

# FSD News



## EDITORIAL

There is little doubt that in 2009 the world will face exceptional economic, social and political challenges. Kenya, already in the grip of a food security crisis, is now seeing vulnerable economic sectors such as tourism, impacted by the global slow-down. Despite these building storm clouds it is encouraging to note that the year has started with a number of positive developments for financial inclusion in Kenya.

In late December the Central Bank of Kenya (CBK) gave its preliminary approval to the first two deposit taking micro-finance institutions in Kenya under the new Microfinance Act – Faulu Kenya and Kenya Women Finance Trust. With the remaining requirements expected to be fulfilled soon, it is anticipated that licences will be issued during the first half of the year. Both institutions will soon be able to offer savings services to their rapidly growing client bases.

A new SACCO Act was also signed into law by the President at the end of 2008. This will bring much needed regulatory oversight to a key part of Kenya's financial system. The challenge is now on implementation and a joint government-industry Task Force has been established to guide the process.

Safaricom's M-PESA money transfer product was recently audited by CBK and the Ministry of Finance. The result was a confirmation of the safety and reliability of this innovative system which now has five million registered users. Survey research commissioned by FSD Kenya and CBK reveals that the vast majority of users find it faster, easier, more convenient, safer and cheaper than the alternatives. We can expect to see competition emerging with a number of players indicating an intention to enter the market. Contrary to perception, CBK already has responsibility for oversight here and will shortly publish guidelines for operators in this new field.

The next round of the FinAccess survey on demand for financial services, already in the field, will reveal just how much progress has been made over the last three years on financial inclusion. Results are due by the end of the second quarter and we hope will bring some refreshing respite from the gloom!

**David Ferrand**  
Director

## NEWS AND VIEWS

### Credit Reference

Access to credit for small and medium sized enterprises is set to improve in the coming years with the implementation of the credit information sharing environment envisioned by the recently gazetted Banking (Credit Bureau) Regulations 2008. Launched in September 2008, these regulations set out the parameters under which banks will share negative customer credit information as mandated in the Finance Act 2006.

The Kenya Bankers' Association and the Central Bank of Kenya have set up a joint Task Force to bring the regulations into operation. All parties involved realised very soon that there was a need for a dedicated resource to integrate the many activities that will be necessary to achieve the goal of a comprehensive credit reference system. FSD Kenya has worked with the Task Force to identify the required activities and will provide some of the funding necessary to accomplish them.

The Task Force is hiring a project manager who will be responsible for the co-ordination of participant preparation and generating public awareness, among the critical processes deemed essential for success. As the concept of sharing information between credit providers becomes accepted in Kenya, a track record of successful repayment of loans by SMEs will encourage more lending as banks' perception of risk subsides.

### Financial Education

A joint call for proposals was made by the Financial Education Partnership (FEP) and the Financial Education Fund (FEF). Non-profit and private sector organisations competed for grant funding of financial education pilots. 24 organisations submitted concept notes. Five of these were invited to submit full applications.

Following the final evaluation process it is expected that pilots will start by June this year. The purpose of these pilots is to gather evidence on which are the most appropriate and effective strategies for increasing the financial capability of Kenyans.

Bilha Maina is the newly appointed project manager for the Financial Education Partnership. She has over ten years of experience in project management and will work under FSD to support the successful implementation of the programme. You may contact her on: [bilha@fsdkenya.org](mailto:bilha@fsdkenya.org).



**Bilha Maina, FEP Project Manager**

### Index-based weather insurance

An index-based weather insurance project has been started to strengthen risk mitigation within the agricultural sector in Kenya for farmers, financiers and marketers. This risk adversely affects food security, reduces returns on farming investments as well as shrinking agricultural credit portfolios. Index-based approaches can strengthen efforts by insurers to underwrite agricultural risks. Conventional insurance approaches face high administrative and loss adjustment costs when applied to weather related perils. These problems can be reduced by basing insurance on independent measures of the event insured against. For example, drought risk can be insured based on rainfall in an area measured by meteorological stations.

A consortium of development partners together with private and public sector players will implement several pilot projects for various crops. The partners in the process are FSD Kenya, Rockefeller Foundation, World Bank and International Livestock Research Institute (ILRI). Others will include the Kenya Meteorological Department (KMD); financial institutions: banks, MFIs, insurers, re-insurers; agricultural input suppliers and output market players: exporters, processors and other business development service providers.



**Michael Mbaka, Project Manager**

Michael Mbaka has recently joined FSD Kenya as the index-based weather insurance Project Manager. He brings extensive experience gained from the insurance, banking and development sectors. You may contact him on [michaelm@fsdkenya.org](mailto:michaelm@fsdkenya.org).

## DECENTRALISED FINANCIAL SERVICES (DFS) PROJECT

### Background

The DFS project was started in 2003 as an action research project to improve outreach of financial services in remote rural areas. During the first phase of the project, DFS established that decentralised models such as Financial Services Associations (FSAs), Savings and Credit Co-operatives (SACCOs) and managed Accumulating Savings and Credit Associations (ASCAs), reach further beyond the geographical and poverty frontiers of conventional banks or micro-finance institutions.

In the second phase (DFS II) the project aimed to develop and test effective tools and delivery techniques that would strengthen the management of Community based Financial Organisations (CBFOs). This was intended to provide a building block for developing sustainable and robust decentralised financial systems in Kenya.

The underlying premise was that training of groups improves their self-governance and management ability. This would in turn reduce transaction costs for ASCA managers, FSAs and SACCOs, leading to broadened and deepened outreach. DFS developed appropriate tools and methodologies for use in these models and trained the staff of the partner institutions to use them in training and managing the groups.

### What has the project achieved?

FSD Kenya recently commissioned an independent review of DFS aimed at identifying key achievements, lessons learned and recommendations for pro-poor financial sector development in Kenya. Four key outputs were expected from the DFS project:

- i. Finalisation of tools and manuals for groups: to disseminate the tools developed in phase I to help groups improve self-management and self-governance.
- ii. Integration of tools in managed ASCAs: to develop the capacity of ASCA management agencies and individual service providers to lower costs and improve outreach.
- iii. Integration of tools and savings-led methodology into semi-formal financial institutions: to develop and build group capacity to lower costs and improve outreach.
- iv. Research on terminating ASCAs: to understand the demand for terminating ASCAs in Kenya. DFS research into Village Savings and Loans Associations (VSLA) model in Zanzibar showed that this model of terminating ASCA remained sustainable and exhibited a high level of self-replication following end of external support.

DFS II has demonstrated that effective training can improve group self-management in all models, especially the Managed ASCA model. There was a marked difference between test and control groups such as the way they

conducted transactions, kept books and supervised themselves. Although the difference in financial performance between test and control groups was less clear, there were indications that training also improves the bottom line of the groups.

Efficiency gains were reported across all models. These gains were attributed to the creation of stronger groups that could screen borrowers, allocate loans, mobilise compulsory savings (and voluntary savings) and enforce repayment of loans. This enabled the ASCA managers, FSA and SACCO staff to lower contact time with the groups leading to improved workloads.

While all three models demonstrated that increased self-management lowers costs and improves efficiency, the connection to broadened and deepened outreach was most apparent in the Managed ASCA model. The FSA model demonstrated greater self-management in the groups leading to improved efficiency, transparency and potential depth in outreach. However, the connection between the efficiency gains and deepened outreach was less clear for the FSAs and the SACCOs largely due to a shorter test time.

While the intention of DFS in developing the tools was to help groups to self-govern and manage their operations, this may not be in the interest of the FSAs and SACCOs which use the groups as delivery channels for their services. This may explain why there was less clear evidence of group self-governance with these two models compared with the ASCA managed model.

The DFS project has made significant contributions to financial services provision for the poor, which include:

- strengthening the commercial approach of managed ASCAs;
- development of quality tools and methodology for group training;
- demonstration that capacity building improves the performance of groups and that of the institution; and,
- providing locally and internationally relevant research that fills a gap in the microfinance community.



A group training session supported by DFS

The success of the project was underpinned by: DFS's professional approach to training; its tailored approach to partnerships; the trust and management efforts from its Action Research Partners (ARPs); and its openness to learning and incorporating lessons from the work. However, these considerable achievements were not without challenges. Key among them were: institutional development issues with the ARPs; lack of reliable data from the ARPs; development and effective use of monitoring tools; and the ability to design and incorporate a savings-led methodology in credit-led institutions.

### Capitalising the gains

Nearly 40% of Kenyans are financially excluded (FinAccess Survey 2006), with 35% relying on informal providers such as ASCAs and FSAs. The majority of those excluded are also the lower-income groups living in the remote rural parts of Kenya. A third and final phase of the DFS project is therefore under consideration to expand financial services among these groups.

DFS's comparative advantage lies in supporting the ASCA managed model, where most of its work has been done. The biggest part of its dissemination work in the future will thus focus on recruiting and training service providers for groups and supporting ASCA managers. The proposed project will also look to support semi and formal financial service providers keen on using groups as delivery channels.

## EVENTS CALENDAR

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|-------------------------|--|
| <b>25th Feb</b>         | <b>Making Markets work for the Poor (M4P) workshop</b> , DFID and Swiss Agency for Development and Cooperation (SDC), Nairobi - Kenya ( <a href="http://M4Pnetwork.org">M4Pnetwork.org</a> )                 |
| <b>2nd – 4th March</b>  | <b>Expanding Access to Insurance for the Poor in East and Southern Africa workshop</b> , The World Bank, Kampala – Uganda ( <a href="http://www.insuranceforthe poor.org">www.insuranceforthe poor.org</a> ) |
| <b>8th – 13th March</b> | <b>Training programme on Making Markets work for Enterprise in Africa</b> , The Springfield Centre, Mombasa – Kenya ( <a href="http://www.springfieldcentre.com">www.springfieldcentre.com</a> )             |