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Financial Inclusion for Rural Microenterprises (FIRM)

Annual Workplan

October 1, 2015 – December 31, 2016

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Annual Workplan

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EXECUTIVE SUMMARY

Under the one-year cost extension, Kenya Financial Inclusion for Rural Microenterprises (FIRM) will solidify gains realized during its five years of operationsnand create the conditions for USAID/Kenya to implement its current Country Development Cooperation Strategy (CDCS) under Development Objective (DO) 1 Devolution Effectively Implemented and DO 3 Inclusive, Market Driven, Environmentally Sustainable Economic Growth. Understanding USAID Kenya's funding allocation to FIRM, we have designed the workplan to reflect the split between Energy, WASH, and Feed the Future funding, aligning resources to match mission priorities.

Counties are the new nexus for Kenya's economic growth and social development. As such, FIRM will continue supporting the Council of Governors (COG) and individual counties to mobilize resources for finance and investment. Our assistance to counties will include a reinvigorated emphasis on rural-based cooperatives and Savings and Credit Cooperative Societies (SACCOs) to increase the flow of financial services into agricultural value chains, putting substantially more economic resources into the hands, pockets, and savings accounts of family farmers for reinvestment, consumption, and development. This effort will also support micro-scale renewable energy finance and wiring to facilitate connections for household and businesses to the national grid.

At the county level, FIRM will expand its work in the small- and medium-scale renewable energy sector in hydro, solar, wind, and biomass within the 1 to 50 megawatt (MW) range. At the end of the extension period, FIRM will have built a small and medium-sized enterprise (SME) renewable energy pipeline in excess of $1 billion. FIRM will also increase its water, sanitation, and hygiene (WASH) activities throughout a maximum of 10 Feed the Future (FTF) counties (5 current partners and 5 new) supporting municipal and private water companies by utilizing Development Credit Authority (DCA) loan guarantees, technical assistance, and capacity building.

FIRM will also design and implement a capacity building and training plan for 30 Yes Youth Can (YYC) SACCOs, leveraging the project's long-term track record in the sector and using our experience working with youth through our internship and volunteer programs. We will augment our support to the sector by coordinating with apex institutions like the Kenya Union of Savings and Credit Cooperatives (KUSCCO), county governments, and relevant ministries and regulatory bodies.

FIRM will also seek out and encourage innovation similar to the results the project achieved with iCow, helping grow the start-up from 3,000 clients to more than 1.5 million in just over 4.5 years of USAID-financed support. FIRM support to the technology company, Credit Factory, will catalyze an important innovation and disruptive force in the financial sector. FIRM will support Credit Factory's expansion in agriculture finance, particularly in Kenya Agricultural Value Chain Enterprises (KAVES)-supported activities.

FIRM will oversee and manage USAID Kenya's DCA portfolio, improving performance of the overall portfolio and adding new facilities critical to USAID's CDCS. FIRM will coordinate with a number of USAID-funded activities, including KAVES, Agile Harmonized Assistance for Devolved Institutions (AHADI), Feed the Future: Building Capacity for African Agricultural Transformation (Africa Lead II), East Africa Trade and Investment Hub (EATIH), the Power Africa initiative, and Kenya Integrated Water, Sanitation, and Hygiene Project (KIWASH) to leverage resources and increase the interaction necessary to promote uptake of financial services and increase investment for economic growth and social development.

In the following sections, we lay out by project area the key initiatives FIRM will be working on in 2016. As new activities are identified, our team will transform them into sustainable results with long-lasting impact. Our list of activity deliverables delineates how the project will contribute to USAID's overall Feed the Future, Clean Energy, and WASH objectives.

2016 Highlights: the 2016 workplan reflects a one-year scaled-back budget of $4.7 million. At the height of FIRM's spending during its original five-year budget, the project expensed an average of $700,000 per month or $8.4 million per year. With this downscaling in funding, we have reduced FIRM's results in our Feed the Future Performance Monitoring Plan (PMP) for 2016.

FIRM exceeded all of its twelve PMP indicators during the LOP (2011-2015) except one (4.5.2 (29) Value of Agriculture and Rural Loans).

The project missed this target for two reasons:

- FIRM began implementation in January 2011 before Feed-the-Future started. 18 months into operations (2012), FIRM was retrofitted into FTF and the project was given a completely new set of PMP indicators. As such, the project shifted focus and, with that transition, FIRM moved its focus away from supporting Nairobi-based financial institutions to partnering with more rural-based SACCOs and cooperatives. Loan sizes greatly decreased per client but, importantly, the number of beneficiaries dramatically increased, partially offsetting loan size decreases.
- The situation was further acerbated when USAID Kenya began shifting (2013) and implementing its new CDCS (2014). FIRM followed the mission's priorities and we deepened our rural focus by partnering with a number of FTF counties through our investment work.

Even so, FIRM managed to sustainably facilitate over $1 billion in loans through its financial sector partners to rural-based farmers, entrepreneurs and families. And the results for the majority of our other PMP indicators, such as 4.5.2 (25) Number of People with Savings Accounts, greatly exceeded original forecasts.

Highlights: FIRM LOP Targets and Achievements (2011-2015) – Three Select Indicators

	LOP target	LOP Actual	Variance	2016 Target
Value of Agriculture and Rural Loans	$1,350,000,000	$1,068,000,000	($282,000,000), (21%)	$90,000,000
Number of People with Savings Accounts or Insurance Policies as a Result of USG Assistance	250,000	1,957,552	1,707,552, 683%	196,000
Number of rural households benefiting directly from USG interventions	2,125,000	2,348,592	223,592, 11%	250,000

CONTEXT

Kenya is East Africa's leading economy with the region's largest and most innovative financial sector. The country is unarguably a world-renowned leader in mobile financial services technology evidenced by M-Pesa and its widespread adoption throughout the sector. But unfortunately, within this backdrop, the majority of Kenya's smallholder farmers – 80% of 45 million people or 36 million – remain excluded from formal financial sector finance. Without finance or credit to improve their family farms, the vast majority of Kenya's citizens remain mired in poverty with no hope of breaking free.

FIRM was designed to facilitate finance to the rural excluded by working in partnership with Kenyan financial sector institutions, including: banks, MFI banks, SACCOs and certain non-financial companies/non-profits. Through these partnerships, FIRM was able to increase access to finance for millions of Kenyans and create demonstrate for others to either enter the agriculture, micro-scale clean renewable energy or water finance sector on their own, in partnership with FIRM or with other donor-funded programs. To this end, the project has been a success. But much work remains. Interest rates are still far to high and that fact, in itself, serves as a primary obstacle, impeding or blocking access for millions upon millions of Kenyans. Likewise, a majority of financial institutions do not design products to fit the needs of agriculture commodities. Products are designed to suit the institution and not the client. Tenors and repayment structures, generally, are a consideration.

This work, however, is still in its infancy and FIRM is merely a building block. One of FIRM's many successes has taken place working in partnership with the Office of Development Credit. To date, Kenya has one of USAID's largest portfolios worldwide with 17 facilities valued at over 160 million. FIRM actively manages those facilities and they have yielded impressive results over the years. For example, USAID Kenya piloted the initial loan guarantees sharing risks with banks so that they have the comfort to on-lend to MFIs. This was also true in the SME sector where USAID partnered with banks to make some of the first SME loans. Again, USAID did the same in the water sector. Now, today, lending in these sectors is widespread and ubiquitous. With consistent programming under FTF and under USAID's county focus, agriculture finance will eventually become widespread and ubiquitous.

Under the 2016 one-year extension, FIRM will continue to support USAID Kenya's strategic objectives in five focus areas: County Investment Plans, Smallholder and Value Chain Agriculture Finance, Energy and WASH Investment Facilitation, Capacity Development for YYC SACCOs, and the Development Credit Authority. Each of these activities are centered on USAID Kenya's new CDCS and FIRM will work to further the conditions for USAID the mission to realize its objectives.

2016 STRATEGIC FOCUS

FIRM will continue strengthening its rural-based approach centered on Kenya's counties, particularly FTF counties. Counties will serve as the nexus for each one of FIRM's activities. In finance, FIRM will work closely with country governments and the private sector to build the sustainability and organizational capacity of SACCOs and cooperatives – institutions closest to the people and organizations most responsive to client's needs – so that they can provide much needed finance to smallholder farmers, businesses, entrepreneurs and families. In the investment arena, FIRM will also work closely with counties and the private sector, both as a transaction facilitator and as a catalyst, helping move opportunities from ideas to reality. And in the innovation space, FIRM will pay close attention to and foster potential innovations that can dramatically disrupt industries as we achieved with M-Kopa, iCow and Mopi-Pay (to name a few).

Sustainability and Demonstration

In general, FIRM works through financial sector partners to catalyze financial services in agriculture, energy and WASH. The project, therefore, seeks to build products and services that are profitable and sustainable its partners. Given the highly competitive nature of Kenya's financial institutions, success will beget success that will, in turn, create demonstration other institutions will take note and adopt what they see their competitors doing. This adoption has already taken place, especially in the dairy finance sector where lending to smallholders is widespread.

In micro-scale renewable energy, DCA loan guarantees have helped created competition among numerous providers of financial services. The co-guarantee with SIDA that underwrote the multiparty facility shared between KWFT, SMEP and Micro Africa forced those three MFIs to sustainably compete among themselves for client business in renewable solar, biogas and cook stoves. That positive outcome of USAID's investment generated demonstration pulling other financial institutions into the micro-scale clean renewable space. One of USAID's and FIRM's greatest achievements in the micro-scale clean renewable space was M-Kopa where USAID guaranteed finance from Acumen Fund to finance M-Kopa's start-up in 2011. Four years later, M-Kopa has more than 250,000 rural clients who now have access to solar lighting. M-Kopa has also secured to rounds of commercial finance, the latest a $19 million equity investment.

In WASH, three banks – K-Rep, Housing Finance and KCB – are now competing to commercially finance water CBOs, companies and utilities. Each bank has a USAID DCA loan guarantee. Without these facilities, these banks would not have ventured into financing the sector and, before these guarantees were in place, banks were not providing finance in WASH. USAID's DCA investments created sustainable loan products and produced much needed demonstration, pioneering with K-Rep and then later adding KCB and Housing Finance as partners.

Working with non-traditional partners in the area of innovation, FIRM identified and supported two key agriculture value chain actors: iCow and Mobi-Pay. When FIRM began providing consulting support to iCow, it was a little known IT company operating in the dairy value chain that sent prompts to smallholder farmers. Four years later, after steady and persistent support from FIRM, iCow is now on the Safaricom platform and it has over 1,500,000 dairy farmers as active users. And the company is about to receive its first equity investment. Mobi-Pay is another unique innovation that FIRM supported from its infancy, helping it grow to manage over 250,000 smallholder farmers on its payment platform.

FIRM was also designed to support and develop the fledging agriculture finance consulting industry. Rather than DAI deliver consulting to partner financial institutions, FIRM hired and in most cases, nurtured the nascent industry, helping Kenyan consultants and local FIRMs support financial institutions with technical assistance and know-how. Now, Kenyan has a vibrant niche industry that can provide high-quality consultants to banks, MFIs and SACCOs. FIRM continues using this sustainable industry to support USAID's objectives in the financial sector.

Organizational Strengthening

As described in the previous section, FIRM has devoted significant resources building capacity and strengthening organizations and businesses, leading to the sustainability of products/services, institutions and whole industries. As USAID continues to implement its new CDCS, ongoing work will be required to improve the performance of county governments, rural-based SACCOs and cooperatives, and consults living and working in those non-urban locations (as part of a larger workforce development agenda). In addition, in SME energy (1 to

50 megawatts), FIRM will focus on building an industry of advisory companies in finance and engineering so that the multitude of transactions can move from idea to reality and electricity on the grid. Each power plant added in a rural environment will have a transformative affect on local communities in terms of employment creation and the improvement of life quality as more households and families are grid connected.

Increasing Access to Finance

Each of the five activities in FIRM's one-year extension build on the project's first five years of increasing access to finance throughout rural areas with an emphasis on smallholder farmers. In 2016, FIRM will solidify the results from 2011-2015 and transfer lessons learned into outcomes that can serve as building blocks for USAID to deliver success on its new CDCS to county governments. FIRM will expand its partnerships with counties in order to increase access and inclusion to financial services in rural areas.

Building an Energy Pipeline and Closing Transactions

FIRM will continue building an energy pipeline of opportunities under the Power Africa initiative in hydro, solar, biomass and wind (1-50 megawatts). Currently, FIRM uses two approaches to create pipeline. First, FIRM scouts potential deals throughout Kenya using its network of sponsors, developers, equity investors and others. Second, on a parallel track, the project recently began working with its partner counties to develop energy asset maps with local administrations. After completed, the energy asset maps are launched to garner the attention and interest of the private sector. Reaching financial close typically requires a large deal of engineering work and, therefore, transactions take 2-3 plus years to finalize. Construction requires another 2-3 years (given the size of our transactions). In 2016, FIRM expects to facilitate financial close of 1-3 transactions.

Tracking and Reporting on County Investments

After 18 months of supporting six counties – Bomet, Homa Bay, Meru, Machakos, Taita Taveta and Nairobi – FIRM's investment work is beginning to realize incremental results. In early 2016, FIRM will launch an newsletter that tracks progress by county on each investment opportunity across all ministries. It will document obstacles that stand in way of achieving success – policies, political risk, etc. FIRM will enter into a partnership with the Council of Governors and co-produce the newsletter.

VIABILITY GAP FUND

$1.5 million of FIRM's $4.7 million extension budget, or 32% of total, was reserved to directly fund project activities. The fund will primarily underwrite costs for hiring local consultants and consulting companies to undertake technical work in each of the project's five key areas. This approach was successfully utilized under FIRM's first five years and it will be carried forward into the one-year extension.

COUNTY INVESTMENT PLANS

Over the past 18 months, FIRM has developed strong partnerships with the COG and individual counties. FIRM currently provides capacity support to six counties: Bomet, Homa Bay, Meru, Machakos, Taita Taveta, and Nairobi. With the exception of Nairobi, FIRM works with its partner counties to ultimately produce County Investment Portfolios across each county's 10 sectors or ministries. For Nairobi, the project provides consulting support to the county so that it can relocate and potentially privatize Wakulima Market (the farmer's market) from its current location in downtown Nairobi to Kasarani.

Additionally, to further strengthen relations, FIRM has started “My Country My County” which is an essential component of FIRM’s devolution support program and a partnership with the COG and all 47 counties. The program places a young recent graduate from a Kenyan university at a county government for one year. Counties indicate through the COG their specific technical need in agriculture, legal, finance, administration, accounting, cooperatives, communication, or public relations, etc.

Furthermore, we have placed three young Kenyan volunteers at the COG’s Secretariat, under the My Country My County program, who report directly to the Chief Executive Officer. Also, an additional, full-time FIRM employee has been seconded to COG and she supports and reports to the Resource Mobilization Committee, currently chaired by the Governor of Wajir County, Ahmed Abdullahi.

2016 Key Initiatives

Each county has different requirements and requires different levels of technical assistance in designing and implementing the detailed County Investment Portfolios. Prior to developing them, FIRM will partner with the counties to first develop a strategic investment plan, a vision plan or strategy similar to Kenya’s national economic and social development blueprint called Vision 2030.

In the County Investment Portfolios, FIRM will seek to prioritize investments throughout each of the county’s 10 sectors, emphasizing agriculture, energy, WASH, and cooperatives/SACCOs—and then facilitate finance, directly or indirectly, into those opportunities. County-level finance and investment spur private sector-led economic growth, job creation, and social development. To ensure adequate investment is reached in each sector, FIRM has identified partners for each sector. FIRM itself will provide support to the cooperative and SACCO sectors. Progress against County Investment Portfolios will be monitored and reported to county governors, executive teams, and USAID/Kenya.

Under the extension, FIRM plans to offer its current county partners and five new counties suggested by USAID (Marsabit, Kakamega, Kisumu, Migori, and Uasin Gishu) the following package of services and products:

- A strategy-level document with a monitoring and evaluation (M&E) feedback loop (distilled from the County Integrated Development Plan).
- A County Investment Portfolio—prioritized across 10 sectors with detailed investment prospectuses.
- Support to launch either the strategy document or the County Integrated Development Plan.
- Investment facilitation support and ongoing capacity development.

By December 2016, FIRM will have fully embedded these services and products inside its 11 county partnerships. In order to successfully implement these activities, FIRM will continue working closely other USAID-funded projects, including AHADI, KAVES, Africa Lead II, and the EATIH. Currently, FIRM has been forging a partnership with KAVES to bring financial services into its agricultural value chains by supporting cooperatives and SACCOs—particularly youth-managed YYC SACCOs.

FIRM has already developed strong partnerships with AHADI in policy and with Africa Lead II in management and leadership training. With EATIH, FIRM will continue to forge a relationship in renewable energy, working with the KIICO Renewable Energy Subcommittee chaired by KenInvest. Other members of the subcommittee include Kenya Power and IFC. FIRM will also work closely with Treasury’s Public-Private Partnership Unit, ensuring that county investment transactions have legitimacy and government approval.

FIRM will continue to build on the successful pilot of the My Country My County program and place volunteers in all 27 FTF counties and inside COG to guarantee successful implementation of activities. FIRM will source volunteers based on the county's request. The chosen individual will be placed inside the county after FIRM provides training. Where FIRM is working with a county on developing a strategy- level document, that volunteer will assist FIRM and the county on the development process. If a Strategic Investment Plan is already in place, the volunteer will support implementation of the plan, leading to creation of a County Investment Portfolio. Each county's human resource department will assign the volunteer a counterpart/ mentor inside the county to whom the volunteer will report. To ensure that their workplace is supportive of their needs and that they are adding value to county operations, volunteers send FIRM weekly reports, and they are monitored and visited on site by FIRM.

SMALLHOLDER AND VALUE CHAIN AGRICULTURAL FINANCE

The majority of Kenya's smallholder farmers lack access finance that would unlock their economic potential and help them escape the never-ending cycle of poverty. There are many reasons for this lack of finance, not least of which is tied to poor product offering and usurious interest rates (sometimes as high as 50 percent) by Kenyan bank and non-bank financial institutions and service providers.

FIRM's approach is to seek innovation that has the opportunity to disrupt the financial industry in Kenya in order to truly serve smallholder farmers in rural areas with financial services that are convenient, affordable, accessible, and safe. Our thinking and aspirations are fully aligned with Credit Factory, a new technology start-up designed to commoditize finance for farmers, making money low-cost and customized. Credit Factory:

- Offers low-cost loans at market rates (8 percent per annum reducing).
- Puts the needs of farmers first by customizing loans to meet their needs and growing seasons.
- Focuses on rural outreach and expansion where there is significant opportunity.
- Leverages information technology to reach remote rural areas and reduce costs.
- Develops farmers' capacity by providing them with financial literacy training.
- Ensures that farmers receive crop management training from its partner agriculture-extension providers.

In Credit Factory's recently concluded pilot, it disbursed 1,500 customized loans to smallholder farmers, with an average loan size of $500. The majority of these farmers had never received a loan, because prices offered by financial institutions were too high and the products did not fit their needs. Incredibly, 98 percent of the farmers repaid their loans on time. The success of the pilot has proved their thesis true—that poor farmers will take and repay loans if the interest rate is commercial, but reasonable and if the product offering suits their needs and the needs of the financial institution. The success of the pilot has led to a verbal commitment from Kiva for financial partnership. The Credit Factory also received $800,000 in free licensing from Salesforce to access and use their customer relationship management technology. Others (donors, patient capital investors, foundations) are interested in what Credit Factory seeks to achieve in the agricultural sector even though its projected breakeven is further out on the time horizon—7 to 10 years. FIRM will continue providing Credit Factory with capacity building and technical assistance, as required. Credit Factory has not yet launched a formal fundraising campaign.

2016 Key Initiatives

To customize products and reduce pricing for smallholder farmers, FIRM will expand its work with rural-based cooperatives and SACCOs—community institutions closer to their clientele that have a vested interest to develop their local economies. In this effort, FIRM will partner with KAVES to identify farmers and other points of value addition that require access to financial services. We will use our partnership with KAVES to strengthen our already strong relationship with county-level ministry of agriculture personnel to enhance interaction between FTF agriculture commodities and financial services. The project will also work closely with KUSCCO and Oiko Credit, ensuring that SACCO clientele are sufficiently capitalized via DCA-covered loans so that they can on-lend and channel finance to KAVES agricultural value chains.

FIRM will continue to provide technical support and capacity building to Credit Factory and we will broker a partnership with KAVES. Credit Factory has a partnership with Farm Concern International, a long-time service provider to the former USAID activity Kenya Horticulture Competitiveness Program and KAVES. Credit Factory continues to recycle repayments into new loans in its current area of operations. FIRM will support the enterprise to implement a fundraising plan to grow its operations to support KAVES-assisted value chains since one of its major constraints for sound expansion throughout Kenya, and FTF zones in particular, is access to capital for on- lending. Credit Factory looks forward to deepening its partnership with other USAID activities beyond FIRM.

FIRM's strategic shift to more rural-based partnerships, in particular with cooperatives and SACCOs, will result in increased client numbers, but lower aggregate loan disbursement values, an important tradeoff.

Action Plan: Coordinating with KAVES

We will begin working with the counties where we have an existing partnership and to expand into the five newer counties. Gathering information on KAVES activities (value chains supported in each county, the number of farmers per value chain, etc.) will be our first task. We plan to complete that action item by the end of September 2015 and then engage our current county partners simultaneously, and together with KAVES, since we have embedded volunteers in each of those counties. In addition, each country partner is managed by one of FIRM's partnership specialists. With information from KAVES, we will implement the following actions:

- Conduct 30 value chain assessments for finance (three in 10 counties and one for each major commodity in dairy, horticulture and dairy) for KAVES value chains using FIRM's methodology that we pioneered in the Kenya's dairy value chain. We will simultaneously begin assessments in each of the five counties where we have current partnerships. We will complete the first 15 assessments in the first quarter of operations. As we create new partnerships, we will begin those assessments and we will plan to complete the next 15 the second quarter of operations.
- Design 30 financing models for each KAVES commodity assessed and customize financial product(s) for each KAVES commodity assessed. We will complete this task alongside the preceding bullet outlined above and according to the same timing.
- Sign 10 partnership agreements (MOUs) with financial institutions to finance KAVES commodities using the products designed. We will target signing these MOUs according to the timing outlined in bullets one and two above. Currently, we're supporting approximately 70 financial institutions. As we continue our push into counties, we'll uncover more community-based institutions focused on financing agriculture. We'll work with them since they are generally more attuned to the needs of their constituents and we'll also try to link them with Oiko Credit to bolster their liquidity for on-lending.
- Facilitate finance into the KAVES value chain through our financial intermediary partnerships. We anticipate that the first series of finance, insurance and savings products will be delivered to KAVES smallholder clientele late second quarter in our first five counties. The second wave of finance from our second five counties will commence late third quarter calendar year 2016.

ENERGY AND WASH INVESTMENT FACILITATION

The project's partnership with BfA has facilitated a number of DCA-backed loans into the water sector through K-Rep Bank and HF Group. Furthermore, to realize universal access to water by 2030, sector investments are estimated at approximately $14 billion against Kenyan forecasted budget allotments of $6.2 billion, per the National Water Master Plan 2013. The resource allocation to the sector is not sufficient to achieve the required investment forecasts to develop and transform the sector. The Water Services Regulatory Board, therefore, emphasizes the need to attract private sector funding and improve the self-financing capacities of water service providers (WSPs) to bridge the financing gap.

WASH investment planning with county governments is critically important. The water sector, in particular, presents excellent opportunities for targeted and high-impact investments. This is due to a sector-wide commitment to maintaining the gains of the Water Act 2002 reforms as part of the transition to devolved government. The 2002 Act created a legal and institutional framework that established semi-autonomous WSPs that were mandated to integrate business practices into their operations. The Act created new governance standards and a system of reporting and accountability to create more efficient, affordable, and sustainable water service delivery.

This structured regulatory and policy environment has promoted good business practices and enabled sector innovations that include:

- The USAID DCA guarantee for water financing with K-Rep Bank, HF Group, and KCB.
- The USAID Sustainable Water and Sanitation in Africa (SUWASA) program in Kenya, which successfully supported WSPs to use commercial financing for investments.
- The Water Services Trust Fund results-based aid program to incentivize commercial borrowing.
- FIRM's work that aligns county government County Integrated Development Plans with new strategic investment plans with implementing partners, donors, and investors.

Over the past 12 months, FIRM has provided tailored WASH support to county governments in Bomet, Meru, and Taita Taveta. This work has resulted in a Bomet county water investment strategy, development of five-year strategic plans with two county WSPs, corporate governance training to support devolution, adoption of gender equality mainstreaming policies, and production of $6 million in WASH investment proposals that have already resulted in funding of $1.2 million for WASH investments in these counties backed by USAID DCA loan guarantees.

2016 Key Initiatives

To facilitate finance and investment into the critical energy and WASH sectors, FIRM will partner with VEL and BfA. FIRM has successfully worked with both entities to structure transactions and provide capacity to energy project sponsors and water companies, municipalities, and county governments. While VEL and BfA will serve as FIRM's primary partners to develop the energy and WASH sectors, other opportunities will be pursued outside these key relationships with critical industry actors, including: EATIH, KUSCCO, Oiko Credit, Stima SACCO, KenInvest, IFC, Kenya Power, KEREA, ERC, the Ministry of Energy, and KAM. Below we outline our key initiatives for each sector.

Energy

Expansion into additional counties will yield a much larger energy portfolio. FIRM intends to continue building out energy asset maps in its current and future county partners. Four hydro projects and one wind opportunity, identified on the Energy Asset Map developed by FIRM, have already received commitments from the private sector. For example, Kenya Tea Development Authority (KTDA) has committed to finance and build these power plants to power their operations. Gulf Power recently signed a memorandum of understanding with the Meru County Investment and Development Corporation to develop a 100 MW wind project with the county. Under the extension, VEL will meet with Gulf Power to discuss the possibility of serving as the project's transaction advisor, offering resources provided by USAID through FIRM and the Overseas Private Investment Corporation (OPIC). OPIC has indicated that should VEL serve as a transaction advisor on any energy deal, then the American context threshold will be met, and OPIC's financing window will be availed to the sponsor.

Working with VEL over the past two years, FIRM has learned that in order to finance these small- and medium-scale renewable energy transactions—particularly in the case of investments with high economic returns, but where, for a variety of reasons, commercial viability requires additional government investment—viability gap financing is mandatory and such financing mechanisms play a key "crowding in" role for private sector investment. Project sponsors are either unwilling or unable to pay for a multitude of assessments, studies, and designs required to move investments to financial close.

Therefore, much of Kenya's core small- and medium-scale energy infrastructure will continue to require substantial public sector investment over the coming phase of development. The capital cost and revenue structures of many energy infrastructure developments will preclude wholly commercial financing solutions, but do not need to exclude private sector investment and expertise, provided the commercial "viability gap" can be closed.

To address these gaps, various site-specific analyses, surveys, and design work must be completed, including topographic surveys, resource assessments, geotechnical surveys, grid connection studies, engineering designs, and environmental and social impact assessments. Project sponsors are sometimes able and/or willing to support a few of these required activities; developers are rarely, however, able and/or willing to provide or secure funding for each mandatory activity. Without the full range of plans, assessments, and studies, subsequent project advisory services and structured financing cannot be completed. These activities are costly to underwrite, and the Government of Kenya recently increased rates charged by these third-party consultants, further increasing project development costs for sponsors and USAID/Kenya.

Rather than continuing to outsource these activities to third-party consultants, FIRM will build the capacities and capabilities inside VEL to undertake these critical functions on its own. Lessons-learned from the development of the Facelift wind power project demonstrate the importance of high-quality engineering services as part of transaction advisory services. Under the extension, VEL will hire another three full-time engineers. With this growth, FIRM and in particular, the Chief-of-Party, Mr. Rostal, serves as a management consultant and advisor to

VEL's Managing Director, Mr. Kyle Denning. Mr. Denning is a 29-year old entrepreneur. As VEL expands, other FIRM personnel will work with VEL to ensure that the company has proper systems and controls in place to manage growth and regulatory compliance. Under the extension, we will continue to provide VEL with these consulting services and we will also work with VEL so that they are compliant with USAID contracting requirements.

This will significantly reduce the cost to the U.S. Government, as demonstrated in Exhibit 2. VEL will treat this support as a public good (outlined and agreed upon in the subcontract with VEL); and should USAID require VEL's services on other transactions outside VEL's pipeline, those services will be delivered to USAID gratis. The cost savings will dramatically increase as VEL works through it growing pipeline of prioritized energy transactions.

FIRM will explore a partnership with Power Africa, modeled on our relationship with USAID's Office of Development Credit in Washington and USAID/Kenya covering DCA loan guarantees. Recently, we have reached out to the Power Africa representative in Kenya, Mr. Stephen Meyer, and we have provided him with detailed information on our prioritized transactions. We have also invited him to an important GoK working group on energy led by KenInvest and we have brokered a relationship for him with KEREA. We are also providing information on our energy pipeline to another Power Africa representation, Mr. Andrew Mearns.

WASH

FIRM will continue to partner with BfA to support Bomet, Meru, and Taita Taveta counties on WASH investment plans and the origination, analysis, and structuring of investment proposals. We will also provide tailored WASH investment planning support to other priority counties selected and approved by USAID, which will include: 1) County Integrated Development Plan reviews and development of county investment strategy documents; 2) county water asset maps (similar to energy asset maps) and planning for water investment support to specific entities; and 3) a report to county officials on findings and recommendations for an implementation support plan.

The WASH assessment will inform implementation of county-wide strategy documents, assist counties to develop and monitor WASH development goals, and identify opportunities for public and private sector engagement needed to improve service delivery to consumers.

FIRM's partnership with BfA will complement and build on USAID/Kenya's other WASH initiatives in these counties, particularly KIWASH in Kakamega, Kisumu, and Migori counties; the Kenya Arid Lands Disaster Risk Reduction program in Marsabit; AHADI; and SUWASA in Kisumu and Meru. FIRM and BfA are already in discussions with the implementers of these programs and have identified areas of partnership. Under the extension, FIRM will finance an effort by BfA to establish detailed mechanisms to underpin a DCA guarantee for a county government bond similar to what was recently accomplished with the City of Dakar in Senegal by USAID. We will also pursue a unique opportunity to link USAID's DCA guarantee with a WASH initiative financed by World Bank and the Dutch government.

Recently, FIRM contracted BfA to develop a methodology to track beneficiary information beyond the DCA loan to the community-based organization (CBO), water company, or municipality. This information is often referred to as "additionality" and is often difficult and time consuming to track. During the extension period, we will track and report on this information at the county and city levels. BfA reported information on each loan made by K-Rep and HF Group dating back to 2009. We have forecasted actual data from 2009 through September 2015, with impressive outputs (see text box below).

We have acquired additional information not outlined above, and with BfA we will further analyze and report on our comprehensive findings and results in 2016. Moreover, increasing partnerships with counties, either through consulting and or DCA guarantees, will boost the results of our "additionality" in the WASH sector.

Action Plan: Coordination with KIWASH

FIRM offers a tailored menu of investment support options in the WASH area, including County Government strategic investment plan development, market assessments, five-year strategic plan development with WSPs, governance and gender training, funding linkages and project proposal development for financial structuring. In the three counties of overlap with KIWASH, FIRM will focus on countywide strategies and opportunities that will provide the foundation upon which KIWASH can translate county strategies into implementation on the ground. The actions that FIRM will undertake include the following:

- County WASH strategy analysis, including (1) an analysis of the county integrated development plan, strategy documents, partnerships, current initiatives, and committed and proposed funding activities, and (2) a review and validation of data on licensed WSPs in the county, including Water Services Regulatory Board Impact Report data, water infrastructure maps, etc. These activities will frame the investment environment and strategic options.
- County strategy development, including a collaborative workshop with county officials and other stakeholders to review and validate the strategy analysis and solicit input, as well as identify investment-related factors. This work will also include identifying related and complementary investments in the county by Water Services Boards, Government of Kenya agencies, philanthropic organizations, multilateral and bilateral development agencies, academic institutions, and others.
- County WASH Investment Plan development, including the development of a water investment plan identifying short to medium term investments that can have an immediate impact on water access. A resource mobilization strategy for priority investments will also be developed with the county government. FIRM will also support the county government in understanding the need for gender inclusion in water and sanitation activities by reviewing institutional policies to identify gender inequalities; and assessing capacity gaps and training needs for mainstreaming gender.

From these activities, USAID FIRM will deliver a county water investment plan that provides a WASH investment plan with strategic analysis and decisions, stakeholder mapping, project recommendations, partnership opportunities, financing opportunities and links to resources for short to medium term investments. Under the devolved county government, this plan and strategy framework will provide focus and vision, and will allow KIWASH to more effectively integrate its work on the ground with a countywide strategy. The work and deliverables will be itemized in our final workplan with specific targets and concrete expected dates for completion.

We have identified the following illustrative actions as potential deliverables.

- Bomet county – signed agreement for a KES 20 million (~USD 200,000) Non-Revenue Water (NRW) investment proposal and TA/funding agreement with a Dutch program supporting these investments.
- Homa Bay county – financing proposal concept documents developed for ~5 WASH projects; project marketing document tailored to identified donors and partners that highlights the strategic investment plan document and priority WASH investments; meetings with potential donors and partners to facilitate funding proposals and targeting of WASH projects that meet donor criteria and the county strategic investment plan; agreements with donors to support county WASH investments.
- Taita Taveta – agreement with donor to support county WASH investments; monitoring and evaluation report on donor/partner work on WASH project implementation in the county, including tracking of beneficiary outcomes and other contributions by the county, community and WSP; development of a WSP five-year strategic plan; delivery of a WSP Board of Directors governance training.
- Kakamega, Kisumu, Marsabit, Migori, Uasin Gishu – Five county water investment plans that provide a WASH investment plan with strategic analysis and decisions, stakeholder mapping, project recommendations, partnership opportunities, financing opportunities and links to resources for short to medium term investments; two project business plans developed for submission to donors, partners and/or financiers.

CAPACITY DEVELOPMENT FOR YYC SACCOs

FIRM has a long record of supporting and improving the performance of SACCOs in Kenya. During FIRM's first year, the project provided capacity building to a number of dairy CBOs.

FIRM supported the conversion of one CBO into a cooperative (Nyala dairy) and then FIRM helped build a new entity, Nyala SACCO, to finance the dairy and serve its membership. Likewise, FIRM helped commercialize tea tree farming on behalf of the Kenya Horticulture Competitiveness Project and later, after farmers were receiving customized finance to buy seedlings, FIRM helped the farmers create a Kenya Organic Oils Farmer's Association (KOOFA) and KOOFA SACCO to better serve the needs of its membership. These are just two of the many SACCO interventions FIRM has successfully undertaken.

2016 Key Initiatives

Supporting YYC SACCOs presents FIRM with an exciting new challenge. As outlined in the Staff Requirements section, FIRM will repurpose Deputy Chief of Party (DCOP) Gabriel Kimweli to initially spearhead this effort. Mr. Kimweli is FIRM's most seasoned and experienced financial services and business consultant. FIRM will conduct a capacity assessment of a sample of the 30 YYC SACCOs, specifically those institutions operating in FTF counties where KAVES has current interventions in place. Based on the findings from the assessment, FIRM will design a multi-year customized capacity building and training plan, coordinating closely with many of our partners (KUSCCO, Sacco Societies Regulatory Authority, county government, and other stakeholders) for all 30 YYC SACCOs. Together with our partners, we will begin implementing our comprehensive plan to enhance youth inclusion in economic growth during the extension period.

DEVELOPMENT CREDIT AUTHORITY (DCA)

In Kenya, DAI has been a long-time DCA implementing partner, and under FIRM's stewardship, the DCA portfolio has grown into one of USAID's most diverse and robust in the world. Currently, FIRM manages a total of 18 facilities, covering a range of financial institutions from Apex organizations, SACCOs, nongovernmental organization microfinance institutions (MFIs), MFI banks, and full-service commercial banks. This fiscal year, USAID Kenya will add three new facilities to its portfolio, bringing the total number of facilities to 21, with a combined value of approximately $140 million.

2016 Key Initiatives

Under the one-year extension, FIRM will continue to oversee and manage the DCA portfolio, working closely with USAID/Washington's Office of Development Credit (ODC) and USAID/Kenya. FIRM's continued support to USAID will focus on origination, closing, partner aftercare, and reporting.

The area requiring the most time and attention is partner aftercare, especially since Kenya's DCA transactions are moving into products where financial services have long struggled to succeed (agriculture) and into new market segments where credit has rarely been extended (WASH and small- and medium-scale energy). In the current portfolio, four facilities will require FIRM to provide significant aftercare during the extension period to support improved utilization. Additionally, three new facilities scheduled for this fiscal year will also require significant aftercare to ensure successful utilization. Exhibit 3 outlines how FIRM will support current and upcoming facilities in aftercare.

BUDGET

[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
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[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]

PERSONNEL

FIRM's reduced budget for 2016 forced the project to downsize its personnel. FIRM eliminated the following positions:

- Three administrative assistants in the Operations Department.
- Two drivers in the Operations Department.
- Three M&E specialists in the Technical Services Department.
- One Partnership Specialist in the Technical Services Department.
- One Communications Specialist in the Technical Services Department.

FIRM's lead project accountant moved to KIWASH.

11 positions were eliminated from the project. If necessary, FIRM will use volunteers from its county program should additional support be required.

CLOSEDOWN

We will submit a closedown plan to USAID Kenya in February 2016.

ANNEX

Activity Indicators, 2011-2016

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 1: Improved Agricultural Productivity
- Indicator 4.5.2-11: Number of Food Security Private Enterprises (For Profit), Producer Organizations, Water User Associations, Women's Groups, Trade and Business Associations, and CBOs Receiving USG Assistance

2011-2015 LOP Goal: 1,300
2011-2015 Result: 1,505
2011-2015 Variance: 205 or 14%

2016 Goal: 250,000

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 3.1: Increased Household food Security and Resilience – Primarily for the Rural Poor
- Indicator 4.5.2-13: Number of Rural Households Benefiting Directly from USG Interventions

2011-2015 LOP Goal: 2,125,000
2011-2015 Result: 2,348,592
2011-2015 Variance: 223,592 or 11%

2016 Goal: 250,000

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 3.1.3: Expanded and Diversified Farm-Level Production and Livelihoods
- Indicator 4.5.2-5: Number of Farmers and Others Who Have Applied Improved Technologies or Management Practices as a Result of USG Assistance

2011-2015 LOP Goal: 584,000
2011-2015 Result: 1,658,147
2011-2015 Variance: 1,074,147 or 184%

2016 Goal: 279,900

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 3.1: Increased Resilience of Vulnerable Communities and Households
- Indicator 4.5.2-25: Number of People with a Savings Account or Insurance Policy as a Result of USG Assistance

2011-2015 LOP Goal: 250,000
2011-2015 Result: 1,957,552
2011-2015 Variance: 1,707,552 or 683%

2016 Goal: 196,000

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 1: Improved Agricultural Productivity
- Indicator 4.5.2-27: Number of Members of Producer Organizations and CBOs Receiving USG Assistance

2011-2015 LOP Goal: 750,000
2011-2015 Result: 1,480,022
2011-2015 Variance: 730,022 or 51%

2016 Goal: 100,000

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 3.1.1: Access to Financial Services Increased for Historically Disadvantaged Populations
- Indicator 4.5.2-29: Value of Agriculture and Rural Loans

2011-2015 LOP Goal: $1,350,000,000
2011-2015 Result: $1,068,000,000
2011-2015 Variance: ($282,000,000) or (21%)

2016 Goal: $90,000,000

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 3.3.1: Access to Financial Services Increased for Historically Disadvantaged Populations
- Indicator 4.5.2-30: Number of MSMEs, Including Farmers, Receiving USG Assistance to Access Loans

2011-2015 LOP Goal: 750,000
2011-2015 Result: 1,770,511
2011-2015 Variance: 1,021,511 or 236%

2016 Goal: 150,000

- DO3: Inclusive, Market-Driven, Environmentally Sustainable Economic Growth
- IR 3.4.2: Effective Delivery of Agriculture and Business Support Services in Target Counties
- Indicator 4.5.2-37: Number of MSMEs, including farmers, Receiving BDS from USG Assisted Sources

2011-2015 LOP Goal: 183
2011-2015 Result: 724
2011-2015 Variance: 541 or 1,114%