

## EDITORIAL

Social Protection in Kenya is defined as “policies and actions for the poor and vulnerable which enhances their capacity to cope with poverty, and equips them with skills to better manage risks and shocks.” Recent statistics show that 46% of Kenyans live under the national poverty line while 19% live in extreme poverty.

In efforts to cushion vulnerable groups from hunger, the Government of Kenya and its development partners set out to extend an existing social protection scheme addressing orphans and vulnerable children. The Hunger Safety Net Programme (HSNP) was established in 2008 by FSD and funded by the UK's Department for International Development (DFID) to deliver long-term, regular cash support to some of the poorest households in the northern Kenya counties of Turkana, Marsabit, Mandera and Wajir. By the end of the pilot phase this December, 68,624 households will have received KShs 3,500 every two months. The next phase dubbed HSNP+ is expected to begin in June 2013 and will target 130,000 households with transfers of KShs 4,000.

In May 2012, the Social Protection (SP) Policy 2012 was approved by the Kenyan Cabinet. The policy aims to progressively expand coverage of social security in line with the government's constitutional commitment. It will also establish an institutional framework for a national programme and provide reference guidelines to stakeholders in the design, implementation, monitoring and evaluation of SP programmes. This is critical in streamlining the already existing SP initiatives.

Evaluation of SP programmes world over shows the reduction of chronic poverty and vulnerability among recipients. To reduce dependency on aid, beneficiaries should be encouraged towards income generation. In line with this, a recent FSD study examines the potential for market-based approaches to deliver financial graduation in northern Kenya. It offers recommendations for leveraging existing cash transfer and savings groups models to develop market-led solutions for graduating low income households out of poverty. The report, *Markets and poverty in northern Kenya: Towards a financial graduation model*, can be downloaded from the FSD website [www.fsdkenya.org/publications](http://www.fsdkenya.org/publications).

**Victor Malu**

Head, Future Financial System theme, FSD Kenya

## NEWS AND VIEWS

**FSD Africa programme announcement**

DFID and FSD Kenya are delighted to announce the appointment of Mark Napier as the Director of Financial Sector Deepening Africa – FSD Africa. Funded by DFID, this new initiative seeks to build on the success achieved in expanding financial inclusion through a number of country based specialist programmes such as FSD Kenya, focused on harnessing the power of markets to reach the unbanked.



Mark Napier, new Director FSD Africa.

Initially focusing on Eastern Africa and Nigeria, the programme will gradually expand to a pan-African scope. The aim is to increase synergies across the existing country programmes and provide support in other countries on the continent. Based in Nairobi, Kenya, it will work with FSD country programmes and others in building the capacity of financial service providers, promoting innovation in financial services delivery, facilitating skills, knowledge and technology transfers and increasing coordination between markets.

Mark has first-hand knowledge of putting the financial market development approach into practice having headed FinMark Trust - a DFID funded programme tackling financial inclusion in Southern Africa. More recently he has been advising the World Bank, DFID and other leading agencies on financial inclusion. At the outset, FSD Africa will formally be operated as a project of FSD Kenya but will shortly be established as an independent trust.

**SME working capital – Lessons from the supply chain finance support facility**

Insufficient working capital is a common problem in growing businesses and is especially prevalent among traders and suppliers. While large corporate clients expect 60 day (or more) payment terms, these growing companies cannot secure payment terms for their inputs such as goods or labour, and lack the assets to access collateral based credit. While these inputs require immediate cash payment,

the working capital is tied up in invoices waiting payment for much of the time.

Invoice discounting financing (IDF) allows a business to draw money against its sales invoices before the customer has actually paid. To be successful in invoice discounting, a financial institution must achieve both fast turn around and repeat invoice submission in order to build scale. This means that the focus of risk assessment and mitigation must be on the buyers and not the growing business suppliers. A supplier focused IDF development that is prevalent in Kenya results in huge effort to secure small volumes of largely one off business.

Constraints to achieving sustainability in invoice discounting include:

- Lack of awareness of the product (suppliers and buyers);
- Buyers unwillingness to co-operate with financial institutions to help small suppliers;
- Buyers hesitant to engage due to perceptions of fraud;
- Lack of understanding of the benefits of invoice discounting (suppliers and buyers).

FSD is facilitating training workshops during the fourth quarter for both buyers and suppliers that will clarify these issues in order to catalyse real partnerships with their financial institutions in the development of appropriate financial instruments. Financial institutions interested in pursuing the development of supply chain products are encouraged to recommend buyers and suppliers to Michael Njeru ([Growthfin@fsdkenya.org](mailto:Growthfin@fsdkenya.org)). Space is limited and will be allocated on a first come first serve basis.

**SME Finance Innovations Fund**

Under its Inclusive Growth theme, FSD is introducing an innovations fund to catalyse SME finance solutions through direct investment in non-traditional approaches and players. FSD will make small quasi-equity investments in cutting edge ideas for increasing financial inclusion for growth oriented businesses. Institutions with ideas in equipment and asset finance, working capital finance, credit enhancement and risk mitigation are welcome to send a concept introduction to [growthfin@fsdkenya.org](mailto:growthfin@fsdkenya.org) (one page). Please put “SME Finance Innovations Fund” in the subject line. Promising approaches will be contacted within two weeks to send us a four page concept paper. Visit our website's *Opportunities* page for more information ([www.fsdkenya.org/opportunities](http://www.fsdkenya.org/opportunities)).

## SAVINGS GROUPS SCALE UP PHASE I PROJECT

Savings Groups are small, user owned and managed organisations which intermediate funds between members using a simple, very transparent model. The approach works well in environments and populations beyond the reach of formal service providers. FSD's Savings Groups (SG) scale up phase I project objective is to develop savings group models to a stage at which a scale-up programme impacting significantly on financial exclusion at a national level becomes viable. The project started in April 2011 and in the 18 months to September 2012 has achieved encouraging results under the main components of (i) developing a national scale-up framework; (ii) refining delivery channels; (iii) improving savings groups methodologies; and (iv) poverty impact assessment.

Development of the national SG scale up framework is supported by a working group made up of the main SG implementing organisations in Kenya to create an optimal design framework for SGs by June 2013. The working group has been involved in the financial education review that recommended a financial education curriculum for SGs, trained on adult learning and facilitation skills manual and introduced an SG level tools manual.

Under the refining delivery channels component, the project is supporting a number of initiatives. CARE International in Kenya is working to reduce the amount of direct investment required in group formation and to introduce fees to be paid by groups based on financial results. The project is also testing additional interventions and particular design features needed to reach highly marginalized groups in Marsabit. CARE is implementing innovative delivery models for promoting SGs using franchisees and faith based organisations (FBOs) in Nyanza and has added community based organisations (CBOs) in Marsabit. The project is monitoring impacts of the delivery channels on costs, sustainability, group quality and poverty outreach. As at September 2012, the project had reached 4,400 SGs (3,970 in Nyanza, 430 in Marsabit) with 118,700 members (110,000 in Nyanza, 8,700 in Marsabit) against a target of 150,000 members by June 2013. Groups have so far paid 3% (KShs. 229,000) of the income they have earned to CBTs as part of the fee for service.

In another element, the project is supporting Catholic Relief Services (CRS) in refining the implementation of the Private Service Providers (PSP) model to make it fully functional and ready for scale up. The CRS project will reach an additional 24,000 members.

Under the improving SG methodologies, the project is supporting the development and testing of technology driven innovations and business models to improve the products and management of groups and address issues of



A Community Savings & Loans (COSALO) franchisee Judy Angaya (standing) meeting the "Umbrella" group in Western Kenya. The Umbrella group is so named because the umbrella is symbolic of the protection that the group gives them. They keep an umbrella opened in front of the group at every meeting. Photo credit: Paul Rippey.

liquidity management, consumer protection and financial capabilities. The key innovations are:

- the e-Recording solution – this is an online system to simplify record keeping, increase accuracy and improve data security for SGs;
- a linkage solution – for linking savings groups to formal financial service providers to enhance the security of group funds and expand products;
- a financial literacy module for SGs to address identified gaps in existing SG training methodologies; and,
- dissemination of training manuals for groups to improve governance, management and transparency.

e-Recording will see the automation of SG functionalities like data capture, transaction processing, share-outs and book keeping. The product will be operated on a low end smart phone and will eventually replace all paper records. It will allow members to access various group reports as well as their individual records at any point using an ordinary phone. The functional specifications for the e-Recording solution have been developed and the product is at the design and development stage.

A linkage solution for groups is at the design stage by a software development company following consultations

between the working group, Postbank and the developer. The product is intended to offer SGs an appropriate, safe, affordable and easily accessible liquidity management product through Postbank's branches, agents and mobile money transfer agents. The challenge of liquid cash continues to pose risks to groups between meetings, especially in the months leading to share out of the group's funds.

The project is involved in a substantial research agenda to analyse poverty impacts of SGs on users. A progress out of poverty index (PPI) is being used to understand the poverty outreach of SGs. Initial analysis of PPI data collected from over 13,000 members in the CARE project shows the probability of the members being below the national poverty line at 40% in Nyanza. Data for 2,800 members in Marsabit shows the probability at 79%. Finalisation of reports on the institutionalisation processes and meso-level impact studies is underway. The project will shortly carry out a comparative study of delivery channels to inform the design of the national scale up strategy.

For more information, email enquiries can be addressed to FSD's Savings Groups Project Manager, Kuria Wanjau, through [kuria@fsdkenya.org](mailto:kuria@fsdkenya.org).

## EVENTS CALENDAR

**25 - 28 November Call for partners: AgriBusiness Forum 2012, Dakar - Senegal.**

For more information, email Caterina Giuliano: [cg@emrc.be](mailto:cg@emrc.be) Website: [www.emrc.be](http://www.emrc.be)

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

4th Floor Kenya Re Towers, Off Ragati Road, Upper Hill | P.O. Box 11353, 00100 Nairobi, Kenya

T +254 (20) 2718809, 2718814 | +254 (724) 319706, (735) 319706 E [info@fsdkenya.org](mailto:info@fsdkenya.org) W [www.fsdkenya.org](http://www.fsdkenya.org)