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KENYA ACCESS TO RURAL FINANCE

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KENYA ACCESS TO RURAL FINANCE

QUARTERLY REPORT

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INTRODUCTION

The second quarterly report for the Kenya Access to Rural Finance project covers the period April 1, 2008 through June 30, 2008.

During this period, KARF continued its (unforeseen) response to mitigate the impact of post election violence on the MFI community by delivering interventions designed in concert with the microfinance industry. The comprehensive microfinance rescue package was designed to alleviate pressures on both individual clients and institutions. To this end, KARF took the lead in placing a specialized credit enhancement – loan guarantee facility – for the industry. The Program also directed peace building and social reconstruction activities on behalf of the industry.

KARF continued working to close three additional DCA loan guarantees: one in community water, one in micro-health insurance and the other in mezzanine finance.

As Kenya stabilized politically and economically, KARF began to directly engage the avocado value chain working with Ideal Matunda, a private-sector agribusiness company. The Program began planning potential interventions in the Lake Victoria fish value chain and in HIV/AIDs affected populations.

Planning for the Rural Agriculture Finance assessment started with the Central Bank, the Financial Services Deepening Trust (FSDT) and other financial sector participants.

IMPLEMENTATION CHRONOLOGY

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.

POST-ELECTION VIOLENCE RESPONSE

KARF continued working on the industry's post-election violence response. The Program coordinated with USAID Kenya, the Financial Services Deepening Trust and the Office of Development Credit in Washington to finalize the pending \$10 million microfinance rescue facility transaction. The facility was approved by the ODC's Credit Review Board. The legal agreement must be finalized, signed by partner financial institutions and the USAID Kenya mission director. It is expected to be finalized by September 2008.

In the area of peace building and social reconstruction, on April 22, the FSD Trust supported an initial one-day workshop administered by KARF. The workshop brought together peace activists and the CEOs of microfinance institutions and banks. The objective of the workshop was to (1) share information on the impact of the political crisis, (2) introduce ideas and possible solutions from peace experts on how to include financial institutions in new peace activism and social reconstruction and (3) design a way forward – working as a team between these different groups to solve a cross-cutting problem.

FSDT provided the financing – \$11,060 – to cover the cost of this event (Phase I).

Following the training, KARF and the association developed a Terms of Reference for a Phase II activity that will be used to ultimately guide a nation-wide practical program on peace building and social reconciliation that allows the microfinance industry to directly contribute to rebuilding trust and cooperation in communities impacted by post-election violence. An appropriate bottom-up design process was envisioned to generate initiatives in

which MFIs will add real value to peace building and reconciliation processes. The design of later Phase III program will be informed by a strong understanding on MFI field-based operations. It identified both the *challenges* which MFIs face as a consequence of the post election violence and the *opportunities* for MFIs to add value to peace-building work.

Under Phase II research, specific actions and deliverables required for each area of the peace building and reconstruction effort are:

- Fact finding consultations with MFIs and their clientele in Nairobi
- Fact finding consultations with MFIs outside Nairobi (Nyanza, Coast, Rift Valley and Central provinces)
- Draft fact finding and recommendations (proposed interventions) report
- Draft materials on pilot testing recommendations and proposed interventions
- Pilot testing recommendations and proposed interventions (Kisumu and Nairobi)
- Final materials on recommendations and interventions

Once this work has been completed in early September, all partners involved in the effort will jointly decide on an implementation approach and funding parameters.

DEVELOPMENT CREDIT AUTHORITY

The microfinance industry rescue facility was approved by the USAID Credit Review Board. The \$10 million dollar enhancement, split evenly between Oiko Credit and Equity Bank, runs for seven years with a fifty percent guarantee through March 2009 and thirty percent thereafter. The \$433,500 subsidy was paid by FSD Trust. The payment functions as insurance premium covering potential losses to the US Treasury.

The most significant innovation from this DCA guarantee was a third party (FSD Trust) paying the subsidy amount. Officials from ODC indicated that only one other transaction had been underwritten in this manner. It was in Angola with the subsidy paid by Chevron.

In addition to the rescue facility, the USAID Credit Review Board approved the \$5 million community water loan guarantee with K-Rep Bank. The term of the agreement is for ten years. Augmenting USAID's investment in the loan guarantee, the Water and Sanitation Program of the World Bank will supply technical oversight and management of the overall value chain, elevating the likelihood of the intervention's long-term success. The \$365,000 subsidy to underwrite the facility was paid by USAID Washington.

KARF continued working with Faulu, readying the institution for its contractual relationship with USAID, and preparing attendant documentation needed to secure approval for its portable DCA. The facility under consideration runs for six years and Faulu must receive its loan by March 2009 or face the possibility of cancelation. The portable is the first of its kind in Kenya: USAID guarantees Faulu as a credit worthy institution and it then uses the endorsement from the US government to secure commercial finance on the best terms possible. The loan proceeds will be used to underwrite the micro-health insurance product and to support an ambitious rollout.

The fifth and final guarantee considered by USAID Kenya and ODC was suspended by FSDT, the party financing the subsidy underwriting the facility. FSDT did not regard the DCA candidate ready given other activities the Trust had underway with it. The Trust is willing to revisit the opportunity, or with any other institution, in twelve months or more.

RURAL FINANCE

With the impact of the post-election violence and uncertainty reducing, KARF began direct engagement in the avocado value chain with Ideal Matunda, a private-sector agribusiness company. Augmenting this new line of work, the Program secured financing from USAID Washington under AMAP to carry out a detailed assessment of the Lake Victoria fish value chain. In addition, KARF secured financing necessary to complete a study on behalf of FSDT in HIV/AIDs and financial services.

Avocados

During the previous reporting period, Ideal Matunda requested KARF provide it with capacity building and technical assistance in three key areas:

1. Commercialize its work – moving their model from a subsidized donor activity to a standalone profitable business working for itself and the benefit of smallholder farmers
2. Design and deliver financial products that will unlock the efficiency, productivity and competitiveness of the value chain
3. Serve as an ongoing advisor to the Managing Director and as a *sometimes* active participant in the administration of the company business (acting as Chief Financial Officer or Chief Operations Officer).

KARF agreed to take on these responsibilities but the Program's involvement was marginalized due to the knock-on effects of the post-election crisis, general instability experienced throughout the country and the negative impact of violence on the microfinance industry.

In April, as Kenya began to normalize, KARF started working with Ideal Matunda on a comprehensive and long-term partnership plan, and in May, the Program held a two-day workshop to help the company identify and narrowly define its overarching business strategy. All employees attended the workshop, including those from the headquarters office in Nairobi and field employees based in Central Kenya.

With the strategic vision clearly articulated in June, the Program ran another two-day workshop covering operational and financial planning. Broad operational issues were identified and business operations were fully costed. Pro-forma financial statements were prepared – income statements, balance sheets, and cash flows. All were linked to production forecasts at the smallholder farmer levels.

KARF and Ideal began also working on a plan to improve small-holder group solidarity by securing the services of Cameta, a small firm specializing in the provision of rural finance to groups.

Lake Victoria Fish

KARF worked closely with DAI Bethesda to secure financing from AMAP Financial Services Knowledge Generation (FSKG) to pay for the costs of a study that:

1. Builds upon previous analysis undertaken by USAID Kenya 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 in financing needs)
2. Evaluates the ability of potential suppliers of finance including banks, NGOs and other value chain actors to unlock the competitiveness through the provision of financial services
3. Provides a case study assessing the use of Value Chain Finance Guidelines developed in the analysis of the upgrading strategy for the fisheries value chain

The study is expected to begin next quarter, July through September 2008.

HIV/AIDs and Financial Services

KARF undertook an assessment for FSDT in the areas of HIV/AIDs and financial services. The Program anticipated that the work would produce two important outcomes.

First, it was expected that the assessment would animate opportunities for KARF in the HIV/AIDs value chain and potentially highlight the intersection of HIV/AIDs issues and potential financial service responses in the fish producing region of Lake Victoria.

Second, for FSDT the overall aim of the assignment was to assess the prospects for and attempt to define a market-based approach to developing financial services in Kenya as a means to contribute to the prevention of HIV transmission and to mitigate the economic impact of HIV/AIDs. The output from the work should be relevant to informing the development of both FSDT's future programming and that of others, including DFID.

Recommended approaches will seek to define a market-based strategy for developing financial services in Kenya to prevent HIV transmission and to mitigate the economic impact of HIV/AIDs. Such an approach must have credible prospects to achieve impact at scale. The eventual strategy will be guided by strong evidence of what works, both internationally and in Kenya; it will identify potential opportunities for work over the short-medium term; and the approach will demonstrate how market-based interventions can most effectively be delivered. The output from the work should be relevant to informing the development of both FSDT's future programming and that of others, including DFID.

KARF brokered financing to DAI Bethesda to undertake the assessment.

The assessment is expected to begin in next quarter, July through September 2008.

EMERGING OPPORTUNITIES

The most promising opportunities to emerge are in activities just underway where build-ons to existing plans are in process or in current value chains where studies will begin next quarter. These include post-election violence response, DCAs, avocados, fish and HIV/AIDs and SME debt/equity finance.

PROBLEMS ENCOUNTERED

As markets throughout Kenya slowly recovered from shocks related to post-election violence, the microfinance industry response was *still* the most important priority for KARF during the reporting period. With limited project resources, the operational necessity of helping the industry beyond the crisis forced the Program to further devote its attention to key actions not specified in the original scope of work with USAID.

Therefore, KARF's work in rural and agriculture finance was a secondary concern; although, the Program kicked off one activity (avocados) that will lead to a series of future interventions and progress toward realizing contractual deliverables. KARF also set in motion other activities that will, in the coming quarter, yield significant movement toward meeting project goals.

With these new activities, KARF should increase its spending and budget variance will reduce.

ANNEXES

ANNEX A: TECHNICAL DOCUMENTS (Cumulative)

Workplans/PMPs

- KARF Workplan and PMP (Life-of-Project, Including Year 1 Detail)

Quarterly/Final Reports

- Quarterly Report, October 1, 2007 – March 30, 2008
- Quarterly Report, April 1, 2008 – June 30, 2008

Post-Election Violence

- AMFI Extraordinary Board Meeting Post-Election Violence Document
- Literature Review on Microfinance Disaster Responses
- Microfinance Post-Election Way Forward Paper
- Final Report on the Consultative Forum for CEOs

Financial Services

- KBDS Avocado Value Chain Lessons Learned
- Ideal Matunda Strategic Vision Document
- Ideal Matunda Pro-forma Financial Statements – Income statements, Balance Sheets, and Cash Flows

ANNEX B: WORKSHOPS/TRAININGS/FORUMS (Cumulative)

Workshops

- Three-day SEEP Frame Tool for AMFI Membership
- Two-day Strategic Vision Workshop for Ideal Matunda
- Two-day Operational and Financial Planning Workshop for Ideal Matunda

Industry Forums

- 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)

ANNEX C: 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 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

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ANNEX D: 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.	Jitigeme 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

ANNEX E: BUDGET

	Budget	Inception to Last Period	Current Bill Amount	Cumulative Bill Amount	Remaining Amount	Percentage Billed
█	█	█	█	█	█	█
█	█	█	█	█	█	█
█	█	█	█	█	█	█
█	█	█	█	█	█	█
█	█	█	█	█	█	█

As recorded in June 2008 invoice, voucher 1000575-8.