

Restoring Credit Access to Micro and Small Sized Businesses



Gikomba



Marikiti



Kondele



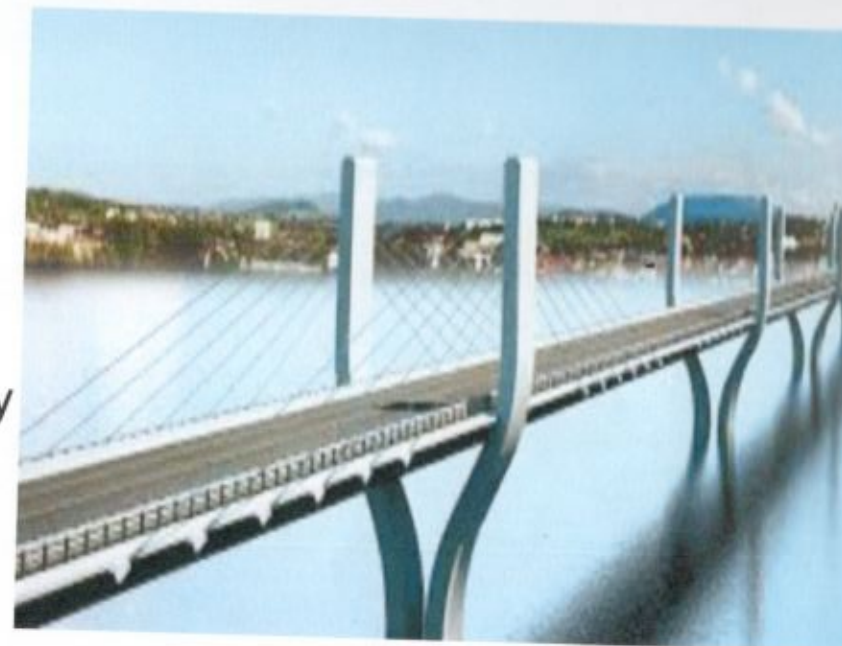
Karatina



WEZESHA

The missing middle

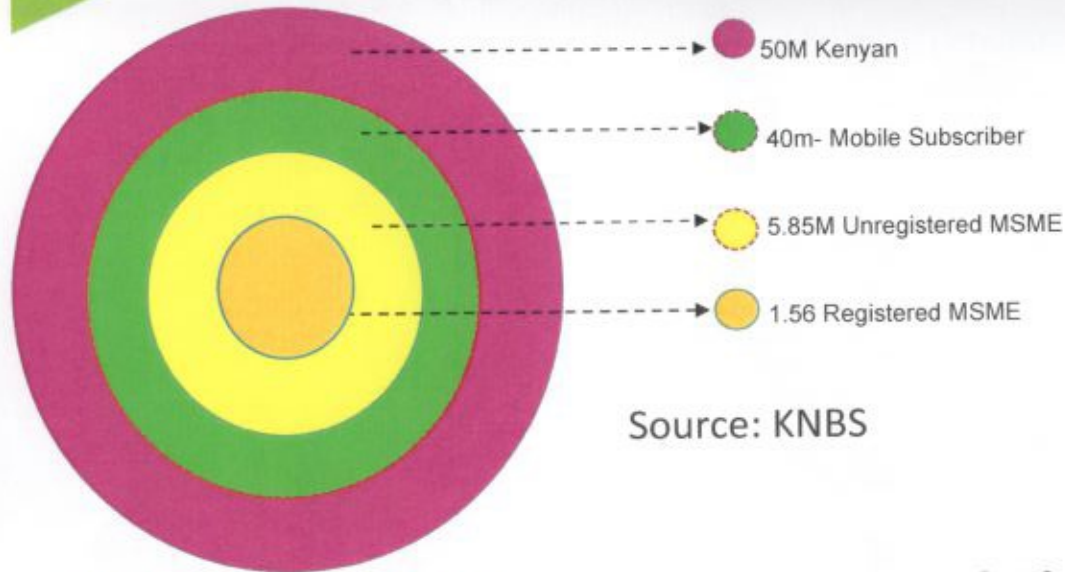
Collaborative initiative to bridge the access to credit by micro and small enterprises in Kenya, and stimulate wealth creation and employment from this segment.



The *Wezesha* initiative seeks to offer overdraft facility (max Ksh 50,000) and upto 12 month term loan (max Ksh 200,000)



Our Ambition In 12 Months & Key Target Markets



Source: KNBS



**5 Million Opt-ins
in the first year**



**2 Million Active
Users within 12
months**

**30 Million M-PESA base
22 million 30 day Active**

**25 Million subscriber have
access on mobile lending
platform**

Activations will be conducted in Key Market



Gikomba



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Karatina



Customer Value Proposition



Overdraft (working capital)

MSME customers are presented with a working capital solution in the form of an overdraft, whose limit is marked as a function of their inflow profile.

Term: 1 – 12 months

Option 1 Price: 9% interest + 4% fee

Option 2 Price: 1% Facility, Daily Charge upto Ksh 100

Repayment: weekly, monthly

Principal: Up to KES 50,000



Term loan (capital investment)

MSME customers are presented with a term loan for capital investments.

Term: 1 – 12 months

Option 1 Price: 9% interest + 4% fee

Option 2 Price: 1% Facility, Daily Charge upto Ksh 100

Repayment: weekly, monthly

Principal: Up to KES 200,000

Proposed scope for Phase 1





How to Customers Qualify

Feature	Product Terms
Eligibility Criteria	<ul style="list-style-type: none">• Registered Mobile Number• KYC qualified: National ID verified against IPRS/ New Huduma Number• Demonstrated cashflows deposited into a bank account or mobile money
Qualification Rules	<ul style="list-style-type: none">• Only 1 registration per unique National ID/Huduma ID• Number Verifiable cash inflows for at least 6 months• Meet credit score cut-off as set by the scheme partners• <i>Customer that don't immediately qualify can opt into a credit access plan (consumer education)</i>



Customer Benefits



Dignity Of Life



Higher Limits- Upto 200k



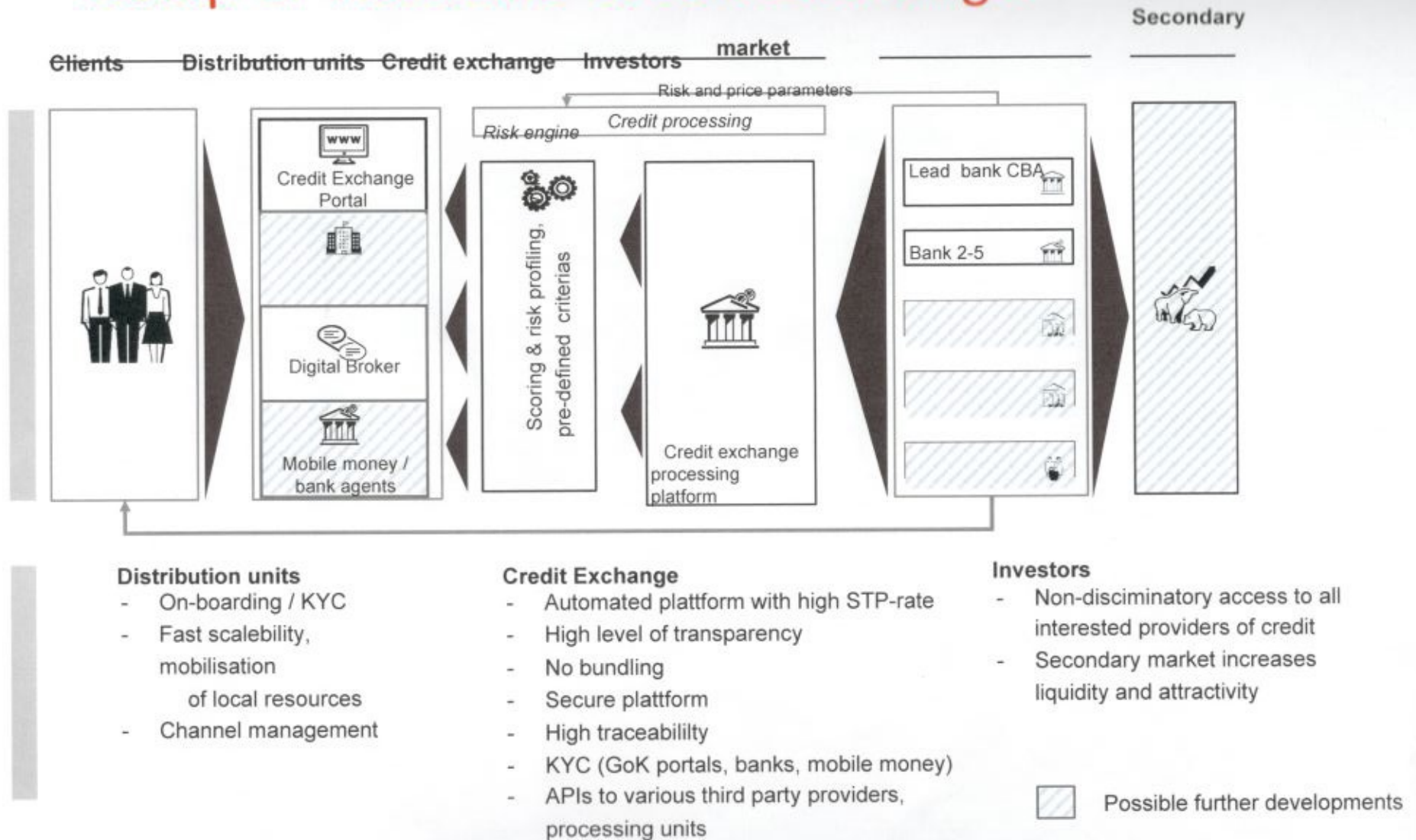
Convenient- Digital Access



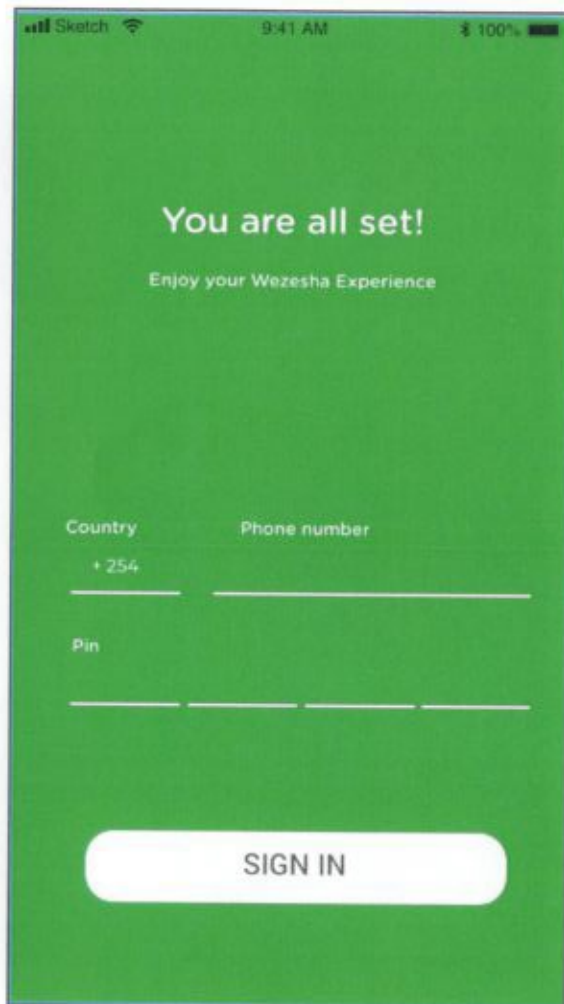
Competitive Pricing- Single Digit



Setup of Wezesha Credit Exchange



Customer Login and Home Frame



Sketch 9:41 AM 100%

You are all set!
Enjoy your Wezesha Experience

Country Phone number
+ 254

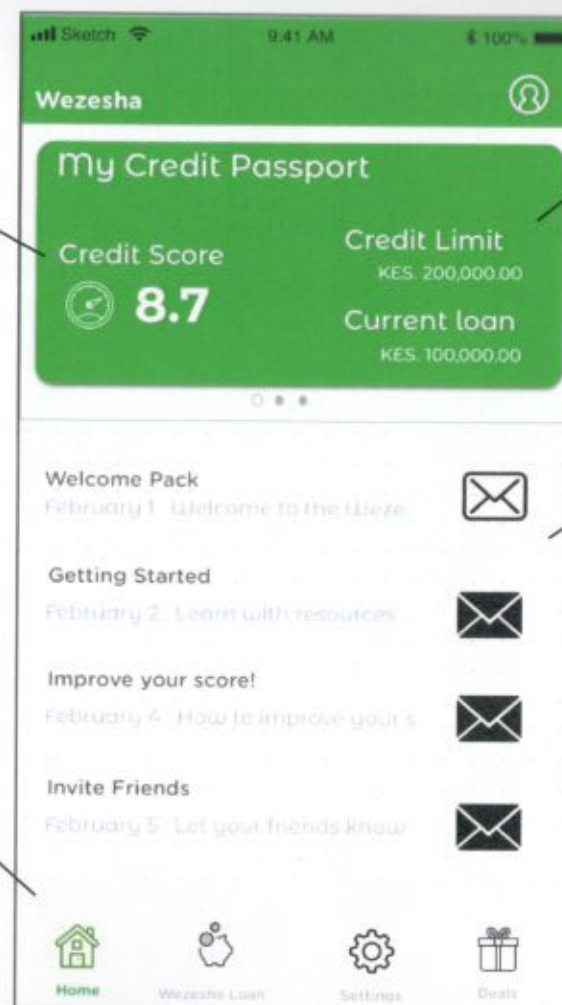
Pin

SIGN IN

Shows customer's credit score. A customer can use this score/passport to apply for credit anywhere. It shall be used to drive positive financial behaviours.

Navigation panel for the Wezesha Credit Exchange.

A USSD access option shall be made available to offer basic services.



Sketch 9:41 AM 100%

Wezesha

My Credit Passport

Credit Score 8.7	Credit Limit KES. 200,000.00
	Current loan KES. 100,000.00

Welcome Pack
February 1: Welcome to the Weze...

Getting Started
February 2: Learn with resources

Improve your score!
February 4: How to improve your s

Invite Friends
February 5: Let your friends know

Home Wezesha Loan Settings Deals

Shows customer's credit limit and current outstanding loan amount.

Shows customer engagement messages. These are used to drive consumer education.

Customer Loan Request Journey

Sketch 9:41 AM 100%

← WEZESHA

Wezesha Loan

Your Total Loan Limit 200,000.00 KES
Eligible Loan Limit 100,000.00 KES

Wezesha Loan Offer

Minimum Tenor 1 Month
Maximum Tenor 12 Months
Interest Rate 9% Flat rate

Request Loan

Need more help?
Get in touch with our contact centre for more help

+ 254 722 123 456

Home Wezesha Loan Management Deals

Shows customer's eligible credit limit. If the customer has a bank account with the participating bank, his/her credit limit is higher.

The customer shall enter the loan amount in multiples of 1,000, and click on NEXT to proceed.

Sketch 9:41 AM 100%

← WEZESHA

Wezesha Loan

Wezesha Loan Limit 100,000.00 KES

100,000.00

NEXT

1	2 ABC	3 DEF
4 GHI	5 JKL	6 MNO
7 PQRS	8 TUV	9 WXYZ
	0	✕

sents the offered credit ns.

could present different dit prices, based on a tomer's credit score.

A shall maintain a 24-ir contact centre, where tomers can call to less any query/issue.

Customer Loan Request Journey

Sketch 9:41 AM 100%

WEZESHA

Please select a purpose

- ☐ Stock Business
- ☐ Business Premises
- ☐ Business Equipment
- ☐ Service Contract / Tender
- ☐ Staff Expenses
- ☐ Insurance Premiums
- ☐ Personal / Family
- ☐ Investment
- ☐ Vehicle

NEXT

The customer selects the loan purpose. This is necessary for reporting and analysis.

The customer must accept the Terms and Conditions to proceed.

Sketch 9:41 AM 100%

WEZESHA

How Long do you need the loan for?

1 month 6 months 12 Months

Monthly repayments work out to KES 4,000

Your price per annum is	9.0%
Interest Rate	7.0%
Your risk premium Rate	1.0%
Period Risk Premium	1.0%

Facility Fee	4.0%
Total Facility Fee	KES 4,000

Disbursement Bank Account

0123456789

☐ By Proceeding you agree with our Terms and Conditions

NEXT

The customer selects the loan repayment period. This widget dynamically calculates the loan repayment amount for the customer

The customer confirms his bank account number. The loan shall be disbursed to the bank account instantly via PesaLink.

Customer Loan Request Journey

9:47 AM WEZESHA

How Long do you need the loan for?

Is it really you?
Enter the code received via SMS to complete your request

Didn't receive it? RE-SEND

CONFIRM

Central Bank Rate 13.0%

1	2 ABC	3 DEF
4 GHI	5 JKL	6 MNO
7 PQRS	8 TUV	9 WXYZ
0		X

Before disbursement, CBA makes a due diligence call to the customer on the registered phone number.

The customer then receives a One-Time-PIN (OTP) to his registered phone number.

If the customer enters this OTP successfully, the loan is disbursed to his/her registered Bank account.

The customer is notified once the funds are received into his/her Bank.

WEZESHA

How Long do you need the loan for?

Success
Your loan has been sent for processing. You will receive a confirmation message once approved

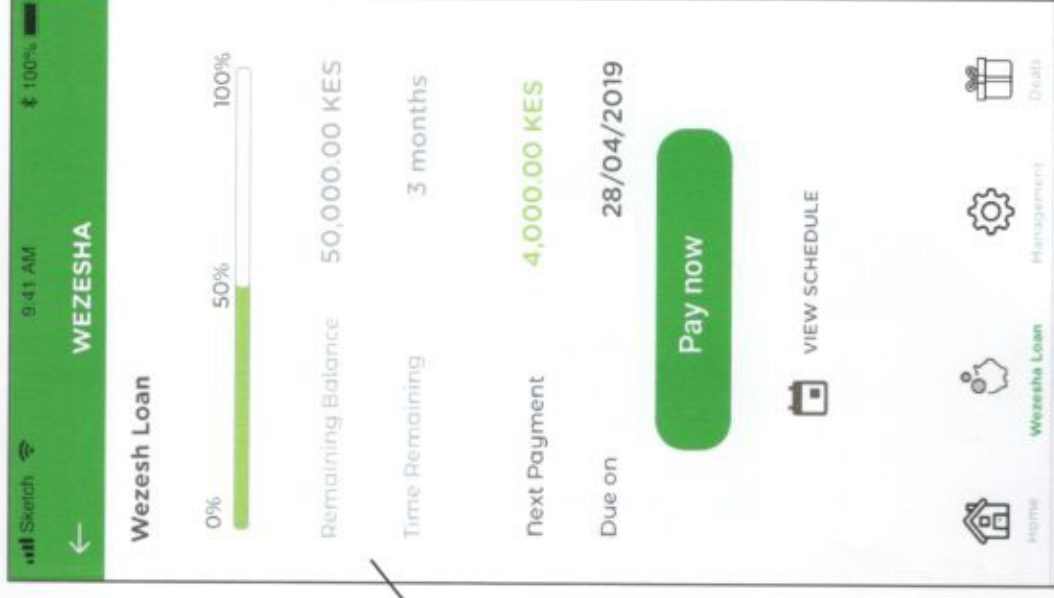
OK

Period Risk Premium 1.0%

Facility Fee 5.0%

☐ By Proceeding you agree with our Terms and Conditions

Customer Loan Status Review



Customer Education At Huduma Universal Service Kiosk



- Credit Access Plan for customers that do not immediately qualify for credit and Blog on relevant financial content
- Monthly SMS update and web dashboard on customers financial KPIs including credit score Outbound Customer Due Diligence Call before each disbursement



Wezesha Agent

Journey Full to Commercial Launch

Target Date	Roadmap Milestone
Mid Feb 2019	<ul style="list-style-type: none"> • Product Definition • Technical Product Design • Engineered System Design
March 2019	<ul style="list-style-type: none"> • Prepare and sign-off co-operation agreement amongst partner banks and stakeholders Commence registration of target customers for pilot scheme
30 th April 2019	<ul style="list-style-type: none"> • Registration and pilot in selected markets- Gikomba, Kondele, Marikiti, Karatina • Launch MVP to pre-registered pilot group
30 th June 2019	<ul style="list-style-type: none"> • Full Commercial Launch • Commence Phase 2
October 2019	<p>Introduce Customer Credit Passport</p> <ul style="list-style-type: none"> • <i>A customer can use the credit passport to shop for better credit offer from participating banks The customer data profile is made available to participating banks, can then bid to fulfill the customer's credit request.</i>
December	<p>Launch online bidding platform to offer formal bank loans to aspirational customers</p> <ul style="list-style-type: none"> • <i>These formal loans will have credit limits and tenors that go beyond the Wezesha offer. Customers that have been active on Wezesha can thus use their Credit Passport to shop for better credit offers digitally, from the participating banks.</i>

12 Months
(post-launch)



Phase 2 Support for Scalability

Technical Provisions

API integrations to GoK registry for metadata;

- a. New Huduma ID to be integrated once it is ready. This scheme could be used as a registration incentive.
- b. Integration to National Integrated Identity Management
- c. Integration to other financial institutions and service providers

Financial Provisions

Prompt Payment Bill

Moratorium from KRA PIN and Tax payment

Review of the Credit Information Sharing protocol to align commercial model to stakeholder risk-reward structure.

Provision for a mezzanine credit risk guarantee structure from the GoK.

Link mobile money Wallets and Tills to designated Bank account for cashflow monitoring.

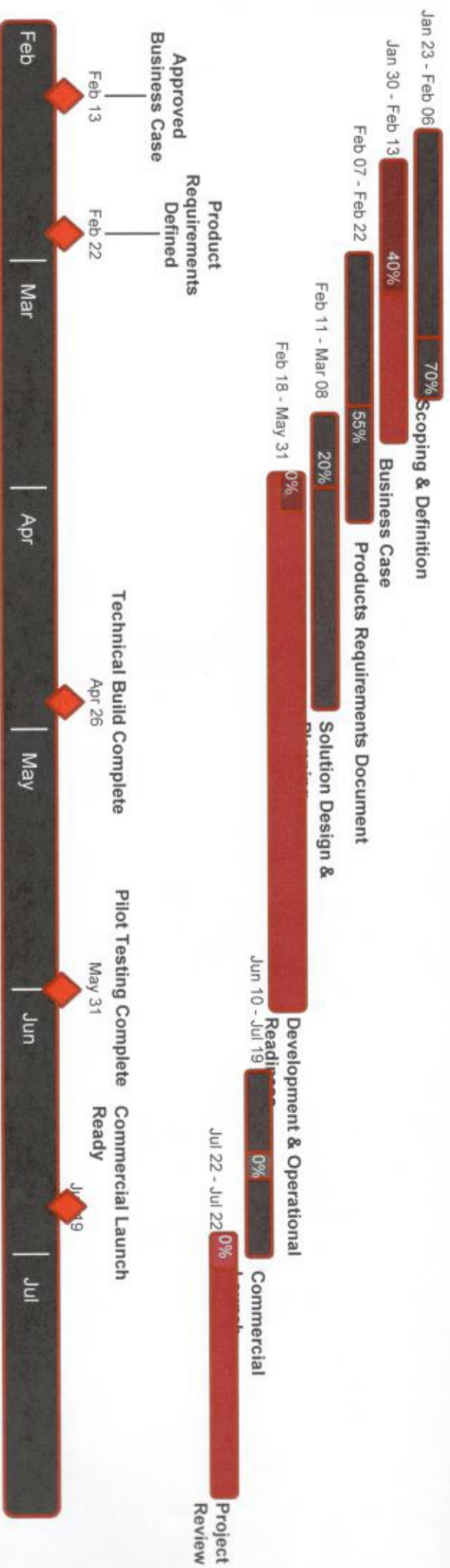


Q & A

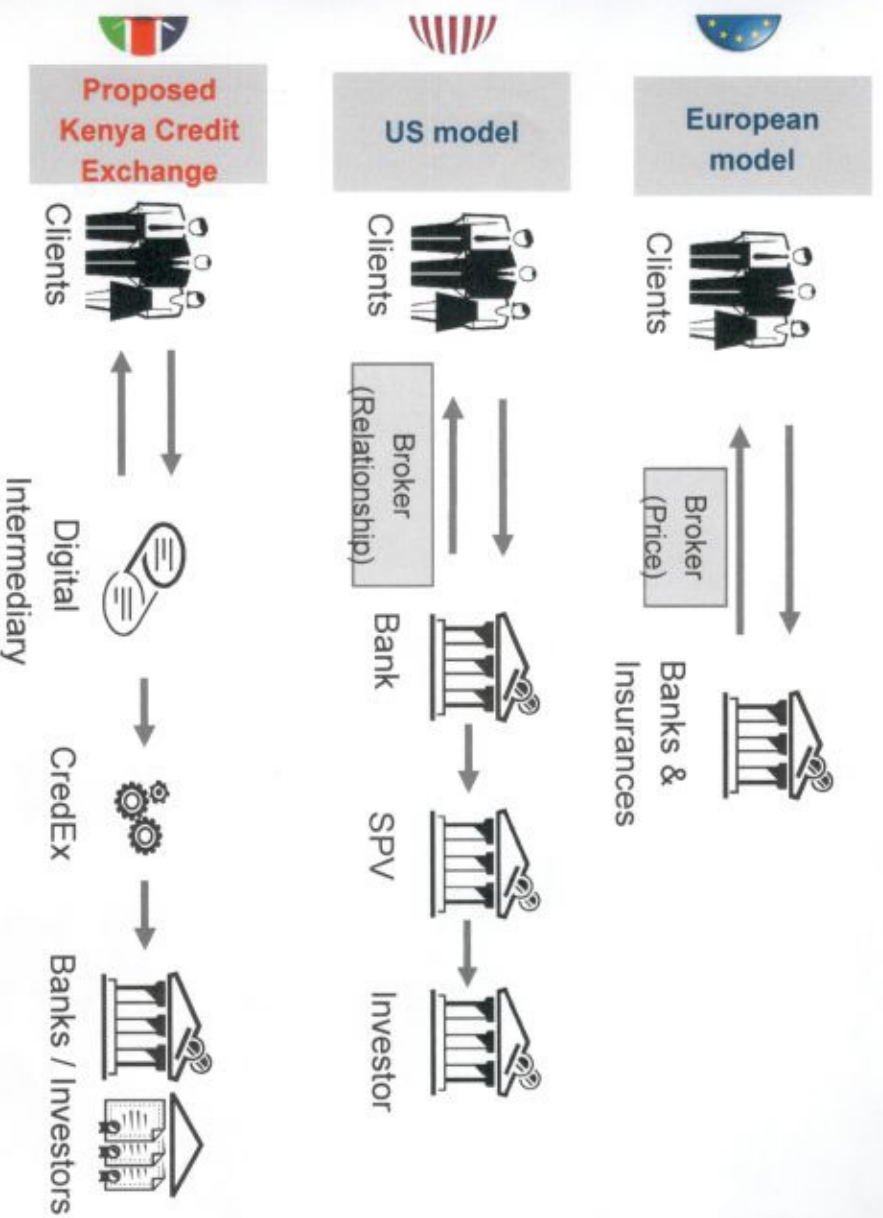


THANK YOU

Project Gantt Chart



Wezesha Credit Exchange (WCE) combines best practices from American and European models resulting in high level of transparency



Advantages / disadvantages

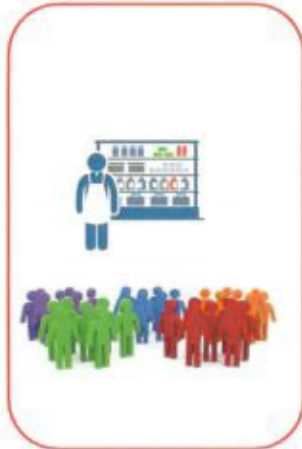
Transparency and low complexity of market
 Low conflict of interest
 High search costs for borrowers
 Low level of efficiency for brokers

Standardised mortgage facilitates large market for mortgage backed securities (MBS)
 Independent rating of MBS via credit agencies
 Higher risk through mortgage pooling (low transparency)
 Conflict of interest problem, data quality problems

Single assessment of customer risk profile and credit qualification terms leads to higher transparency.
 Very attractive for investors and 3rd-party funders
 Ease-of-use for clients
 Being new/innovative, it shall require investment in consumer education to promote responsible t

Functional Schema

Small business customer
Individual / Group



Integrated Distribution
Mobile, Huduma/Bank Agent



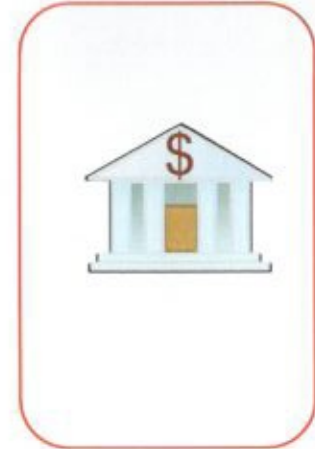
Data & Analytics
IPRS, KRA, CRB, Telco



Payment Networks
Pesalink/Card/Mobile Money



Banking Partners
Aranger, Funders



1. **Customer:** The schema is established to serve micro and small enterprises as individuals and/or groups.
2. **Distribution:** An integrated network of GoK Huduma Centres, Bank Branches and Agent locations to onboard customers and offer information and advice to capital and business opportunities.
3. **Data Furnishers:** These include IPRS, KRA, CRB, Company Registry, Collateral Registers, etc, that are provide metadata about the business owner, the business and assets as may be applicable.
4. **Data Analytics:** This is a big data repository and data science platform to perform the credit analytics and digital portfolio management. This platform also hosts the business logic for the various credit products.
5. **Payment Networks:** These are the various payment networks to be used for loan disbursements and receipt of electronic payments from their customers. These electronic payment inflows shall form the basis for access to credit.
6. **Banking Partners:** These is a consortium of banking partners that arrange and offer credit to the small business owners in a syndication model. *CBA Digital* shall play a lead arranger role to develop and operate the credit risk management model for the full credit lifecycle.

Credit Risk Guarantee Model

Net Income from Lending Operations:

Price - Cost of Funds - NPL = Net Income from Lending Operations (NILO) $9\% - 3\% - \text{Target NPL} = \text{Target NILO}$

The funding partners anticipate to manage this credit portfolio to a level that is equal to the prevailing industry NPL, which as at Dec 2018 was reported as 11.6%

$$9\% - 3\% - 11.6\% = -5.6\%$$

To sustainably support this scheme, the funding partners would need to maintain a NILO of at least 3%. Hence the maximum NPL that can be absorbed by the funding partners is;

$$\text{Price} - \text{Cost of Funds} - \text{Target NILO} = \text{Maximum NPL} \quad 9\% - 3\% - 3\% = 3\%$$

As such, the funding partners propose that the GoK establishes a **credit risk guarantee fund**, that is administered by the Central Bank of Kenya, to provide *mezzanine* credit risk cover for any credit losses above 3%, up to the prevailing industry NPL rate. Any loss above this threshold, shall then be borne by the credit risk underwriters - banks.

Example: Assume prevailing industry NPL of 10%, and an actual NPL of 12% for the scheme loans of the same vintage.

