

## Triple Jump Advisory Services : Impact Study

Approach, Challenges and Results

MFI partner: **Yehu, Kenya**

Project: Governance, Internal Audit and Financial Management

The Yehu Micro Finance Trust started in 1996 as a project of Choice Humanitarian, an American organization whose Kenyan operations are based in Mombasa. Yehu -- which means "ours" in *mijikenda*, the language of the main community of the Kenyan coast -- provides microfinance services to the deep rural poor, one of the most underserved populations in coastal Kenya. From the beginning, Yehu was founded with a strong sense of community ownership and participation. After a challenging growth period (in 2006, Yehu had only 2,500 clients with a gross loan portfolio of around €280,000, a PAR30 of around 80% and had reached only 20% operational self-sufficiency), the MFI now has close to 20,000 clients, a GLP of €1 million, a PAR30 of 2.75%, has achieved profitability and an operational self-sufficiency of 108% and is gearing for exponential growth.

For several years, Yehu stagnated and was inefficient and could not attract much support/funding beyond its founders. Management tended to remain in the shadow of Choice Humanitarian, followed a conservative expansion policy and, more generally, the institution did not follow best practice microfinance. Staff became very demotivated and as Nairobi-based MFIs expanded into Yehu's traditional market, client drop-outs soared. As its future became uncertain, staff started leaving in droves.

Recognizing Yehu's critical situation, the Board and founders intervened to give the institution a new beginning. In late 2006, they recruited a new CEO with a mandate to build a new management structure and strategic direction and to transform Yehu into a best practice and growing MFI.

### PARTNER SELECTION

We had identified Yehu as a strong potential candidate given its social mission to serve people in rural and underserved areas of Kenya and the important step the board had made by recruiting a new CEO. After our diagnostic in early 2010, we determined, in conjunction with Yehu management, that the most pressing challenges for the institution lay in the areas of governance, internal controls and financial management – all areas in which TJAS has expertise and considerable experience. Since TJAS generally works with its partners in several areas and over the long term, our approach was well-suited to Yehu's needs and had the potential to make a true impact in achieving their plans to become a well-performing and growing institution.

### THE CHALLENGES

In April 2010, Yehu entered into a partnership with Triple Jump Advisory Services – as a first step, the project consisted of a thorough diagnostic assessment, to understand the underlying issues around governance, internal audit and controls and finance and find the best homegrown solutions to addressing them. TJAS then assigned an expert consultant in the areas identified, who spent time working with the Yehu team by mentoring, training, discussing and collaborating with staff and board members to improve these challenging areas.

### **Governance**

The governance role was weak and not very effective in addressing the MFI's inefficiencies. Though the founders and initial donors were very passionate, committed and very focused in supporting Yehu, overall, they had neither the skills nor the clear mandate to answer the needs of a dynamic lending institution. There were no board policies and the various standard board committees hadn't been established. As a result, the governance oversight responsibility of the board was ineffective. The board members were unaware of the standard guidance that should be provided by a board and how to properly execute the role.

### **Internal Audit and Controls**

The Audit function was nascent and the auditors lacked a full understanding of a standard audit function and were not able to clearly dichotomize between audit and management duties. In the absence of a board committee on Audit and Risk, the audit department reported to the CEO, which is contrary to best practices in audit. The department lacked a charter and the audit assignments were not guided by clearly determined plans. This limited effective oversight of the credit process, in particular.

### **Financial Management**

The Finance department was understaffed and not clearly structured. The staff was new and lacked clear understanding of their roles. Without a CFO/Finance manager, they relied heavily on the instructions of the CEO and thus were not able to independently challenge the operations function effectively. The segregation of duties was unclear, posing an inherent financial risk.

## THE SOLUTION

TJAS and Yehu decided to focus on the first two areas in the near term since any improvements to the finance department requires the recruitment of a CFO. To improve governance, the TJAS consultant worked closely with the Board to design an appropriate board structure and to form four sub-committees (Executive, Governance, Credit and Audit) to improve board effectiveness. The consultant then helped to prepare the charters for these bodies, which were approved. The consultant also helped the then-current Board to recruit three new board members to provide complementary skills and experience and then trained the Board on its roles and responsibilities as per their new charters. In order to give the Board and the committees the tools they need to fulfill their roles, the consultant designed templates for board meeting agendas, board minutes, schedules, and audit committee and credit committee reports.

To address the challenge of putting in place a functioning internal audit department, the TJAS consultant carried out a thorough review of the current processes and made recommendations to improve them. Based on these findings, and discussions with management, the consultant then worked with the audit department to write an internal audit manual and templates for audit reports and quarterly workplans. The consultant also mentored the audit staff to carry out branch audits and complete reports, thus providing them with on-the-job training.

## IMPACT

As of December 2010, the first of two phases of technical assistance to Yehu is complete and already, improvements in governance and internal audit are visible. The governance function of Yehu has been rejuvenated through building the right board policies, board committees and functions while board effectiveness has been strengthened further through board recruitment, orientation, training and evaluation. The audit department is now functional, has a clear workplan, delivers the audit reports that



answer management needs, and – very importantly – staff at Yehu now understand and appreciate the role of the internal audit department in helping the institution manage its risks as it grows.

Overall, the board is now enthusiastic and informed about taking charge of the organization, there is order in decision making and reporting, policies and procedures are in place and being followed, and as the benefits of the technical assistance continue, we expect them to translate into investor/donor confidence, prudence in financial management practices leading to organizational growth, outreach, greater sustainability and continued value creation and delivery to customers.

#### NEXT STEPS

During the diagnostic assessment, the finance function in Yehu was found to be weak and inexperienced. Furthermore, it was clear that the CEO spent a good amount of his time on Finance related matters and needed qualified support if Yehu was to continue growing sustainably. Consequently, Yehu was advised to strengthen this department by the recruitment of a Chief Finance Officer. Once that is done, Triple Jump advisory Services (TJAS) will embark in facilitating Yehu in building an effective Finance department that is able to fully support the growing business with efficient processes and reporting and developing the treasury function so that the institution can attract additional investments and manage its financial resources.