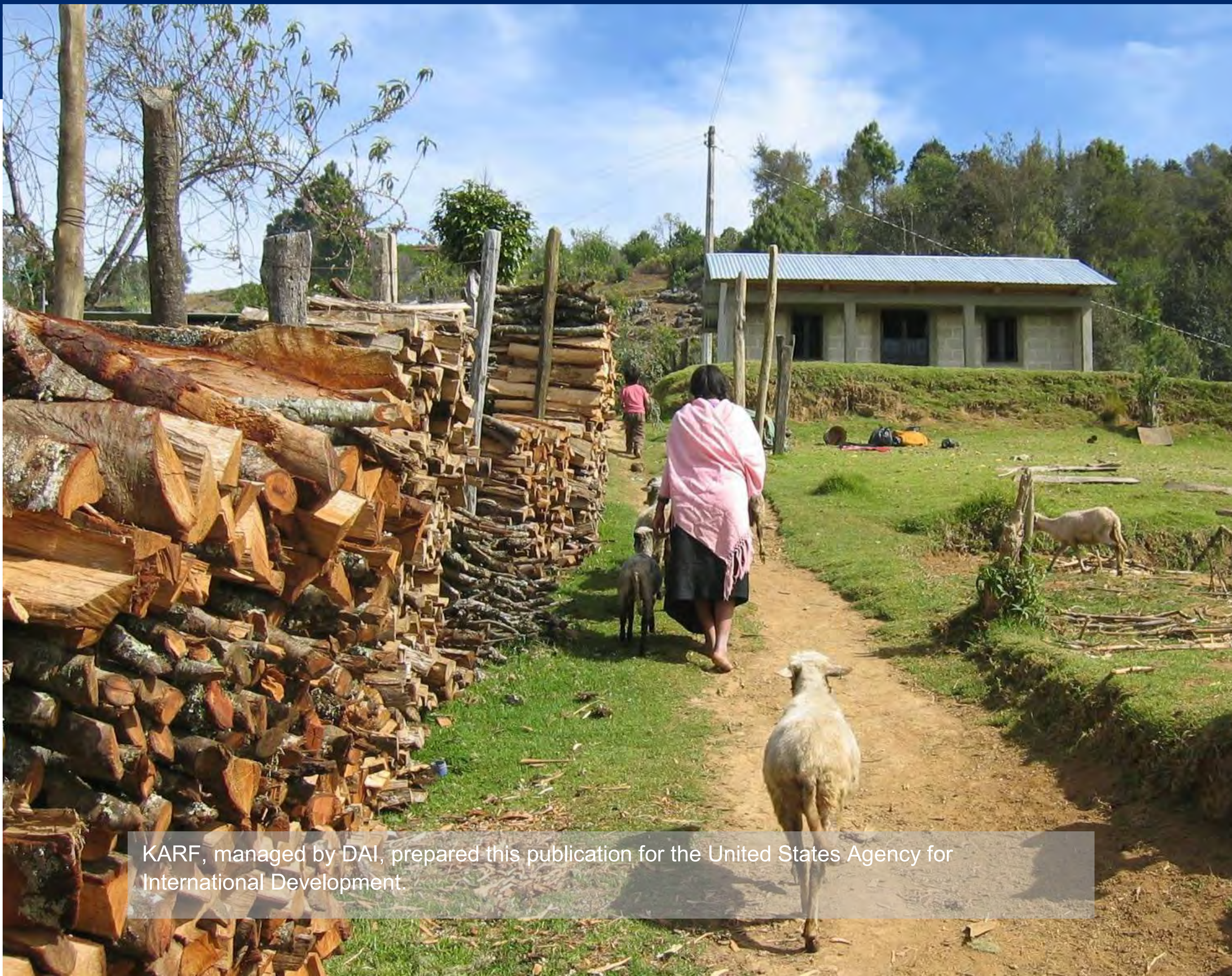
KENYA ACCESS TO RURAL FINANCE (KARF)

FINAL REPORT



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SECTION I

1. INTRODUCTION

Our final report on the Kenya Access to Rural Finance (KARF) activity, hereafter referred to as the ―Program,” summarizes the achievements, lessons learned and implications for future USAID programming decisions, including specific activities and results.

The document is organized into two main sections. The first part provides an overview of the Program, its approach, achievements and lessons; the second part provides a summary of activities, achievements and lessons learned and recommendations.

2. BACKGROUND

USAID Kenya has played a major role in the development of the microfinance sector in Kenya by working simultaneously at the micro (client), meso (institution) and macro (policy and supervisory) levels. However, demand for financial services continues to outstrip supply, particularly for specific market niches in agriculture, women and youth in rural areas. The modernization of the financial sector combined with the global economic crisis that occurred during the implementation KARF brought to the surface new areas of concern for regulators and supervisors necessary for continuous growth and innovation, while maintaining prudent standards for a healthy financial system.

Within this context, KARF, a USAID Kenya-funded activity implemented by DAI, has played an important role as part of USAID Kenya‘s Strategic Objective 7. Under SO 7, KARF directly contributed to the following Intermediate Results.

- IR 7.1: Number of rural households directly benefiting from USG interventions.
- IR 7.3: Total number of MEs receiving finance from participating firms in a USG assisted value chain.
- IR 7.3, Sub-Intermediate Result 7.3.2: Value of credit disbursed to target beneficiaries from USG assistance.
- IR 7.3, Sub-Intermediate Result 7.3.2: Amount of private financing mobilized with a DCA guarantee.

Under this framework KARF‘s primary objective called for:

―Increasing access to financial services for micro and small enterprises (SMEs), with special emphasis on rural and agricultural enterprises by building upon past and on-going programs supported by USAID and other donors. It will continue USAID‘s support to the development of the microfinance industry as a whole, including assisting the Central Bank of Kenya in the implementation of the Microfinance Act. It will also build on an understanding of the supply and demand for financial services within key subsectors or value chains to respond to emerging opportunities.”

KARF s three-year work plan outlined nine interrelated activities:

- Technical support to expand DCA guaranteed rural and agricultural portfolios.
- Technical support to transforming institutions.
- Rural and agriculture financial product development.
- Support legal and regulatory reforms through the Central Bank of Kenya.
- Build capacity and sustainability of AMFI.
- Pilot innovative value chain interventions.
- Build local value chain finance expertise.
- Expand warehouse receipt financing.
- Rural and agricultural finance market assessment.

Given the unforeseen impact of post-election violence that occurred shortly after KARF began, the workplan was reprioritized to focus on the following five activities:

- Support microfinance industry in wake of post election violence.
- Provide technical support, monitoring and reporting for the DCA portfolio.
- Develop innovative products for rural and agricultural finance, based on a value chain finance approach.
- Support the rural and agricultural finance market assessment.
- Coordinate the donor working group on finance.

During the final year of the project, an additional set of activities was added:

- Capacity building and institutional strengthening of the Central Bank of Kenya.

In order to achieve an integrated approach and tangible results, KARF undertook a flexible and opportunistic approach to identify and develop viable market-based opportunities to advance financing for Kenya‘s rural communities. This included:

- Adapting the initial work plan to assist microfinance institutions to respond to post-election violence with staff training and DCA guarantees for liquidity.
- Coordinating with the Financial Access Partnership committee and supporting the FinAccess National Survey 2009.
- Conducting quantitative analysis on high-potential value chains to identify real financing opportunities.
- Developing and managing a diverse portfolio of DCAs to support financial institutions in managing risk and delivering innovative services to underserved groups.
- Customizing assistance to the CBK to help manage systemic risks and supervise emerging technologies and financial innovations that help expand frontier of finance to rural areas and under-served market segments.

3. CONTEXT

Agriculture is the cornerstone of the Kenyan economy. It accounts for 24 percent of Kenya‘s gross domestic product and generates 60 percent of foreign exchange earnings. Over 75 percent of the labor force is engaged in agriculture, including 4 million rural smallholders who rely on farming for their livelihoods. But still Kenya faces chronic and growing food insecurity and, coupled with increasing population growth and urban migration, the situation has the potential to deteriorate significantly. An estimated 8 percent of land in Kenya is arable; most of this valuable resource is used to cultivate export crops. The rest of the agricultural sector remains highly labor-intensive, and half of outputs generated are at subsistence levels. In addition, agriculture production is heavily dependent on rain, leaving it vulnerable to boom and bust cycles, and continued deforestation and climate change contribute to land degradation and weather variability.

The Government of Kenya has designed a reform agenda focused on market-led agricultural policy and investments, as articulated in the Agriculture Sector Development Strategy and the Comprehensive African Agricultural Development Compact. These plans fit into the country‘s broader development strategy outlined in Kenya‘s Vision 2030—the government‘s 20-year economic development plan to transform Kenya into a middle-income country by achieving annual economic growth rates of 10 percent. The first five-year plan calls for investments in tourism, agriculture, manufacturing, trade, information technology, and financial services.

Against this backdrop and in support of Kenya‘s Vision 2030 agenda, KARF sought to help Kenya improve its food security situation – in terms of both the availability of food and consumers‘ ability to purchase it – by developing financial models that enable smallholders and small and medium-sized enterprises (SMEs) to invest in improved production, processing, and marketing of staple foods and other important commercial crops. Food yields, market linkages, and producers‘ incomes naturally increase as investments are made in key value chains including staple crops, horticulture, omena fish, dairy, and livestock as value-added food moves from production into end markets.

KARF implemented an opportunistic approach to ensure that appropriate financing was available where possible and that it served as an enabler for improving the availability of productivity-enhancing inputs and services, post-harvest and processing technologies, transport, marketing and trade. However, the unanticipated outcome of the election in December 2007 that led to the destabilizing results of post-election violence forced the program to focus on assisting the distressed microfinance and SACCO sectors. KARF therefore reprogrammed resources away from agriculture finance and directly to peace building, social reconstruction and loan guarantees for the sector.

4. KARF APPROACH AND PRINCIPLES

KARF's guiding approach and operating principles were firmly centered on facilitating opportunities to support the growth and development of the financial services industry through the identification of opportunities, risk sharing and technical assistance. This approach created the conditions for KARF to grow USAID Kenya's DCA loan guarantee program into one of the US government's largest portfolios in the world. At the conclusion of KARF, the guarantee program had a total of nine facilities covering SME, agriculture, community water, micro-health insurance and grain warehouse receipting. In addition, KARF introduced a new agriculture value chain research methodology, product development process and financial institution partnership model. KARF worked across multiple commodities including maize, finger miller, avocados, dairy, fish and livestock throughout Kenya and also in cross border trade finance with Uganda. The methodology was widely accepted by banks and MFIs as innovative and customized to their needs.

The program, during its final semester, provided crucial support to the Central Bank of Kenya based on a formal request from the government of Kenya to USAID. KARF worked to support the CBK's three pillars of stability, efficiency and inclusion. The program provided capacity building in the areas of crisis management, anti-money laundering, agency banking, risk-based microfinance supervision and credit reference bureaus. As a result of this critical support, the CBK and other government institutions, such as the Kenyan Treasury, have requested additional follow-on assistance from USAID in the policy arena to ensure future stability of the financial system and increase inclusion to underserved segments of the Kenyan population.

Throughout the life of the program, KARF was both opportunistic, reacting to industry needs following the consequences of post-election violence and answering a call for assistance from the Central Bank of Kenya, while identifying and targeting support to financial institutions through the Development Credit Authority loan guarantee program in community water, micro-health insurance and agriculture, in addition to developing partnerships with financial and non-financial actors in agriculture value chain finance.

KARF worked with a range of financial and non-financial partners, including MFIs, SACCOs and banks, local and international consultants and leading agriculture firms. As a result, the Program built local capacity at all levels, helping develop the financial sector in areas previously underserved across key agriculture commodities, SME finance and policy reform.

KARF leveraged significant financial resources through it partners, greatly exceeding the value of its contract through the private sector and through contributions from the public sector. In doing so, the Program was able to bring new financial products and services to the marketplace into segments of the economy previously excluded.

5. ACHIEVEMENTS

USAID designed KARF to achieve a combination of specifically designed indicators. The Program met or exceeded each benchmark.

Indicator	LOP Target	End of Project	Variance
1.1 Outreach to new rural borrowers and depositors extended to 250,000	250,000	319,287	+69,287
1.2 Value of loans to new borrowers extended to $87,500,000 including $750,000 in value chain lending	$87,500,000 $750,000	$160,379,149 $1,510,742	+72,879,149 +760,742
1.3 Number of New Rural and Agricultural Finance Products Increased to 10 (agriculture sector) and 10 (non-agriculture sector)	10 10	27 10	+17 -
1.4 Number of Local Service Providers Utilized Increased to 25 with 10 Able to Carry-on Activities	25 10	27 27	+2 +17
1.5 Non-traditional Value-chain Credit Sources (Exporters, Processors, Input Suppliers) Increased to 38	38	72	+34
1.6 Portfolio at Risk for New Rural Borrowers Less Than 2.5%	2.5%	<1.5%	-1.0%
1.7 Rural and Agricultural Finance Market Assessment (gender analysis included)	Report	Complete	None

Outreach to new rural borrowers and depositors extended to 250,000

The Program greatly exceeded its End-of-Project target by 69,287 or 27%. These numbers were primarily driven by DCA wholesale and retail lending through the post-election violence facility.

Value of loans to new borrowers extended to $87,500,000 including $750,000 in value chain lending

KARF surpassed both indicators by a wide margin, approaching 100%. These figures were significantly driven by DCA results, although the latter was done exclusively in the avocado value chain.

Number of New Rural and Agricultural Finance Products Increased to 10 (agriculture sector) and 10 (non-agriculture sector)

New agriculture finance products were designed in dairy (13), omena (5), livestock (5) and avocadoes (4)

New non-agriculture products totaled 10: Ideal Matunda, group lending, table banking (3); Cameta, group lending, table banking (3); and, DCA (4).

Number of Local Service Providers Utilized Increased to 25 with 10 Able to Carry-on Activities

KARF worked with a large and diverse range of service providers, including: industry associations, banks, MFIs, SACCOs, research bodies, government agencies, consultants and trainers. All were able to carry-on activities at the conclusion of KARF.

Non-traditional Value-chain Credit Sources (Exporters, Processors, Input Suppliers) Increased to 38

Since a dearth of credit sources for agriculture are active in Kenya, all financial service providers were characterized as non-traditional (since they, as a class, have limited exposure as well). Therefore, partner financial institutions active in the space totaled 72, far exceeding the target. Those institutions were obtained through: K-Rep water boards and CBOs (DCA – 4, non-DCA – 9); Equity wholesale MFIs and SACCOs (DCA – 3, non-DCA – 49); and Oiko Credit wholesale MFIs and SACCOs (DCA – 6, non-DCA – 1).

Portfolio at Risk for New Rural Borrowers Less Than 2.5%

The reported PAR was less than 1.5% per reports providing by banking and other financial partners, especially those included in the DCA portfolio.

Rural and Agricultural Finance Market Assessment (gender analysis included)

The assessment was included in FSD Kenya and FAP‘s FinAccess Survey 2009.

6. CONCLUSIONS

DCA loan guarantees have proven overtime to produce significant results for USAID Kenya at a low-cost/high-benefit ratio if actively managed and supported with targeted technical assistance and training. The guarantees are multi-year and therefore necessitate ongoing USAID support, without gaps between funded programs, to generate results through documented reporting. In addition, relationships established with financial institutions, built on long-term partnerships and trust, yield on-going requests to support new innovations that underpin continuous investments in production, driving economic growth and development.

Equally important are USAID‘s investments in agriculture finance – requiring a multi-year and a long-term perspective. Developing customized products for value chains requires time and a consistent approach but KARF has demonstrated that financial institutions are willing partners when provided with high-quality consulting services. These partners are also prepared to commit significant levels of private capital to finance investments when products are contextualized to the operational environment throughout a specific value chain and at each transaction point, especially when data is quantified and linked to the financial profitability of not only value chain actors but the financial institutions.

Financial sector policy reform has created the conditions for ongoing innovation, especially in mobile money transactions, branchless banking, credit bureaus and microfinance – together all areas continue to improve efficiency and expand the frontier of access for people and businesses in need of financial services. Equally important, however, is the stability of the financial sector. One exogenous event or an internal crisis has the potential to destabilize and negatively affect the ongoing safe and sound evolution of financial sector development and economic growth. Policy reform requires the multi-year involvement of USAID and a long-term vision. USAID Kenya has strong relationships with the Central Bank of Kenya and the Ministry of Finance based on the success of working together on a common platform over many years. Supporting crucial reforms with these two key partners are critical to the success of USAID‘s other financial sector activities and the economic prosperity of the country.

Women are increasingly becoming higher priority targets of banks and other financial service providers for their products. Institutions are also customized products for ―women-only" based on their specific needs. KARF has reported new ―women-only" products developed by two partners and lending has increased to women-owned businesses and to women as household heads for utilities (water) and health insurance. It is anticipated agriculture products will be developed specifically for women since they are involved throughout all levels of value addition. These are positive signals and USAID Kenya will continue to support ongoing innovation in this gender segment.

Credit in various forms is the unifying embedded structure in the global economy. Credit underpins the monetary system, investment financing, government deficit financing, trade, letters of credit, bond markets, business and personal debt, etc. Credit and the promise of future economic growth supports stock markets, production, employment, wealth creation, national budgets, individual livelihoods and much else. It is the primary infrastructure of all economies. The recent global economic crisis attests to this important fact. USAID‘s involvement in the financial sector is critically important to the economic growth of Kenya and the prosperity of its people.

USAID has long supported the development of the financial sector in Kenya. The array of investments deployed to institutions and people have far outstripped initial costs, yielding success upon success which has, in turn, created the conditions for further involvement of the United States government to advance the sector‘s growth for the benefit of Kenyans excluded from the financial system. Measured in terms of cost/benefit, USAID Kenya‘s modest program investments supporting innovation in the financial sector have produced many multiples of leverage to US government monetary outlays. Viewed through this lens, targeted investments in capacity building and technical assistance have generated millions of dollars in additional private sector capital leveraged and intermediated into the Kenyan economy by locally-owned, private-sector, commercial, financial institutions.

Very recently, USAID Kenya has begun supporting agriculture value chain finance – agriculture, a cornerstone of the economy upon which most Kenyans depend and a crucial sector to economic growth that has long been neglected by financial institutions. The methodology deployed by USAID Kenya is pioneering and new to the Kenyan marketplace. It is data driven and based on statistical analysis and quantitative research which informs product development, leading to market-led and demand-driven partnership with financial institutions. The methodology is rigorous and widely accepted by Kenyan private-sector partners as best practice.

USAID Kenya has developed multiple MOUs with financial institutions to pilot new products across wide geographies and in marginalized populations. Engagement in this far-too-long neglected area is expected to produce significant numerical results by improving the functionality and profitability of value chains throughout multiple agricultural commodities, making finance a reality for farmers and small businesses upstream in the chain through the end market. Based on USAID Kenya‘s previous experience in supporting the growth and development of the financial sector, it is anticipated that success will beget success, further driving demonstration in agriculture finance and greatly expanding access and the availability of credit to grow small businesses that will unlock the entrepreneurial aspirations for millions upon millions of Kenyans.

USAID Kenya‘s long-term relationship with and assistance to the financial sector has produced quantifiable results and leveraged local private sector capital, providing clear evidence that further engagement will yield similar outcomes and is therefore warranted. Moreover, USAID‘s involvement overtime has not been static; it has evolved with the ongoing needs of the sector, allowing financial and technical support to advance institutions, products and policy reforms opportunistically moving from one level of assistance to the next. Under USAID Kenya‘s upcoming program – Financial Inclusion for Rural Microenterprises (FIRM) – the US government will build upon its long-track record of success by entering new areas considered important to the sustainable evolution of the financial sector in agriculture, clean energy, information communications technology, gender, youth and policy reform. The opportunity for continued innovation in the financial sector offers exciting prospects for the US government to maintain and expand its support.

SECTION II

1. ACHIEVEMENTS AND LESSONS

ACTIVITY 1: MICROFINANCE INDUSTRY SUPPORT TO ADDRESS POST ELECTION VIOLENCE

Objective and Approach

The KARF contract was effective on Oct 1, 2007. Three months later, national elections were held that led to Post-Election Violence (PEV). The knock-on effects of PEV brought on significant devastation throughout Kenya, causing significant harm to the economy and the financial services industry. Small financial institutions, particularly SACCOs and MFIs, less capitalized, rural based and serving marginalized clientele, were more broadly and deeply injured.

As a result of PEV, USAID answered a call for assistance from the MFI industry through the Association of Microfinance Institutions (AMFI) to help stabilize the sector and assist specific institutions. USAID partnered with FSD Kenya and its main funding agency, DFID, to provide immediate and much needed support.

USAID‘s involvement was unforeseen and driven by urgency given the destruction and damage experienced throughout the sector and on the lives and livelihoods of individuals and their families. Therefore, KARF‘s objective was to provide assistance, partnering with others, where necessary, and the Program‘s approach was opportunistic but centered on two key pillars.

Activities

First, PEV caused significant decapitalization throughout the MFI and SACCO sectors. Many branches were damaged to various degrees and clients were forced to flee their places of business and homes as were employees of financial institutions. Immediate infusions of capital were required to refinance and restructure loans and rebuild premises. KARF began working with the Office of Development Credit to structure a wholesale loan guarantee to assist the troubled sector on commercial terms. A $10 mm facility was quickly arranged, partnering with Oiko Credit and Equity Bank. DFID, through FSD, financed the subsidy to underwrite the premium paid to the US Treasury to cover anticipated losses, approximately $450,000 – only the second time the subsidy was financed by a partner external to USAID.

Immediately after the facility closed, Oiko and Equity began lending into the sector, supporting both MFIs and SACCOs predominantly located in rural areas. Without the assistance provided by USAID, many of these institutions would have faced closure and, in turn, they would have been unable to provide a necessary lifeline to their clientele in desperate need of finance to rebuild businesses and livelihoods.

Second, the industry galvanized behind the idea that it played a crucial role, given their wide footprint throughout the country and far reaching client base, in forestalling the potential for future instability. The industry also recognized and fully understood that its economic interests were fully aligned with the notion of a safe and prosperous country and, equally important, it played a crucial role in maintaining ongoing political stability. KARF quickly responded to the industry‘s request for assistance by leveraging the human resources of and network developed by DAI‘s recently closed Conflict Prevention and Mitigation Response (CPMR) program funded by USAID. KARF sourced two local peace activists to lead the effort. Numerous activities were undertaken to build awareness and garner buy-in for a larger peace building and prevention intervention channeled through AMFI‘s membership.

Ultimately, an institutional and clientele training program was developed and delivered through KARF. Based on its success, the activity was modified into a trainer of trainers (TOT) program and delivered by MFI and peace experts together. It was then institutionalized throughout AMFI‘s network of leading MFIs and they were, eventually, able to carry on the activity themselves without further assistance from FIRM.

Results

Two main results were achieved.

The microfinance and SACCO sectors recognized that it had an important role to play in helping rebuild a significant portion of the financial services industry following PEV. In addition, the industry acknowledged, albeit belatedly, that it also could serve as a leading force to prevent the potential for future instability if the correct steps were taken, systems put into practice, exiting peace networks leveraged, etc. The industry now has the tools to accomplish both important functions.

Likewise, USAID, through the Office of Development Credit, demonstrated it can play an important leadership role and react quickly to an evolving national crisis with far reaching implications by working together with public and private sector partners to inject needed liquidity into a troubled financial sector on commercial terms.

Lessons

USAID was flexible in its response, allowing KARF to redirect resources not programmed to assist the troubled microfinance and SACCO sector. Shifting planned support from intended areas of assistance – rural, agriculture finance – meant that KARF‘s implementation was somewhat forestalled. However, given the general state of nationwide instability for the months following PEV, KARF was limited in its geographic scope. Nonetheless, the Program eventually resumed its intended focus and met its planned benchmarks while providing necessary assistance to the financially distressed sector.

The primary lesson learned from the PEV experience dictated that USAID should remain flexible and attend changes brought about by unforeseen circumstances, especially during tense periods that precede and succeed elections. Furthermore, USAID has room to bolster government surveillance systems, particularly working with the Central Bank of Kenya in stability through crisis management. The CBK‘s three pillars (stability, efficiency and inclusion) are equally important to maintain an evolving financial system. It is sometimes difficult to build an argument supporting macroeconomic policy support in stability and crisis management. The case of PEV and the worldwide financial crisis clearly lend credence to supporting the CBK, other government institutions and the private sector in this crucial area.

Recommendations/Next Steps/Remaining Challenges and Opportunities

USAID should remain flexible as need arises. With another election looming in 2012, it should also, as a precaution, revisit the potential for pre- and post-election well before Kenyan goes to the polls. To accomplish this, USAID should work with AMFI and FSD in the months leading to the upcoming election as a precautionary measure by revisiting the peace building and mitigation response initiatives put into place under KARF. These actions will hopefully limit potential problems going forward. USAID should plan for this in its current and future programming initiatives. It should also work closely with the Central Bank of Kenya on related stability and crisis management arrangements.

ACTIVITY 2: DEVELOPMENT CREDIT AUTHORITY

Objective and Approach

KARF‘s guiding approach and operating principles were firmly centered on facilitating financial transaction to support the growth and development of the financial services industry through the identification of opportunities, risk sharing and technical assistance. This approach created the conditions for KARF to grow USAID Kenya‘s DCA loan guarantee program into one of the US government‘s largest, most diverse and productive portfolios in the world.

Activities

At the conclusion of KARF, USAID had nine DCA loan guarantees in place covering a range of financial products ranging from SME, community water, post- election violence liquidity, micro-health insurance and agriculture (summary table below). The majority of the facilities were Loan Portfolio Guarantees (LPGs) – credit enhancements directly supporting lending by a financial institution to a specific sector where the institution was adequately capitalized to on-lend its own resources. The guarantees to Faulu and Lesiolo were Portfolio Guarantees – institutional guarantees allowing each to source commercial finance from a bank to support their lending into an intended sector since they required an injection of capital to support operations.

Over three years, KARF helped add six DCAs to USAID Kenya‘s guarantee portfolio. Four were closed in 2008 for $20 million with K-Rep (community water, $5 million), Oiko/Equity (post-election violence liquidity, $10 mm) and Faulu (micro-health insurance, $5 mm).

An additional two new guarantees were closed in September 2010, the final month of the Program, in support of USAID‘s evolving Feed the Future (FtF) strategy and in agriculture with Kenya Commercial Bank and Lesiolo Grain Handlers for a combined total of approximately

$10 million. The Lesiolo guarantee is unique since it supports a private sector storage facility for maize warehouse receipting.

It is anticipated that both new agriculture guarantees will begin producing in early calendar year 2011.

DCA Summary Table (September 2010)

Partner Financial Institution	DCA Support For	Guarantee Value
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	$3,200,000
2. K-Rep Bank	Community water	$5,000,000
3. Fina Bank	SME	$5,000,000
4. Kenya Commercial Bank	SME	$7,900,000
5. Equity Bank	Post-election violence liquidity	$5,000,000
6. Oiko Credit	Post-election violence liquidity	$5,000,000
7. Faulu	Micro-health insurance	$5,000,000
8. Kenya Commercial Bank	Agriculture, general	$5,750,000
9. Lesiolo Grain Handlers	Agriculture, grain warehousing	$4,280,000
	Total:	**$46,130,000**

Results

The first two tables depict aggregated DCA results over the three-year life of KARF. The remaining tables list figures per each institution. Brief written descriptions attend each table.

Table 1: DCA Results, Years 1 – 3, Value of Loans

Year	Guarantee Value (new, closed during KARF)	Utilization	Additionality	Total
Year 1	$20,000,000	$4,688,902	$9,589,962	$34,278,864
Year 2	-	$9,558,295	$36,878,307	$46,436,602
Year 3	$10,030,000	$15,514,125	$54,089,558	$79,663,683
Total	**$30,030,000**	**$29,761,322**	**$100,557,827**	**$160,379,149**

Six new DCAs were added during KARF.

In year 1, four new DCAs were added to the portfolio. Financial institutions (FIs) began lending more in ‗additionality' opposed to directly booking loans to ‗utilization.' This was partly due to the relative age of each facility, the FI's increased understanding of how to better use the SME product and manage its risk and the financial disincentive of booking loans under DCA and paying a fee to do so (for a less risky and better understood loan). Each of these is an indicator of success.

In year 2, no new DCAs were added. The post-election violence facilities were immediately used as designed and lending increased dramatically, especially in ‗additionality.‘ The facility was developed for Oiko and Equity to on-lend to MFIs and SACCOs. These loans were typically one lump sum amount. However, the institutions on-lent to their clientele, helping individuals rebuild their lives and livelihoods. KARF collected information from Oiko on both its wholesale (utilization) and its retail through partners (additionality.)

In year 3, two new DCAs were added for agriculture in support of USAID FtF strategy. Again, additionality greatly expended with the aging SME facilities and the Oiko and Equity post-election violence facilities generating higher volumes of lending through MFIs and SACCOs and to businesses and individuals.

Table 2: DCA Results, Years 1 – 3, Number of Loans

Year	Guarantee Value (closed during KARF)	Utilization	Additionality	Total
Year 1	4	650	35,125	35,779
Year 2	-	683	59,837	60,520
Year 3	2	845	222,143	222,988
Total	**6**	**2,178**	**317,105**	**319,287**

The number of loans booked under ‗utilization‘ are much smaller than those under ‗additionality‘ for the following reasons: in year 1, ‗additionality includes loans made by a lead firm working in avocadoes; in year 2, wholesale lending under post election violence begins to generate large volumes under retail; in year 3, gains are further bolstered by Equity‘s significant ramp up and reflected in the smaller net loan size.

Table 3: Value of loans in USD Year 1

Partner Financial Institution	DCA Support For	Guarantee Value	Utilization	Additionality	Total
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	Closed before KARF	$491,812	$2,456,791	$2,948,603
2. Fina Bank	SME	Closed before KARF	$1,681,214	$2,720,778	$4,401,992
3. Kenya Commercial Bank	SME	Closed before KARF	$2,515,876	$4,081,165	$6,597,041
4. K-Rep Bank	Community water	$5,000,000	-	-	$5,000,000
5. Equity Bank	Post-election violence liquidity	$5,000,000	-	-	$5,000,000

6. Oiko Credit	Post-election violence liquidity	$5,000,000	-	-	$5,000,000
7. Faulu	Micro-health insurance	$5,000,000	-	-	$5,000,000
8. Ideal Matunda	Agriculture (non DCA)	-	-	$203,250	$203,250
9. Cameta	Rural finance (non DCA)	-	-	$127,978	$127,978
	Total:	**$20,000,000**	**$4,688,902**	**$9,589,962**	**$34,278,864**

In year 1, additionality began to exceed utilization but not by a very wide margin and KCB's larger balance sheet and emphasis on SME begins to show as it starts to lend more than its rivals.

Table 4: Number of loans in USD Year 1

Partner Financial Institution	**DCA Support For**	**Guarantee Value**	**Utilization**	**Additionality**	**Total**
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	Closed before KARF	56	340	396
2. Fina Bank	SME	Closed before KARF	224	475	699
3. Kenya Commercial Bank	SME	Closed before KARF	370	602	972
4. K-Rep Bank	Community water	1	-	-	1
5. Equity Bank	Post-election violence liquidity	1	-	-	1
6. Oiko Credit	Post-election violence liquidity	1	-	-	1
7. Faulu	Micro-health insurance	1	-	-	1
10. Ideal Matunda	Agriculture (non DCA)	-	-	22,500	22,500
11. Cameta	Rural finance (non DCA)	-	-	11,207	11,207
	Total:	**4**	**650**	**35,125**	**35,779**

Each FI has more additional clients, an indicator of a successful DCA program. Ideal and Cameta disburse thousands of loans using a group methodology and KARF begins working with both to improve their approach to financial services, especially Ideal Matunda.

Table 5: Value of loans in USD Year 2

Partner Financial Institution	DCA Support For	Guarantee Value	Utilization	Additionality	Total
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	Closed before KARF	$2,050,602	-	$2,050,602
2. Fina Bank	SME	Closed before KARF	$725,676	$1,756,784	$2,482,460
3. Kenya Commercial Bank	SME	Closed before KARF	$2,648,800	$11,628,675	$14,277,475
4. K-Rep Bank	Community water	-	$66,258	$1,629,619	$1,695,877
5. Equity Bank	Post-election violence liquidity	-	$533,334	$4,593,692	$5,127,026
6. Oiko Credit	Post-election violence liquidity	-	$3,533,625	$16,646,922	$20,180,547
7. Faulu	Micro-health insurance	-	-	-	-
8. Ideal Matunda	Agriculture (non DCA)	-	-	$622,615	$622,615
9. Cameta	Rural finance (non DCA)	-	-	-	
	Total:		**$9,558,295**	**$36,878,307**	**$46,436,602**

K-Rep Bank began to experience financial problems and initiated a restructuring program; hence, their reduced lending from the previous year and no additionality. Likewise for Fina, it began to experience loan portfolio quality issues, stemming from the knock-on effects from post-election and the world-wide economic crisis; as a result, its lending began to decline. KCB, again leveraging its larger balance sheet and stable governance structure, greatly improved it lending over the previous year, especially in the area of additionality by intelligently using the facility for its most risky and loans, in addition to launching new related loan products in microfinance and women SMEs.

Equity began using their facility but booking more loans outside the guarantee, using it strategically. KARF did not track Equity‘s retail lending through it partners. Equity did not collect the information. Oiko‘s additionality was high since KARF was able to collect retail information on its partner‘s on-lending.

Ideal's lending increased as it worked more closely with KARF on a range of financial products and services, including leases for factory and equipment, plus a significant restructuring of its business model and embedded credit system for smallholder outgrowers.

Table 6: Number of loans in USD Year 2

Partner Financial Institution	DCA Support For	Guarantee Value	Utilization	Additionality	Total
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	Closed before KARF	151	-	151
2. Fina Bank	SME	Closed before KARF	61	109	170
3. Kenya Commercial Bank	SME	Closed before KARF	459	5009	5,478
4. K-Rep Bank	Community water	-	2	9	11
5. Equity Bank	Post-election violence liquidity	-	2	54	56
6. Oiko Credit	Post-election violence liquidity	-	8	50,368	50,376
7. Faulu	Micro-health insurance	-	-	-	-
8. Ideal Matunda	Agriculture (non DCA)	-	-	4,288	4,288
9. Cameta	Rural finance (non DCA)	-	-	-	-
	Total:	**-**	**683**	**59,837**	**60,520**

The number of loans decreased for K-Rep (SME) and Fina, resulting from internal and external difficulties. KCB continues to grow; K-Rep (water) begins making loans but the less risky ones are booked outside the DCA. Equity's fifty-four additional loans are to institutions, not retail loans through wholesale FIs, since Equity does not track the information. Oiko's additional loans are retailed through their partners to individuals and businesses.

KARF's assistance to Ideal significantly reduces the number of farmers Ideal contracts; although, the quantity and quality of fruit it purchases dramatically increases. Ideal directly exports to Greece and South Africa, not using a local export firm. Processing of grade II fruit into crude cosmetic oil is introduced for export. As a result, Ideal's financial performance greatly improves.

Table 7: Value of loans in USD Year 3

Partner Financial Institution	DCA Support For	Guarantee Value	Utilization	Additionality	Total
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	Closed before KARF	$2,255,662	-	$2,255,662
2. Fina Bank	SME	Closed before KARF	$798,244	$1,932,462	$2,730,706
3. Kenya Commercial Bank	SME	Closed before KARF	$2,913,680	$12,791,543	$15,705,223
4. K-Rep Bank	Community water	-	$72,884	$1,792,581	$1,865,465
5. Equity Bank	Post-election violence liquidity	-	$586,667	$18,576,481	$19,163,148
6. Oiko Credit	Post-election violence liquidity	-	$3,886,988	$18,311,614	$22,198,602
7. Faulu	Micro-health insurance	-	5,000,000	-	5,000,000
8. Kenya Commercial Bank	Agriculture, general	$5,750,000	-	-	$5,750,000
9. Lesiolo Grain Handlers	Agriculture, grain warehousing	$4,280,000	-	-	$4,280,000
10. Ideal Matunda	Agriculture (non DCA)	-	-	$684,877	$684,877
11. Cameta	Rural finance (non DCA)	-	-	-	
	Total:	**10,030,000**	**$15,514,125**	**$54,089,558**	**$79,663,683**

Both K-Rep (SME) and Fina increase lending as they both improve their financial conditions, although each is still conservative and in recovery. K-Rep (water) has lowered than anticipated utilization, attributable to the unplanned difficulties working with and through the government of Kenya on securing licenses and permits. The bank has a large backlog and pipeline of loans.

KCB has almost fully exhausted it DCA facility threshold and it drastically ramps up it additional lending.

The post-election violence facilities continue producing excellent results. KARF extrapolates retail lending for Equity based on historical Oiko information but much more conservatively (Equity has a much larger wholesale, additional, portfolio than Oiko).

Faulu secured its portable loan from Bank of Africa and two new facilities were added to the overall DCA portfolio.

Table 8: Number of loans in USD Year 3

Partner Financial Institution	DCA Support For	Guarantee Value	Utilization	Additionality	Total
1. K-Rep Bank	Women-owned SME (small, medium enterprise)	Closed before KARF	189	-	189
2. Fina Bank	SME	Closed before KARF	76	136	212
3. Kenya Commercial Bank	SME	Closed before KARF	574	6,261	6,835
4. K-Rep Bank	Community water	-	3	11	14
5. Equity Bank	Post-election violence liquidity	-	1	147,415	147,416
6. Oiko Credit	Post-election violence liquidity	-	2	62,960	62,962
7. Faulu	Micro-health insurance	-	-	-	-
8. Kenya Commercial Bank	Agriculture, general	1	-	-	
9. Lesiolo Grain Handlers	Agriculture, grain warehousing	1	-	-	-
10. Ideal Matunda	Agriculture (non DCA)	-	-	5,360	5,360
11. Cameta	Rural finance (non DCA)	-	-	-	-
	Total:	**2**	**845**	**222,143**	**222,988**

Post-election liquidity produce large numbers of loans as expected. Under additionality for Equity, fifty four institution wholesale loans are included. The remaining and larger balance is extrapolated across Equity‘s very large portfolio of loans to MFIs and SACCOs not booked under the facility and based on usage by Oiko‘s partners.

Equity made the decision shortly after introducing its wholesale product in partnership with USAID not to use the facility to a high degree, claiming it distorted the bank‘s employee incentive program. Still, the product was designed in tandem with placing the DCA facility. The unused portion of the facility should be moved to Oiko since they have expressed the need to use it. If so, USAID will most likely not track Equity‘s results since the facility will have closed.

Lessons

DCA is an important tool that – when structured, used and monitored correctly – can significantly lower a FI‘s threshold for risk and reduce entry barriers in new product areas or other customer segments. In the past, USAID has been opportunistic, generally responding to requests from FIs. USAID is now positioned to structure targeted facilities, aligning facilities with its overarching objectives such as Feed the Future.

Collecting, analyzing and reporting information to USAID is often problematic, particularly with bigger institutions and/or complicated facilities. More resources should be devoted to collect all the information available to programs and to better work with partner financial institutions.

Recommendations/Next Steps/Remaining Challenges and Opportunities

USAID should continue providing technical and reporting assistance to its partners, especially with FIs new to DCA or troubled in one way or another. A new USAID program or the mission itself should collect and report information but much more intensively than done under KARF. This will require a greater application of funding.

USAID or a new program should also work with the new and future DCAs on providing consulting and technical assistance through the Value Chain Finance Center – important if agriculture is involved.

ACTIVITY 3: RURAL AND AGRICULTURAL FINANCE PRODUCT INNOVATION

Objective and Approach

KARF‘s overall objective was centered on pushing the frontier of financial services into rural areas through product innovation and particularly in agriculture. To accomplish this, the Program introduced a new research and product development methodology focused on qualitative rather than quantitative factors. The empirically-based numerical emphasis was widely accepted by financial and non-financial institutions; it generated far reaching interest, leading to partnership and growing demand for research and product development in additional value chains.

Activities

In agriculture value chain finance, KARF partnered with Financial Services Deepening Kenya (a DFID and World Bank trust) to support financial product development in the dairy sector.

KARF undertook the initial analytical assessment of the value chain that led to qualified interest and demand from private-sector financial institutions. FSD financed product development for commercial banks with technical assistance provided through KARF. Memorandums of Understanding – partnership agreements – were signed with Kenya Commercial Bank, K-Rep Bank, Post Bank and Cooperative Bank of Kenya to develop and pilot financial products for farmers, entrepreneurs and small businesses throughout the dairy value chain. Additional institutions expressed interest, including: Equity Bank, Family Bank, Faulu (a licensed microfinance institution) and Imperial Bank, among others.

Relationships across each institution evolved differently and at distinctive tempos with KCB and K-Rep as the most advanced. KCB, the largest bank in Kenya by assets, committed $25 million to finance agriculture in partnership with USAID, a large portion reserved for the dairy sector and supported by technical assistance. Branch personal at seven locations in Rift Valley were trained in two products (medium-sized assets – processing and transportation – and herd improvement) with piloting anticipated during the last quarter of calendar 2010. K-Rep received funding agreements from the Acumen Fund, Grameen Foundation, Rockefeller Foundation, Deutsche Bank and a handful of others for around $3 million to support dairy finance but the bank did not receive funding in fiscal 2010. K-Rep was trained in one product and piloted it, a small scale transport product in their Kitale branch of Western Kenya, lending approximately $30,000. USAID should follow these pilots and develop lessons to help inform future interventions in the sector and assist the banks with a larger rollout in existing locations and new geographic areas.

KARF worked with Post Bank to find a suitable partner to intermediate deposits into loans since the bank is unable to on-lend savings per existing Kenyan legislation. One partner was identified, a small, innovative MFI, but unfortunately it did not meet due diligence criteria established jointly by Post Bank and KARF. The search continued for an appropriate partner or partners working closely with the bank and prospective candidates. Cooperative Bank was poised to move rapidly but it sought to work through its network of dairy societies. KARF began the process of conducting due diligence on a long list of societies to ensure that each had the proper capacities, systems and controls in place. Meticulous work continues in this area with Cooperative and its network of societies.

KARF analyzed and researched the omena (fish) value chain in Nyanza province along Lake Victoria. Again, financial products and services were developed for the entirety of the chain. Interest was high within the financial community and Unga Kenya Ltd, a subsidiary of Seaboard Corporation, headquartered in the United States and a Fortune 1000 company. The operating environment in the Lake Victoria area is complex given that the region has one of the highest HIV rates in the country. KARF continued working through issues related to business development, health and financial services throughout the year.

At the end of the fiscal year during the final month of the Program, KARF completed another assessment in the livestock value chain in the Arid and Semi-Arid Lands around the city of Garissa in Northeastern province. USAID will use the findings from that report to support a new program launched in the livestock sector.

Lastly, KARF continued to support financial services in the avocado value chain in Central province working with a lead, private-sector firm engaged in the export of grade one avocados for supermarkets and oil for the cosmetic industry in Europe and South Africa.

Results

KARF introduced an innovative approach to agriculture finance that was roundly endorsed by financial and non-financial sector value chain participants. This led to an important partnership with FSD to drive out product development in dairy. Later, the partnership was strengthened through the production of a study that prioritized finance for agriculture across a number of value chains. Finally, KARF and FSD conceptualized a mechanism called the Value Chain Finance Center to work in agriculture finance. The overarching objective of the Value Chain Finance Center will be to strengthen agricultural value chains through developing appropriate and sustainable finance. It will achieve this by tackling the identified information failure in agricultural and related financial markets. At the core of the Center‘s strategy will be undertaking and applying rigorous quantitative research on selected high impact rural value chains with an identified prospective finance gap.

Experience shows that financial institutions in Kenya currently lack the capacity to deploy this type of quantitative research effectively. Indeed many institutions do not fully appreciate the power of these analytical, data-based techniques in helping to identify market opportunities and exploit them effectively through tailored product design and risk management techniques followed by proven product testing, piloting and expansion, leveraging the financial institution‘s own capital. The Center‘s immediate impact on financial market development will be through providing direct technical assistance to Kenya‘s financial services providers to realize commercially viable opportunities for value chain financing. This will provide direct results through the development and roll-out of new products but it will also offer an important demonstration effect.

In order to ensure that the demonstration effect reaches a wider audience across the market it will be necessary to strongly document and disseminate the results from this product development work. Financial institutions will comprise the core audience for the dissemination of data, analysis and lessons on value chain financial product development. However many other non-financial firms, non-governmental organizations, development programs and government institutions are involved in value-chains and provide complementary, non-financial support. The Center will ensure that its information resources are accessible to these players.

Finally, based on emerging demand the Center will assist regulators to understand and ultimately play a responsible role in disseminating intelligence regarding the risks and benefits of financing agriculture by Kenya‘s various financial services providers.

Lessons

Finance is a key constraint to making agriculture function at maximum levels of productivity and efficiency. Since the vast majority of producers in Kenya are smallholder farmers, the paucity of finance available to improve agriculture negatively affects their lives and livelihoods. In many, if not most cases, the situation keeps people locked into poverty. Given the government of Kenya's history of involvement in agriculture markets, the constant cycle of draught and the sometimes exogenous event (political-related violence), financial service providers have been reluctant to operate in agriculture below the well capitalized corporate sector.

KARF's approach was centered on working with and through financial institutions but in a new and different way – clearly demonstrating where profits are made (or not) at each node of the value chain, then designing suitable products and services based on that information and, last, partnering to launch products into the traditionally underserved marketplace.

The agriculture value chain finance methodology introduced under KARF was enthusiastically accepted by financial and non-financial institutions as most appropriate to their needs. Therefore, it pasted the ‗proof of concept' test insofar as the interest garnered was very high. However, working through the entire process – (1) conducting extensive field research throughout each point of value addition, (2) analyzing the information, (3) developing appropriate financial products and services, (4) recommending them to financial providers, (5) partnering with the institutions and (6) piloting the products and services – is time and labor intensive.

Recommendations/Next Steps/Remaining Challenges and Opportunities

It will take time to firmly cement KARF's value chain approach into the Kenyan financial services and agricultural marketplace. Therefore, USAID should exercise patience since the methodology is new and many Kenyan are still skeptical about agriculture finance.

The partnership with FSD to create the Value Chain Finance Center is an excellent opportunity for USAID to leverage other donor resources and build something viable that can have a long lasting and positive effect on agriculture and the smallholder in particular. It is highly recommended that USAID, in partnership with FSD, help create and provide capacity building to the VCFC, using the center as the vehicle to channel finance to agriculture value chains. FSD has a long-term position in the marketplace as a multi-donor funded trust; its interests are aligned with USAID's on the importance of finance for agriculture and, particularly, to benefit smallholders; FSD is well capitalized and able to compliment USAID's funding; and, the Center, as a specialized provider, can serve to support USAID's ongoing programs in horticulture, dairy, stables, livestock and other areas.

ACTIVITY 4: DONOR COORDINATION AND COLLABORATION

Objective and Approach

The financial services space is populated by numerous donor programs, some large – FSD Kenya, FLSTAP, IFAD, etc. – and some very small. These interventions cover a range of activities including policy reform, agriculture finance, loan guarantees, grants and subsidies to financial intermediaries, among others. Many are grounded in the principles of best practice, although not all. Before KARF, little coordination and sharing of information took place. As a result, USAID and FSD called together major funding agencies, bi- and multi-lateral, to develop an informal body as a mechanism to help coordinate resources and share information through a monthly meeting forum called the Financial Sector Donor Working Group (FSDWG). The group is comprised of USAID, FSD, the World Bank, the IFC, IFAD, FLSTAP, AGRA and others. Through this group, important activities were generated to leverage the combined knowledge and resources of the individual members.

Activities

A number of modest activities were initiated by the FSDWG. The group collaborated to provide written comment to the government of Kenya on its financial sector strategy with the World Bank as its focal point for submission. The group effectively engaged the GoK through one collective voice. It also developed a Google portal to post and share information produced by each participant, including the paper submitted to the government.

Through the group, KARF became a member of FAP, the Financial Access Partnership chaired by the CBK. As part of FAP, USAID contributed to the FinAccess 2009 Survey and provide input into the design of the upcoming 2011 Survey. KARF also joined FAP‘s ongoing efforts as part of the CBK‘s research department in other areas not part of FinAccess.

In addition, FSD Kenya began to provide resources for USAID‘s agriculture finance efforts in the dairy value chain, supplying approximately $200,000 to the overall activity. This, in turn, lead to a joint study, funded by FSD in partnership with KARF, to prioritize finance across a wide range of agriculture value chains. Ultimately, both areas of collaboration created the conditions to establish the Value Chain Finance Center – a multi-year partnership intended to further financial inclusion for smallholder farmers in agriculture.

The overarching objective of the Value Chain Finance Center will be to strengthen agricultural value chains through developing appropriate and sustainable finance. It will achieve this goal by tackling the identified information failure in agricultural and related financial markets. At the core of the Center‘s strategy will be undertaking and applying rigorous quantitative research on selected high-impact rural value chains with an identified prospective finance gap.

Experience shows that financial institutions in Kenya currently lack the capacity to deploy this type of quantitative research effectively. Many institutions do not fully appreciate the power of these analytical, data-based techniques in helping to identify market opportunities and exploit them effectively through tailored product design and risk management techniques followed by proven product testing, piloting and expansion, leveraging the financial institution‘s own capital. The Center‘s immediate impact on financial market development will be through providing direct technical assistance to Kenya‘s financial services providers to realize commercially viable opportunities for value chain financing. This will provide direct results through the development and roll-out of new products but it will also offer an important demonstration effect.

In order to ensure that the demonstration effect reaches a wider audience across the market it will be necessary to strongly document and disseminate the results from this product development work. Financial institutions will comprise the core audience for the dissemination of data, analysis and lessons on value chain financial product development. However, many other non-financial firms, non-governmental organizations, development programs and government institutions are involved in value-chains and provide complementary, non-financial support. The Center will ensure that its information resources are accessible to these players.

Finally, based on emerging demand the Center will assist regulators to understand and ultimately play a responsible role in disseminating intelligence regarding the risks and benefits of financing agriculture by Kenya‘s various financial services providers.

Results

The FSDWG was formed in early 2009 with modest expectations. Membership steadily expanded overtime to include most of the key donor agencies and major contributors to the financial services sector. The group meets regularly, sharing information and coordinating activities when appropriate.

For USAID, the major results comprised coordination in policy reform, gaining membership to FinAccess as a key contributor to survey design, access to FAP‘s research efforts with the CBK and, most importantly, collaboration with FSD on KARF‘s work in value chain finance and the creation of the Value Chain Finance Center.

Lessons

Given the high density of donor involvement in the financial sector, it was assumed that forming a coordination and information sharing mechanism would be difficult and not well attended. Clearly, that was not the case. Members are enthusiastic and engaged to participate in the group‘s activities, to expand the participation of others and push the overall development of the sector as a united force.

Recommendations/Next Steps/Remaining Challenges and Opportunities

As a founding member, it is highly recommended that USAID continue to participate by providing essential leadership and help guide the group‘s agenda. Other areas – research and the VCFC – will require additional time and resources to realize longer-term objectives, especially the latter but the area of value chain finance hold enormous potential for the economic growth of Kenya. USAID can play an instrumental contribution in this vastly underserved sphere.

ACTIVITY 5: CENTRAL BANK OF KENYA SUPPORT FOR ACCESS TO FINANCE

Objective and Approach

The financial services landscape rapidly evolved in Kenya as the CBK sought to further unlock access for the ―unbanked" by promoting innovation and expansion into markets previously considered the sole domain of MFIs. Low income clients, proven credit worthy by MFIs, became the focus of traditional financial institutions, including banks and Savings and Credit Cooperatives (SACCOs), and non-traditional providers, such as mobile phone operators. This exciting evolution signaled a major turning point in the development of the financial services industry. Equally important, it required a new orientation and approach to support the needs of the financial sector and the CBK.

At the request of the government of Kenya, USAID provided capacity building and technical assistance to the CBK to help strengthen its institutional capacity necessary to supervise the prudent expansion of financial system and within its core regulatory mandate of stability, efficiency and access. The support was built upon an important relationship that USAID developed with CBK overtime by providing the regulator with critical exposure to international best practices and technical assistance needed to adapt and implement regulatory and supervisory practices in the Kenyan financial sector.

USAID Kenya delivered a series of targeted consultancies and produced a number of reports, analyses and documentation for the CBK that will ultimately benefit the growth and development of the sector and lead to additional and ongoing support from USAID.

As a result of this assistance, USAID helped the CBK identify changes to its operational environment, therefore supporting a mutually beneficial policy reform agenda necessary to design and implement new policies, initiatives and procedures. Ultimately, USAID's partnership with the government of Kenya will reduce risk for and increase outreach of the financial system that will safeguard economic expansion while increasing the number of businesses and citizens participating in sustained growth.

Activities

FIRM provided support in the areas of Crisis Management, Anti-Money Laundering, Agency ―Branchless Banking, Deposit-Taking Microfinance Supervision and Credit Reference Bureaus. In each of these areas, reports or manuals were prepared for the CBK to support its mission across the core pillars of stability, efficiency and inclusion.

Documentation included:

1. A Review of Financial Stability and Crisis Management Arrangements
2. Central Agent Register Feasibility Study
3. Implementation of the Proceeds of the Crime and Anti-Money Laundering Act
4. Rules for the Operation of the Credit Reference System
5. Guidelines for the Supervision of Credit Reference Bureaus

6. Manual for the On- and Off-Site Supervision of Credit Reference Bureaus
7. Risk-Based Microfinance Supervision

These deliverables were produced during the final six months of the program. During the final year of the program and at the request of the CBK to USAID Kenya, additional funding was provided to KARF so that it could support the CBK‘s request for assistance across these areas.

Results

Each piece of documentation produced is part of a larger process to affect crucial policy reforms to enhance stability, promote efficiency and increase inclusion. The overall result will help inform the CBK‘s decision making and lead to additional work as part of evolving the safe and sound development of the financial sector, while building the CBK‘s overall capacity to effectively manage and oversee the growing sector.

Lessons

The financial services industry in Kenya is dynamic and rapidly changing. Of the CBK‘s three core pillars – stability, efficiency and inclusion – the focus has historically centered on stability but recent trends, both national and global, have shifted the focus toward inclusion. All three areas, however, are interdependent and linked to the ultimate success of the financial sector‘s development and important relationship to economic growth.

USAID Kenya has long supported the development of the financial sector through policy reform. Typically, USAID‘s engagement with the CBK has involved microfinance but, as demonstrated through KARF, the regulator has sought to expand its relationship with USAID and channel support to other crucial areas required to maintain the safe and sound expansion of finance services into underserved segments of Kenyan society.

USAID has traditionally followed the lead of the CBK since the government of Kenya drives the reform agenda which is typically aligned to USG objectives. The rate of change and adoption of reforms moves according to their priorities, absorption capacity and other internal and external constraints. For USAID, this reality requires patience and persistence but within accepted cultural and business boundaries and practices. For this reason, it is best practice for USAID to structure future financial sector programs to include working at the micro, meso and macro levels simultaneously, ensuring that when policy reform slows for whatever reason, USAID has other activities ongoing at the other levels.

Since the CBK sets the reform agenda given its priorities, it will not consider or engage certain areas even though USAID might want to expand the policy platform. This does not infer that the regulator does not recognize the need; it is merely an acknowledgement of their priorities, capacities and crowded agenda. The CBK will consider a suggestion after an argument has been presented by USAID and often they will later include an item at a future date. USAID should continue to follow this time tested and proven approach.

Furthermore, policy reform requires time as USAID has experienced with its work in microfinance. USAID was central to the process of helping to secure passage of the

Microfinance Bill that created the conditions for MFIs to intermediate deposits into loans as licensed institutions by the CBK. The bill was signed into law in early 2008, and at the end of KARF in 2010, four institutions were licensed. The process leading to this success began in 2004 with USAID assisting in the preparation of the Act that eventually became law. Afterwards, USAID continued to provide direct support through drafting the initial regulations (guidelines), administering training in supervision and licensing, etc. Under KARF in 2010, support continued to move the CBK's existing supervisory approach to a risk-based system necessary to improve supervision and promote the additional licensing of more institutions. Given these successes, the CBK requested additional assistance from USAID, post 2010.

Recommendations/Next Steps/Remaining Challenges and Opportunities

The CBK has a far reaching policy reform agenda and it has numerous sources, both internal and external, to help underwrite its various programs or activities. Internally, it has government of Kenya resources, supplemented by FLSTAP (the Financial Legal Sector Technical Assistance Program funded by through a loan provided by the World Bank and DFID). Externally, the CBK has multiple donors and others willing to fund assistance. Those sources include: FSD Kenya, the World Bank, the IFC, the IMF, USAID, US Treasury, AFD, Gates, AFRACA, etc. Therefore, USAID Kenya should be strategic in its approach and with the application of resources. Under KARF, a coordination mechanism, called the Financial Sector Donor Working Group, was created to manage assistance to the CBK through the various parties. USAID should continue to work with the FSDWG and coordinate with the group ensuring the effective application of donor resources, minimize duplication, leverage resources and share risk.

ANNEX: REPORT INDEX

Workplans/PMPs

- KARF Workplan and PMP (Life-of-Project, Including Year 1 Detail)
- KARF Workplan (Year 2)
- KARF Workplan (Year 3)

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
- Quarterly Report, April 1 – June 30, 2009
- Quarterly Report, July 1 – September 30, 2009
- Annual Report, October 1, 2008 – September 30, 2009
- Quarterly Report, October 1, 2009 – December 31, 2009
- Quarterly Report, January 1, 2010 – March 31, 2010
- Quarterly Report, April 1, 2010 – June 30, 2010
- Final Report, October 1, 2010 – September 30, 2011

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
- Strengthening the Kenya Omena Value Chain

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
- Value Chain Prioritization Study

Dairy Value Chain

- Kenya Dairy Value Chain Finance – Research and Recommendations
- Dairy Value Chain Financing: Research Recommendations (presentation)

Livestock Value Chain

- Livestock Value Chain Finance – Research and Recommendations
- Livestock Value Chain Financing: Research Recommendations (presentation)

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

Central Bank of Kenya

- Risk-Based Deposit-Taking Microfinance Supervision
- Financial Stability and Crisis Management
- CBK Guidelines for the Supervision of Credit Reference Bureaus
- CBK Rules for the Operation of Credit Reference Bureaus
- Credit Reference Bureau Supervision Manual
- Implementation of the Proceeds of the Crime and Anti-Money Laundering Act
- Central Agent Register Feasibility Study