KENYA ACCESS TO RURAL FINANCE

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INTRODUCTION

This quarterly report for the Kenya Access to Rural Finance (KARF) program covers the period January 1 through March 30, 2009.

KARF, Inspired Associates and USAID Uganda's LEAD program signed a Memo of Understanding (MOU) to facilitate a cross-border maize finance scheme aimed at financing maize export from Uganda into Kenya as a means to improve the food security situation. The transaction was meant to take place during the reporting period for a pilot of 150 metric tons. Unfortunately, the government of Kenya stepped into the maize market at the eleventh hour and set the price below market. Unga Millers, the purchaser in Kenya, backed out of the transaction, not wanting to lose money on the import scheme. In addition, the World Food Program began buying maize at above market prices in Uganda which further scuttled the transaction.

KARF conducted an agriculture value chain finance seminar for financiers and donors involved in the sector. The objectives of the seminar were threefold: (1) understand the relationships between buyers and sellers with respect to how each actor maximizes profits, how financial institutions lock-in credit recovery, how financial institutions minimize risk, how finance helps businesses enhance efficiency, and how financing improves development impact; (2) learn the tools of financial value chain analysis; and, (3) broadly understand the role of product development in prudently financing value chain opportunities. Over fifteen financial institutions attended the seminar and each one prioritized a list of value chain finance opportunities for their individual institution. Dairy was identified as the most important opportunity by a wide majority of financiers. During the upcoming quarter, KARF will conduct a detailed analysis of the dairy sector for banks, MFIs and donors.

KARF continued its consultancy with Ideal Matunda. During the reporting period, a suitable factory for the processing and storage of avocadoes was identified and KARF assisted in structuring and negotiating the terms of the facilities lease, in addition to providing similar support with the lease of processing equipment. Contracts with buyers in Greece and South Africa for the processed crude avocado oil were also negotiated with KARF assistance. The harvest and purchase of the commodity is slated to begin in early June 2009.

Using the two papers on Lake Victoria fish that were completed the following quarter, KARF began planning additional work in the sector, the omena value chain specifically. Scopes of Work (SOWs) were prepared for this engagement and submitted to USAID Kenya for approval.

KARF completed its revisions and finalized the Peace Building and Social Reconstruction training materials and a final curriculum for the Association of Microfinance Institutions (AMFI) and Financial Services Deepening Kenya (FSD). KARF also finalized work on a Trainer-of-Trainers (TOT) program for AMFI so that it could begin the delivery of a comprehensive and country-wide program on Phase III Peace Building and Social Reconstruction for its membership. Training on a pilot basis is expected to begin next quarter. KARF will not be involved in the training; KARF will, however, collaborate with AMFI and FSD to collect information on the outreach and impact of the activity.

Enumeration and data collection for the FinAccess National Survey 2009 was completed and analysis began. The report will be complete the second quarter of 2009 (June) for dissemination.

The DCA loan guarantees performed according to forecast and mid-year reporting was facilitated by KARF and entered into the USAID's Credit Reporting Database (CMS).

KARF met with the Central Bank of Kenya to discuss and refine their request for technical assistance and capacity building in new areas outside microfinance regulation and supervision. KARF helped broker research and the completion of a study financed by the Micro Enterprise Office of USAID Washington. The study was focused on Kenya credit bureaus and mobile banking. Research was completed during the quarter and the paper was finalized for publication.

IMPLEMENTATION CHRONOLOGY

January 2009

- KARF signs a Memorandum of Understanding (MOU) with USAID's Livelihoods and Enterprises for Agricultural Development (LEAD) Project in Uganda to support producer organizations and Stanbic Bank in order to facilitate a cross-border maize finance scheme and trade strategy.
- KARF helps secure funding for research and the completion of a study financed by the Micro Enterprise Office of USAID Washington on linking mobile banking platforms to credit bureaus.

February 2009

- KARF and FSD found the Financial Sector Donor Working Group (FSDWG) and hold its first meeting to discuss the functionality, purpose and objectives of the group.
- KARF begins planning additional work in the fish sector and develops SOWs that were submitted to USAID Kenya for approval.
- KARF assists Ideal Matunda to locate a suitable factory for the processing and storage of avocadoes and helps with structuring and negotiating the terms of the facilities lease, in addition to providing similar support with the lease of processing equipment.
- KARF supports Ideal Matunda to source buyers in Greece and South Africa for processed crude avocado oil and negotiate terms.

March 2009

- KARF conducts an agriculture value chain finance seminar for financiers and donors involved in the sector.
- KARF completes its revisions of and finalizes the Peace Building and Social Reconstruction training materials and a final curriculum for the Association of Microfinance Institutions (AMFI) and Financial Services Deepening Kenya (FSD).
- KARF finalizes work on a Trainer-of-Trainers (TOT) program for AMFI so that it can begin the delivery of a comprehensive and country-wide program on Phase III Peace Building and Social Reconstruction for its membership.
- The study on linking mobile banking platforms to credit bureaus is completed.

RURAL FINANCE

Cross Border Maize Finance

Background

Kenya consumes over 3.2 million metric tons of maize annually while its production is on the order of 2.9 million metric tons. The 300,000 metric ton shortfall is normally compensated by importing maize from more developed and/or private-sector oriented markets. Uganda, on the other hand, produces an exportable surplus of 250,000 metric tons annually, creating an important opportunity for regional export and import from a surplus to a deficit country. With the correct incentives in place, Ugandan smallholder farmers can feasibly produce an additional 50,000 metric tons necessary to meet unmet demand in Kenya.

Since Uganda is a surplus producer, and with Kenya unable to internally meet supply into the foreseeable future, the cost of production, transport and other related expenses created the conditions and incentives to enable cross-border trade at reasonable retail prices for consumers in Kenya – and adequate profits for all actors in the value chain. Likewise, the transaction sought to obviate or, at a minimum, lessen a critical food security issue in Kenya.

In November 2008, KARF and INSPIRED Associates in Uganda conceptualized and developed a cross-border maize finance scheme and trade strategy, accepted by Kenyan millers, Ugandan producer organizations and regional bankers. The objectives of the transaction were supported by the following themes:

- Integrate supply and demand on a regional basis with appropriate financing mechanisms, therefore improving market efficiency and lessoning food security issues in Kenya;

- Create efficiencies based on untapped comparative "regional" advantages as opposed to an ongoing, and often eleventh hour, reliance on international procurement from the Americas and South Africa;

- Sustainably alter buyer-seller relationships needed to improve the overall performance of staple food production, processing, distribution and sales.

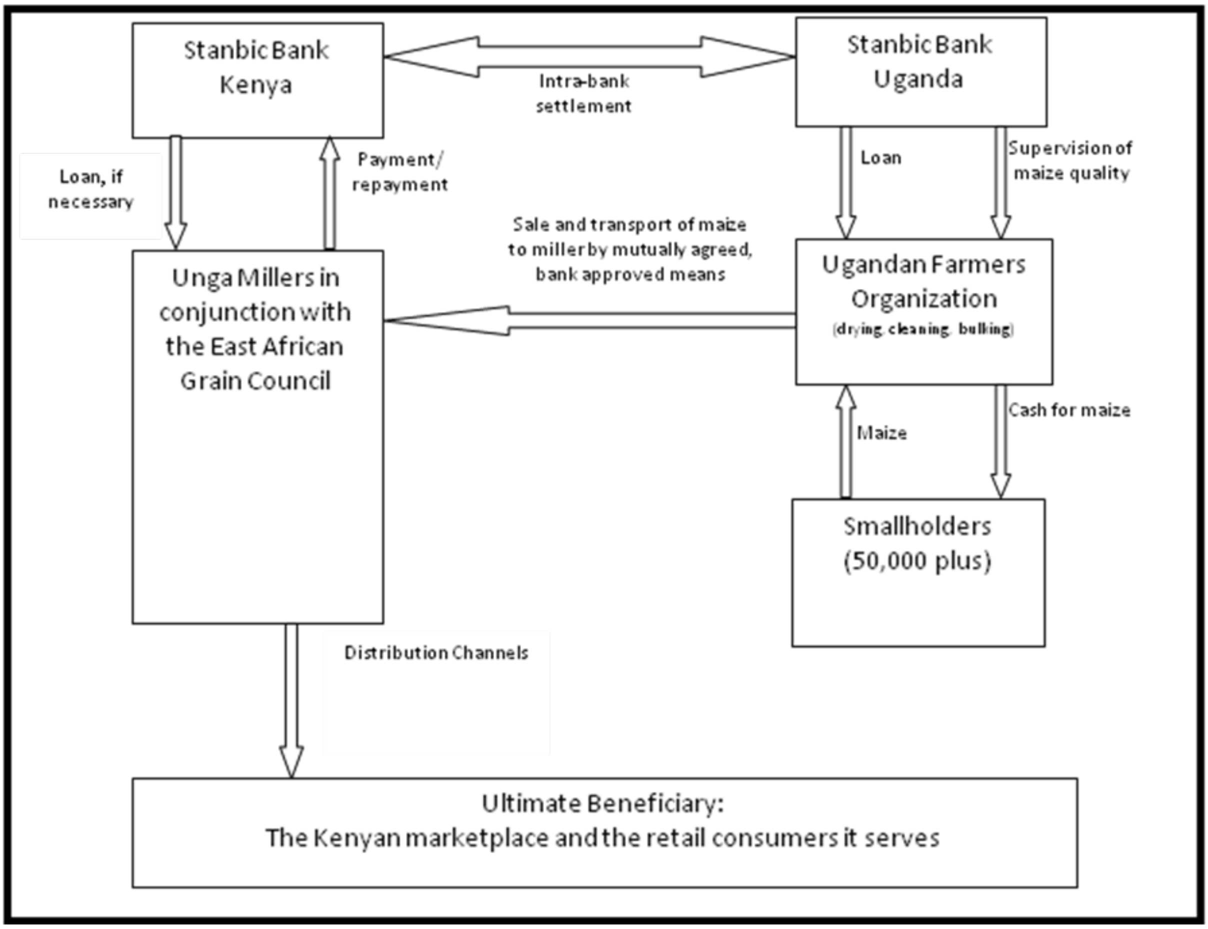
In preparation for a pilot, major grain millers and the East African Grain Council were contacted in Kenya, in addition to bankers with operations in both countries. In order to successfully underpin the transaction, a single market marker (bank) was required to finance production in Uganda and resolve financial settlement issues in Kenya and Uganda.

The Concept

The basic design of the transaction allowed Ugandan farmer organizations in Uganda to access an overdraft facility denominated in US Dollars (USD) with the deliverable quantity of maize set at 360 metric tons (eight containers). The Uganda branch of Stanbic Bank agreed to advance working capital needed to purchase, clean, pack, transport and export each container. The Kenyan buyer, Unga Millers agreed to receive the shipments and settle transactions through the Kenya Stanbic branch. Afterwards, Stanbic agreed to manage the internal mechanics of clearing the financial flows from the cross-border deal. The interest rate was priced at 9 percent per annum for the following reasons: the facility was pegged to the USD; the duration of the financing was short term (approximately a week); and the risk from foreign exchange movement was minimal.

To improve the likelihood of success, donor programs in both Kenya and Uganda agreed to collaborate on helping Ugandan farmer organizations manage operations and guarantee bank finance in both countries, thereby eliminating credit risk on the pilot.

The Transaction Scheme



Buy-in

Unga, Kenya's largest miller, agreed to purchase 360 metric tons of Ugandan maize from Ugandan producers at the prevailing market price with cash settlement paid upon receipt of the containers (after inspection). The Kapchorwa Commercial Farmers Association (KACOFA) and Build Africa in Masindi (two of Uganda's highest performing producer organizations with warehouses, cleaning and drying facilities) agreed to sell 180 metric tons of maize each. Stanbic Bank, with operations in Eldoret, Kenya (the location of Unga's mills), Mbale, Uganda (close to KACOFA) and Masindi, Uganda (close to Build Africa) agreed to finance the deal in USD.

USAID's Livelihoods and Enterprises for Agricultural Development (LEAD) Project in Uganda agreed by Memorandum of Understanding with KARF in Kenya to support the producer organizations and Stanbic. Danida's Agricultural Loan Guarantee Company agreed to assume fifty percent of Stanbic's risk by guaranteeing the facility. The entire concept was scheduled to occur between January and February 2009 – with the maize harvest underway in Uganda when prices are low point and exportable volumes adequate.

Price Movements

With all actors locked in, including donor-funded programs on both sides of the border, the transaction appeared low risk and entirely actionable with success seemingly within reach. However, the impact of the actions by the Government of Kenya and the World Food Program (WFP) forced suspension of the pilot.

In December 2008, the Government of Kenya intervened in the maize market by setting a price for the purchase of raw maize at approximately 230 USD per metric ton in an attempt to establish a fixed retail price for consumers of maize meal. For the GoK, price setting was a rational response to the international energy crisis, problems in global hedge markets, follow-on effects from post-election violence, all of which conspired to elevate retail maize prices. Maize is Kenya's single important staple food and a politically sensitive commodity. With an ongoing supply deficit, ordinary Kenyans experienced higher retail prices caused by shortages, placing significant stress on limited family budgets.

Likewise, the operational (in)efficiency of the port of Mombasa, in combination with substantial demand pulls from southern Sudan for Ugandan maize, WFP experienced a pipeline deficit and, as a result, it entered and distorted the Ugandan maize market by offering a single producer organization import parity prices at approximately 365 USD per metric ton for 260 metric tons of maize (establishing the real price at roughly 395 USD per metric ton) when the market had been at 260 USD per metric ton delivered to Kampala (setting the real price at roughly 230 USD per metric ton). In short, the intervention by WFP increased the short-term price of maize from 165 USD per metric ton, or 52% above the current market price. Build Africa sold its maize to WFP.

Results

Price fixing by the GoK, in combination with the entry of WFP into the market (which sent immediate price signals to all producer organizations in Uganda that hyper profits were on offer), forced the cancelation of the private-sector driven cross-border trade transaction. In Kenya, Unga ultimately shut down its milling operation because it was unable to source maize from the marketplace (local, regional or international) at prices below the ceiling imposed by the government[1].

When the GoK entered the market, the region's largest miller, Unga, balked at buying above and selling below market prices. The purchase price set by the private sector actors before the price fixing was 280 USD per metric ton in Eldoret, Kenya (230 plus 50 USD). Unga was unwilling to lose 50 USD as a result of the new ceiling price, even though the likelihood of sourcing maize was almost non-existent as a result of WFP purchasing above market prices.

[1] In fact Unga took an additional loss because it had raw maize in stock that it had paid over $230 per ton for and now it was forced to sell it at a depressed wholesale price as mandated by the Kenyan government.

In a thin market with limited buyers and price signals offering a 52% premium, as happened in Uganda with WFP and Build Africa, the entire market reacts. The purchase by WFP encouraged other producer organizations (e.g. KACOFA) to report upward price movements to its farmer membership and other buyers that the maize sales prices had substantially increased to a hopeful 420 USD per metric ton. KACOFA extrapolated: if the market had gone from $230 to $395 in one day, what will forestall prices from moving upward to 420 USD?

It is highly likely, ironically, that this temporary alignment of events, Kenya fixing a low price and WFP Uganda offering a high price, actually caused maize from food deficit Kenya to flow to food surplus Uganda through the porous border around Mount Elgon. It is even more unfortunate that Kenyan maize going into Uganda might have been purchased by WFP as food relief for Kenya.

Analysis

Clearly, the right ingredients were in place for a private-sector transaction based on comparative advantage to take place between Ugandan exporting producers and Kenyan importing millers. The region's largest bank understood the simple logic and attendant value proposition by agreeing to finance the transaction. Donor programs devoted to private sector agribusiness and financial sector development (USAID Kenya, USAID Uganda and Danida Uganda) endorsed and supported the deal. Unmitigated risks led by actions of the Government of Kenya and the market distorting purchasing style of WFP soured the deal. Within weeks of the maize transaction falling apart, the GoK lifted its price ceiling and the maize market in Uganda went back to its previous price level of $230 per metric ton (and after surplus maize had been procured by WFP).

Kenya's policy of fixing a price ceiling in order to protect poor consumers from high food prices ultimately reduced the supply and increased the retail price. Ordinary Kenyans were forced to pay higher prices for milled maize, the national staple. The objective of building a sustainable private-sector market for maize based on regional supply and demand imbalances, a workable African solution, was forestalled and a precedent for government intervention with no clear or positive result was established.

Moreover, signals were sent to producers in Uganda, insofar as with the maize deficit set to continue in Kenya and possibly grow, actors external to private-sector market forces will upwardly influence maize prices, further reducing chances for regional exchanges and functioning commodity markets. In reality, WFP's local purchase activity sent a signal to the Uganda markets to hold maize for a better price. Even though the WFP purchase was small, in a market with so few qualified buyers, the 52% premium signal was huge and it impeded rational decisions of sellers in the market for weeks.

In both cases, the distortions impacting the supply and demand markets were made on the basis of humanitarian concerns. Kenya wanted to protect poor consumers; WFP wanted to feed IDPs and refugees. Nonetheless, a relatively simple, low-volume, transaction demonstrated the possibility for private-sector led engagement in a commodity market rife with exogenous influence. Unfortunately, market participants will hesitate to devote scarce resources as the next harvest season approaches to facilitate cross-border trade, and in particular, financial sector innovation in the important areas of agribusiness and trade will become increasingly difficult, at least in political commodities such as Kenyan maize.

Ultimately, demonstration of a concept that may well have led to meaningful structural change in staples food trade for the greater regional benefit of regional food security was forestalled.

Lessons Learned

Efforts in developing predictable, rationale and sustainable private-sector relationships are difficult while powerful actors directly influence in markets. In Kenya, the government essentially shut down the milling industry (and many of Kenya's largest millers critical to the nation's food security) with its short-term policy. Large millers, with significant size and scope, were unable to protect business operations from unpredictable and immediate government intervention. In Uganda, WFP rapidly entered the marketplace and sent a greatly elevated price signal that reverberated throughout the production and sales market, temporarily stifling sales. Commercial buyers, such as Uganda's largest consolidators, also suffered a price hike as a result of WFP's purchase.

As USAID carefully considers how to improve the positive evolution of regional and national commodity markets and food security, policy and advocacy at the highest levels are indispensible and critically important. The failure of this modest deal underscores the magnitude of obstacles encountered by the private sector when public actors interfere. This case study further highlights the negative implications exogenously forced upon a commodity market and the knock-on effects that impede donor intentions to improve market development and food security.

Agriculture Value Chain Finance Seminar

In March, KARF led a seminar on agriculture value chain finance. The seminar was designed to provide a compelling introduction to agriculture value chain finance and to identify market-driven opportunities for collaboration with financial institutions in value chain research, analysis, product development and implementation.

The seminar was attended by Equity Bank, Faulu, Fina Bank, Kenya Commercial Bank, K-Rep Bank, K-Rep Development Agency, Cooperative Bank of Kenya, Post Bank, Oiko Credit, KWFT and development partners, including ACDI/VOCA, the Coffee Development Fund, Farm Concern, Land O Lakes, USAID Kenya and FSD.

The seminar demystified agriculture finance by illustrating a value chain approach through which a traditional understanding was augmented with innovative, rigorous and quantitative analysis centered upon the business activities of principal and ancillary actors and their inter-dependencies and relationships. The objectives of the seminar were threefold:

1. Understand the relationships between buyers and sellers with respect to the manner in which each actor maximizes profits.
    - How financial institutions lock-in credit recovery
    - How financial institutions minimize risk
    - How finance helps businesses enhance efficiency
    - And, how finance improves development impact

2. Learn the tools of financial value chain analysis.

3. And, broadly understand the role of product development in prudently financing value chain opportunities.

The seminar utilized a lecture-based approach to educate participants on concepts and associated tools; group exercises were then used to analyze data from a case study on maize in Uganda. Throughout the seminar, questions and discussion were encouraged. Post seminar evaluations indicated that the material presented was both relevant and new. Participants indicated a high level of interest in moving concepts from the classroom into partnerships and actionable products.

Seminar Summary

Through an interactive approach using a PowerPoint presentation, introductory material was provided to seminar participants, ensuring everyone began on the same footing and base of knowledge. Participants had varied backgrounds as evidenced from their practice areas inside each institution. Once a common understanding of value chain analysis for financial services was reached, the presentation segued into more detailed information.

Overview of Value Chain Finance

The overview focused on providing information concerning the role of agriculture value chains within the context of agribusiness finance and analysis tools seen through a financial lens as opposed to traditional approaches (e.g. a subsector orientation). In this regard, relationships between all actors, both principal and ancillary, were clarified and expounded upon. In addition, a proprietary and innovative methodology pioneered by Inspired Associates was described. This methodology has successfully, in numerous settings, produced analytical outputs that identify opportunities for customized financial solutions within a broad range of value chains, while mitigating attendant risks. Drawing from data collected and analyzed in the sunflower value chain in Uganda, the methodology was anchored in a practical and real world experience that produced specific and actual results.

Emphasis was placed on the need for participants to gain a detailed understanding of the relationships between all actors in a value chain, the efficiencies and linkages in the chain, the profitability at each connection or intersection of actors in the value chain, and the size/scope of each business and the deal flow from each financial transaction. Each of these factors is extremely important to the process of structuring financial services that are compatible with maximizing profit and minimizing risk – prerequisites for sustainability and growth for all actors in the value chain, including those financing transactions.

Case Studies

Three case studies were presented during the seminar. The case studies introduced financial products that were implemented by several financial institutions. Even though the studies were produced outside Kenya, the methodology and relevant tools were applicable to the seminar audience. The two commodities – tea, dairy and maize – are crucial agriculture products in Kenya and either important for export or domestic consumption.

Tools

The presentation of appropriate tools focused on quantitative financial analysis necessary to develop profitable products and services. The emphasis was placed on thoroughly understanding: buyer-seller relationships, client (borrower) profitability, estimation of risk and high-return, low-risk financing strategies.

Analysis and Product Development

The formal presentation concluded with a numerical analysis of the maize value chain in Uganda. Analysis was underpinned by a detailed description of the tools used to examine and understand all aspects of a value chain necessary to drive out products and services for financial institutions. Participants were then armed with a detailed and comprehensive understanding of a systematic and practical approach to finance agribusiness within a value chain.

Group Work and Presentations

Following the presentation, participants were divided into three groups and given data on the maize value chain for further analysis and discussion of risks, mitigation strategies and appropriate financial products. Groups presented their individual findings; presentations were annexed in the final report on the seminar.

Evaluation

Further to group discussions and the presentation, participants were provided the opportunity to evaluate the seminar in writing, including its delivery effectiveness and to make recommendations on possible future activities on researching and developing agribusiness financial products for their institutions. A summary of the evaluation is included in Annex III to the seminar report, although the annex was excluded from distribution to a wide audience due to confidentiality restrictions.

Linking the Seminar to Action

From the evaluations, it was clear that each financial institution valued further training, assistance and support in value chain financing as well as specific product development. Several indicated the overall process was an immediate priority and requested that KARF, on the condition of confidentiality given the nature of Kenya's competitive financial industry, keep their requests private and restrict access to other institutions.

Broadly, KARF and its development partners will endeavor to satisfy the needs of financial partners – i.e. mainstreaming value chain finance into core business practices. The original concept note, outlined for the seminar, included the following activities:

- *Value chain analysis* for three participants from four institutions and seven days of formal training in value chain data collection and analysis, requiring teams to gather information from select commodities. Value chains will be chosen by the institutions themselves following the introductory seminar. The total number of trainees will be dependent upon availability of trainees. KARF trainers can realistically work with three individuals during the field portion of the assignment. Targeted trainees can include product development managers and loan officers with at least two years of experience.

Outputs from this exercise will include matrices detailing transactions points from input suppliers to the end market (wholesale or retail). Details covering each transaction point will converge on seller costs and margins, timing of transactions and annualized profit. From there, participants will prepare risk benefit analyzes of each transaction point necessary to quantify and understand high liquidity, short-term underfinanced lending opportunities that serve as the starting point for specialized product development.

- *Product development* for five days of formal training in financial product design, using data collected in the field. Training will cover: lending theory, qualified demand for finance, selecting bankable enterprises, lender capacity to supply credit, cash flow planning, risk mitigation measures and costs, lending procedures and costs, product marketing strategies and costs, interest rate determination, prototype product evaluation and decision making. Training will data value from Uganda on rice and tea for the provision of examples. Actual data collected by trainees in Kenya on a specific commodity will be used to develop product development exercises.

  Outputs from this exercise will yield customized prototype agribusiness loan products and strategies for field testing and rollout. A related and important output will, of course, include a skilled cadre of personnel positioned to undertake similar assignments, on their own, within each financial institution to support agribusiness finance.

- *Training follow-up* for two days with each financial institution participating in the training with credit managers, new product development managers, branch managers and loan officers.

  Outputs from this follow-up activity will include clarification of issues not fully understood, increased confidence of lenders through mentoring and ongoing support (when sought) to individuals within their respective institutions.

- *Manual development* will be provided if requested from KARF to develop specific written documentation. Outputs will include, for example, customized training/reference materials underpinned by field data and training ‘lessons learned’ from the activities detailed above.

Ideal Matunda

KARF continued its consultancy with Ideal Matunda. During the quarter, a suitable factory for the processing and storage of avocadoes was identified and KARF assisted in structuring and negotiating the terms of the facilities lease, in addition to providing similar support with the lease of processing equipment. Contracts with buyers in Greece and South Africa for the processed crude avocado oil were also negotiated with KARF assistance. The harvest and purchase of the commodity is slated to begin in early June 2009.

Lake Victoria Fish

During the quarter, KARF begin planning follow-on work in the Lake Victoria fish value chain for June 2009, following two recently completed studies.

Background

Kenya's fisheries resources are important sources of food, employment, and foreign exchange for the country. Driven by a 6% GDP growth rate in recent years and changing consumer habits, fish has become an increasingly important part of the Kenyan diet, both directly and indirectly (as a key feed ingredient for livestock and dairy). It is estimated that the fishing industry employs over 50,000 fishermen and women and another 800,000 people are engaged in fish processing and trade. In addition, fish generated US$50 million in total export earnings in 2006.

AMAP Financial Services Knowledge Generation Project and KARF jointly financed a study of the Kenya fisheries value chain. The study highlighted a number of key weaknesses standing in the way of a successful upgrading strategy needed to promote efficiency and build competitiveness.

The Study Found That

- Low literacy levels, an absence of a savings culture, and an overabundance of unbanked value chain actors whose household and business transactions are primarily financed with cash creates conditions where (1) the commercial finance sector (banks, MFIs, SACCOs) is severely underutilized and often completely bypassed, (2) individuals spend more than they save, and (3) the growth of the money supply is constricted and economic growth stunted.

- Financial infrastructure in the Lake Victoria area is weak. Informal trade finance is wide spread but inadequate, unreliable and highly expensive. Savings options are time consuming, costly and for fishermen/women, more than a boat ride away. As a result, fishermen/women have very limited banking experience.

- Both bullet points above perpetuate an interlocking and hard-to-break circle of cash transactions, limited geographic coverage by financial institutions, low levels of financial innovation, inadequate business opportunities for individuals, and stagnating economic growth rates for the region at large.

- Vertical power imbalances are due to well capitalized large traders who, by way of their actions, initiate a wave of high-cost supplier credit that ripples through the value chain, creating buyer dependency, which furthers a cycle of perpetual poverty and near exclusion from the formal financial sector.

- A wide variety of factors contribute to a growing HIV/AIDS prevalence rate in and around Lake Victoria (15.3% in Nyanza province). These factors include a high incidence of poverty, unequal bargaining, economic and inheritance positions between men and women, casual and transactional sexual practices perpetuated by times of sporadic high liquidity among fishermen and an influx of poor women looking to sell or transport fish, different cultural expectations about sexual partners (fishermen can have sex at random while women are required to have "beach husbands" to be assured a good supply of fish and other favors), negative attitudes toward condom use, limited male circumcision, etc.

- The omena value chain is dominated with supply from fisherwomen. Women are actively involved in fishing and drying omena but typically they operate in very poor hygienic conditions. Whether the omena is intended for feed or export markets, many buyers have expressed that omena must meet certain quality criteria related to, for example, the maximum percentage of foreign material.

The Planned Assignment will

- Identify how to increase economic opportunities, using financial services as a catalyst, for people working in the omena value chain, particularly infected or affected HIV/AIDS populations and youth.

- Distinguish which financial service providers can most effectively deliver suitable financial products and services to beach communities, and on a parallel track, determine whether a financial education campaign, as part of a successful financial product and service design process, will improve financial literacy in fishing communities and, therefore, the uptake of savings and asset creation.

- Conduct a household economic assessment on a sample of omena traders and processors, focusing on:
  - Income earning activities and opportunities
  - Daily time constraints broken down by age/gender and related coping strategies
  - Income and asset ownership distribution within families and groups and special challenges of female-headed households
  - Entry barriers to trading and processing
  - Local association(s) of people living with HIV/AIDs and potential for engagement or mainstreaming into other donor-financed programs or private sector opportunities
  - Potential overlap with the USAID-funded K-Rep activity and the EMG/Nike Foundation project

- Assess the presence of financial service providers in the Lake Victoria area and gaps in geographic coverage and the depth/breadth of products and services provided (banks, MFIs, SACCOs, trade finance providers, informal providers, including ROSCAs, etc.). A specific note will be made of opportunities and challenges since Kenya's post-election crisis and the global financial crisis.

- Link market-based opportunities to production and develop contract supply strategies to demand purchase (e.g. Lake Victoria production to Pembe Feed Processor and/or Kenya Dry Products Limited). Fostering a direct supply-demand linkage would yield an increased supply of high-value omena sold as food grade (human consumption) rather than feed grade (animal consumption).

- Evaluate other donor activities or interest in this area to generate possible leverage or buy-in (IFPRI, DFID, FSD Trust, PEPFAR, GDA and others).

Deliverables

The team will deliver a comprehensive report detailing a longer-term strategy meant to upgrade the fish, primarily omena, value chain. The strategy will include immediately actionable and prioritized activities in financial product/service creation and implementation. These activities will add efficiency to the value chain, serving as an initial and important step to upgrading and building competitiveness, while serving as a platform for longer term “crowding in” and expanding the scope of coverage by formal providers of financial services.

The report will also delineate implementing parties, including: banks, MFIs, SACCOs, and other key donor projects, such as USAID’s K-Rep activity and the EMG/Nike Foundation program. The comprehensive strategy will provide a clear roadmap on how KARF can optimize financial solutions for the fisheries value chain and its participants from the Kisumu region to the end market, while working with other important actors and helping those identified to commercialize and offer sustainable solutions for the long run.

Finger Millet

Using the maize cross-border finance transaction as a model, KARF structured a similar business deal and financial arrangement to facilitate the importation of finger millet from Uganda to Kenya. The likelihood of success is enhanced since the commodity is not a political crop and, therefore, of marginal risk for political interference. Completion of the transaction is dependent on the provision of technical assistance and coordination of the service provider in Uganda with producers and the producer association. It is expected that the transaction will take in late 2009.

PEACE BUILDING AND SOCIAL RECONSTRUCTION

Based on the success of Phase II Peace Building and Social Reconstruction, KARF finalized refined training materials, and a final curriculum, for the Association of Microfinance Institutions (AMFI) and Financial Services Deepening Kenya (FSD). The Program also finalized materials for a Trainer-of-Trainers (TOT) program for AMFI so that it could begin the delivery of a comprehensive and country-wide program on Peace Building and Social Reconstruction for its membership. Delivery of the TOT program and a pilot rollout for institutions of the training materials is planned for mid-year 2009 in select regions of the country on a pilot basis. Eventually the training will be rolled out on a national basis with the intent of training 3,500 credit officers, who work with over approximately two million micro entrepreneurs (ten million potential beneficiaries, assuming each individual has a five person household).

FINACCESS NATIONAL SURVEY 2009

As a member of the Financial Access Partnership (FAP), KARF participated in design work, leading to the enumeration of data collection for the FinAccess National Survey 2009. Enumeration was completed during the quarter and the analysis for and preparation of the written report began.

Objectives of FinAccess 2009

- Provide information to policy makers about the main barriers to access, geographic or socioeconomic (i.e. – provide an impetus for necessary reforms);
- Provide information to the private sector about market opportunities and, in particular, insight into the types of products that will suit newly identified, unserved market segments;
- Provide a solid empirical basis to track progress and evaluate the effect of various government and donor-led initiatives;
- Provide data for use in academic research into the impact of access to financial services on growth and poverty reduction.

The report will be completed for wide scale distribution in June 2009.

DCA LOAN GUARANTEE PROGRAM

The loan guarantees performed to plan, including the four closed in fiscal 2008. The uptake of additionality by Fina Bank and Kenya Commercial Bank demonstrated substantial increases. Likewise, Oiko Credit exhibited excellent utilization of its facility.

THE CENTRAL BANK OF KENYA

During the quarter, KARF held meetings with the Central Bank of Kenya (CBK) to further clarify its request for technical assistance and capacity building support across a range of financial policy reforms and initiatives. Those areas include:

1. Refine and improve guidelines for branchless financial services through agency relationships;
2. Review and upgrade anti-money laundering (AML) and know your customer (KYC) guidelines;
3. Enhance crisis management capabilities;
4. Build risk-management capacity in deposit-taking microfinance supervision;
5. Review and improve the current legal and regulatory framework for credit reference bureaus;
6. Define and upgrade consumer protection for consumer of financial services.

In the upcoming quarter, KARF will assist the CBK to develop a formal request to USAID Kenya.

LINKING MOBILE BANKING PLATFORMS TO CREDIT BUREAUS

KARF helped broker research and the completion of a study financed by the Micro Enterprise Office of USAID Washington. The study was focused on Kenya credit bureaus and mobile banking. Research was completed during the quarter and the paper was finalized for publication.

The success of mobile payment and mobile banking systems, such as M-PESA in Kenya, has exceeded expectations, with greater numbers of formal financial sector actors taking notice. According to the CBK, M-PESA – Kenya's leading mobile payment system offered by Safaricom – may have already made an impact on the formal financial sector, given the increase in bank accounts during the period M-PESA has been operational. At the end of 2005, there were 2.6 million formal bank accounts, but by the end of 2008 that number had increased almost 150 percent to 6.4 million accounts. There are over 7,000 M-PESA agents – substantially more points of service than the combined number of bank branches (887) and automatic teller machines (1,435) in the country – serving 6 million customers or 15.3% of Kenya's population of 39 million. The monthly value of person-to-person money transfers at the end of February 2009 was KES 14.5 billion (USD 190.3 million), and the cumulative value of these money transfers since its launch in March 2007 has been KES 118 billion (USD 1.5 billion). Safaricom's CFO asserted in a June 2008 interview that Safaricom is the biggest generator of cash in Kenya, with the exception of the government.

The competition is responding to M-PESA's success. On February 17, 2009, Zain Kenya began offering both an m-payment service and m-banking through its Zap platform and partner banks such as Standard Chartered Bank. With the exponential growth of mobile phone subscriptions in developing countries, and the increasing popularity of m-banking and m-payment providers such as M-PESA, there is also an expanding volume of data accumulating in the databases of mobile network operators (MNOs). Captured in their databases are payment and transaction histories about users who many believe represent the unbanked population. This population segment typically has no formal credit history and therefore cannot access financial services at affordable interest rates. These payment and transaction records may indicate a person's creditworthiness, based on whether the transaction is a bill payment or whether any trends or patterns based on the frequency, regularity, and value of the transactions can be detected.

Objectives of the Report

The hypothesis is that mobile transaction data may potentially help this population establish a formal credit history, help lenders more accurately evaluate credit risk, and lead to increased access to financial services for the poor. The objective of this research was to determine whether mobile transaction data provide enough of a foundation on which a credit information system for the base of the pyramid (BoP) can be built. An additional objective was to determine the level of interest in public-private partnerships (PPPs) on the part of various stakeholders.

Methodology/Approach

The research used Kenya as a case study. Kenya was chosen because it has a very successful mobile payment service offered by Safaricom called M-PESA, as well as two private credit risk management companies, and the financial sector and banking regulator have made progress toward establishing licensed credit reference bureaus and building a credit bureau industry. A research team composed of a financial services specialist and an information and communication technology (ICT) specialist conducted desk research and on-site interviews with key stakeholders in Kenya.

Results

The researchers determined that although there is general interest in the potential of mobile transaction data to inform credit decisions and increase low-income groups' access to financial services, the reality is that: Kenya is in the midst of establishing the enabling environment for sharing credit information systems. More work needs to be done to implement recently passed regulations and establish licensed and functioning credit reference bureaus before any dedicated attention can be given to alternative data sources.

Telecom regulations of the Communications Commission of Kenya (CCK) currently prohibit the disclosure of statement and account data, which include the MNO and m-payment data that credit bureaus would be interested in using. The banking regulator has no authority over MNOs or m-payment providers, but even if it did, current credit reference bureau regulations do not require the sharing of alternative data such as mobile transaction data and utility payments.

- A clear and compelling business case is needed in order for MNOs and m-payment providers to share information with and subscribe to a credit reference bureau. One may exist, but none of the parties interviewed could offer a compelling case.

- Mobile transaction data may be more useful as a market segmentation tool to separate lower- and higher-risk segments.

- There may need to be a longer record history, perhaps one to two more years, before one can gain a reliable sense of behavior and trends from the data.

- The data potentially have predictive value – that is, they may increase the accuracy of credit scoring and risk evaluation models to predict ability to repay or likelihood of default – when combined with mainstream credit bureau data.

Kenya is at least one to two years away from having a functioning credit reference bureau, so the focus of the industry is to reach this initial goal and not yet on alternative data sources.

Recommendations on the Way Forward

These recommendations are specific to the Kenyan context and suggest ideas for future research and assistance. The main emphasis is to support the development of the credit bureau industry in Kenya, and within this context, on the possible use of mobile transaction data in credit reference bureaus, which should lead to increased access to financial services for the poor. It is important to design any interventions with the current state and continuing development of the Kenyan financial system in mind. There are certain key priorities that the financial sector is addressing first, even before a specific alternative data source can be considered.

1. **Support the mobile platform to increase breadth and depth of financial access and services and encourage adoption by MFIs.** The mobile platform's primary value is the reach achieved through the distribution network and the increased efficiencies gained from using this network and mobile devices. Microfinance institutions (MFIs) have the greatest outreach to the unbanked and the BoP, but they are relatively weaker institutions, and in Kenya they are not adopting m-banking or m-payments as a delivery and service channel as fast as expected.

2. **Provide assistance to all Kenyan banks in sharing data with licensed credit reference bureaus.** There are 16–17 different banking information technology (IT) systems over the 42 banks in Kenya. Bringing all of these banks into the credit reference bureau system is going to require a concerted effort from an IT, management, and operational perspective.

3. **Provide assistance, if needed, to enact regulations that will improve the enabling environment for credit reference bureaus and clarify the regulatory authority over mobile banking and mobile payments.** Kenya is in the midst of several regulatory changes, but some issues need clarification. These issues include the following: It appears that CBK and CCK have a mutual interest in ensuring that the mobile platform is secure and reliable, yet there appear to be overlapping or unclear delineation of the various regulations governing the m-banking/m-payment technology architecture as a whole. Similarly, there may be a need to harmonize consumer protection regulations. In the absence of a clear regulator for m-payments, will there be people not reached by this service because the lack of a clear regulator will discourage others from providing service?

4. **Support the use of alternative data and the provision of positive information from the banks.** Utility payment data exist today, so one could start with this information set and encourage banks to use the data. This could contribute to increased openness on the part of banks to using alternative data in general.

5. **Perform an initial analysis of mobile transaction data to confirm whether these data have any predictive value and if they do, to what degree.** One could compare the results from a credit decision based on traditional credit bureau data to the results of a decision that also incorporated mobile transaction data, isolating each type of mobile transaction data (e.g., MNO call detail records versus m-payment records).

6. **Explore further the business incentive for MNOs and the regulatory options to enable sharing of mobile transaction data, and support the best path.** If there's a strong business case, the MNOs will have the incentive to make the necessary changes to start sharing data and lobby for telecommunications regulatory reform. Whether CCK would be willing to allow voluntary sharing of information or to mandate it (if the business case cannot be made) is unclear.

Conclusions

The answer to the key research question, “Can m-banking, m-payment, and MNO data be used to support a credit information system for the BoP?” is this: ***there is potential, but currently telecom regulations prohibit the disclosure of data, and a clearly defined business case is needed to incent the MNOs to share information*.** If no compelling business case can be made for MNOs to share data, the other option is to mandate it through regulations. The regulations of the telecommunications regulator CCK would need to be revised to allow the disclosure of customer information. The Central Bank of Kenya is the other relevant regulator, but CBK has no authority over MNOs and m-payment providers, and current banking regulations do not require the sharing of alternative data such as mobile transaction data.

The other research question this study sought to answer was “What is the level of interest, capacity, and commitment from the various stakeholders to build PPPs around m-banking powered credit information systems for the BoP?” At this point it should be clear that the interest level of MNOs is low. However, capacity is likely to be high if the business case could be made, because they have strong IT capacity within their organizations. The banking regulator, financial institutions, and credit risk management firms are interested in mobile transaction data, but their focus is on the fundamental task of creating the first licensed and functioning credit reference bureau. The telecom regulator would likely be supportive, given that it supports increased access to telecommunications services for rural and underserved areas through its Universal Access program.

In the Kenyan context, where m-payments have been phenomenally successful, credit data do not seem to be a binding constraint to increased access. Priority should therefore be on increasing the outreach of financial institutions and working towards having a robust credit reference bureau with multiple suppliers of information beyond banks.

Even though functioning credit reference bureaus are a few years away from being operational and the use of mobile transaction data may be as well, there has already been a step forward in Kenya because people have more ways to execute financial transactions and access financial services. Kenyans now have expanded access to financial services, based on the increase in formal bank accounts between 2005 and 2008 and on the amount of money and transaction volumes being handled by M-PESA. There is a greater breadth of financial services for the banked (current base), in addition to a deepening of financial services to reach the unbanked. Technology has made this depth and breadth possible because scalable, cost-effective, innovative solutions are possible through technology. The financial sector is grappling with how best to work with the new players in the financial services market – the telecommunications firms (telcos) – but it is generally accepted that mobile phones have been a positive disruptive force in developing countries. The development sector, financial sector, telecom sector, and public sector need to continue to identify common interests and to partner so as to harness the full potential of mobile technology to achieve sustainable economic growth and increased prosperity for all.

FINANCIAL SECTOR DONOR WORKING GROUP

During the quarter, KARF and FSD founded the Financial Sector Donor Working Group and its first meeting was held to discuss the functionality, purpose and objectives of the group.

It was concluded during the initial meeting FSDWG would concentrate on:

- Basic information exchange on activites;
- Co-ordination/collaboration;
- Leveraging Resources;
  - Financial
  - Intellectual
  - people
- Possible identification of new activities
- Improve project / activity design
- Prevent double - dipping
- Basic information on sector
- Policing mechanism setting standards, shared values
- Co-ordinate events in Kenya (Conference/Workshops)
- Influence policy
- Network with other groups, e.g. PSDG , BDSWG, etc.

To begin, quarterly meetings are envisioned. Current group members include: KARF, FSD, the World Bank, the IMF, the Central Bank of Kenya and the Ministry of Finance (Treasury).

EMERGING OPPORTUNITIES

Based on responses from financial institutions during the value chain finance seminar, KARF will undertake a comprehensive analysis of the dairy value chain in mid 2009.

PROBLEMS ENCOUNTERED

KARF is on track to meet or exceed all benchmarks specified in the Task Order. No problems were encountered during the quarter.

ANNEXES

ANNEX A:
TECHNICAL DOCUMENTS
(Cumulative)

Workplans/PMPs
- KARF Workplan and PMP (Life-of-Project, Including Year 1 Detail)
- KARF Workplan (Year 2)

Quarterly/Annual/Final Reports
- Quarterly Report, October 1, 2007 – March 30, 2008
- Quarterly Report, April 1, 2008 – June 30, 2008
- Quarterly Report, July 1, 2008 – September 30, 2008
- Annual Report, October 1, 2007 – September 30, 2008
- Quarterly Report, October 1, 2008 – December 30, 2008
- Quarterly Report, January 1, 2009 – March 31, 2009

Post-Election Violence
- AMFI Extraordinary Board Meeting Post-Election Violence Document
- Literature Review on Microfinance Disaster Reponses
- Microfinance Post-Election Way Forward Paper
- Final Report on the Consultative Forum for CEOs
- Final Report on the Development of Microfinance Peace Building Initiatives
- Pilot Peace Building Training for MFIs in Kenya
- SAM Microfinance as a Tool for Promoting and Maintaining Peace in Conflict Areas presentation
- Final Curriculum for Peace Building (MFIs)
- Peace Building Trainer-of-Trainers (TOT) program

Avocado Value Chain
- KBDS Avocado Value Chain Lessons Learned
- Ideal Matunda Strategic Vision Document
- Ideal Matunda Pro-forma Financial Statements – Income statements, Balance Sheets, and Cash Flows
- Individual Farm Census Projections
- Ideal Matunda Partnership Agreement
- IFG (Ideal Farmer Group) Bylaws
- IFG Rights and Responsibilities
- IFG Loan Application
- IFG Loan Agreement
- IFG to Individual Loan Agreements
- Treasurer Books
- Secretary Book
- Factory Lease Agreement
- Crude Oil Equipment Lease

Lake Victoria Fish Value Chain

- The Role of Financial Services in the Economic Empowerment of AIDS-Affected Households: A Review of Practice and Options in Kenya
- Economic Empowerment of People Living with or Affected by HIV/AIDS: a Review of Financial Sector Options
- MicroNOTE 50: Growth, Finance and the Triple Bottom Line in Kenya's Fisheries Value Chain
- The Kenya Capture Fisheries Value Chain: An AMAP-FSKG Value Chain Finance Case Study, MicroREPORT #122.

Maize Value Chain

- Maize Warehouse Receipting Presentation to Banks
- Case Study: Uganda-Kenya Cross Border Maize Trade

Value Chain Finance

- Final Report: Value Chain Financing Seminar

Development Credit Authority

- DCA Report Card Template

Mobile Banking and Credit Bureaus

- Mobile Banking – the Key to Building Credit History for the Poor? Kenya Case Study: Linking Mobile Banking and Mobile Payment Platforms to Credit Bureaus

ANNEX B: WORKSHOPS/TRAININGS/FORUMS (Cumulative)

Association of Microfinance Institutions

- Three-day SEEP Frame Tool for AMFI Membership

Post-Election Violence: Peace Building and Social Reconstruction

- MFI Emergency Post-Election Crisis Meeting (KARF, AMFI and FSD Trust)
- AMFI Extraordinary Board Meeting on Post-Election Crisis
- First Industry Forum on the Impact of Post Election Violence on Microfinance Providers and Potential Responses
- Second Industry Forum on the Impact of Post Election Violence on Microfinance Providers and Potential Responses
- One-day workshop on Social Reconstruction and Peace Building in Kenya: A Consultative Forum for CEOs of Microfinance Institutions (Phase I of the overall activity)
- Introductory seminar to the CEOs of leading MFIs and banks in conflict mitigation and response
- Pilot Peace Building Training for MFIs in Kenya in Nairobi, Eldoret and Kisumu

Avocadoes

- Two-day Strategic Vision Workshop for Ideal Matunda
- Two-day Operational and Financial Planning Workshop for Ideal Matunda
- Two-day business re-forecasting workshop for Ideal Matunda, running a sensitivity analysis on its pro-forma financials and actual expenses/revenues based on increased growth and the reengineered business model
- Pest and disease control seminar for new spraying providers

HIV/AIDs and Financial Services

- Economic Empowerment of People Living with or Affected by HIV/AIDS: a Review of Financial Sector Options

Maize

- Warehouse Receipting for potential banks and other financiers to promote additional entry and competition in the marketplace

School of Applied Microfinance

- Microfinance as a Tool for Promoting and Maintaining Peace in Conflict Areas

Value Chain Finance

- Agriculture Value Chain Finance Seminar

ANNEX C:
PARTNERSHIPS AND COLLABORATIONS

	Name:	Activity:
1.	Association of Microfinance Institutions	Post-election crisis response
2.	FSD Trust	Post-election crisis assistance and funding/RAF Market Assessment, Lake Victoria fish value chain diagnostic
3.	USAID Office of Development Credit	Post-election crisis liquidity facilities and new DCAs
4.	Equity Bank	Post-election crisis liquidity DCA (existing), Lake Victoria fish value chain product development
5.	Oiko Credit	Post-election crisis liquidity DCA (existing)
6.	K-Rep Bank	Water DCA (existing) and SME DCA (existing)
7.	Faulu	Micro health DCA (existing)
8.	Jitigemee Trust	Debt/equity DCA (postponed)
9.	Fina Bank	SME DCA (existing)
10.	Kenya Commercial Bank	SME DCA (existing)
11.	Cooperative Bank of Kenya	Multiple DCAs (existing)
12.	Water Sanitation Program (World Bank)	K-Rep water DCA
13.	USAID Kenya Office of Public Health	Water DCA
14	Kenya Business Development Services	Avocado value chain
15.	Ideal Matunda	Avocado value chain
16.	Central Bank of Kenya	RAF market assessment (update)
17.	Women Advancing Microfinance	Peace building, social reconstruction
18.	Women's Network of Agricultural Exporters	Agriculture finance
19.	JM Matunda	Avocado value chain
20.	Cameta	Avocado value chain
21.	USAID's AMAP (Office of Microenterprise Development)	Lake Victoria fish value chain diagnostic
22.	School of Applied Microfinance	Peace and social reconstruction training for banks, MFIs and SACCOs
23.	Inspired Associates	Maize cross-border trade finance
24.	USAID Uganda's LEAD program	Maize cross-border trade finance
25.	Stanbic	Maize cross-border trade finance
26.	Unga Millers	Maize cross-border trade finance
27.	Financial Access Partnership (FAP)	FinAccess National Survey 2009

28.	Financial Sector Donor Working Group	Coordination of activities/information sharing

ANNEX E:
IMPLEMENTATION CHRONOLOGY
(Cumulative)

October 2007

- KARF implementation formally begins and running concurrent with Kenya Microfinance Capacity Building Program (also implemented by DAI); both are administered by the same project management team.
- KARF holds project kick-off workshop with KEMCAP and other potential partners to begin integrating them into KARF project design and implementation.

November 2007

- KARF attends the 3rd Annual BDS conference in Mombasa.
- KARF signs a Memo of Understanding and Confidentiality Agreement with Ideal Matunda to support their work in avocado production and marketing with smallholder farmers.

December 2007

- Ideal Matunda produces a lessons learned paper based on the multi-year KBDS experience.
- KARF supports AMFI in its delivery of a three-day workshop on the SEEP Frame Tool.
- Kenyan presidential and parliamentary elections held.

January 2008

- Post-election erupts, causing widespread implementation confusion and uncertainty. The microfinance industry and their clientele are deeply affected.
- KARF, AMFI, and FSD convene an emergency meeting on how to support the troubled microfinance industry.
- KARF, AMFI and FSD prepare a literature review on *Microfinance Disaster Responses* to help guide the industry.
- AMFI, assisted by KARF, holds extraordinary board meeting on the crisis and documents its discussions.
- AMFI, assisted by KARF, convenes the First Industry Forum on the Impact of Post Election Violence on Microfinance Providers and Potential Responses.
- AMFI, assisted by KARF, drafts a paper summarizing the findings and a way forward from the Industry Forum.
- KEMCAP ends.

February 2007

- AMFI, assisted by KARF, holds the Second Industry Forum on the Impact of Post Election Violence on Microfinance Providers and Potential Responses, vetting the draft paper for discussion and adoption.
- KARF, AMFI and FSD design a three-pronged solution to the crisis facing the microfinance industry: (1) a $10 mm liquidity fund backed by the Development Credit Authority; (2) a technical assistance fund to support struggling MFIs meet the demands of the radically altered lending environment; and (3), a conflict prevention and mitigation response activity to support peace building and social reconstruction.
- The Office of Development Credit conducts its first post conflict on-site assessment, assisting KARF and the MFI industry to structure a rescue facility backed a potential $10 mm DCA facility.

March 2008

- The Office of Development Credit conducts its second on-site risk assessment. ODC undertakes a due diligence risk assessment of Equity Bank and Oiko Credit. Both are potential partners of the MFI rescue facility. The ODC examiner reviews two other potential transactions. One is a micro health insurance product with Faulu. The other supports debt/equity investment by a MFI wholesaler with Jitegemee Trust.
- KARF, AMFI and FSD finalize a three-pronged solution to the crisis facing the microfinance industry: (1) a $10 mm liquidity fund backed by the Development Credit Authority; (2) a technical assistance fund to support struggling MFIs meet the demands of the radically altered lending environment; and (3), a conflict prevention and mitigation response activity to support peace building and social reconstruction.

April 2008

- KARF conducts a one-day workshop on Social Reconstruction and Peace Building in Kenya: A Consultative Forum for CEOs of Microfinance Institutions (Phase I of the overall activity).
- KARF issues a final report on the consultative forum for CEOs.
- KARF, USAID Kenya and the Financial Services Deepening Trust participate in a conference call with the Credit Review board, providing a justification for the microfinance liquidity fund guarantee.
- USAID Credit Review Board approves the $10 million microfinance liquidity fund guarantee to Equity Bank and Oiko Credit. The $433,500 subsidy is paid by FSD.

May 2008

- KARF delivers a two-day workshop with Ideal Matunda, providing them with a new strategy for growth and development (i.e. the company's business reengineering that sets the plan for moving from a donor funded project dependent on subsidies to independence and sustainability).
- KARF contracts Cameta to assist Ideal Matunda with Table Banking activities in the avocado value chain.

June 2008

- KARF and USAID Kenya participate in a conference call with the Credit Review board, providing a justification for the community water loan guarantee.
- USAID Credit Review Board approves the $5 million community water loan guarantee with K-Rep Bank as the lender and the World Bank as a technical assistance provider and value chain manager. The $365,000 subsidy is paid by USAID Washington.
- KARF facilitates a two-day operational and financial planning workshop for Ideal Matunda.
- KARF begins planning for an assessment of the Lake Victoria fish and HIV/AIDs value chains, coordinating with USAID Kenya, AMAP, DAI Washington and FSD Trust.

July 2008

- KARF begins and concludes an analysis, financed by AMAP Financial Services Knowledge Generation (FSKG), in the fisheries value chain in order to develop a Value Chain Upgrading Plan that addresses critical finance constraints consistent with key stakeholders' business plans and capacities (with the focus placed on lake capture fisheries but also including a rapid assessment of the Indian Ocean capture fisheries to explore potential for intra sub-sector financing similarities).
- KARF undertakes an assessment, financed by the Financial Services Deeping Trust, in the areas of HIV/AIDs and financial services. The assessment animated opportunities for KARF in the HIV/AIDs value chain and potentially highlighted the intersection of HIV/AIDs issues and potential financial service responses in the fish producing region of Lake Victoria. The review and analysis assisted FSDT to assess the prospects of defining a market-based approach to developing financial services in Kenya for the prevention of HIV transmission and to mitigate the economic impact of HIV/AIDS.
- KARF pioneers a quarterly report card for partner DCA financial institutions as a means to monitor partner performance, suggest improvements and take corrective action under the USAID DCA loan guarantee program.

- Based on the findings from the HIV/AIDs and financial services assessment financed by FSDT, KARF delivers a workshop on its key findings and recommendations for donors and industry stakeholders titled, "Economic Empowerment of People Living with or Affected by HIV/AIDS: a Review of Financial Sector Options."
- KARF delivers a one-day workshop and presentation for the FSDT on Warehouse Receipting in maize for potential banks and other financiers to promote additional entry and competition in the marketplace.

August 2008

- KARF completes its findings and recommendations for FSDT in a paper titled, "The Role of Financial Services in the Economic Empowerment of AIDS-Affected Households: A Review of Practice and Options in Kenya."
- KARF assists Ideal Matunda in its effort to greatly improve smallholder group solidarity and individual farmer profitability by designing and introducing a system to 'lock-in' farmer participation to eliminate 'side selling' using a new approach to financing through embedded savings and credit.
- KARF designs and introduces new documentation for Ideal Matunda to guide saving and credit methodology for smallholder avocado farmers.
- KARF leads a two-day business re-forecasting workshop for Ideal Matunda, running a sensitivity analysis on its pro-forma financials and actual expenses/revenues based on increased growth and the reengineered business model.
- KARF delivers an introductory seminar to the CEOs of leading MFIs and banks in conflict mitigation.
- KARF prepares a final report on the Development of Microfinance Peace Building Initiatives.

September 2008

- KARF and USAID Kenya participate in a conference call with the USAID DCA Credit Review board, providing a justification for the micro-health insurance loan guarantee.
- USAID Credit Review Board approves a $5 mm micro-health insurance DCA loan guarantee with Faulu. The $250,000 subsidy is paid by USAID Washington.
- USAID Kenya mission director signs and authorizes for implementation four new DCA loan guarantees prepared during the fiscal year (K-Rep community water, Oiko Credit MFI/SACCO liquidity, Equity Bank MFI/SACCO liquidity, and Faulu micro health insurance).
- Ideal Matunda, using a new legal agreement prepared by KARF, contracts smallholder avocado farmers implementing the approach designed in August.
- KARF prepares and delivers a presentation at the School of Applied Microfinance (SAM) in Mombasa on the subject: Microfinance as a Tool for Promoting and Maintaining Peace in Conflict Areas.
- KARF prepares and delivers a training on Pilot Peace Building Training for MFIs in Kenya in Nairobi, Eldoret and Kisumu.
- KARF facilitates pest and disease control seminar for new spraying providers to keep pace with Ideal Matunda's growing business.

October 2008

- KARF enters into a strategic partnership with Inspired Associates, LTD. – a Uganda-based constancy, specializing in a broad range of financial services activities, including agriculture value chains, agribusiness, micro and SME, etc.
- KARF begins working with Ideal Matunda in Central Kenya to implement new financing arrangements and documentation.
- KARF finalizes two papers in Lake Victoria fish from work undertaken the previous quarter (MicroNOTE 50: Growth, Finance and the Triple Bottom Line in Kenya's Fisheries Value Chain; The Kenya Capture Fisheries Value Chain: An AMAP-FSKG Value Chain Finance Case Study, MicroREPORT #122).
- Oiko Credit begins disbursing loans under the DCA loan guarantee finalized the previous month.

November 2008

- KARF and Inspired Associates conceptualize and develop a cross-border maize finance scheme and trade strategy.
- KARF refines training materials and a final curriculum for the Association of Microfinance Institutions (AMFI) and the Financial Services Deepening Trust (FSD) on the Phase III Peace Building and Social Reconstruction program
- KARF participates in the design work, as a member of the Financial Access Partnership (FAP), leading to the enumeration of data collection for the FinAccess National Survey 2009.

December 2008

- KARF negotiates a Memorandum of Understanding with USAID's Livelihoods and Enterprises for Agricultural Development (LEAD) Project in Uganda to support producer organizations and Stanbic in order to facilitate a cross-border maize finance scheme and trade strategy.
- KARF begins work on a Trainer-of-Trainers Program so that it can begin the delivery of comprehensive and country-wide program on Phase III Peace Building and Social Reconstruction for its membership.
- KARF supports AMFI in its delivery of a three-day workshop on the SEEP Frame Tool.
- KARF starts discussions with the Central Bank of Kenya to provide technical assistance and capacity building in six discrete topical areas.

January 2009

- KARF signs a Memorandum of Understanding (MOU) with USAID's Livelihoods and Enterprises for Agricultural Development (LEAD) Project in Uganda to support producer organizations and Stanbic in order to facilitate a cross-border maize finance scheme and trade strategy.
- KARF helps secure funding for research and the completion of a study financed by the Micro Enterprise Office of USAID Washington on linking mobile banking platforms to credit bureaus.

February 2009

- KARF and FSD found the Financial Sector Donor Working Group and hold its first meeting to discuss the functionality, purpose and objectives of the group.
- KARF begins planning additional work in the fish sector and develops SOWs that were submitted to USAID Kenya for approval.
- KARF assists Ideal Matunda to locate a suitable factory for the processing and storage of avocadoes and helps with structuring and negotiating the terms of the facilities lease, in addition to providing similar support with the lease of processing equipment.
- KARF supports Ideal Matunda to source buyers in Greece and South Africa for processed crude avocado oil and negotiate terms.

March 2009

- KARF conducts an agriculture value chain finance seminar for financiers and donors involved in the sector.
- KARF completes its revisions of and finalizes the Peace Building and Social Reconstruction training materials and a final curriculum for the Association of Microfinance Institutions (AMFI) and Financial Services Deepening Kenya (FSD).
- KARF finalizes work on a Trainer-of-Trainers (TOT) program for AMFI so that it can begin the delivery of a comprehensive and country-wide program on Phase III Peace Building and Social Reconstruction for its membership.
- The study on linking mobile banking platforms to credit bureaus is completed.