West Pokot County Presents at the Northern Kenya Impact Investment Conference, April 2022

CASE STUDY: FEED THE FUTURE KENYA ACCESS TO FINANCE IN NORTHERN KENYA

Resilience and Economic Growth in Arid Lands-Accelerated Growth, Kenya Livestock Market Systems Activity, USAID Kuza, and Resilience Learning Activity

CONTENTS

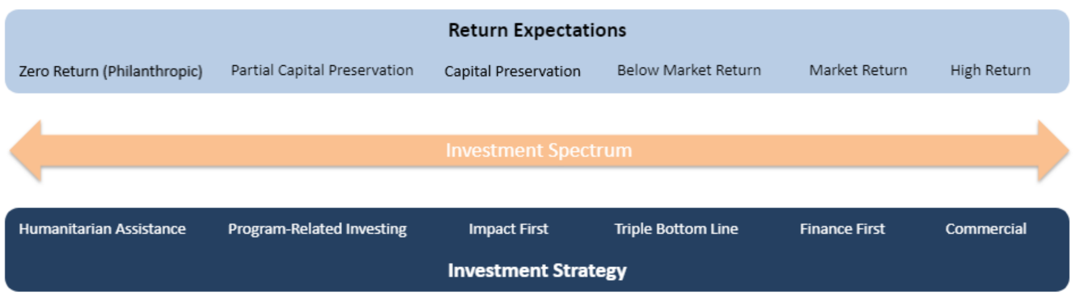
ACRONYMS

AFC	Agricultural Finance Corporation
CCF	Community Contracting Fund
CRF	County Revolving Fund
FI	Financial Institutions
IBLI	Index-Based Livestock Insurance
KES	Kenyan Shilling
LMS	Kenya Livestock Market Systems Activity
MFI	Microfinance Institution
MSME	Micro, Small, and Medium-Sized Enterprise
PayGo	Pay-As-You-Go
PPP	Public-Private Partnership
REGAL-AG	Resilience and Economic Growth in Arid Lands-Accelerated Growth
RLA	Resilience Learning Activity
SACCO	Savings and Credit Cooperative

EXECUTIVE SUMMARY

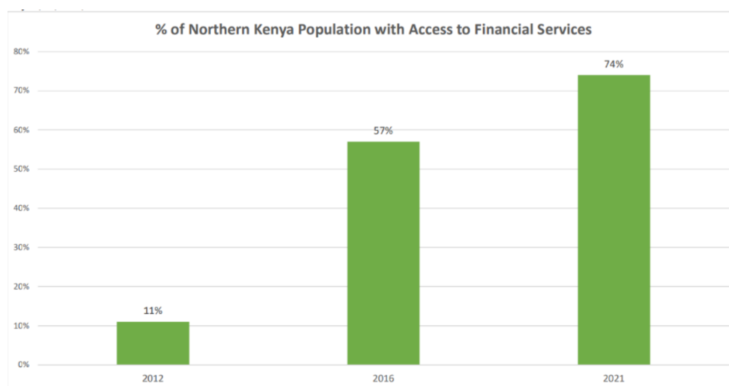
This case study explores the progression of USAID's access to finance work in Northern Kenya since 2012. It highlights the transformation that has occurred in the region's financial sector and subsequent growth and impact among micro, small, and medium-sized enterprises (MSMEs). The report assesses how USAID-funded Feed the Future activities—Resilience and Economic Growth in Arid Lands-Accelerated Growth (REGAL-AG), Kenya Livestock Market Systems (LMS) Activity, Resilience Learning Activity (RLA), and USAID Kuza—have supported developing Northern Kenya's financial sector with activities that have moved along the investment spectrum, from humanitarian assistance to impact investing. Beginning with an investment in 2012 to build a livestock market in a northern Kenyan county, all the USAID-funded activities harnessed the experiences and challenges of the previous activity, spurring growth, and transforming communities in the northern region.

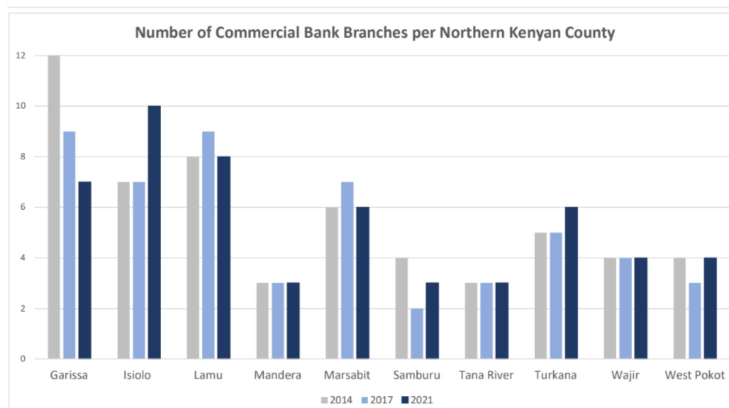
The Impact Investment Spectrum



Access to finance is a key driver of the economic growth for regions and communities, and access to appropriate financial services is also a key component of a resilient economy. During the project period assessed in this report, access to finance in Northern Kenya increased from 11 to 74 percent from 2012 to 2021 through the growth of the private sector and support from USAID, and national and local governments.

Despite this progress, Northern Kenya is still burdened with negative perceptions. It is still perceived to have less economic appeal than other regions in the country, and thus, has a limited local presence of financial institutions (FIs). Local businesses still suffer from this perception as well and are deemed "too risky," even by the few FIs located in the region.





Data Sources: REGAL-AG, LMS, and USAID Kuza proprietary data

Project	Financing Accessed
REGAL-AG	USD 1,369,134
LMS	USD 444,395
Kuza	USD 16,106,000 so far

This report highlights how the three Activities (REGAL-AG, LMS, and Kuza) helped develop the case for increased private-sector lending in Northern Kenya. It looks at how the Activities supported critical aspects of the financial system's supply and demand side through tailored activities that progressed and built on one another, and partnership models that increased engagement with the private sector and prioritized sustainability.

Through reviews of existing and previous USAID programming, this report identifies some significant lessons learned in how the activities helped move the region along the investment spectrum:

- **Diversity among financing sources provides a better range of options for borrowers and greater impact potential.** The study highlights the importance of collaborating with a diverse range of bank and non-bank financial service providers, including savings groups, cooperatives, digital finance providers, county government funds, impact investors, and value chain finance actors. By supporting a diverse range of financial services, the activities were able to better reach a diverse range of MSMEs and un(der)served customer segments, such as women and youth.

- **Building and continuing partnerships over multiple activities improved trust and willingness to pilot new interventions and increase investment.** By leveraging relationships built by previous activities with FIs, Activities were able to provide targeted technical assistance to improve their models to assess risk in the region. For example, Agricultural Finance Corporation (AFC) has partnered with the Activities in several different ways including linking them to local MSMEs, supporting the development of a branch in Marsabit County, and providing a $1.25 million loan for on-lending to MSMEs via the Impact for Northern Kenya Fund.

- **Providing policy support to county governments improves the enabling environment for investment and provides a locally driven approach to increasing financing to the region.** The USAID-funded Activities provided a range of policy support to the county governments of Northern Kenya, including training on the establishment and management of their county revolving funds (CRFs). Through this work, USAID has supported the development and maintenance of an effective enabling environment that fosters transparent, inclusive economic growth. These policies, as implemented by the county governments, reduce and eliminate unnecessary regulatory barriers for private sector investment, while helping targeted counties improve the business climate to stimulate investment and inclusive growth.

Through this work with the supply and demand side of financing in Northern Kenya, USAID supported the development of the region's financial system, including improving the supply and diversity of necessary financing in the region and improving the capacity region's businesses to seek and qualify for the financing.

INTRODUCTION

Project	Timeframe
Resilience and Economic Growth in Arid Lands – Accelerated Growth (REGAL-AG)	2012-2017
Kenya Livestock Market Systems (LMS) Activity	2017-ongoing
Resilience Learning Activity (RLA)	2019-ongoing
USAID Kuza	2019-ongoing

USAID, through implementing partners, has implemented several programs in Kenya and supported the broad economic growth in Northern Kenya, including a focus on supporting the region move along the investment spectrum.

USAID's work has focused on supporting Northern Kenya to close gaps in access to financing and promoting resilience and sustainability in the region. Beginning with REGAL-AG and followed by LMS, RLA, and USAID Kuza, USAID has designed, financed, and co-implemented activities that sought to increase private sector financing in some of Kenya's most remote locations.

This report assesses the core technical themes across the three Activities' interventions on the supply- and demand-side, providing examples of each, and highlights the progression of the activities toward more private-sector financial solutions.

FOCUSED ACCESS TO FINANCE APPROACH

Supply-Side	Demand-Side
Banks, FinTechs, Investment Funds, MFIs Non-Bank Financial Institutions, PayGO, SACCOs	Farmers, Household, MSMEs, Large Businesses

Core to USAID's access to finance work in Northern Kenya has been working to improve the ability of agricultural MSMEs to seek and qualify for financing, developing both the supply and demand side of the financing ecosystem. The USAID-funded Activities have worked and continue to work with the supply side to improve their willingness and capacity to provide the necessary financing to stimulate economic growth, either through direct support or through a facilitative approach. The Activities work with a diverse range of FIs, including investment funds, banks, microfinance institutions (MFIs), savings and credit cooperatives (SACCOs), and Pay-as-you-Go (PayGo) service providers, because the Activities understand that diversity among financing sources provides a better range of options for prospective clients.

In addition to working with FIs, the Activities have worked with the region's county governments to improve the enabling environment of financing in Northern Kenya. This focus recognizes the importance of ensuring solid and effective leadership of county governments and developing their ability to support the growth of the private sector in Northern Kenya, specifically their role in providing financing through their revolving funds. The Activities worked with the counties to improve their capacity in running day-to-day operations and provided technical assistance in identified areas of need.

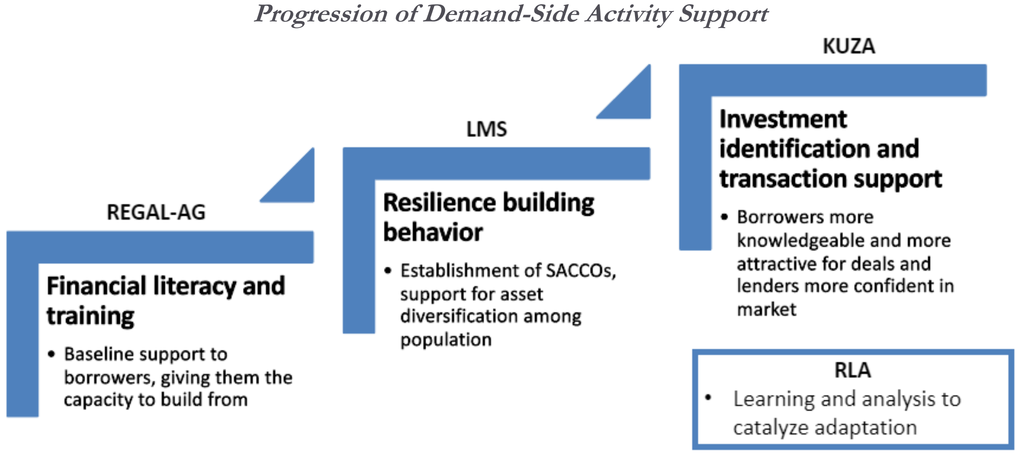
On the demand side, the Activities have worked to build the capacity of borrowers to seek and qualify for financing and help them throughout the transaction process. Activities targeted pastoralists, farmers, entrepreneurs, and business owners. The Activities built on one another and set the foundation for increased lending by preparing and increasing the number of suitable borrowers. The table below summarizes the main technical themes covered in implementation activities.

Supply	Demand
• Capacity building and strategic support to FIs lending to Northern Kenya	• Financial literacy and training
• Provide policy support to county governments	• Promote resilience-building products and services
• Support the development of digital finance and alternative delivery channels	• Investment ID and transaction support

DEMAND-SIDE ACTIVITIES

USAID's demand-side activities focused on building capacity and interest in improving farmers' and MSMEs' ability to seek and qualify for financing. This started with financial literacy and training for smallholder farmers, MSMEs, and other actors interested in increasing their financing. Implementation activities targeted the banked and unbanked, rural and urban communities, men and women, pastoralists, and business owners. With each group, support was tailored to build their capacity and knowledge of growth-oriented financial products. The activities have built on each other's successes, growing from financial literacy training to resilience-building support to specific transaction linkages.

Progression of Demand-Side Activity Support



Examples of Early Activities

USAID's development work in Northern Kenya began in 2012 with the core mandate of providing technical assistance support to community groups on advocacy through policy and legislation, business development support, and mobilizing communities to form producer associations that would function as a platform for collective action and bargaining. To achieve this, the Activities established a Community Contracting Fund (CCF) that would later become community grants. The CCF was set up to support the establishment of livestock market infrastructure that would function as avenues for livestock trade, avail food for communities, and provide necessary services, among them being financial services. REGAL-AG provided technical assistance to the communities to establish livestock market associations that would manage and maintain the market infrastructure, foster peace in the marketplace, and institute necessary legislation to retain development gains. This livestock market management gave birth to livestock market SACCOs that have so far become a vehicle for increased financial services at a community level.

The Isiolo Livestock Market, constructed under REGAL-AG

Financial Literacy and Training

Financial literacy and training were key first steps in supporting demand-side growth to create more-informed borrowers. High rates of illiteracy and lack of recordkeeping made it difficult for MSMEs and smallholder farmers to access finance and hard for lenders to assess applicants' creditworthiness. REGAL-AG supported financial literacy and access to improved business support services, including targeted mentoring and coaching. REGAL-AG provided this support to more than 30 enterprises and 20 livestock markets. This led to the establishment of financial management systems, including recordkeeping, internal controls, financial monitoring, and financial policies and procedures.

REGAL-AG's approach and methodology focused on directly strengthening the financial literacy and business development services (BDS) offered to MSMEs and smallholders; however, in the following programs, there was a shift toward a more facilitative approach. Instead of providing training directly, USAID programming focused on building the capacity of various local institutions that could provide similar training at the county level. LMS, through its facilitative approach, used the capacity building of institutions as a powerful tool to embed and ensure sustainability for financial literacy and BDS beyond the Activity's lifetime. For example, the linkage of saving groups in Turkana, Wajir, and Garissa with the Department of Social Services lead to training on the development and review of a constitution and business group dynamics. The Department of Social Services also oriented saving groups on existing opportunities for financial access, including the Women and Youth Enterprise Fund, the National Government Affirmative Action Fund, the World Bank-funded Kenya Development Response to Displacement Impacts Project, the Uwezo Fund, the County Biashara Fund, and CRFs.

Since financial literacy was low, the uptake of financial products and services was also low, and so many of the businesses that the Activities worked with few assets with limited cash savings. Diversifying assets through cash savings is a critical risk mitigation strategy for pastoralists and also key to livelihood diversification and the start-up of MSMEs, particularly for women. However, given the high returns of livestock keeping—estimated at 16 percent per annum per animal, compared to 3 percent per annum with bank-based savings accounts—understandably, many pastoralists were reluctant to open savings accounts with proceeds from the sale of livestock. REGAL-AG and LMS explored different options for asset diversification through cash savings as a risk mitigation strategy. The Activities organized women's groups into savings-led internal lending groups, where the pastoral community comes together in clusters of 20-40 members, develops rules of engagement, and designs ways of pooling finances for savings.

Examples of REGAL-AG Supported Savings Groups

- Women's livestock traders' savings group at Oldinyiro
- Livestock traders' group in Isiolo
- Youth motorbike savings group in Oldonyiro
- Isiolo poultry producer's savings

The Kipsing Women's Savings Group, a USAID-funded initiative

Another success under LMS was the linkage of the savings groups with the Women Enterprise Fund, an affirmative action fund set up by the government to encourage disadvantaged groups to access finance and enable them to build and expand their enterprises. Participants also received training in business and financial management, enhancing their capacity and confidence to engage with formal financial providers. Through this linkage, the Women Enterprise Fund conducted financial literacy training for seven savings groups in Ngaremara and assessed their credit readiness to offer loans in the future.

Promote Resilience-Building Behavior

To build upon the progress made via the financial literacy and uptake of savings groups of the demand side, the Activities also continued to promote resilience-building products and services. These included supporting solutions that helped households and businesses to withstand shocks, such as encouraging the growth and stability of cooperatives and SACCOs and implementing new initiatives to broaden access and knowledge of other available resilience-building products and services.

Both REGAL-AG and LMS focused on supporting cooperatives' capacity strengthening to function as anchors of capital for producer groups that would otherwise not be able to access financial services and gender-equitable access to financial services offered by producer groups. REGAL-AG explored opportunities to expand livestock actors' use of cooperatives in the region. At the time, most traditional banks were too risk-averse to expand operations to Northern Kenya, and the use of SACCOs in the North was less than in the rest of Kenya. REGAL-AG's support in building livestock market infrastructure increased the ability of livestock actors to connect and their interest and trust in other actors to form cooperatives.

Additionally, the Activity supported MSMEs and livestock farmers that were interested in forming SACCOs to serve their financial needs as well as their suppliers and buyers. These actors are inherently linked, with some enterprises providing inputs to other enterprises. informal savings groups have also formed because of the increased economic activity and the revenue generated by the construction of livestock markets and enterprises. In addition, the informal financing groups that have resulted from REGAL-AG activities continue to save and expand as their members' income continues to increase from their diversified livelihoods.

LMS' Work with SACCOs

- 45 Savings and Credit Cooperative Organizations (SACCOs) have been formed during LMS.
- The SACCOs have a total membership of 2,950, all actively engaged in savings.
- LMS participants reported accessing agriculture-related financing amounting to USD 444,395; 43% have come from SACCOs.
- The SACCOs have enabled and enhanced the culture of savings and credit among the target community members for financial inclusion.
- The members received credit from the SACCOs to purchase animals from the feeder markets, then sell them at the main markets for a profit. The profit is then used to start or expand other businesses.

Building off the work of REGAL-AG, LMS moved forward with a robust cooperative development agenda to enhance the capacity, commitment, and collective bargaining power of SACCOs and their members. LMS facilitated the formation of the Isiolo Livestock Market SACCO to enable the market actors to save and access credit to grow their businesses. The SACCO has 180 members (110 females and 70 males), with membership and savings expected to increase. Additionally, the Activity supports the improvement of management and performance of SACCOs by providing training on the features of the cooperative business model, the benefits of cooperatives, the role of women in cooperative development, the registration process of cooperatives, economic appraisal, and formulation of by-laws. The Activity collaborates with county government partners to promote the use of SACCOs as an entry point of financing for smallholder farmers and MSMEs and increase the capacity of SACCOs to access end markets.

In addition to providing direct services, LMS undertook efforts to develop partnerships and leverage the expertise of the private sector. The Activity partnered with Kenya Women Finance Trust, Post Bank, and Rural Enterprise Access Program groups to increase literacy and, subsequently, access to financial services. To transition REAP groups from informal saving groups to semi-formal, and eventually the formal financial sector, LMS encouraged and facilitated those groups to join/enlist as members of SACCOs as they scaled efforts to access formal financing. Through the REAP and GIRL models, 701 savings groups were formed, with accumulated savings amounting to USD 2.6 million. These groups actively lend money to the members, with a few extending the services to other community members, ensuring financial inclusion to disadvantaged groups who would never access financing from formal financial service providers.

Investment ID and Transaction Support

Once populations were trained and aware of financial products and services, several required transaction support—from introduction to the FI to deal close. Each Activity knew that a key barrier to the growth of financing and investment was supply- and demand-side information asymmetry—banks unaware of their prospective borrowers and borrowers unaware of the products available to them. To solve this, the LMS facilitated lending exploration trips in Northern Kenya for lenders and investors primarily focused in southern and western Kenya to enable them to change perceptions of risk and attract new investment. LMS leveraged REGAL-AG FI relationships (like AFC) and supported them in improving their value chain finance models and assessing risk. Additionally, the Activity linked the FIs with each other and to beneficiaries in need of financing to enhance risk-sharing and business ownership and provided the FIs with desk space in their field offices. This incentivized FIs that lacked local presence due to the cost of doing business, perceived risk, and limited clientele, to guarantee the setup of fully operational offices in Northern

Kenya. Under USAID Kuza, these relationships and strong linkages with FIs, have progressed from providing technical assistance to allocating capital for on-lending to the FIs themselves.

Through these linkages and subsequent deals and investments, the business case for lending in Northern Kenya has been proven and FIs are increasingly expanding their presence in Northern Kenya. To further support FI expansion in the region, USAID Kuza developed activities to attract additional investors and expand the volume of financing available. As part of these efforts, USAID Kuza hosted a half-day Northern Kenya Impact Investment Conference to showcase the status, potential, and constraints for investment in Northern Kenya. Invited participants included USAID, Frontier Counties Development Council (FCDC), county governments and other relevant government agencies, MSMEs operating in target counties, current and potential investors, local and international FIs, and donors. The conference:

- Provided a forum for current (including the USAID Kuza Investment Fund) and potential investors, and FIs to profile key investees/clients and share information on their financing criteria and performance
- Showcased MSMEs operating in target counties and provided them with opportunities to meet with potential investors, showcase their products and services and build strategic business partnerships

  Convened stakeholders to discuss local economic development and participate in business-enabling policy discussions

A Victorian Foods (Turkana-based MSME) representative meets with a potential investor at the Northern Kenya Impact Investment Conference

SUPPLY-SIDE ACTIVITIES

Kenya has made significant progress in financial inclusion, tripling the percentage of its financially included population in 13 years. However, progress toward access to financial services has been uneven. Per the 2021 FinAccess Household Survey, only 62.4% percent of the country's poor have access to formal financial services, compared to 95.5% percent of the wealthy. The survey highlights other access gaps: 81.7% percent of women are financially included, compared to 85.9 percent of men, and 91.7% of the urban population have access to formal financial services compared with 79.1% of the rural population. The uneven progress, especially in rural areas such as Northern Kenya has led to several supply-side barriers to accessing finance that hamper economic development, including:

- Less economic investment appeal than other regions in the country because of a lack of infrastructure and existing financial access
- The limited presence of branches in Northern Kenya due to the large and spread-out nature of the region and opportunity cost
- FIs often lack a general understanding of the livestock sector and the Northern Kenya region, making it difficult for them to identify financing opportunities
- The reluctance of FIs to lend to Northern Kenya MSMEs due to the perception that the agribusiness and livestock sectors are un-bankable, too risky, and profit margins too low
- Lack of knowledge by investors and lenders of Northern Kenya's promising landscape for agribusiness investment and lending opportunities
- FIs prefer larger loans, leading to limited capital for early-stage companies (more than half of Kenyan enterprises are in the early stages of growth, requiring smaller loan amounts)

Knowing these challenges, the Activities set out to solve the addressable issues by providing tailored technical assistance to FIs interested in expanding their presence in Northern Kenya, supporting county governments to develop their revolving funds, and diversifying the number of lenders in the region with a focus on digital finance providers and investment funds. Each of these activities was mutually reinforcing and helped improve the financial landscape in Northern Kenya.

Mutually Reinforcing Supply-Side Activities

The table below summarizes the supply-side partners and the typical activities.

Type of Lender	Target Customer Segment	USAID Support
Banks and MFIs	MSMEs and entrepreneurs	Market research, opportunity identification, and product development
CRFs	Medium and large enterprises	Operational support to grow funds and attract private-sector capital
Investment funds	MSMEs and larger enterprises	Establishment in Northern Kenya and pipeline identification

Like the demand-side work, each Activity built on its predecessor's challenges and successes. USAID's work began with extensive market research and establishing the business case for lending in Northern Kenya, followed by continued support in the development of products designed to succeed in the region, such as sharia-compliant products, and in diversifying the financing available in the region via investment and county funds.

Capacity Building and Strategic Support to FIs Lending to Northern Kenya

Though each Activity undertook specific activities best suited to the market at the time, on reflection they all have the following similarities:

- Believed that there were, and still are, significant opportunities to promote economic growth and private sector investment in key sectors and support services
- Recognized and supported the important role private sector investment plays in Kenya's journey to self-reliance
- Identified specific entry points for expansion through SACCOs, Shariah-compliant products and services, and CRFs.

When the Activities first started in 2012, supply–side lenders were unfamiliar with the region. To support their learning, the Activities facilitated strategic investment forums with private sector investors in collaboration with county governments to explore investment opportunities and identified that county funds were equipped to sustain their work, attract private capital to grow the fund, and provide financing options to MSMEs.

In addition to focusing on introducing new lenders to the region, the Activities also facilitated the growth of SACCOs linked to FIs and inclusive of small-scale livestock traders and set up forums between FIs and project enterprises, extending these buyer-seller platforms to REGAL-AG businesses, livestock markets, livestock market associations, and cooperatives. LMS, worked with local chambers of commerce, funds, and trade officials to promote connections among local businesses and other investors/banks operating (or wishing to operate) in Northern Kenya.

Sharia Finance

LMS worked extensively with institutions such as AFC to start up and expand their Sharia-compliant loan options. Through collaboration with LMS, Equity Bank and AFC have developed Sharia-compliant loan products for LMS-targeted counties. LMS supported the institutional strengthening of AFC with the establishment of a Sharia-compliant window, which was done through the hiring of a Sharia scholar. LMS also assisted in the development of a Shariah Compliant Credit Policy tailored to fit AFC's Access to Finance expansion plan in Northern Kenya, which was developed with the inputs of various stakeholders ranging from Shariah scholars to county government policymakers in agriculture and livestock sectors. Recently, LMS engaged a Sharia financing consultant to train cooperative groups, SACCOs, and livestock market associations on available financial products in Wajir county to improve access to financial products and services. LMS offered similar trainings in Isiolo County on loan policy development.

Key to supporting the supply side in learning about the region was identifying specific product opportunities they could leverage, including a specific capacity to offer Shariah-compliant products, which are much desired in the region. LMS supported AFC in the rollout of its Sharia Compliant Credit Policy and associated products to Marsabit and counties, in partnership with Kenya Investment. The Activity shared the experiences and lessons/learning from the Kenya Investment Mechanism-LMS-AFC partnership with other FIs and funds to assist them in furthering and tailoring inclusive lending products among their networks. In addition, the establishment of the AFC branch office in Marsabit will play a critical role in expanding access to finance in the north.

Increasing Access to Financial Touchpoints

To construct the branch, USAID, through Feed the Future Kenya Livestock Market Systems Activity led by ACDI/VOCA, co-invested $150,000, and AFC co-invested $90,000, bringing the total investment to $240,000. The county government of Marsabit provided the land used for the construction of the branch. USAID bought off the risk on investment for the AFC bank. With an operational business unit in Marsabit County, the branch is projected to reach 2,000 livestock producers and farmers in other agricultural value chains. AFC will provide agricultural credit and technical support and mobilize different partners to address community financial concerns.

The Marsabit Branch of AFC, funded by LMS

Supporting Counties to Improve Services

Understanding the role that the county governments play in establishing a growth-oriented enabling environment in Northern Kenya, USAID's activities have continued to support their growth. Many Kenyan public/government funds exist to provide start-up funding for new businesses, including for youth and women, but most consumers are not aware of such offerings or how to access them. The activities have grown to support the development and rollout of the CRFs, which can provide an additional level of financing to the region, and have focused on planning, budgeting, public financial management, and resource mobilization capacity at the county level.

Policy Support to Improve the Enabling Environment for Investment

USAID activities supported the development, sensitization, approval, advocacy, and implementation of policies to improve the enabling environment for investment activity in northern Kenya. This includes the Land Tenure Policy (Regal-AG), Livestock Saleyards Act (LMS), the Regional Peace and Cohesion Policy (USAID Kuza), County Integrated Development Plans (LMS and USAID Kuza), and County Lending Policies (USAID Kuza). USAID Kuza is currently supporting select northern Kenyan counties to develop Special Economic Zones (SEZ) policies to further attract investment activity.

For example, LMS supported Garissa County in the management of its revolving fund. The fund manager and other Garissa County officials identified a need for additional support in establishing and implementing a vetting process for the Garissa fund loan applications. LMS conducted a series of capacity-strengthening activities to advise the Garissa County government fund officials on creating processes and procedures for accepting, screening, vetting, selecting, and approving applications for loans. Building on LMS' promising engagement with the Garissa County Revolving Fund, LMS explored the functionality of CRFs in five LMS counties to determine the level of support required to render these operational, and how the Activity could facilitate fund operationalization in its zone of influence. Additionally, the Activity supported four LMS counties in passing necessary legislation that governs CRFs. In total, LMS has supported nine CRFs.

USAID Kuza provides technical assistance on fund management to Lamu County

Once support was provided on how to best operationalize the funds, the activity shifted support to supporting the counties in increasing the use and sustainability of their funds. They encountered barriers like political interference, misappropriation of funds, political insecurity, a lack of appropriate policies and guidelines, a low capacity in MSME management, and a lack of creditworthy MSMEs.

Each county received tailored training on best practices of fund management, determining creditworthiness and credit risk mitigation, financial products and services, loan diversification, and financial management skills to be transferred to cooperatives and sub-county staff. Each of the counties noted different levels of experience in fund management as well as unique barriers. Therefore, before the training, the team conducted a needs assessment for each county. The team then co-designed the training with county partners based on the results. For example, in Lamu County, the needs assessment highlighted the absence of collateral security as a prerequisite to extending loans to borrowers. Their training focused on evaluating collateral and using movable security in the absence of traditional collateral, like titles or deeds

Thus far, the training has had the following impacts:

- Turkana County disbursed $554, 877 (KES 70 million[1]) to women and youth.
- West Pokot County disbursed $118, 932 (KES 15 million).
- Isiolo County set aside 19 million KES for MSMEs but was unable to disburse the funds. The training enabled the county to put the right structures in place, including establishing the fund as a legal entity, which led to the county increasing its revolving fund allocation to 38 million KES. The training also facilitated lending through cooperatives, livestock market associations, and organized groups to ensure the funds are disbursed.
- Samburu County reduced its non-performing loan rate from 35 percent to 30 percent.
- Marsabit County also reduced its non-performing loan rate (based on preliminary evidence), but data is still being gathered.

In addition to the county-level support, USAID Kuza developed a regional investment plan for the target counties to attract private sector investment. This plan provides regional context, enabling environment, capital demand and supply, and sectorial opportunity information for the region. The plan provided county summaries (that can later be expanded by counties) and highlighted investment opportunities in various target

1 1 USD = KES 126.154 as of February 20, 2023.

counties. This regional investment plan increases awareness meant to attract investment and public-private partnerships (PPPs) to the region.

The table below shows a summary of investment opportunities identified by the counties for potential private-sector investment in four FCDCs.

County	PPP Opportunities
Isiolo	Multi-food processing plant
Lamu	Cotton processing plant; fish processing plant
Turkana	Tannery and leather products
West Pokot	Marich produce market

The PPPs will attract private-sector investment to spur the economy and create opportunities that increase revenues for county governments and the people. The investment will improve various lagging socioeconomic sectors in the FCDC region and will transform the region into a prosperous community and a beacon in Kenya, with a significant natural resource endowment for economic and investment opportunities. The developed PPPs provide an overview of the business plan, financial information, risk factors, how investment proceeds will be used, and the rate of return for investors.

Further, USAID Kuza developed the Impact for Northern Kenya Fund in collaboration with FCDC counties and encourages county participation through Investment committee participation, in the development of deal pipelines, and/or collateral agreements, further developing the counties' capacity to attract and mobilize investment capital. The Fund will also support CRFs through its impact results-based financing mechanism, through which the CRFs will have access to impact results-based incentive bonuses.

Digital Finance and Alternative Delivery Channels

Like the rest of Kenya, the Activities found that mobile money products and services are widely used in and in high demand in Northern Kenya, noting that places with poor network connectivity have lower usage rates. Through the REGAL AG Activity, USAID lobbied Safaricom to install network masts in the respective livestock markets that would serve the region, noting revenue losses and insecurity in low to no-network areas. This led to increased financial service access and improved security for traders who now have an opportunity to trade using mobile money services. Access to financial services increased significantly over the past several years due to more reliable network connectivity in the region, estimated to be 98 percent (per Safaricom). Using data from key informant interviews, the Activity estimated that 79 percent of enterprises in LMS' target counties are dependent on the availability of mobile phone networks to access finance and financial services for their businesses.

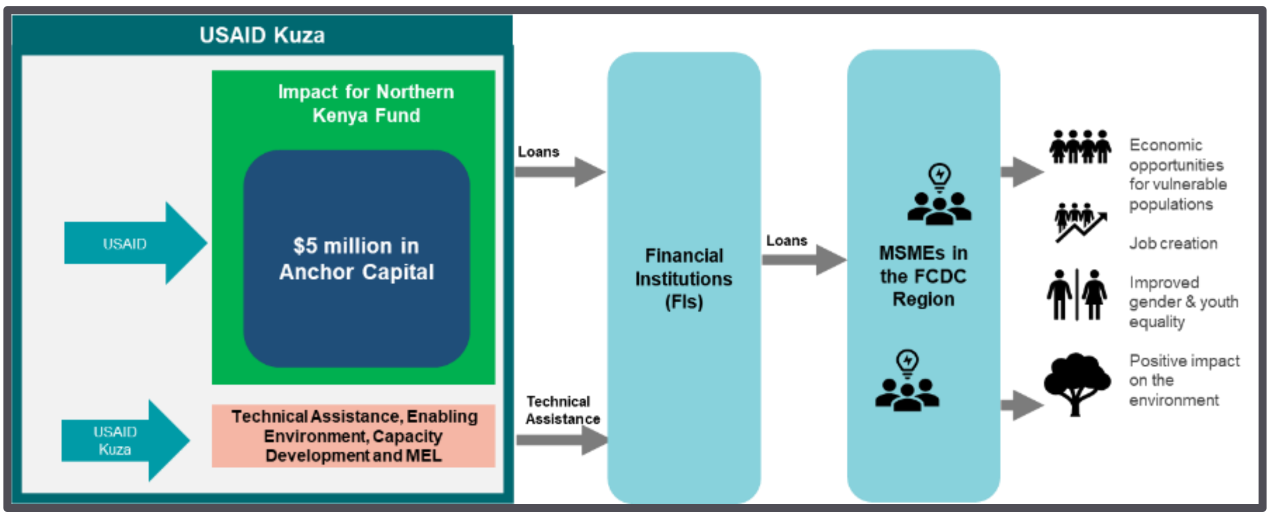
The Activity trained women and girls on how to use mobile money services to save, transact, and borrow business loans. The women further received start-up capital (goats) and cash transfers to start their businesses. Some women groups received catalytic grants to start M-Pesa[2] agencies that increase reach and access to financial services. This effort has facilitated savings in places where no financial institutions currently operate.

2 M-PESA is a mobile phone-based money transfer service, payments, and micro-financing service.

Establishing the Impact for Northern Kenya Fund

While there have been myriad attempts to enhance financial inclusion in Northern Kenya, very few FIs had been willing to dedicate significant financial resources to Northern Kenya because of high transaction costs, vast distances, thin market, inherent security, over-reliance on livestock, and lack of innovation in the design of financial products suitable for the region and constituents. To address these access barriers, USAID Kuza established the Impact for Northern Kenya Fund (the Fund), setting aside USD 14 million (more than KES 1.76 billion) to provide wholesale loans to FIs, SACCOs, and PayGo service providers. The fund is designed to be fully sustainable, unlike previous development efforts that provided grant capital to MSMEs. In parallel, USAID Kuza supports the strengthening of local FIs through direct technical assistance.

USAID Kuza's Impact for Northern Kenya Fund Structure



The Fund, which made its first loan disbursement in 2021, mobilizes and leverages private capital and provides much-needed financing to Kenya's underserved counties to improve access to finance and build the capacity of existing FIs in FCDC counties. USAID Kuza observed that medium-term working capital financing was the primary financing required in all counties. The mechanism provides wholesale loans to FIs in the counties, injecting liquidity into the areas and businesses that most need it. Per the Fund's requirements, FIs that receive loans must also provide matching capital. This, in turn, further expands access to finance in the counties and encourages more buy-in from partners. The partner institutions then offer flexible loan products tailored to best suit the needs and characteristics of the businesses in the counties. The Fund demonstrates the viability of lending in the north and justifies the business case for targeting MSMEs as a viable sector for the FIs. In addition to the loans, the Fund has also introduced three windows to further support regional development. The windows listed below are open to FIs and provide additional emphasis on building FI capacity and achieving social impact:

- **Gender-Lens Investing and Youth-Lens Investing Window:** Provision of capital and technical assistance to FIs and MSMEs that support women and youth
- **Bridge to Investability Window:** Pre-investment technical assistance and contingent loans for MFIs and SACCOs
- **Impact Incentive Window:** Incentive payments to FIs and CRFs that finance MSMEs with significant social or environmental impact

The Fund, in its current plan of implementation, aims to exist as an operationally sustained fund with the ability to make loans continuously over an extended period. Because the Fund is for-profit and receives a return on its investments, the Fund will work to maintain capital preservation to ensure long-term sustainability. As the Fund is the first entity of its kind with this loan structure, the overall rate of return on the loans is unknown. The expectation is that the Fund will have capital preservation. As investments are disbursed, and repayments are monitored, USAID Kuza and the fund manager will then be able to understand the rate of return and the level of performance.

An interesting aspect of the Fund's work so far is that several of the borrowers are long-standing partners of USAID programs—AFC and Fadhili MFI.

	AFC	Fadhili MFI
Fund Financing	• USD 1,250,000	• USD 3,250,000
Use of Financing	• AFC has used the financing for on-lending to over 60 clients, including SACCOs and MSMEs in Isiolo, Lamu, Marsabit, Samburu, Tana River, and West Pokot counties • 90%+ of loans from AFC are going to smallholder farmers are micro ag-enterprises with an average loan size of $11,820 (KES 1,491,140)	• 81% of their clients are women, mostly Mama Mbogas[3] in markets in Isiolo, Lamu, and Tana River • Fadhili, through its agricultural financing subsidiary, Fadhili Express Ltd., provided Tana River smallholder farmers with inputs, agricultural training, insurance yield cover, extension services, and off-taker agreements for the commercial production of green grams. • With assured supply chain finance, access to markets, and inputs through Fadhili MFI, smallholder farmers in Tana River will increase acres under agricultural production from 1,130 in 2022 to 5,100 acres in 2023

SOCIAL IMPACT

Consideration on how best to drive social impact was integrated into all implementation actions by the Activities, but some specific activities were developed to bridge the gaps existing in Northern Kenya and address specific challenges. A focus was placed on activities improving access to financial services for women and youth, as well as activities that will drive employment.

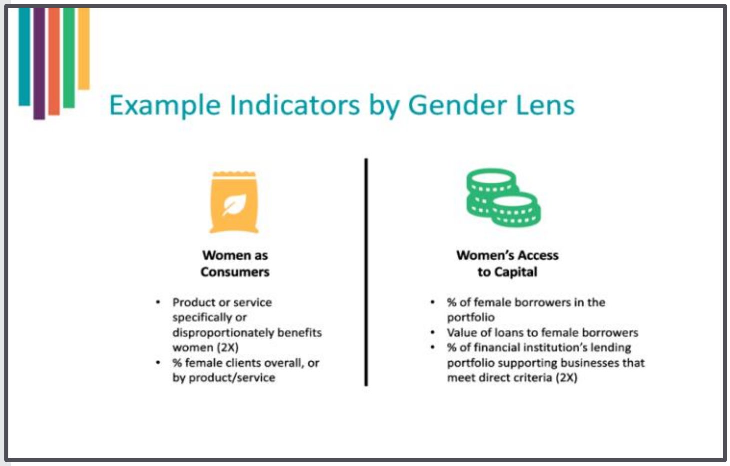
	Current Activities
Gender and Youth	• USAID Kuza has a Gender-Lens Investing and Youth-Lens Investing Window that finances clients that are drivers of growth, ensuring access to finance by women and youth. • The Fund partners with FIs that meet established criteria, such as having a loan portfolio of over 25% women and youth or producing goods or services to improve the livelihoods of women and youth. • LMS has continued to work with FIs to enhance provision and equal access to the full range of needs-based financial services, including financial literacy.

[3] Women smallholder farmers that grow and sell vegetables, usually through kiosks or other small stands, which serve the community.

	Current Activities
Employment	• LMS has supported more than 26,000 residents of Northern Kenya, providing technical training, such as certificates for meat inspectors and other vocational training support.
Environment	• USAID Kuza has provided over $2 million (KES 252 million) in climate finance to FIs for on-lending to climate adaptation and mitigation MSMEs, including solar power providers, eco-fuel producers, and farmers using irrigation systems. • The Fund's Impact Incentive window disbursed payments to FIs focused on drought-responsive MSMEs (animal feed, drought crops, crop or livestock insurance, water infrastructure, etc.)

Gender Lens Investing (GLI) Training

USAID Kuza conducted webinar on Gender Lens Investing (GLI) for county officials responsible managing for the counties' Revolving Funds, Enterprise Development Funds, Mortgage Funds and Pension Funds. Also in attendance were county officials from the Trade and Industry, Finance and Economic Planning, and Procurement departments, and Impact for Northern Kenya Fund FI clients. The webinar had 57 (48 males, 9 females) attendees and was facilitated by ACDI/VOCA's gender lens investing specialists in Washington DC. The session covered strategies to serve these clients, including multiple evaluation techniques, non-collateralized loans, and the development and implementation of gender lens investing policies. The webinar also covered the business case for GLI, incorporating GLI into the county fund and FI loan process, impact measurement and case studies from Kenya and around the world.



Snapshot from USAID Kuza's GLI Webinar

Supporting Innovative Lending to Women and Youth

USAID Kuza's Impact for Northern Kenya Fund lent $3.25 million to Fadhili Micro Enterprises Ltd. Fadhili is an MFI that uses the Grameen Model of group guarantees, instead of collateral, to make micro-loans to entrepreneurs and farmers. Fadhili's typical client is a "Mama Mboga," or vegetable seller, who uses the capital for the wholesale purchases of vegetables from farmers, and motorcyclists to transport produce from local farms to the markets; one such client is Charity Gatei, who sells in the Isiolo Vegetable Market.

Before her Fadhili loan, she had never received a formal credit facility and instead utilized expensive short-term market-based loan sharks. In 2021, Madam Gatei joined a Fadhili guarantee group composed of five Mama Mbogas in the Isiolo Vegetable Market. At the market, these women work together to ensure good business practices and timely loan repayment. After a Fadhili financial literacy course, Madam Gatei received her first loan of 20,000 KHS (approximately $160). She used the capital for the wholesale purchase of tomatoes, onions, legumes, and grains, as well as market fees and transport costs. She repaid her first loan within the three-month window and subsequently received four additional loans totaling 90,000 KSH (approximately $717). Her past loans have been fully repaid, and her current loan is in good standing. On average, Madam Gatei realizes a daily profit of 1,000 KSH (approximately $8), which is almost four times the daily income for most of the population (male and female) in northern Kenya. Further, with her newly developed credit history, Madam Gatei has also qualified for Fadhili's School Fees Loan, which allows her to spread the costs of her children's tuition over 12 months.

Charity Gatei's Store at the Isiolo Vegetable Market

CONCLUSION

Through a series of implementation actions aimed at supporting growth and development on both the supply and demand side, USAID and its funded-Activities have helped improve access to finance in northern Kenya and improved the ability of agricultural MSMEs to access and utilize the financing. As the table below shows, the Activities built upon and deepened the impact of access to finance across a decade of implementation.

	Activity Progression Across Projects	Supply or Demand	Contribution to Regional Development
REGAL-AG	*Customer outreach and education*	Demand	• Increased knowledge of available products in the market • Improved ability of potential/current customers to access formal financial services
	Market research and investment identification	Supply	• Identifying and educating the supply side of regional opportunities for investment • De-risking investment in MSMEs through catalytic grants to establish the business case for lending
	Product development	Supply	• Supporting lenders to develop tailored financial products that match the demand-side needs, including region-specific updates
LMS	*Continued technical assistance to lenders*	Supply	• Support the growth of the capabilities/abilities of FIs to lend to Northern Kenya and develop products and services
	Resilience-building activities	Demand	• Deepen the capacity of borrowers to prepare for and recover from shocks, making them better borrower candidates
	Transaction linkages	Both	• Directly facilitate deals between interested borrowers and appropriate lenders, lowering transaction cost
USAID Kuza	*Support the growth of enabling environment*	Supply	• Continued support to county governments and further development of their CRFs, as well as identification and advocacy of PPP investment opportunities
	Establishment of the Impact for Northern Kenya Fund	Supply	• Fill identified market gap to provide patient, growth-oriented financing available in Northern Kenya
	Targeted technical assistance through the Fund	Both	• Via three separate funding windows, provide support to FIs and MSMEs to build their capacity and performance

However, there are further opportunities for growth and actions to support it in Northern Kenya.

NEXT STEPS IN NORTHERN KENYA'S DEVELOPMENT

Though much progress has been made in the development of Northern Kenya's financial systems and efforts to move toward more formal commercial financing, more work is still needed to take advantage of growth opportunities. The table below lists opportunities to build on and continue progress in support of private sector growth in the finance sector in Northern Kenya.

	Market Need	Rationale
	• Support for lenders offering appropriate financial products	• It remains a big gap in the market and one of the biggest needs of borrowers
	• Continue to share market information and case studies to highlight the business case of investing in the region	• Provide credible economic and market landscape information on the region to attract investors and support potential investments
	• Continue to identify and support investment opportunities	• PPP works with counties has taken time to develop, but investable opportunities have been identified, and they offer a path to new sources of private-sector funding