



EDITORIAL

This first issue of FSD News for 2008 is against the backdrop of the horrifying post-election violence and instability. We are still yet to see an end and the final cost in human, social and economic terms remains uncertain. What we do know already is that many of those worst affected belong to the poorest and more vulnerable sections of Kenyan society. Many micro-finance institutions (MFIs), especially those with operations in Nyanza, Rift Valley and the informal settlements of Nairobi have seen members displaced, losing their businesses, homes and tragically sometimes their lives. MFIs themselves have suffered attacks on branches, operations disrupted and staff displaced and traumatised.

The Association of Microfinance Institutions (AMFI) has commendably taken a strong lead in co-ordinating an industry response to the crisis. FSD Kenya is glad to have been able to support this initiative. Understanding the real problems on the ground facing MFIs and consulting broadly will be key to developing appropriate solutions. A number of areas are being explored now. Among the most urgent is finding ways to address the potential liquidity crunch which a number of MFIs could be facing soon as a result of the crisis. MFIs may need to re-develop products to meet the changing needs of clients as they rebuild their livelihoods. We also have to look at how MFIs can rebuild their capital bases in the face of huge losses. Finally with its strong grassroots involvement in affected communities the sector will look to contribute directly to building peace and reconciliation between people.

Much will need to be done in the months ahead to rebuild but a start has been made. FSD Kenya and its partners are committed to supporting the sector in these difficult times.

David Ferrand
Director

NEWS AND VIEWS

Hunger Safety Net Programme

The Government of Kenya in partnership with the UK's Department for International Development (DFID), is introducing a new cash transfer scheme which will provide small regular cash grants to some of the poorest and most vulnerable households in Kenya. The Hunger Safety Net programme (HSNP) targets poor and vulnerable households in the arid and semi-arid lands (ASAL) which are subject to regular drought. The HSNP will provide a regular, predictable and guaranteed amount of cash to chronically food insecure households in Turkana, Marsabit, Wajir and Mandera.



El Wak, a town in south eastern Mandera, one of the districts where the Hunger Safety Net Programme will be delivered.

FSD Kenya is supporting the development of private sector driven solutions to deliver efficiently large numbers of relatively small, guaranteed payments to HSNP households in the challenging ASAL environment and ideally also provide financial services to both HSNP beneficiaries and the wider community.

In November 2007 a visit to Wajir, Mandera and Marsabit was undertaken by FSD Kenya and DFID. The above photo is of El Wak in Mandera, a town with a thriving market, permanent water, Celtel and Safaricom services including an M-PESA agent, and it is also the location of a WFP food store. In December 2007 FSD Kenya launched the tendering process to identify payment service providers for the HSNP. Expressions of interests were received in February and shortlisted candidates have been invited to tender. Winners of this competition will be announced in April 2008. The HSNP aims to start the first payments in October 2008.

EVENTS CALENDAR

- Feb 19** Impact of Post Election Violence on the Microfinance Sector, Kenya Bankers SACCO, Nairobi, Kenya. info@amfikenya.com
- March 15-17** 2008 Annual Conference of the Africa Venture Capital association (AVCA), Gaborone, Botswana; visit - www.avcanet.com
- April 1-3** The African Banking Technology Conference & Exhibition, Kenyatta Conference Centre, Nairobi, Kenya

FinAccess 2008

The first round of the financial access survey, FinAccess 2006, was launched early last year, generating interest from financial service providers, policy makers and the media. In the context of widespread post-election violence, the Financial Access Partnership (FAP - the private and public sector stakeholder group which oversees the FinAccess programme) is meeting to decide on how the survey can be carried out this year.

We value your input on how to design and implement the next round of FinAccess. Please visit our website: www.fsdkenya.org/finaccess for copies of the last questionnaire we used, and the reports we have published so far. If you have any comments or suggestions, we can be contacted by e-mail on finaccess@fsdkenya.org.

GrowthFin SME Finance Innovations Fund

The SME Finance Innovations fund was re-launched in October 2007 and was open for ideas from the private sector until January 15th 2008. The re-launch involved a change of strategy from the earlier fund with a more focussed and deliberate marketing effort. The preparation of an information package and selection of a limited target market yielded better results.

GrowthFin received 54 concept notes. Following an initial review of the concepts, 9 were chosen for an in-depth panel review that selected 6 for further development and funding. Two banks, one NGO, one Association and two financial consultants are among the sponsors of the successful concepts. Many of those that were not chosen had some merit and the sponsors are encouraged to pursue them as funding may well be secured elsewhere.

Given the successful completion of the competition phase of the innovations fund, the Head of Growthfin would like to thank all those who showed an interest and wrote concept notes, followed them up with enquiries and took time to meet in person. We urge you to remain engaged in efforts to expand access to finance for Kenya's SME.

GrowthFin *financing for growth*

GrowthFin is a programme of the Financial Sector Deepening Trust (FSD Kenya), which was approved in 2006 to address the problem of lack of suitable financial products and services targeting the growing number of small and medium sized enterprises (SME) in Kenya. The programme began operating in December 2006 after the head of the programme was recruited. GrowthFin was designed initially to be a three year project working at the retail, advocacy and policy levels of the market.

A demand driven programme, GrowthFin seeks to act as a catalyst to create an enabling environment and provide some of the infrastructure necessary for development of sustainable innovations in SME finance. To accomplish this mission, GrowthFin works with key partners made up of private and public sector institutions committed to the maximising the contribution of the SME to economic growth.

In order to differentiate itself from programmes targeted at financial access for excluded individuals or micro enterprises, GrowthFin has developed a unique definition of its ultimate beneficiaries, small and medium sized enterprises. GrowthFin will support activities designed to increase access to finance for **private sector, profit driven entities whose financial needs are either too large or complex for micro-finance and that have been excluded from mainstream financial institutions that consider SME financial needs either too small or risky.** The unique nature of the SME captured by this definition is that these entities, regardless of number of employees or turnover, are either growing or have the potential to grow with appropriate access to suitable financial products and services.

On the retail level, GrowthFin has the mandate to invest in partner financial institutions targeting the SME sector in order to build capacity for more efficient and better service. This is largely accomplished through action research projects, pilot products or services and best practice training.

On the advocacy level, GrowthFin was designed to work with partner institutions and associations that are working towards an enabling environment for SME finance. GrowthFin investment can be utilised for increasing



James Kashangaki, Head - GrowthFin Programme

advocacy capacity, building public awareness and confidence in the represented institutions or enhancing governance abilities.

On the policy level, GrowthFin works with partners in the Government of Kenya to assist in the identification of positive ways in which the legal and regulatory framework can be changed to better support SME finance.

In order to achieve its mission, GrowthFin devoted much time in 2007, its first full year of operations, to creating awareness of the programmes presence in the marketplace. The foundation work included the establishing of a brand, developing marketing materials, making contact with key players in the financial sector and conducting a series of studies and workshops. As a result of its focussed efforts, recognition of the important role of GrowthFin as a catalyst in expanding SME finance in Kenya has increased steadily.

GrowthFin also successfully managed two action research projects at two major banks in the country. The projects at Equity Bank and FINA Bank increased the capacity of both institutions to assess SME risk with the assistance of leading international specialists in SME finance. Both institutions have revamped SME divisions resulting in a substantially increased credit and savings portfolio from the sector. The lessons learnt from these two projects will be made available to industry players in case studies currently under preparation.

During the year, GrowthFin commissioned three important market studies that will go some way to illuminating follow-on activities to increase SME access to finance. In cooperation with the Kenya Institute of Supplies Management, a study was conducted on the major supply chains in the country impact on SMEs. It is hoped that the study will shed light on how these supply chains can be utilised to increase appropriate financial products and services for the SME sector.

In its role as an implementing partner of the Ministry of Trade and Industry's MSME competitiveness project, FSD and GrowthFin in cooperation with the IFC commissioned a study of the capacity constraints facing risk capital fund managers in Kenya. This study will be useful in designing a technical assistance intervention for the SME investees of long term fund managers.

GrowthFin also had a study undertaken of the constraints facing retirement benefit schemes, life insurance funds and other holder of long term fund investing in risk capital for SMEs. This study is critical to understanding how the legal and regulatory framework surrounding the use of these funds might be altered to make it possible to match long term savings with long term growth investments.

As part of its effort to support financial services that will have a positive effect on access to finance, GrowthFin supported a publicity campaign by the Credit Bureau Association to enhance public awareness of the purpose of this critical function. The GrowthFin supported launch of this association was a critical factor in the renewed urgency for gazetting of the final credit bureau regulations that will allow the licensing and operation of these institutions. GrowthFin values the partnership with the Association and will continue to work with it in future.

GrowthFin supported the Leasing Association of Kenya to make a case to the Kenya Revenue Authority and Ministry of Finance for fundamental changes to the regulatory framework in order to allow leasing to flourish in the country. Leasing is a product that where properly structured is heavily used by SMEs in other economies. The GrowthFin supported launch of the Association was a catalyst for a workshop held towards the end of the year for senior managers of the Kenya Revenue Authority on the application of taxation to various lease transactions. More work in this area is anticipated and will be conducted over the life of the GrowthFin programme.

A major lesson learnt from all the activities undertaken by GrowthFin in 2007 is that if a significant impact is to be made on the scale and scope of access to finance for SMEs a serious effort needs to be made to increase dramatically Kenya's chronic shortage of capacity to understand and mitigate SME risk. As a result, a major focus of GrowthFin efforts in 2008 will be to work with its partners to come up with an effective long lasting solution to this lack of capacity.