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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.

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Acronyms and Abbreviations

CMA	Capital Markets Authority
CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
DCA	Development Credit Authority
DTM	Deposit-Taking Microfinance
FIRM	Financial Inclusion for Rural Microenterprises
FMA	Fund Managers Association
FSD	Financial Sector Deepening
FTF	Feed the Future
GDP	Gross Domestic Product
GPS	Global Positioning System
IRA	Insurance Regulatory Authority
KCISI	Kenya Credit Information Sharing Initiative
KFIE	Kenya Feed the Future Innovation Engine
KHCP	Kenya Horticulture Competitiveness Program
KMT	Kenya Market Trust
KENDBIP	Kenya National Domestic Biogas Program
KOOFA	Kenya Organic Oil Farmer Association
KWFT	Kenya Women's Finance Trust
M&E	Monitoring and Evaluation
MCL	Moyln Credit Limited
MFI DTM	Microfinance Institution Deposit-Taking Microfinance
MFI NGO	Microfinance Institution Non-Government Organization
MFS	Milango Financial Services
MFT	Microfinance Trust
MRR	Microenterprise Results Reporting
NESC	National Economic and Social Council
NPL	Non-Performing Loans
PCGA	Private Capital Group for Africa
PAT	Poverty Assessment Tool
RBA	Retirement Benefits Authority
SCL	Safaricom Limited
SMEP	Small and Medium Enterprise Program
STTA	Short-Term Technical Assistance
USAID	United States Agency for International Development

I. EXECUTIVE SUMMARY

Qualitative Impact

FIRM continues build upon the successes achieved to date and to add new partners. Currently, the project has over 100 partnerships in the following areas that are contributing to results:

- Commercial Banks
- MFI DTMs
- NGO MFIs
- SACCOs (Credit Unions)/Specialized Providers
- Government of Kenya Agencies
- Donor Projects/Associations
- Business Service Providers
- Value Chain Businesses

FIRM works throughout the country its network of financial service providers and their nation-wide branch locations but the project is focused on USAID's designated FTF zones.

During the reporting period, FIRM produces a total of 84 deliverables. Those deliverables are discussed in the Key Achievement section the documents are itemized by month in the Annex.

Quantitative Impact

FIRM will report on quantitative impact in the March 31, 2013 quarterly report. The project was reconfigured to fit the Feed the Future strategy. As such, targets we not fully set for the current fiscal year. Those targets will be finalized and reported upon in the upcoming report. The project expects to achieve or exceed contractual benchmarks.

Project Administration

The configuration of FIRM's budget constrains the project from building upon and accelerating successes achieved to date. In order to support increasing numbers of partnership requests, FIRM plans to submit a budget realignment, moving funding from certain line items where spending is underutilized to areas necessary to hire additional technical personnel on the project. FIRM will then utilize less international STTA and hire more local technical personnel. Doing so will allow FIRM to assist increasing calls for support from new partners and expand innovation.

The realignment was discussed with USAID Kenya and it was tentatively approved, pending a formal submission and official review.

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.

II. KEY ACHIEVEMENTS (Qualitative Impact)

Agriculture

- Kenya Organic Oil Farmer Association. FIRM completed a price review on behalf of KOOFA and the Body Shop UK, ensuring that Kenya Tea Tree farmers receive an equitable price for their production. The review led to 40% improvement in prices paid to farmers. The financial model created by FIRM will be used for future price negotiations between the interested parties – Tea Tree farmers (the smallholder farmers) Earthoil Kenya Ltd (the processor), and Body Shop UK (the buyer). Approximately 1,000 new smallholder producers begin farming tea tree and other essential organic oils every six months in the Mt. Kenya region. Milango Financial Services finances the purchase of seedlings, irrigation kits and water tanks for farmers in support of this activity. FIRM designed the financial products offered by MFS to farmers. Also, FIRM introduced MFS to tea tree and water finance, helping commercialize the activity. Previously, finance was not provided and farmers lacked access to purchase seedling and irrigation equipment.
- Milango Financial Services. FIRM strengthened Milango's institutional capacity by developing four operational manuals on credit risk, accounting, MIS and human resource management. FIRM later trained MFS employees in these four critical areas. Due to the difficulties between members of the board – the institution's key investors – and management, FIRM prepared a series of toolkits on best practice governance. Trainings were delivered to the board, management and other personnel using the toolkits. These toolkits are expected to reduce and later eliminate problems inside MFS so that it can increase operational efficiency. The trainings and the toolkits will also improve transparency and accountability between the board and management of MFS.
- Small and Medium Enterprise Program (SMEP). FIRM helped SMEP finalize its agribusiness strategy and prepare a roll-out plan for five agriculture products. SMEP will launch these products in early 2013 throughout Western, Rift Valley and Eastern provinces. The products support smallholders in dairy, livestock, horticulture, cereals and beekeeping. By 2016, SMEP plans to have an agriculture loan portfolio of approximately \$75,000,000.
- Commercial Bank of Africa. For CBA, FIRM retooled four dairy loan products and, in addition, refined loan applications forms and policy/procedures manuals for the products.

The products included:

- Short-term working capital loan
- Tangible asset loan
- Dairy herd improvement loan
- Invoice discounting loan

CBA began using the improved loan applications to inform credit decisions and disburse finance through the refined loan products. In addition, FIRM identified gaps in the CBA's internal processes and provided recommendations how to improve those practices.

- Honey Care Africa, Alternative Finance Program. FIRM designed and developed an internal credit scheme for HCA financed by Kiva. The program is meant to function as an alternative finance program, administered internally by HCA through a standalone embedded P&L center, creating lower cost options for smallholder farmers (lower than banks, MFIs and SACCOs). The self-managed internal lending unit will also help commoditize agriculture credit and place downward pressure on the pricing of loans through increased competition. HCA intends to finance 250 – 300 hives each month through this system.

- Honey Care Africa, Business in a Beehive Pilot. HCA experienced record beehive sales for October and November by selling 360 units – a first ever for the company. FIRM brokered a financing arrangement between Milango Financial Services (MFS) and HCA that directly financed the increased sales. It is expected that these beehives will add value by increasing horticulture yields when placed on farms.
- Vegpro Horticulture Outgrower Groups. In support of USAID's KHCP, FIRM designed and developed specialized agriculture finance for inputs supplies and greenhouse tunnels for 1,200 smallholder farmers on forward contract with Vegpro Group, an agribusiness that exports fresh produce to Europe. Six financial products were designed. During the first quarter of 2013, these products will be marketed to banks, MFIs and other providers to link farmers to affordable credit.
- Yehu Microfinance Trust. FIRM prepared a strategic business plan for Yehu MFT, creating a roadmap that it can follow to transition from a trust to a limited company as a means to increase their equity base by bringing in new investors needed to grow the business. In addition, the strategic business plan provided direction on product development, capital formation, risk management, capacity building, etc. – within the backdrop of a geographic expansion plan into Taita Taveta county and lower Eastern province in the Ukambani region. The plan also outlined a geographic expansion plan into Taita Taveta from the Coast province.

The Grameen Foundation is using the strategic business plan developed by FIRM to inform a funding decision for Yehu MFT.

- Development Credit Authority. During the reporting period, FIRM worked with USAID's DCA office to identify new opportunities for fiscal 2013. A number of potential transactions were identified in agriculture, clean renewable energy, water and health care. USAID

DCA prepared an exit report detailing the opportunities with action items described for each potential facility. FIRM will work over the coming quarter to move these transactions forward. Once the deals are more concrete, they will be fully elaborated.

Current facilities are outlined below. Fina Bank is the only problematic credit enhancement in the portfolio of transactions. The project is patiently working for Fina to resolve their internal issues that are directly related to senior management turnover. This matter should resolve during the first six months of calendar year 2013.

Current Facilities/Enhancements

	Partner Financial Institution	Start	End	Sector	Loan (\$)	Utilization %	Claims (\$)	Total Loans (\$)	Subsidy (\$)
1.	Bank of Africa/Faulu Kenya DTM	9/08	9/16	Health	5,000,000	100%	0	1	250,000
2.	Equity Bank	9/08	9/15	Micro	1,012,270	100%	0	4	0
3.	K-Rep Bank	9/08	9/16	Water	4,004,614	17%	0	14	365,500
4.	Oikocredit	9/08	9/18	Micro	7,635,591	61%	578,511	10	0
5.	KCB	9/10	9/17	SME	5,750,00	100%	0	845	0
6.	Fina Bank	9/11	9/16	Ag	4,500,000	0%	0	0	302,400
7.	Acumen Fund	3/12	9/17	Energy	1,000,000	100%	0	0	90,200
8.	KCB	9/12	9/18	Ag	15,000,000	0%	0	0	370,5000
9.	KCB	9/12	9/22	Water	5,500,000	0%	0	0	493,350
10.	KWFT DTM	9/12	9/19	Ag	5,000,000	0%	0	0	120,000
11.	KWFT DTM	9/12	9/19	Energy	2,000,000	0%	0	0	48,000
12.	Micro Africa	9/12	9/19	Ag	2,000,000	0%	0	0	48,000
13.	SMEP DTM	9/12	9/19	Ag	4,000,000	0%	0	0	96,000
				Totals	62,402,475		578,511	875	2,460,525

- The Value Chain Finance Center. The Value Chain Finance Center is a partnership between FIRM and Financial Sector Deepening (FSD) Kenya. It was established to strengthen agricultural value chains by developing appropriate and sustainable finance through research, analysis and product development – followed by partnership with financial institutions, introducing those products to the agriculture marketplace for the benefit of smallholder producers and their families.

The VCFC project with FSD experienced significant delays in implementation due to the need to equip the Center with well qualified personnel necessary to support rigorous quantitative research. The director of the VCFC was identified with relative ease and hired in September 2011 (a FIRM employee brokered to FSD). However, finding a qualified and experienced quantitative manager was a significant challenge. A suitable candidate was finally recruited and started work in August 2012. The manager has strong technical skills in research but limited experience. A consultant was engaged on a draw down basis to provide technical backstopping to the quantitative manager, allowing him ample time to grow into the position. A database manager was also identified and hired, thus finalizing core staffing for the VCFC. All staffing and consultants hired are financed by FSD. To date, FSD has spent approximately \$256,975 on the start-up and phased implementation of the VCFC.

As a result of staffing delays, the Center's business plan was revised at the close of the year. The new plan runs through August 2013 as it has been rationalized with more realistic timelines. The index-based weather insurance (IBWI) end of project review recommended that future risk management work should be integrated into the VCFC for effectiveness and sustainability. This recommendation was immediately implemented and now IBWI is part of the VCFC's mandate. Consequently, the IBWI project manager has been transferred to the Center, a significant enhancement to the project management function. Going forward, stringent project management is planned to ensure that the new business plan is realized within the stipulated project extension period. In addition to cotton, cereals and passion fruit will be studied.

The VCFC continues to collaborate with other stakeholders in areas of common interest. The Center collaborates with the DFID-funded Kenya Market Trust (KMT) program in the cotton value chain. In addition, VCFC activities are coordinated with the Government of Kenya/IFAD's Program for Rural Outreach of Financial Innovations and Technologies (PROFIT).

During the quarter, the VCFC completed the following activities.

- *KCB Dairy Finance Embedded Technical Assistance Review*. FIRM conducted an internal review of the on-site embedded consulting provided to KCB. The report concluded that KCB had challenges successfully operationalizing the strategy developed for a myriad of reasons, all of which were beyond FIRM's control; however, the technical assistance offered meaningful lessons learned. For example, as the largest bank in Kenya, as a former government legacy institution, and as an immense bureaucracy, KCB moved the market through its entry into smallholder dairy finance – i.e. after the bank began actively lending through two product offerings (herd improvement and asset finance), it pulled multiple financial institutions into dairy lending and generated multiple copy cats, including: Equity Bank, Family Bank, KWFT, SMEP and many others. This is a valuable lesson learned, to wit: slow moving, large bureaucracies can innovate, albeit slowly and in fits and starts, and spawn multiple competitors, resulting from the original entry into a new product or geography.

This lesson raised the question whether it might be more practical and cost effective to partner with multiple financial institutions in a specific geography and not embed a consultant in a single institution. Now, FIRM can realistically partner with a number of institutions and embed a consultant in a cluster of institutions in a high density rural area. That individual would then market products FIRM developed through the VCFC to farmers and businesses in a value chain and in a specific commodity. Potential transactions could be marketed to multiple institutions in

pursuit of the best possible terms and pricing, simultaneously building a competitive marketplace for agriculture finance.

FIRM hired Frontfin Training to complete this assignment with KCB. Not one Kenyan consulting company had previously worked inside a financial institution in this manner. FIRM built out this capacity and deepened the financial services marketplace for this type of specialized niche consulting.

- *KWFT Dairy Finance*. During the quarter, FIRM learned that KWFT had utilized research financed by USAID Kenya in 2009 for the dairy value chain. The analysis and recommendations paper was given to KWFT by FIRM in 2011. Using the research, KWFT began a pilot lending program for dairy farmers in late 2012. At the close of the calendar year, KWFT had lent approximately \$500,000 to 684 smallholder female farmers for an average loan size of \$725. These loans financed the purchase of improved dairy cow breeds to expand milk production and improve quality.

The entry of KWFT into dairy finance creates additional opportunities in clean/renewable energy. With FIRM's assistance, KWFT plans to finance small biogas units for dairy and maize farmers. FIRM is currently working with KWFT on operationalizing a plan for clean renewable energy developed early in the year with USAID funding.

Ultimately, the research provided by the VCFC will serve this important informational purpose, evidenced by KWFT, by creating a public good, a good freely accessible to suppliers of agriculture finance. They, financial service providers, can then utilize the information to develop products and services for farmers and other value chain actors.

- *The Cotton Value Chain*. With core staffing finalized, the VCFC initiated research in the cotton value chain during the final quarter of the calendar year. The VCFC partnered with the Kenya Market Trust, a business services provider active in cotton. Initial analysis was completed in Nyanza with plans to cover lower Eastern (Kitui and Makueni). The research and analysis was undertaken by VCFC personnel and FIRM with the additional support of research and financial analysis consultants. This approach will help build the Center's capacity to oversee subsequent research and analysis.
- *Agriculture SME Investment Finance*. The Center finalized a survey documenting the information needs required by specialized SME finance providers to invest in agriculture value chains. The survey will be used to develop and test a prototype information support service for specialist SME financiers in 2013.

Agriculture Policy

- The Central Bank of Kenya. The CBK wrote to FIRM requesting comment on the Credit Reference Bureau regulations it drafted in 2012, following passage of the Finance Bill in mid-year. The regulations covered: full file sharing for banks (positive and negative client information); the inclusion of Deposit-Taking MFIs in the “banks closed user group;” the duration Credit Reference Bureaus retain default information; and, dispute resolution mechanisms.

FIRM drafted and provided the following comments:

- *Duration of default information*. The first duration of default should be based on the cause of default and not an open-end period. In addition, individuals with negative balances caused by ledger fees should not be listed in the default register.
- *A level playing field between banks and DTMs*. Banks and DTMs are in the same closed user group. FIRM recommended that DTMs should be given a timeframe within which they will acquire

signed consent to share positive information from their clientele. Doing so will allow banks and DTMs share full file.

- *Alternative dispute resolution center.* The CBK should strengthen its regulations by mandating a dispute resolution center within the Kenya Credit Information Sharing Initiative. It would function as an alternate dispute resolution venue to the formal legal system.
- *Minimum listing standards.* FIRM also suggested that financial institutions – banks and DTMs – set individual minimum listing thresholds in Kenyan Shillings.

The CBK indicated that it would hold a forum during the first quarter of 2013 to discuss its preliminary position on comment received from the financial sector.

FIRM prepared comment together with KCISI and FSD Kenya.

- iCow. Verbal approval was received on the iCow and Safaricom Limited agreement (by SCL) – for the Provision of Agriculture Content to Safaricom Subscribers. It is expected that the agreement will be formally signed and executed during the first quarter of 2013. SCL has 19.2 million subscribers. The important implications of the agreement are:
 - The iCow platform will be exclusively offered to SCL subscribers as a co-branded product offering.
 - The revenue share will be 60:40 split in favor of SCL. Costs will be front-funded by SCL and recoverable from revenues. Front-funding is significant because current iCow costs will be match to later revenues. This will help iCow expand more rapidly.
 - SCL will be responsible for marketing. SCL marketing will unlock significant resources, enabling iCow to reach millions of Kenya farmer and agriculture input suppliers at unbeatable customer acquisition costs.

FIRM incubated iCow from its early inception when it had less than 50 farmers on its platform. When the agreement is signed with SCL and after iCow moves onto SCL's platform, millions of farmers stand to benefit from the information provided by iCow.

Following successful incubation and after the agreement is signed in 2013 with SCL, FIRM intends to transfer the activity to USAID's Kenya Feed the Future Innovation Engine (KFIE) for ongoing collaboration between USAID, iCow and Safaricom.

- The Kenya Credit Information Sharing Initiative. KCISI is a partnership between the Central Bank of Kenya, Kenya Banker's Association, FSD Kenya and USAID Kenya FIRM to develop and institutionalize Credit Reference Bureaus in Kenya. After commercial banks were brought into the newly created system and submitting partial file information (only positive data on loan repayment), FIRM was asked to organize MFIs so that they, as a new class, could participate in the Credit Reference Bureau system. FIRM worked with all actors closely throughout the year and, in October, a pilot program was completed. FIRM worked with 13 MFIs.

The pilot program produced numerous successes:

- Creation of a Credit Sharing Specification document for MFIs.
- Development of an Industry Data Sanitizing Tool (the tool will also be adopted by commercial banks).
- 9 of the 13 MFIs submitted client data to the two functional CRBs (Metropol Credit Reference Bureau Ltd and Trans Union).
- 7 of the 9 contributed 90% accurate data and the remaining two contributed 77% accurate data.
- Both CRBs were assessed on their capacity to handle large volumes of data in different formats from that of banks and recommendations were given to them on how to improve performance.

- Over 2 million credit records were successfully submitted to CRBs, a necessary step toward the improvement of financial access and inclusion.
- Kenya Credit Information Sharing Initiative, Communication Strategy. The findings of a research report by TNS RMS on the public's understanding of CRBs reflected a minimally informed public with a huge percentage viewing CRBs as a scheme that favors financial institutions. KCISIS noted the importance of and need to educate the public on credit report usage, consumer protection and dispute mechanisms. FIRM prepared a three-year national communication strategy for the KCISI to help it address the educational issues expressed by the public in order to improve the image of CRBs. The plan included measurable indicators that track shifting public opinion, on a quarterly basis, measured against implementation actions.
- National Economic and Social Council. During the quarter, NESC – Office of the President and Cabinet Affairs – approved the findings of an empirical analysis calling for the creation of a national credit guarantee scheme managed by the government of Kenya in partnership with the private sector. USAID Kenya, the Director of the Agriculture, Business and Environment Office, delivered a speech to a cabinet-level NESC committee meeting on the importance of guarantees as a means to unlock and deploy private sector capital for development. NESC's executive committee recommended to the cabinet that a guarantee framework and a bill must be developed so that the initiative can move forward. FIRM will work closely with NESC during the first six months of 2013 to draft the framework and the bill. NESC will take the lead in securing passage of the bill.

Clean/Renewable Energy

- Kenya Women's Finance Trust DTM. Following an earlier assignment where FIRM developed a clean and renewable energy finance strategy for KWFT, the project developed specific finance products – four cooking stove loan products, five solar modular lighting systems loan products, and two lantern loan products. To support these loan products, FIRM brokered relationships between suppliers of energy products, leading to new sales and delivery channels. The clean and renewable energy will be offered to KWFT clientele during the first quarter of 2013. KWFT expects to disburse over \$10 million in loans to its clientele to finance the purchase of these assorted clean and renewable energy products.
- Molyn Credit Limited. Complimenting earlier support to MCL in March 2012 provided by FIRM to develop three loan products for dairy farmers in Western Kenya, the project designed three biogas loan products. The work is in collaboration with the Kenya National Domestic Biogas Program. KNDBP provides a subsidy to install the biogas plants for each purchaser. The biogas products are provided to farmers with at least two dairy cows. The farmers use the renewable energy from biogas for lighting and cooking. It is a clean source of fuel and is considered environmentally friendly. The roll-out of the biogas product has been well received by farmers in Western Kenya and 40 loans for small biogas plants have been disbursed.

Lessons Learned

- Financial Access and Inclusion. Financial access and inclusion for people above the very poor and poor thresholds has greatly improved over the years as evidenced by numerous reports and studies. Banks, DTM MFIs, NGO MFIs, SACCOs and other institutions, provide wide-ranging access to financial products and services through extensive geographic branch networks and agency relationships across Kenya. Pricing offered on these products and services, however, is very expensive and the lack of affordability restricts access for low-income individuals and households to both loans and savings.

MFIs are the most expensive; they generally price loans using flat interest rates, often over 20% with other fees. Savings accounts are mandatory and held in escrow accounts controlled by the

lender, creating an involuntary opportunity cost for the buyer that restricts their ability to self-manage their own resources necessary to invest in and grow their livelihoods by locking in capital controlled by MFI. Effective annual rates often exceed 60% per annum.

Banks offer loans on declining interest rates, unlike MFIs, but banks rates are currently over 20% per year and they require similar fees, increasing the total cost of borrowing and savings. SACCOs (credit unions) are the least expensive and interest paid on savings is higher than MFIs and banks. SACCOs, however, have ceilings on the value of credit individuals can receive and it's linked to the value of savings the individual has on deposit with the SACCO. This restriction curtails investment and growth opportunities for loan recipients since the value of credit required for their business cannot be sourced through the SACCO.

M-Pesa provides a convenient opportunity for anyone to deposit, transfer funds, withdrawal and save up to prescribed limits. This service has its limitations – since as a percentage of income, wealth, assets or other similar measures – the system can be considered regressive. Likewise, the new partnership between Commercial Bank of Africa and Safaricom called M-Shwari increases access and inclusion to financial services through convenience. Individuals with a M-Shwari account can receive loans through CBA based on their history with M-Pesa. Later, after receiving loans from CBA, the bank will be able to score clients based on their repayment and saving history with the bank, delinking from Safaricom's M-Pesa. This service also has its limitations as well – i.e. loans must be repaid after 30 days at a monthly interest rate of 7.5%. Annualized, if the outstanding balance was continuously rolled over, clients would pay a yearly interest rate of over 200%.

These rates offered by all financial service providers, including M-Pesa and M-Shwari, are perceived as extremely expensive and greatly limit access for not only all strata of poor individuals and households but also smallholder and subsistence farmers whose livelihoods are dependent upon rain-fed agriculture.

- Alternative Finance. In FIRM's opinion, interest rates in Kenya are exorbitant. Banks report record earnings quarter after quarter, year after year. With inflation low, at roughly the same rate as the US in 2012, and with non-performing loans within industry standards, net interest margins earned on the spread between interest rates on loans less the cost of funds is approximately 3 – 4 times greater than those in the United States. FIRM believes high interest rates in Kenya exclude many low income populations from obtaining finance. This also restricts the growth of Kenya's Gross Domestic Product.

To expand access for smallholder farmers, FIRM partnered with Honey Care Africa to create a pilot alternative finance program. Prior to this pilot, FIRM provided support to HCA so that it could locate a new sales cluster in Kwale, Kenya. The partnership was designed to increase the sales of hives on horticulture farms. A recent report by FrigoKen indicated that the introduction of beehives on passion fruit farms increased production by 50%, thus increasing incomes for smallholder farmers. To finance the beehives, FIRM linked a local MFI with HCA. A new loan product was created; however, the interest rate set by the MFI, in addition to the fees, greatly restricted access to the MFI's financing. The interest rate was greater than 20% flat. This rate was based on zero cost financing from Kiva.

FIRM began working with HCA to create an internal lending department, supported by a 0% Kiva loan for on-lending. FIRM expects that HCA lending will be priced at breakeven, including a risk premium. Initial modeling prices loans around 7% declining, with no other fees loaded onto the cost. It is anticipated that hive finance will drive increased sales that benefit both the farmer and HCA.

- USAID Forward. FIRM generally hires local Kenyan consultants and companies to undertake assignments that support the project's development objective. Most, if not all, of these companies are small and led by a single individual. In most cases, the quality of work done by the consulting

company is dependent on the owner's ability to manage multiple assignments, projects, etc. As the volume of work increases, quality generally decreases. These companies must outsource work to external consultants to keep pace with the growing volume of work sourced by FIRM or other donor projects or commercial enterprises. These external consultants must be actively managed to ensure high quality standards. In an increasing number of instances, local businesses are not able to grow their companies beyond what the owner/manager can provide technically. The burden on the individual is also compounded because increased technical work necessitates managerial and business systems upgrades to keep pace with revenue growth.

In addition, some Kenyan consulting companies complain about USAID requirements implemented by FIRM, such as DA I withholding of Kenyan taxes. This is a compliance issue for USAID contractors and grantees that FIRM fully implements. The primary complaint concerns lengthy processing time and the impact on a cash flow and taxation (if the forms are not approved within a certain timeframe). As a result, a small number of companies have refused to work with FIRM. Another small set of companies have expressed concern over FIRM's withholding of local taxes, which again, is a compliance issue. The project complies not only with USAID rules and regulations but also with Kenyan taxation and withholding. FIRM does not assist its local subcontractors to evade legal requirements mandated by Kenyan law. This has also forced a small number of local contractors to cease doing business with FIRM.

As a result of these issues – (1) capacity issues of consulting companies dependent on a single owner/manager, (2) DA I compliance and (3) taxation – FIRM has begun to offer consulting services on a limited basis with some financial institutions. FIRM's technical team has more experience in finance and banking than the companies it sources to complete work. All team members have over ten years of experience and are either seasoned bankers or agriculture value chain experts. FIRM will gradually begin doing more work internally for its partner financial and non-financial institutions to ensure higher quality.

III. PROGRAM PROGRESS (Quantitative Impact)

FIRM will report on quantitative impact in the March 31, 2013 quarterly report. The project was reconfigured to fit the Feed the Future strategy. As such, targets were not fully set for the current fiscal year. Those targets will be finalized and reported upon in the upcoming report. The project expects to achieve or exceed contractual benchmarks.

IV. PERFORMANCE MONITORING

FIRM's monitoring and evaluation team devoted the early part of 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. FIRM will conduct the Poverty Assessment Tool (PAT) during the month of February before the national elections in three provinces (regions) that are part of FTF. These regions include Western, Nyanza and Rift Valley. After the elections, FIRM will implement PAT in lower Eastern province, covering all FTF zones. The survey will be coordinated with partners receiving the support of FIRM: MFI NGOs and MFI DTMs.

The final month of the year was spent outlining a data collection strategy for 2013 and interviewing candidates for a new statistician position in the M&E department.

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.

In addition to the tea tree activity, FIRM and KHCP have partnered to devise financial solutions for farmers on contract with Vegpro for approximately 1,200 smallholder snap pea producers and an additional 300 farmers in bananas. After financial products have been developed for these two distinct groups, the partnership will expand into other horticulture commodities.

VI. PROGRESS ON LINKS WITH GOK AGENCIES

FIRM receives ongoing calls for assistance from the Central Bank of Kenya that are critical to financial access and inclusion, safety and soundness of the financial sector and in other areas. These requests will continue into the foreseeable future as long as Kenya remains a developing or, eventually, a middle income country. These requests are channeled through USAID Kenya and implemented by FIRM when approved.

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.

- **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.

XI. PROJECT ADMINISTRATION

Constraints and Critical Issues

The configuration of FIRM's budget constrains the project from building upon and accelerating successes achieved to date. In order to support increasing numbers of partnership requests, FIRM plans to submit a budget realignment, moving funding from certain line items where spending is underutilized to areas necessary to hire additional technical personnel on the project. FIRM will then utilize less international STTA and hire more local technical personnel. Doing so will allow FIRM to assist increasing calls for support from new partners and expand innovation.

The realignment was discussed with USAID Kenya and it was tentatively approved, pending a formal submission and official review.

Personnel

In order to fill new positions outlined in the budget realignment request, FIRM placed an advertisement in two Kenyan newspapers. Multiple responses were received for the four available positions: SACCO partnership specialist; general partnership specialist; M&E statistician; and communication's specialist. Interviews were conducted and individuals were selected. Offers were made pending approval from USAID Kenya on the realignment request.

Changes in the Project

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

Contract Modifications and Amendments

During the quarter, FIRM submitted a Limitation of Funds notice to USAID Kenya. The project anticipates exhausting its current obligation by February 2013.

In addition, USAID Kenya and FIRM discussed how to better utilize project finances to further create opportunities and expand activities. To bolster results, USAID Kenya and FIRM agreed on a strategy to move funding from certain areas to others. The project office with the headquarters office in the Bethesda began preparing a budget realignment request. The request will be sent to USAID Kenya in January 2013.

Annex: Quarterly Deliverables

October 2012 Deliverables Produced

No.	Deliverable	Partner	Company Name or Consultant
1	An approved prototype of the logo and interface designs of a new CIS (Credit Information sharing Initiative)	Kenya Credit Information Sharing Initiative (KCISI)	James Muendo
2	Implementation of features on the website as required in this SOW and creation of a new logo design	Kenya Credit Information Sharing Initiative (KCISI)	James Muendo
3	Standardized and well documented leadership, governance and management toolkits for the board in the assignment to assist Milango Financial Services	Milango Financial Services	Blue Rhino Consult Ltd
4	Training report in the assignment to assist Milango Financial Services to strengthen its institutional capacity	Milango Financial Services	Blue Rhino Consult Ltd
5	A final Agri-centric appraisal tool	Commercial Bank of Africa	Ideal Business Link Ltd
6	Timed workplan to collect financial information in the cotton value chain (Nyanza)	FSD Kenya, Kenya Market Trust	Ideal Business Link Ltd
7	Comprehensive report on the April 2012 meeting - Wireless Wednesday events to explore ICT innovations for agriculture and agribusiness	M:Lab	iHub Limited
8	Comprehensive report on the June 2012 meeting - Wireless Wednesday events to explore ICT innovations for agriculture and agribusiness	M:Lab	iHub Limited
9	Agenda for the meeting and invited participants. Wireless Wednesday events to explore ICT innovations for agriculture and agribusiness	M:Lab	iHub Limited
10	Field level dashboard, field level metrics implemented for SWARM	Honey Care Africa	Open Capital Advisors Ltd
11	A detailed work plan to carry out the assignment (embedded dairy)	Kenya Commercial Bank	Frontfin Training Ltd
12	Monthly progress report 1 - April 2012, KCB embedded dairy training	Kenya Commercial Bank	Frontfin Training Ltd
13	Monthly progress report 2 - May 2012, KCB embedded dairy training	Kenya Commercial Bank	Frontfin Training Ltd
14	Standardized and well-documented leadership, governance and management toolkit for the board to assist Technoserve strengthen the capacity of its model dairy FSA's	Technoserve	Fineline System & Management Ltd

15	A standardized and well-documented training materials and manuals for personnel, serving as orientation tools for the assignment to assist Technoserve	Technoserve	Fineline System & Management Ltd
16	A report on the training for two model TNS FSA boards	Technoserve	Fineline System & Management Ltd
17	A training report on the assignment to assist Technoserve strengthen the capacity of its model FSAs	Technoserve	Fineline System & Management Ltd
18	A revised MOU between KOOFA and EOK, including revised individual farmer contracts	Kenya Organic Oil Farmers Association, Earth Oil Kenya	Alternatives Finance Technologies Ltd
19	A final report on credit guarantee products available in the market and utilization levels for each product.	National Economic Social Council (NESC)	K Group Consultants
20	Final notes summarizing all interviews, discussions and meetings	Kenya Commercial Bank	Jonah M. Moindi
21	Notes on field meetings and discussions	Kenya Commercial Bank	Jonah M. Moindi
22	A detailed workplan for data collection and information gathering	Kenya Commercial Bank	Jonah M. Moindi
23	A detailed workplan for data collection and information gathering	Kenya Commercial Bank	Jane Ngari
24	Notes on field meetings and discussions	Kenya Commercial Bank	Jane Ngari
25	Final notes summarizing all interviews, discussions and meetings	Kenya Commercial Bank	Jane Ngari
26	A detailed workplan for data collection and information gathering	Kenya Commercial Bank	Brigid Onyango Otiato
27	Notes on field meetings and discussions	Kenya Commercial Bank	Brigid Onyango Otiato
28	Notes on field meetings and discussions	Kenya Commercial Bank	Brigid Onyango Otiato
29	Notes on field meetings and discussions	Kenya Commercial Bank	John Ongoro Owour
30	Final notes summarizing all interviews, discussions and meetings	Kenya Commercial Bank	John Ongoro Owour
31	A detailed workplan for data collection and information gathering	Kenya Commercial Bank	John Ongoro Owour

November 2012 Deliverables Produced

No.	Deliverable	Partner	Company Name or Consultant
32	Deliverable #1: A timed workplan to carry out the Faulu agribusiness assignment	Faulu Agribusiness	JM Mantle
33	Deliverable #2: Consolidated research report with findings from the desk review	Faulu Agribusiness	JM Mantle
34	Deliverable #3: A workshop report that includes consensus from senior management	Faulu Agribusiness	JM Mantle

35	Deliverable #4: Draft SME and individual lending strategy paper	Faulu Agribusiness	JM Mantle
36	Deliverable #5: Financial model with projections and an implementation plan	Faulu Agribusiness	JM Mantle
37	Report on the assignment to assist NESCC in its effort to implement and roll out a guarantee scheme in Kenya	National Economic Social Council (NESCC)	Protus Nkuru Katherya
38	Monthly progress report on KCB embedded dairy training	Kenya Commercial Bank (KCB)	Frontfin Training Ltd
39	Final report on KCB embedded	Kenya Commercial Bank (KCB)	Frontfin Training Ltd
40	A time-lined work plan to carry out the assignment, capital formation	Milango Financial Services	JM Mantle
41	Draft comprehensive five-year capital formation strategy	Milango Financial Services	JM Mantle
42	A detailed implementation plan, capital formation	Milango Financial Services	JM Mantle
43	Workshop/meeting report, capital formation	Milango Financial Services	JM Mantle
44	A final comprehensive five-year, capital formation, strategy	Milango Financial Services	JM Mantle
45	Tools, processes, systems to monitor performance against plan, capital formation	Milango Financial Services	JM Mantle
46	A timed workplan to carry out the assignment, SME	Faulu	JM Mantle
47	Consolidated research report, including desk review findings, SME	Faulu	JM Mantle
48	Workshop report, SME	Faulu	JM Mantle
49	Draft agri-business strategy paper, SME	Faulu	JM Mantle
50	Financial model with projections and an implementation plan, SME	Faulu	JM Mantle
51	Draft summary of documents reviewed for the Nyanza cotton value chain	Value Chain Finance Center (VCFC), Kenya Market Trust	Ideal Business Link Ltd
52	Rapid assessment report for the Nyanza cotton value chain	Value Chain Finance Center (VCFC), Kenya Market Trust	Ideal Business Link Ltd
53	Assessment report and power point presentation on the submission timeline, acceptance rates and relevant information for all MFIs	Kenya credit information sharing initiative (KCISI)	Software group KE Ltd (SG)
54	Deliverable #8: May 2012 branch progress report on tea tree and related financial services	Milango Financial Services	Milango Financial Services
55	Deliverable #9: June 2012 branch progress report on tea tree and related financial services	Milango Financial Services	Milango Financial Services

56	Deliverable #10: July 2012 branch progress report on tea tree and related financial services	Milango Financial Services	Milango Financial Services
57	Deliverable #11: August 2012 branch progress report on tea tree and related financial services	Milango Financial Services	Milango Financial Services
58	Deliverable #12: September 2012 branch progress report on tea tree and related financial services	Milango Financial services	Milango Financial Services
59	Deliverable #13: October 2012 branch progress report on tea tree and related financial services	Milango Financial Services	Milango Financial Services
60	Deliverable #14 Final report on MFS branch technical assistance, tea tree	Milango Financial Services	Milango Financial Services
61	Deliverable #1: SOW and workplan	iCow	JM Mantle
62	Deliverable #2: Business model canvas	iCow	JM Mantle
63	Deliverable #3: Project summary on business key components	iCow	JM Mantle
64	Deliverable #4: Project pitch in Power Point	iCow	JM Mantle
65	Deliverable #5: Business plan developed and into the Tandaa business plan competition	iCow	JM Mantle
66	Deliverable #6. 2012 strategic priorities	iCow	JM Mantle
67	Deliverable #5: A framework for a policy and procedure manual, dairy supply finance	Commercial Bank of Africa	Ideal Business Link Ltd
68	Deliverable #6: A comprehensive report on financing opportunities in the dairy supply chain including recommendations on products	Commercial Bank of Africa	Ideal Business Link Ltd
69	Deliverable #1: A methodology and timelined work plan to carry out the assignment	KWFT DTM	Mark5 Business Hub
70	Deliverable #3: A draft report of products reviewed with refinements incorporated into product features and other relevant documentation	KWFT DTM	Mark5 Business Hub
71	A timelined workplan	Micro Africa	Sofgen Africa
72	Deliverable #3: A manual for network policies, procedure and guidelines	Micro Africa	Sofgen Africa
73	Deliverable #6: Board of director training materials developed and used to strengthen institutional capacity	Milango Financial Services	Blue Rhino Consult Ltd

December 2012 Deliverables Produced

No.	Deliverable	Partner	Company Name or Consultant
74	Deliverable #2: Functional specification document detailing system requirements	Juhudi Kilimo	Software Group KE Ltd (SG)
75	Deliverable #4: Initial progress report on operational and financial for a pilot credit	Honey Care Africa (HCA)	Honey Care Africa

	program, alternative finance		
76	November 2012 progress report	AMPK	John Kuria
77	November 2012 report progress report	National Economic Social Council	Protus Nkuru Kathenya
78	Deliverable #5: Four fieldwork trip reports for the following regions in the cotton value chain: South Nyanza, Mt Kenya East, Western and Eastern	Value Chain Finance Center (VCFC), Kenya Market Trust	Fineline systems
79	Deliverable #5: Data field collection reports on key findings	Value Chain Finance Center (VCFC), Kenya Market Trust	Ideal Business Link Ltd
80	Final report, guarantee assignment	National Economic Social Council (NESC)	Tara Consultants Ltd
81	December 2012 progress report	National Economic Social Council (NESC)	Protus Nkuru Kathenya
82	Deliverable #4: Data collection strategy including sampling methodology and data collection tools	Value Chain Finance Center (VCFC), Kenya Market Trust	Ideal Business Link Ltd
83	HQ-level dashboards	Honey Care Africa	Open Capital Advisors Ltd
84	December 2012 progress report	AMPK	John Kuria