

SMEP ANNUAL

REPORT

FOR THE YEAR

2005

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SMEP ANNUAL REPORT FOR YEAR 2005

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 audit manager
- iii) Chief accountant
- iv) M.I.S. manager
- v) Human resource and administration 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 ninety-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/-. However, the programme has opened up higher loans for clients whose businesses have outgrown the loan ceiling and have proven ability to service the loans and secure them with tangible collateral.

An agricultural product for smallholder farmers was introduced for small holder farmers two years ago and is currently being offered in Voi and Embu branches. There are plans to extend the same to other agricultural zones in the future.

In the technology sector, a telecommunication product was introduced in 2005. This is the GSM community payphones.

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 institutionalized the Almasi 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 300,000 are now able to apply for higher loans up to a maximum of Kshs. 450,000/- which must be 100% secured with tangible assets.

7. OPERATIONS

SMEP has a national network with operations in rural, urban and peri-urban areas. The Programme currently has thirteen branches that cover 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 of the company to provide services to as many deserving Kenyans as possible. In the year 2005, the outstanding loan portfolio did not grow at the expected rate due to low borrowing as a result of the effects of the prolonged drought, lack of sufficient funds to expand to other potential areas already identified.

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.

SMEP is seriously looking for partnerships that will support and facilitate penetration into very rural and marginalized areas that are conspicuously underserved.

8. KEY SUCCESS AREAS

In 2005 SMEP celebrated 6 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. The challenges of a poor performing economy as a result of the prolonged drought and political instability in 2005 impacted negatively on SMEP's ability to meet its targets in disbursements and outstanding portfolio of 20%. However, the programme also experienced high client exits resulting from increased deaths, voluntary exits, movement to other MFIs, business failure as well as expulsion of defaulters. A total of 1,1478 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
2005	23,705	54	672,799,355	2,946,180,690	433,119,200

In 2005, our target of growth of 20% was not met as we were only able to increase our portfolio by 14%. The reasons for this are:

1. Prolonged drought which affected the entire country
2. National politics – which led to destruction and subsequent closure of businesses during referendum campaigns

3. Partial suspension of lending in some areas to allow for collection of arrears.
4. High cost of borrowed funds which affected the funds available for growth.

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 (54%) of the total outstanding loans for year 2005.

The average repayment rate stood at 96.5% with eleven branches recording over 95%. Kisumu, Voi and Mombasa branches continue to lead with over 99% repayment.

With the exception of Nakuru, Bungoma and Nairobi East all the other branches realized a positive growth in disbursement with Voi, Kisumu and Meru recording the highest growths of 54, 52 and 44 per cent respectively. The overall growth of SMEP for 2005 was 14% as compared to the previous years' 27% in terms of disbursements. However, this can be attributed to the temporary suspension of agriculture loans to enable the management to evaluate the product that generated an overwhelming demand yet very risky, and also the focus on arrearage affected the rate of disbursement. In the year more clients were seen graduating to higher level loans especially in Mombasa, Nakuru, Nairobi and Nyeri and this is being encouraged.

The total disbursement for the year was Kshs. **672,799,355** though the loans on transit are not included. The overall average funding level for 2005 was 93.4% surpassing the targeted 90%.

9. PROFITABILITY/SUSTAINABILITY

All Branches were able to meet their operational costs except Voi and Embu which recorded 83% and 80% respectively. There was instability in Embu branch earlier in the year as a result of a fraud and this negatively impacted on the branch activities. The situation has now stabilized. Operational costs in Voi remained high due to the new office in Taveta, but the growth trend is very impressive and it is expected to break even in the coming year.

Overall SMEP made an operating surplus of Kshs 13.1 million from its operations in 2005 as compared to Kshs.44,681 in 2004. However there were no grants received from donors that year.

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. In the year under review the Board approved the purchase of a new and advanced software that would enhance the programme service delivery through efficient data transmission and management. Various companies were invited to carry out demos for comparison purposes. Temenos-e-merge was selected and the acquisition process is underway. The management is still exploring other cost effective methods of non-line connectivity to avoid the frequent interruptions due to the all too common telephone line problems.

11. OTHER ACTIVITIES FOR THE YEAR

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

i) New Product

In the second half of the year, SMEP entered into a cooperation with PLUM Communications, a telecommunication company and together introduced a new product for SMEP clients, that is the GSM community payphones. SMEP provides a loan of Kshs. 25,000 (total cost of the phone and other virtual products) and PLUM supplies and provides other back up support services. By the close of the year 30 phone loans had been disbursed totaling Kshs.750,000.

ii) Introduction of Agriculture product to Embu Branch

The Smallholder agricultural product was introduced in Embu and Kirinyaga districts which was met by an overwhelming demand. Over thirty groups were registered and over Kshs. 10 Million disbursed in the first phase with an impressive repayment rate of 99.9%.

iii) International year of Micro credit

SMEP participated in the activities to mark the International year of Micro-credit. This included the regional exhibitions held in Mombasa, Meru, Embu and Kisumu. In November SMEP was invited by UNDP to nominate clients for the Global Microentrepreneur Awards(GMA). This activity was the highlight of the Microcredit year. There were a total of 80 entrants nominated by participating MFIs. Five (5) SMEP clients were among the thirty (30) who were shortlisted and invited for the final exhibition and award ceremony held at KICC in November. Two (2) clients from Nairobi and Voi won 1st and 2nd prizes (Kshs.100,000 and 75,000) respectively in the innovation and creativity categories.

12. **CAPACITY BUILDING**

One staff member was sponsored for a diploma course in Public relations at a local college.

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

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.

SMEP has continued to receive support from the following institutions in form of loans for on lending:

- 1) Micro enterprise Support Project (MESPT)
- 2) Cooperative bank of Kenya
- 3) Plan International
- 4) Jitegemee Trust

14. **CHALLENGES ENCOUNTERED DURING THE YEAR**

1. More and more entrants into the MFI sector are complicating field operations with issues of double funding, theft of clients and staff as well. In the absence of a credit reference bureau, risks of default is increasing as the clients capacity to finance multiple loans from one business is reduced.
2. Interest rates remained low for most of the year and commercial banks and Savings and Credit institutions continued to lure small entrepreneurs. Ability of these institutions to offer additional services e.g savings mobilizations and front office services put SMEP and other MFIs at a disadvantage. There is therefore an urgent need for SMEP to transform

- into a regulated Microfinance institution and access cheaper funds for on-lending if it is to survive in this fast growing, highly volatile market.
3. During the year, SMEP embarked on data updating and harmonization exercise. All non-performing loans were offset with savings hence significantly lowering the Outstanding Loan Balances(OLB). The exercise was a preparation for the expected data migration once the new software is implemented. Reporting and monitoring systems were also reviewed for efficiency and effectiveness.
 4. Although the Micro -finance Bill enactment by the Government is still pending, internally the process has also proven slow and expensive. AMFI has enhanced its advocacy efforts to push the bill on Parliament's priority list but it still not clear when it will be passed. SMEP is also facing major challenges of fundraising for the transformation process from elusive donors.
 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 2006

- 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) To open a new Branch in Eldoret
- vii) To roll out two new products
- viii) To acquire and implement a new Management Information software.

16. CONCLUSION

The year 2005, was celebrated as the United Nations 'International Year of Microcredit'. All stakeholders in this sector had a lot of expectations including the enactment of the long awaited bill. However, apart from the colourful events that took place from time to time, no deliberate actions or commitments in support of the sector were made by either the Government, or the World body. Once again we can't help noticing the lack of recognition of the role that

Microfinance sector is playing in the alleviation of poverty in the country and hence the need for support. However the Kenyan economy has continued to improve and noticeable changes have been seen in various sectors e.g agriculture, education, health and these will be expected to translate into a stronger economy that is conducive for both local and international investors. This will be a boost for financial institutions like SMEP as they endeavour to empower low income persons. In the coming year SMEP has purposed to become a “ pacesetter” both in the sector and in the country, hence the theme “ ***Taking the Lead***”.

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