

## EDITORIAL

Sharing of credit information can make an important contribution to the development of the financial system. In other markets, credit information sharing (CIS) has proved an important aspect of financial infrastructure that enables lenders to improve risk assessment and consumers obtain credit at competitive terms.

The Central Bank of Kenya (CBK) Governor has repeatedly emphasised that CIS is the way to go if we are to address a fundamental problem of credit markets: asymmetric information between borrowers and lenders. By licensing a second credit reference bureau (CRB) in April 2011, CBK has demonstrated its clear intention of ensuring robust and competitive credit bureau services. The two licensed bureaus, CRB Africa and Metropol CRB, will compete in the market to offer reports to banks.

Over time, we expect that Kenya's banks will begin to pass on to borrowers the benefits of this mechanism by lowering the cost of credit and making it more accessible, particularly to small and medium enterprises. This was FSD Kenya's reason for supporting the Kenya Credit Information Sharing Initiative (KCISI), which coordinates the efforts of Kenya Bankers Association and CBK in implementing credit information sharing. Beginning with the banking sector but moving on to other lenders, this initiative is expected to promote improved information flows that provide fact-based and quick credit assessments, thus facilitating access to credit and other financial products to a larger number of borrowers with a good credit history.

The project has held extensive interactions with the public through various sensitisation forums in and out of Nairobi. These discussions have shown that the public largely perceives credit reference negatively – about blacklisting borrowers who have had some difficulty repaying their loans. This notion is not helped by the initial focus on sharing information on non performing loans (as required by law) and less on sharing information on well performing loans (based on customer consents). Concerted efforts will be needed to turn this perception around by promoting the sharing of positive information and thereby providing tangible rewards to good borrowers.

**Jared Getenga**

Project Manager, KCISI

## NEWS AND VIEWS



Members of the public receiving their credit reports on request at the CRB Africa tent in Mombasa. This was during a business community visit organised by the Kenya Credit Information Sharing Initiative (KCISI) in March 2011.

### Credit information sharing: Public sensitisation events

The banking sector credit information sharing (CIS) mechanism was formally launched in July 2010 by the Governor of the Central Bank of Kenya. With effect from 31st July 2010, all institutions licensed under the Banking Act began participating in negative data sharing and 14 banks also began sharing positive data in their submissions. In order to achieve broader awareness of the mechanism and its benefits among staff and customers, the KCISI rolled out business community visits to Kisumu, Eldoret and Mombasa. These were jointly organised with the CBK, Kenya Bankers Association and Credit Reference Bureau (CRB) Africa with financial support from the Financial and Legal Sector Technical Assistance Project (FLSTAP).

The first of these sensitisation visits was held on 17th and 18th February 2011 in Kisumu. The second visit was held on 10th and 11th March 2011 in Eldoret, while the third was hosted in Mombasa on 30th and 31st March 2011. All three events were organized into two hour forums over two days, with Day I's audience being bank staff and Day II's awareness programme addressing the credit consumer. CRB Africa (CRBA) put up an open day tent at the heart of each city visited, where customers could walk in and request information on CIS. Customers were able to get credit reports on site. Discussions at the workshops related to the

working of the CIS mechanism, and its benefits to users, as well as the completeness and accuracy of the information.

### Farmers benefit from index weather insurance

Maize farmers from Wamunyu in Machakos received the first ever compensation under the index-based weather insurance (IBWI) pilot project following the October 2010 rainfall season failure. Under the APA Insurance and Equity Bank partnership, farmers receiving 98% of the insured amount thus covering their cost of production. This illustrates an opportunity for financial institutions lending to the agricultural sector to better manage portfolio deterioration as a result of adverse weather as well as protecting farmers against the loss of assets as a result of default.

Smallholder farmers have for a long time missed out on agricultural insurance targeting adverse weather due to the challenges associated with administering multi-peril crop insurance (MPCI). By contrast to MPCI where loss adjustments are usually made through expensive farm visits, the IBWI payouts were based on a pre-indexed contract monitored from an automated weather station installed by the Kenya Meteorological Department with the support of the IBWI project. Other initiatives under the project in different regions have covered maize, wheat, banana, coffee, sorghum and livestock working with a number of financial institutions. The project is supported by FSD Kenya, the World Bank and Rockefeller Foundation.

### Results and analysis from FinAccess 2009

As we approach our next round of the biannual FinAccess survey, CBK and FSD Kenya are launching a new publication of in-depth analytical papers on the results of our first two surveys conducted in 2006 and 2009. FinAccess 2009 documents a dramatic shift in Kenya's financial landscape since the first survey. The papers contextualise the 2009 findings in relation to macro-level socio-economic trends in Kenya, as well as patterns of financial inclusion in the continent as a whole. They discuss the impacts of formal inclusion on household investment and growth, the complementary role of formal and informal financial institutions and the extent to which recent developments have impacted on financial exclusion. A spatial analysis of the FinAccess results is included, using cutting edge geographical information system (GIS) and statistical techniques to produce a series of maps which highlight the variability of access across Kenya. The volume will be published later this month and will be available from FSD and CBK.

## GROWTHCAP: A REFRESHING APPROACH TO A PERENNIAL PROBLEM – SME FINANCE

Small and medium sized enterprises (SMEs) play a central role in the Kenyan economy in terms of income and employment, innovation and the development of local markets and supply chains. Small businesses make use of local knowledge, experience, resources and simple technologies to turn local conditions into market opportunities. They can be creative and versatile serving markets often left out by larger firms. Despite the potential, SMEs face challenges in accessing appropriate finance to grow and play this vital role.

GrowthCap, a new project under FSD's Finance for Growth theme, has been designed to support the financial sector in its efforts to build the capacity necessary to provide high quality SME centred financial products and services. FSD has had many years working in this area. The experience gained and the analysis conducted of the constraints facing financial institutions in the development and delivery of appropriate SME finance, suggest five key areas which need to be addressed if significant progress is to be achieved.

First, fostering a real understanding of how SME business works is critical. Financial institutions rely on a high degree of formalisation in business processes and seek to control risk. In contrast, SMEs work in an environment that is volatile, where market opportunities are transient and the business needs to be very flexible in how it responds in order to survive from day to day. The lack of understanding by banks of how SMEs operate makes it difficult to determine the financing requirements of SMEs or to effectively assess the risks associated with those needs.

Second, there is a need to create effective tools to manage SME risk. Micro-finance has perfected the leveraging of peer pressure from group members to incentivise repayment. Corporate finance techniques rely on the analysis of sophisticated business plans and reliable financial statements to manage risk. Up-scaling micro-finance techniques does not work well in the SME context because of the relative complexity and individuality of each enterprise. Equally, down-scaling corporate finance techniques to the SME finance market has proved ineffective because SMEs typically lack the sophisticated information required and the costs of analysis are high. Credit scoring techniques and credit reports, common in developed markets are likely to have significant value in the Kenyan context, facilitated by the growth of credit information sharing. However, these techniques cannot be used in isolation. They need to be complemented by building strong relationships with SMEs and the application of simplified cash flow analysis.

Third, the financial sector lacks practical know-how in SME finance. Classroom training alone (that provide 'know-what' or facts), is not sufficient to develop the skills needed



A creative metal artisan in Nairobi works on his next piece. Small businesses such as these are set to benefit from Growthcap, a new project under FSD's Finance for Growth theme, that seeks to overcome constraints facing financial institutions in the development and delivery of appropriate SME centered products and services.

to create effective SME finance strategies, build and roll out appropriate products and services, assess and mitigate SME risk and manage and sustain effective relationships. Effective practical application - learning-by-doing - is needed within financial institutions to provide the opportunity to internalise abstract ideas.

Fourth, there is the need to upgrade skills on an industry wide basis. Trying to increase skills in an institution in isolation has the effect of creating a skills premium in the market and diluting the effect of the intervention as trained individuals leave for other institutions.

Finally, developing local business support services is crucial to the sustainability of the intervention. These services include consultancy and training which will support the financial sector in developing new and innovative ways to serve the SME market. These business services are very much a part of the wider SME finance industry.

Taking an industry-wide approach grounded on working with individual organisations, GrowthCap will look to (i)

provide practical demonstration cases of success (ii) develop practical techniques for addressing key SME needs and (iii) build skills in human resources in a practical environment. Working with select action research partners wanting to develop SME financing capability, the heart of the project involves developing and perfecting the methodologies that lead to successful SME finance products as well as developing the supporting infrastructure for this market.

FSD would like to take this opportunity to thank its partners in the financial sector who had significant input into the design of this exciting initiative during the long planning process. Over the course of the next few months once appropriate staff have been recruited, GrowthCap will be seeking 3 or 4 partner institutions to work closely with the project. In the meantime, we welcome your questions, comments and ideas on this subject. Please contact Michael Njeru, [michael@fsdkenya.org](mailto:michael@fsdkenya.org), or FSD.

### EVENTS CALENDAR

- 18 May** **Financial Diaries Executive Workshop**, Nairobi - Kenya.  
For more information, email: [lydia@fsdkenya.org](mailto:lydia@fsdkenya.org)
- 14 - 16 June** **Card, ATM & Mobile Expo Africa 2011**, Lagos - Nigeria.  
For more information, email: [intermarc@intermarc-ng.com](mailto:intermarc@intermarc-ng.com) Website: <http://cardexpoafrika.com>
- 16 - 17 June** **Global Summit on Educating Entrepreneurs**, University of Michigan - USA.  
For more information, email: [EntrepreneurshipSummit@umich.edu](mailto:EntrepreneurshipSummit@umich.edu)
- 20 - 21 June** **Cracking the Nut: Overcoming Obstacles to Rural and Agricultural Finance**, Washington, DC - USA. For more information, email: [customercare@cvent.com](mailto:customercare@cvent.com)
- 29 - 30 June** **Ziping Finance and Farming in Africa: Harnessing the Continent's Potential** Kampala - Uganda. For more information, email: [secretariat@mfw4a.org](mailto:secretariat@mfw4a.org) Website: [www.mfw4a.org](http://www.mfw4a.org)

**FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya**

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