

FINANCIAL SECTOR INNOVATIONS FUND

What is FSD Kenya?

The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to stimulate wealth creation and poverty reduction through the development of financial markets in Kenya. Working in partnership with the private sector the programme's goal is to significantly expand access to financial services among lower income households and smaller scale businesses. Established as an independent Trust, FSD is currently supported by the UK's Department for International Development (DFID) which is responsible for leading the British Government's fight against world poverty. Other development partners are planning to support the work of the Trust shortly.

The Financial Sector Innovations Fund

FSD has recently established an **Innovations Fund** to encourage new ideas from the private sector to expand the supply of financial services in Kenya on a commercially viable basis. The Fund will co-finance the development and implementation of projects in priority markets.

In this first phase, projects are sought which have the potential to significantly expand finance in two key segments:

- **FINANCE FOR SMALLHOLDER AGRICULTURE**
- **SMALL AND MEDIUM ENTERPRISE (SME) FINANCE**

Who should apply?

Ideas are sought from all parts of the private sector including both for profit and non-profit institutions. This includes commercial banks, building societies, finance companies, micro-finance institutions, savings and credit co-operatives and community based financial institutions. It might also include business service providers, technology companies or other businesses working in partnership with financial sector institutions. FSD is especially interested in receiving applications from parts of the private sector which have not previously worked with development organisations.

More important than the type of organisation is the requirement that organisations must already be financially viable with a strong track record in their

current primary area of business. While the Fund will consider applications proposing start-ups as part of a project, such ventures must be backed by strong institutions. The innovations fund is not intended to provide core capacity building support to finance institutions (FSD provides support through other projects to address this need).

What sort of innovations will the Fund support?

Innovations which the Fund can support include the application of new technologies, novel delivery channels or partnerships and innovative products. The emphasis will be on innovations within the context of the Kenyan financial markets; application of ideas proven elsewhere but new to Kenya will also be encouraged. Innovative ideas in serving the SME and agricultural sectors might include:

- use of technology or other new mechanisms in provision of financial services to the target sectors;
- new organisational forms to reduce product or delivery costs;
- novel linkages – especially beyond the finance sector;
- new approaches to measuring and managing risk; or
- sound non-formal collateral based lending to SMEs and farmers.

However we do not wish to be overly prescriptive. If there is a new approach which could make a difference in improving access to finance in the targeted areas, we'd like to hear about it.

What support can we offer?

The level of support which can be offered by the Fund will vary according to project requirements, and no minimum or maximum limits are defined as to the value of support which can be provided under the Fund. Nor do we define precisely what form of support will be provided. Most often we expect that it will take the form of providing technical assistance, helping meet the costs of specific developments or sharing financial risks. The form of support offered – which could be by

loan, quasi-equity/risk-bearing debt, grant, or guarantee – will be closely geared to the needs of the project. In all cases FSD will seek to avoid helping to give any player an unfair competitive advantage. The lessons generated from projects will be shared with other players in the sector (while protecting any intellectual property brought into the project by partners).

Substantial cost sharing will always be required from implementing partners. As a guide, the level of financial contribution by the Fund to projects should not exceed 50% of the total project cost (discounting any additional subsidies/support from other donor programmes, but including costs of partners' staff and other resources made available).

The Fund is not intended to provide on-going subsidies to projects for service delivery. Our aim is to help stimulate the development of viable financial markets. The Fund will therefore seek to support potentially viable projects where the degree of uncertainty, levels of risk or lack of access to key know-how constitutes a real constraint to investment.

Applications process

A two stage process is used to apply for support from the Fund. In the first stage we seek to understand the basic idea presented by an applicant, before significant time and energy is expended in developing the concept. We will then select the best ideas from those we receive to take forward to the second stage and the development of a full proposal. More detailed guidance will be offered to applicants on the areas we need to see covered at this point. Where necessary we can work with you to develop more detailed project plans, offering specialised technical assistance if this is required. The full project proposals we accept are submitted to our investment committee which will make the final decision on which projects move forward.

No precise timeline is given for the applications process since the time required to develop full projects is likely to vary significantly. However FSD Kenya commits to responding to all initial applications received within two weeks of receipt. We will indicate at this point whether we are able to proceed, require more information or that the application was unsuccessful.

Full proposals once developed and accepted are put forward to FSD's programme investment committee which meets regularly on a quarterly basis. We will then move rapidly to put in place an agreement for those proposals which receive support from the investment committee.

We expect to receive a large number of applications and therefore cannot engage in correspondence on the decision taken whether to proceed or not with a particular application. A condition of application is an acceptance that FSD's decision is final and the Trustees and management can accept no responsibility for any costs entailed in preparing proposals. Furthermore the acceptance of ideas or concept notes for further development involves no commitment on the part of the Trust or its funders to proceed with funding.

How to apply

There are no application forms to be filled in. We want to hear your ideas in your own words. Just send us a brief write-up of your project idea, preferably no longer than four (4) pages. In order for us to assess concepts we need to understand how it is innovative and can improve the supply of financial services to smallholders or SMEs together with an indication of the type of support needed to get it started. This should be accompanied by some background on your organisation and partners where appropriate.

A quick checklist of the areas we will need to see covered is:

- Description of the type of financial service to be provided
- Brief introduction to your organisation, and how the project fits with its core business
- Relevant linkages with other organizations
- Identification of the proposed innovation
- How the product/service will be delivered
- Target market including geographical locations to be addressed
- Projected number of clients
- Basis for the viability of the project
- Constraints faced in developing the project
- How the Innovations Fund can help

Applications can be submitted by:

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