability by the year 2002 and strengthening of the reserves, the Bank is expected to gradually write off unrecoverable loans as per the policy so as to reflect the correct position of the loan portfolio asset in the Balance Sheet.

g) **Profitability**

Over the period, the Program's profit / (loss) increased from (Ksh 951 000) by end of December 1999 to Ksh 22, 237, 000 as at 31st December 2003 with Projected 2004 profits of Ksh 50 million. By the end of 2003, the Program had an operating expense/loan portfolio ratio (%) of 26%, which compares favourably with the industry standard of 28%. The Program had a financial self-sufficiency ratio (%) of 197% by end of March 2004, which compares favourably with the standard for the industry of over 200%.

3.5 The Program's Achievement due to USAID Support

As reflected in the USAID budget support Table 1 of this evaluation report, the bulk of the USAID funding was to finance microfinance agency infrastructure (46% for construction and 30% for operational support).

By 31st March 2004, the Bank had successfully implemented six phases of the MCU using the Program's framework supported by USAID. These phases were carried out in a systematic and continuous series of MCU activity implementation. Starting in September/October 1998, 4 Agencies were constructed from scratch. Roll-over of the Program has been done to existing 23 branches, where micro credit products have been introduced throughout the country.

Including the four agencies, microfinance outreach within the bank is now spread in 27 outlets. Twenty-six (26) locations operate both the savings product and the loan product while six (6) branches only offer savings product. The savings add-on product, VISA debit card is also available to all savers in the bank.

The following are key detailed achievements of the Program areas supported by USAID.

3.5.1 Microfinance Agencies Infrastructures

Construction of agencies

The partnership between USAID and Co-operative Bank of Kenya provided the Bank an opportunity to pilot test a microfinance Project, more especially using a new cost delivery approach. In implementing the concept, USAID paid the full cost of construction, installation of business infrastructure especially IT equipment and covered operations costs for the first two years at 100% in year one and 50% in year two.

Construction of three agencies started around may 1999 first with Kariobangi, followed closely by Meru- Makutano agency and thirdly in the same year Kawangware. In November 1999, Makutano agency was opened, followed by Kariobangi while Kawangware opened its doors for operations in 2000. To date four agencies are up and running: Kariabangi, Kawangware, Makutano and lately Kitale. The agencies have a slim and low cost structure. This is meant to achieve efficient delivery of financial services to target clients. We established that staffing level for the agencies was five people with the following responsibilities;

Staff	Number	Responsibility
Agency manager	1	Overall overseer of activities
Credit officers	2	Lending activity and sale of micro credit products.
Back office staff	1	All back office work.
Cashier	1	All telling activities, and front office
TOTAL	**5**	

Location of an agency depended on concentration of MSEs who were the target clientele - within a radius of 30 kilometres. This was determined by a feasibility study carried out by MCU staff. Initial sites were Kawangware and Buruburu. Makutano location came up on the plan owing to lack of 'installed capacity' at the Meru branch and non-proximity to the segment market. However, the operations were launched at the branch to start with pending transfer to the agency. The Buruburu location never took off due to lease unavailability and a new location–Kariobangi was identified.

For operational support and oversight, the agencies were to report to the nearest branches. Thus Makutano reports to Meru, Kawangware to University Way and Kariobangi reported to Nacico before it was upgraded to branch status in 2003. The assessment of the suitability of the location shows Kariobangi to have been most appropriate. Its performance both in terms of number of clients' intake and profitability testifies to this. At the neighbourhood of this agency are the Kariobangi light industries while surrounding estates are littered with numerous micro entrepreneurs who patronize the Bank.

Although the location of Kawangware is close to target market, the agency faces competition from microfinance institutions and the K-Rep bank. This not withstanding, the agency's performance in savings mobilization is extremely good. It has the highest number of savings deposits (March 2004 – Kshs.94 million). The Makutano agency is located too close to Meru branch and clients prefer to visit the branch than the agency. Low availability of micro credit officers at the start of the agency contributed to the slow take-off of microfinance services in this location.

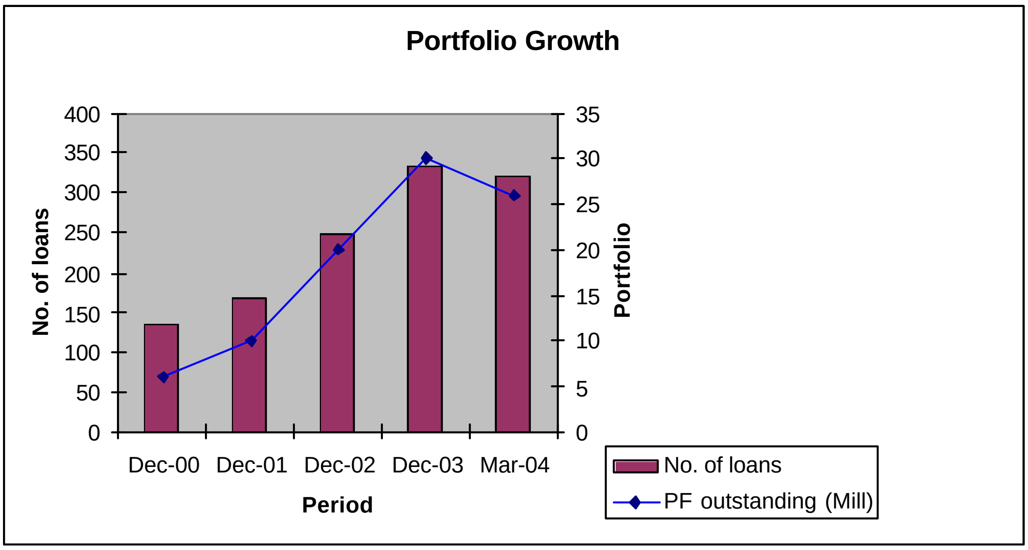
Kitale agency was opened late in 2003 and it's expected to reach profitability by end of one year's operation. This expectation is based on MCU's gained experience and service delivery perfection. A fifth agency located in Nairobi's Githurai area was under construction by the time of the evaluation.

USAID financial support to the agencies ended in year 2001 for Kariobangi and Kawangware and 2002 for Makutano. All the agencies except Makutano were able to achieve financial self-sustainability before the end of USAID support. The evaluation team however is of the view that given appropriate focus on outreach among the Makutano area institutional establishments and business community, the agency has the potential to be profitable and sustainable.

Operational support included sponsorship to various training Programmes and study tours to acquire requisite microfinance skills. A key aspect of this training was marketing skills for micro credit products and the delivery process. The evaluation team established that the agencies were used as training grounds for orientating newly recruited officers before being posted to their workstations. This service was especially offered by Kawangware and Kariobangi agencies.

Suitability of products

Start of operations in the agencies went as per plan. Credit officers marketed *Haba na Haba* savings product before introducing *Biashara* Plus loan product. Savings account details for MSEs were also used for appraisal purposes by the bank along with statements from other banks. These two products picked up very first in all locations. Kariobangi performance on the loan product has been exemplary since start (Graph 6 below). The ATM cards were introduced in 2002 with a number of MCU clients interested in them particularly in Kawangware.

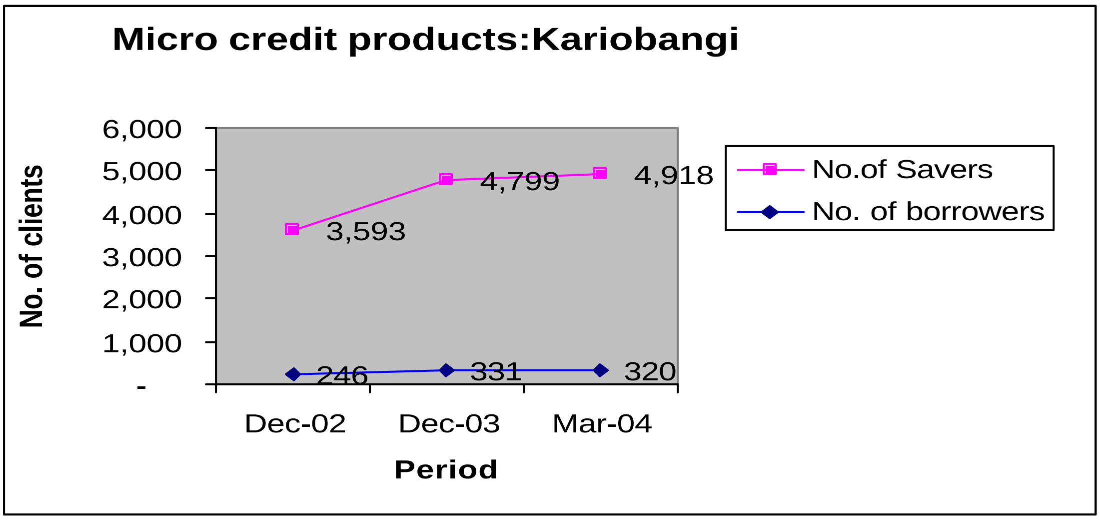


Graph 6: Kariobangi portfolio growth

The *Biashara* plus loan is offered to individual micro entrepreneurs who have been in operation for at least six months in permanent premises. It's basically a character loan where household items and business assets are pledged as security. Interest rate is charged at a rate of 2.5% for loans of <Ksh 50,000; 2% for loans of <Ksh 300,000 and 1.5% for loans of >Ksh 300,000 per month with a payback discount (interest rebate) of 0.5% upon on-time repayment. First and second loans are payable within a standard period of six months with 3rd and above loans having up to 12 month period. Average loan size in existing agencies is currently Kshs. 80,000 while a maximum amount of Kshs.300, 000 for *Biashara* Plus and Ksh 600,000 for *Biashara* Premium is obtainable by eligible MSEs.

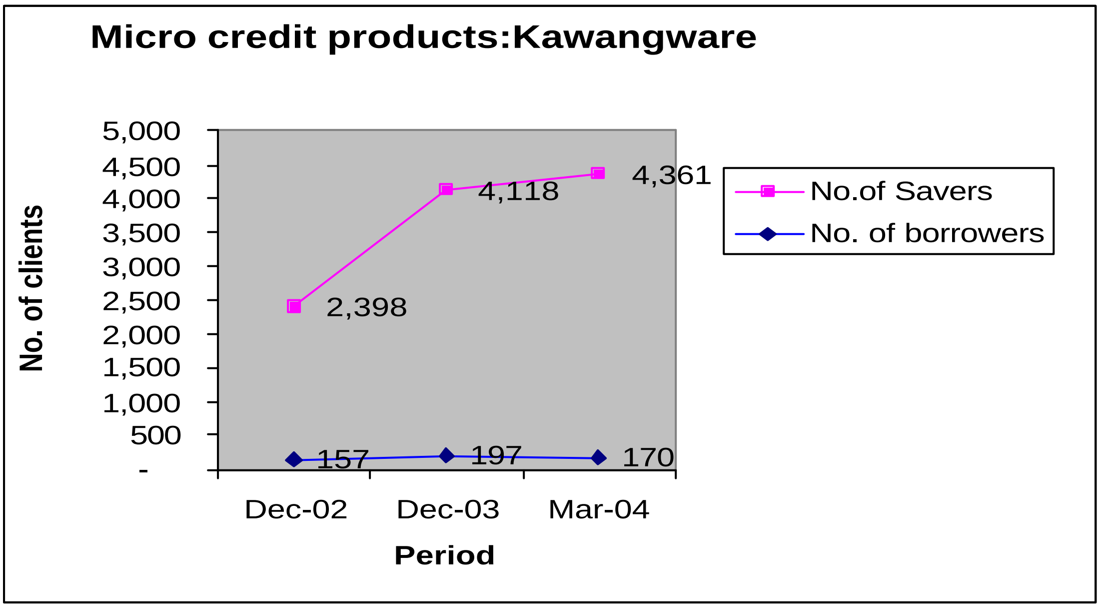
The quality of the loan portfolio is dependant on the personal relationship of the loan officer and appears to decline in his/her absence. The delivery time for loans is 7 days on average while repeat loans take on average 3 days. This is considered the fastest loan processing lead-time in the Kenyan microfinance market.

Haba na Haba savings product is particularly attractive to low income savers. It's a no charge account with a lot of operational flexibility unlike normal savings account. Clients both in MCU locations and other branches have made use of this service leading to tremendous growth in number of accounts opened everyday. The savings product has more clients than *Biashara* Plus loan product indicating probably that it was most appropriate for the target clientele. More deposits have been raised by the agencies than have been able to be lent out.



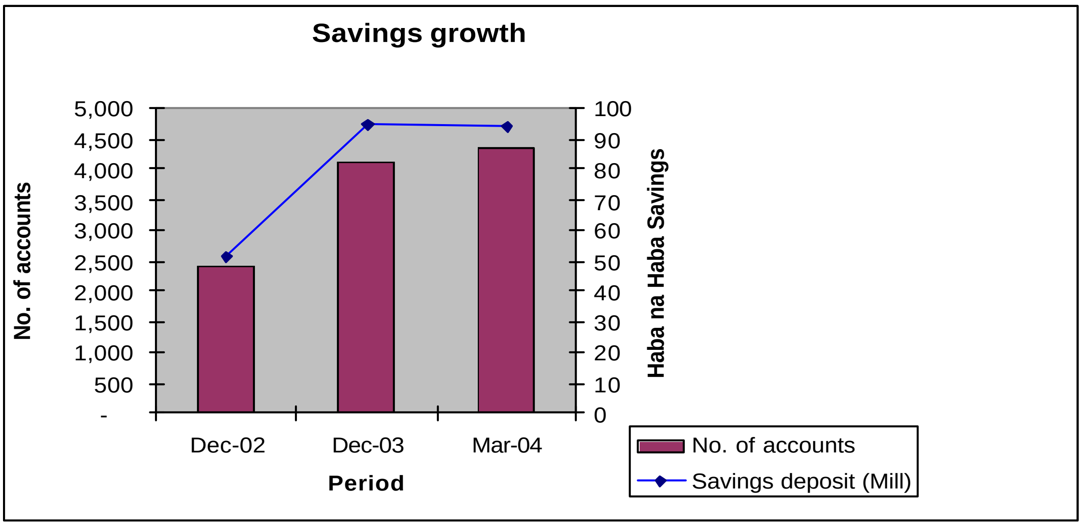
Graph 7: Kariobangi products performance

As can be seen from performance of the two products in Kariobangi and Kawangware, the number of savers out performs the borrowers in every location. The increase in the number of clients each year indicates target beneficiaries of the Project are consuming the products as expected. It also signifies ability to meet customer demand with appropriate products and services by the bank through agency delivery mechanism. We established that the bank has a business reputation and competitive hedge in serving the MSE market segment.



Graph 8: Kawangware products performance

The Kawangware agency leads in savings mobilization. As at the end of March 2004, ordinary Bank savings had 2,271 clients while *Haba na Haba* had 4,361. The amount of shilling *Haba na Haba* savings of Ksh 104 million was equally impressive compared to ordinary savings of Kshs. 83 million as at the same date. This indicates the popularity of this product in the marketplace. As shown by the loan to deposit ratio (Table 3 below), MSEs borrow sparingly in Kawangware than in Kariobangi. By the end of December 2003, Kariobangi was lending 33% of its deposits while Kawangware lent only 16%.



Graph 9: Kawangware savings deposit growth

Agency Viability

The microfinance Program has had tremendous effect on the bank's performance. The contribution of micro credit business segment in terms of bank's deposit base, profitability and portfolio quality has been commendable. A review of the percent of loans to deposits (Table 3) shows that the agencies are able to sustain their lending operations. This translates to great savings on the cost of funds for the bank. Indeed the agencies have been able to turn-in profit within 9 to one year of their operations. This indicates the viability of the agency as a business concept.

Table 3: Agency performance

AGENCY PERFORMANCE over the last two years													
Agency/Performance		Kariobangi			Kawangware			Makutano			Kitale		
Outreach	Years >	2002	2003	Mar-04	2002	2003	Mar-04	2002	2003	Mar-04	2002	2003	Mar-04
No. of clients	As at-	3,593	4,799	4,918	2,398	4,118	4,361	789	1,197	1,231	-	375	698
Savings (Mill)	Kshs.	61.4	90.6	92.6	51.1	94.8	94.3	13.6	19.9	20.8	-	6.6	11.9
Comm. Loan Disburse	(Mill.)	93.7	170.8	189.7	68.4	112.1	117.9	n/a	n/a	n/a	-	1.3	3.2
No. of Loans	As at-	246	331	320	157	197	170	n/a	n/a	n/a	-	17	42
O/S portfolio	(Mill.)	20.1	29.5	26.7	13.0	15.4	13.0	2.7	3.4	3.3	-	(1.3)	2.3
Loan to deposit ratio		33%	33%	29%	25%	16%	14%	20%	17%	16%		-20%	19%
Performance													
PAR (>7 days)	%	3.70%	2.60%	2.10%	4.30%	20.80%	21.41%	n/a	n/a	n/a	-	0.00%	0.00%
Profit/(Loss)	'000 *	3,231	6,952	12,176	1,255	1,898	3,952	(2,840.0)	(879.0)	n/a	-	(291.0)	(293.0)

* Profit as of march 2004 is annualized except for Kitale

The main earning asset is the loan portfolio. Profitability is therefore highly dependent on loan disbursements and quality of the portfolio. Both are a function of the loan officer and the support of branch/agency management. Where the location meets these conditions, performance is very good (see Kariobangi figures in Table 3). Loans that are delayed in payment for more than seven days are kept at a minimum, within a target of less than 5% of total portfolio. Kariobangi has kept to this standard.

A factor that has influenced the viability of this concept is the low cost structure of the delivery process: an average of two credit officers per agency; merged front and back office, transport allowance based on public fare rates, and person to person marketing. This structure has a huge cost cutting impact. The credit officers are also well trained, they take their responsibilities with seriousness and their morale is boosted by a well incentified compensation Program. An information technology enabled information system empowers managers at head office to monitor and direct the lending process on a real-time basis. A key aspect of this information provision is the close management of the portfolio using key performance indicators, which guarantee high repayment.

3.5.2 Study Tours

Study tours were planned and executed to three countries exposing the bank staff to microfinance operations in other parts of the world. Twenty four (24) bank officers visited Centenary Bank in Uganda; sixteen (16) visited National Microfinance Bank in Tanzania, while nine (9) visited BRI in Indonesia.

Both local and external exposure study tours to best practitioner MFIs in Kenya, Uganda, Tanzania and Indonesia and related training had significant impact on MCU Staff and relevant Bank Management team. The impact has been mainly in the areas of acquiring requisite knowledge and skills for services delivery to MSEs and on the area of attitude change towards the sector as a viable and profitable business for the Bank if appropriately designed and delivered.

The exposure for the nine Bank Executives and Senior Managers to BRI has been described by some participants as an "eye opener" to existing potential in MSEs market for commercial banks keen to enhance profitability while contributing to the economic development of the country. After these exposure Programmes microfinance is taken as serious and a worthwhile business at all levels of the Bank.

The exposure visit Programmes to Uganda and Tanzania by the MCU management and MCOs have been instrumental in fine – tuning the design of the MCU Program with respect to policies, procedures and services delivery systems aimed at enhancing its performance. Some of the key learnings from these exposures were in the area of clients outreach strategies which enables loan officers (LOs) of Centenary Bank – Uganda to manage up to 500 clients and those of National Microfinance Bank – Tanzania achieving an average client load of 200 while handling other Bank products such as personal loans and business loans.

Overall, these exposure and training activities have provided the MCU Staff with the motivation to take on the challenge to significantly increase loan client load while maintaining PAR of <5%.

3.5.3 Information Technology

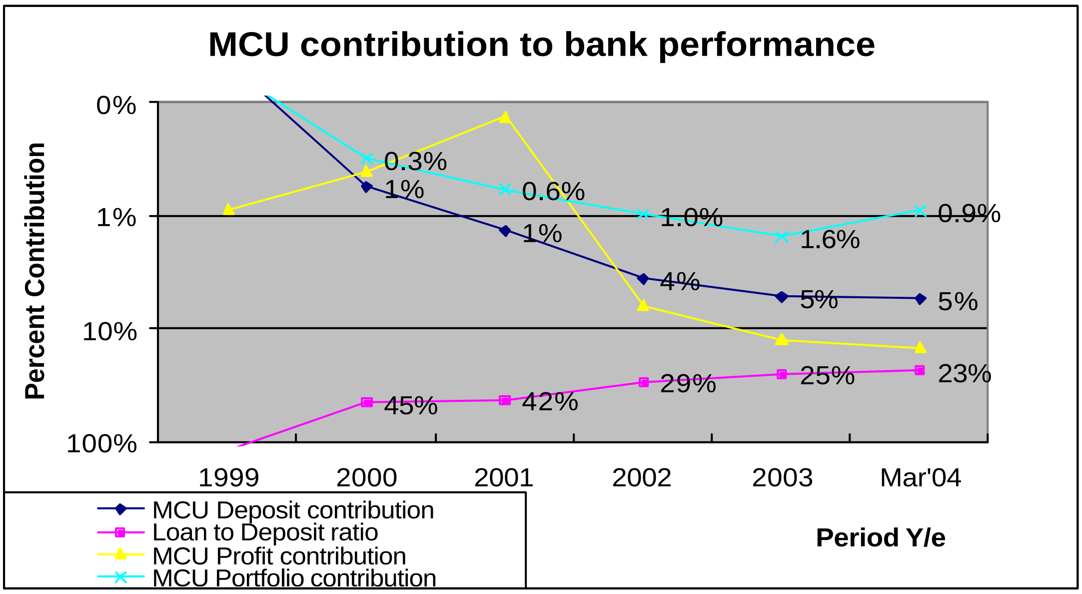
State-of-the-art information technology software tailored to microfinance reporting has also been installed in the Bank. IT equipments have been procured for the agencies to facilitate computerized operations. The software was designed to enhance staff capacity and accounting knowledge so as to lend more to small and medium businesses on a sustainable and profitable basis. This on-line system provides management information specific to the MCU business but is integrated to the main MIS system of the bank.

The MCU MIS is rated very highly in the bank. This is due to production of reliable and relevant information that informs managers on business performance and achievement towards set targets. Information is timely and real-time. Specific security levels have been provided to staff at different levels to enable them interact and query the system. A key achievement of the system is its analytical capacity for the business activity and staff performance details. This kind of information, other bank staff reckons "is only available probably at year end for other bank credit operations".

3.6 The Programs Impact to the Bank

The MCU Project has impacted the bank in a number of ways. Firstly, the fast growth of *Haba na Haba* deposits demonstrates that MSEs can save large sums of money unlike the conventional thinking of many commercial banks. Secondly, the Project has been able to achieve a 5% contribution to the bank's total deposits of 27.5 billion shillings in 2003. This has positive implications on the cost of funds given that savings are a cheaper source of loan capital. Major Program impact to Bank includes:

a) The amount of savings hit the 1 billion mark in a record four years to stand at 1.5 billion shillings by the time of the evaluation. A comparison of the loan to deposits shows that the Project is sustainable with respect to on-lend funds. This ratio, which stands at about 25%, indicates that the Project has sufficient funds to finance its lending operation and invest a similar amount, while meeting the cash ratio requirements by the banking act.

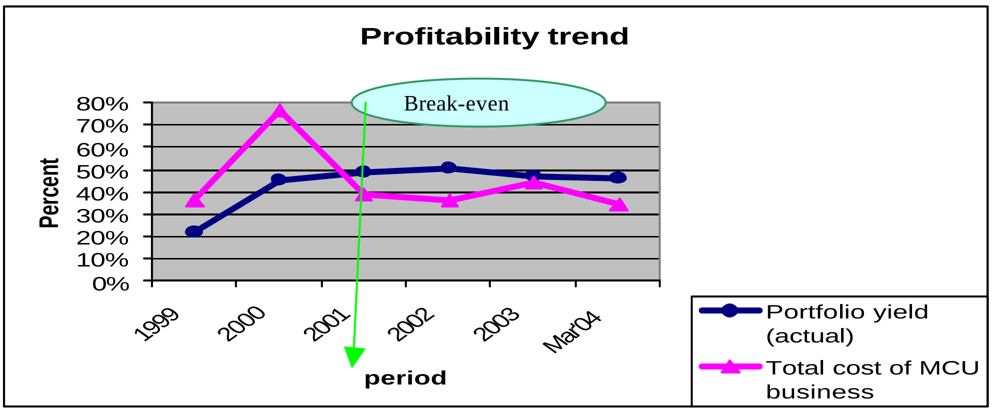


Graph 10: MCU contribution to total performance

b) The popularity of the savings product has given the bank a good image. By targeting the products to the low income market the bank predictably launched successful products that customers want to buy. Many MSEs now associate themselves with the Bank than before. Savings deposits account for well over 80% of all deposits where the Project has been implemented. In fact in some MCU branches, the fame of micro products has overtaken all other Bank product offerings.

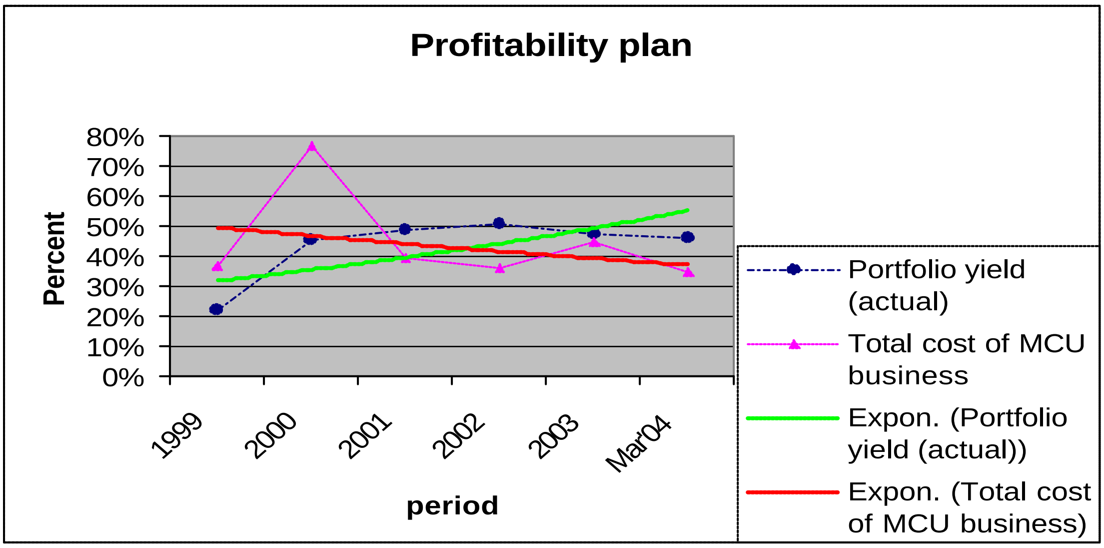
c) The MCU Project, although an experiment, seems to be a good strategic move for the bank. Micro credit products and the agency concept as a delivery mechanism simply made the bank get the scope of the microfinance business in Kenya right. The Project currently contributes a vital 15% to the total profitability of the bank. This is no longer a Project but a business! This demonstrates that commercial banks can do profitable business with the 'poor' and that these clients repay loans.

The profitability trend shows that the Project has increasingly improved its ability to generate profits over the years. The total cost of microfinance business in the bank is coming down while earnings from the portfolio are on an increasing trend (Profit Trends Graph 11).



Graph 11: MCU profitability

The portfolio yield representing actual ability (effective interest rates) to generate revenue increased in two years to settle around the 50% mark. The main costs (cost of funds, provisional expense and operating expenses) have simultaneously been coming down as the MCU gained experience to manage the business of lending to MSEs. The Project reached its break-even point in 2001 (two years after start), with 14 MCU operational locations.



Graph 12: Profitability Projection

The profitability plan graph 12 shows that the business model is working and that serving this market segment is profitable to the bank. Indications are that, the MCU Project is set to increase its profit earnings exponentially in the current year. The Project has great potential for replication or transforming a commercial bank to serve the financial needs of micro and small enterprises.

d) The Project had an impact on the way the bank manages the loan portfolio. The key to good portfolio management is information. A critical element is the use of relevant and real-time information to guide decisions on the quality of the portfolio. The MCU management information system produces key performance indicators that have helped both the head office and credit staff to direct day-to-day activities effectively. This has kept the performance of the portfolio in line with industry standards in terms of loan default rate. This has demonstrated to the bank that the key to guaranteeing earnings is the quality of the loan portfolio. Note that MCU portfolio is insignificant to the bank total (about 1%), yet the same significantly impacts the bottom-line.

Ownership of the portfolio by the loan officer has both positive implication to portfolio quality improvement and negative ones to. MCU emphasized relationship management that gave the customer personalized attention and involvement. This approach leads to low loan default due to creation of loyal customers. However, as has been observed, this approach can lead to disastrous PAR results if staff movement is not appropriately managed.

e) Behaviour change: The Project injected a change of attitude with respect to the way management viewed MSEs. Many considered this target of clientele as merely unprofitable customers. The Project has proved that, these kind of customers can give the bank business and are bankable.

3.7 The Program's Main Challenges

In the process of implementing the activities necessary for the achievement of the Program objectives over the 5 year period, there were many internal and external challenges experienced and which to a large extent affected the overall performance of the Program. The key challenges include:

3.7.1 At the start of the Program implementation, a number of challenges related to the design aspects such as loan policies, procedures, delivery processes and tools including terms and conditions were experienced. These challenges were handled by the Program implementation team through systematic use of feedback from the pilot phase results vis-à-vis plans. Based on these learnings, the Program's original design packaging has over the period been re-engineered to effectively respond to the needs of MSEs. However, the loan collateral aspect, which has remained unchanged, continues to present a real challenge for effective risk management and control.

3.7.2 Effective internalisation of MCU Operations as an important bank business among other Bank Head Office and Branch Management and Staff so as to ensure its acceptability, ownership and support by all. Related to this aspect is the issue of real integration of MCU Operations to other Bank Operations at both Branches and Head Office in terms of perceptions by staff in view of the traditional culture of resisting change. Although a lot has to – date been done to address the challenges herein, there is still much that remains to be done if the full potential of the Program has to be realised in the years ahead.

3.7.3 Across the board, MCOs, Branch/Agency Managers and MCU Management Staff interviewed, acknowledged the heavy workload of MCOs as a real and major challenge that has to be appropriately addressed for the long term sustainability of the MCU operations as a core business of the Bank. This aspect of the MCOs role in the Program is compounded by lack of back office support and convenient transport facilities for fieldwork.
The evidence of this challenge is reflected by the keen interest MCOs have to transfer to other Bank operations and the reluctance of other Bank staff to work in MCU.

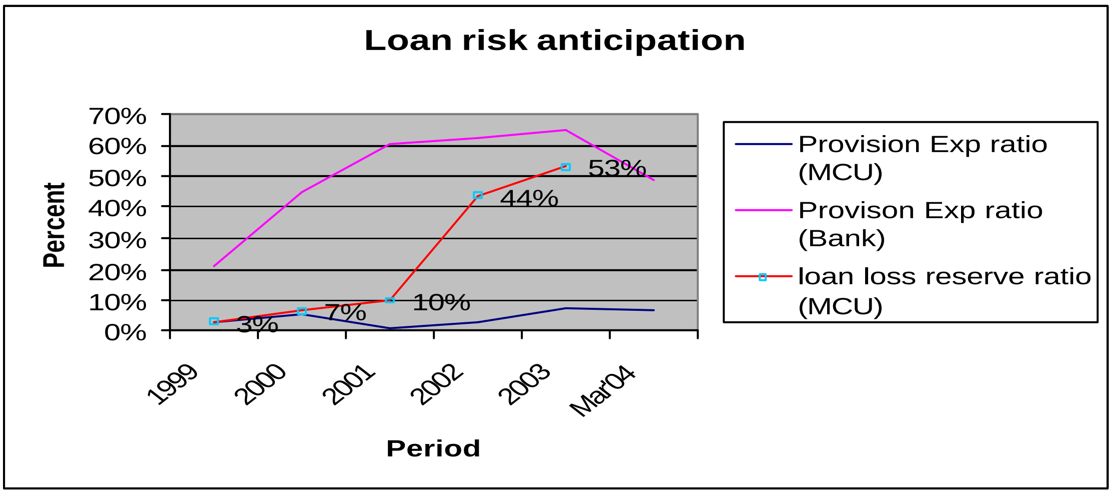
3.7.4 Also across board, Branch Managers, MCOs and MCU Management acknowledged the apparent lack of clear career path for MCU staff as a real challenge that required urgent attention within the overall context of the Bank's human resource policy. This challenge is particularly pronounced at the MCOs level where compensation is perceived not to be commensurate with their responsibilities as MCU loan portfolio "Managers" compared to responsibilities of other bank clerical staff.

3.7.5 To–date, one of the key single most major challenge for the Program, which all the staff interviewed acknowledged is that of loan arrears and PAR management, control and maintenance at less than the Bank's acceptable level of <5%. This critical challenge for any MFI is further complicated by the household items pledged as collateral due to their low re-sale value and the risk of compromising the Bank's image at the re–possession process. The re–possession of these items is also a major challenge as it is done by MCOs who are legally not empowered to undertake the job.

With increased awareness of the affected *Biashara* Plus clients on their legal rights, the practice could be a high risk to the Bank. There is evidence that the Bank is presently attending to the challenge hereto with a view to engaging professional auctioneers to handle the re–possession. The plea by all stakeholders who expressed concern on the issue is that the Bank should move with speed to streamline the process.

Another key challenge which emanates from the issue of PAR management is that of sustaining the growth of loanable capital in the face of rising loan provisions that had accumulated to over Ksh 150 million by the end of March 2004, which is about 50% of the portfolio outstanding by that date.

The loan loss reserve ratio (cumulative provisions/gross loan portfolio) roughly shows overall quality of the gross portfolio. Since it's based on the assessed portfolio at risk, which is the key indicator of risk as per bank policy, it gives potential risk-ness of the outstanding portfolio. The graph 13 below shows a worsening portfolio in the last two years. This is partly due to no write-offs and lack of real increase of potential default rate.



Graph 13: MCU potential risk assessment

Related to the above is the challenge for the Bank to meet the high demand for *Biashara* Plus / Premium loans as a result of expansion of the Program and the popularity of the loan products, which is compounded by clients' requirements for bigger loans in an environment of increased loan defaults and the Bank's limited capital base.

3.7.6 There is a major challenge of the Program's ability to significantly increase outreach of loan clients which stood at about loan / savings clients' ratio of 1:20 as at 31st March 2004.

Related to the above, is the challenge of developing and providing a variety of loan products / services that are responsive to broad needs of MSEs operators such as personal loans, school fees, medical expenses, insurance, agricultural enterprises, etc. There is also inadequate technical and supervisory capacity at the branch / agency level which is necessary to support the effective growth of the Program's loan clients, given the heavy workload of managers related to the overall Bank business.

3.7.7 The challenge for the Program to effectively handle competition in the MSE sector in the face of increased MFIs activities in the country need consideration. A related challenge to militate against this competition is the ability of the Bank to appropriately initiate linkages with FOSAS / SACCOS that are complementary and mutually beneficial.

3.7.8 The ability of the Program to maintain an overall average loan amount comparable to other MFIs in the country average loan size of about Ksh 40,000 – 50,000 also appears to be a major challenge. This is further complicated by the MCU clients demand for bigger loans which if not appropriately balanced with deepening of outreach to microentrepreneurs requiring loans of Ksh 50,000 could further push the present high average loan size of near Ksh 80,000 which is about 100% of the country standard for MFIs.

3.7.9 The need to ensure that ATM Visa debit card services are improved and clearly understood by the MSEs operators is also a challenge for both MCU and the Bank in general. However, this is currently being addressed by the customer care department.

3.7.10 A good number of Bank staff and clients interviewed acknowledged the challenge of the Program's short and fixed loan repayment period of six months, for the first two loans and particularly with loans of above Ksh 300,000. Suggestions made to address this apparent constraint include policy provision for an optional flexible loan repayment period of up to 9 months especially for bigger loans in order to allow sufficient time for building business turnover through lower loan repayment instalments.

3.7.11 With significant expansion and growth of MCU operations at branch level, there is a real challenge with respect to focused, effective, close supervision and support of MCOs that requires serious attention in order for the Program to realize its full potential as a profitable and one of the core Bank business. As it is the practice with other Bank products like Co–operatives, Personal and Business loans products, there were proposals made to have MCU Supervisors i.e. MCU Relations Officers (MROs) in branches where there is business volume and profitability to justify such a position.

3.7.12 The general perception, particularly at the initial years of the Program implementation, where the ownership of the MCU loan portfolio was seen to be personalized at MCOs still continues to be a challenge despite concerted efforts by the Bank to ensure MCU operations are correctly perceived by all as an integral part of the Bank business.

3.7.13 There is a big challenge for the MCOs, in their inability to draw a line between close relationships with clients for necessary loyalty to the Bank without getting into a too close scenario that tends to personalise the Bank services thereby resulting into drastic decline in loan performance when the staff is transferred or leaves the Bank.

3.8 The Program's Main Lessons / Findings.

In critically reviewing the overall performance of the MCU over the 5 year period and on the basis of the objectives / targets set in the Project's original design document and subsequent adjustments, the following key lessons / findings emerge:

3.8.1 The Program had achieved its planned overall objectives / targets by 31st March 2004 as highlighted in the Program's key performance statistical indicators, **Table 2** of section **3.4.1** of this report.

3.8.2 The Program, has to a great extent contributed to a marked positive behavioural change of the traditional culture and attitude of the general commercial bank staff towards low-income clientele by demonstrating that this target market is bankable and a profitable Bank business.

3.8.3 The Program has succeeded in inculcating the culture of savings and borrowing among low-income clientele within a commercial bank institutional framework and environment.

3.8.4 The Program has demonstrated that microentreprises if appropriately supported have great potential for real growth and expansion, which can significantly contribute to employment creation and general economic development.

3.8.5 Program Design Related Lessons / Findings

Overall, the Program's design was consistent with the Bank's new business approach strategy and provided a clear focus and objectives to be achieved including a comprehensive strategy and mechanism of enabling the Bank to provide financial services directly to MSEs, on an effective, efficient, profitable and sustainable basis.

Overall, it was clear that the key design aspects of the Programs such as the loans and savings products, their terms and conditions and services delivery processes were well understood by all the staff primarily responsible for the implementation of the Program.

Specifically the following key Program design aspects provided the Bank with a unique opportunity to directly extend financial services to MSEs on a cost efficiency and profitable basis.

a) The individual lending and savings mobilisation approach or methodology of the Program's design was consistent with the Bank's existing individual loans and savings products except for the scale of products and proximity to clients including physical outreach to MSEs operations by MCOs. This design aspect made it possible for the Bank to track transaction performance of the Program without developing additional loans and savings tracking systems, which would have been necessary if the group services delivery methodology had been adopted.

b) The Program's design feature that allows for household assets/ items and the hypothecation of business stock to be taken as collateral for the *Biashara* Plus loans was instrumental in getting the Bank to provide the under served sector clients who in most cases do not have tangible acceptable security under traditional commercial bank loans.

c) The concept of de-linking loans and savings products in the Program design is a real departure from the common practice of MFIs Programmes in which potential clients have to save as a pre-condition for borrowing and continuing to borrow. **Table 2,** of section **3.4.1** of this report, which indicates the Program's savings trend over the period, clearly demonstrates that savings product, if appropriately designed and delivered, has high demand and is therefore an important and distinct service to MSEs.

d) The agency establishment aspect of the Program's design has increased the Bank's outreach to MSEs. The agencies have also demonstrated to have a relatively low cost structure leading to full operational sustainability within an average of 9 months when appropriately located.

3.8.6 The Program is making and continues to significantly contribute to the bank's financial and business performance. Over the last five years of the Project, the MCU has demonstrated the capacity to become a strategic business unit for the Bank. The major lesson to learn is that, MCU is no longer a daunting risky Project but a business that is making a 15% contribution to the bottom-line besides deposit mobilization from customers' earlier thought to have been 'unbankable'. Since the Project offers profitable long-term growth, the bank should consider nurturing this business concept into one of the company's core business.

3.8.7 The Program has demonstrated that the concept of a slim microfinance agency that offers financial and banking services directly to MSEs is practical. Given the right location, the Project has proved that an agency can breakeven and sustain successful growth in under a year. The application of the same concept to existing branches proved equally convincing. In the roll-over to the 27 branches/agencies the Project was able to sustain its operations upon adding-on the 14th branch/agency location. The Project is effectively transforming and equipping the bank, with relevant techniques to tap the low-end market that seeks for appropriate products. The potential exists for replication, as has been demonstrated by the Program results so long as there is sustained products innovation through effective market research.

A key finding related to the above is that the Program is the first innovation in Africa where a private commercial bank, through partner support limited to capacity building aspects, has established agencies from the scratch to access financial services to MSEs sector on a sustainable and profitable basis.

3.8.8 The Program's mode of operations, which is focused on very specific targets and strict performance monitoring especially on PAR monthly tracking, is an important lesson that can be replicated to other Bank loan products. The Program's arrears management targeting per month approach could be an important lesson for other Bank credit operations.

3.8.9 Based on the remarkable success of the agency concept with respect to its contribution to the Bank in terms of clients outreach, savings mobilisation, sustainability and in profiling the Bank's image to the MSEs sector, the Bank is now embarking in the process of evaluating the feasibility of expanding the agency concept to 10 new locations/mobile centres throughout the country.

3.8.10 In addition to the financial support by the USAID, the Program had consistently received from USAID very valuable technical support through an empowering process that has made it possible for the clients to seriously honour their loan repayments obligations. There was no evidence at the client level that there was donor support to the Bank, which could have sent danger signals thereby negatively affecting the performance of the loan product.

3.8.11 The qualifications, experiences, knowledge and skills of MCU staff at all levels were determined by the evaluation team to be above average for equivalent other Bank staff and generally for other MFIs in the country.

3.8.12 Overall interviews with Bank Branch/Agency Managers, Management Staff and MCOs' confirmed that they all, except for one branch manager, recognize MSEs as a good and potential core business for the Bank. Many strongly felt that, the MSEs could be a new frontier that can appropriately profile and position the Bank in the country's financial market that is constantly changing and therefore requiring creativity and innovativeness necessary for expansion and growth.

4 CONCLUSION, RECOMMENDATIONS AND THE WAY FORWARD

4.1 Conclusion

Firstly, the Program had achieved its overall objective by the end of implementation period (31-03-04).

Secondly, the Program has accomplished a very credible task of developing an efficient and effective service–delivery mechanism for a much-needed financial service to MSEs within the Bank. Roll-over of the micro credit products to all branches of the bank is almost complete, with 27 out of 33 branches/agencies delivering the Program's products as at the time of this evaluation.

Finally, the Program has clearly demonstrated that MSEs activity is a profitable business for the Bank and that the poor are bankable.

4.2 Recommendations

Taking into full consideration of the MCU overall performance to-date, and based on the identified key challenges and lessons/findings, the following main recommendations are made on the way forward for the MCU: -

a) On the basis of the overall success and achievements of the Program to-date, the evaluation team strongly recommends that the Program be institutionalised through mainstreaming its operations as a core business for the Bank. This will ensure that the Program's demonstrated high potential as a viable and profitable business is fully exploited for the Bank's long term sustainability, growth and strong positioning in the country's financial market.

b) If the above recommendation is adopted/accepted by the Bank, then there will be need to fully integrate the Program's operations to the overall Bank operations processes, management, supervision, monitoring and reporting systems, at all levels of the Bank.

   For the successful integration of the Program's operations to the overall Bank business, it will be necessary to ensure that there is requisite and appropriate structures and staffing at all levels of the organisation (i.e. Head Office and Branches/Agencies) to guarantee effective operations, supervision and timely reporting and feedback on the MSEs as a core business of the Bank. A clear staff career path in the context of the overall Bank human resource policy will be a very critical consideration to ensure effective motivation at all levels. The existing levels of reporting may need to be critically examined with a view to effecting appropriate adjustments aimed at ensuring close technical support, supervision, urgent decisions and the overall flexibility required for the success of MSEs operations.

c) To ensure long-term sustainability and growth of the MSEs as a core business of the Bank, consistent, and dynamic MSEs products development research and existing products re-engineering aimed at responding to changing needs of the MSEs sector is critical.

Effective handling of the above activity, which is strongly recommended, can enable the Bank to significantly improve on the loan clients' outreach to savings clients outreach ratio of 1:20 thereby greatly enhancing the profitability of the business. The research hereto should aim at broadening the range of loan products, to MSEs operators beyond enterprise loans to include loans to meet their social needs like education, hospital fees and for personal consumption items.

d) To effectively handle competition and to leverage the Banks' comparative advantage in the MSEs sector, it is recommended that strategies being taken to strengthen the on-going Bank's FIS franchising activities and to initiate and forge new complementary relationships with FOSAs, SACCOs and other MFIs.

e) The agency strategy as a business approach is recommended in all Bank branches and locations so as to expand outreach to the MSEs sector throughout the country. This strategy will significantly profile the Bank within the business community beyond the existing co-operative sector.

f) Presently, there seems to be a tendency to encourage the Program's clients who out grow the Program's loan amounts to other Bank loan products. Although this makes a lot of business sense, it may not be attractive and sustainable for MSEs clients who have been nurtured through a very close and personalised service.

   It is recommended that if the Program is integrated as a core business of the Bank, the new business department/unit should graduate its services to accommodate these clients growing needs, through appropriate re-packaging of the loan products in terms of say collateral requirements, loan repayment period, etc. In maintaining the clients who grow from this core business, the Bank will greatly leverage on the investments made in creating the long-term relationship with respect to risk management.

g) The Program's loan management, follow-up and monitoring systems, particularly loan arrears management monthly targeting approach and urgent follow-up on arrears (strictly by third day of default) has been very effective in ensuring high loan portfolio performance of the Program. It is recommended that the Bank adopt this loan management approach for other Bank loan products so as to maximize on the investments made to-date through improved performance.

h) The strategic support to the Program by the USAID, was limited to what can strictly be defined to be of developmental nature in as "far as it was" restricted to capacity building aspects which were beyond the per view of private commercial banks because it involved creation of effective linkage or bridge between the informal sector and formal sector. This support, which by any standard can be described as modest and of catalystic nature managed to leverage very significant financial resources for the support of MSEs sector operators without distorting the market sector, because there were no subsidies as in the case with past similar development partners' support.

   It is recommended that other development partners, seeking to leverage funds from private sector/commercial banks for the support of SMEs sector adopts the strategic approach used by the USAID to support the Bank.

4.3 The Way Forward

It is recommended that as a way forward the transformation of the MCU operations into one of its core business, the Bank should commit adequate financial and human resources.

Finally, it is recommended that the way forward hereto be effectively internalised by Board, Management, Staff, Clients and other key stakeholders through appropriate awareness creation activities and mechanisms.

5 ANNEXES

5.1 Overall Branches Performance as at 31/03/04

Annex 1: Branch financial performance

PERFORMANCE AS OF MARCH 2004 IN ORDER OF IMPLEMENTATION PHASES							Profitability	
Branch/Agency	No. of clients	Savings Deposits Mill Kshs	Comm. Disburse Mill Kshs.	No. of Loans	O/S portfolio Mill Kshs.	PAR (7 days) %	Dec-03 Kshs. '000	Mar-04 Kshs. '000
Meru+(Mak+Maua)	8,229	118.9	130.4	235	18.2	7.25%	2,401	952
Karatina	1,153	19.5	102.2	205	10.9	8.85%	955	503
Kariobangi	4,918	92.6	189.7	320	26.7	2.10%	6,952	3,044
Kawangware	4,361	94.3	117.9	170	13.0	21.41%	1,898	988
Nacico	5,064	108.5	146.7	171	16.5	9.22%	2,274	938
Nyeri	1,550	30.2	71.5	175	10.5	21.01%	446	94
Eldoret	6,592	97.9	86.8	140	14.8	17.45%	1,243	1,175
Kisumu	5,576	58.6	71.3	166	13.2	11.06%	1,643	732
Nakuru	3,752	52.5	86.1	174	14.1	8.30%	2,542	595
Thika	3,149	67.2	98.0	265	20.0	16.12%	2,011	210
Mombasa	5,386	63.3	49.1	189	12.2	7.90%	822	515
Kerugoya	1,469	27.8	80.1	165	14.7	9.19%	661	193
Bungoma	2,221	34.3	78.9	297	26.6	3.44%	2,521	1,538
Kisii	2,449	53.2	73.4	131	16.2	8.23%	1,417	2,410
Kiambu	1,669	40.5	23.6	55	4.6	4.20%	75	178
Machakos	1,392	21.3	41.6	148	12.2	7.53%	395	448
Kericho	2,509	43.7	63.1	322	16.7	12.30%	1,159	666
U/Way	4,517	90.7	29.0	83	5.2	7.84%	(22)	445
Embu	1,558	3.9	36.6	136	10.7	13.58%	(462)	635
Athiriver	755	16.8	11.3	29	3.3	17.09%	(607)	(164)
Homabay	1,142	17.6	5.9	29	2.2	9.23%	(1,067)	(265)
Nyahururu	2,220	36.2	5.5	60	4.1	0.00%	(223)	(131)
Murang'a	1,966	19.6	0.7	14	0.5	2.18%	(213)	(272)
Chuka	738	16.2	1.5	17	0.9	0.00%	(201)	27
Kitale	698	11.9	3.2	42	2.3	0.00%	(219)	(293)

5.2 Methodology of Selecting Interview Participants

A number of interviewees were sampled from those who took part in the Program in various capacities: either as implementers, clients or under the study tours/exchange Programme. The evaluation team was keen to assess progress made and to note lessons learnt by all the individuals that were interviewed. Hence during each interview, there was a particular aspect of the Program that was under evaluation as outlined below.

a) **Agencies visited** were as follows:

1. Kariobangi – Nairobi (best in disbursements, profitability). The agency is now a branch due to good performance.
2. Kawangware – Nairobi
3. Makutano – Meru.

b) **Branches:** Branches were sampled as per the criteria below.

1. Outreach – Branch with highest and lowest number of client and all branches supporting agencies. Maturity of MCU location was also considered together with region representation.
2. Outstanding portfolio growth (highest and lowest).
3. Cumulative disbursements in Shillings (highest and lowest).
4. Profitability of the MCU location (highest and lowest).
5. Portfolio quality based on portfolio at risk more than seven days for the firsts three phases since 2001 were considered (best and least performer).

Based on the above, the list of branches below was selected. Due to time constraint the number of branches was limited to ten. This is approximately half of the participating 23 branches excluding those in the last phase, which were not part of the selection due to short history.

1. Meru
2. U/way
3. Nacico
4. Nyeri
5. Eldoret
6. Thika
7. Athi River
8. Nakuru
9. Kerugoya
10. Kariobangi

c) **Exchange Program** participants: Sampling was based on objective of the visit as per reports and:

- Country of visit
- Responsibility level (Team leader/Senior management staff, Unit Managers and Supervision staff and Operations staff).
- Persons selected for interview depended on proximity to a selected branch/agency due to cost and time constraint.

d) **Client interviews**: In each branch or agency visited the evaluation team sought to interview three clients of the Project. The clients were categorized into three groups with emphasis to those who have been in the Program for at least two years.

1. One in trade and commerce sector
2. One in manufacturing, agriculture or production and
3. One in service industry

At least one client in every visit was expected to be a female – for gender sensitivity. In total, 30 were targeted to be interviewed.

5.3 Interview Guides

5.3.1 Bank Staff Interview Guide

The Bank staffs were interviewed using questions and answers based on the following broad areas:

1. The Staff personal background on qualifications, experience, date joining the Bank and involvement and roles in MC Project.
2. The Staff knowledge and comments on the design and components of MC Project.
3. The Staff comment on the Projects, policies, implementation plan, and processes including training.
4. The Staff assessment of the Project's efficiency and effectiveness of services delivery mechanism.
5. The Staff statement on the quality of portfolio measured on PAR% and quality of services.
6. The Staff assessment of the Projects achievements to – date (quantitative).
7. The Staff assessment of the Projects overall success to date (qualitative).
8. The Staff assessment on the impact the Project has had to the Bank, to Clients and other Stakeholders.
9. The Staff views on the Project's Key Lessons and Challenges to – date.
10. The Staff assessment of the Project's potential for replicability and recommendations on the way forward for the Project.

5.3.2 Clients Interview Guide

Bank Branch / Agency_____________

1. Name of Client ______________________ Age _________________
2. Type of Business ____________________ Year Started _________
3. Previous Bank Dealings: Bank_____________________________
   Accounts _________________________
   Loans ____________________________
4. FIRST CONTACT WITH CO – OP BANK: Year _________
   Describe the services received from Bank
   ____
5. FIRST CONTACT WITH MCU OFFICER: Year _________
   Date called on Bank _______________
   Date applied for first Loan _________________
   Date 1st Loan received ___________________
6. How the Loan has changed the Entrepreneur
7. Client Experience with MCU – Loan and Other Services.
8. Client's Suggestions on the way forward or improvement (overall).

5.4 List of Persons Interviewed

Mr. S. G. Mutungi – General Manager, Retail Banking.
Mr. Sam Birech – Chief Manager, Retail and Business Banking Department.
Mr. Timothy Biwott – Manager Micro – Credit Unit.
Mr. Joseph Mwangi – Manager/Field Co-ordinator MCU
Mr. Zack Ratemo, USAID/Kenya.
Mr. Jeremiah Kimeu, Co-ordinator, MCU/ HQ
Mr. David Ngetich, Co-ordinator, MCU/HQ
Mr. Samuel Bunei, Business Analyst, MCU/HQ
Mr. Sylvester Nono, Manager, Meru Branch.
Mr. George Newton Muya, MCO, Meru Branch.
Mr. Cyrus Nduhiu, MCO, Meru Branch.
Mrs.Stellamaris Mbeti, Officer In Charge, Makutano Agency, Meru.
Mrs.Alice Wambugi Thiongo, Assistant Manager, Kawangware Agency.
Mr. Ndirangu Maina, MCO, Kawangware Agency.
Mr. Joseph Nganga, MCO, Kawangware Agency.
Mr. J.M. Bundi, Manager, NACICO Branch, Nairobi.
Mr. James Karuga, MCO, NACICO Branch.
Mr. Stephen Kingori, MCO, NACICO Branch.
Ms. Ruth Titus, MCO, NACICO Branch
Ms. Lillian Kamunde, MCO, NACICO Branch
Mr. Jacob Odik, Manager, University Way Branch.
Ms. Redempta Ndambuki, MCO, University Way Branch.
Mr. Simon Kariuki, MCO, University Way Branch.
Ms. Millicent Marutit, MCO, University Way Branch.
Ms. Peninah Mwachira, Operations Manager, Kariobangi Branch.
Mr. Gideon Kihagi, Business Relations Officer, Kariobangi Branch.
Mr. Cyprian Rono, MCO, Kariobangi.
Ms. Catherine Muthuri, MCO, Kariobangi.
Mr. Patrick Psirmoi, Manger, Eldoret Branch.
Ms. Emma Rono, MCO, Eldoret Branch.
Mr. Francis Theuri, Manager, Nakuru Branch.
Mr. Paul Tieng, Co-operative Relation Officer, Nakuru Branch.
Mr. John Ngugi, MCO, Nakuru Branch.
Ms. Florence Kositang, MCO, Nakuru Branch.
Mr. Peter Mwangi, Manager, Thika Branch.
Mr. Jim Mugambi, MCO Thika Branch.
Mr. Titus Kuria, MCO, Thika Branch.
Mr. Stephen Maina, Manager, Nyeri Branch.
Mr. Newton Nthiga, MCO, Nyeri Branch.
Mr. Mwau, Business Relations Officer, Nyeri Branch.
Mr. Ronald Yegon, Manager, Athi River Branch.
Mr. Wellington Sila, BRO, Athi River Branch.
Mr. George Kahindi, BRO, Athi River Branch.
Mr. Julius Mulu, Manager, Kerugoya Branch.
Mr. Paul Gitonga, MCO, Kerugoya Branch.
Mrs.Kinyua, Jasho Sanitex (Hardware Shop), MCU Client Kawangware.
Mr. Njeru Njoroge, Siakago Craftsmen (Carpentry Workshop) MCU Client Kawangware.
Mr Paul Mureithi, Kafao Central Training College, MCU Client Kawangware.

Mrs. Margaret Waweru, Ermond Hawkers Ware (Wholesaler), MCU Client, NACICO Branch.
Mr. John Otieno Odour, Metal Work, MCU Client NACICO Branch.
Ms. Jane Wanjiru Mbugua, Concert Meat Suppliers (Butchery), MCU Client, University Way Branch.
Ms. Miriam Mugure Kithuka, Marina Fashions (Wholesaler – Retailer), MCU Client, University Way Branch.
Mr. Peter Njenga, Nany Chem Products Co. Ltd (Manufacturers of Shoe Polish), MCU Client, Kariobangi.
Mr. Kinyanjui, Pajoh Hard and Electricals (Wholesaler), MCU Client, Kariobangi.
Mrs.Annah Muthoka, Queens Beauty Stores, MCU Client, Nakuru.
Mrs.Jane Wambui, Wabeu Stores (Clothes Retailer), MCU Client, Nakuru.
Mr. John Kinuthia, Kids Supermarket. MCU Client, Nakuru.
Mrs.Asenath Mwereria, Boutique Store/Enterprises 2000, MCU Client, Meru.
Mr. Hardy Mubichi, Mumba Diary (Milk bazaar/wholesalers to institutions), MCU Client, Meru.
Mr. Nelson Kaimenyi, Café Candy Hotel, MCU Client, Meru.
Dr. Catherine Wangui Miriga, Chemist, MCU Client, Kerugoya.
Mr. Samuel Njagi Peter, Surveying Services, MCU Client, Kerugoya.
Mr.& Mrs. Paul Maina, Nyeri Agrovet, Vet Products Manufacturer, MCU Clients, Nyeri
Mr. Charles Karuga, Reybells Hotel, MCU Client Nyeri.
Mr. Simon Njenga, Family Stores (Mini Supermarket), MCU Client, Athi River Branch, Kitengela.
Mr. Albert Njoroge, Happiness Studio (Photography and Studio), MCU Client Athi River, Kitengela.
Ms. Margaret Muchungi, Clothing Business, MCU Client, Thika.
Ms. Anne Ngone, Hotel and Poultry Business, MCU Client, Thika.

5.5 Terms of Reference

Scope of Work for the Evaluation of the USAID/CO-OPERATIVE Bank of Kenya – Micro Finance Program.

I Background

In August 1998, the Co-operative Bank of Kenya submitted a solicited proposal in response to request for application (RFA) from USAID/Kenya. Co-operative Bank is one of the four largest banks in Kenya and was registered under the Co-operative Societies Act in June 1965.

The goal of the Project is to promote the growth of Micro and Small Enterprises (MSEs) by increasing their access to financial services. This will be achieved by strengthening the capacity of the bank to deliver financial services to this sector. The mode of delivery will be quite different from the traditional banking practice and therefore will involve hiring, training, include familiarization tours to other countries with similar Projects, credit officers. This sector will present a special challenge to the bank both in terms of size and cost of each transaction and the special needs of this sector; it will be a marked departure from the traditional to, new way of doing business.

The bombing of 7th August 1998 dramatically affected the Bank's financial capacity to undertake its previous commitments to the MSE Project, thus the Bank submitted a revised proposal to USAID for financial support of its Programme. USAID agreed to support the bank in the following areas so that the Programme continues with only modest interruption:

- Study tours/exchange visits.
- Micro finance agency infrastructure
- Micro finance agency operation cost support.
- Information technology (IT) support.

The Co-operative agreement between the Bank and USAID was signed on 16th September 1998 for a grant of US$ 992,949.
The partnership between USAID and Co-operative bank provided a unique opportunity to pilot a micro-finance Project in a commercial bank with an existing network of 30 branches.
Further, it provided the opportunity to pilot test a new lower cost delivery approach – the micro-finance agency – a concept with a great potential for replicability.

II Project Activities Include

- Study tours/exchange visits to renowned successful micro finance institutions in the world to gain experience and exposure
- Construction of micro finance agencies specifically to offer micro products and other related bank products in areas where micro entrepreneurs are concentrated.
- Support the micro finance agency operating cost for the first year at 100% and 50% in the second year of operation.
- Purchase of IT software and equipments for the agencies, IT capacity building for the bank in the development of an appropriate MIS and IT based products such as debit cards.

III Purpose

The purpose of this evaluation is to:

a) Asses the Project if it achieved its objectives and its impact on the bank.
b) Assess the efficiency and effectiveness of the service – delivery mechanisms and determine success and potential for replicability
c) Provide specific recommendations for Co – operative Bank and USAID for guiding the design and implementation of similar Projects in the future.
d) Provide broad lessons learned on provision of financial services to the MSE sector by a commercial bank.

The information gathered will be used by the Bank, USAID and other development agencies to guide in future micro finance initiatives targeting the MSEs sector. More specifically, Co-operative Bank and USAID will use the evaluation results for Program management, formulation, designing and implementation of future Projects.

IV Statement of Work

The evaluators will carry out a comprehensive evaluation of the Project focusing on the following areas: -

- Assess the achievement of the USAID support to date.

- Assess the efficiency and effectiveness of all aspects of the Project implementation.
- Determine if the target beneficiaries of the Project were appropriately served.
- Assess the status and quality of micro credit products i.e. the savings and loan products. (Including the savings product add – on such as the debit card).
- Assess the agencies location, profitability and business viability.
- Assess the impact of the Project on the bank using appropriate units of analysis such as profitability, change of behaviour/ policy management, etc.
- Assess the impact of training both local and abroad on the staff of the bank in relation to micro credit business segment.
- Determine the lessons learned so far from the Project.
- Assess the IT capacity building in the bank in relation to micro financing.
- Advice on the way forward on practical recommendation for improvement and for future Projects.

V Expected Deliverables

A key outcome of the evaluation is a report. Three copies of the draft report will be provided to Co-operative Bank of Kenya and USAID – addressing the issues stated above and specific recommendations of the evaluation. A final report will be prepared incorporating views and comments by the Co-operative Bank of Kenya and USAID. The Consultant shall submit a report on a Diskette/CD in MS word and four hard copies.

Acceptance of the report by both Co-operative Bank and USAID will be contingent upon the report adequately fulfilling the scope of work and addressing major areas of inquiry outlined in the scope.

The report will follow the format outlined below:

1. Table of Contents
2. Executive Summary
3. Main Body of the Report
4. Recommendations
5. Annexes (if appropriate).