



## EDITORIAL

FSD formally launched its new five year strategy at a breakfast event in September. We were delighted that so many of our stakeholders were able to join us. Our speakers included Dr Geoffrey Mwau, Economic Secretary, Ministry of Finance, Prof Njuguna Ndung'u, Governor of the Central Bank, Ambassador Mrs Ann Dismorr, of the Government of Sweden in Nairobi and Mr Alistair Fernie, Head of Office, DFID Kenya and Somalia. While obviously very encouraging for the FSD team to see this level of interest in our work, perhaps the more important signal we should take is the continued concern to improve financial inclusion in Kenya. There can be little doubt that addressing access to finance effectively in Kenya is going to require sustained effort over a long period and involve both the public and private sectors.

Our analysis suggests that Kenya is at a crossroads with respect to financial inclusion. Although tremendous progress has been made over the last five years, we have a long way to go. We should see the developments made so far as having laid the foundations for a push towards creating a far more inclusive economy. It would be easy to look at Kenya's achievements and think that we are now so far advanced that we can afford to sit back. I would suggest far from it. Many Kenyans still lack any access to a safe and convenient way to save. Although the headline numbers of those who are banked have increased, utilisation of many accounts remains low. There is little doubt that cost remains a constraint for many.

We face the choice between taking the high road and using innovations and technology to reduce costs or the low road of being satisfied with gains so far but which still leave so many effectively outside the modern economy.

FSD will be increasingly focussed on how we can help Kenya reach the high road. Inevitably this means some changes in the way we work. Our objective of supporting sustainable market development has always meant that we need to adapt as the market develops. Inevitably this means changes in the type of projects we support and the partners we work with. Although dealing with change is not always easy, we are looking forward to the fresh challenges over the next five years.

**David Ferrand**  
Director

## NEWS AND VIEWS



The Central Bank Governor Prof Njuguna Ndung'u (right) at the press briefing following the launch of FSD's Strategy 2011-2015 on 16th September 2011. On the left is Dr Geoffrey Mwau, the Economic Secretary in the Ministry of Finance, who delivered the keynote speech.

### Pastoralists receive the first drought insurance compensation in Kenya

Pastoralists from Chalbi and Laisamis divisions of Marsabit received the first ever pastoralists drought insurance compensation in Kenya following the severe drought experienced in the March 2011 rainfall season. The 650 pastoralists who had insured their livestock under the index-based livestock insurance (IBLI) were compensated from the 21st of October, 2011 by UAP Insurance Company following satellite monitoring of pasture under a normalised data vegetative index (NDVI) model. Notably, some of the pastoralists received insurance payments through Equity Bank point of sale devices that are also used to collect insurance premiums as well as manage social payments under the Hunger Safety Net Programme. The IBLI project is implemented by the International Livestock Research Institute (ILRI) in partnership with Equity Bank and UAP Insurance through the support of UKaid and FSD Kenya.

### Progress on financial education

FSD Kenya has continued to make tangible contributions to the global, regional and local agenda by sharing information and experiences under the Financial Education and Consumer Protection Partnership (FEPP). During 2011, FSD co-hosted visitors from the Reserve Banks of Malawi and Zambia, the Central Bank of Nepal, and a regional conference bringing together 110 participants to discuss ways of implementing effective financial education programmes. To push forward the agenda on consumer protection, FSD participated in the African Microfinance Pricing Transparency Conference that brought together financial sector regulators

to deliberate on ways to entrench price calculations, reporting standards and introduce financial education.

FSD is undertaking impact evaluation to establish what has worked well under the four FEPP pilot projects funded in Kenya. Preliminary results indicate tangible changes in consumer behaviour and attitudes, improvements in family welfare outcomes and increased access to financial services. Ann Mugei from Kitale states: "I learnt to save my small income in my account with Faulu. I did not know how to save my money before the *Elewa Pesa* (Understand your money) training." Under the new strategy, FSD will continue to support the FEPP to undertake programmes that enhance the financial capabilities of the poor.

### FSD appointments



Esther Kadondi, Head, Value Chain Finance Centre.

Esther has recently joined FSD to head the Value Chain Finance Centre. She brings on board over 15 years experience in the financial and agribusiness industries. She was until her appointment the Rural and Agricultural Product Specialist/Deputy Team Leader of USAID/Financial Inclusion for Rural Microenterprises programme. You may contact her through [esther@fsdkenya.org](mailto:esther@fsdkenya.org).



Ravindra Ramrattan, Research Economist.

Ravindra is the newly appointed Research Economist and will be starting FSD's new Centre for Branchless Banking. He previously worked in research at Innovations for Poverty Action. Ravindra holds masters degrees in economics from Oxford University and the London School of Economics. He can be contacted through [ravindra@fsdkenya.org](mailto:ravindra@fsdkenya.org).

## THE VALUE CHAIN FINANCE CENTRE

Financing the agricultural sector of the economy has been one of the big challenges facing many developing economies more so in Africa due to the associated inherent risks. From research done and discussions held nationally, regionally and globally, multiple strategies are required to address this challenge.

Lately, there has been growing interest in the value chain approach to finding solutions to the development of the agricultural sector. Value chains encompass the full range of activities required to bring a product or service from its conception to sale in its final markets - whether local, national, regional or global. They include input suppliers, producers, processors and buyers. The value chains are supported by a range of technical, business and financial service providers. Value chain finance analysis examines how transactions between actors within the chain are financed; the type of formal finance, if any, being provided by financial institutions outside the chain; and ways that financing, market linkages and technical assistance needs can be improved in such a way that reduces risks and costs to lenders and other service providers for the benefit of some or all the actors in the chain.

The formal financial institutions have been reluctant to provide financing to the agricultural sector due to the difficulty in assessing the risk in lending. This problem is also shared by informal suppliers of finance. To be successful they must find cost effective ways to evaluate whether borrowers can and will repay, and manage the related high operating costs and risks, a gap which the value chain finance approach seeks to close.

FSD Kenya in partnership with USAID's Financial Inclusion for Rural Microenterprises (FIRM) has set up the Value Chain Finance Centre (VCFC) to strengthen agricultural value chains through developing appropriate and sustainable finance. The strategy for the Centre is based on rigorous quantitative value chain research and analysis that is intended to address the following three key outputs:

- i. Identification and prioritization of viable opportunities for finance - thus eliminating sub-sectors where finance is not the constraint to development of the value chain;
- ii. Collection of key information regarding income, expense and timing of cash flows of rural businesses and agribusinesses to enable more effective credit and investment risk analysis by financial providers; and,
- iii. Identification of non-financial bottlenecks to assist the redirection of complementary technical assistance already at play in the chain to improve the competitiveness of agriculture value chains, making finance in whatever form more effective and reducing



A dairy farmer in Meru district. A study financed by USAID's Kenya Access to Rural Finance (KARF) programme on the dairy sub-sector identified a number of potential new and profitable financial products.

risk for the financial institution and all actors in the value chain.

The potential of this approach was illustrated by an analysis of the Kenyan dairy sub-sector commissioned in 2009, by USAID's Kenya Access to Rural Finance (KARF) Project. The study found clear evidence of areas where profitable financial products might be rapidly developed by existing financial sector players. In January 2010, FSD and KARF began sponsoring the development and roll out of financial products supporting dairy with several of Kenya's banks. Multiple products including lending for improved breed dairy cows and artificial insemination equipment, leasing for milk storage, transport and processing equipment, saving for assets and for lean season liquidity and payment systems, are now at various stages of development and rollout.

The Centre will offer the following services to the financial services industry:

- Rigorous quantitative value chain research through statistically significant sampling of principal value chain actors including their assets, investments, costs, revenues and the timing of their cash flows and their relationships between and among one another.
- Financial product development assistance to financial

institutions including: delivery strategy, costing strategy, marketing strategy, pre-pilot re-assessment of feasibility, training of staff, pilot rollout, monitoring, corrective changes, periodic evaluation of planned versus actual results, marketing and documentation development.

- SME investment support - Using the value chain research, the Centre will work directly with interested equity/mezzanine debt investors to identify and fulfil small and medium enterprise (SME) investment opportunities.
- Information resources and co-ordination - The Centre will actively package and disseminate information developed over time with a strong emphasis on meeting the practical needs of the various players in the industry.
- Regulatory strengthening - The Centre will use its data and analytical resources to support the strengthening of the regulatory framework where opportunities present themselves.

FSD commissioned a synthesis study in 2009 which helped prioritise the main agricultural value chains in Kenya. Research and analysis work on the next value chain is expected to start by the end of the year after a stakeholders' validation workshop.

## EVENTS CALENDAR

**23-25 November** 7th Regional BDS Conference, Mombasa - Kenya.

For more information, email: [bdsconference@mespt.org](mailto:bdsconference@mespt.org) Website: [www.mespt.org](http://www.mespt.org)

**17-18 January 2012** Agricultural Value Chain Finance Training, Accra - Ghana.

For more information, visit: [www.azmj.org/?p=582](http://www.azmj.org/?p=582)

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

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