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Equity Building Society's Market-led Approach to Microfinance

Graham A.N. Wright and James Mwangi

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Background[3]

Kenya's economic performance in the last decade has been weak and poverty continues to increase. GDP increased by 2% per annum between 1990-97, but the average population growth was around 2.6% per annum over the same period. There has been a decline in GDP per capita to US$289. In 1992, 45% of Kenyans were living in poverty, by 1997 this figure had increased to 53%,[4] and by 2002 it had reached 56% at national level and 62% in rural areas. Among the weaknesses in the Kenyan economy, the lack of a strong financial sector remains a key constraint. While exhibiting greater financial depth than other economies in the region and much of sub-Saharan Africa, the sector is characterised by over-concentration, inefficiency and poor asset quality.

Economic liberalisation has been nominally underway since 1980 with the first structural adjustment programme – however progress has been patchy. Financial liberalisation commenced in 1991, with the removal of interest rate controls. Exchange rate controls were finally abandoned in 1993. However, the government remains heavily involved both directly and through regulation with a number of key sectors. While the basic legal and regulatory framework is largely supportive of a liberalised market, two of the four largest banks remain state owned, notably including the largest – the Kenya Commercial Bank (KCB)[5].

The 4.5 million Kenyans served by Savings and Credit Cooperatives (SACCOs), the 1.8 million served by the Post Office Savings Bank (KPOSB) and the 0.4 million served by Microfinance institutions are either under banked or poorly banked since limited financial services are offered to them. A population of 6.7 million under-banked or poorly banked Kenyans requires comprehensive financial services that include savings, credit and money transfers, as well as insurance services. According to official estimates[6], out of the 11 million potential customers 8.6 million Kenyans enjoy at least some rudimentary financial services – see Table 1. below. However, many of these services are very basic and, on the credit side, severely rationed.

Table 1. Basic Analysis of the Kenyan Market for Financial Services (Ksh.78 = $1)

Class	No. of Savings Clients	Deposits	No. of Borrowers	Outstanding Portfolio
Banks	1.9 million	$4,705 million	0.538 million	$2,346 million
SACCOs[7]	4.5 million	$1,000 million	2.1 million	$833 million
KPOSB	1.8 million	$90 million	0	0
MicroFinance Organisations[8]	0.4 million	0	0.380 million	$35 million

Equity Building Society's beginning was inspired by an entrepreneurial vision of a potential demand for financial services in the underserved, low-income section of the Kenyan market. Five friends pooled their individual resources to capitalise Equity and to drive its operations in order to maximise returns on their investment. Equity opened its doors in 1984 as a registered building society. The choice of the legal form was a function of what was available at the time and what could be afforded, both in terms of licence fees and capitalisation. At the end of 2003, Equity was operating through 15 branches and 24 outlets served by mobile units, had over 252,000 depositors with deposits of $41.0 million (average savings account balance $163), and a

[1] Graham A.N. Wright is the Programme Director of *MicroSave* (www.*MicroSave*.net).
[2] James Mwangi is the Finance Director of Equity Building Society (www.ebsafrica.com).
[3] Much of this paper draws on Coetzee et al.'s "Understanding the Re-birth of Equity Building Society in Kenya"
[4] Government of Kenya (2000) *Interim Poverty Reduction Strategy Paper,* Government Printer: Nairobi.
[5] This section is based on a DFID Project Memorandum for the Financial Sector Deepening Project, 2001
[6] Central Bank of Kenya, Ministry of Cooperatives, Association of Microfinance Institutions, Kenya Union of Savings and Credit Cooperatives
[7] Savings and Credit Cooperatives
[8] Not including Equity Building Society

loan portfolio of 66,000 borrowers, worth $20.6 million (average loan size $312). Equity was fully computerised, and had over 360 staff members, eight directors and 2,469 shareholders – of which only AfriCap was a "social" investor.

Equity's Entry into Microfinance

Between 1984 and 1993, Equity operated through five branches in Nairobi and Central Province but experienced a stagnant deposit base, stagnant loan base, a deteriorating loan portfolio and continuing losses. As at 31 December 1993, Equity received a Central Bank of Kenya (CBK) rating as technically insolvent. The rating noted that supervision by the Board was poor, management control was inadequate, asset quality was unsatisfactory, Equity's capital was fully eroded by accumulated losses, and that deposits were being used to meet operating expenses. At that time a decision was made refocus the institution and to turn Equity around.

The building society legislation had influenced Equity towards offering savings services and mortgage loans. However, Equity realised that it was servicing a microfinance market and that the loans were rarely used for housing. From 1994, Equity began to transform into an institution that focused on "the mobilisation of savings, term deposits and other funds to promptly and efficiently provide loan facilities to the microfinance sector in order to generate sufficient and sustainable profits for the welfare of all stakeholders". In essence, the result was a complete refocusing of the institution. Since then Equity has experienced consistent growth of 40–50% per year in terms of profitability, deposit base, loan portfolio investment portfolio and asset base.

Equity received no external donor assistance until 1999. Since then it has received the grants, loans and equity outlined in Table 2. (success brings many friends!). These grants have not affected Equity's mission but have assisted the institution significantly increase its outreach.

Table 2. External Assistance received by Equity Building Society 1999-date

Donor/Agency	Amount ($)	Instrument	Purpose
European Union	$1 million	Loan	Loan capital
European Union	$40,000	Grant	Staff development
European Union	$50,000	Grant	Business training for clients
Swisscontact		TA[9]	Market research Policies & procedures documentation Human resource concept development Change management
MicroSave		TA	Market research Costing & pricing New product development Policies & procedures documentation Process mapping Strategic and product marketing Customer service Branding and corporate identity
UNDP-MicroStart	$150,000	Grant	Strategic plan development MIS development
DFID-FDCF	$277,000	Grant	Mobile banking systems development
DFID	$600,000	Grant for TA	Staff incentive schemes design Credit management IT and e-banking systems development Institutional transformation
AfriCap[10]	$1.54 million	Equity	"Social" share capital investment
AfriCap	$244,000	Grant for TA	Operations development Credit Management

[9] Technical Assistance

[10] For more on AfriCap see www.africapfund.com.

These investments, combined with the commitment of Equity's Board, management and staff to a market-led, client-focused approach to microfinance has lead to massive growth in the past 2-3 years. Although it does serve some corporate and relatively well-off clients, Equity's core business remains microfinance. Indeed, in 2002 seeing the huge opportunities offered by going deeper down market, Equity decided to offer loans to even lower income clients using cashflow and credit scoring-based technologies. These loan products are currently under development and will be rolled out in 2004/5.

Equity's mission is to "Mobilise resources to maximise value and economically empower the microfinance clients and other stakeholders by offering customer-focused quality financial services and solutions". Equity's vision is "To be the leading and preferred microfinance services provider". In pursuit of these, Equity's 2003 strategic plan calls for:

- Maintaining the focus on the low-income market and deepening outreach on credit side
- Conversion from a building society into a commercial bank
- Using technology to optimise the quality and minimise the costs of service
- Open 3-4 new branches each year for the next 3 years
- $81 million deposits mobilised from 450,000 clients by end 2006
- $57 million lent to 88,000 borrowers by end 2006
- Return on Assets (after income tax) of 4.69%
- Return on Equity (after income tax) of 34.01%

Equity seems likely to meet, and in some cases exceed, these targets.

The Staff and the Customers

To make the turnaround, Equity needed both to acquire relevant human resources and train and reorient the existing ones. Thereafter, the growth in the number and capacity of the staff was driven by growth of the business and changes in technology (Table 3.).

Table 3. Growth In Numbers Of Staff At Different Levels In Equity, 1995–2003

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Board level	3	3	3	3	3	7	7	7	8
Executive management	2	2	2	2	2	2	2	2	3
Branch/assistant branch managers	6	6	10	13	15	18	22	24	30
Senior managers at Head Office	2	2	2	1	1	2	3	3	7
Administrative support staff	4	4	1	5	5	4	7	15	22
Credit staff	6	8	10	12	16	17	36	28	51
Savings staff	25	34	31	47	72	72	81	108	205
Management information systems staff	1	1		1	1	1	3	5	8
Finance/accounting staff	3	2	1	3	1	4	6	7	11
Marketing staff	–	–	–	1	–	–	5	10	12
Internal audit staff	–	–	–	–	–	–	2	3	5
Total	**50**	**62**	**60**	**86**	**116**	**124**	**176**	**210**	**360**

Equity has a tradition of recruiting young people with little or no experience at entry points. A recruitment committee comprising senior managers in the Nairobi branches and at Head Office interviews and selects the most suitable candidate for a given position. The emphasis in Equity is on inculcating the corporate culture, as many newcomers are young, but well educated. In a way, the selection of staff at entry/ junior level was not so much aimed at bringing skills into the institution, but to mould inexperienced graduates to its operational norms and customer focus. This has worked exceptionally well, and this is reflected in the work ethic and culture emanating from the activities of the entire staff complement.

Equity prefers to fill management positions from within; however, in the last two years it has needed to recruit some experienced people from outside the institution for senior management positions – particularly for finance, marketing, human resources, IT, credit and operations. This has been done by headhunting from outside the banking industry. Perhaps as a result of never having served low-income clients, traditional bankers have often proved unable to absorb the Equity's corporate culture and operational norms.

Equity does not "target", it has no poverty criteria for client selection. It seeks to serve low-income people from all walks of life. The vast majority of its clients are small-scale tea and coffee farmers, low salary earners (for example teachers, workers at Nairobi City Council etc.) and small businessmen/petty traders. Equity also offers its services to higher income people and operates "corporate" banking halls/teller stations to ensure that higher value clients receive appropriately high quality services. Table 4. shows how the vast majority of Equity's depositors have a net deposit on account of less than $50.

Table 4. Range of Savings Accounts as of March 31, 2004

Range ($)	No. of Depositors	Total Value of Deposits in Range	Average Value of Net Deposit per Account
Less than 668	283,493	US$13,326,590	US$47
668-1,333	6471	US$ 6,059,969	US$936
1,334-6,667	5087	US$12,889,918	US$2,534
1,668-13,334	406	US$ 3,631,507	US$8,945
Above 13,335	230	US$14,335,219	US$62,327

A 2001 market research survey analysed Equity's records from the eight branches: a total of over 47,000 active customers consisting of more than 95% ordinary savings and remittance account holders, and 5% business savings accounts. Table 5. shows that smallholder farmers are the majority in these branches, accounting for 53% of all accounts. Salaried employees held 17% of the accounts, while small and medium scale entrepreneurs accounted for 30%.

Table 5. Equity Customers Analysed in the Survey, July 2001

	Total	Farmers	%	Salaried	%	SME	%
Total	47,695	25,102	53	8,101	17	14,105	30

Growing with Equity the "Listening, Caring Financial Partner"
A Client's Story

"I started banking with Equity back in the year 1992 when I was still a housewife. I had only small money, which I had always kept, in the house for any emergencies. I believe even without banking women can control their finances much better than the men - my case is an example. Then, Equity was still a small bank and I knew that I would not be looked down upon with my little savings and irregular deposits.

By 1993 due to having an account, I had strong belief in the Swahili adage "*haba na haba hujaza kibaba*" (little by little, the coins fill in a large bowl). It was a struggle to maintain the Ksh.300 minimum deposit. For the sake of my children I had to cut on expenses so as to save from the money I got from my husband, which was only enough for daily survival.

I used to see people queuing at the credit counter and I was jealous and pitied myself because if I borrowed what would I pay with? I knew if I showed some initiative of some business I would seek help on a better ground. I consulted my husband about the sort of business I could open and at the time the most appealing was a kiosk. It was good because it was next to my house and could still watch over as I worked and take care of the children too.

My first loan, which I remember to this day, was for Ksh.20,000 (about $667 at the time), which helped in stocking the business. The small neighbourhood shop had now gained frequent customers. I bought more sugar and flour and all the little things, which make it called a "big" shop. I ran this shop until 1995 where it had grown some bit and had enough stock.

In 1996, I went for a very big loan of Ksh.50,000 ($1,450) of which I was to expand my business. I had already chosen a stall at the nearby centre where I could rent a room and at least be more open to customers from all over especially because it was a busy area near the road.

By 1997, my next-door business colleague was getting out of business and he was running a mini-market. I saw this as a golden opportunity to seize the chance. It is good that my husband and my bank was a strong support to my growth. I acquired yet another loan and this time, my manager gave me tips on investing the money wisely. This was one of the best pieces of advice I got, he saw I was determined and told me to go for it. With the help of yet another loan, which this time I secured with a Fixed Deposit, I managed to buy out the mini-market and moved my shop there.

In 1999, business was very slow and the bank almost repossessed my securities only that it is a bank, which listens to your problems. I was able to reschedule my repayments to a much more stress-free plan. I was happy and fully concentrated to the growing shop so that I could clear my debts. I am happy they had a chance to believe in me, which is not usual because most people do not listen to your financial worries especially the big banks.

Just last year, 2003 I began plans to upgrade my mini-market into a supermarket, though not compared to *Uchumi* supermarket, but it will serve my neighbourhood well. With the help of Equity I might grow to *Uchumi*-size, you never know in some years to come. Right now I have even taken school fees loan and a medical loan for my ageing mother and I have no worry as I know that the shop will take care of all that. I am more independent - never having to ask my husband for small monies and also my financial literacy has improved.

My advice especially for women who sit at home thinking that they cannot make it in life – you are failing yourself. Even others and I have shown you that housewives can be good money mangers. For the small, **Equity is our kind of bank!"**

The responsiveness of Equity to its recommendations has meant that the Central Bank of Kenya has been very supportive of its activities. Indeed the central bank has developed a rational respect for Equity as a "financial institution that has touched many Kenyans in a special way". Equity's success has also begun to alert other commercial banks to the potential of the low-income market and Equity is beginning to experience competition (particularly at the upper end of its market) from Cooperative Bank, Kenya Commercial Bank and even Barclays Bank. This trend is being accelerated by the current Treasury bill rate in Kenya, which was hovering around 1% for all of 2003.

The Products

As part of its commitment to client service, Equity offers a range of products as shown in Tables 6. and 7.

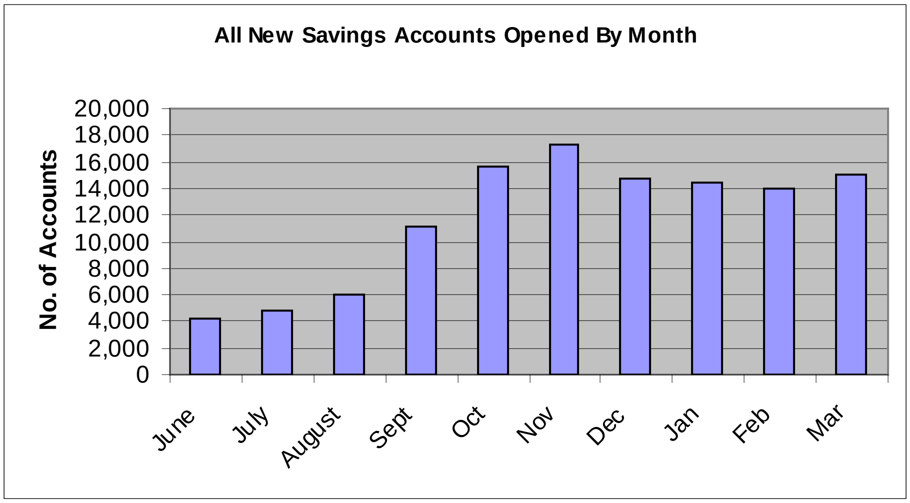
Table 6. Savings Product Range

Product	**Purpose**	**Features**	**# Sold End 2003**
Ordinary Savings Account	To provide a medium for remittance processing and savings.	• Operating balance of $5.13 • No ledger fees • No opening balance. • No limit on amount and frequency of withdrawals. • $0.38 withdrawal charges. • No charges on deposit. • Interest credited annually (2003 rate = 2.5%) p.a. • Free photo card	205,790
Business savings	To provide a medium for business transactions and savings.	• Minimum balance of $12.82 or ($64.10 for Corporate branch) • No ledger fees • No limit on amount and frequency of withdrawals. • $0.38 withdrawal fee • Interest credited annually (2003 rate = 2.5%) p.a. • Free photo card	23,394
Jijenge savings account.	To provide a medium for contractual savings.	• Disciplines one to save. • Flexibility to set your own savings plan. • Earns bonus interest (2003 rate = 3%) p.a. • Fast access to loans of up to 90% of your deposits at low interest rates. • No ledger fees	4,366
Call and fixed deposits.	To provide a premium interest earning investment opportunity.	• Affordable minimum deposits. • Competitive interest rates(2003 rates = 3.25%) p.a. • No penalties or loss of interest earned for premature withdrawal of deposits.	3,774
Super junior Investment	To provide a medium for investing in the dependant's future.	• No opening balance • Minimum operating balance of $5.13. • No ledger fees • Free bankers cheque • No transaction charges for deposit 2.5% p.a.	2,293
Mobile saving account.	To bring banking services closer to the people.	• Operating balance of $5.13 • No ledger fees • No opening balance. • No limit on amount and frequency of withdrawals. • Banking services offered once in a week. • $0.38 withdrawal charges. • Monthly mobile fee of $0.64. • No charges on deposit. • Interest credited annually (2003 rate = 2.5%) p.a. • Free photo card	12,569
Total Savings Accounts			**252,286**

Table 7. Loan Product Range

Product	**Purpose**	**Features**	**# Sold End 2003**
Business loan	To provide financial solutions for investing in business	• Affordable low interest rates of 1.5% per month. • Minimal application fee of 5% (minimum $3.85.) • Available for terms up to 12 months.	7,972
Salary Advance	To support customers meet unexpected socio-economic needs.	• Available to all active salaried clients. • Loan of up to 4 times the average monthly net salary. • Affordable low interest rate of 1.4%. • Minimal loan application fee of 5% (minimum $3.85.).	25,228
Farm input advance	To support customers carry out various farming activities.	• Affordable low interest of 1.4% • Minimal loan application fee of 5% (minimum $3.85.) • Available for terms up to 12 months.	28,178
Medical loan	To support customers meet healthcare needs.	• Affordable low interest of 1% per month. • No loan application fee. • Available for terms up to 12 months.	265
Development loan	To provide support for acquisition of durable assets.	• Affordable low interest of 1.5%. • Minimal loan application fee of 5% (minimum $3.85.) • No hidden charges • Available for terms of up to 36 months. • Interest discounts	1,847
Education loan	To provide solutions for investing in education at all levels.	• Affordable interest rates of 1.2%. • Minimal loan application fee of 5% (minimum $3.85.) • Available for terms up to 12 months. • No guarantors.	1,655
Total Outstanding Loans			**66,022**

The marketing and public relations efforts conducted in August 2003 on the basis of Equity's 20th Anniversary of "Providing Financial Solutions to Kenyans" yielded spectacular results with the number of new savings accounts rising dramatically as a result (see All New Savings Accounts Opened By Month graph below).



As a result of this rapid growth, many of Equity's branches are increasingly congested. In response, Equity has conducted a detailed process mapping exercise to optimise the speed/efficiency of customer service within the branches, introduced floor managers to assist and direct customers to the correct counters and is examining opportunities for deploying ATMs.

The portfolio at risk for Equity has grown rapidly with the explosive growth on volume of borrowers and volume of loans. The rate of portfolio at risk over the last 3 years had gone down from 21% to 8%. However, during 2003 the portfolio at risk rose again to 19.2%. While a significant proportion of this portfolio at risk is secured by high quality collateral, Equity devoted year 2004 to strengthen the credit management through a comprehensive review of methodology of appraisal, follow up and staff training. The results of the 1st half of 2004 have shown a significantly improving portfolio at risk. In addition, in recognition of the high risk associated with lending to high value corporate clients (which account for around 80% of the PAR), Equity is reorienting its credit portfolio to concentrate more on the low-end clients through salary/remittance-based lending and cashflow-based microcredit products to finance education, emergencies and small-scale business development.

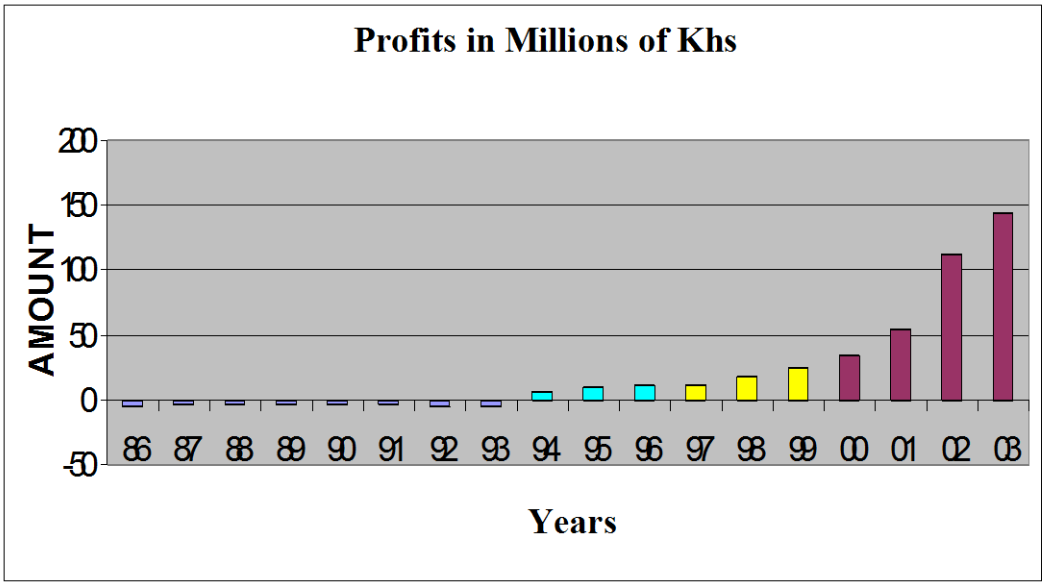
The Financial Impact on the Bank

Equity has been extremely successful in its efforts to provide microfinance services. It has identified a significant market niche, designed products and delivery systems that respond to and satisfy the needs of that niche and is now making significant returns on its investment. But it was not ever thus.

As it faced the insolvency in 1993, Equity reoriented itself towards microfinance. Following this mission "shift" from mortgage financing to microfinance in 1994, Equity has gradually evolved from a product-driven through a selling-driven and social-marketing to a full-fledged, client-responsive market-led approach[11]. This evolution has been clearly reflected in the organisation's results over time. Until 1994, Equity was product-driven and sustaining regular and debilitating losses. From 1994 to around 1997, Equity tried hard selling its products in the market with a modicum of success. In the period of 1998-2000 Equity was focused on what they term "social marketing" efforts during which presented prizes to the best farmers and sponsored carefully selected, high-potential children through college. In 2000 Equity installed the Bank 2000 software, which greatly improved the productivity of their staff. The following year, in 2001 Equity started working with *MicroSave* on a market-led approach[12] that started with market research to understand what clients wanted and then sought to amend products and delivery systems to reflect those client needs and preferences. For example, following some market research that indicated that customers were confused by their prices, Equity re-priced their products consolidating a series of fees into the interest rates etc. The result was that new account openings rose by ten-fold – without any significant marketing efforts.

Below is a graph showing the growing profitability of the institution as it changed its approach and orientation from product-driven to market-led.

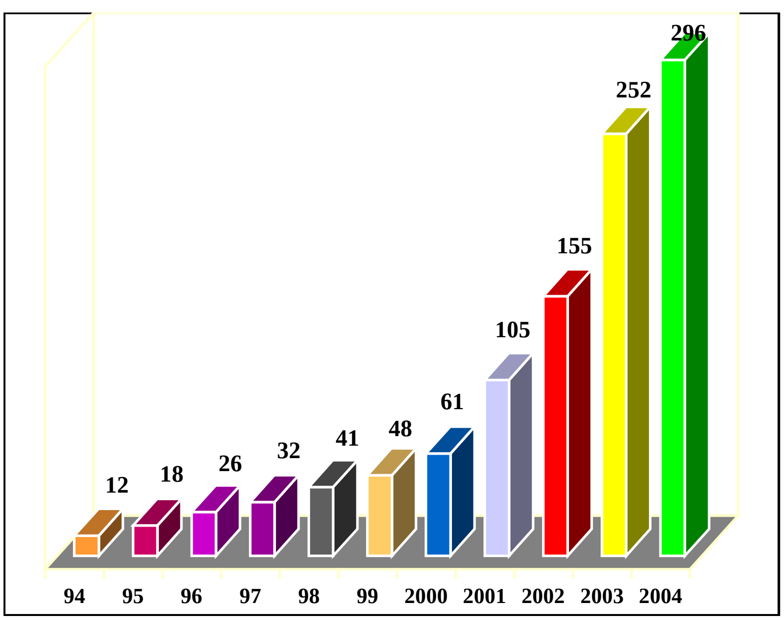
[11] For more on the market-led approach to microfinance see www.*MicroSave*.net
[12] See Wright et al. 2003 for more on this.



1986 – 1993 – Product 1994 – 1996 - Selling
1997 – 1999 – Marketing 2000 – 2003 – Market Led

Subsequent work with *MicroSave* has involved new product development, product marketing, process mapping to optimise delivery systems, institutional and product risk analysis and the improvement of customer service and staff incentive schemes. In addition, Equity institutionalised product- and branch- based cost analysis so that these are now an integral part of its management reporting system … thus allowing it a clear understanding of the organisation's revenue streams and cost drivers.

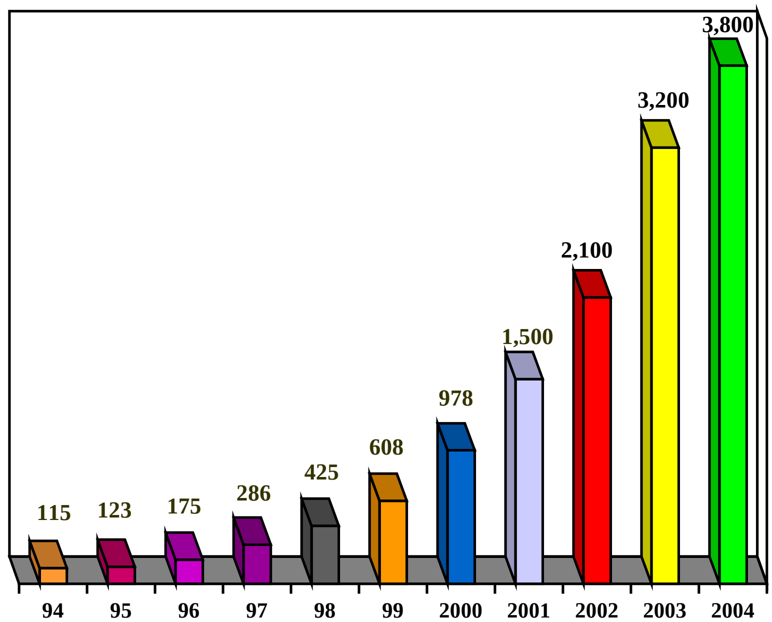
The results of moving to a market-led approach have been startling – indeed Equity has had to move fast to implement more comprehensive systems and to recruit an almost entirely new senior management team to handle the resultant rapid expansion.



Number of Savings Clients: 1994 – March 2004 ('000)

The number of savings clients has risen by over 140% in the two years 2002 and 2003. As noted above, this growth has been particularly marked in the last half of 2003 after the public relations and marketing exercise in August of that year. At one stage some branches were opening 500-1,000 accounts a day, and even in the month of January 2004, around 15,000 accounts were opened despite an almost complete shut down of marketing efforts by Equity. In an environmment where 58% of clients come to know about services at microfinance institutions through word of mouth (Wright et al., 2003) it is perhaps not too surprising to see that the effects of the August 2003 marketing campaign continue.

Value of Deposits:1994 – Mar 2004 (Ksh. '000)



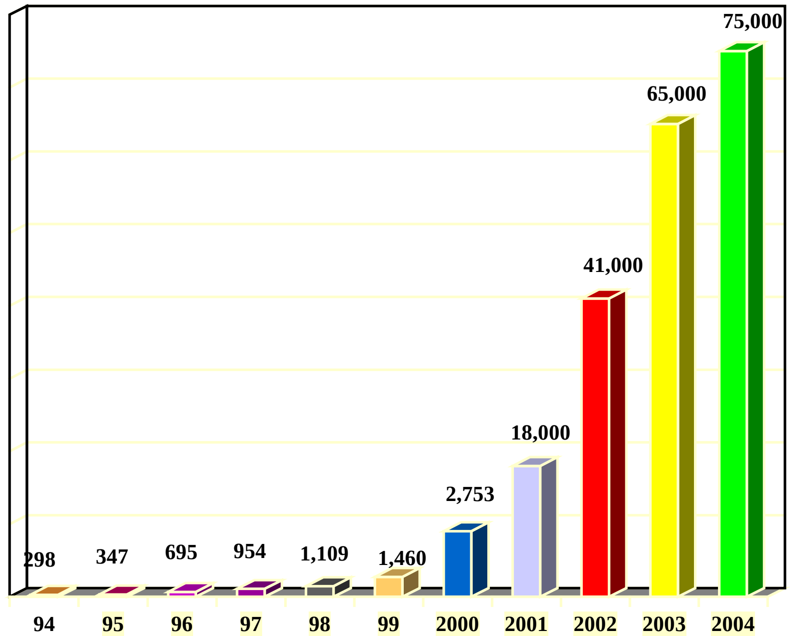
The rise in the value of deposits has been commensurate with the increase in the number of savers. Equity now has deposit liabilities that are 113% greater than they were at the end of 2001. And in January 2004, a notoriously bad month for deposit mobilisation, since rent, school costs and other household expenses fall due at this time, Equity's clients made another Ksh. 200 million ($2.56 million) net deposits.

This rise was recorded despite the fact that in the last half of 2003, Equity moved to introduce a withdrawal fee on their most popular Ordinary Savings Account (and indeed other accounts). Perhaps as a result of the on-going focus on customer service, this new fee has not significantly affected clients' behaviour and is yielding a valuable fee income stream. This despite a very competitive market (see Table 8. below)

Table 8. Deposit Acounts Fees and Charges in the Kenyan Market as of March 31, 2004
(All figures in Kenyan Shillings - $1:Ksh.78)

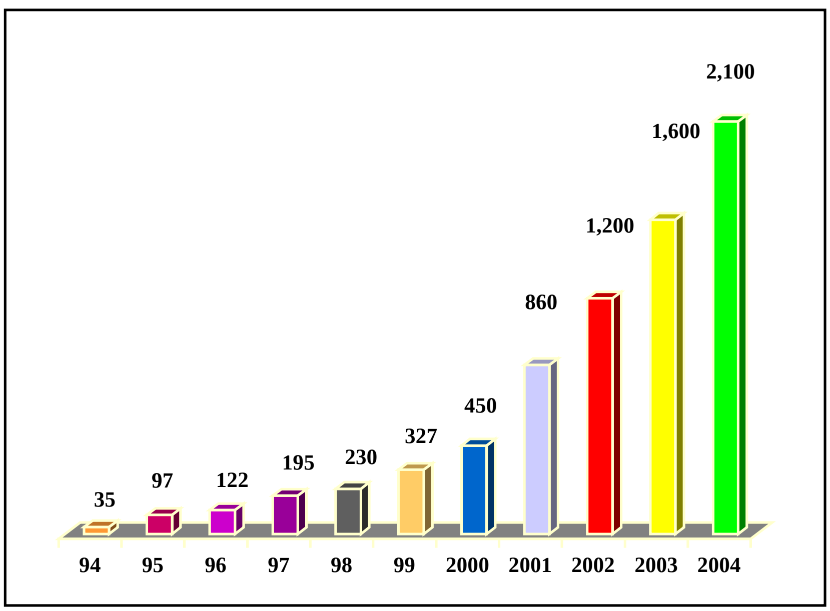
	Equity Building Society	**Barclays Bank**	**K-Rep Bank**	**Family Finance Building Society**	**Kenya Post Office Savings Bank**	**Kenya Commercial Bank**	**East Africa Building Society**
Opening balance: **Savings** **Current**	Nil Nil	20,000 20,000	500 2,000	Nil 500	500 500	Nil 20,000 & 10,000	1,000 2,000
Minimum balance: **Savings** **Current**	400 1,000	30,000 30,000	500 Nil	500	500 500	Nil Nil	2,000 2,000
Ledger fees	Nil	750	Nil	100	Nil	200	100 monthly
Withdrawal charge	50	30 ATM 370 counter	20	40	30	25 ATM	300 I/branch

Number of Loan Clients: 1994 – Mar 2004 ('000)



Equity has seen a similarly daunting rise in the number of loan clients in the same period. As the value of deposits has risen so have both the need to lend, and the opportunities to do so, increased. In early 2003 the T-bill rate in Kenya fell beneath 1% and looks likely to remain low for the foreseeable future. As a result all the banks and building societies are looking for opportunities to lend where they have not needed to before. Equity is continuing to focus on its core business of lending against salaries and tea/coffee remittances but has begun to pilot-test a cashflow-based, individual lending microcredit product. Perhaps the biggest problem facing Equity comes from the pressure (from both balance sheet and clients) to lend – a pressure that is testing Equity's staff, management and systems like never before.

Loans Outstanding: 1994 – Mar 2004 (Ksh. '000)



Once again the value loans outstanding has risen with the number of loan clients. The value of loans outstanding at the end of 2003 was marginally less than double that of the value at the end of 2001. When compared to the rise in the number and value of savings accounts and net deposits, this represents a relatively modest increase. The limited increase reflects Equity's need to reign in and control the loan portfolio while it puts more rigorous systems in place in preparation for a massive expansion in lending in line with the liability side of its balance sheet. The average outstanding loan size as of December 2003 was Ksh. 24,333 ($312)

Financial Statements to 31st December 2003

As a result of the above, despite the problems with its portfolio, Equity Building Society has a robust balance sheet and continues to grow its profits.

$1:Ksh.78

Equity Building Society
Balance Sheet as at 31st December 2003
(Figures are in thousands of Kenya Shillings)

Assets	**(Ksh '000)**	**Liabilities**	**(Ksh '000)**
Cash	451,469	Customer deposits	3,368,589
Deposits with banks	702,984	Short term liabilities	77,156
Treasury Bonds	870,086	Subscribers' capital	478,201
Other assets	41,548		
Loans & advances	1,606,723		
Fixed assets	251,136		
Total	**3,923,946**	**Total**	**3,923,946**

Equity Building Society
Profit & Loss for the Period Ended 31st December 2003
(Figures are in thousands of Kenya Shillings)

Particulars	**(Ksh '000)**
Interest earned	324,428
Commission & other income	306,429
Total income	**630,857**
Interest paid on deposits	(67,855)
Net income	**563,002**
Management expenses	319,049
Depreciation	50,711
Loans provision	50,585
Total costs	**420,345**
Profit before taxation	**142,657**
Taxation	(45,344)
Net profit	**97,313**
Proposed dividend	(18,859)
Retained profit for the year	**78,454**

Conclusion

Equity's focus on its microfinance customers must be regarded as an important success factor since 1995. This focus, which is embodied in the mission of the organisation, drives most of the activities of Equity. It is clear when interacting with any staff member that they have internalised this focus – it is a key part of the Equity culture. Ths committed attention to client service is one of the most important success areas of all.

For over 16 years, Equity survived under the growing difficulties of a manual information system, which were amplified at every level of growth. Both customers and staff members felt the strain of the manual system as Equity expanded its volume of business over the years. Equity launched its computerised management information system in June 2000, completing the process of computerisation in a record of four months. Equity's efficiency in collecting and giving data and its service delivery to customers improved greatly thereafter. With the new system Equity managed to improve its customer turnaround time from 30–40 minutes to about five minutes at the counter. This counter time has now been further reduced by the process mapping exercise, which allowed Equity to streamline the related front and back office operations. Although Equity's growth is partly attributed to its marketing and customer-focused efforts, it is clear from the high growth spurt in 2001 figures that the new computerised system has also been a major contributing factor. This, of course, demonstrates the importance of harnessing technology in banking in general - and high volume, low-value microfinance in particular.

The future looks bright for Equity – indeed its most significant and pressing challenge is that of managing the rapid growth that has resulted from its success. With a return on equity of 29.8% and a return on assets of 3.6% in 2003, Equity has demonstrated a successful business model for microfinance. The model is driven by a market-led approach and meticulous attention to clients' perceptions and customer care linked to charging for this high quality service – on both the savings and loan accounts. Equity is exciting proof of the profitability of high-quality microfinance activities tailored for the low-income market … and that this market will happily pay for such services.

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