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KENYA MICROFINANCE CAPACITY BUILDING PROGRAM

QUARTERLY REPORT:

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CONTRACT: GEG-I-00-02-00011-00, TASK ORDER: 804

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The authors' views expressed in this publication do not necessarily reflect those of the United States Agency for International Development or the United States Government.

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I. INTRODUCTION

During the reporting period, KEMCAP (hereafter referred to as the “Program”) achieved a significant milestone – passage of the Microfinance Bill. The new law is expected to speed the evolution and development of the financial sector as a whole by expediting the long-term trend of providing sustainable financial services to low income businesses, entrepreneurs and households.

Related to the passage of the Microfinance Bill, the Program completed the drafting of all thirteen prudential regulations that will eventually guide the operationalization of the new law. Afterwards the Central Bank of Kenya, conducted an internal review of the regulations, providing feedback to the Program that were later incorporated into the draft regulations.

The Central Bank, realizing the enormity of its responsibility to regulate and supervise the new sector, called upon the Program to develop a technical assistance and capacity building plan necessary to ready the bank for its new role. The Program prepared a plan that was subsequently approved by the Supervision Department and forwarded to the governor for final authorization to move forward.

The guidance and support provided by the Program’s advisor to the Association of Microfinance Institutions was instrumental to the passage of the bill. The Program developed a lobbying and advocacy plan on behalf of the association. The plan was used to restructure the association’s lobbying resources, channeling all the available means and methods needed to secure passage of the bill.

Finally, the Program, working together with SO7s KMDP, provided technical support to Equity Bank, resulting in an innovative maize warehouse receipting product for the benefit of smallholder farmers and their families.

I. THE CENTRAL BANK OF KENYA

A. Prudential Regulations

On January 4, 5, and 6 KEMCAP facilitated a peer review workshop at the Windsor Hotel, bringing together Central Bank employees to review, critique and provide feedback on the set of draft microfinance regulations.

The workshop was the second internal peer review on the regulations. The first review included employees from the newly formed Microfinance and Forex Division (part of Bank Supervision). The second review included specialists from throughout the Central Bank, including the Director of Bank Supervision.

Afterwards, KEMCAP updated the regulations based on feedback received during the workshop. On January 22, KEMCAP gave the Central Bank the updated package of thirteen regulations. On January 24, the Bank Supervision sent the regulations to the Governor and her senior staff for vetting.

After receiving feedback, the revision cycle will continue again. The target is to finalize the regulations by February in preparation for posting to the Central Bank's website.

The thirteen regulations are titled:

1. Licensing
2. Opening, Closing or Changing a Place of Business
3. Corporate Governance
4. Prohibited Business
5. Capital Adequacy
6. Liquidity Management
7. Risk Classification and Provisioning
8. Anti-Money Laundering and the Proceeds of Crime
9. Appointment, Duties and Responsibilities of External Auditors
10. Reporting and the Publication of Financial Statements
11. Internal Audit and Controls
12. Supervisory Enforcement Actions
13. Consumer Protection

KEMCAP developed a process to solicit feedback from the industry and the general public that the Central Bank endorsed and decided to implement. This change represents a significant deviation from past practice and follows the public/private sector model used in the United States by regulators.

Once the regulations are posted on its website, the Central Bank will request the industry through the Association of Microfinance Institutions to comment in writing within thirty days. After receiving the association's feedback, the Central Bank will invite the association and a group of select institutions to participate in a workshop where questions and concerns will be addressed.

The purpose of the workshop will be to garner industry support and buy-in with the ultimate intention of improving the regulations while protecting the interests of depositors and the financial sector as a whole. The Central Bank has asked the program to facilitate the workshop.

After the workshop has been completed, the regulations will be customized once again before the documentation is finalized.

The process from start to finish will have required approximately eighteen months of effort. And with the Microfinance Bill now law much more work must be completed in order for the Central Bank to prepare itself for the task of licensing and supervising deposit-taking MFIs.

B. Technical Assistance and Capacity Building Plan

At the request of the Central Bank in late 2006, the Program prepared a technical assistance and capacity building plan for the new Microfinance and Forex Bureau. The plan is centered on four key areas: documentation (regulations, reference materials and computer models), training, asset procurement and industry participation.

The Bank Supervision department approved the plan and forwarded it to the governor for consent to move forward, which calls for turning the plan into a funding proposal that the bank intends to submit to USAID Kenya for consideration. During the reporting period, the governor approved the plan. The bank then turned the plan into a request for assistance that was submitted to USAID for review. Beforehand, a meeting was held between senior bank management, including the director of Bank Supervision, and USAID Kenya.

C. Software Needs

USAID Washington made a presentation to the Central Bank on a sophisticated and cutting edge off-site surveillance software it developed. USAID approached the Program seeking input on how to engage the bank on the possibility of providing it with the software. The Program thoroughly reviewed the software and made a positive recommendation to the Central Bank. The bank tabled any further discussion until more pressing issues were resolved – i.e. the finalization of the regulations after securing industry feedback and recommendations.

IV. EMERGING MARKET OPPORTUNITIES

A. Rural Finance Assessment

Last year, USAID Kenya sponsored a week-long seminar on Rural Agricultural Finance (RAF), delivered by Development Alternatives, Inc. The event included participants from USAID Kenya, banks, microfinance institutions, the Central Bank, the Ministry of Finance, the Ministry of Livestock, the Ministry of Agriculture, etc.

The first four days focused on providing participants with current principles and practices of RAF as exercised throughout the globe. The final day was centered upon

a planning activity and limited to ABEO personnel and USAID funded partners. The group concluded that access to finance is a major constraint in expanding rural-based smallholder agricultural production. In addition, the group recognized that the issue of financial access is interconnected to other entrenched obstacles. An important recognition of the final day not only emphasized the significance of access to finance across USAID programs but also the need to conduct research on the needs and associated bottlenecks of each activity and throughout the sector so that a coordinated approach can be developed and implemented.

The group agreed that more in depth research and analysis was required to chart a way forward. The process must look beyond the USAID universe of partners and funded activities, casting a net wide enough to include other donors, actors, participants, influencers and luminaries engaged in the sector.

Following the recommendations provided, KEMCAP researched the impediments key agricultural value chain participants (on & off farm) encounter when attempting to access financial services as a means to grow their businesses and enhance economic livelihoods. KEMCAP also analyzed financing needs and the current state of practice.

Research findings were documented and distilled into concrete recommendations designed to overcome obstacles, specifying interventions USAID Kenya might consider as practical solutions yielding measurable and demonstrable outcomes.

B. Credit Reference Bureau

A credit reference bureau is long overdue in Kenya for many reasons. Most importantly, a credit bureau will allow banks and other financial institutions to more accurately price loans by utilizing accurate information on personal and business credit history.

In turn, this should improve an institution's credit quality and bolster profitability — all of which will bring more consumers into the banking system. A bureau has been fought for and against over the years. However, momentum is building for a nationwide credit reference bureau with the Central Bank of Kenya and the International Finance Corporation (and others) spearheading the effort.

KEMCAP is working to ensure that microfinance is included in the process so mistakes that almost crippled the financial sector of Bolivia are not replicated. (In Bolivia, following the transformation of microfinance, consumers became over indebted to multiple institutions placing severe stress on the financial sector and individual institutions.)

KEMCAP's advisor to the Association of Microfinance Institutions is part of the credit bureau working group. A credit bureau regulation has been drafted for the banking sector and KEMCAP has been asked to provide comment.

C. Barclay's Bank and Microfinance

Representatives from Barclay's Bank made the journey from London to meet with the Central Bank of Kenya and the Association of Microfinance Institutions to explore the

possibility of opening a microfinance subsidiary under the new law.

KEMCAP has long considered passage of the Microfinance Bill a tremendous opportunity for commercial banks to pursue downscaling opportunities as has been the trend in other countries. With passage of the bill into law, microfinance is no longer just for traditional NGO microfinance institutions. The expectation is that other commercial enterprises will license under the new law.

Apart from the benefits of increased competition on cost and choice, consumers will gain as a result of what these new institutions bring to the marketplace. Leaders, such as Barclays, have the technological expertise and financial orientation to more efficiently and effectively process large numbers of small transactions, creating conditions for outward expansion into hard to serve rural areas where financial services are most needed.

In both urban and rural areas, ordinary Kenyans will find two additional benefits: first, prices on loans will go down; and second, rates paid on deposits will go up.

D. The Introduction of ATM Banking at Masai Mara

KEMCAP reacted to a call for assistance from Masai Mara conservancies and trusts to help reduce banking fees for dividend distributions to small landowners. Under the current system, payments to individuals are very small and are often consumed by ledger and other fees. Banks generally waive fees temporarily and then dramatically increase costs overtime to the economic detriment of the small, impoverished landowner.

Revolving payment through committee elders have proven ineffective since funds do not generally reach the intended recipients overtime

APPENDIX

KENYA MICROFINANCE CAPACITY BUILDING PROGRAM
DELIVERABLE AND OUTPUT TRACKER

The Association of Microfinance Institutions

The Association Advisor, with oversight from the COP, will be expected to provide technical expertise, guidance and training to AMFI in the following illustrative areas:				
	Begin Date	End Date	Accomplished	Comment
<i>The preparation of strategic and operational plans, including all marketing docs</i>	Aug-04	Sep-06	Yes	Drafted a strategic plan for AMFI board vetting and approval in 2004. Internal managerial and governance issues precluded it from acting on it. All other documents follow the strategic plan. During the second quarter of 2006, the KEMCAP association advisor prepared a new strategic plan.
<i>Product development and pricing</i>	Jun-06	Sep-06	Yes	Product development and pricing are part of the strategic plan. During the second quarter of 2006, the association advisor prepared a financing model for the association as part of the strategic plan. It segmented membership with differentiated pricing.
<i>Contracting and procurement</i>	Jul-04	Ongoing	n/a	KEMCAP prepared an extension request to USAID on behalf of AMFI; it also asked for additional funding for a small grants facility. Both requests were denied resulting from previously identified audit and compliance issues. The Program is committed to assisting AMFI in contracting and procurement when the need arises. In the third quarter of 2006, the Program assisted AMFI to prepare a proposal to Strummed Foundation.
<i>Information dissemination</i>	Oct-05	Ongoing	n/a	KEMCAP initiated (1) a monthly newsletter, (2) monthly members-only forums, and (3) email alerts. After the new board was elected in December 2005, the activities were discontinued. The forums, alerts and newsletter were reinitiated in early 2006. The Program is working to encourage the association to design a website.
<i>The development of a performance monitoring and benchmarking system</i>	n/a	n/a	n/a	The Program considers this activity important to serving as the basis for a self-regulatory framework to monitor and influence credit-only MFIs to improve performance. KEMCAP believes it is still too early for the association to begin this activity since it (1) lacks capacity/resources and (2) needs to focus part of its resources on strengthening back office business processes. This element will be influenced by the Ministry of Finance when it decides how to license/oversee credit-only MFIs.

The Association Advisor will work with AMFI and its member organizations to support the expansion of the microfinance industry by providing training and technical services in the following illustrative areas:				
	Begin Date	End Date	Accomplished	Comment
<i>Delivering on-the-job training across all business areas and functions</i>	May-04	Ongoing	n/a	This task began in mid 2004. Other urgent association issues slowed this activity to a stand still. Currently, the Program is encouraging the association to consider this a priority issue. The association advisor is working in this area.
<i>Delivering training & developing local capacity for commercially viable training</i>	Oct-05	Ongoing	n/a	The Program began working with the IFC Solutions Centre and MicroSave to design training programs for AMFI members, in particular those MFIs citing high costs of and inability to pay for services. The activity was progressing with all parties having agreed to an implementation plan. It was suspended by the association after the election of the new board.
<i>Encouraging the development of new products and services</i>	Aug-04	Ongoing	n/a	The Program designed and costed new products and services as part of its work on the strategic plan in 2004. At present, KEMCAP is encouraging AMFI to outline and sequence new products and services against its internal capacities.
<i>Promoting a more conducive policy environment for microfinance</i>	n/a	n/a	n/a	This activity is important and one that KEMCAP considers as central to AMFI. The Program encourages AMFI to first address the issue of the microfinance bill and prudential regulations, which it systematically doing. Regulations and preparation for member transform are issues paramount to AMFI's current operations. Afterwards, AMFI should tackle business environment issues that its members and their clientele face.

<p>Working in consultation with the USAID Mission as well as AMFI, the COP and the Association Advisor will design and assist AMFI to implement a USAID-funded small grants program for product and service innovations, short-term technical assistance and training for the MFIs and the Central Bank. USAID expects 2-5 small matching grants during the three-year period. The actual number of grants will depend on the type of activities supported and the level of funding required for each grant. USAID is specifically interested in encouraging innovations that reach underserved markets and documenting lessons learned and emerging good practice from these grants. Illustrative examples include:</p>				<p><i>Note: the Program does consider AMFI as the ideal candidate to manage a small grants facility. Even though AMFI lacks the capacity to manage a facility, the Program can transfer needed capabilities. We also strongly believe that AMFI should not be saddled with functions noncritical to its business as a financial services association. Administering a grants facility will place an undue burden on the association when it should be focused on fundamentals of running a stand alone, viable, business entity. Further, the association will be faced with a conflict of interest problem. The association is not neutral to the market since it is controlled by member MFIs. We foresee potential and probable difficulties. And, envision troubles between the association and the CBK since their vision, strategy and approach to licensing and regulation under the microfinance bill are at odds. Last, a grant facility has not been created so the items below have not been worked on. Should a facility be created, we feel it is better placed somewhere else.</i></p>
	Begin Date	End Date	Accomplished	Comment
<i>New product development for rural clients</i>	n/a	n/a	n/a	See the comment above
<i>Strategies & delivery service approaches that reach rural clients better</i>	n/a	n/a	n/a	See the comment above
<i>Train MFIs in reporting requirements</i>	n/a	n/a	n/a	See the comment above
<i>Dev. & disseminate guidelines to measure & monitor customer satisfaction</i>	n/a	n/a	n/a	See the comment above

The Development Credit Authority

The COP will also market the Development Credit Authority. Once guarantees are in place, the COP will support partner institutions with building capacity and other services to ensure the facilities are utilized according to plan. AMFI will be used as a focal point to monitor and report on usage and impact assessment of the DCA program.				
	Begin Date	End Date	Accomplished	Comment
<i>Cooperative Bank of Kenya: Uganda study tour</i>	Oct-04	Oct-04	Yes	KEMCAP facilitated a study tour on behalf of Cooperative Bank under an existing DCA facility. The bank, USAID Kenya and the Kenya Maize Development Program participated in the assignment. Afterwards, KEMCAP assisted the bank in preparing its trip report that was submitted to USAID.
<i>Cooperative Bank of Kenya: DCA and SME training</i>	Dec-04	Dec-04	Yes	The Program delivered a training to a group of Cooperative Bank of Kenya's bankers on the DCA and SME lending.
<i>DCA placement: K-Rep Bank</i>	Jan-05	Sep-05	Yes	The Program prepared and released a solicitation for a new DCA designed to generate competition among interested banks. The new DCA included a focus on women-owned and/or operated businesses. Candidate banks included K-Rep, Fina, Commercial Bank of Africa, Standard Chartered and Barclays. The Program helped K-Rep and Fina prepare concept papers. After an exhaustive credit analysis conducted by the office of Development Credit in Washington, K-Rep was selected as a DCA partner, based largely on its success with an earlier version of the current US government loan guarantee mechanism. Fina was also selected as a future potential partner. Its possible participation will be reviewed in 2006. We prepared an eleven-point recommendation matrix, organized across financial, staff development and organizational categories for the bank to utilize as it prepares to participate in the facility.
<i>DCA placement: KCB and Fina</i>	Feb-06	Sep-06	Yes	Two DCA deals were successfully closely with Kenya Commercial Bank (KCB) and Fina Bank. Both USAID guarantees are intended to strengthen each bank's ability to finance loans to targeted small and medium enterprises (SMEs) in Kenya, thereby stimulating economic growth. The KCB facility totaled \$7,900,000 with a 50 percent guarantee up to the amount of \$3,950,000. The Fina facility totaled \$5,000,000 with a 50 percent guarantee of \$2,500,000.
<i>DCA monitoring and reporting system drafted</i>	Dec-06	Dec-06	Yes	System drafted but not yet implemented. The Program is working to garner bank buy-in.

Other Financial Sector Assistance

Technical assistance, capacity building and other forms of project support to the financial sector may be expanded based on emerging needs after approval by USAID.				
	Begin Date	End Date	Accomplished	Comment
<i>Coastal Development Authority</i>	Oct-06	Apr-06	Yes	On behalf of the Coastal Development Authority, we produced a paper titled, <i>Recommendations for Facilitating Financial Services in Resource Poor Areas along the Kenyan Coast</i> . Using the paper as a guide, the CDA – through a transparent competition – sourced a Kenyan business service provider (K-Rep Advisory Services) to undertake the activity of increasing access to underserved populations along the coast. We participated in the Request-For-Proposal preparations, the proposal review and selection and contracting process.
<i>DFID Output to Purpose Review</i>	Jan-05	Apr-05	Yes	KEMCAP sourced an assessment of a bank in Malawi, through USAID's Office of Microenterprise Development, that was financed by the Department for International Development (the British equivalent of USAID). KEMCAP prepared an Output to Purpose Review (OPR) producing key findings and distinct recommendations for the Financial Services Project implemented by Opportunity International Bank Malawi (OIBM). The Program utilized local Kenyan talent to undertake the assignment.
<i>Microfinance and HIV/AIDs: Defining Options for Change</i>	Jan-05	Jan-05	Yes	The Kenya Microfinance Capacity Building Program delivered a three-day workshop on the topic, <i>Microfinance and HIV/AIDs: Defining Options for Strategic and Operational Change</i> . The course was designed as a workshop for managers of MFIs, focusing on how organizations can address the institutional challenges that arise from working in a medium to high prevalence HIV/AIDs environment. The course offered participants a series of exercises and training tools, assisting with planning and making institutional changes necessary to respond to the economic impact of HIV/AIDs.
<i>KEMCAP brokered follow-on surveillance and assistance to workshop participants (under the Microfinance and HIV/AIDs: Defining Options for Change)</i>	Jun-05	Jun-05	Yes	The Program helped individual MFIs prepare plans to mitigate the effects of HIV/AIDs in their institutions
<i>Evaluation of the Credit Worthiness of the SME Sector in Kenya</i>	Jun-05	Jun-05	Yes	In preparation for an external credit review of the two proposed DCA candidates, KEMCAP undertook a study of the sector and produced a paper entitled, <i>Evaluation of the Credit Worthiness of the SME Sector in Kenya</i> . The paper served as a reference for the credit review of the two DCA candidate banks.

<i>On-Site Sector Review and Analysis of DCA Candidate Banks</i>	Jun-05	Jul-05	Yes	A US-based banker and financial consultant, was hired to conduct an assessment of the credit worthiness of the two DCA candidates. The consultant reviewed the SME paper prepared by the Program and other relevant documents provided. The assessment was reviewed by USAID Kenya and the Program for comment prior to submission to the Office of Development Credit.
<i>DCA Partners Training Program</i>	Jul-05	Jul-05	Yes	KEMCAP facilitated a training workshop for its DCA partners on the topic of advanced credit analysis and risk management. Thirty participants from five banks, one MFI and the Central Bank of Kenya attended.
<i>Warehouse Receipting Paper</i>	Sep-05	Sep-05	Yes	KEMCAP produced a paper explaining the mechanics of the facility titled: <i>Warehouse Receipt Financing</i> that included a financial pricing and costing model. A time-lined activity plan was created that differentiated the roles and responsibilities for Cooperative Bank and KMDP.
<i>School of Applied Microfinance (SAM)</i>	Sep-05	Ongoing	n/a	KEMCAP provided planning assistance to SAM by designing and delivering a training course on risk management and credit analysis. Mr. Robert Dressen, a senior vice president at DAI, delivered the course. Mr. Dressen intends to deliver the course each year, as long as SAM seeks his assistance.
<i>SAM scholarships</i>	Sep-05	Sep-06	Yes	The Program provided four scholarships to two Central Bank of Kenya employees
<i>Central Bank of Kenya</i>	Dec-05	Oct-06	Yes	The Program created a best practice framework to analyze the microfinance bill for the Central Bank of Kenya. The analysis was used to inform the Central Bank's position on the bill which it later shared with the industry to solicit feedback. Afterwards, the Program redrafted the bill and prepared a cover letter for the Governor's submission to the Ministry of Finance, making the CBK's position public. The Program brought the FSD Trust and FLSTAP into the process, soliciting their contribution, thus ensuring a seamless fit with restructuring in the financial sector.
<i>Rural Agriculture Finance Training</i>	Mar-06	Mar-06	Yes	Brokered BASIS Rural Finance Course to Kenya that was delivered by Development Alternatives, Inc.
<i>Kenya BDS Avocado Outgrower Financing Scheme</i>	Mar-06	Sep-06	Yes	The Program was requested by Kenya BDS Program to assist it with a financing scheme. By June 30, 2006, the Program prepared the following documentation/analyze: Avalon Process Map, AvoLoan Brochure, AvoLoan Product Manual, Avo Information System Scope-of-Work, KBDS Avols Assessment Plan, KBDS Equity Avo Minutes Form, Spraying Cashflow, AvoValue Chain
<i>Rural Agriculture Finance Assessment</i>	Jul-06	Sep-06	Yes	The Program finalized an assessment of rural agriculture finance opportunities. In our assessment of Rural Agricultural Finance (RAF) in Kenya, we examined the impediments small-scale producers and other actors in agricultural value chains encounter when seeking to finance business growth and development. In addition, we analyzed financing needs and the current state of practice. Last, we outlined and prioritized opportunities for USAID to engage the sector.

<i>Rural Agriculture Finance Paper and Presentation</i>	Sep-06	Ongoing	Yes	The program began prepared and delivered paper and presentation on Warehouse Receipting in Kenya and Worldwide Trends for submission to the 2nd National Conference of the BDS Donor Coordination Group scheduled for October 2006 in Lake Naivasha, Kenya.
<i>Kenya DCA Review</i>	Oct-06	Ongoing	n/a	Drafted a review of DCA placements in Kenya. Follow-up is required that will be completed during the first quarter of calendar 2007.
<i>Rural Agriculture Finance Assessment publication</i>	Dec-06	Ongoing	n/a	At the request of USAID Washington with concurrence from USAID Kenya, the Program will edit its RAF assessment for publication on the MicroLinks website.
<i>Maize Warehouse Receipting</i>	Nov-04	Ongoing	n/a	Innovative WR product introduced by Equity Bank based on scheme introduced by the Program and KMDP

Category 1: Legal and Regulatory Reform

Consistent, high-quality technical assistance and support, including a written advocacy plan and regular reporting on plan implementation provided by KEMCAP to facilitate execution of a well-implemented strategic advocacy effort by AMFI's board of directors				<i>Note: AMFI has a committee spearheading their advocacy efforts. We have learned through experience that AMFI must drive the creation and subsequent implementation of plans. Therefore, we have encouraged AMFI to prepare a plan with our assistance. Our advice has not been followed. Instead, AMFI operates through an ad-hoc process, not according to a written advocacy plan to support passage of the bill. On a parallel track, the Program is working closely with the Central Bank of Kenya, in association with the FLSTAP (a \$30 mm World Bank and DFID project) and the FSD Trust.</i>
	Begin Date	End Date	Accomplished	Comment
<i>Regulation/supervision task force convened by AMFI with the assistance of KEMCAP through which AMFI may provide input to the CBK on prudential regulation and supervision</i>	Aug-05	Ongoing	n/a	At the request of the Central Bank, KEMCAP organized a workshop for the industry on prudential regulation and supervision.
	Jun-06	Jun-06	Yes	AMFI through KEMCAP produced a position paper on the bill
	Aug-06	Dec-06	Yes	AMFI through KEMCAP convened internal task force on bill, while producing a lobbying plan and budget in 8/06. The plan was implemented with numerous meeting held with Treasury, the Central Bank, the AG's office, stakeholders and others -- all in a coordinated fashion. In fourth quarter of calendar 2006, AMFI will begin lobbying the Parliamentary Finance Committee. Bill passed by Parliament and signed by president into law.
	Sep-06	Oct-06	Yes	AMFI through KEMCAP produced a list of possible amendments to the bill with justification.

<i>An industry-wide transformation workshop held leading to a clear understanding by AMFI members, donor and other key stakeholders of the transformation process, and applicable regulations and supervision requirements</i>	n/a	n/a	n/a	The Program believes the Central Bank of Kenya is the better partner in this area since it is the key decision maker regarding licensure (of which transformation is dependent). After the bill is published the CBK with KEMCAP assistance will draft the remaining regulations. Afterwards, the CBK will hold a transformation workshop (with KEMCAP support). With the bill passed and now officially an Act, plans have been developed to hold an industry workshop during the first six months of calendar 2007, dependent on publication of the regulations.
<i>Contingent upon passage of the Microfinance Bill, a legal and regulatory diagnostic produced, identifying the remaining constraints facing microfinance institutions</i>	n/a	n/a	n/a	Focus is still on issues related to the Act and microfinance transformation, etc. As a result, no action taken.
<i>Based on the legal and regulatory diagnostic, a policy reform plan with targets and measurable benchmarks developed by AMFI through the assistance of KEMCAP</i>	n/a	n/a	n/a	Focus is still on issues related to the Act and microfinance transformation, etc. As a result, no action taken.
<i>A policy monitoring, analysis and dissemination system developed through the assistance of KEMCAP</i>	n/a	n/a	n/a	Focus is still on issues related to the Act and microfinance transformation, etc. As a result, no action taken.
<i>Other</i>	Mar-06	Mar-06	Yes	Rewrote the microfinance bill for the Central Bank based on international best practice, which was contextualized for Kenya working with the CBK.
	Apr-06	May-06	Yes	Prepared a position paper for the CBK to accompany the bill for submission by the Governor to Treasury.
	Aug-06	Sep-06	Yes	Prepared a regulation drafting calendar at the request of the Central Bank for the Program to use a tool when drafting regulations.
	Sep-06	Ongoing	n/a	Prepared a capacity building plan for the Bank Supervision Department as part of its effort to build microfinance supervisory capacity that was approved by the department's director and forwarded to the Governor. Once approved, the Central Bank intends to deliver the proposal to USAID for assistance and funding.
	Oct-06	Ongoing	n/a	Peer reviews of KEMCAP deposit-taking microfinance regulations: after KEMCAP drafted regulations at the request of the Central Bank, the Program facilitated an internal peer review on behalf of the Bank Supervision department that included its employees.
	Oct-06	Dec-06	Yes	Parliament passes Microfinance Bill and president signs bill into law (Act).

Category 2: Capacity Building and Funding for AMFI

	Begin Date	End Date	Accomplished	Comment
<i>An industry needs assessment completed</i>	Oct-05	Dec-05	Yes	Industry needs assessment geared toward training completed.
<i>An institutional assessment of AMFI completed using the SEEP Network Capacity Assessment Tool</i>	n/a	n/a	n/a	AMFI is not institutionally ready for this assessment. In 12 months, after it has been operational under its new board, the timing will be better. Also, the association must agree to this assessment. We believe it is important.
	Dec-04	Feb-05	Yes	In late 2004/early 2005, the Program completed a diagnostic for the association's chairman which led to the replacement of the association's chief executive officer.
<i>AMFI assisted by KEMCAP to understand its capacity building needs, and helped to make plans for moving forward using various private-sector tools</i>	May-04	Ongoing	n/a	Through our advisor, we continue to influence the association to implement private sector tools and processes. This activity requires time and constant attention.
<i>Technical support provided to AMFI to draft and implement a strategic plan, annual operational plans, and marketing/promotional plans</i>	Aug-04	Ongoing	n/a	Drafted a strategic plan for AMFI board vetting and approval in 2004. Internal managerial and governance issues precluded it from acting on it. All other documents follow the strategic plan. During the second quarter of 2006, the KEMCAP association advisor prepared a new strategic plan. It must be vetted by the board and membership for comment.
<i>AMFI assisted by KEMCAP to move towards sustainability by helping it prepare a multi source financing strategy with the association covering at least 35 percent of its operating costs internally through fees, brokering or other revenue streams</i>	Oct-06	Ongoing	n/a	Product development and pricing are part of the strategic plan. During the second quarter of 2006, the association advisor prepared a financing model for the association as part of the strategic plan. The plan has been approved and it is in the process of incremental implementation.
<i>Enhanced services to members through KEMCAP assistance, including enhanced information flows through new delivery channels and industry marketing programs/campaigns with systems in place to monitor and track progress</i>	Oct-05	Ongoing	n/a	The Program considers this activity important to serving as the basis for a self-regulatory framework to monitor and influence credit-only MFIs to improve performance. KEMCAP believes it is still too early for the association to begin this activity since it (1) lacks capacity and (2) needs to focus part of its resources on strengthening back office business processes.

Category 3: Industry Infrastructure Development

	Begin Date	End Date	Accomplished	Comment
<i>Performance standards working group created by AMFI through KEMCAP support and used to develop and monitor a standards reporting regime for the industry</i>	Oct-04	Ongoing	n/a	With KEMCAP support, AMFI convened a performance standards workshop. The purpose of the workshop was to bring together stakeholders in the Kenyan microfinance industry and build consensus on and develop common performance standards/reporting framework for the industry. We continue in our attempt to move AMFI forward on this activity, working with the Central Bank of Kenya.
<i>Increased reporting by the Kenyan microfinance sector to the MIX benchmarking system through KEMCAP support</i>	Jul-04	Ongoing	n/a	The Program brokered a presentation from the MIX to AMFI's secretariat. Since then, we have continued trying to influence the association to follow through. Although, we maintain--at least for the mid-term, that AMFI must focus on mission critical activities. And we do not consider this activity a priority item for the association in the short term.
<i>Dialogue of donors and AMFI members about acceptable principles for microfinance established and a draft policy paper completed, and progress made toward the approval of an industry-wide policy</i>	Jan-06	Ongoing	n/a	To build momentum toward for this activity, The Program is working to create a member's code of ethics. The code will serve as acceptable principles for microfinance.

Objective 2: Improve Capital Access

	Begin Date	End Date	Accomplished	Comment
<i>Three MFIs are accessing bank finance at reduced rates of interest by using the DCA guarantee mechanism or at increasing degrees of leverage against deposited funds</i>	Jun-05	Sep-05	No	<i>Kadet.</i> Worked to broker a DCA backed loan for Kadet through Cooperative Bank of Kenya. The parties were unable to agree on terms.
	May-06	Sep-05	No	<i>Faulu.</i> Worked to place a portable DCA at Faulu to underpin the growth and spread the risk for their new insurance product. It was decided to work with two other institutions.
	Oct-07	Ongoing	No	The Program is networking through AMFI with other institutions (banks) to foster this transition.
<i>One new financial instrument improving access to finance for MFIs has been added to the marketplace, e.g. bond issue</i>	Jun-06	Dec-06	Yes	<i>Faulu.</i> Faulu floated a bond with the donor support. The Program was not involved in this action, although the precedent has been set for other MFIs.

<i>Three non-bank MFIs have developed plans to transform into regulated MFIs under the Microfinance Bill</i>	Dec-04	Jun-05	Yes	<i>Kenya Agency for the Development of Enterprises and Technology. The Program prepared and delivered a two-day transformation workshop to KADET's board of directors and key managers. The workshop was used to inform the preparations for the development of their transformation strategy and plan.</i>
	Dec-04	Jun-05	Yes	<i>Small and Microenterprise Program (SMEP). The Program participated in a transformation workshop designed for SMEP's board of directors. KEMCAP presented transformation rationale to the institution's board, while outlining the associated costs and benefits, in addition to alternatives. Afterwards, we prepared a generic transformation plan for SMEP following a field and desk review of its operations.</i>
	Dec-06	Ongoing	No	<i>The Program is networking through AMFI with other institutions (most promising is Equity Bank) to foster institutional transformation.</i>

Objective 3: Promote R&D to broaden and deepen market penetration

Note: the Program does consider AMFI as the ideal candidate to manage a small grants facility. Even though AMFI lacks the capacity to manage a facility, the Program can transfer needed capabilities. We also strongly believe that AMFI should not be saddled with functions noncritical to its business as a financial services association. Administering a grants facility will place an undue burden on the association when it should be focused on fundamentals of running a stand alone, viable, business entity. Further, the association will be faced with a conflict of interest problem. The association is not neutral to the market since it is controlled by member MFIs. We foresee potential and probable difficulties. And, we envision troubles between the association and the CBK since their vision, strategy and approach to licensing and regulation under the microfinance bill are at odds. Last, a grant facility has not been created so the items below have not been worked on. Should a facility be created, we feel it is better placed somewhere else.

	Begin Date	End Date	Accomplished	Comment
<i>An innovation grants program that is transparent and accountable has been designed and implemented with 3-5 matching grants made bi-annually and totaling \$500,000 over the life of the project</i>	n/a	n/a	n/a	See the comment above
<i>All grant making information and results are archived and disseminated through AMFI via its website and linked to USAID's Microenterprise Development Office Website.</i>	n/a	n/a	n/a	See the comment above

	Begin Date	End Date	Accomplished	Comment
<i>Increased awareness of training and related opportunities in the Kenyan specialized business services marketplace for industry participants and key stakeholders</i>	Oct-05	Ongoing	n/a	The Program began working with the IFC Solutions Centre and MicroSave to design training programs for AMFI members, in particular those MFIs citing high costs of and inability to pay for services. The activity was progressing with all parties having agreed to an implementation plan. It was suspended by the association after the election of the new board.
<i>An assessment conducted and report prepared on industry training needs for SME growth finance</i>	n/a	n/a	n/a	See the comment above
<i>Emerging market opportunities undertaken to develop the Kenyan financial sector</i>	n/a	n/a	n/a	See the category "Other Financial Sector Assistance" above