The Hand in Hand's Story of Making Microfinance Work for the Bottom of the Pyramid

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Abstract
The case is about Hand in Hand (HiH) International, a global group of Non-governmental Organizations (NGOs) co-founded by Percy Barnevik, a renowned Swedish business executive and Dr. Kalpana Sankar, a nuclear physicist. HiH International consists of network partners in India, Southern Africa, Eastern Africa, Afghanistan, Sweden and UK. Their model focuses on enterprise development and job creation. However, they do have a strong microfinance program aimed at serving those at the very bottom of the pyramid who have no option in the mainstream market. The case gives an overview of the microfinance industry in Kenya detailing significant challenges such as inadequate legal infrastructure however it also demonstrate the tremendous growth opportunities. Given the opportunities and challenges currently present in the microfinance industry in Kenya and keeping in mind HiH business model should HiH Eastern Africa expand the scope and lending cap of its micro finance loans?

Key Words: Microfinance, bottom of the pyramid, South-to-South Knowledge transfer, financial inclusion, Entrepreneurial Finance

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> We are all products of our upbringing. I was born into a poor farming family in central Kenya. After school, my ten siblings and I helped with the household chores as our mother struggled to run a village shop. When our mother's shop failed, life became unbearable for us all. That experience greatly shaped my career choices, first in the cooperative industry and later in the microfinance industry. I am a microfinance and social entrepreneurship practitioner.
>
> It is the failure of my mother's entrepreneurial venture that inspired me to become an enterprise development practitioner and later to join in the setup of the Hand in Hand's operations in Kenya in 2010. My mother had an entrepreneurial spirit but she lacked any form of business skills training. In Kenya the most crucial factor is not necessarily credit, one can get money readily from loan shylocks or the countless newly minted microcredit firms as well as from the mainstream Commercial banks. What we are most deficient of is proper entrepreneurial skills training and relevant vocational skills. At Hand in Hand, we have developed a business creation model to enable people to start and run their own enterprises, increase their income and climb out of poverty. - Pauline Ngari, CEO of Hand in Hand Eastern Africa (HiH EA).

When Ms. Pauline Ngari joined the founding team of Hand in Hand Eastern Africa in 2010, she was totally convinced that HiH's four pillar approach would help change the lives of the people at the very bottom of the pyramid in the entire Eastern African region. She is a firm believer in empowering people through equipping them with pertinent knowledge and skills. Credit is important but is of little use if the entrepreneur lacks basic entrepreneurial skills. HiH EA is a member of the Hand in Hand Global Network whose primary objective is poverty alleviation through enterprise development and job creation among disenfranchised individuals.
HiH EA facilitates an enabling environment for entrepreneurial engagement and job creation for the marginalized and vulnerable communities. They systematically identify gaps that may inhibit implementation of training and eventual creation or growth of ventures. The HiH approach focuses on the micro-entrepreneurs as the key drivers for economic growth and poverty alleviation. Their model blends social mobilization, business training, credit access, and market linkages to create sustainable entrepreneurial ventures. This approach is adapted from the HiH India's model. Based on prior experience HiH is aware that an integrative intervention is imperative because elements that expedite poverty are essentially interconnected with each other. For instance, people cannot engage in self-employment because they lack seed capital. When they start businesses these businesses often fail because they lack proper entrepreneurial skills. If they are lucky enough to have enough seed capital and sustain a business for a short period of time they often fail to grow the business due to lack of proper linkage to the market. A piecemeal approach that addresses any one of these elements and not all of them cannot yield sustainable results. Therefore HiH embraces a holistic approach to poverty alleviation.

After three years of operation, the HiH EA team is excited about their progress and the emerging growth opportunities and are even taking on the challenges. One of the greatest dilemmas that they face as they plan their mid and long-term strategies is determining the lending cap for the nascent entrepreneurs that they serve. Currently the loans are capped at KSHS. 20,000 (US$ 233). The loan amounts range from KSHS. 5,000 (US $ 58) to KSHS. 20,000 (US $ 233). A number of their clients have expressed a desire for a higher cap, however, the chief finance officer is cautious about increasing the cap.

> I have been in the Microfinance industry for over twenty years now. I have seen microcredit organizations start strong with a clear focus on the very bottom of the pyramid as the primary or sole target group. However as time passes their focus changes and they start increasing the lending cap in order to increase the returns. This is especially true for those with private investors who tend to seek competitive returns. With higher caps comes higher returns but you should also be prepared for higher risks and higher defaults. Ultimately what happens is the returns may be high but your net margins will be relatively thin due to write offs and bad debt provisions. In the end nobody gains, the investors will not necessarily have higher margins. The overall cost of lending will increase thus hurting the very people that you are trying to help. Such organizations also end up with very high employee turnover since the employees find it difficult to recover defaults of huge loans. However, in the alternative scenario, if a member defaults on $233 loan, a group of 15-20 members can contribute about $12-16 each to cover the debt. Chances of default are greatly reduced when such group members are well prepared through training on credit management. Furthermore in the highly unlikely event of a default, such lapses are manageable for both the loan officers and the groups. It is a totally different story if the default is $500 or $1000 especially in our target group. Moreover, a majority of our clients are first-time borrowers and a number of our employees are fresh graduates. Both the clients and field officers need time to mature. - Daniel Mwaniki, CFO, HiH EA

The field officers understand these arguments however they have to deal with clients who have high enough savings to back higher loans. They also have clients with ventures that have proven track record and have strong trajectory for growth. The field officers find it tough to explain to the entrepreneurs why and how their loans may be perceived as high risk. They are aware that they may be able to appeal for a higher cap on a case-by-case basis but they feel that a universal higher cap can make their job more efficient.

> Our group has a savings for over Ksh 150,000 (US $ 1,765). We had a stable membership for more than 5 years. HiH's training is invaluable to us. We have scaled up our production, identified additional revenue streams, and strengthened our group structure. We have clear documentation of our meetings, group lending and loan repayments to mention but a few. What we would like to see more of is an increase in the loan cap. Our members require loans much higher than the KSHS. 20,000 (US $ 232) cap. We have accessed loans from the government of Kenya in the past and promptly repaid the money. Our businesses have grown considerably in the last couple of years. However, none of our members trust or meet requirements of commercial banks. We do not have collateral or high balance in our personal accounts. We rely on soft loans from government agencies and NGOs like HiH. We are not interested in dealing with microfinance institutions or commercial banks based on other people's experience– Chair, Rurii Rabbit Flavours.

Ms. Ngari and the Board of Trustees have listened to both sides of the argument and they know a decision has to be made sooner rather than later. HiH EA has made remarkable progress in just three years of operation. They are keen on listening to the clients but at the same time they have to balance between being responsive to their clientele and doing what is prudent and in the best interest of all stakeholders, particularly those of the clients. The CEO argue that rising the lending cap does not address their business strategy.

> HiH EA Enterprise Incubation Fund (EIF) is designed to serve only the underserved and not to provide absolute microfinance solution. The 20,000/ capping serve her niche market. HiH EA has no plan to serve the saturated market but rather to remain with the target that is financially excluded. It is also good to bear in mind that the HiH EA core business is enterprise development training and not credit lending. - Pauline Ngari, CEO of Hand in Hand Eastern Africa (HiH EA).

Industry Background
The Microfinance Industry in Kenya has enjoyed tremendous growth in the last decade. During 2012-2013 the deposit amount grew by an astonishing 60.2% while the loan amount grew by 25.7%[1] (Exhibit 1a). Given the need for financial services in the country and presumed benefits of microfinance, this growth and the subsequent enactment of relevant legislations is fathomable. Currently only 42% of the population in Kenya has access to formal financial institutions compared to 97% in the UK or 88% in the USA[2]. The Central Bank of Kenya defines Microfinance Banks as institutions that offer a variety of financial services such as credit, savings, insurance, foreign exchange transactions and money transfer services to the poor and low-income people as well as micro enterprises. The Microfinance Banks are further divided into those authorized to mobilize and lend deposits from the general public (Deposit Taking Microfinance Banks), and those that are not allowed to mobilize public funds and can only lend their shareholders' funds or borrowed funds (Non-Deposit Taking Microfinance Banks). There is also a legal distinction between Microfinance institutions and Microcredit institutions. Microcredit institutions engage only in lending to the financially excluded population and they typically do not provide any additional financial products. The Kenyan government enacted 'The Microfinance Act 2006' which became operational as of 2nd May 2008. The Act regulates the Deposit Taking Microfinance (DTMs) Institutions in Kenya through licensing and supervision. However, a comprehensive Act for Non Deposit Taking Microfinance Institutions is yet to be put in place. Currently, the National Treasury supervises Non Deposit Taking Microfinance Institutions. As of 30th June 2014, Kenya had licensed nine DTMs (Exhibit 1b).

Many entrepreneurs have complained of the exorbitant interest rates charged industry wide, requirement of disproportionate amount of collateral and predatory recovery of loans in the event of a default by a few unscrupulous Microfinance institutions. These issues may be attributed to a number of factors. The first being the industry has grown faster than the legal framework and

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[1] Central Bank of Kenya 2011, 2012 and 2013 Annual reports as of June/30th. Retrieved from https://www.centralbank.go.ke

[2] http://datatopics.worldbank.org/financialinclusion; Demirguc-Kunt, A. and Klapper L. (2012). "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper 6025, World Bank, Washington DC.

machinery. For instance, there is a limited legal framework governing microcredit institutions and the Non-Deposit Taking Microfinance Institutions. Therefore, it is not uncommon to get a few of them whose operations are replicas of *shylock*[3] businesses. Secondly, Microfinance Banks are often compelled to charge higher interest rates due to higher transactional and credit delivery costs. For instance, a US $100 loan requires the same personnel and resources to process as that of US $3,000. Thus the unit costs of small loans are much higher than larger loans. Thirdly, for the microcredit institutions and the Non-Deposit Taking Microfinance Institutions, given that they have to lend only their funds and borrowed funds, tend to charge higher interest rates since they have to meet the prevailing interest on borrowed funds plus cover other transaction costs. Lastly, although political turmoil is relatively limited in Kenya the 2007 Post-Election violence had a huge impact on the country's most vulnerable. Most microbusiness are uninsured and they bore the brunt of violence. Most MFIs demanded that their customers repay the money advanced to them. Ultimately, the cost of money increased for everybody including the most vulnerable. However, with the advent of 'The Microfinance Act 2006' at least the Deposit Taking Microfinance Institutions are expected to charge lower interest since they access cheaper sources of financing such as mobilized savings and deposits from the public, and issuing stocks in the capital markets.

Hand in Hand Structure

HiH EA is a member of the Hand in Hand Global Network. It is registered in Kenya in 2010 (Exhibit 2) as a Non-Governmental Organization (NGO) with the mandate to operate within the Eastern Africa Region. It is currently in operation in Kenya and Rwanda and plans are underway to expand to Uganda, Tanzania and Sudan. In Rwanda, HiH EA is partnering with Care UK (Rwanda) with the current project of training 100,000 members of the Care VSLAs and which envisage creation of 80,000 jobs for the poor Rwanda Women. The partnership brings together the expertise from the two organizations where HiH EA trains the VSLAs trainers on enterprise development, value chain management and market access. The three year project is in its second year and very successful so far. HiH EA get fundraising support from HiH International, a registered Charitable Trust in the UK. HiH International is primarily responsible for the HiH Network strategy development as well as organizing fundraising campaigns, facilitating collaborations and partnerships with other development and aid organizations, and influencing public opinion in favor of HiH. Each member of the HiH Global family receives financial and technical support from the international office (Exhibit 3). Each member of the HiH network is a registered legal entity in its respective region. The CEO and top executives in each region are responsible for the operation of their respective organization under the guidance of their Board of Trustees who provides active fiduciary oversight of the overall operation. The CEOs have the right to decide on investments, which are included in the budget. However, if the planned investment is more than 20% of the budget, the Board of Trustees must be informed.

HiH International is constantly establishing frameworks for collaborative initiatives. As the umbrella body, HiH International identifies organizations with a common commitment of serving the needs of people at the bottom of the pyramid and creates a working system for the mutual benefit of all parties involved. This approach helps eliminate duplication of efforts and resources in regions where such wastes are totally uncalled for. For instance, CARE-Rwanda

[3] The term shylock is often used to refer to callous creditor: a brutal and demanding moneylender or creditor, also known as loan sharks.

partnered with HiH EA resulting in 80,000 jobs within a three-year timeframe with a budget of US$ 3.2 million. The partnership blended the best of both organizations' practices. CARE has an excellent record on social mobilization while HiH EA is known for its business training expertise. CARE has a wealth of experience and stable networks to help members mobilize savings and access loans. On the other hand HiH EA was venturing into the country with no established framework on the ground but with a powerful proven training model. The two organizations are contributing towards a common goal without duplicating efforts or resources. HiH EA has approximately 75 partnerships and on-going collaborations with development agencies and private and public companies across the world (Exhibit 4).

Business Model

HiH's entry point in any community is through gaining a buy-in by relevant community leaders before mobilizing the community, mostly women, into Self-Help Groups (SHGs). The SHGs average 15-20 members and membership is based on poverty level, common demographics and income generation opportunities. Once SHGs are formed they receive basic training in group dynamics, savings and financial discipline. In a majority of the SHGs, the members are illiterate so HiH trainers use pictures, parables, activities and songs to facilitate learning. All SHGs are required to have a constitution specifying group regulations and goals, in addition to having elected leadership and regular attendance by the majority of the group. SHGs are required to establish a culture of group saving and lending through pooling savings and using the funds to make short-term loans to members. The most commonly used modes of saving are Merry-Go-Round (MGR) and Table Banking. The African women are sensitive to public shame and they these modes of saving help them 'covering their sisters' shame' by making up for those who are short with prior arrangement.

In the case of MGR, each member of a group contributes agreed amounts on a regular basis, normally on a bi-weekly or monthly basis. The group then gives the entire collection to one or more members, contingent on their constitution, on a rotational basis until each member has received the lump sum once. Then the circle starts again. MGR enables members to build up their contribution as savings and eventually receive a lump sum to either start businesses, expand their businesses, or meet other financial responsibilities. MGR is a fairly common form of a rotating savings and credit system that has been in operation in most developing markets for decades or more, for instance it is commonly known as a '*susu'* in West Africa, an '*arisan'* in Indonesia, and a '*pandero'* in Peru[4].

Table Banking involves discretionary contribution, although the amount of members' contributions may vary, every member must contribute on a regular basis. The pooled amount is lent to members at a predetermined interest rate. Most SHGs aim at lending all the money collected in each meeting. SHGs' lending rate is usually much lower than the prevailing commercial rate. Moreover, the interest earned is accrued and divided among members at the end of the year, along with cumulated savings. The sharing of the interest income is based on each person's contribution (pro-rata basis) to the Table Banking float.

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[4] "Demirguc-Kunt, Asli; Klapper, Leora. 2012. Measuring Financial Inclusion: The Global Findex Database. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/6042 License: CC BY 3.0 IGO."

In 2012, HiH launched an innovative Savings Campaign dubbed *"Operation Akiba Nyumbani*. The "*Operation Akiba Nyumbani"* Savings Campaign uses a traditional saving technique with a novel approach that is relevant to the target market. Ms. Pauline Ngari strongly believes that no matter how poor one is it is possible to save. As a matter of fact, the savings rate in Sub-Saharan Africa averages about 40% in comparison to the worldwide average of 36%[5]. Formal savings practices are more prevalent in Mauritius (31%), Nigeria (24%), Kenya (23%) and South Africa (22%). A majority of people in the Sub-Saharan region use informal savings or what is commonly referred to as 'savings clubs'. Savings clubs are comprised of, though not limited to, community based savings methods such as Rotating Savings and Credit Associations (ROSCAs), savings in kind or accumulation of assets such as gold and livestock, piggy banking or what is also commonly known as "under the mattress" savings. Many savers tend to combine both formal and informal savings. HiH EA has harnessed this saving culture and challenged its members to a whole new level.

HiH EA enrolls willing participants in a six-month saving competition. All participants are taught how to identify additional sources of revenue as well as how to budget and allow for regular savings no matter how little. The first season of the competition realized a cumulative savings of US $29,183 from the 927 members who participated. The highest saver raised a total of US $1,192. This success validated Ms. Ngari's faith in home-based savings. These results emboldened the HiH EA team to use the success stories as motivational tools for season 2. The second season registered 4,315 participants and generated cumulative savings of US $123,051 with the highest saver raising a sum of US $2,263 (Exhibit 5).

Raising savings levels is imperative given the coexistence of the virtuous cycles of savings and prosperity and the poverty trap of under-saving and stagnation. *"Akiba Nyumbani"* is also a powerful tool of demonstrating the actual implementation of what the members have actually learned through the Savings Mobilization training modules. One of the goals of the *"Akiba Nyumbani"*/home saving campaign is to demonstrate to the participants what is possible even without an external intervention such as a loan or a handout. Given that the savings campaign is structured as a competition within the groups as well as across group, it is fun, engaging and challenging but most importantly it is changing lives in a significant way.

The season one winner, Ms. Beth Wangui, used her savings to purchase two plots of land. She fully paid for the first plot and partially paid for the second one from her savings. She is now a property owner without taking on any debt. She said, "…but the miracle of me owning a plot from the season one campaign is my best achievement in my life. I now own my own piece of land which is a great financial security." Ms. Beth saved a sum of US $1,192 in season one alone.

In season two, Ms. Sofia Mbithi, was ranked second after being ranked third in season one. Ms. Mbithi used her savings to purchase a new girder for *'Muthokoi'*, thus diversifying her revenue

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[5] Demirgüç-Kunt, A., & Klapper, L. F. (2012). Financial Inclusion in Africa: An Overview. (World Bank Policy Research Working Paper No. 6088). Retrieved World Bank; World Bank - Development Research Group (DECRG). Website-http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-6088

streams within her '*posho mill*'[6]. The motivation for her saving was to raise enough money to pay college fees for her nephew and help her husband purchase a taxi so he could move back home from his city job and join her at home in the family business. Ms. Mbithi saved a total of US $2,385 during the two sessions combined.

Business Training and Enterprise Development

HiH EA proceeds to the next level of their training model only after the SHG has demonstrated an adequate level of group stability and maturity in their savings mobilization. Enterprise development training focuses on enterprise creation and development – how to start, expand and sustain a micro-enterprise. Their training modules cover basic bookkeeping, business operations, marketing, etc. The groups are taught how to use internal savings to start businesses. For those who are already economically active the focus is on expanding or enhancing their enterprises while for those who have not been active the focus is on opportunity identification and opportunity evaluation. The training program has been modified to suit the HiH Eastern African context, adapted partly from the Indian model. Instructors further modify the delivery mode for different communities within the region in order to accommodate different cultural and learning dispositions. For instance in regions with high illiteracy rates instructors use pictures, parables, testimonials and songs to facilitate learning.

Financial Management and Access to Credit

Unlike most microcredit organizations or microfinance institutions, HiH EA only approaches the discussion of credit access after months of working with the beneficiaries. Internal group savings and other internal resources may be adequate to launch an enterprise but more often than not most members need access to additional finance after a period of time. HiH EA may link such members to external credit either directly or indirectly through partners after additional training on credit and micro-loans management.

In order to address the diverse needs of its members, HiH EA uses two approaches through which its members can access credit. The direct approach is through the HiH EA Enterprise Incubation Fund (EIF), which is intended to serve its members who need credit of up to US $233 to start or expand their enterprises. The indirect approach is through their partnerships with other microfinance providers, for those members who require credit beyond the US $233 threshold. The EIF serves the needs of members who are not eligible for formal credit, given that they lack business track record, may have inadequate credit history and lack appropriate level of assets or adequate collateral. To qualify for an EIF loan, HiH EA requires that the applicant should have successfully completed the training and demonstrated entrepreneurial spirit, trustworthiness, consistent savings record, solid repayment rate through SHG borrowing, strong work ethic and a sound business plan.

In the indirect approach where HiH EA facilitates funding through their partnerships with other microfinance providers, the loan applicants are required to meet all the requirements of a formal credit market. They must have a good credit history, solid business track record and collateral but most importantly they must demonstrate a clear understanding of credit management and

[6] '*Muthokoi'* is a traditional food for the Kamba community, in Kenya. A posho mill is a machine used to grind a cereal crop to make flour.

other aspects relating to proper accountability and budgeting of their finances. HiH EA is committed to identifying and linking their members with affordable credit from MFIs and government funding agencies like the Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF). WEF and YEDF have government subsidized interest rate development funds, which are operated by the Kenyan government. Qualified applicants are charged only a 8% processing fee, however the cap of such funds also tend to be low since the government aims at reaching a large target group. HiH EA members who have successfully tapped into these funds are pleased with the fee charge but they are still in need of additional growth capital.

Sources of Funding HiH EA Enterprise Incubation Fund (EIF)
During the current strategic plan period, 2013-2015, HiH EA anticipates disbursement of US $11,104.651 under the EIF, benefiting at least 60,000 members (Exhibit 6a). Currently EIF is capitalized through borrowing on concessional terms from social impact investors through HiH International and, more recently, KIVA.

HiH EA as a whole as well as EIF in particular is still donor dependent and may remain so for the foreseeable future. However, HiH EA is constantly seeking and implementing strategies to reduce reliance on donor grants. Currently EIF relies on responsible lending and rigorous credit assessment in addition to incorporating group guarantee methodology. The group guarantees/ group lending methodology allow the members to pool their money together and save in a formal bank account. The members co-guarantee each other when they need loans. The groups must first approve the applicants before two to three members co-guarantee each applicant. The applications are forwarded to HiH EA officials after group approval and the co-guarantee by all group members. If a member defaults, the group must repay the loan before additional loans are advanced to any members of the group. Therefore loans advanced by EIF are guaranteed by group savings as well as peer based monitoring mechanisms which provide peer pressure for loan repayment.

According to the EIF operating budget, HiH EA is projected to earn accumulative net income of $433,151 at the end of 2015 (Exhibit 5a). In order to ensure financial sustainability EIF HiH EA charges processing fees and interest rates on loans, which are used to cover administrative costs in addition to maintaining low default rates. HiH EA charges 15% per annum for the micro-loans. A member must start with the lowest loan and progress to the next level after the repayment of the lower loan. The interest rate charged is highly competitive for this market (exhibit 6b). Given the liquid position of EIF, should HiH EA consider revising the lending cap? Given the financial position of the firm (Exhibit 6a & b) and the expansion plans of the HiH EA, the maturity and performance of the existing members, is it prudent to revise the lending cap at this stage?

HiH EA is also actively seeking social impact investors and strategic partners. Recently HiH EA formed a partnership with KIVA. KIVA was founded in 2005 and is headquartered in the United States of America. Currently KIVA has 1,205,829 Kiva lenders, has loaned $586,464,725 and enjoys a 98.85% repayment rate. KIVA works with 268 Field Partners and 450 volunteers in 77 different countries[7]. HiH and KIVA share the common goals of working with vulnerable groups,

[7] http://www.kiva.org

community empowerment, entrepreneurial support and facilitating savings among the focus groups. Although this collaboration is still in its infancy, HiH EA, using Kiva's internet based platform, has already made disbursements from the $100,000 allocated to them by Kiva. HiH EA has also finalized development of the integrated MIS system that allows seamless reporting on loan disbursements and repayment to KIVA. This collaboration holds a lot of promise given KIVA's track record with the other field partners (exhibit 8). HIH EA is primarily responsible for screening the borrowers, posting loan requests to KIVA's website, disbursing loans and collecting repayments. KIVA does not charge interest on loans lent through HiH and it does not provide interest to its lenders. However, HiH EA sets an interest rate, which is used to cover its operating costs. In case of any default on KIVA loans, HiH EA notifies KIVA. This collaboration adds to the liquidity of the EIF.

Value Addition & Market Linkages
Value addition and market linkages are perhaps the most challenging components of the HiH EA model. HiH EA deals primarily with small scale farmers who, no matter how much their productivity increases, often fail to generate adequate quantities to sufficiently meet the high demands of reliable market outlets such as supermarkets and processors. So far HiH EA's interventions have helped the farmers to establish group to group market linkages as well as market linkages with the village market center and with others in their local area.

HiH EA is currently collaborating with various ministries of the government, such as Ministry of Agriculture, Livestock and Fisheries and Ministry of Industrialization and Enterprise Development, to train the small-scale farmer on modern farming techniques. HiH is also training the farmers on how to pool their produce for a common market and collectively negotiate pricing. HiH EA develops market linkage interventions based on in-depth gap analysis among the groups under training. HiH EA trains its members on how to add value to their products and/or services, primarily in areas such as processing, packaging and quality control. The inability to scale-up the quantities remains the biggest challenge.

Given the opportunities and challenges currently present in the microfinance industry in Kenya and keeping in mind HiH business model should HiH Eastern Africa expand the scope and lending cap of its micro finance loans?

Exhibit 1a: Growth Pattern Microfinance Industry in Kenya 2011-2013

Year	Number of DTMs	Growth in DTMs	Loan Amounts (US $)	Growth in loans	Deposit Amounts (US $)	Growth in Deposits
2013	9	50%	$ 252.41	25.7%	$ 221.00 (1.9 Million ACs)	60.2%
2012	6	20%	$ 200.80	17.8%	$ 137.98 (1.6 Million ACs)	28.1%
2011	5	150%	$ 170.52	2%	$ 107.69 (1.4 Million ACs)	20%

* Exchange rate US $1: KSHS. 86.27
Source: Central Bank of Kenya 2011, 2012 and 2013 Annual reports as of June/30th respectively.

Exhibit 1b: List of Licensed Microfinance Institutions in Kenya

Date Licensed	DTMs
21st May 2009	Faulu Kenya DTM Limited
31st March 2010	Kenya Women Finance Trust DTM Limited
14th December 2010	SMEP Deposit Taking Microfinance Limited
31st December 2010	Remu DTM Limited
14th June 2011	Rafiki Deposit Taking Microfinance
08th November 2010	UWEZO Deposit Taking Microfinance Limited
17th September 2012	Century Deposit Taking Microfinance Limited
29th October 2012	SUMAC DTM Limited
08th April 2013	U&I Deposit Taking Microfinance Limited

Source: https://www.centralbank.go.ke

Exhibit 2: Timeline of the Hand in Hand Global Network

- **2003** – Conceptualized Percy Barnevik & Dr Kalpana Sankar; A chapter is launched in India
- **2007** – Hand in Hand Afghanistan launched. Started a theme of South-to-South knowledge transfer
- **2008** – Hand in Hand Southern Africa launched. Operational in four countries: South Africa, Lesotho, Zimbabwe and Swaziland
- **2010** – Hand in Hand Eastern Africa launched. Pauline Ngari signs on as CEO, brings wealth of experience as one of the country's foremost authorities on microfinance.
- **2012** – Hand in Hand India launched a pilot in Cambodia
- **2013** – Hand in Hand Eastern Africa partners with CARE International
- **2013** – Hand in Hand India launches a chapter in Myanmar
- **2014** – Friends of Hand in Hand International launches in Boston, USA

Exhibit 3: Overview of the Hand in Hand Global Network[8]

Hand in Hand (International) Headquarters

Common Goal: To reduce poverty through sustainable job creation
Cultural Sensitive Approach: All members of the network implement the HiH Job Creation Model but modify it to fit the local culture
Collaborative Approach: HiH International disburse funds to the network; Members of the network collaborate with other development partners
Support Offices: HiH International; HiH Sweden; Friends of HiH International
Key Activity: Fundraising campaigns targeted towards both private & business sectors, influencing public opinion in favor of the HiH, forming partnerships with other development & aid organizations, small & large corporations
Key Figures: raised close to US$ 6 million in 2013; FACE ratio 9%; more than 1.16 million businesses and 1.7 million jobs have been created

HiH India	HiH Southern Africa	HiH Eastern Africa	HiH Afghanistan
Coverage: India	**Coverage:** South Africa, Lesotho, Swaziland and Zimbabwe	**Coverage**: Kenya, Rwanda	**Coverage:** Afghanistan
Key Figures:	**Key Figures**:	**Key Figures**:	**Key Figures:**
Accumulative Business 1.6 M	Accumulative Business 26,700	Accumulative Business 73,600	Accumulative Business 3,600
Accumulative Jobs 1.52 M	Accumulative Jobs 90,700	Accumulative Jobs 86,600	Accumulative Jobs 5,300
Accumulative Members 948,074	Accumulative Members 104,934	Accumulative Members 52,222	Accumulative Members 14,425
Accumulative Loans US$ 223 M		Accumulative Loans US $ 449,948	Accumulative Loans US $ 416,908

Source: HiH Published Materials, as of June 2014

[8] Fundraising and administration costs to expenditure (FACE) ratio; the lower the ratio the lower the overheads. Face ratio of 9% is among the lowest in the industry?

Exhibit 4: Partnerships and Collaboration Network

Partner	Contribution
HiH International	Funding, Operational Model, Structural Support
HiH Sweden	
CARE –Rwanda (Chapter of CARE International)	Social Mobilization & Entry point to Rwanda
Johnson & Johnson (through the J&J Corporate Citizenship Trust Project)	Funding for Clean Water Entrepreneurship Project
SIDA (Sida is a Swedish' government agency) & FMO (Dutch development bank)	Invested a total $1.1M for sustainable job & enterprise creation
KIVA (non-profit microfinance organization USA based)	Social Impact Investor, channel funds through HiH
National Agricultural and Livestock Extension Program ("NALEP") & Agricultural Sector development support Program (ASDSP), under the Ministry of Agriculture of Kenya.	Provide technical training to small scale farmers in order to increase productivity
The Ministry of Education of Kenya	Develop and help with the delivery of adult literacy education
Post Code Lottery Sweden & Clowns Without Borders (CWB)	Funded project aimed at social & economic empowerment of young mothers

Source: HiH Published Materials

Exhibit 5: Season 1 & 2 "Operation Akiba Nyumbani" (Home Saving Campaign)

Home Saving season 1 (Operation *Akiba Nyumbani* season 1)		**Home saving campaign season 2 (Operation *Akiba Nyumbani* season 2)**	
Total participants	927	Total Participants	4,315
Total Savings Mobilized	US $ 29,183	Total Savings Mobilized	US $ 123,051
Best saver	US $ 1,192	Best saver	US $ 2,263
2^{nd} Best saver	US $ 549	2^{nd} best saver	US $ 1,933
3^{rd} Best saver	US $ 452	3^{rd} Best saver	US $ 1,221
4^{th} Best saver	US $ 388	4^{th} Best saver	US $ 1,184
5^{th} Best saver	US $ 387	5^{th} Best saver	US $ 1,142

In US $, at exchange rate of KSHS. 86: US $ 1
Source: HiH EA Publication titled: "Embracing home savings in poverty alleviation, a case of the HiH EA Home Saving Campaign named the Operation Akiba Nyumbani."

Exhibit 6a: EIF Operating Budget

	2013	2014	2015	Total
Total Loans Funds Disbursed	**$ 2,688,454**	**$ 3,421,942**	**$ 4,997,256**	**$ 11,107,651**
Loan Capital Received	**$ 1,744,186**	**$ 581,395**	**$ 581,395**	**$ 2,906,977**
EIF Income				
Interest Income	$ 107,163	$ 347,988	$ 536,128	**$ 991,279**
Passbook Fees	$ 15,221	$ 8,791	$ 10,058	**$ 34,070**
Loan Application Fees	$ 26,884	$ 34,221	$ 49,977	**$ 111,081**
Total EIF Income	**$ 149,267**	**$ 391,000**	**$ 596,163**	**$ 1,136,430**
EIF Expenses				
Staff Costs	$ 176,744	$ 182,047	$ 187,512	**$ 546,302**
Interest Expense	$ -	$ 69,767	$ 87,209	**$ 156,977**
Total EIF Expense	$ 176,744	$ 251,814	$ 274,721	**$ 703,279**
EIF Net Income	**$ (27,477)**	**$ 139,186**	**$ 321,442**	**$ 433,151**

Source: HiH EA Audited Annual Reports & Financial Statements

Exhibit 6b: Enterprise Incubation Fund Features

Interest rate: 15% flat PA **Processing fee**: 1% of amount borrowed **Insurance fee**: 0.09% Amount borrowed* repayment period **Minimum Savings:** 10% of the loan amount **Minimum Savings Contribution**: # KSHS. 50 (58 cents) per week or KSHS. 200 ($ 2.32). **Grace Period**: A grace period may be granted depending on the type of enterprise & purpose of loan	**1st Loan Max Loan amount:** KSHS. 10,000- ($ 115.92); Max 6 months repayment period **2nd Loan Max Loan amount:** KSHS. 15,000- ($ 173.87); Max 12 months repayment period **3rd Loan Max Loan amount:** KSHS. 20,000- ($ 231.83); Max 12 months repayment period

Exchange rate US $1: KSHS. 86.27
Source: HiH Published Materials

Exhibit 7a: HiH EA Statement of Financial Position as at 31/December/2013

	2013	2012	2011
ASSETS	**US $**	**US $**	**US $**
Net Fixed Assets	166,489	66,243	46,909
Intangible Assets	53,692	-	-
Net Loans & Advances	152,174	-	-
Debtors & Prepayment	65,490	38,433	21,775
Bank & Cash Balance	658,812	523,784	103,808
TOTAL ASSETS	**1,096,658**	**628,459**	**172,492**
ACCUMULATED FUNDS & LIABILITIES			
Accumulated Funds	397,581	222,720	162,329
LIABILITIES			
Borrowings	501,477	-	-
Group Members Deposit	90,790	-	-
Deferred Income		390,100	
Creditors & Accruals	106,810	15,639	10,164
	699,077	**405,739**	**10,164**
TOTAL ACCUMULATED FUNDS & LIABILITIES	**1,096,658**	**628,459**	**172,492**

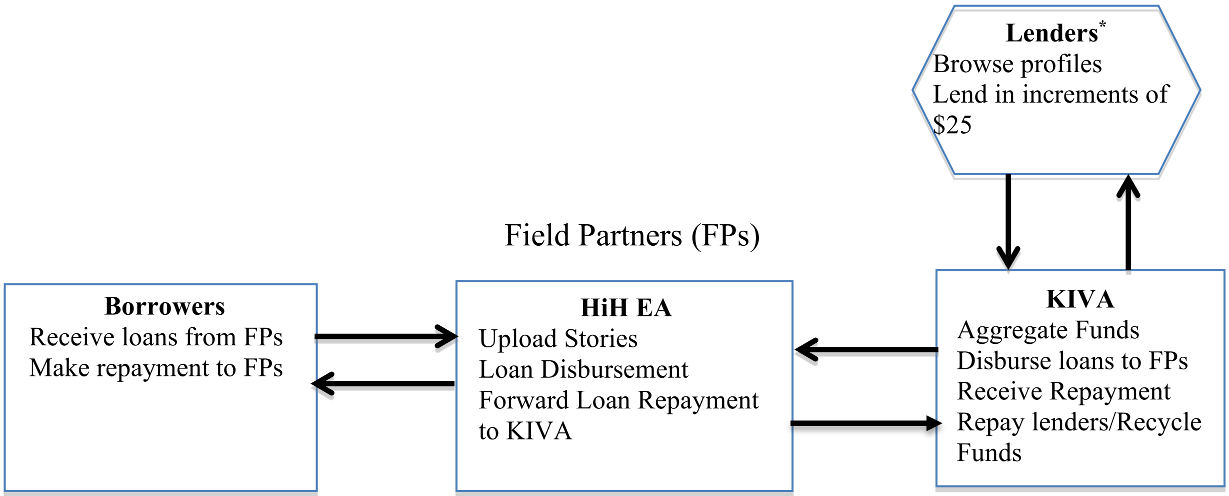
Source: HiH EA Audited Annual Reports & Financial Statements

Exhibit 7b: HiH EA Statement of Comprehensive Income for the year-ended 31/December/2013

	2013	2012	2011
INCOME	**US $**	**US $**	**US $**
Grant Income	2,109,675	1,121,997	678,146
Interest Income	10,686	-	-
Other Income	62,928	227	-
	2,183,289	**1,122,224**	**678,146**
EXPENDITURE			
Administration Expenses	191,836	118,463	60,957
Project Expenses	1,765,244	890,724	510,589
Provisioning on Loans & Advances	1,537	-	-
Depreciation & Amortizations	42,424	-	-
Exceptional Expenses	7,388	52,645	5,814
Total Expenditure	**2,008,428**	**1,061,833**	**577,360**
Surplus for the Year	**174,861**	**60,391**	**100,787**

Source: HiH EA Audited Annual Reports & Financial Statements

Exhibit 8: The Flow of Loans in the Hand in Hand EA/KIVA Partnership.



* Kiva is primarily funded through the support of lenders making optional donations. They also raise funds through grants, corporate sponsors, and foundations.

Step 1: Kiva teams up with HiH EA (a Field Partner -FP)
HiH EA has expertise in the local market and share common goals with KIVA, such as poverty alleviation, community empowerment, etc. HiH EA facilitates Kiva loans on the ground.

Step 2: HiH disburse loans and upload stories
HiH EA disburses loans when they are required. Usually this is done up to 30 days before the loan request is posted on Kiva's website or 90 days after. HiH EA compiles borrowers' stories, pictures and loan details, and uploads them to Kiva website. HiH EA requires mandatory savings and group based lending to guarantee that borrowers represent a good lending risk.

Step 3: Lenders browse profiles and lend
Lenders browse loan requests and make their selection. Loans are made in increments of US $ 25. Kiva aggregates funds from Kiva lenders and forward them to HiH EA.

Step 4: Kiva disburses lenders' funds to the Field Partner
HiH uses the funds to replenish the loan they have already advanced to the borrower.

Step 5: Borrowers repay their loans
HiH EA collects repayments from Kiva borrowers plus interest due. KIVA does NOT charge interest and it does not provide interest to its lenders. However, HiH EA sets a relatively low interest rate, which is used to cover its operating costs. In case of any default HiH EA notifies KIVA.