

SMEP ANNUAL

REPORT

FOR THE YEAR

2004

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SMEP ANNUAL REPORT FOR YEAR 2004

1. BACKGROUND

Small and Micro Enterprise Programme (SMEP) is not for profit micro-finance institution. The organisation was registered as a company limited by guarantee in April 1999.

Before its registration, SMEP operated as a small project of the National Council of Churches of Kenya (NCCCK). The Project started as a relief arm of NCCCK providing the poor in the slum areas in our towns especially Nairobi with food and later small business grants.

It was latter recognized that the project could not continue feeding people endlessly and therefore ways and means had to be sought out to make people participate in meeting their daily needs and avoid dependency.

It is in this spirit that the credit scheme was born. In 1990, the scheme adopted the group lending method (adapted from Grameen bank model) through support from USAID. From then on, the programme has continued to grow had has recorded significant success.

The decision to give SMEP a separate legal entity from NCCCK was to enable it address the problems of poverty and unemployment more professionally and aggressively.

2. SMEP'S VISION

A quality provider of financial and non-financial services to small and micro entrepreneurs with a view to alleviating poverty and enhancing a strong and just economy.

2.1 MISSION STATEMENT

We are committed to improving the standard of living of Kenyans through the provision of affordable credit and non-financial services by mobilizing resources through catalytic leadership, innovation, networking and teamwork. We strive to continuously improve the viability of MSE's in Kenya.

2.2 STRATEGIC GOAL

SMEP's goal is to develop products that address the needs of her clients, capacities of participating communities with a view to improving their economic status and achieve SMEP's operational self-sufficiency and sustainability.

2.3 SMEP CORE VALUES

SMEP is a christian based organisation that upholds human dignity and worth, integrity, equal opportunity, participation, professionalism and stewardship.

3. BOARD OF DIRECTORS

SMEP has a Board, which oversees into matters of policy and supervision of management. This Board has continued to develop policies, which have influenced the path of activities on a more strategic way.

The Members of the Board are: -

- | | | | |
|-------|---------------------|---|--------------------------------|
| i) | Mr. Joseph Muriu | - | Director & Chairman |
| ii) | Mrs. Violet Awori | - | Director & Vice Chairperson |
| iii) | Mr. Allan Ngugi | - | Director & Treasurer |
| iv) | Rev. Mutava Musyimi | - | Director |
| v) | Mr. Sammy Awuor | - | Director |
| vi) | Dr. Agnes Abuom | - | Retired (01/04/05) |
| vii) | Prof Roberta Mutiso | - | Director |
| viii) | Mr. Tom Matianyi | - | Director (Appointed 15/04/04) |
| ix) | Mrs. Linnet Ndolo | - | Company secretary |
| x) | Mr. Benjamin Nkungi | - | Chief executive (non-Official) |

4. MANAGEMENT

The chief executive is the accounting officer of SMEP and under him are five departmental Heads: -

- i) Operations manager
- ii) Internal auditor
- iii) Chief accountant
- iv) M.I.S. manager
- v) Human resource manager

The five with the Chief executive form the senior management team. Other members of the management Team are all area and branch managers. Currently, the Programme has eighty-six members of staff.

5. SERVICES OFFERED

As a dynamic Institution operating in a fast changing environment, SMEP has been influenced by the market to design and develop its products.

The main product offered by SMEP is working capital loan, which begins with Kshs. 20,000/- to a maximum of over Kshs. 300,000/-.

In the year 2004, SMEP introduced an agricultural product for smallholder farmers.

In addition to working capital loans, SMEP also provides its clients with the following special products: -

- i) **Afya:** A loan for meeting medical costs.
- ii) **Karo:** A loan for paying school fees.
- iii) **Booster:** A loan for urgent business needs e.g. an urgent order.
- iv) **Matanga:** For meeting burial expenses.

6. SERVICE DELIVERY METHOD

SMEP uses group solidarity method of lending. This method is used because the Programme does not ask for security when lending, apart from the group guarantee. Through group peer pressure, the clients are able to pay loans when due. The groups are made of thirty entrepreneurs who are known as KIWA or (Kikundi cha Wanabiashara).

As a development organisation, the programme has continued to ensure that this focus is not lost. The programme starts lending small amounts and allows the businesses to grow. SMEP support to the enterprises is stratified as indicated below: -

<u>Loan Levels</u>	<u>Amount (Kshs)</u>
1 st Level Loan	20,000/-
2 nd Level Loan	40,000/-
3 rd Level Loan	50,000/-
4 th Level Loan	70,000/-
5 th Level Loan	100,000/-

6 th Level Loan	120,000/-
7 th Level Loan	150,000/-
8 th level Loan	200,000/-
9 th level loan	300,000/-

All the loans are paid during the weekly group meetings. The groups also maintain individual savings account with SMEP, where all mandatory savings are deposited and managed by SMEP. This is in an effort to mobilize the savings in one account for all members, thus attract higher interests, which the groups can be given at the end of the year. When groups save individually in banks, they lose money instead of earning interest because the amounts are not high enough. The loans take between six months to one and a half years to repay.

The programme has started a pilot programme of 10-15 members (Almasi) for those clients with higher business needs at the start point (Kshs 50,000 and above). Graduated clients with loans of over Kshs 200,000 are now able to apply for higher loans up to a maximum of Kshs. 300,000/- which must be 100% secured with tangible assets.

7. OPERATIONS

SMEP has a national network with operations rural, urban and peri-urban areas. The Programme covers all Kenyan provinces apart from the pastoral north eastern province. However, SMEP covers a few districts in places where it is working, due to limited resources to expand to other areas. It is the intention to provide services to as many deserving Kenyans as possible. Currently, the Programme has thirteen branches with an outstanding loan portfolio of **Kshs. 379,190,361/-**. In the year 2004, the outstanding loan portfolio did not grow at the expected rate due to lack of adequate funds to lend as well as to expand to other potential areas already identified. Lack of access to cheap source of funds has been a main challenge to SMEP's activities to present date.

The thirteen branches serve more than one administrative district, thus making SMEP one of the best-networked programmes. This has also enabled SMEP to significantly address the plight of the poor in both urban and rural areas.

8. KEY SUCCESS AREAS

In 2004 SMEP celebrated 5 years since its official registration in 1999. The institution has continued to grow as a result of support from its partners.

SMEP started implementing its second five year strategic plan - 2004 to 2008. In 2004, SMEP was able to exceed its targets in disbursements and outstanding portfolio by over 20%. However, the programme also experienced high client exits resulting from increased deaths, voluntary exits by members who were dissatisfied with the changes in the loan security savings policy as well as shifting to competitors (other MFIs). A total of 1,030 clients exited.

Growth Indicators

YEAR	CLIENTS	% OF WOMEN	ANNUAL DISBURSEMENTS	DISBURSEMENTS CUMMULATIVE	OUTSTANDING LOAN PORTFOLIO
1998	5,143	65%	96,879,000	96,879,000	58,703,638
1999	6,128	60%	150,246,500	247,125,500	96,304,824
2000	11,869	60%	269,433,500	516,559,000	164,415,851
2001	13,911	56%	318,496,000	835,055,000	192,545,940
2002	15,204	61%	366,067,500	1,201,122,500	223,571,832
2003	16,827	52%	465,356,135	1,666,478,635	273,760,688
2004	21,134	54%	606,902,700	2,273,381,335	379,190,361

In 2004, the loan disbursement increased with over 140 million. As mentioned earlier, the organisation experienced lack of sufficient funds for on lending. SMEP's main source of funds has been loans from banks and other financial institutions. This source of funds often delayed and proved very expensive hence thin margin that is incapable of meeting the loan demands from clients already in the programme and be able to finance the growth targets.

Percentage of Women clients started to decline since 2001 but slightly picked in 2004. Women however continue having a bigger share of the loan portfolio than the men, which is (60%) of the total outstanding loans for year 2004.

The average repayment rate stood at 97.7% with eleven branches recording over 98%. Bungoma which has historically been experiencing poor repayments substantially improved with a repayment of 95%

All the branches in 2004 realized a positive growth in disbursement with Nairobi west, Bungoma and Nairobi Central recording the highest growths of 55,35,25 per cent respectively. Other branches like Kisumu, Meru, ,Kakamega, Voi disbursement targets fell below the target of 20% as per 2004 projections. The overall growth of SMEP for 2004 was 29% as compared to the previous year with 27% in terms of disbursements.

The total number of loans disbursed was 12,749 during the year, though the loans on transit are not included. The targeted funding level for 2004 was 90% and overall the average achieved was 85.5%. However, SMEP is trying to encourage unfunded clients who are on the program to take loans and thereby improving the graduation to higher levels. Majority of the loans fell on the Inuka level of loans and significantly reduced on the higher levels.

9. PROFITABILITY/SUSTAINABILITY

All Branches were able to meet their operational costs including Bungoma which recorded a surplus of 1.6 million shillings.

Overall SMEP made a surplus of 23.4 million from its operations in 2004 as compared to 14.4 million in 2003. However there was a handsome Kshs. 42 million surplus overall inclusive of grants received for support.

10. MANAGEMENT INFORMATION SYSTEMS (MIS)

Streamlining and development of the Department continued and by the end of the year Branch connectivity was activated in all branches except Voi where there is no IT assistant. Head office staff are now able to pull data from the branches on a daily basis. However this process is frequently interrupted by the all too common telephone line problems. Other methods of non-line connectivity are too expensive for SMEP at the moment.

Both branch managers and IT assistants have undergone various technical and management related training to build their capacity on data processing and management.

11. OTHER ACTIVITIES FOR THE YEAR

During the year, the following significant activities were undertaken by SMEP.

- i) *New Africa Rating***
New Africa rating is a new initiative of INAFI – Africa to include social indicators in MFI rating and SMEP was the first to undergo this exercise as a training for the new consultants who had not earlier done rating. The exercise was a big challenge to SMEP and the consultants.
- ii) *Launch of the SMEP-MEDP/Danida micro credit Program- Taveta***
SMEP has collaborated with DANIDA in Voi and Wundanyi on provision of purely business loans.

A new product for smallholder farmers was rolled out and introduced to farmers in Taveta to enable them access farm loans. The pilot project has been successful and there are plans to replicate it in Embu, Kirinyaga and Meru in 2005.

- iii) SMEP participated in the Taita Taveta Microfinance week exhibition held in Taveta in September 2004, Voi in November and also in the Microcredit exhibition held at the KICC to mark the launch of the International Year of Microcredit in Kenya. SMEP came out as second best among the exhibiting institutions.

12. CAPACITY BUILDING

The operations manager attended a two week International workshop on the ART of Upscaling Microfinance, in India in December. The course was co-sponsored by SMEP/INAFI Africa.

Other staff members also attended various courses organized internally.

13. FUNDING

SMEP continued to receive support from Partners during the year although efforts to get new Partners were not successful. The efforts towards fundraising have been intensified locally and internationally.

Below are Partners who have continued to support SMEP:-

#	NAME	AMOUNT KSHS.	TYPE OF SUPPORT	STATUS
1a	USAID	120 million	Credit guarantee	continuing
4	PLAN INTERNATIONAL	660,000/-	Grant support of current co-operation	Continuing
5	Hivos	5,028,810/-	Grant for capacity building	Ending 2005
6	Danida	1,499,000/-	Support for loan capital/administrative in Taita Taveta District	Continuing

SMEP thanks the Partners who have continued to support the Programme and hopes that this will continue for the mutual benefit of the Institution.

NB: Lack of sufficient funds for the expansion of the Programme to meet loan demand has continued to be a challenge to SMEP.

The loans currently being paid by SMEP (which constitute over 50% of its source of loan fund) has put a lot of pressure on the resources available and has reduced ability of SMEP to attain the projected 25% growth annually.

Current Loans:

1.	Jitegeme Trust Ltd	Kshs. 60,000,000
2.	Cooperative Bank Loan	Kshs. 120,000,000 (USAID Credit guarantee) partially paid.
4.	Plan International	Kshs. 16,000,000/-
5.	Danida	Kshs. 2,700,000/-

14. CHALLENGES ENCOUNTERED DURING THE YEAR

1. The MFI sector is still clouded with double funding and this not only reduces the capacity of clients to service more than one loan from the same income from a single business, but also wastage of resources, which could have been used for other deserving clientele.
2. The Kenyan economy started to pick in 2004 and this was marked by significant changes in the financial sector. Interest rates were reduced significantly and the commercial banks which experienced high liquidity went all out to lure small entrepreneurs which significantly impacted on SMEP and other MFIs. SMEPs reduction of the interest rate by 2% did not generate the expected returns as the banks and other donor supported MFIs were able to lend at lower rates.
3. During the year, SMEP embarked on the transferring group savings to the SMEP- managed AKIBA account in preparation for the transformation. This was met by significant resistance which temporarily affected operations and also saw the exit of a few groups which were non compliant. The exercise is now complete and all groups are now saving with SMEP.
4. Delay in the passing of the Micro -finance Bill by the Government has made the organization to delay in its transformation. It still not clear the direction the government wants the MFI's to follow.
5. Inability to meet growing clients demand for loans.
6. Inability to achieve 100% financial self-sustainability. SMEP is still pursuing alternative methods of fundraising to that will be a source for inexpensive funds hence easing the burden of indebt ness.
7. Inability to effectively serve rural areas especially in remote low populated areas of the arid districts. This has been limiting because of finances and the infrastructure.

15. PLANS FOR YEAR 2005

- i) To transform into a regulated Micro Finance Institution
- ii) To disburse Kshs. 875 million.
- iii) Attain over 99% loan repayment.
- iv) Attain a 20% growth rate in all branches as spelt out in the strategic plan 2004-2008.
- v) Continue improvement on the branch Network with Head office, MIS and Finance department.
- vi) Attain over 100% operational self-sufficiency.
- vii) Pursue the health insurance package in line with the Government promised package for the clients.
- viii) To roll out two new products
- ix) To develop and implement a human resource training and development plan.

16. CONCLUSION

As the Kenyan economy continues to recover, positive changes are noticeable in various Government ministries and agencies geared towards the recognition and support of Microfinance industry as a major player in the poverty alleviation. A stronger economy means higher rates of business survival and this coupled with an enabling environment will be a major boost to SMEP and other Microfinance institutions as they continue with their efforts of empowering low-income persons to become "working Kenyans", thereby fulfilling the President's motto of a "working Nation".

In this regard, SMEP wishes to thank all her partners, the board of directors and clients for the support we have continued receiving from them.