



# USAID Kenya Financial Inclusion for Rural Microenterprises Quarterly Progress Report

**September 2012**

This publication was prepared for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc (DAI).

# **Financial Inclusion for Rural Microenterprises, AID 623 BC II 0000 I**

Quarter 4, Fiscal Year 2012

JULY – SEPTEMBER, 2012

Prepared for: Michael Jones, COR  
United States Agency for International Development  
Nairobi, Kenya

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

# Table of Contents

<b>EXECUTIVE SUMMARY</b>	
Qualitative Impact	1
Quantitative Impact	1
Project Administration	1
Next Quarter's Workplan	1
<b>KEY ACHIEVEMENTS</b>	2
<b>PROGRAM PROGRESS</b>	3
<b>PERFORMANCE MONITORING</b>	11
<b>PROGRESS ON LINKS TO OTHER USAID PROGRAM</b>	11
<b>PROGRESS ON LINKS WITH GOK AGENCIES</b>	11
<b>PROGRESS ON USAID FORWARD</b>	12
<b>SUSTAINABILITY AND EXIT STRATEGY</b>	12
<b>NEXT QUARTER'S WORKPLAN</b>	
<b>FINANCIAL INFORMATION</b>	13
Budget	13
Budget Analysis	13
<b>PROJECT ADMINISTRATION</b>	13

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## I. EXECUTIVE SUMMARY

### **Qualitative Impact**

In previous reports, we have focused on qualitative program issues – our partnerships with financial institutions, associations/industry groups and government of Kenya agencies and the nature of support we provide. FIRM continues build upon those successes achieved to date and to add new partners. Access to financial services in Kenya is still a major impediment to economic growth, greatly impacting the development and livelihoods of microenterprises and households. FIRM seeks to improve financial access and inclusion in agriculture, information communications technology (mobile), clean and renewable energy and throughout marginalized groups (women and youth). Under the government of Kenya's Vision 2030 – the country's blueprint for economic growth – finance and, in particular, agriculture, are major priorities. Agriculture is the nexus where other opportunities can be leveraged to improve the lives and businesses of entrepreneurs, specifically through mobile payment platforms and in clean and renewable energy. Likewise, marginalized groups (women, youth and the very poor) are also important contributors to agriculture. Financing these underserved sectors of the Kenyan economy is critical for continued economic growth and expansion.

In this report, we will focus on our quantitative results because it is the final quarter of the US government fiscal year and since we were provided with an approval for our new Feed-the-Future PMP reporting targets.

### **Quantitative Impact**

FIRM exceeded the majority of its new Feed-the Future indicators. In the performance monitoring section, those indicators not met, are provided with explanations. A number of the new indicators were not given targets for fiscal 2012 because they were only approved during the final days of the last month of the fiscal year. In most cases, indicators have targets for fiscal 2013 through 2015. Many of those will be adjusted given the results obtained this year.

### **Project Administration**

FIRM's spending is now tracking to its proposal budget. There are no project administration issues to report upon.

### **Next Quarter's Work Plan**

FIRM does not anticipate any deviations or setbacks to the project workplan. In fact, the growth of new opportunities outpaces original planning forecasts.

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## II. KEY ACHIEVEMENTS (Qualitative Impact)

The improving economic conditions in East Africa and within Kenya – the de-facto financial hub for the region – have yet to increase and substantially expand access to financial services for the majority of rural populations whose livelihoods are dependent on agriculture. These ordinary citizens, living in rural areas, form the target group for USAID’s Feed the Future initiative; this group holds the largest share of Kenya’s total population; they are some the most impoverished in the country; and they comprise the majority of the microenterprise sector in agriculture. Seventy-five percent of Kenya’s population of approximately 42 million is employed in the agricultural sector.

FIRM works to expand financial inclusion for individuals, entrepreneurs and businesses in the dairy, horticulture, staple crops and livestock value chains. FIRM improves the productivity of these target groups – micro, small and medium enterprises (MSMEs) – by increasing their access to financial services and the program contributes to increases in incomes and food security at the household level. It facilitates access to financial services through relationship building, technical assistance (consulting) and product development. FIRM develops lasting relationships with financial institutions, local consultants and consulting firms. USAID works with and through these companies and individuals to support the expansion of financial services in agriculture, information and communication technology (ICT), clean/renewable energy and water, while also targeting women and youth-managed groups and enterprises.

During FY2012, FIRM provided direct assistance and consulting to forty plus Kenyan organizations ranging from small NGO microfinance institutions (MFIs), deposit-taking MFIs, Savings and Credit Cooperatives (credit unions), mid-tier and large-tier commercial banks, industry financial sector groups and government of Kenya agencies, departments and ministries. FIRM also began working with American businesses seeking to expand their operations in Kenya and the region. These businesses include John Deere, Fairview Capital, Burn Manufacturing, Seaboard Corporation and others.

Demand for USAID’s support in the financial sector continued to grow as evidenced from its diversified list of partners covering an expanding scope of activities in agriculture, clean/renewable energy, water, policy reform and research. USAID Kenya continued to grow its Development Credit Authority loan guarantee program. The mission continues to have one of the largest portfolios in USAID and, in FY2012, \$33.5 million was added in new facilities with four financial institutions. Kenya Commercial Bank, the largest bank in the country and a top-performing partner, received two facilities: one in agriculture for \$15 million and another in water for \$5.5 million. The agriculture facility was co-financed by SIDA and the water enhancement was co-financed by the Gatsby Charitable Foundation, a new USAID partner. The other facility was split between three MFIs: Kenya Women’s Finance Trust (KWFT), Small and Medium Enterprise Program (SMEP) and Micro Africa. This single facility totaled \$13.0 million for agriculture and clean/renewable energy with co-financing provided by SIDA.

### Current Facilities/Enhancements

	Partner Financial Institution	Start	End	Sector	Loan (\$)	Subsidy (\$)
1.	Bank of Africa/Faulu Kenya DTM	9/08	9/16	Health	5,000,000	250,000
2.	Equity Bank	9/08	9/15	Micro	1,012,270	0
3.	K-Rep Bank	9/08	9/16	Water	4,004,614	365,500
4.	Oikocredit	9/08	9/18	Micro	7,635,591	0
5.	KCB	9/10	9/17	SME	5,750,00	0
6.	Fina Bank	9/11	9/16	Ag	4,500,000	302,400
7.	Acumen Fund	3/12	9/17	Energy	1,000,000	90,200

## FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

8.	KCB	9/12	9/18	Ag	15,000,000	370,5000
9.	KCB	9/12	9/22	Water	5,500,000	493,350
10.	KWFT DTM	9/12	9/19	Ag	5,000,000	120,000
11.	KWFT DTM	9/12	9/19	Energy	2,000,000	48,000
12.	Micro Africa	9/12	9/19	Ag	2,000,000	48,000
13.	SMEP DTM	9/12	9/19	Ag	4,000,000	96,000
				<b>Totals</b>	<b>62,402,475</b>	<b>2,460,525</b>

### III. PROGRAM PROGRESS (Quantitative Impact)

#### Fiscal 2012 Results Summary

- The total number of rural households supported by USG assistance is categorized by direct and indirect assistance either through (1) new access to a financial product/services or (2) the result of policy or industry-level interventions. By directly supporting financial sector partners in agriculture, ICT, clean/renewable energy and water, USAID assisted approximately 212,000 rural households by expanding access to affordable finance. As the lead technical assistance provider to the Kenya Credit Information Sharing Initiative (KCISI) – an industry-level intervention and a partnership with the Central Bank of Kenya, the Kenya Banker’s Association and the Association of Microfinance Institutions – to include deposit-taking and NGO MFIs into the credit reference bureau, USAID worked with fourteen MFIs, preparing them to report into the system. The clientele of these institutions approaches 1.0 million customers. Four institutions have fully submitted their client information into the two credit bureaus. They are: Kenya Women’s Finance Trust, Micro Africa, Musoni and Unaitas. KWFT is the largest MFI in Kenya and it is entirely focused on women, has 450,000 clients that are served through a network of 200 branches primarily located in rural areas. The remaining ten MFIs are in the process of full reporting compliance. The fiscal year target was 250,000 and it was surpassed by both measured individually and together.
- The value of agriculture and rural loans for the reporting period totaled \$103.0 million against a target of \$5.5 million. A large percentage of these loans were not backed by DCA guarantees, approximately forty percent. These loans were directly attributable to technical assistance and consulting provided by USAID to financial institutions as a result of developing strategies, operational plans and new product development. Loans, often backed by risk mitigating products such as insurance, underwrote commodities that include dairy, horticulture, staples and livestock. The other sixty percent of lending was backed by DCA through wholesale credit enhancement provided by K-Rep Bank in water and Oiko Credit in agriculture. The institutions lending into agriculture with USAID consulting support include Milango Finance Services, SMEP, Moly Credit, East Africa Dairy Development (EADD through finance service associations and SACCOs), Micro Africa, Faulu DTM, Kenya Commercial Bank, K-Rep Bank and Oiko Credit.
- The combined value of loans for agriculture and rural, including new DCA loan guarantees totaled \$136.5 million. The new DCA loan facilities in FY2012 will greatly increase overall level of lending into the USAID targeted sectors in FY 2013 (well beyond the FY2012 figure of \$103 million).
- As part of the rural lending supported by USAID, K-Rep Bank lends into the water sector and its loans are guaranteed by DCA. Oiko Credit’s loans are also guaranteed by USAID and it has recently begun lending to organizations with an agriculture focus. USAID guaranteed a loan through Oiko to K-LIFT (Kenya Livestock Finance Trust). K-LIFT finances dairy, beef cattle, goats and other animals. It operates in Rift Valley, Central, Nyanza and Western provinces. Oiko, with the USAID’s guarantee, made a loan to SHEEP (Small Holder Enterprise Empowerment Program), an institution that provides financial services to women for horticulture, dairy and staples (maize) in Eastern province.
- The Finance Act of 2010 amended microfinance legislation to allow third party agents to conduct business for microfinance deposit-taking institutions, regulated by the Central Bank of Kenya (CBK). These agents will increase the penetration of deposit-taking microfinance institutions into

## FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

more remote rural areas, expanding financial inclusion. The CBK requested assistance from USAID to support the drafting and finalization of the guidelines on agency operations. In January 2012, the new guidelines were operationalized by the government of Kenya called, “the Guideline on the Appointment and Operations of Third Party Agents by Deposit-Taking Microfinance Institutions.”

- USAID continued to support the private equity initiative, one of the first of its kind, to harness local pension fund investment into a fund-of-funds vehicle. USAID conducted a series of one-on-one meetings with Kenya fund managers and pension fund trustees to garner consensus and build enthusiasm to mobilize local private capital into private equity (that will unlock additional local and international investment for Kenya). USAID later delivered trainings to both groups on the intricacies and importance of private equity for economic growth and boosting returns to pension funds through portfolio diversification. As a result of the interest generated throughout Kenya, USAID sourced FMO, the Dutch quasi-private development agency, and an American private equity firm, Fairview Capital, to co-manage and invest alongside Kenyan pension funds.
- Kenya’s National and Economic and Social Council (NESC), part of the president’s office, and the agency entrusted with coordinating implementation of the country’s flagship development agenda – Vision 2030 – contacted USAID for assistance to help it research options and prepare recommendations on how to mobilize local capital to finance growth using guarantees. Research and recommendations were prepared and delivered to NESC calling for a centralized guarantee program managed by the government in partnership with private sector financial institutions, similar to USAID’s Development Credit Authority (DCA) loan guarantee program or the USG’s Small Business Administration (SBA) loan program. Support to NESC and the GOK will continue into 2014 and, if successful, this activity has the potential to unlock significant amounts of local private capital for SMEs and infrastructure.
- USAID continued to support the partnership with the CBK and the Kenya Banker’s Association (KBA) and the Association of Microfinance Institutions under the Kenya Credit Information Sharing Initiative (KCISI). During FY2012, fourteen deposit-taking and NGO microfinance institutions (MFIs) were prepared to participate in a pilot program to enter client information into the credit reference bureau. Four of the fourteen MFIs successfully completed the pilot and, the remaining ten require additional preparation. FIRM’s participation in KCISI contributed to an effective lobbying effort that included an insertion of a clause into the Finance Act of 2012 calling for the inclusion of positive information that banks and deposit-taking MFIs must submit to the credit reference bureau. Previously, only negative information (loan defaults not positive repayment information) was required. Reporting both negative and positive repayment information into the credit reference bureau is expected to make credit more widely available to consumers and at a reduced cost – for those that have good repayment records.

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## Performance Target Data Tables

**Indicator 4.5.2 – 5: Number of farmers and others who have applied new technologies or management practices as a result of USG assistance**

Performance Target Data Table											
	Baseline	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		N/A	N/A	10,000	36,523	104,700		189,400		279,900	
<b>New / Continuing</b>				<b>10,000</b>	<b>36,523</b>	<b>104,700</b>		<b>189,400</b>		<b>279,900</b>	
New				10,000	36,523	70,000		90,000		100,000	
Continuing				-	-	34,700		99,400		179,900	
<b>Gender</b>				<b>10,000</b>	<b>36,523</b>	<b>104,700</b>		<b>189,400</b>		<b>279,900</b>	
Male				-	28,006	52,350		85,230		111,960	
Female				-	8,517	52,350		104,170		167,940	

During the reporting period for the 2012 fiscal year, FIRM exceeded the yearend target of 10,000 by 26,523. The target for next year – 104,700 – is achievable and more realistic.

**Indicator 4.5.2 – 11: Number of food security private enterprises (for profit), producer organizations, water users associations, women's groups, trade and business associations, and community-based organizations receiving USG assistance**

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
<b>Type of organization</b>		<b>N/A</b>	<b>N/A</b>	<b>25</b>	<b>313</b>	<b>400</b>		<b>450</b>		<b>450</b>	
Private enterprises (for profit)					36	50		60		60	
Producers organizations					12	20		25		25	
Water users associations					21	40		45		45	
Women's groups					241	270		285		285	
Trade and business associations					3	10		20		20	
Community-based organizations (CBOs)					-	10		15		15	
Disaggregates Not Available					-	-		-		-	
<b>New/Continuing</b>		<b>N/A</b>	<b>N/A</b>	<b>25</b>	<b>313</b>	<b>400</b>		<b>450</b>		<b>450</b>	
New						150		100		50	
Continuing						250		350		400	
Disaggregates Not Available						-		-		-	

We greatly exceeded the target for fiscal 2012 by a wide margin and the goal for next year is more realistic. We do not anticipate adding significantly more partners under this indicator.

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## Indicator 4.5.2 – 12: Number of public-private partnerships formed as a result of FtF assistance

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
		<b>N/A</b>	<b>N/A</b>	<b>2</b>	<b>28</b>	<b>10</b>		<b>10</b>		<b>10</b>	
Agricultural production					5	6		6		6	
Agricultural post-harvest transformation					-	1		1		1	
Nutrition					-	-		-		-	
Credit/loan guarantee					-	3		3		3	
Multi-focus					-	-		-		-	
Other					23	-		-		-	
Disaggregates Not Available					-	-		-		-	

We also greatly exceeded this target for fiscal 2012 by a wide margin and the goal will need to adjustment but after discussion with USAID Kenya.

## Indicator 4.5.2 – 13: Number of rural households benefiting directly from USG interventions

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Total		200,000	57,915	250,000	212,000	300,000		380,000		450,000	
<b>New/Continuing</b>		<b>200,000</b>	<b>57,915</b>	<b>250,000</b>	<b>212,000</b>	<b>300,000</b>		<b>380,000</b>		<b>450,000</b>	
New			57,915	250,000	212,000	300,000		380,000		450,000	
Continuing											
Disaggregates Not Available											
<b>Gendered Household Type</b>		<b>200,000</b>	<b>57,915</b>	<b>250,000</b>	<b>212,000</b>	<b>300,000</b>		<b>380,000</b>		<b>450,000</b>	
Adult Female no Adult Male (FNM)			17,374	87,500	102,396	150,000		209,000		270,000	
Adult Male no Adult Female (MNF)			40,541	162,500	109,604	150,000		171,000		180,000	
Male and Female Adults (M&F)											
Child No Adults (CNA)											
Disaggregates Not Available											

In both fiscal 2011 and 2013, we slightly missed our targets. Between both years, FIRM has directly benefited approximately 1% of the Kenyan population (270,000 citizens vs. a population of 40,000,000). We will directly benefit close to 2,000,000 Kenyans by the close of the project. We will benefit many more through our macro-level policy interventions but that is difficult to measure.

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## Indicator 4.5.2 – 25: Number of people with a savings account or insurance policy as a result of USG Assistance

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Total					49,772	75,000		85,000		90,000	
<b>Type of Account</b>					<b>49,772</b>	<b>75,000</b>		<b>85,000</b>		<b>90,000</b>	
Savings					46,750	37,500		42,500		45,000	
Insurance					3,022	37,500		42,500		45,000	
Disaggregate Not Available											
<b>Gender of Account Holder</b>					<b>49,772</b>	<b>75,000</b>		<b>85,000</b>		<b>90,000</b>	
Male					27,378	37,500		38,250		39,600	
Female					22,394	37,500		46,750		50,400	
Jointly Held											
Disaggregate Not Available											

We were not assigned a target under this indicator. Approximately 50,000 Kenyan added a savings account or purchased some insurance as a result of FIRM's work with individual financial institutions.

## Indicator 4.5.2 – 27: Number of members of producer organizations and community-based organizations receiving USG assistance (disaggregated by youth, women and vulnerable groups)

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
<b>Type of organization</b>					<b>113,228</b>	<b>200,000</b>		<b>250,000</b>		<b>300,000</b>	
Producer org.					30,728	80,000		125,000		180,000	
Non-producer-organization (CBO)					82,500	120,000		125,000		120,000	
Disaggregates Not Available											
<b>Sex of Recipient</b>					<b>113,228</b>	<b>200,000</b>		<b>250,000</b>		<b>300,000</b>	
Male					88,845	100,000		112,500		120,000	
Female					24,383	100,000		137,500		180,000	
Disaggregates Not Available											

We were also not assigned a target under this indicator. 113,000 members of producer organizations and CBOs received support through FIRM's work with financial institutions.

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## Indicator 4.5.2 – 29: Value of Agricultural and Rural Loans

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
<b>Type of loan recipient</b>		17,500,000	117,000,000	200,000,000	103,000,000	250,000,000.00		375,000,000.00		500,000,000.00	
Producers						250,000,000.00		375,000,000.00		500,000,000.00	
Local traders/assemblers						150,000,000.00		243,750,000.00		350,000,000.00	
Wholesalers/processors						50,000,000.00		75,000,000.00		125,000,000.00	
Others						25,000,000.00		37,500,000.00		25,000,000.00	
Disaggregates Not Available						25,000,000.00		18,750,000.00			
<b>Sex of recipient</b>		17,500,000	117,000,000	200,000,000	103,000,000	250,000,000.00		375,000,000.00		500,000,000.00	
Male			82,000,000	130,000,000	51,680,000	150,000,000.00		187,500,000.00		200,000,000.00	
Female			35,000,000	70,000,000	51,320,000	100,000,000.00		187,500,000.00		300,000,000.00	
Joint											
n/a											
Disaggregates Not Available											

This indicator carried forward from fiscal 2011 to fiscal 2012. We greatly exceeded the target in 2011 but missed it in 2012. This is mainly a result of our DCA loan guarantees closing out that we no longer tracked. Our non-DCA work with financial institutions did not make up the difference; although, in the out years – 2013 through 2015 – our non-DCA work will produce greater results.

## Indicator 4.5.2 – 30: Number of MSMEs, including farmers, receiving USG assistance to access bank loans

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
<b>Size of MSME</b>					158,175	200,000		250,000		300,000	
Micro					158,175	100,000		150,000		200,000	
Small						50,000		62,500		80,000	
Medium						50,000		37,500		20,000	
Disaggregates Not Available											
<b>Sex of owner</b>					158,175	200,000		250,000		300,000	
Male					79,847	100,000		112,500		120,000	
Female					78,328	100,000		137,500		180,000	
Joint											
n/a											
Disaggregates Not Available											

We were also not assigned a target under this indicator. 158,175 MSMEs and famers received assistance to access loans from financial institutions.

## Indicator 4.5.2 – 37: Number of MSMEs, including farmers, receiving business development services from USG assisted sources

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		F5: FY2015	
	0	Target	Actual								
<b>Size of MSME</b>					38	50		65		65	
Micro					3	25		45		50	
Small					22	15		15		10	
Medium					13	10		5		5	
Disaggregates Not Available											
<b>MSME Type</b>					38	50		65		65	

## FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

Agricultural Producer					12	20		30		35
Input Supplier						10		15		15
Trader						5		10		10
Output Processors						5		5		5
Non-Agriculture										
Other					26	10		5		
Disaggregates Not Available										
<b>Sex of owner</b>					<b>38</b>	<b>50</b>		<b>65</b>		<b>65</b>
Male					1	5		10		20
Female					1	15		25		30
Joint						10		15		15
n/a					36	20		15		
Disaggregates Not Available										

We were also not assigned a target under this indicator. 38 MSMEs and farmers received assistance to access loans from financial institutions.

### Indicator 4.5.2 – 38: Value of new private sector investment in the agriculture sector or food chain leveraged by FtF implementation

Performance Target Data Table											
	B/L	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		Y5: FY2015	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
<b>New/Continuing</b>					136,500,000	410,000,000		780,000,000		1,055,000,000	
New					136,500,000	280,000,000		400,000,000		330,000,000	
Continuing					-	130,000,000		380,000,000		725,000,000	

**THIS SHEET LAST UPDATED ON: June 15, 2013**

We were also not assigned a target under this indicator. The value of new private sector investment totaled 136,500,000 for the reporting period.

### Indicator 4.5.1 – 24: Number of Policies/Regulations/Administrative Procedures in each of the stage of development as a result of USG assistance in each case

Performance Target Data Table											
	Base	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014		Y5: FY2015	
	0	Target	Actual								
<b>Sector</b>					5	2		2		2	
Inputs											
Outputs											
Macroeconomic					5	2		2		2	
Agricultural sector-wide											
Research, extension, information, and other public service											
Food security vulnerable											
Climate change adaptation or natural resource management (NRM) (ag-related)											
Disaggregates Not Available											
<b>Stages of devt</b>					5	2		2		2	
Stage 1 of 5: Number of					2	1					

## FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

policies / regulations / administrative procedures analysed											
Stage 2 of 5: Number of policies / regulations / administrative procedures drafted and presented for public/stakeholder consultation					1	1					
Stage 3 of 5: Number of policies / regulations / administrative procedures presented for legislation/decreed								1			
Stage 4 of 5: Number of policies / regulations / administrative procedures prepared with USG assistance passed/approved								1			
Stage 5 of 5: Number of policies / regulations / administrative procedures passed for which implementation has begun					2					2	
Disaggregates Not Available											

We were also not assigned a target under this indicator. We have a number of policies and regulations completed or under development.

**Indicator 4.5.1-27: (CBLD 5) Score, in per cent, of combined key areas of organization capacity amongst USG direct and indirect local implementing partners.**

Performance Target Data Table									
	BASELINE	Y1: FY2011		Y2: FY2012		Y3: FY2013		Y4: FY2014	
	0	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Total (%)		N/A	N/A	50		60		70	
Numerator: Total number of points scored				50		60		70	
Denominator: Total number of points possible									

We were also not assigned a target under this indicator. We also did not measure this since we received the indicator too late in the reporting cycle and we not trained on how to measure organizational capacity.

# FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

## IV. PERFORMANCE MONITORING

FIRM's monitoring and evaluation team devoted the quarter finalizing annual Feed the Future quantitative and narrative reports for USAID Kenya. This quarter, a new on-line system was used which required training provided to FIRM by USAID Kenya. The remainder of the final calendar quarter was used to plan for the implementation of the Microenterprise Results Reporting tool.

## V. PROGRESS ON LINKS TO OTHER USAID PROGRAMS

FIRM supports the Kenya Drylands Livestock Development Program (KDLDP) in Northeastern Kenya. The project helped KDLDP design a new financial institution – a Savings and Credit Cooperative Society (SACCO), also known as a credit union – in Garissa called the Community Owned Financial Institution (COFI). COFI is modeled on Sharia compliant lending practices. Depending on the security situation and elections, FIRM will train COFI's board on governance.

FIRM also works closely with the Kenya Horticulture Competitiveness Program (KHCP). FIRM continues the process of ongoing commercialization in tea tree, working with Milango Financial Services, Earthoil Kenya Ltd, the Body Shop UK and the Kenya Organic Oil Farmer Association. Multiple activities are ongoing in this partnership, including the creation of a guarantee fund financed by Earthoil and managed by FIRM temporarily until an equally transparent and agnostic solution is found.

## VI. PROGRESS ON LINKS WITH GOK AGENCIES

The project also works closely with other regulatory bodies and Kenyan government agencies, including the Ministry of Finance (Treasury), the National Economic and Social Council, the Retirement Benefits Authority, the Capital Markets Authority and the Insurance Regulatory Authority.

- The Ministry of Finance. FIRM supports the ministry in its partnership with IFAD and the PROFIT program. AGRA implements PROFIT. FIRM supplies technical assistance when called upon by the ministry. In 2013, FIRM will conduct due diligence on financial institutions seeking loans through PROFIT, especially smaller, less known institutions. Overtime, FIRM's participation in PROFIT, a finite program, will end.
- The National Economic and Social Council (NESC). NESC is part of the Office of the President of Kenya and it is charged with overseeing implementation of Vision 2030 – Kenya's development blueprint. Through NESC, FIRM supports the Ministry of Finance and the Ministry of Trade and Industry in an effort to develop a guarantee scheme that contributes to the country's ambitious growth plans under Vision 2030. Credit guarantees are included in Treasury's and Trade's Medium Term Plans (MTPs), 2008 – 2012. MTPs are five-year building blocks, underpinning Vision 2030. FIRM began working with NESC in late 2011 to create the conditions for a national credit guarantee scheme administered by the GoK in partnership with the private sector. The concept has been endorsed by the government.

In 2013, FIRM will work with NESC to include guarantee schemes in the Medium Term Plans (MTPs), 2013 – 2017 for both ministries. NESC has also requested that FIRM draft a guarantee framework and a national bill that will make guarantees a permanent fixture in Kenya – owned and managed by the Kenyan people.

After the bill is passed, the government of Kenya might request USAID to assist in the creation and management of the guarantee scheme since it lacks the current capacity.

## FINANCIAL INCLUSION FOR RURAL MICROENTERPRISES

- Retirement Benefits Authority (RBA). FIRM has worked closely with RBA, the Capital Markets Authority (CMA), and the Insurance Regulatory Authority (IRA) to create a fund-of-funds mechanism to channel Kenyan pension fund capital into private equity. In addition, FIRM worked alongside Kenyan pension fund managers the Fund Managers Association (FMA), training the fund management companies in private equity and, later, training the largest Kenyan pension funds. These trainings were prepared with direct assistance by the Carlyle Group. The major fund management companies supported by FIRM were Genesis, Pinebridge, Stanbic, ICEA Lion and Old Mutual.

Later in this process, the newly formed USAID Private Capital Group for Africa (PCGA) joined the effort and together, with a local Kenyan consultant, FIRM and its partners received the commitment of FMO and an American private equity firm, Fairview Capital, to carry the effort forward. FMO has pledged \$50 million to capitalize and invest alongside the fund-of-funds if an equal commitment is consolidated by the fund management companies through their clientele (the Kenyan pension funds). To sustain the activity in Kenya, Fairview Capital hired Mr. Michael Mithika, the Kenyan consultant hired by FIRM to train the fund managers and pension funds.

FIRM anticipate further supporting this activity since the project has created the conditions for FMO and Fairview Capital to carry the effort to its conclusion.

## VII. PROGRESS ON USAID FORWARD

During the quarter, FIRM continued to incrementally sustain progress on USAID Forward objectives.

In its partnership with financial institutions, FIRM supports an array of agriculture activities under Feed the Future and in clean/renewable energy and water. Financial institutions appetite for consulting services will remain strong and consistent overtime. FIRM's role in this area is two-pronged.

First, the project seeks to increase each institution's profitability while demonstrating the value provided by the local consulting industry (i.e. the financial institution expands its client base while increasing profitability using consultants). After FIRM concludes, these financial institutions are expected to source Kenyan consultants and companies to support ongoing business needs – all forms of technical assistance and capacity building but across increasing levels of sophistication.

Second, FIRM sources Kenyan consultants on behalf of financial institutions to demonstrate the value offered by the local industry. In cases where gaps exist in the market for services, FIRM works with local consultants or companies to build the missing capacities and capabilities. In the Kenyan marketplace, the greatest challenge is the over reliance placed on an owner/operator to complete multiple, ongoing, high-quality assignments. In most, if not all cases, these companies are small and entirely dependent on the technical skills and managerial abilities of the owner/operator. If the company has too many assignments at the same time, it does not have the personnel able to fill in for the owner/operator. The key challenge calls for assisting these high-quality individuals build their companies in order to handle multiple assignments while meeting acceptable standards.

## VIII. SUSTAINABILITY AND EXIT STRATEGY

FIRM's sustainability and exit strategy is grounded on USAID Forward objectives. While seeking to achieve contractual objectives under the Task Order, the project works to enable financial and non-financial service providers to enter new markets and increase profitability. In time, these businesses will source services from the Kenyan consulting industry. Likewise, the local consulting industry will reach of level of technical and managerial capacity necessary to meet the increasing sophistication of Kenya's businesses.

## **IX. NEXT QUARTER'S WORK PLAN**

FIRM does not anticipate any deviations or setbacks to the project workplan. In fact, the growth of new opportunities outpaces original planning forecasts. These developments have been discussed with the COR; and, as a result, a budget realignment has been drafted and shared with USAID Kenya to better position FIRM to cost effectively advantage these opportunities.

## **XI. PROJECT ADMINISTRATION**

### **Constraints and Critical Issues**

We currently face no constraints or issues critical to the implementation of our work under FIRM.

### **Changes in the Project**

No changes were recommended or sought for the project during the reporting period.