

AMFI SECTOR

REPORT

DECEMBER

2017

1.1.0: INTRODUCTION

1.1.1: BACKGROUND INFORMATION

The Association for Microfinance Institutions (AMFI) is a member-based organization that was established and registered in 1999 under the societies Act, with the aim to build the capacity of the Kenyan Microfinance Industry. In her 19 years of existence, AMFI's membership has increased from the original 5 founder members to the current 60 fully paid up members in 2017.

Adoption of the Alternative banking channels (ABC) like agents banking, Online and mobile banking have made the provision of financial services easier, affordable and time saving. This has promoted the accessibility of the services especially by the low income people residing in the rural and marginalized areas. The vision 2030 identified microfinance subsector as key in ensuring every Kenyan is bankable by 2030. This has seen the government intensify the financial inclusion campaign through creating funds for the microfinance in the National budget, establishment of funds like women and youth and also developing legislation to promote micro and small enterprises (MSEs). Various reviews and literature have highlighted some of the internal limitations that AMFI faces including competition from alternative networks, weak value proposition and inability to effectively influence policy and over-reliance on external funding creating mission drift and lack of self-sustainability plan.

The future of AMFI lies in its ability to meet and satisfy members needs which in the end ensures members full participation in and funding of her activities. To achieve this, AMFI members are categorized as; ordinary members (MFBs, Credit-Only MFIs and Wholesale funders to microfinance Institutions); Associate Members (Commercial Banks, SACCOs and Insurance Companies); and Honorary Members (key persons who have contributed to MFI industry). Voting rights and board representation of the different categories of members are well stipulated in the

AMFI constitution which binds all members. The governance structure of AMFI comprises; the General Assembly, the Board of Directors and the Secretariat. The board provides strategic directions while the secretariats implement the strategies identified by the Board.

AMFI is guided by a strategic plan which is reviewed after every 5 years. This plan provides the roadmap towards both financial and operational self-sustainability through constant review of membership fees and outreach strategies to reach more members offering micro financing services. The current strategic plan runs from 2013 to 2018 documents 4 key result areas which were identified by members;

- **Policy Advocacy:** The aim of this area of activity is to enhance collective action by its members and other stakeholders for an enabling policy and regulatory environment for the microfinance industry in Kenya. In order to deliver this mandate, the strategy assumes that AMFI's institutional capacity for advocacy and lobbying will be enhanced to ably support the development of an enabling environment for MFIs to operate and increase their growth and outreach to continue expanding the financial inclusion to all Kenyans
- **Capacity Building:** This aims at strengthening the capacity of MFIs to deliver appropriate and sustainable microfinance services to low income people, through sensitization to members on issues affecting their operations, coordination of workshops and training courses that addresses the capacity gaps that exists in the market. To achieve this, AMFI conducts an assessment of members' capacity building needs and organize demand-driven training, workshops and seminars on thematic areas and develop content specifically tailored to respond to members' needs.

- **Networking and Linkages:** AMFI provides regular platforms for her members to enhance effective collaboration with the local financial services providers, relevant stakeholders to the industry and all other regional and international networks that are relevant to her members. To achieve this AMFI participate in microfinance forums that provide a platform for peer to peer learning and to improve information sharing and dissemination.
- **Research and Knowledge Management:** The key objective of this activity area is to provide members with timely and quality research and information that helps the industry, regulators, academicians and all other interested parties understand the microfinance`s performance at a given period. A Resource Center is established at AMFI to ensure that information on the microfinance industry is systematically generated, stored, analyzed, and disseminated to help make informed decisions. This is achieved through industry data collection through a well-defined questionnaire, analyzed and published through the AMFI sector report.

1.2.0: MISSION AND VISION STATEMENT

1.2.1: VISION STATEMENT

To be the network of choice that promotes a conducive environment for microfinance providers in Kenya.

1.2.2: MISSION STATEMENT

To champion the aspirations of microfinance institutions through advocacy, capacity building, linkages and research

2.0 SITUATION ANALYSIS

The microfinance operations are highly affected by both internal and external factors. The external environment includes Political, Economic, and Social cultural, Technological, Environmental and Legal factors. Political environment remained stable in 2018, an upward improvement from the earlier situation experienced in 2017. The devolution system which came into force in 2013, has made it remain the biggest winner from the August 2010 constitution, which ushered in a new political and economic governance system. This system is transformative and has strengthened accountability and public service delivery at local levels. Unstable political environment in 2017 affected lending and repayments of loans hence the overall performance. Kenya's economy grew by 4.9 per cent in 2017, recording the slowest margin in five years amid prolonged electoral process and adverse weather. That pace of growth falls far below the 5.9 per cent recorded in 2016 (Kenya National Bureau of Statistics (KNBS)).

Rising business confidence and the government's "Big Four" Agenda should buoy economic growth in the coming year through higher infrastructure spending and investment in the key sectors of food security, affordable housing and healthcare, and manufacturing. Although inflation was higher on average in 2017 compared to the year 2016, robust foreign exchange reserves coupled with strong capital inflows have kept the Kenyan shilling (KES) on a largely stable path. On the public finance front, the aim to strengthen fiscal metrics will be challenging given the administration's poor track record in meeting revenue collection targets in recent years.

Kenya's inflation has risen to 8 percent within five years which was mainly attributed by increase in food prices due to drought and pesticides destroying crops. Also we can note that the deposit rate increased from 7.1% to 7.52% and lending rate drop from 16.58% to 13.67% leading to the increase in savings rate to 6.29% from 2.92% while the interest rate remain constant at 10%.

The summary of the economic status for 7 years are summarized below

Macroeconomic Indicators(December)	2011	2012	2013	2014	2015	2016	2017
Exchange rate variation (%)	5.3	0.9	0.13	1.82	10.32	3.23	1.9
Inflation rate (average %)	13.2	10.4	5.7	6.9	6.6	6.3	8
Inflation rate (end of period)	18.9	3.2	7.2	6	8	6.4	4.5

Economic Growth (GDP, annual variation in %)	6.1	4.5	5.9	5.4	5.7	5.9	4.9
Savings rate (average %)	1.38	1.6	1.59	1.54	1.58	2.92	6.29
Deposit rate (average %)	4.22	7.91	6.51	6.59	6.93	7.1	7.52
Inflation rate (average)	13.2	10.4	5.7	6.9	6.6	6.3	8
Benchmark interest rate (%)	18	11	8.5	8.5	11.5	10	10
Lending rate (average %)	15.05	19.65	17.3	16.51	16.16	16.58	13.67
Exchange rate in USD (end period)	85.1	86	86.13	87.95	98.27	101.5	103.4
GDP per capita (USD)	853	926	1322	1434	1433	1566	1599

Source: CBK, KNBS, International Finance Statistics

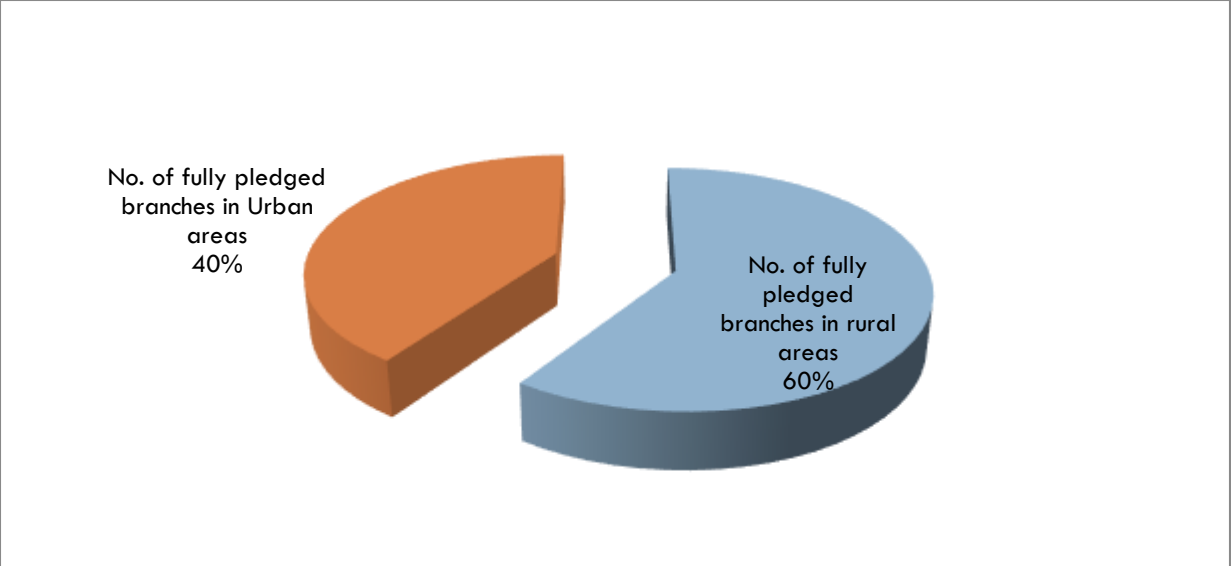
2.1 THE NATURE AND STRUCTURE OF THE MICROFINANCE INDUSTRY

As at 31st December 2017 AMFI membership comprised of 54 members categorized as 2 commercial banks, 11 Microfinance banks, 36 credit only Microfinance providers, 1 Sacco, 3 Wholesale Microfinance Institutions and 1 developmental organization.

Industry data was collected from 11 Microfinance banks, 16 credit only microfinance institutions and 1 Sacco. The data was analyzed in general (industry analysis) and in to their respective groups as Micro finance Banks and Credit Only Institutions. The Sacco was analyzed in the industry analysis only; because it was the only Sacco as a member and that it shared its data.

2.1.1: INDUSTRY PROFILE ANALYSIS.

As at 31st December 2017 there were 6,676 no of staff with 4,087 loan officers. The numbers of fully fledged branches were 486 branches. The number of fully fledged branches in rural area was 230 while in urban areas was 156. The chart below shows the breakdown in percentages of the branches



2.2.0: PORTFOLIO AND SAVINGS.

As at 31st December 2017 the Gross Outstanding Portfolio in the industry was about 67.1 billion Kenya shillings and the Portfolio at Risk above 30 days was about 7.8 billion Kenya shillings. The total number of loans in the industry was 614,331 while the total number of active clients was 2,061,048. The number of active savers was 1577061 while the number of active borrowers was 483,987 of which they were divided into adults and youths and further to their respective genders as shown in the chart below.

2.2.1: PERCENTAGE OF ACTIVE SAVERS AND BORROWERS.

Active Adult women dominated in both cases with 45% and 48% for active savers and active borrowers respectively. Charts 2 and 3 below displays the various percentages of savers and borrowers.

Chart 2: Active savers

PERCENTAGE OF ACTIVE SAVERS

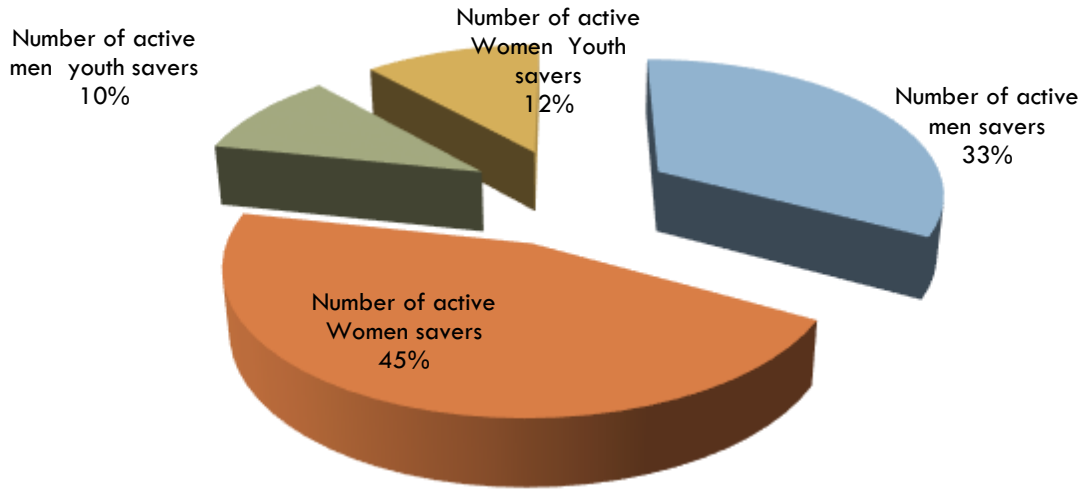
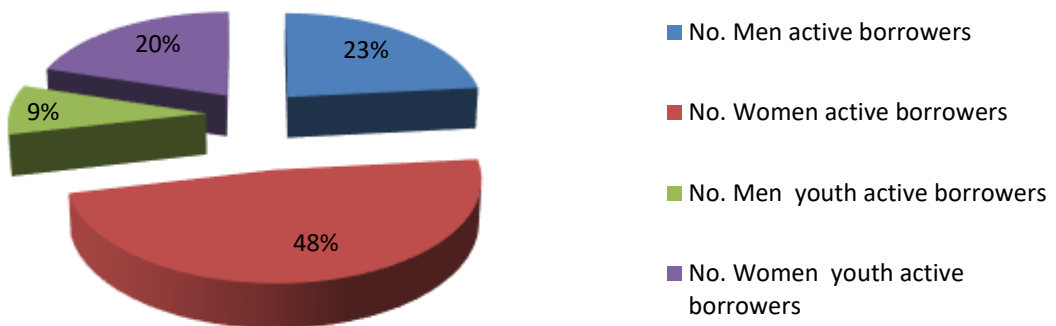


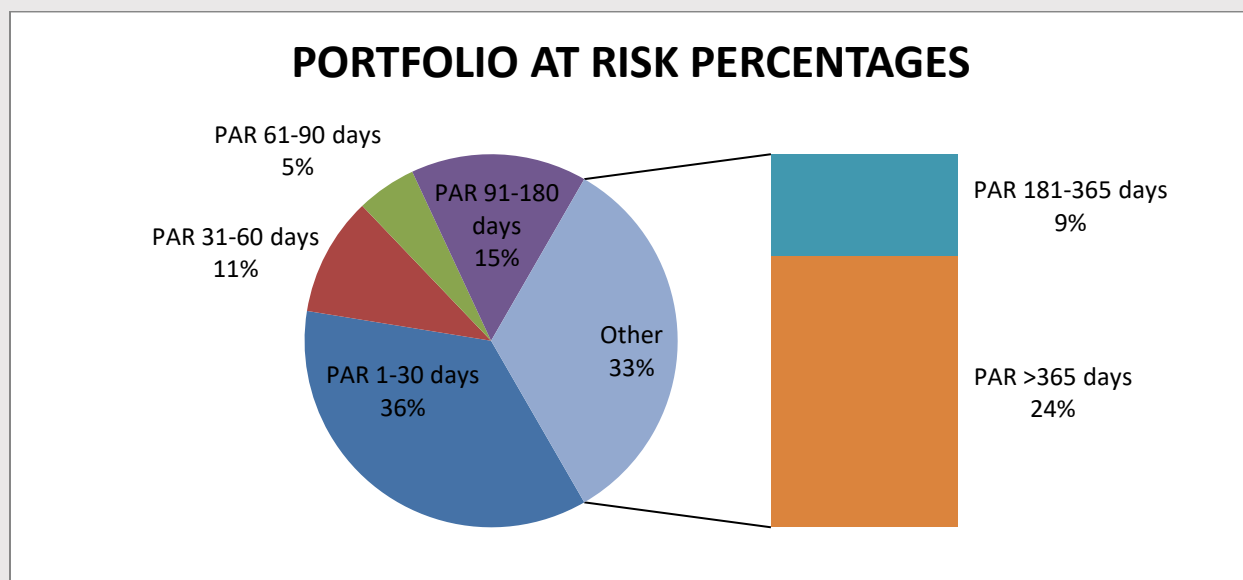
Chart 3: Percentages of Active borrowers

PERCENTAGE OF ACTIVE BORROWERS



2.2.2: PORTFOLIO AGEING

As at 31st December the Industry current non-performing loan was approximately 7.8 billion which ranged between 1day to 365days and above 365days. The following pie chart shows the percentages of how the portfolio at risk varied differently within the different days.



2.2.3: LOAN LOSS PROVISION AND WRITE OFFS

The amount of loan Provisioned for losses in the Microfinance Institutions as at 31st December 2017 was approximately 1.8 billion and the amount of loans written off was about 447.5 million

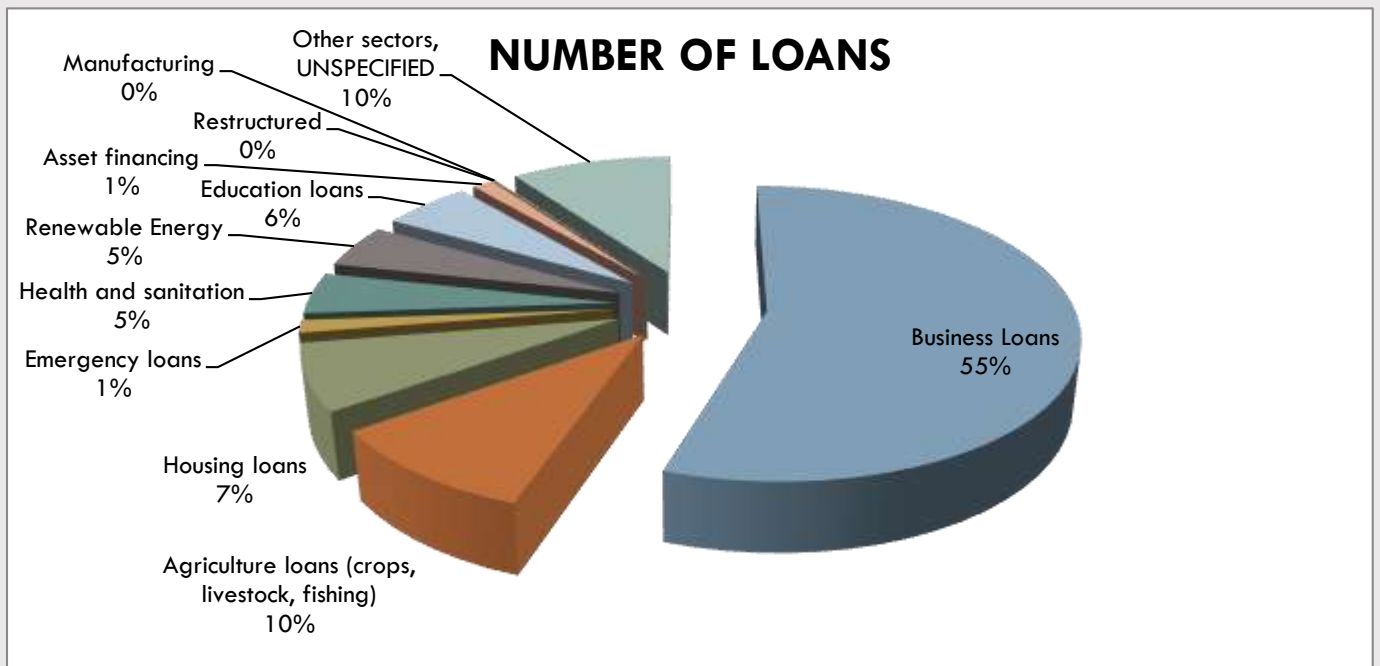
2.3.0: PORTFOLIO PER SECTOR

As at 31st December 2017 the total number of loans from different sectors was 614,331, total outstanding loan portfolio was 67.1 billion and portfolio at risk above thirty days was 7.8 billion, to each specific sector the number of loans per sector, outstanding loan portfolio and portfolio at risk is as shown in table below.

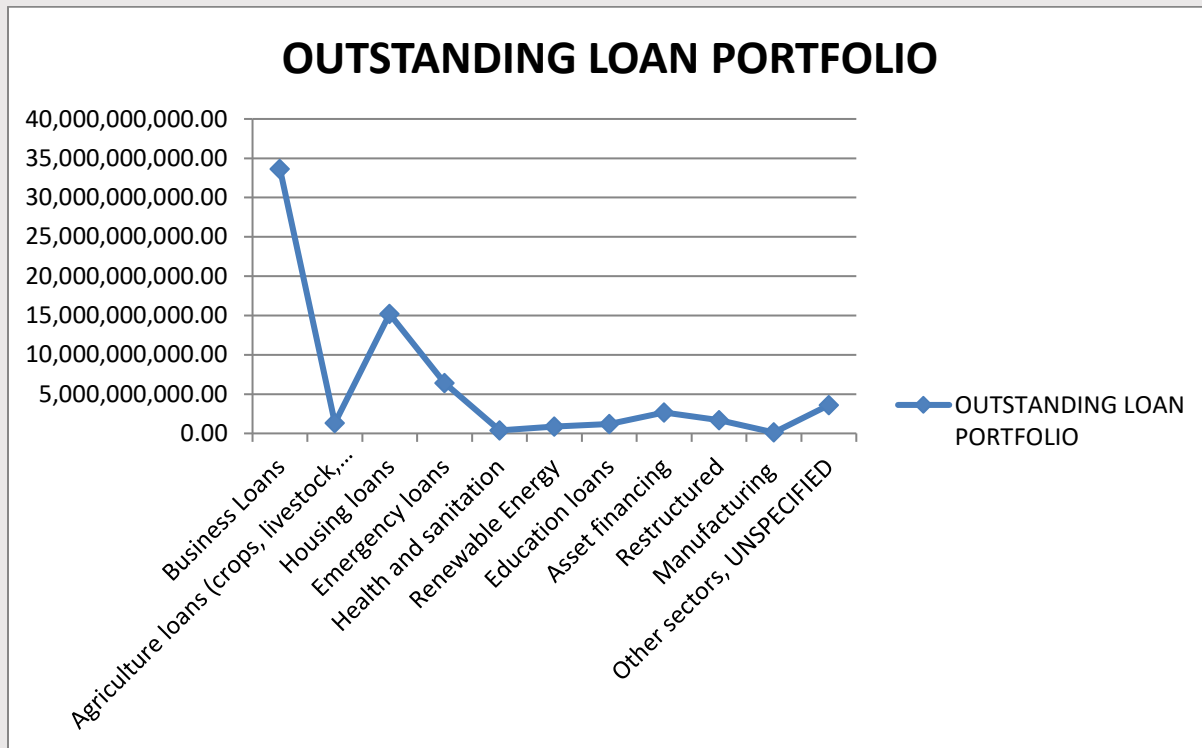
TYPE OF SECTORS	Number OF Loans	Outstanding Loan portfolio	PAR>30 (Amount)
Business Loans	339,368.00	33,636,768,234.77	3,408,491,358.21
Agriculture loans (crops, livestock, fishing)	61,155.00	1,337,366,811.94	167,055,796.13
Housing loans	44,638	15,183,083,828.28	2,137,989,365.85
Emergency loans	8439	6,413,443,365.82	91,540,866.70
Health and sanitation	27,924.00	401,772,802.64	62,561,944.61
Renewable Energy	29,442.00	875,364,785.87	43,602,017.88
Education loans	33,666.00	1,203,136,830.49	369,121,240.02
Asset financing	7,871.00	2,678,326,881.95	320,015,252.82
Restructured	195.00	1,689,776,775.91	559,282,342.09
Manufacturing	476.00	118,350,741.86	6,008,896.81
Other sectors	61,157.00	3,592,222,539.33	682,010,909.00
Total	614,331.00	67,129,613,598.86	7,847,679,990.11

2.3.1: NUMBER OF LOANS

Business sector dominated other sectors with both the number and the value of loans as at 31st December 2017 loans. 55% of the outstanding loan portfolio was in the business category which means there is more focus in the smes as can be seen in the chart below



2.3.2: OUTSTANDING LOAN PORTFOLIO



2.3.3: PORTFOLIO AT RISK ABOVE THIRTY DAYS ANALYSED PER SECTOR

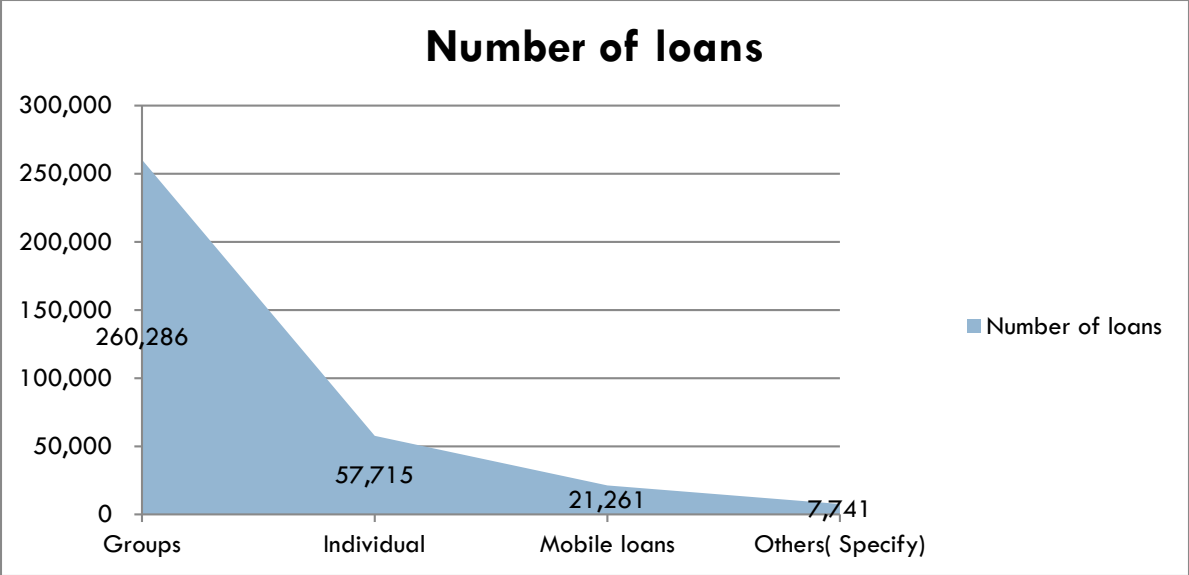
As at 31st December 2017 the industry portfolio at risk was highest in the business loan sector followed by the housing loans sector with 27% and the least was manufacturing sector with 0% while the rest shared different percentages between 1% and 9% as shown in the chart below.

2.4.0: DELIVERY METHODS

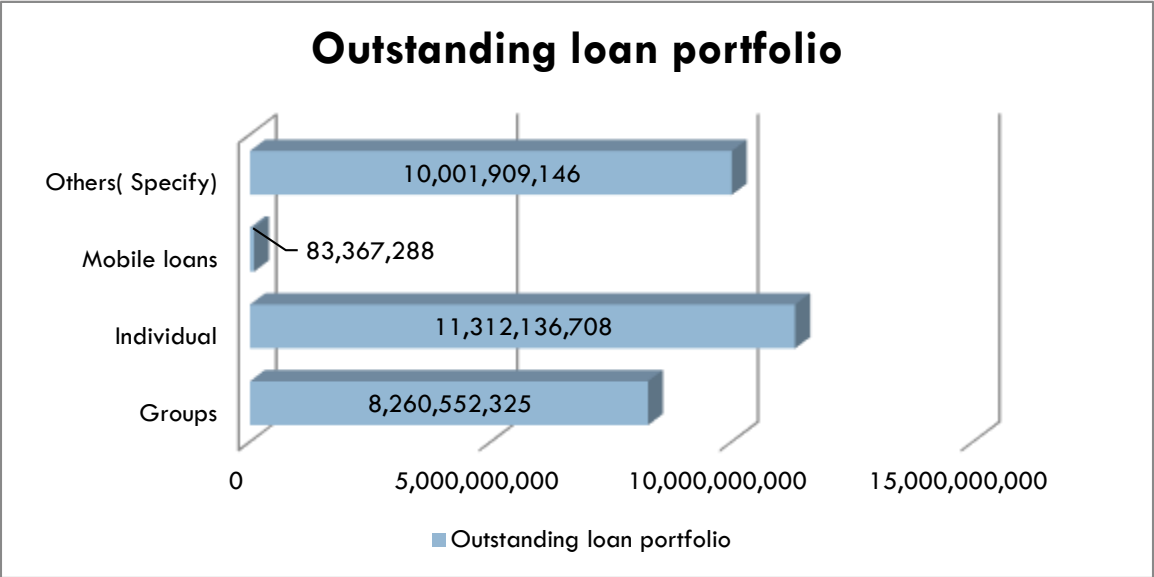
The sector adopted three main categories to advance loans. These were; Group methodology, Individual clients, Mobile loans and a combination of all the three

2.4.1 NUMBER OF LOANS

As at 31st December 2017 groups loans carried the highest percentage. The graph below shows the distribution of the outstanding number loans in different categories

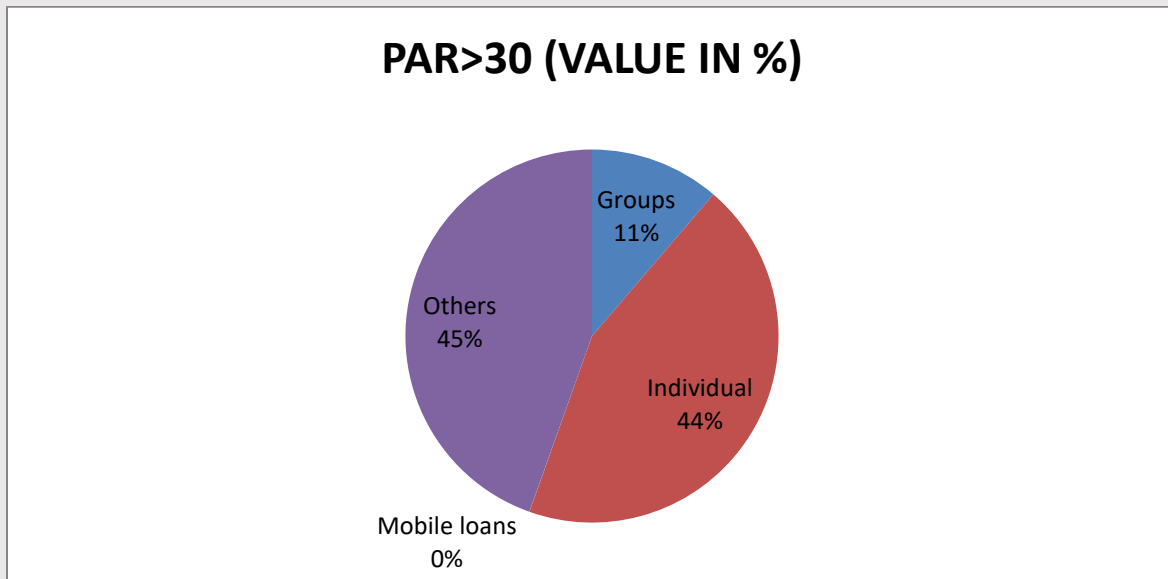


2.4.2: OUTSTANDING LOAN PORTFOLIO



As at 31 December 2017 the total outstanding loan portfolio was about 67.1 billion. The individual category carried the highest value as compared to the rest. The above graph demonstrate how it was distributed in different delivery categories.

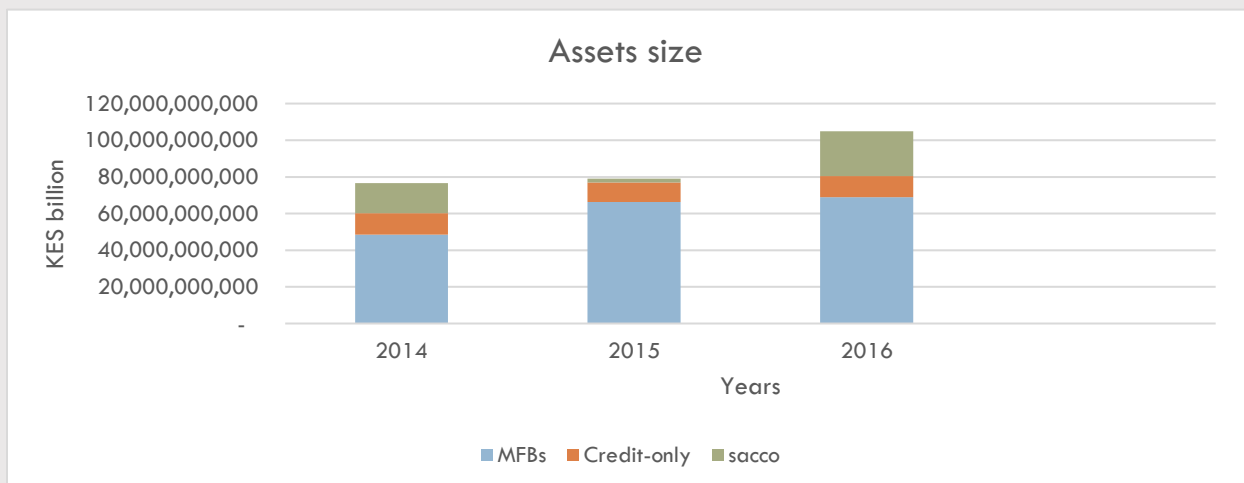
2.4.3: PORTFOLIO AT RISK ABOVE THIRTY DAYS PER DELIVERY METHOD



The chart above shows that the distribution of portfolio at risk in different categories.

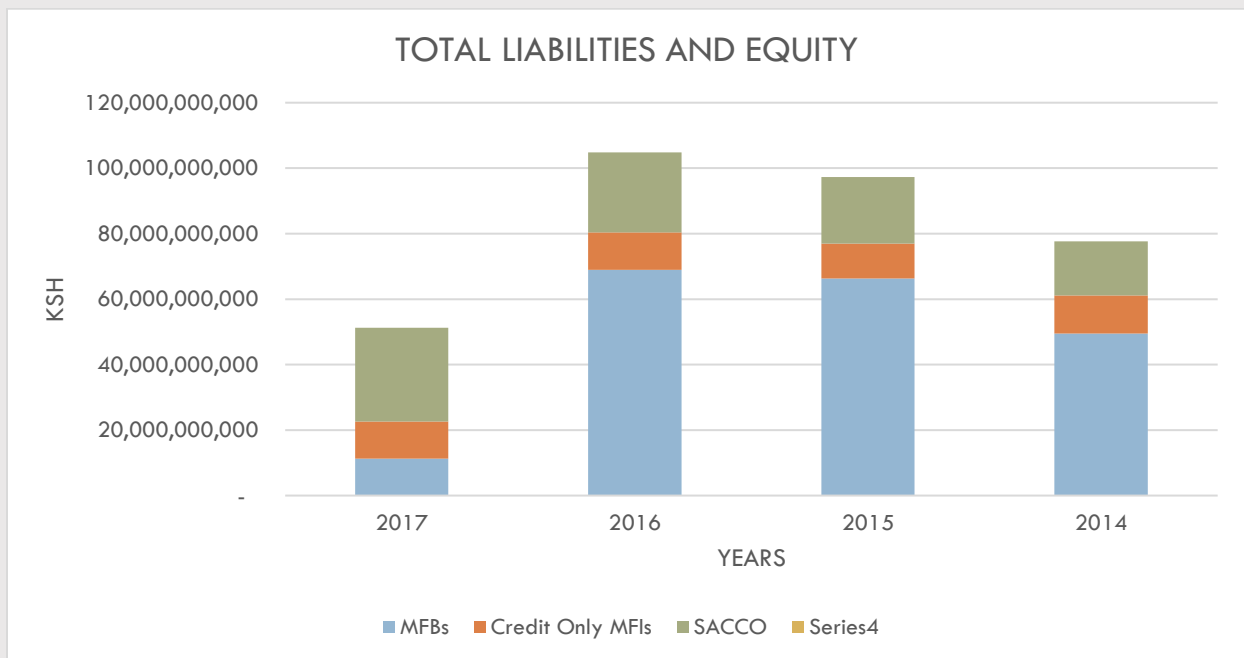
2.5.0: SIZE OF THE SECTOR AND OUTREACH

As at 31st December 2017 sixteen members shared their audited financial statements and their total asset amounted to 96.8 billion shillings. In terms of market share, Microfinance banks accounts for 58.8%, Credit only 11.7% and he SACCO 29.5%. The chart below shows the asset size per year for the last 3 years



2.5.1: FINANCIAL STRUCTURE, SOLVENCY AND LIQUIDITY

The total liabilities and equity of the sector amounted to 96.7 billion shillings where it was at its highest in the year 2016 and lowest in 2017 over the four years, of 96.7 billion shilling 84% came from liabilities and 16% came from Equity. As at 31st December 2017 the industry shared the total liabilities as follows; Microfinance bank 59%, SACCO 29% and Credit Only Institutions 12%.

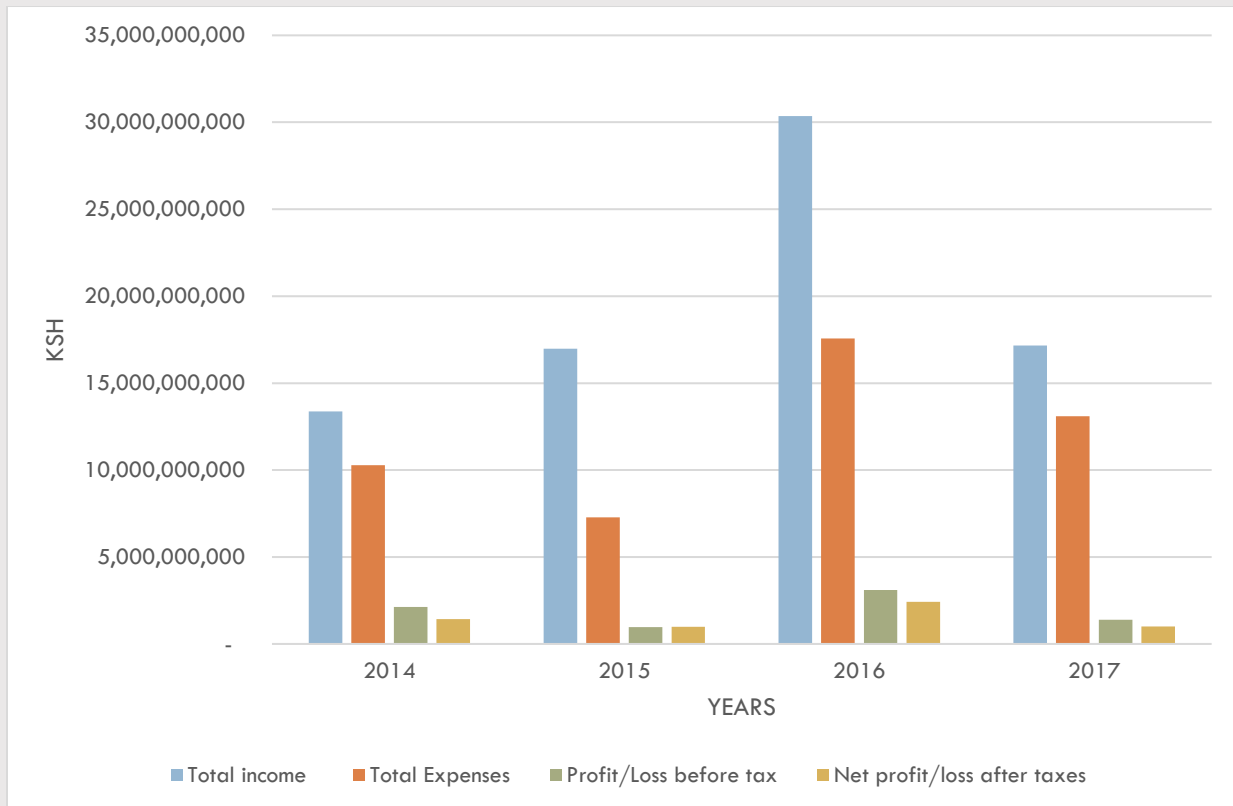


2.5.2: EXPENSES AND PROFIT

As at 31st December 2017 the amount of income was approximately 17.2 billion shillings. The expenditure and the profit earned before and after taxation is as follows.

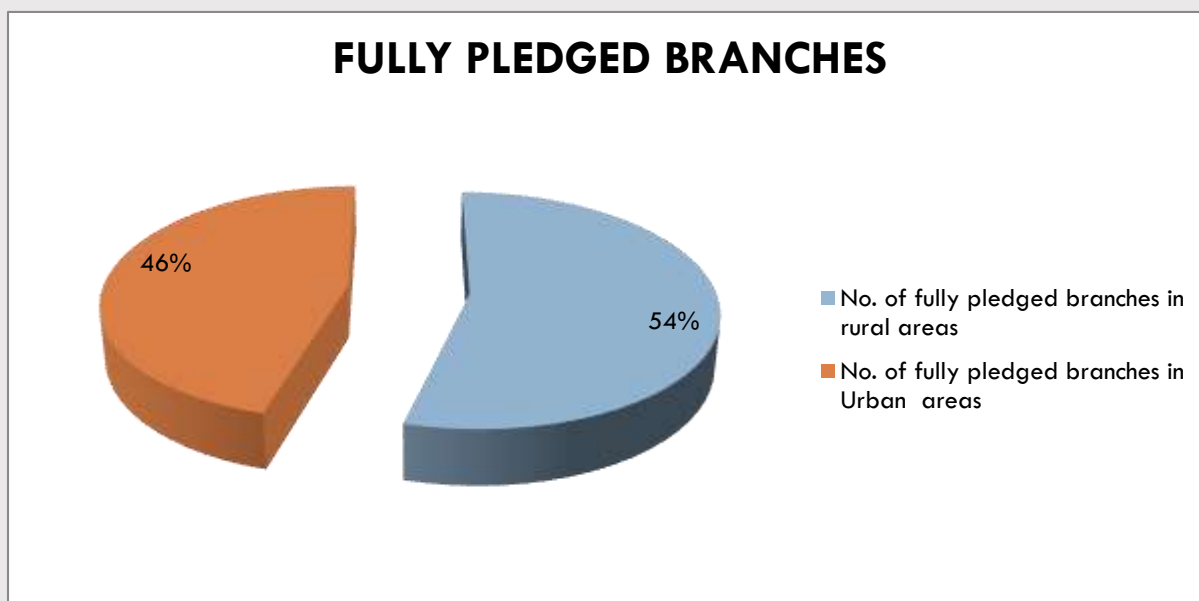
YEAR (2017)	MFBs	Credit Only MFIs	SACCO
Total income	10,802,955,470	2,898,292,551	3,468,626,000
Total Expenses	8,288,358,003	2,648,413,330	2,151,966,000
Profit/Loss before tax	255,712,068	493,733,401	644,016,000
Net profit/loss after taxes	115,872,824	335,730,821	559,934,000

The total income, total expenditure, profit/loss before tax and profit/loss after tax trend for the four years is as shown in the chart below.



3.0: MICROFINANCE BANKS

The Microfinance Banks have a total of 4,109 numbers of staff members and a total 2,245 number of loan officers. The number of fully pledged branches in rural areas is 95 and the number of fully pledged branches in urban areas is 80. The MIS system used by the Microfinance Banks were; BANKERS REALM, T24 systems, ICBS system, ORBIT-R and TEMENOS T24. The chart below shows how the number of branches were distributed in percentages in both rural and urban areas



3.1.0: MICROFINANCE BANKS PORTFOLIO AND SAVINGS ANALYSIS.

The microfinance banks as at 31st December 2017 had approximately 26.4 billion shillings Gross Outstanding Portfolio, with 303,675 number of loans, the total number of active clients was 1,215,486 clients where the number of active savers was 346,238 and the number of active borrowers was 257,757.

3.1.1 CLIENTELE INFORMATION

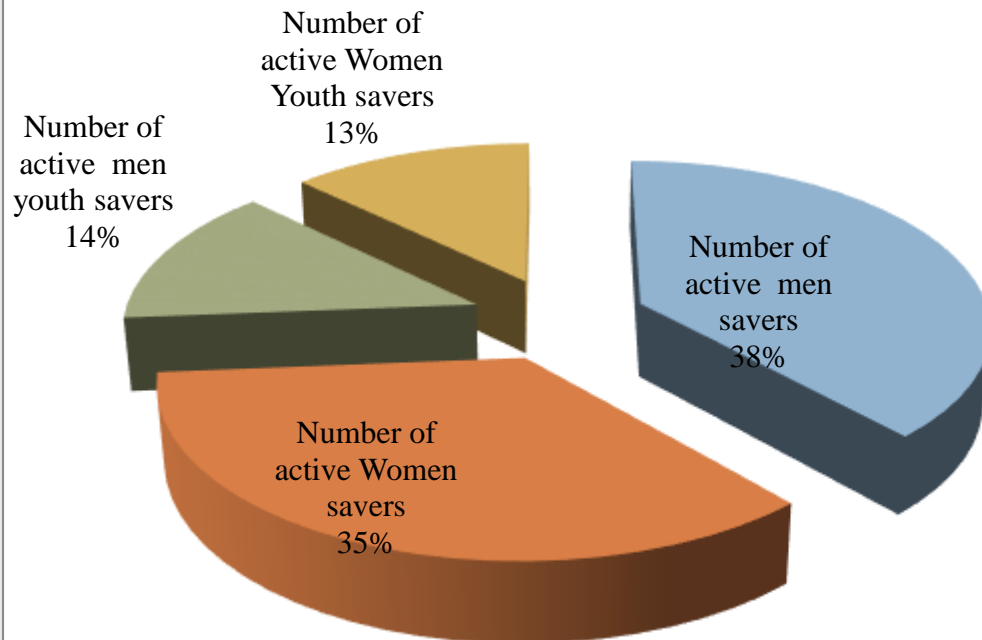
The number of active clients who were active savers and active borrowers was distributed across both gender and age as shown in the table and charts below.

Table: Clientele Information

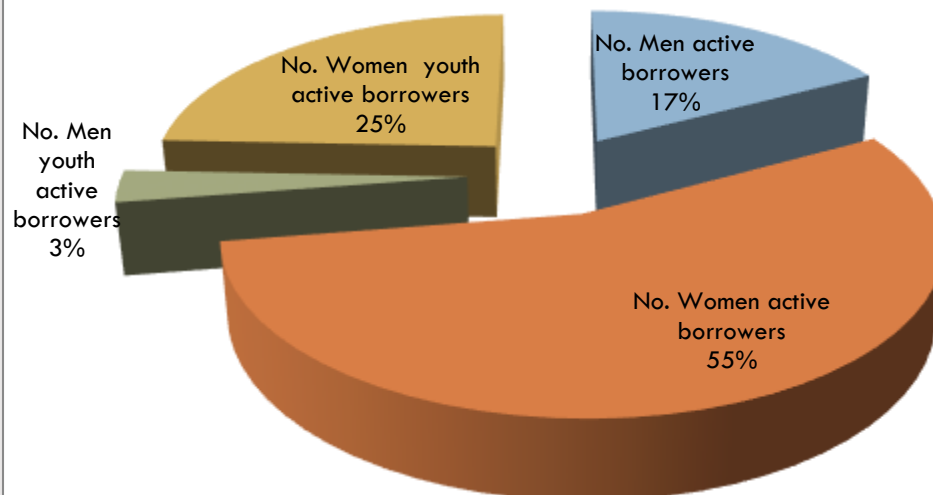
CLIENTS	NUMBER
Number of active savers	346,238
Number of active men savers	141,785
Number of active Women savers	130,696
Number of active men youth savers	49,923
Number of active Women Youth savers	47,227
Number of active borrowers	257,757
No. Men active borrowers	41,635
No. Women active borrowers	133,750
No. Men youth active borrowers	7,604
No. Women youth active borrowers	58,871

The pie chart below shows the percentage of active savers in Microfinance Banks between the adults and youths where their percentage has been further subdivided in terms of their gender. This pie chart shows active men savers saves more, than active women savers irrespective of age, active men savers is 52% and active female savers is 48%. This can also be seen among the youths and adults that active men savers are more than active women savers as shown by the pie charts percentages in the Microfinance Banks.

Active savers



Active Borrowers



The chart above shows the percentage of active borrowers in Microfinance Banks where their percentages have been sub-divided between the adults and youths and further to their respective genders. This shows that active women borrowers is greater than active men borrowers irrespective of age by a large percentage, active women borrowers is 80% and active men borrowers is 20% hence active women borrowers is 30% greater than active men borrowers. This can also be noted from the pie chart in respect to age that the percentage of active adult women borrowers is higher than active adult borrowers by 38% also among the youth active female youth borrowers is high than active male borrowers by 22% in the Microfinance Banks.

3.2.0: MICROFINANCE BANKS PORTFOLIO AT RISK ANALYSIS

As at 31st December 2017 the total current performing loans in the microfinance banks were approximately 16.9 billion Kenyan shillings while its gross outstanding portfolio was 26.4 billion Kenya shillings. The portfolio at risk as at 31st December 2017 ageing in different numbers of days of the microfinance banks can be shown in the table below.

Table: Portfolio Ageing

Portfolio - Ageing (end of period)	Amount in KSH	PERCENTAGE
PAR 1-30 days	3,640,018,910	39%
PAR 31-60 days	1,115,163,107	12%
PAR 61-90 days	604,550,220.5	6%
PAR 91-180 days	868,979,109.7	9%
PAR 181-365 days	1,010,977,149	11%
PAR >365 days	2,216,870,828	23%
Control lines PAR >30	5,816,540,415	61%

As at 31st December 2017 the largest portfolio at risk in the Microfinance Banks was the portfolio ending between one and thirty days followed by portfolio at risk ending above 365day that's more

than a year while the other portfolio at risk ageing between 31-60day, 61-90days, 91-180days and 181-365days stood at low levels that's between 6%and 12% of the total portfolio at risk.

3.2.1: Provision for Loan Loss

As at 31st December 2017 there was 958.8 million Kenyan shillings provision for the loan loss.

While 138.7 Million Kenya shillings was written in 2017

3.3.0: PORTFOLIO PER SECTOR IN MICROFINANCE BANKS

As at 31st December 2017 the total number of loans from different sectors was 304,774, total outstanding loan portfolio was 26.4 billion and portfolio at risk above thirty days was 5.8 billion, to each specific sector the number of loans per sector, outstanding loan portfolio and portfolio at risk is as shown in table below.

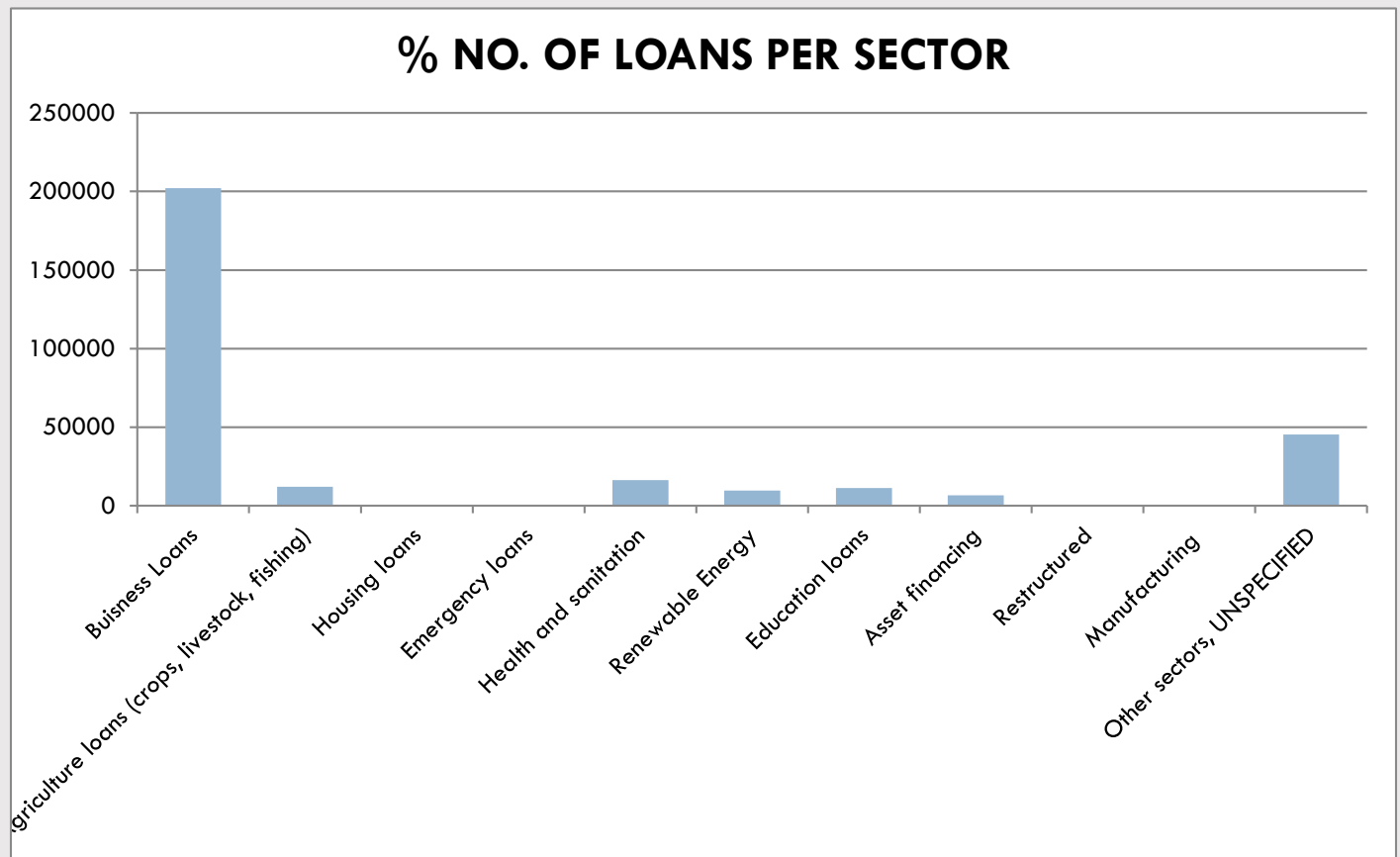
TABLE: PORTFOLIO PER SECTOR AS AT 31ST DECEMBER 2017

TYPE OF SECTORS	NUMBER OF LOANS PER SECTOR	Outstanding Loan portfolio	PAR>30(AMOUNT)
Business Loans	202,153.00	19,662,621,917.77	3,283,115,293.41
Agriculture loans (crops, livestock, fishing)	12,049.00	522,453,043.74	109,259,136.17
Housing loans	586.00	1,566,827,627.28	430,091,219.43
Emergency loans	583.00	17,150,812.16	4,530,735.05
Health and sanitation	16,255.00	166,463,171.53	59,768,115.33
Renewable Energy	9,667.00	49,108,658.80	3,623,782.98
Education loans	11,244.00	110,010,771.66	13,794,430.52
Asset financing	6,693.00	1,408,369,893.86	687,071,239.43
Restructured	159.00	1,180,216,849.76	766,813,333.09
Manufacturing	85.00	3,755,804.18	351,962.81

Other sectors,	45,300.00	1,693,453,400.03	458,121,166.00
Total Number of loans in all sectors	304,774.00	26,380,431,950.78	5,816,540,414.23

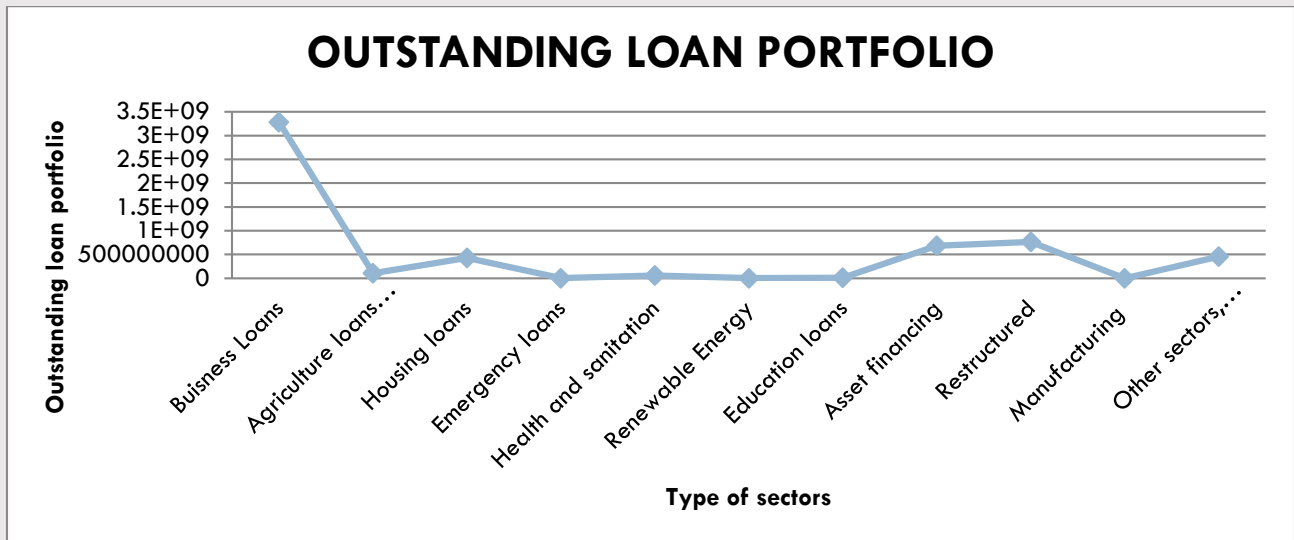
3.3.1: PERCENTAGE OF NUMBER OF LOANS PER SECTOR

The chart below shows the percentage of the number of loans in the different sectors plus the unspecified sectors and it can be noted that the percentage of business loan is the largest comprising of more than half of all the number of loans. The other sectors apart from the unspecified are less than 10% with manufacturing, housing loans and emergency loans being too insignificant thus taking a percentage of 0%.



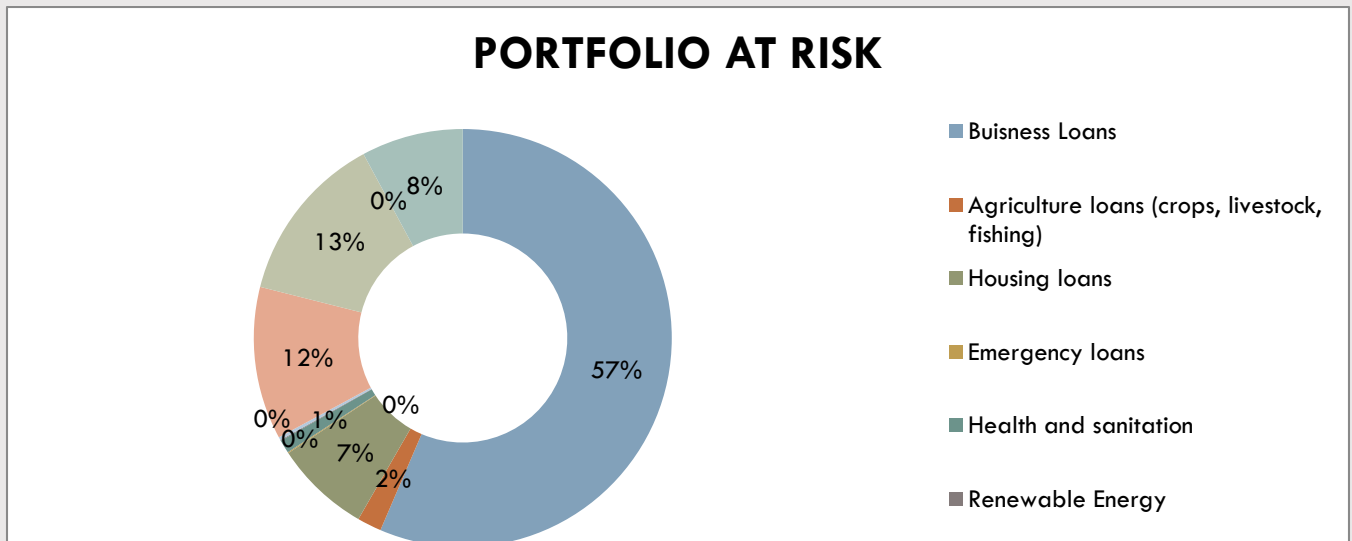
3.3.2: SECTORIAL OUTSTANDING LOAN PORTFOLIO

From the chart below, it can be noted that the outstanding loan portfolio for the business sector is very high that's 19.7 billion shillings compared to other sectors where their outstanding loan portfolio ranges from 3 million shillings to 1.6 billion shillings in the unspecified sectors.



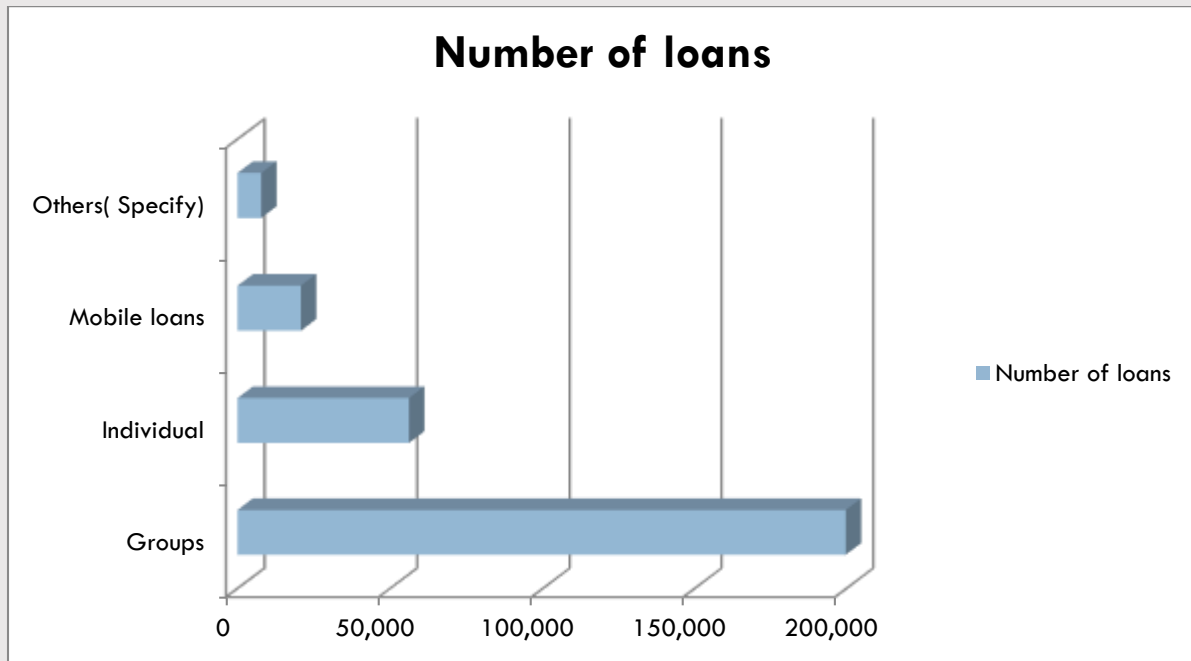
3.3.3: SECTORIAL PORTFOLIO AT RISK

As at 31st December 2017 the spread of portfolio at risk is summarized by the chart below

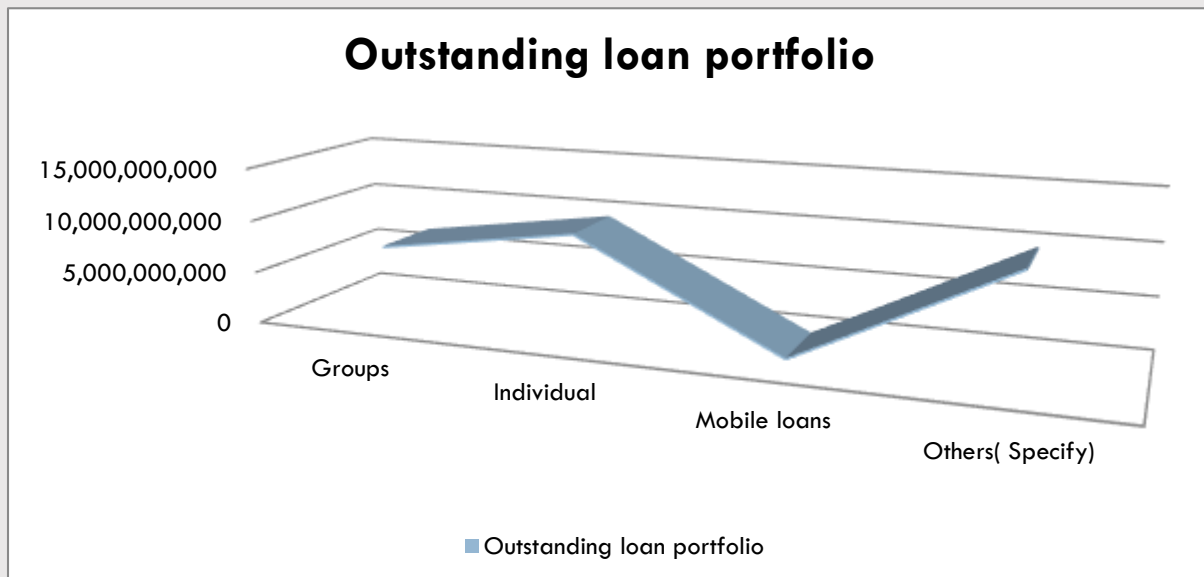


3.4.0: DELIVERY METHODS

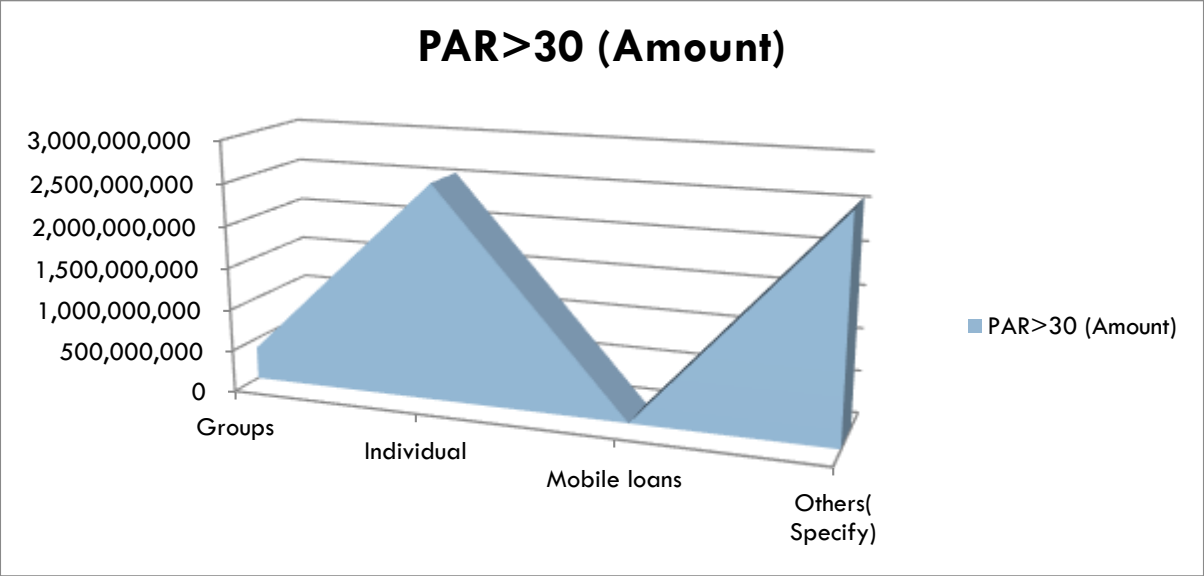
As at 31st December 2017 there were different methods of delivery in the Microfinance Banks which includes groups, individuals, mobile loans and others who used a combination of all the three categories.



The outstanding loan portfolio in the different delivery methods is shown in the chart below



The portfolio at risk in the delivery methods varied differently as shown in the chart below



4.0 ANNEXES

4.1: ANNEX 1: A LIST OF PARTICIPATING MICROFINANCE INSTITUTIONS

1. AAR Credit Services Ltd
2. BIMAS Ltd
3. Caritas Microfinance Bank Ltd
4. Century Microfinance Bank Ltd
5. DARAJA Microfinance Bank Ltd
6. Eclof Kenya
7. Faulu Microfinance Bank Ltd
8. Greenland Fedha Ltd
9. Hand in Hand East Africa
10. Hazina Development Trust Ltd
11. Juhudi Kilimo co.ltd
12. Kenya Women Microfinance Bank Ltd
13. Letshego
14. Longitude Finance
15. Maisha Microfinance Bank Ltd
16. Money worth Investment Ltd
17. Musoni Kenya Ltd
18. Premier Kenya Ltd
19. Rafiki Microfinance Bank
20. Remu Microfinance Bank
21. SMEP Microfinance Bank Ltd
22. Springboard Capital Ltd
23. Stima SACCO Ltd
24. Sumac Microfinance Bank Ltd
25. U&I Microfinance Bank
26. Ushindi Bora Ltd
27. Vision Fund Kenya
28. Yehu Microfinance Trust