QUEST
Honors Program
Quality Enhancement Systems and Teams

Cherehani Africa

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Executive Summary

Students in the QUEST Honors Program, in a joint venture with the United States African Development Foundation (USADF), worked with the YALI fellows to provide key insights into continuing to grow their startup companies. This report discusses the insights and recommendations derived by the QUEST team working with Cherehani Africa to help scale their business.

Cherehani Africa is a micro-finance company, focused on providing access to financial services and literacy to traditionally underserved rural communities. Kenya currently fosters a community of over 6 million women owned enterprises, yet less than 7% of the population has ever accessed formal credit. Cherehani Africa bridges this gap by providing high-tech and high-touch financial loans, focusing primarily on business loans as well as productive asset loans. To reduce risk, Cherehani Africa currently employs field officers to vet loan applications, provides financial education, and requires that all loan applicants be a part of a Chama in order to receive a loan. Our two recommendations are to implement a mentor training system to shift the responsibility of education from field officers to customers, and to reduce the risk of loan default by insuring every loan. Our recommendations address the scalability of Cherehani Africa, and aim to increase Cherehani's ability to onboard more customers while also reducing their risk exposure toward defaulted loans.

Mentorship Program Findings

One of the many things that sets Cherehani Africa apart from its competitors is how devoted they are to their customers and building a community around them. Cherehani Africa not only wants to support its customers by providing them with loans and financial education, but they go the extra mile to build and foster close relationships with their customers. These relationships start from the day the field officers go out to meet the potential customers and vet their loan applications, and continue growing throughout the customers time working with Cherehani Africa. However, as Cherehani Africa's customer base grows, it becomes increasingly more difficult for the field officers to meet the demand of its customers. Cherehani Africa could employ more field officers to meet the demands of their growing customer base, though it would come at an added cost. The team considered the responsibilities of the field officers and which, if any, of their responsibilities could be performed by other individuals. The team also recognized the importance of the field officers vetting the loan applications to reduce risk. Though, for the financial education aspect, the team empathized with the customers and looked at the characteristics of the environments that its members learned best, and worst, in. The team thought back to financial literacy classes its members took in high school and how difficult it was for them to retain the information. After considering which environment in which its members learnt best, the team realized that QUEST's introductory course facilitated learning in the most efficient and productive manner. The ability to have the support of another QUEST student as a mentor allowed students to become acclimated to coursework much quicker. There was no fear in asking questions and it was far easier for students to connect with them. From there, the team compared the environments and realized that much like QUEST, a mentorship program would check off numerous boxes for Cherehani Africa. A mentorship program would allow them to foster a community, empower its customers, and increase financial literacy while allowing the field officers to focus on vetting loan applications to reduce risk.

Mentorship Program Recommendations

The team's recommendation for the mentorship program entails a few specific, yet very important details. Firstly, in order to qualify for a mentorship position, a customer for Cherehani Africa must have worked with the firm for at least three-or-four of their financial/asset loans; this time period would allow both the customer and Cherehani Africa to verify the solidity of their business relationship, as well as if the customer is ready to take on more of a leadership role. Cherehani Africa must assess potential mentors through some type of aptitude test - this does not have to be a strenuous and rigorous examination, but rather just something to gauge whether or not the customer is capable of teaching financial information to newer customers of the firm. In order to incentivize experienced customers to apply for and pursue mentorship positions, decreased interest rates can be implemented into their later, larger loans; in other words, because Cherehani Africa is financially capable of providing larger loans to their more tenured customers, they possess the flexibility to decrease interest rates on these loans, thus potentially acting as a sort of incentive for pursuing mentorship positions. By allowing experienced customers to become mentors, and hence teach newer customers about financial literacy and related material, Cherehani Africa subsequently accomplishes a few important tasks; Cherehani Africa allows the community to remain active, improving general morale, but may also help newer customers identify better business strategies. By potentially pairing mentors with newer customers that have similar familial, societal, and business ideas, mentors can advise newer customers on what would actually work for their business, and how to make loan payments on time. It would allow more of an open-table discussion between those in the Cherehani Africa community, providing a saturated learning environment that probes better decision-making. Recurring meetings over the duration of the newer customers' first one-or-two loans, with their mentors, could be a potential strategy to approach this type of relationship.

Reducing Risk Findings

As Cherehani Africa continues to grow, it becomes even more important for the company to reduce the risk which exists on their end when providing customers with loans. Using data provided by Cherehani Africa such as the projected number of loans in the future, the proportion of asset loans compared to business loans, and the profit gained from each non-defaulted asset and business loan, the team was able to build a model. This model was constructed by finding the profit made from all non-defaulted loans in a given year and the loss which occurred as a result of the defaulted loans in that year. Using this model, the team found that if Cherehani

Africa's default rate rose from 3% to 12% or above, the losses in a given year would exceed the profit earned in that year. Moreover, as years pass, the net loss which Cherehani Africa would experience as a result of this drastic increase in default rate grows exponentially due to the fact that the number of loans given out grows exponentially. Therefore, it is imperative for Cherehani Africa to reduce the risk on their end as loans are given out because, as the company grows, a natural disaster or economic crisis occurring could result in the loan default rate increasing substantially and Cherehani Africa losing a large amount of money.

Reducing Risk Recommendations

A key component for the growth of Cherehani Africa is managing risk. Currently, Cherehani Africa is primarily prone to risk from loan defaults and failure to pay interest for a period of time. These financial losses often arise from unfortunate incidents of customers such as death or hospitalization. As Cherehani Africa aims to help their customers and not provide them with additional financial burden, Cherehani Africa accounts for the loss. Additionally, the loans given out are not backed by assets. This approach results in significant risk for Cherehani Africa because there is no way to recover anything from loan defaults or missed interest payments. However, there is a way to minimize risk. Each loan can be insured so Cherehani Africa can reduce losses when a loan default occurs. If a customer defaults on the loan, the insurance firm will pay Cherehani Africa back the quantity of the loan that was insured. The downside of this approach is that Cherehani Africa must may a premium for insurance. Thus, the solution only makes sense if the losses Cherehani Africa could incur are greater than the premium of insurance. It should be noted that as Cherehani Africa grows, they are likely to incur greater risk so it may be more challenging to find an insurance partner. Establishing a relationship early on with an insurance firm will enable Cherehani Africa to easily manage their risk as they grow.