



2021:29

Sida Decentralised Evaluation

FCG Sweden, Tana Copenhagen

Evaluation of KCB and multi-party guarantees and assessment of prospects of guarantee projects in Kenya

Final Report

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September 2021

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The views and interpretations expressed in this report are the authors' and do not necessarily reflect those of the Swedish International Development Cooperation Agency, Sida.

Sida Decentralised Evaluation 2021:29

Commissioned by Sida, Embassy of Sweden in Kenya

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Date of final report: 2021-09-01

Art. no. Sida62428en

urn:nbn:se:sida-62428en

This publication can be downloaded from: <http://www.sida.se/publications>

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Table of contents

Index of Tables and Figures.....	i
Abbreviations and Acronyms	ii
Executive Summary.....	iv
1 Introduction.....	1
2 The Evaluation	3
2.1 Context and background	3
2.2 Evaluation subject (Evaluand)	6
2.3 Evaluation purpose and objectives	7
2.4 Evaluation scope	7
2.5 Users of this evaluation	8
2.6 Evaluation criteria and questions: Evaluation Matrix	8
2.7 Risks and Limitations encountered and mitigation actions	9
3 Key Developments, Results and Outcomes of the Loan Guarantee Instruments	12
3.1 The Loan Guarantee taking institutions	12
3.1.1 Kenya Commercial Bank (KCB)	12
3.1.2 Multi-party Guarantee with three MFIs	13
3.2 Summary data from Loan Portfolio Analysis of the four loan taking institutions	15
3.3 Characteristics of loan takers und use of loans	19
3.3.1 Loan takers at KCB	20
3.3.2 Loan takers at the MFIs.....	21
3.4 The external support environment and financial ecosystem	23
3.4.1 Agricultural Devolution in Kenya.....	23
3.4.2 Provision of Business Development Support and Technical Assistance to MSMEs in the Area of Finance Provision to MSMEs in Agricultural Value Chains	25
3.5 Mapping and inventory of relevant financial service providers servicing MSMEs and the Agricultural Sector	32
3.5.1 Key Findings on Relevance and Suitability of Financial Institutions	33
4 Key Conclusions.....	35
4.1 On the use and results of the loan portfolio guarantee instruments.....	35

4.2 On future prospects and possibilities for Sida's engagement in the financial sector deepening and guarantee facilities in Kenya	43
5 Recommendations.....	49
Annex 1 – Terms of Reference.....	54
Annex 2 – Evaluation Matrix	64
Annex 3 – Document List	67
Annex 4 – List of Interviewees.....	70
Annex 5 – Key Findings, Revisiting the Evaluation Matrix.....	73
Annex 6 – Loan Guarantee Portfolio Analysis	87
Annex 7 – Survey Result of Loan Takers at Letshego.....	105
Annex 8 – Change Stories of Individual Loan Takers.....	111
Annex 9 – Stakeholder mapping of providers of financial services for SMEs and households in Kenya	119
Annex 10 – Evaluation Approach and Methodology.....	123

Index of Tables and Figures

Table 1 Assets of the largest banks and holding companies (The end of 2020):	4
Table 2 Total assets of four largest Kenyan Micro Finance Institutions (The end of 2019)	5
Table 3 Utilisation guarantee facilities as of December 2020 (in USD)	16
Table 4 Loan tenors, collateral, interest rates, and loans to women and first-time borrowers as of December 2020	17
Table 5 Interest rates used by the financial institutions under the loan portfolio guarantees (2012-2020)	18

Abbreviations and Acronyms

AAA	Africa Agribusiness Academy
ABSA	Amalgamated Banks of South Africa
AFC	Agriculture Finance Corporation
AfDB	African Development Bank
AECF	Agriculture Enterprise Challenge Fund
AfIF	The Africa Investment Facility
AGF	African Guarantee Fund
AGRA	Alliance for a Green Revolution in Africa
ASDS	Agriculture Sector Development Strategy
ASDSP	Agricultural Sector Development Support Programme
ASTGS	Agriculture Sector Transformation and Growth Strategy
BDS	Business Development Services
CIDP	County Integrated Development Programme
CSO	Civil Society Organisation
DAI	Development Alternatives Incorporated (USAID contracted TA provider)
DCA	Development Credit Authority
DFC	Development Finance Corporation
EM	Evaluation Manager
FAO	Food and Agriculture Organisation
FIRM	USAID Financial Inclusion for Rural Micro-enterprises
FSD	Financial Sector Deepening
GoK	Government of Kenya
HRBA	Human Rights Based Approach
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ICT	Information and Communication Technology
KCB	Kenya Commercial Bank
KENAFF	Kenya National Farmers' Federation
KEPSA	Kenya Private Sector Alliance
KES	Kenyan Shilling
KII	Key Informant Interview
KIM	USAID Kenya Investment Mechanism
KWFT	Kenya Women Finance Trust Deposit Taking Microfinance limited
KWMB	Kenyan Women Microfinance Bank (new name of KWFT)
KYC	Know Your Customer
Letshego	Letshego means support in Setswana (language in Botswana), previously named Micro Africa Limited Kenya

PREFACE

M	Million
MFB	Micro Finance Bank (in Kenya synonym to MFI)
MFI	Micro Finance Institution
MSME	Micro, Small and Medium Enterprise
MTR	Mid Term Review
NCBA	NCB and CBA merger
OECD-DAC	Organisation for Economic Co-operation and Development - Development Assistance Committee
P4P	Purchase for Progress (of WFP)
PO	Producer Organisation
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprise
TA	Technical Assistance
ToR	Terms of Reference

Executive Summary

Introduction

This evaluation considers two loan portfolio guarantees supported by the Swedish International Development Cooperation Agency (Sida) in the period 2012-2021 in Kenya. The Sida guarantee support was provided as co-guarantees with USAID's Development Credit Authority (DCA), currently revamped as the Development Finance Corporation (DFC). Sida has delegated the coordination and follow-up of loan portfolio co-guarantees to DCA and currently DFC and supporting Technical Assistance was coordinated and implemented by USAID in Kenya. The two loan portfolio co-guarantees were implemented with:

- The Kenya Commercial Bank Group (KCB), with a co-guarantee total value of 11.5M USD;
- Three Micro Finance Institutions (MFIs):
 - o Kenya Women Finance Trust Deposit Taking Microfinance Limited (5M USD);
 - o Deposit Taking Microfinance Limited (SMEP) (4M USD);
 - o Micro Africa Limited Kenya (Letshego) (2M USD);
 - o A reserve facility of 2M USD was made available for good performing MFIs.

The loan portfolio co-guarantees targeted the agricultural sector and particularly Micro, Small and Medium Enterprises (MSMEs) in agricultural value chains. Also, the sector of clean energy was targeted in the facility with the MFIs. And among the MFIs, there was one specific institution targeting women.

The guarantee facilities during the design phase were to be linked with development programmes supported by Sida: The Agricultural Sector Development Support Programme (ASDSP), and the Financial Sector Deepening (FSD) in Kenya trust fund. And for USAID, the co-guarantee facilities were linked with its Feed the Future interventions in Kenya, while in the framework of USAID's FIRM and KIM programmes, technical assistance was provided to all guarantee facilities supported by DCA/DFC in Kenya, among which the partners in the two co-guarantees with Sida. During the implementation period of the guarantees, these anticipated linkages with other programmes, to some extent, have occurred within the USAID programmes, though to a much smaller extent with the Swedish supported programmes.

Sida and the Swedish Embassy are currently preparing for their next strategic planning cycle of Swedish cooperation with Kenya. It is likely that a focus on the agricultural sector and financial sector deepening will remain and Sida has indicated that it wants to continue to work with loan portfolio guarantee instruments in Kenya in the future,

possibly not anymore in a co-guarantee arrangement with USAID, after closing the current cooperation period.

The Swedish Embassy and Sida have commissioned an external evaluation of the two co-guarantee arrangements in the period 2012-2021. Firstly, this evaluation is to look back at the results of these facilities and secondly, this evaluation is to learn from this experience for future planning periods.

The evaluation was realised in the period May - August 2021, by an external team of four international consultants. This report contains the main findings, conclusions, and recommendations of this evaluation exercise.

Key developments in the use of the co-guarantees in Kenya in the period 2012-2020

The MFIs have used the guarantees at an early stage of the arrangement. KWFT and SMEP placed all loans under the Guarantee in the first two years of the guarantees. While KWFT used the Guarantee fully, SMEP has used 90% of the available facility. Micro Africa/Letshego was slower in the utilisation of the loan portfolio Guarantee assigned to this institution and placed its last loans under the facility in 2017. It also did not use the facility to the full extent with 58% utilisation rate, which was lower than the utilisation rates of the other MFIs and KCB. This can be explained by the fact that Micro Africa was taken over by Letshego, an international Botswana-based MFI. And under this new ownership, the lending strategy of Letshego was changed, and no more agricultural loans were provided. As a result of this change in strategy, Letshego did not fully use the facility. The reserve fund available to MFIs was not used, which according to the MFIs was because they were not fully aware of how to apply for that reserve facility, and they also did not fully agree with the conditions under which it was offered.

The MFIs placed a large amount of loans under the guarantees, over 30,000 loans in total. The majority of this amount was taken by KWFT with over 21,500 loans. The average amount of the loans disbursed by the MFI was 322 USD. These loans were often offered as specially packaged loans for clean cooking, energy (biogas) and water tanks. Most of the loans were provided to agricultural producers in the sectors of maize and grains growing and for livestock and dairy farming activities.

Default rates reported on the DFC Credit Management System were very low. KWFT and Letshego did not claim any reimbursements for loan losses under the co-guarantee facility, while for SMEP a default rate of 3.8% was reported, reflecting a small number of claims under the Guarantee. The MFIs reported to the evaluators that actual default rates were higher, but that they decided to not place claims under the Guarantee. No precise data were available on this aspect. This can also be explained by the limited knowledge among the MFIs in the first years of the Guarantee on how to best make use of the facility.

KCB made only limited use of the loan portfolio guarantee facility in the first years and only when increased and more intensive technical assistance was provided to this

institution, after 2016, this bank stepped up its efforts to increase lending under the Guarantee. In the period 2017-2020 it reached 82% of the maximum guarantee amount. During the guarantee period, KCB developed a strategy for lending to MSMEs in agricultural value chains with support of technical assistance provided by USAID. KCB is reporting a low default rate of less than 1% and has only placed a few claims under the facility. KCB as a bank is lending to significantly larger MSMEs with an average loan amount of 7,715 USD. Only a few loans were significantly larger, reaching 100,000 USD and over 95% of the loans were lower than 10,000 USD.

These utilisation rates by the MFIs and by KCB show that the guarantees have been successful in supporting the banks to provide loans in the agricultural sector. It is not possible to estimate the amount of additional loans triggered by the guarantees, but executives of KCB, SMEP and Letshego expressed a definite view that some or many of these loans would not have been approved without the Guarantee. Particularly KCB and SMEP have benefited from the guarantee facility by developing new products and services in the sector and by developing strategy and institutional capacity for agricultural lending. KWFT has also benefited, though it already had installed capacity and products for agricultural lending prior to the guarantee arrangement. Only in the case of Letshego, and due to the change in strategy as a result of an international acquisition, the guarantee facility was not successful in helping this institution to establish and grow an agricultural loan portfolio.

Due to limited technical knowledge and limited early communication around the use of the guarantee facilities, the MFIs have made suboptimal use of the Guarantee, while KCB has been acting slow but now is using the facility well. These findings illustrate the importance of technical assistance to accompany the loan portfolio guarantee. Some flaws in the early (FIRM) phase in TA provision were corrected by USAID in the later KIM arrangement, but as this was only in 2017, the MFIs did not benefit from this change.

The loan takers of the MFIs and KCB generally do not know about the existence of guarantees and the lending to them occurs under the same conditions and requirements as normal loans. It is difficult to measure a differential effect and impact of lending under guarantees and normal lending to these groups. It is likely, though, that particularly in the case of SMEP and KCB loans were provided to MSMEs in agricultural value chains that otherwise might not have been provided. And in the case of KWFT it has supported rolling out new (clean cooking equipment) loans to a 100% female clientele and often first-time borrowers.

Loan takers interviewed and surveyed in this evaluation indicate that they are satisfied with the services and products of the MFIs and KCB. Particularly with the MFIs, the borrowers become regular customers of these institutions, applying for subsequent loans to further expand their businesses, which is happening as a slow process.

Covid-19 has impacted the businesses of smaller MSMEs, though in general the loan takers visited during this evaluation show resilience and creativity to survive in the difficult period of the first year after Covid-19 emerged. The agricultural sector has bounced back earlier than other economic sectors, but particularly for smaller MSMEs

further support might be required. This is now also taken up by a new initiative of the National Treasury with the Central Bank of Kenya to establish a Covid-19 emergency guarantee facility in 2020, which might evolve into a new permanent facility in the near future.

Key conclusions on the use and results of the loan portfolio co-guarantees

Relevance and additionality of loan portfolio guarantees to move financial institutions toward increased lending to MSMEs in agricultural value chains has been varied among the partner institutions in Kenya.

Awareness and knowledge of how a loan portfolio Guarantee can be used to reduce risks for a lender venturing into new businesses in the agricultural sector was low at the time the facility was introduced, leading to suboptimal use of the Sida-USAID co-guarantees by all four Kenyan financial institutions.

The loan portfolio guarantees have been generally efficient, from the provider perspective, particularly for Sida, through its delegation of tasks to USAID. For the loan portfolio guarantee taking institutions, however, due to the sub-optimal use of these guarantees (as illustrated above), the costs might have been high.

While the formal reports on the loan portfolio guarantees provided a picture of a generally effective process of lending and repayment with limited losses and claims, both the amounts disbursed and the repayment rates were overstated, because several lenders did not report and claim for all their losses, and other errors occurred in reporting under the facilities.

The effectiveness of the loan portfolio guarantee instrument at the level of the ultimate beneficiaries, the individual borrowers in the agricultural sector, can mainly be seen in terms of improved and extended availability of tailored lending products and services to MSMEs in agricultural value chains. Effects of loan portfolio guarantees have been less pronounced in terms of access to and cost of finance for loan takers (interest rates, collateral requirements, etc.).

Evaluating the impact of loan portfolio guarantees at the level of borrowers is complex and difficult. Donors may gain important insights into development impacts from technical assistance providers that engage directly with lenders and borrowers, but this type of information sharing was not stipulated in the delegation agreement between the Swedish Embassy and USAID.

In Kenya, there are a variety of loan guarantee facilities and instruments, each with its own characteristics and requirements and serving different market segments in terms of target groups and sectors. These guarantee arrangements are often between specific development partners and specific financial institutions, each negotiating their own terms. The existence of multiple arrangements has created a divergence in the landscape of different financial instruments, with the possibility of creating market distortions and weak institutional sustainability.

The Covid-19 pandemic has affected the Kenyan economy and particularly the survival of SMEs after Covid-19. This emergency has created an important new opportunity for more coordination of efforts to assure access to finance by MSMEs during the Covid-19 crisis and the post Covid-19 recovery. The National Treasury has set up an emergency guarantee facility for MSME lending by financial institutions and this facility is in place since mid-2020. Currently, there are concerted efforts to replace this emergency facility with a more permanent facility managed by a new institution. This provides an important and unique opportunity for more concerted and coordinated actions in the future.

Strengthening inclusiveness and reaching out to smaller MSMEs (owned by more vulnerable target groups) is a challenge in the loan portfolio guarantee instrument, as many lenders tend to favour better established and generally somewhat larger borrowers. Strengthening inclusiveness requires a well-targeted approach and mechanisms to encourage the provision of loans and other financial services to vulnerable groups. While women have benefited particularly from MFI loans, other aspects of inclusion were not considered in these guarantees, except for limits on the sizes of qualifying loans.

Key conclusions on future prospects and possibilities for Sida's engagement in the financial sector deepening and guarantee facilities in Kenya

Continued focus of Sida loan portfolio guarantees on agriculture in Kenya makes sense in the light of Swedish key interests and priorities in Swedish cooperation with Kenya. Agriculture remains a key sector in the economic development of Kenya where access to finance is a key constraint that will require long-term and consistent efforts in the future.

Exploration of new target client groups for guarantee instruments by the Swedish embassy is ongoing and specific new products and audiences are being considered. However, since the target groups and products considered are rather narrow and in situations where other institutions are already active, the opportunities to establish and roll out a new intervention may be limited.

Under previous conclusions, reference was already made to the current initiative of the National Treasury in setting up a national home-grown facility and entity for guaranteeing loans to SMEs in the future. Key informants in this evaluation indicated this is an important initiative for Sida to consider to be involved in, though the process of establishing the facility and building capacity may be slow.

Kenya has a good institutional support environment for providing technical assistance and business development services in the agricultural sector. Many of these organisations are home-grown or established as Kenyan companies or NGO's. This local capacity has not been sufficiently considered in the provision of TA in the framework of the Sida-USAID co-guarantees and in USAID's FIRM and KIM programme, where international companies were recruited to provide TA. This may be a missed opportunity of embedding the guarantees in a local support ecosystem and thus securing longer-term institutional sustainability.

The identification and selection of the lenders as Kenyan partners was based on active search for possible partners and subsequent processes of dialogue and negotiation with specific financial institutions. No process of competitive tendering was done, which may have led to suboptimal selection of the finance providing institutions in the Sida-USAID co-guarantees. More competitive procedures based on submission of concrete proposals to make use of the loan portfolio guarantees may lead to selection of more committed and experienced partners than was the case in the current co-guarantees.

Needs and context analysis can help to identify partners and approaches for a new loan portfolio guarantee that ensures that loans will reach the beneficiary groups that most need them. At the level of Guarantee taking partners, a needs and capacity analysis is required. For example, in the past few years, and aggravated during the Covid-19 crisis, some MFIs have suffered losses that leave them with insufficient capital to operate and grow. In those cases, capital infusions from other sources may be needed before the MFIs can serve as partners in a guarantee arrangement.

Recommendations

1. Sida and the Swedish Embassy in Nairobi should continue exploring opportunities for using loan portfolio guarantee facilities in Kenya. They are advised to do so, while maintaining their current focus on enterprises in agricultural value chains and strengthening linkages and synergies with other Swedish-supported initiatives in the agricultural sector (ASDSP) and in the financial sector (FSD).
2. In exploring opportunities for future loan portfolio guarantees, the Swedish Embassy in Nairobi should follow the recent developments in the framework of the National Treasury to set up a national guarantee facility for SME lending as a response to the current Covid-19 related economic crisis and future recovery.
3. When designing and implementing future loan portfolio guarantees, Sida and the Swedish Embassy should include from the beginning a substantial Technical Assistance facility that complements the loan portfolio guarantee arrangements to ensure an optimal use of the guarantee facilities right from the start.
4. In the process of identification and selection of loan portfolio guarantee taking institutions in the future, Sida and the Swedish Embassy should consider introducing competitive tendering procedures and mechanisms. These will enhance relevance and additionality of the loan portfolio guarantees and as a result are likely to improve effectiveness in utilisation of the guarantee facilities.
5. Due to the confidentiality of loan guarantees and lender-borrower relations, the realisation of external (development impact) evaluations is challenging. Sida and the Swedish Embassy, based on their interest in creating development impact of their loan portfolio guarantees and other financial inclusion instruments, are recommended to build in a specific approach and methodology for systematic development impact analysis of loan provision under loan portfolio guarantees.

1 Introduction

In 2012, Sida together with USAID entered into a guarantee agreement with Kenya Commercial Bank Group (KCB). The Guarantee was set-up as a loan portfolio guarantee. This Guarantee was designed to support USAID/Kenya's Feed the Future strategy and Sida/Government of Kenya's Agricultural Sector Development Support Programme (ASDSP). Qualifying projects were defined as "investments along agricultural value chains, including the dairy, drought-resistant crops, horticulture, beans and maize value chains – defined broadly to include inputs and production, capital investments, aggregation, storage, processing, handling, and transportation." Qualifying Loans were allocated to Qualifying Projects in the Coast, Eastern, Nyanza, Rift Valley, and Western Regions of Kenya. The Guarantee was complemented with a Technical Assistance (TA) component to support both the bank and the borrowers.

In the same year of 2012, Sida entered a second co-guarantee with USAID in the form of a competitive/multi-party loan portfolio guarantee with three Micro-Finance Institutions (MFIs): Kenya Women Finance Trust Deposit Taking Microfinance Limited; Deposit Taking Microfinance Limited (SMEP); and Micro Africa Limited Kenya (later named Letshego). The Guarantee was set up to support these institutes to increase lending to the agriculture and clean energy sectors in Kenya. In the loan portfolio guarantee agreement, it was specific that these MFIs were expected to lend at least 10% of their facilities to the clean energy sector.

The objective of the guarantees was that Guarantee taking finance institutions would contribute to improved management of natural resource utilisation with a focus on sustainable agribusinesses growth that benefits poor people in line with Sweden's strategy for Kenya from 2009-2013. Specific linkage to the Sida supported Agricultural Sector Development Support Programme (ASDSP-I) envisioned the Guarantee to support commercialisation of smallholder agriculture and to contribute to employment creation and food and nutrition security. The guarantees were to promote and enhance access to finance and financial inclusion for the agricultural sector value chain actors, including producers (farmers), agro-input dealers, traders, post-harvest handling activities such as storage, processing, transport, marketers, etc., including active management of financial resources to specific regions in rural areas.

While the implementation of the loan portfolio guarantee agreements with the MFIs has come to end with final loan disbursement by Letshego in 2017, the agreement with KCB was extended until 2021 and is now running to its end. Sida and the Swedish Embassy in Nairobi are currently preparing for Sweden's next strategic planning cycle for cooperation with Kenya from 2022 onwards. The use of financial inclusion support instruments and facilities, such as loan portfolio guarantees, are considered to be included in the next planning cycle.

To prepare for this, the Swedish Embassy and Sida have commissioned an external evaluation of the experience with and the results of the two co-guarantee arrangements in the period 2012-2021. Firstly, to look back at the results and secondly to learn from these results and the experience with implementing the facilities for future planning periods.

The evaluation was realised in the period May - August 2021, by an external team of four international consultants. This report contains the main findings, conclusions, and recommendations of this evaluation exercise.

2 The Evaluation

2.1 CONTEXT AND BACKGROUND

Kenya's agricultural sector

The agricultural sector is the second largest sector in Kenya, but it has gradually been declining at 21.41% pa. It contributes to 33% of Kenya's Gross Domestic Product (USAID, 2021) and 27% indirectly through linkage with other sectors (FAO, 2021). Agriculture employs more than 75% of Kenyans (Njogu, 2021) and accounts for 65% export earnings and contributes towards improving food security through production of diverse, safe, healthy foods (FAO, 2021). The growth of Kenya's agriculture sector has played a major role in poverty reduction between 2005 and 2015 (World Bank, 2018).

According to a recent projection of the UN, Kenya's population growth is at 1 million per year (FAO, 2021), and as a result, land parcels in high agriculture potential areas are decreasing, affecting food production. Smallholder farmers produce 63% of the food in the country and about 8.3 million people in rural areas farm to feed themselves. Farmers are getting older and luring youths into agriculture to fill in the gap is a huge challenge (Njogu, 2021), although due to the recent Covid-19 pandemic, some of the youth is migrating back from urban areas to re-engage in agriculture.

The average Kenyan farmer continues to face challenges. Many farmers work without basic farming inputs, lack up-to-date technology, have poor access to finance, and face fragmented markets, a lack of public extension services (USAID, 2021), and poorly coordinated policies and support services. Poverty in Kenya is persistent, particularly in the agricultural sector. Currently, 35.6% of the population lives on less than 1 USD a day, 36.5% are food insecure and 37% of children under 5 years are stunted (FAO, 2021).

The sector is under pressure to meet the current food demand. Investing in climate-smart agriculture and sustainable technologies will certainly increase productivity. However, financial institutions face a challenge in financing agriculture as it is considered riskier than any other sector (World Bank, 2021). According to a recent study on access to finance (Fin Access 2019), only 3.2% of Kenyan farmers borrow to finance their farming. Inaccessibility to rural areas, weather risk, crop diseases, price volatility among others increases credit risk for lenders (One Acre Fund, 2021). Microfinance institutions and SACCOs have stepped into this gap and have provided farmers with access to finance, though the need for capital is still consistently high and several MFIs and SACCOs are suffering from lack of liquidity to lend. These challenges are aggravating with the current Covid-19 pandemic. MFI and SACCO

loans have been important for farmers because repayment terms, loan processing and repayment periods are more flexible and adapted to the rural context, justifying the generally higher interest rates (Lucy Namonyo, 2019).

The Kenyan Government has responded to these challenges by developing national and county steering documents, including a vision, policies, strategies, plans and programmes. The key overarching steering document is Vision 2030, in which agriculture is one of the key sectors under the economic pillar that is expected to deliver the vision of a “globally competitive and prosperous nation with a high quality of life”. To realise this vision, the sector has formulated strategies including the Strategy for Revitalisation of Agriculture (SRA), 2004-2014, Agriculture Sector Development Strategy (ASDS), 2010-2020 and Agriculture Sector Transformation and Growth Strategy (ASTGS), 2019-2029 and has implemented programmes that have contributed to addressing these challenges. At the county level, decentralised governments have gone further to develop their County Integrated Development Programmes (CIDPs) which have prioritised agriculture as a key driver of their economies. Towards the beginning of 2018, the central government published its Big 4 Agenda, and agriculture is expected to contribute substantially to two key priorities in the Big 4 agenda: food and nutrition security and manufacturing.

Kenya's Financial Sector

The financial sector in Kenya is a key contributor to resolving the challenge of lack of access to finance by farmers and SMEs in the agricultural sector. The financial sector in Kenya is relatively well established and consists of three major groups of formal financial institutions – 49 commercial banks including 22 local and privately-owned banks, 2 government-owned and 17 foreign-owned banks; 14 licensed microfinance banks; and multiple credit-only microfinance institutions, finance, and leasing companies. In addition, there are multiple types of less formal groupings used mostly by low-income people, including SACCOs (regulated savings and credit cooperatives).

At the end of 2019, the nine largest commercial banks controlled 3,607 billion KES of net assets (a 75% share of all 4,809 billion KES bank assets) and had 90% of the banking sector's combined profits before taxes.

Table 1 Assets of the largest banks and holding companies (The end of 2020):

Financial Institution	Total Assets (Billion KES)
Equity Group Holdings (Equity Bank)	1,015
KCB Group (KCB Bank)	987
Co-operative Bank of Kenya	536
NCBA Group (NCBA Bank)	528
ABSA Bank Kenya (formerly Barclays Bank)	379
Diamond Trust Bank Kenya	312

The banking sector has historically been well capitalised, and several recent mergers have contributed to a positive trend through 2019. The aggregate Tier 1 capital of all

commercial banks was 16.8% of total risk-adjusted assets in 2019, well above the regulatory minimum of 10.5%.

During the period September 2016 through November 2019, the banks' lending activities were impacted by a parliament-decreed interest rate cap on loans (limited to 4% + the central bank base rate).

14 microfinance banks are licensed under regulations from 2013. They offer low-income customers savings, loans, insurance, money transfers and remittances. The total assets of these institutions were 76 billion KES at the end of 2019. Table 2 below presents the asset size of the four largest Micro Finance Institutions in Kenya:

Table 2 Total assets of four largest Kenyan Micro Finance Institutions (The end of 2019)

Financial Institution	Total Assets (Billion KES)
KWFT	30.6
Faulu	29.6
Rafiki	6.8
SMEP	3.3

Two of the largest MFIs (KWFT and SMEP) were included in the Sida-USAID multi-party co-guarantee, subject to this evaluation study.

While KWFT suffered net losses during 2018 and 2019, both this and the other large microfinance banks all maintained core capital well above the regulatory minimum of 10% of risk-adjusted assets.

The Kenyan regulators have maintained an encouraging posture towards innovations in the financial sector, which now go well beyond the use of mobile telephones for simple payment transactions. Thanks in large part to the introduction of mobile technology and agency banking, the total number of deposit account holders increased from less than 9 million in 2009 to more than 62 million in 2019. During that latter year, a majority of commercial banks and microfinance banks introduced one or more new financial products using digital technology for payments, savings or credit. There are multiple early-stage ventures involving banks, mobile network operators, fintech firms and/or third-party service providers.

A recent initiative was taken by NCBA and four other large banks, after the central bank prompted them to do more for SMEs: Stawi, an effort by a consortium of the banks, to offer small business loans up to 250,000 KES via a mobile app ("anywhere, anytime") with disbursement and repayment via borrowers' M-Pesa or bank account.

The dynamism of the financial sector has so far only benefited the agricultural sector to a limited extent. Of the gross loans outstanding of the whole banking sector in 2019, only 3.3% were loans to agriculture, mostly focused on cash crops for exports and other tight value chains. Households, trade, real estate, and manufacturing accounted for most loans, with 28%, 19%, 15% and 13% of all loans, respectively.

2.2 EVALUATION SUBJECT (EVALUAND)

This evaluation considers two different guarantee facilities supported by Sida. Both facilities are supported as co-guarantees with USAID's Development Credit Authority (DCA), currently revamped as the Development Finance Corporation. This was done through delegation agreements of Sida with DCA, delegating the coordination and follow-up to DCA and supporting Technical Assistance to USAID in Kenya. The two guarantees have the following basic characteristics:

- Loan Portfolio co-guarantee with Kenya Commercial Bank Group (KCB) (11.5M USD);
- Multi-party Loan Portfolio co-guarantee with three MFIs:
 - o Kenya Women Finance Trust Deposit Taking Microfinance Limited (5M USD);
 - o Deposit Taking Microfinance Limited (SMEP) (4M USD);
 - o Micro Africa Limited Kenya (Letshego) (2M USD)

The KCB guarantee is notably larger than the multi-party Guarantee. The financial institutions are also different, KCB being a commercial bank and the multi-party guarantee holders being MFIs. Although all facilities have targeted the agricultural sector, specific sectors (such as clean energy for the microfinance providers) and regions for loan disbursement were different, and boundary stakeholders were different, such as the WFP as a buying agent in the KCB guarantee. And among the MFIs, there was one specific institution targeting women.

The guarantee facilities are closely linked with the development programmes of Sida (Agricultural Sector Development Support Programme, ASDSP) and USAID (Feed the Future). These programmes and implementing actors establish important boundary stakeholders to be consulted in the evaluation process. Linkages also exist with Sida's support to the Financial Sector Deepening (FSD) in Kenya trust fund. And originally the loan guarantee facilities were also expected to link with the World Food Programme Purchase for Progress (WFP-P4P) programme, although this was not further pursued in later implementation phases.

TA provision is managed and contracted by USAID. DAI, a USA-based service provider was contracted by USAID to provide TA for a number of guarantee provisions, including the Sida and USAID co-guarantees with KCB and the three MFIs under the Financial Inclusion for Rural Micro-enterprises (FIRM) project until 2016. From 2017 onwards, a new TA providing company, Palladium Ltd., was contracted under the Kenyan Investment Mechanism (KIM). In this later period, the provision of TA to the finance providers was intensified. This TA support was provided in the broader framework of USAID and DCA partners that covered more than 20 finance providers, including those under the Sida-USAID co-guarantees. The combined approach of loan provision and Technical Assistance has been an important and strategic aspect in the implementation of the loan portfolio guarantees throughout the entire period. The MFIs under the multi-party guarantees stopped lending in 2017, and therefore these have not been benefiting from the intensified TA provision by

Palladium from 2017 and beyond. However, KCB has experienced and benefited from Palladium in recent years.

2.3 EVALUATION PURPOSE AND OBJECTIVES

Purpose

The first purpose of the evaluation is to evaluate the guarantees that were a part of the portfolio from 2012 until 2020 and assess their development results. The Embassy of Sweden in Kenya, Sida, USAID and the US Development Finance Corporation are the key evaluation stakeholders to learn from what worked well and less well in the guarantee facilities.

A second purpose is to help the Embassy of Sweden in Kenya to explore future prospects on guarantees based on: the lessons learned from the first part of the evaluation; considering Sida's new development strategy in Kenya 2021-2025; benefitting from the current programmes in the agriculture and market development portfolios; and the current economic and financial situation in the country. The considerations on prospective guarantees should focus on SMEs in agriculture (as the previous ones) but also other relevant sectors and target groups in Kenya.

Objective

The key objective of this evaluation is to assess the relevance, efficiency, effectiveness, impact and sustainability of the loan guarantee facilities. This assessment is to be done against the key objectives of these facilities to achieve improved management of natural resource utilisation with a focus on sustainable agribusinesses growth that benefits poor people, as well as commercialisation of smallholder agriculture, employment creation, and food and nutrition security.

A particular question is to assess to what extent poor people and/or those living in remote areas benefitted from implementation of the guarantee intervention.

2.4 EVALUATION SCOPE

The evaluation object is the two guarantee facilities, KCB and the multi-party Guarantee with the three micro-finance providers. The starting point of this evaluation is Sweden's Strategy for development cooperation with Kenya (2009-2013) and the market and risk assessments that were conducted during the appraisal of these facilities. Therefore, the scope covers a timeframe of more than one decade. Considering the timing of this evaluation, activities and results that were achieved until the end of 2020 can be included. As the last commitments were approved in September 2020, the evaluation can include the full portfolio of past and still outstanding loans.

The thematic scope of the evaluation is access to capital and finance by agricultural value chain actors and MSMEs in the agricultural sector in Kenya. Existing evaluations of the intervention and technical assistance provided by USAID, where relevant to the aim of this evaluation, are also to be included.

2.5 USERS OF THIS EVALUATION

The primary users of this evaluation are:

- The Swedish Embassy in Kenya and Sida's loans and guarantee unit;

These primary users will use the outcomes of this evaluation for future strategising and planning of financial instruments, and specifically guarantee instruments, in Kenya and possibly elsewhere, including the identification of possible partners in the application of these instruments.

Other interested user groups in this evaluation are:

- USAID in Kenya and the US Development Finance Corporation, and key actors in ASDSP, FSD, and Feed the Future;
- The guaranteed parties: KCB; Kenya Women Finance Trust Deposit Taking Microfinance Limited; SMEP and Letshego;
- The current provider of Technical Assistance in the framework of the guarantees: Palladium

Indirect user groups interested in this evaluation are:

- Kenyan partners in Sida-supported ASDSP and FSD programmes
- Producer organisations, representing ultimate user groups of loan guarantee facilities.

2.6 EVALUATION CRITERIA AND QUESTIONS: EVALUATION MATRIX

The ToR of this evaluation assignment (see Annex 1) contains a large number of descriptive and more analytical evaluation questions. During the inception phase, the evaluation team regrouped and reorganised the evaluation questions from the ToR in a concise but comprehensive evaluation matrix. The key evaluation criteria and questions are presented below, and for more detailed evaluation questions, the reader is referred to the evaluation matrix in Annex 2.

Relevance: This evaluation looks at the relevance of the Guarantee facilities at the level of specific loan guarantee taking institutions and its relevance in the financial ecosystem in Kenya. And the evaluators also look at aspects of additionality: Would the Loan Guarantee taking institutions also have provided loans to the agricultural and energy sectors without the existence of the guarantees?

Efficiency: Can the costs for the loan portfolio guarantees be justified by its results. This analysis focuses on the loan guarantee taking institutions and the supporting partners, Sida and USAID (DCA).

Effectiveness: To which extent did the loan portfolio guarantees contribute to intended outcomes? If so, why? If not, why not? The focus of this analysis is mainly on the loan guarantee taking institutions.

Impact: What is the overall impact of the loan portfolio guarantees in terms of direct or indirect, negative and positive results? In this analysis the evaluation looks at changes that are produced by the guarantees at financial ecosystem level and at the level of ultimate users (though without realising a fully-fledged impact evaluation).

Sustainability: Is it likely that the benefits of the loan portfolio guarantees are sustainable? This aspect is mainly considered at the level of loan guarantee taking institutions and their customer relations with loan takers.

Adherence to cross-cutting policy priorities: The evaluators will look as to what extent the loan portfolio guarantees and the loans provided under it have contributed to inclusion of women and inclusion of more vulnerable persons and smaller SMESs in the agricultural sector.

In this evaluation, some additional research questions are considered in the analysis and elaboration of conclusions and recommendations:

- Different aspects and characteristics of banks (KCB) and MFIs (Letshego, KWFT and SMEP) in the use of the guarantees;
- Possible effects of the recent Covid-19 pandemic that need to be considered in the interpretation of answers to the evaluation questions and also with respect to the forward-looking and utility-focused aspects of this evaluation to include dedicated attention to future effects of Covid-19 in the agricultural sector in Kenya;
- The three MFIs in the Multi-party co-guarantees have used the loan guarantee facility only in a limited period of time, mostly at the start of the agreement. And none of the MFIs has used the reserve amount available in the facility. It is important to arrive at a better understanding of why this has been the case;
- Sida has indicated it wants to continue working with the loan portfolio guarantee instrument in Kenya in coming years. This requires looking for possible alignment with strategic priorities in Swedish development programming in Kenya and looking for possible available partners for Sida in the future for lending, technical assistance, and other possible relevant services. This aspect is now integrated in the research questions and the concluding and recommendation chapters of this report include specific forward-looking conclusions and recommendations.

The approach and methodology used in this evaluation are further explained in Annex 10 of this report.

2.7 RISKS AND LIMITATIONS ENCOUNTERED AND MITIGATION ACTIONS

Assumption / risk	Mitigating actions
Covid-19 travel and meeting restrictions: During the fieldwork of this evaluation at least some Covid-19 related travel restrictions are still in place	Fieldwork was conducted in Kenya and the team was able to work together. Visits and interviews with loan takers, local branches of the financial institutions and a number of other stakeholders at local level could be realised in four locations with all financial institutions. In addition to this, several meetings and interviews with key informants could be realised on the ground in Nairobi, though most interviews were conducted online.
Covid-19 influence on key informant and target groups: As the crisis is recent and the impact is huge, many people are heavily affected by the crisis, and this might “colour” their perceptions	In interviews, the evaluators have addressed specific questions on the current Covid-19 and indeed this situation proved to be relevant at the level of the loan takers and at the institutional level with a new initiative of the Kenyan Government in establishing emergency guarantee facilities for SME lending. This has triggered the team to do additional research on this initiative.
Confidentiality of respondents: Access to loan data and performance are likely to be confidential	The confidentiality constraints indeed have influenced greatly the research phase of this evaluation. The survey that was administered to Letshego and KVB clients did not lead to sufficient results to be able to conduct a statistical analysis. Recipients of the survey did not feel comfortable to provide the information requested. As a result, the survey could only function as an additional secondary source of information. This limitation was to some extent compensated by interviews with loan takers, though these interviews could not be related with specific loans provided under the Guarantee.
Availability of respondents that had negative experiences with the loans provided under the guarantees could not be reached	This limitation could not be resolved during this evaluation research, as the identity of specific loan takers with negative loan experiences (denied requests for loans and defaulting) was not known to the evaluators and this information could not be disclosed. In the interviews, the evaluators were exposed to only relatively successful loan takers. In additional interviews with BSD and TA providing organisations, additional information could be obtained, though this information was largely contextual as it could not be related with specific loan takers under the portfolio guarantees
Gender and inclusion: Women (and vulnerable target groups) are important ultimate user groups and need to be properly included in the evaluation, but their participation might be restricted	The evaluation team has secured a gender balance and in interviews with loan takers, both male and female loan takers were interviewed. Because under the MFI portfolio guarantees, lending to female clients was prioritised, women have been sufficiently represented in interviews and (though limited) in the survey. The evaluators have asked specific questions on gender and inclusion and this aspect was included in an additional evaluation criterion in the evaluation matrix.

3 Key Developments, Results and Outcomes of the Loan Guarantee Instruments

3.1 THE LOAN GUARANTEE TAKING INSTITUTIONS

3.1.1 Kenya Commercial Bank (KCB)

In 2012, Sida together with USAID entered into a guarantee agreement with Kenya Commercial Bank Group (KCB). The Guarantee of 11.5M USD was set-up as a loan portfolio guarantee. The total guarantee cover is 50 % of the principal amount, of which Sida covers 30% and USAID 20%. The maximum authorised portfolio was set at 15M USD and the Guarantee had an original duration of six years, from September 2012 to September 2018. In February 2018, the Guarantee was extended to September 2021 and a new maximum authorised portfolio amount was set to 11,579,750 USD. The final date to disburse loans under this Guarantee was one year prior to coverage expiration, September 2020.

KCB Bank Limited is the largest financial service provider in East Africa with operations in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Burundi, and Ethiopia (KCB Group, 2021). It was founded in 1896 as KCB Group which was a branch of National Bank of India in Mombasa.

KCB Bank Kenya Limited currently is the main banking subsidiary of KCB Group PLC, a holding company which also owns National Bank of Kenya (acquired in 2019) and has banking subsidiaries in Tanzania, South Sudan, Uganda, Rwanda, and Burundi, as well as several non-bank subsidiaries. Today the government owns 20% of the holding company shares; 26% are owned by individual Kenyan investors and 55% by Kenyan institutions.

The Group's product categories include retail banking, investment banking, corporate banking, insurance, and digital financial services. During 2011-2015, the bank received technical assistance to develop its agricultural strategy and loan products under the USAID-financed project Financial Inclusion for Rural Microenterprises (FIRM). During 2018-2020, KCB benefitted from additional technical assistance from the Kenya Investment Mechanism, also financed by USAID. Among KCB Bank's recent initiatives in the Kenyan market are the introduction of Vooma, a mobile wallet for payments, borrowing and saving; the introduction of cash flow lending to complement credit appraisals based on financial management reports in SME lending; introduction of a Women in Business package; and the introduction of an Islamic banking package for deposits and loans. In December 2020, it had MSME loans outstanding of 49 billion KES (about 5% of total assets) and 18 billion KES of loans classified in the agriculture sector (2% of assets or 3% of all loans) (KCB Group, 2021). KCB Group made

increased provisions for loan losses in 2020, related to the impact of Covid-19, but reported positive net income for the year.

It has 359 branches, 1104 ATMs, 23,460 points of sale and agents offering the services. KCB has extensive global correspondent relationships with over 200 banks worldwide and provides international trade and payment services to its customers. (KCB Group, 2021).

3.1.2 Multi-party Guarantee with three MFIs

In the same year of 2012, Sida entered a second co-guarantee with USAID. The total guarantee cover was 50% of the principal amount of which Sida covers 30% and USAID 20%. The maximum authorised portfolio was set at 13M USD. A 7-year competitive/multi-party loan portfolio guarantee was designed to encourage the three proposed partner financial institutions. The portfolio is divided between three micro-finance providing partners as following: Kenya Women Finance Trust Deposit Taking Microfinance Limited - 5M USD; Deposit Taking Microfinance Limited (SMEP) - 4M USD; Micro Africa Limited Kenya (later named Letshego) - 2M USD. A reserve amount of 2M USD could be used by the partner that first fully utilises its maximum guarantee amount, thus serving as a reward mechanism for good performance.

a) Kenya Women Finance Trust Deposit Taking Microfinance Limited

Kenya Women Finance Trust (KWFT) is a Deposit-Taking Microfinance bank in Kenya which was founded by a group of professional women in 1981 with the main objective of attending to the financial needs of women. In 2008, it became a subsidiary of the Kenya Women's Holding which is an umbrella body of a chain of businesses operated in the financial sector. In 2010, it was licensed by the Central Bank of Kenya to take customers' deposits. In its expansion curve, it began issuing shareholding to its board members, staff, and foreign institutions, making it the largest deposit-taking microfinance by the year 2013. In 2014, KWFT DTM changed its name to Kenya Women Microfinance Bank (KWMB- Banking on Women, 2021).

KWFT operates 245 branches in 45 of the 47 counties in Kenya. Most are in remote areas and peri-urban areas. 80% of its 800,000 clients are reportedly living in rural areas. KWFT takes pride in being the only women-only financial institution in Kenya and in helping lift families out of poverty and improving their living standards. KWFT's banking services include saving and credit for small- and medium-sized businesses. The services are open to individuals, groups, and corporates. It has invested in mobile banking, ATMs, agency banking, money transfer service and payment system (EFT and RTGS). It also owns an insurance agency which is licenced by Insurance Regulatory Authority and partners with other insurance companies (KWMB-Banking on Women, 2021).

KWFT reports supporting smallholder farmers through credit facilities and training. Women without collateral can obtain group loans, where group members guarantee each other's payments. When these clients take a loan, they undergo 8 weeks of training on financial literacy and business skills. KWFT received technical assistance under the

USAID financed project FIRM to develop an energy finance strategy and related products. Since at least 2012, KWFT has been offering small clean and renewable energy loans. (KWMB- Banking on women, 2021).

KWFT suffered net losses in both 2018 and 2019. In mid-July 2021, the financial results from 2020 had not yet been published.

b) Deposit Taking Microfinance limited (SMEP)

SMEP microfinance bank is a micro-finance organisation under the companies Act (Cap 486) operating in Kenya. It is also licensed under the Microfinance Act (Cap 493D). It is regulated by the Central Bank of Kenya to offer banking services focusing on Group banking, SME & Church banking. SMEP Microfinance Bank started in 1975 as a relief arm of National Council of Churches of Kenya (NCCCK) with the objective of feeding poor people in Mathare slums, Nairobi. Later, the bank realised that the people needed to be self-reliant and economically empowered. Hence, the conversion to a micro-credit scheme called Small Scale Business Enterprise took place.

In 1999, it was licenced as a company limited by guarantee under the name Small Micro Enterprise Program (SMEP). In 2008, it adopted its acronym SMEP as its official name and was registered as a company limited by shares. In 2009, SMEP partnered with Kiva and has extended credit on behalf of other Kiva lenders. In 2010, it became the 3rd microfinance institution to be awarded Deposit Taking Microfinance licence by Central Bank of Kenya and changed its name to SMEP DTM. In 2011, it launched SMEP mobile banking. In 2012, it was the first MFI in Africa to launch VISA debit card and also the first to be allowed by Capital Market Authority to raise capital through private placement offer. In 2013, SMEP DTM changed its name to SMEP microfinance Bank. Later, in the year 2015, it opened an insurance agency that serves different customers. The agency is supported by 35 Marketing Units and over 50 SMEP agents (SMEP MFB Ltd, 2021).

SMEP offers deposits, with accounts tailored for churches, SME loans, agribusiness loans, asset financing, insurance products, mobile banking, and a VISA debit card. SMEP received technical assistance under the USAID financed project FIRM to develop its agricultural and SME strategies and refine related products. It recently introduced a mobile wallet, which allows customers to borrow digitally and make bill payments.

SMEP operates 21 branches countrywide, with over 250,000 clients. The company has seen steady, modest growth in deposits, but almost no growth in net loans during 2016-2020. At the end of 2020, 4% of outstanding loans were reported in agriculture, while 82% of loans were reported in business services. SMEP suffered net losses in 4 of the five most recent years, including a large loss in 2020, related to the reduced demand for new loans and significant impairment losses during the Covid-19 downturn. Management reported to the evaluators that they are seeking an infusion of additional share capital.

c) Micro Africa Limited Kenya (Letshego)

Headquartered in Botswana, Letshego Holdings Ltd. was incorporated in 1998 with the initial concept of offering unsecured loans to government employees, with loan repayments “deducted at source” (submitted directly by formal sector employers). It has since expanded geographically by acquisition and by adding other product lines, such as secured lending to micro and small enterprises, and deposit services and unsecured digital lending for the mass market. Today the Group has subsidiaries in 11 Sub-Saharan countries. The affiliates in Botswana and Namibia are still the largest, and Southern Africa operations produce about 80% of the holding company profits. Asset growth slowed during 2019-2020, but the Group remained profitable under the impact of Covid-19. At the end of 2020, Letshego Kenya was the country’s largest credit-only microfinance institution (by assets) but represented only about 6% of Letshego Holding’s consolidated assets and profits.

In Kenya, Letshego acquired the microfinance company Micro Africa Ltd. in 2011. Before the acquisition, Micro Africa had been receiving technical assistance under the USAID-financed project FIRM to develop agriculture and energy finance strategies and products. For several years, Letshego continued and expanded Micro Africa’s group lending to low-income urban and rural borrowers, including households and microenterprises, with group loans as small as 100 USD. The growth was facilitated by investments in branches, which grew from 9 to 25 nationwide. During the past two years, additional investments have been made in digital delivery channels (internet and mobile). After a period with unsatisfactory results from unsecured group lending, Letshego abolished this practice in Kenya from 2019. Loans to employees of formal employers remain a significant portion of the total lending, together with secured small enterprise loans offered in niches such as housing, education, and health. As a result of this change in strategy, and a lesser demand for loans during the Covid-19 epidemic in 2020, total loans outstanding have grown slowly since 2018, while total customers declined from about 23,000 in 2018 to 13,000 at the end of 2020.

3.2 SUMMARY DATA FROM LOAN PORTFOLIO ANALYSIS OF THE FOUR LOAN TAKING INSTITUTIONS

This section provides a summary of the detailed analysis of the four specific loan portfolio guarantees provided KCB, KWFT, SMEP and Letshego that is included in Annex 6 of this report.

The following table shows the utilisation of the guarantee facilities derived from the DFC Credit Management System as of December 2020.

Table 3 Utilisation guarantee facilities as of December 2020 (in USD)

	Max amount Guarantee	Number of Guaranteed loans	Cumulative disbursement	Cumulative utilisation %	Number of paid claims	Total claims paid* (USD)	Default Rate %
KCB	11,579,750	815	9,530,129	82	11**	46,503	0.98**
KWFT	5,000,000	21,566	4,999,883	100	0	0	0
SMEP	4,000,000	7,481	3,599,974	90	876	68,533	3.81
Micro Africa/ Letshego	2,000,000	1,239	1,157,356	58	0	0	0
Reserve	2,000,000	0	0	0	0	0	0

Source: DFC CMS, June 2021

* Estimated claims paid by Sida and USAID.

** KCB may yet submit additional claims for defaults that happened through March 2021.

It should be noted that the table above may overstate the actual disbursements by KCB by about 3M USD (a few likely bank data entry errors during the first months of the facility were apparently never corrected). Several of the financial institutions also reported they had loan losses for which they never claimed or received reimbursement, so the real default rate was substantially higher than indicated above. The following observations are supported by the data tables and explanations in Annex 5, which are based on raw datasets received from DFC.

Timing of guaranteed loan disbursements

Most of the loans disbursed under the two guarantee facilities were disbursed before 2017. KWFT disbursed all 21,566 loans in 2012-2013. SMEP disbursed all 7,481 loans during 2013-2015. Micro Africa/Letshego disbursed most loans between 2013 and 2016, and only 106 loans totalling 39,000 USD during 2017. KCB disbursed more than 300 loans for about 3M USD during 2012-2017, and after the extension of the guarantee period, an additional 228 loans in 2019 and 266 loans in 2020 (for about 1M USD in 2019 and more than 2M USD in 2020).

Geographic reach

The guarantee agreement with KCB stipulated that at least 40% of loans should be disbursed to borrowers in 5 target regions (other than the Nairobi Area and Central Region). In fact, 74% of the loans and 87% of the cumulative disbursements were made in the target regions. The loans disbursed by the three microfinance institutions were also broadly distributed among regions.

Reaching women and first-time borrowers

While not stated as a formal requirement in the guarantee agreements, the expectation was that women and first-time borrowers would benefit from the loans.

Table 4 Loan tenors, collateral, interest rates, and loans to women and first-time borrowers as of December 2020

	Average tenor in months	Average collateral / Loan cover	Average interest rate	% Loans to women	% Disburseme nts to women	% Loans to first-time borrowers	% Disbursements to first-time borrowers
KCB	11	320% *	15%	33	15	38	19
KWFT	12	N/A	22%	100	100	100	100
SMEP	13	234%	20%	67	63	N/A	N/A
Letshego	12	120% **	36%	59	56	8	6

Source: DFC CMS, June 2021

*Information about the collateral provided was only available for 191 loans, less than 1/4 of all guaranteed KCB loans. The percentage is skewed as a few borrowers provided excess collateral as high as 2000% of loan values. Among KCB loans with reported collateral, the most frequent cover ratio was 100-110%.

** Letshego executives commented in June 2021 that most loans were given as group loans with co-signers, and no other security or collateral.

Reaching target sectors

The agreement offered KCB guarantees for loans to the agricultural sector, and all borrowers were in agricultural production or related agri-businesses. Maize farmers received about 2/3 of all disbursements from KCB.

The agreement with the three microfinance institutions was for loans to borrowers in the agriculture value chain and in the clean energy sector, with a target of at least 10% of qualifying loans being for clean energy, and with agricultural loans capped at 90% of the facility maximum. KWFT made more than 16,600 loans for liquefied propane gas (LPG) and related cooking equipment and a small number of loans for solar lanterns, solar panels, and biogas infrastructure. Combined, these categories constituted 78% of all KWFT loans and 1.8M USD or 38% of all KWFT disbursements. Most appear disbursed to borrowers in trade and sectors other than agriculture. 62% of KWFT borrowers were in agriculture, crop, and livestock farming; borrowers in “trade” received 34% of KWFT loans. The portfolio data for Letshego include 53 loans (4%) for biogas infrastructure and the remainder for agricultural uses. SMEP borrowers were all in agricultural value chains, and there is no evidence of any SMEP loans for clean energy.

Tenors and interest rates

The guarantee agreements did not specify the lenders’ pricing of loans, but did require that loan tenors should be no less than 3 months (for KCB), or no less than 12 months (for loans by the microfinance institutions).

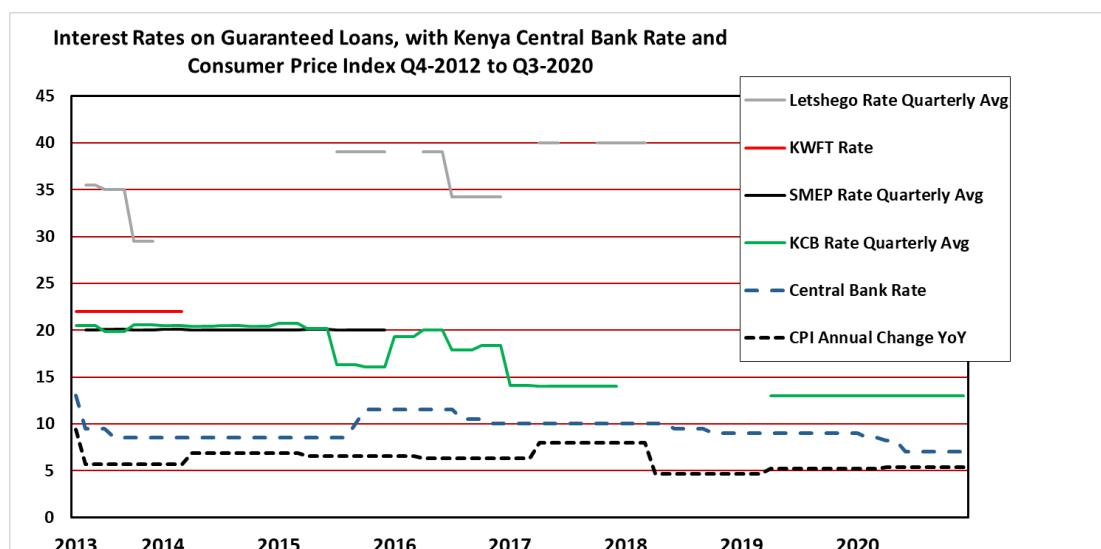
In the KCB portfolio, 28% of loans were for tenors of 3-6 months; a large majority of KCB loans and disbursements were for tenors of 12-18 months. In the portfolios of the

three microfinance institutions, a tenor of 12 months was by far the most common. The raw datasets received from DFC also include small numbers of loans with tenors of less than 12 months, which may subsequently have been disqualified.

The interest rates charged by the lenders were very different. During the years from 2012 through mid-2016, KCB seemed to apply differentiated pricing, probably reflecting perceptions of different risks, around an average of 20%. In late 2016 the bank abandoned this differentiation, possibly as a result of the parliament-decreed interest rate cap. All loans disbursed from November 2016 through 2017 were priced at 14%. During 2019 and 2020, all loans of all sizes were priced at 13%.

All KWFT loans (disbursed during the period October 2012-December 2013) were priced at 22%. Almost all SMEP loans (disbursed 2013-2015) were priced at 20%; a few were at 22-25%. The data on early loans disbursed by Micro Africa seem to be missing the interest rate; subsequent loans by Letshego were all priced at 39%, and later at 34-36%, presumably reflecting a declining interest rate environment. Only a few Letshego loans called “asset finance” were offered at 29-30%.

Table 5 Interest rates used by the financial institutions under the loan portfolio guarantees (2012-2020)



Source: DFC CMS, June 2021

This chart illustrates the average quarterly interest rates charged by the lenders for loans that were placed under the guarantee facilities. The variation in rates charged by KCB Bank reflects partly changes in average loan tenors; for example, the average tenor of loans during Q3 and Q4 of 2015 and during most of 2019-2020 was less than 12 months, much less than the typical tenors of 16-24 months during the years 2012-2014. The three microfinance institutions consistently booked loans with an average tenor between 12 and 13 months.

Collateral cover

The raw portfolio data cannot tell us to what extent the guarantees helped to reduce the lenders' collateral requirements. Among the KCB loans, collateral data appear to be missing for 75% of the loans. Of the KCB loans with collateral data, only a few have collateral of less than 100% of the loan amount; collateral between 100% and 110% is common, as is collateral over 200%. These collateral requirements are not different from other loans provided by KCB outside the guarantee agreement. This indicates that the guarantee's main effect has been that KCB has provided loans that it otherwise would not have provided, though it has not influenced collateral requirements of KCB.

Also, for the MFIs collateral data are incomplete, though these data also point to the same finding as presented above on KCB: the guarantee has supported the MFIs to provide loans that they otherwise would not have provided, though collateral requirements have generally not changed. Two of the three MFIs also required collateral from borrowers. SMEP reported collateral of more than 100% for 2/3 of the loans. Letshego loan records indicated a flat 120% cover for all loans, although Letshego executives clarified during an interview in June 2021 that most guaranteed loans were actually group loans with co-signers and no other security or collateral. The KWFT loan data do not contain information about collateral.

In addition to any collateral requirements, the MFIs usually require guarantors with every loan contract. These requirements for collateral and guarantors remain in place, also for regular customers, though usually the procedures can be sped up because the conditions are already known, and guarantors often are the same for subsequent loans.

3.3 CHARACTERISTICS OF LOAN TAKERS AND USE OF LOANS

The characteristics of loan takers and loan product portfolios vary across financial institutions. The loan takers ranged from small to large scale entrepreneurs accessing products of different types and forms. The smallest loans accessed amounted to about 100 USD with the largest being over 100,000 USD. The main destination of the loans was household investments, agriculture production and business development and expansion. Specific destinations were farm inputs, asset, insurance, small farm machineries, water tanks and solar power installation. The credit facilities were of benefit to the users, and the loan takers generally confirmed that investments made through the loans would not have materialised without the loan facilities.

The financial institutions demonstrated innovativeness in meeting the needs of their clients. Some had their credit bundled with insurance, which played a double role in de-risking the loans and securing the loan takers investment in case of failure in financed investments, especially for farmers. While insurance was mandatory for wheat farmers, it was optional for other farmers.

Another innovative product development used under the co-guarantee arrangement was the use of group lending approaches by all three MFIs, and particularly by KWFT.

Some challenges were reported by loan takers. These included long loan processing periods, high interest rates, collateral, unfavourable loan repayment modalities, high

loan processing fees and lack of business advisory services. To this end, the loan takers made several suggestions for possible improvements, such as: restructuring of agricultural products to integrate unique characteristics of agricultural production activities and seasonality, extension of loan repayment periods, timely loan processing, flexible collateral requirements or unsecured loans, business development and agricultural production training services, client's networking forums and lower loan processing fees.

3.3.1 Loan takers at KCB

While two-thirds of the clients took small loans of under 5,000 USD, there were 15 enterprises that took substantial loans of more than 50,000 USD. 17% of the clients took loans of 10,000 USD and above.

The average size of loans at KCB was 7,715 USD, which is significantly higher than the MFI loans provided under the portfolio guarantee. However, in the agreement with KCB it was specified that the maximum loan amount under the guarantee was 600,000 USD. None of the loans provided came close to this amount, which indicates that KCB has focused lending under the guarantee on smaller SMEs.

Most of the KCB clients were located in the Rift Valley. Considerable numbers of loan takers were also found in Nairobi and the Central province, and a modest number was located in the Coast Province. Very few loans were provided in Nyanza, Western, and Eastern provinces.

33% of the KCB loan takers were women and this group received 15% of the disbursed loan amounts. This indicates that while a substantial number of women benefited from KCB loans, the loan amounts were less than half of the average loan amounts provided to all clients. Male borrowers were clearly awarded larger loan amounts. KCB used the guarantee to provide lending to first-time borrowers at this bank. 38% of the loan takers were first-time borrowers. Among the female borrowers, this percentage at 56% was significantly higher than average. This indicates that KCB has made a substantial extra effort under the guarantee to reach out to women as first-time borrowers at the bank.

Maize (hybrid and traditional) have received over 66% of the total loan amount, corresponding with 52% of the total number of loans provided. This indicates that loans for crop (maize) production have been considerably higher than average loan amounts. This indicates that the KCB lending was focusing on commercial maize and crop farming. Also, agri-business and land and construction received somewhat larger loans. Loans provided for livestock, dairy and poultry were relatively smaller size.

The loan takers at KCB in this evaluation exercise were typically somewhat larger sized companies than loan takers at the MFIs. Activities of loan takers are different per region and in the regions visited, the evaluators have seen loan takers with activities in dairy, maize, wheat, and crop farming. Most enterprises typically combine some activities to spread risks and to produce animal feed for dairy and poultry farming.

The KCB loan takers visited have also explored other options for finance at SACCO and MFI level, and in some occasions at other banks, which seems to suggest that client relations at bank level might be somewhat more flexible and opportunistic compared with loan takers at MFIs, who generally stick with the same finance provider. It is likely that loan takers at KCB have more capacities and more collateral and an accumulated credit history that makes them more eligible for loans at different institutions and they can more easily “shop around” for specific finance products and services.

While loan takers at KCB, as shown in the reports (see above), are, to a considerable extent, first-time borrowers, the interviews with these loan takers indicate that they are clearly not new to borrowing. Applying for a loan at KCB indicates that loan takers have built experience and confidence on previous occasions with other finance providers. They are not intimidated by KCB as a large banking institution, and they engage easily in open discussions and negotiations with the banks. These characteristics of clients are clearly different than among the clientele of the MFIs visited during the fieldwork in this evaluation.

Covid-19 is affecting businesses, though the effects have been relatively limited and more pronounced at the start of the pandemic when production levels dropped. A specific reason for this was that animal feed (in several cases imported) was not available and quality was lower, affecting productivity levels. Over time these input challenges have not been completely resolved, but improvements are considerable. Market access has generally remained good among these loan takers.

The loan takers of KCB visited during the fieldwork in this evaluation have generally been successful in their businesses and in repaying their loans, even while affected by Covid-19 to some extent. Being successful clients, they generally express satisfaction with the treatment and services received from KCB and with the conditions of the loans. However, the clientele of KCB, being financially more literate, is likely to be less regular than clients of MFIs. Particularly the larger producers interviewed indicate that they actively explore alternatives for their financing needs.

3.3.2 Loan takers at the MFIs

The loan takers at the MFIs typically took much smaller loans than was the case with KCB loan takers. Also, the number of these small loans provided was much higher than in the case of KCB.

Over 21.5 thousand loan takers at KWFT took loans with an average value of 100 USD. For SMEP these average loan amounts to almost 7,500 loan takers were considerably higher at 481 USD on average. Letshego loans to 1,277 borrowers had an average value of 872 USD.

The regional coverage of lending by the MFIs was slightly more expanded than KCB lending, although most of the lending occurred in the same regions. Letshego additionally prioritised the Eastern Region in its lending.

The KWFT loans placed under the loan portfolio guarantee were by default targeting female borrowers and 100% of the loans were taken by women. Also, the lending by

SMEP has prioritised women with 67% of the loans. At Letshego, this percentage was 59%.

This indicates that the MFI co-guarantee has been clearly more effective in reaching out to female borrowers than was the case at the level of KCB.

With respect to first-time borrowers, KWFT's reports show that they also prioritised first-time borrowers under the loan portfolio guarantee. The other MFIs did not and also used the facility for regular customers. The visits to loan takers of the MFIs during the fieldwork of this evaluation confirm that loan takers of MFIs are usually regular loan takers, and this is also the case for KWFT. As these guaranteed loans of KWFT to their borrowers occurred almost a decade ago, it is impossible to verify how strictly KWFT has followed this policy of using the guarantee to expand its reach among new borrowers. In general, for MFI loan portfolio guarantees, this criterion of reaching out to first-time borrowers seems less relevant.

In the interviews, we have observed that many loan takers at the MFIs already had a long term-term track record as borrowers at these institutions, and some of them had taken loans long before the guarantee period started.

The reports of the MFIs and the interviews with borrowers indicate that it is more relevant that the portfolio guarantees were used to roll out new loan products to loan takers in general (new and existing borrowers). KWFT has done this particularly with clean cooking (LPG) loans and Letshego developed a specific product for water-tanks and some larger loans for biogas installations. SMEP developed its 'Inuka' and 'Kilimo Biashara' loans that have been targeting crop and cereal farming, horticulture, and dairy and poultry farming. SMEP also included commercial and trade activities in its portfolio.

KWFT and Letshego also provided many loans to agriculture, livestock, dairy and poultry farming, while KWFT included many trade activities in its lending.

The loan takers of MFIs visited in this evaluation exercise (including a number of Letshego loan takers that participated in the survey, see Annex 7) are clearly smaller family enterprises, usually engaged in a variety of activities to spread risks. This has particularly been important during the Covid-19 pandemic when several loan takers had to struggle to survive and engage in new activities. The evaluators have seen this in some specific businesses (poultry, eggs, hotel and catering), where SMEs lost their buyers (hotels and restaurants) due to Covid-19 restrictions. These SMEs had to quickly look for alternative businesses and, on some occasions, were even using loans obtained for specific investments for different purposes.

As with the loan takers under KCB, it seems that the MFI loan takers also are experiencing improvement in their situation, though the interviews generally show that market access of these smaller SMEs is less secure and therefore the recovery of a steady income through regular market access is more challenging.

The loan takers visited during the fieldwork of this evaluation indicate that they are generally satisfied with the loan products, services, and conditions of the MFIs. However, it should be noted that the evaluators only spoke with successful loan takers that had been able to repay previous loans. It is likely that defaulters on loans would tell different stories, but these could not be included in the research.

The loan takers particularly refer to the ease and flexibility of the loan proposal approval process and they are also happy with possibilities to repay loans earlier than planned, thus decreasing the cost of the loans. The regular customers indicate that conditions for guarantors and collateral do not change over time, but after repeated loans it takes less time and effort to arrange and document all these requirements. Most of the loan takers visited during the field visits indicate that they prefer to remain with the same MFI, even when costs of loans might be higher, because of the advantages mentioned above. In the case of Letshego, the loan takers visited during this evaluation were mainly using loans for water-tanks, which is one of the few remaining Letshego products that is still relevant for agriculture, while others used loans for an LPG installation and a taxi business. Even though not in agriculture anymore, the Letshego experience also shows the importance of flexible products and services and building regular customer relations.

For more details on the KCB and MFI loan takers, please also refer to Annex 8 that contains change stories of loan takers of all financial institutions in the effect of the loans they have taken at these institutions.

3.4 THE EXTERNAL SUPPORT ENVIRONMENT AND FINANCIAL ECOSYSTEM

3.4.1 Agricultural Devolution in Kenya

The Kenyan constitution of 2010 introduced two tiers of government: national and counties. Consequently, several functions were devolved to the county level, among them agriculture. The national government is mandated with policy-making, coordination and capacity building, while the county government with crop and animal husbandry, implementation of policies, livestock sales yards, county abattoirs, plant and animal disease control and fisheries (Njagi et al., 2014).

Accordingly, extension service delivery is the role of county governments. It is the avenue through which farmers are able to access agricultural information, knowledge, innovations and technologies. Extension is also mandated with linking farmers to other support services. In spite of this critical role, the extension system has faced a decline in human, capital and financial resources hindering effective service delivery. While public extension enjoyed adequate staffing and logistical facilitation to the grass-root level in the past, recently this has not been the case. Employment of public extension has not taken place for several years and funding towards agriculture has been on the decline resulting in declined funding towards public extension logistical support. As a

result, the current extension farmer ratio is at 1:1000, two and a half times below the recommended ratio of 1:400 (*National-Agricultural-Sector-Extension-2012.Pdf*, 2012).

To address this, the previously public sector dominated extension, saw emergence of the pluralistic extension system and demand driven extension service provision. The pluralistic system evolved to include multiple players; NGOs and civil society actors. However, for it to function effectively, coordination and quality checks are needed to avoid duplication of efforts and ensure appropriate extension messaging to farmers. With this new extension orientation, extension service delivery is organised into 3 models comprising of: free public, partial cost shared and fully commercialised extension services.

Preparedness of Extension Service Providers to Deal with Financial Issues

Historically, extension messaging was on production aspects. Very little attention was paid to business management, marketing, value addition, quality, and standards control and management. This was mainly because those involved in extension service delivery had an education background in agriculture or crop protection. However, recently, with the need to transform agriculture from subsistence to commercial production, efforts have been made to employ agribusiness officers, who are part of extension service delivery unit at the county level. Moreover, most of government agricultural projects have an agribusiness component that require officers with knowledge on agribusiness management and financial literacy. This requirement is attributed to the important role they play in guiding farmers on financial records preparation and agribusiness management. However, reliance on projects is not sustainable and the number of agribusiness officers at the county level is limited. Moreover, most frontline extension officers are aged, and their training background lacked financial literacy training. It can thus be argued that, unless proper linkages are made with other institutions able to provide financial literacy trainings, reaching farmers with these skills and knowledge would be constrained.

However, through collaboration and partnerships under pluralistic extension services, opportunities to address financial issues can be tapped into. This includes contracting out extension service provision to agencies or organisations that have capacities in financial management. This approach is currently being implemented across multiple government projects. Under such arrangements, the public extension delivery unit plays the oversight role of monitoring and quality assurance. Further partnerships with institutions offering courses in extension would be beneficial to inform curriculum review to address capacity gaps among extension service providers such as financial management. This would ensure that, in the future, extension service providers will be better equipped to handle financial issues among their clients.

In the previous decade and at present, capacity constraints and limited financial literacy of government agricultural extension workers at county level presents a challenge to financial institutions. These extension workers are important in linking producers with financial institutions and this will require that they are well informed about the availability of financial products and conditions and requirements for loan provision.

These limited capacities at county level may require TA providers in the framework of loan portfolio guarantees and possibly other financial services to also target government extension workers with technical assistance to strengthen their role as agents for producers and MSMEs in agriculture to prepare and submit bankable proposals to financial institutions.

3.4.2 Provision of Business Development Support and Technical Assistance to MSMEs in the Area of Finance Provision to MSMEs in Agricultural Value Chains

Thanks to the existence of a considerable number of development partners that support agriculture development and financial sector deepening in Kenya, the institutional support environment for MSMEs in agricultural value chains has improved considerably over the past decade.

The Swedish Government has been a key player in this development through its consistent support to the agricultural sector in the Agricultural Sector Development Support Programme (ASDSP) and the Financial Sector Deepening Programme. Both programmes have supported systems development and service provision to MSMEs in Kenya. The co-guarantees of Sida, despite intentions in planning documents, have not had strong linkages with the ASDP and FSD initiatives.

Key international partners supporting financial risk-sharing and guarantee instruments to MSMEs in Kenya:

Other development partners have supported relevant initiatives in supporting MSME access to finance in the agricultural sector.

Sida and **USAID** cooperation in the loan portfolio guarantees was embedded in a more comprehensive programme of USAID to support access to finance of MSMEs in Kenya. The technical assistance provision accompanying the loan portfolio co-guarantees was provided in the framework of USAID's FIRM (until 2016) and KIM (2017-present) programmes that reached out to all guaranteed partners under the DCA and current DFC portfolio. Until present, over 20 guarantees arrangements were signed in Kenya. USAID and DFC are, therefore one of the key providers of this support. The DCA/DFC guarantees supported a variety of sectors and beneficiary financial institutions. USAID is an important player in the area of financial inclusion in Kenya. USAID is engaging with a large number of Kenyan partners, ranging from the National Treasury to Banks as well as MFIs in Kenya. **USAID's Feed the Future** programme in the agricultural sector is also implemented in Kenya. The programme is implemented in 17 counties in Kenya that encompass nine Western Region Counties (high-rainfall zone), three Eastern Region Counties (semi-arid zone) and five Northern Kenya Counties (arid and semi-arid zone). Feed the Future's efforts in Kenya aim to expand economic opportunities for smallholder farmers and entrepreneurs, strengthen household, community, and market resilience to shocks, and diversify agricultural production. Feed the Future employs a market-led approach to improve family nutrition, with an emphasis on women and children. It has three key areas of interventions: combating drought, private sector partnerships, and dairy and livestock farming. The Sida-USAID co-guarantees in the agricultural sector were designed to

support specific interventions in the Feed the Future programme in a number of specific counties.

The **International Fund for Agricultural Development (IFAD)** in the past decade has been an important support provider to strengthen access of agricultural MSMEs to finance. It has also provided support to substantial loan guarantees. With the Alliance for a Green Revolution in Africa (AGRA), IFAD has supplied loan guarantee funds to leverage lending of Equity Bank to almost 20,000 small-scale farmers with a total value of almost 10 M USD.

The **African Guarantee Fund** was established in 2011 by the Governments of Denmark and Spain and the African Development Bank (AFDB), with a mandate of facilitating access to finance for SMEs to enable them to fully play their role of driving the growth of African economies.

In 2015, four years after its founding, AGF concluded its first external growth operations with the acquisition of the Guarantee Fund for Private Investment in Africa (GARI Fund) for an amount of 35M USD. At the end of this operation, the French Development Agency (AFD) became AGF's fourth shareholder.

In 2016, the Nordic Development Fund (NDF) became AGF's fifth shareholder. Under the leadership of NDF, AGF launched a Green Guarantee Facility to unlock financing for SMEs that invest in or market low-carbon technologies.

In Kenya, the AGF has signed two loan portfolio agreements:

- NIC Bank (now NCBA Bank): A Loan Portfolio Guarantee agreement amounting to 5M USD to unlock financing intended to facilitate the promotion, growth, and development of Small and Medium-sized enterprises (SMEs).
- Sidian Bank: A Loan Portfolio Guarantee to boost financing of the SME sector in Kenya with a value of 4.5M USD for a period of 4 years starting in 2021.

The **International Finance Corporation (IFC)** in the past has signed a 5M USD trade financing guarantee agreement with Diamond Trust Bank Kenya (DTB) to help boost Kenya's share of global trade. IFC has recently announced a 50M USD loan to Equity Bank Kenya to help it increase working capital and trade-related lending to its SME clients, especially those facing Covid-19 related challenges. IFC therefore supplies loans and loan guarantee support. At present, IFC is looking into possibilities for providing a guarantee to refugee lending.

The **Africa Investment Facility (AfIF)** was established in 2015 as an initiative of the EU. It is established as a regional blending facility to leverage additional funding from European and regional development financial institutions and the private sector. It mainly provides grant funding but also offers risk-sharing instruments, including guarantees in the African continent. In Kenya, it has provided investment support to improve the Port of Mombasa. The **AGRIFI Kenya Challenge Fund** is a 18 M Euro agri-business support programme that is supported by the EU's Agriculture Financing Initiative programme. It supports productivity and the Africa Investment Facility. The objective of AGRIFI is to increase the capacity of 100,000 smallholder

farmers/pastoralists to practice environmentally sustainable and climate-smart agriculture as a business in inclusive value chains. It has a special focus on resolving barriers to women's participation, together with the question of access and control of resources. It provides training both to farmers' organisations and to community-based organisations. Self Help Africa and Imani Development Limited are the Fund Managers for the AGRIFI Kenya Challenge Fund in Kenya.

The **Agriculture Enterprise Challenge Fund (AECF)** is a development institution which supports businesses to innovate, create jobs, leverage investments and markets in an effort to create resilience and sustainable incomes in rural and marginalised communities in Africa. Launched in 2008, the AECF has mobilised over 356M USD to date, leveraging more than 658M USD in matching capital and improving the lives of more than 16 million people in 2017 alone through jobs and increased household incomes. AECF has so far supported 268 companies in 26 countries in Sub-Saharan Africa across 40 value chains in focal sectors of agribusiness and renewable energy.

The AECF funding partners include the Governments of Australia, Canada, Denmark, the Netherlands, Sweden, and the UK. Each funding partner has a focus area or geographical region that it wishes to impact upon, and the AECF provides the means to target those focus areas/regions, to award investees and monitor and evaluate their performance. The AECF is also active in Kenya and focuses on:

- Agriculture and agribusiness
- Renewable energy and adaptations to climate change
- Rural financial services and communications systems that support the two sectors

With this focus, it is well-aligned with the Sida-USAID's co-guarantees focus areas.

FMO, Entrepreneurial Development Bank, is a development finance institution from the Netherlands that has recently signed a loan portfolio guarantee facility with Equity Bank. This 50M USD facility is supported by the EU. This loan portfolio guarantee covers loans provided to MSMEs affected by the Covid-19 crisis, including female and young entrepreneurs and companies in agricultural value chains. This guarantee also is accompanied with a capacity development project aimed at supporting Equity Banks' offering towards smallholder farmers and companies in agricultural value chains. This guarantee arrangement is similar with the Sida-USAID co-guarantee arrangements with KCB and the MFIs.

In addition to these larger initiatives of international partners with banking institutions, there are dozens of specific loan guarantee and other financial support mechanisms that are applied between smaller institutions often in the context of specific agricultural value chain support and development projects.

Key Kenyan institutions supporting financial inclusion:

Agricultural Finance Corporation (AFC) is a long-standing Development Finance Institution (DFI) wholly owned by the Government of Kenya. AFC was formed in 1963, initially as a subsidiary of the then Land and Agricultural Bank. It was incorporated as a full-fledged financial institution in 1969 under the AFC Act and

entrusted with the mandate of assisting in the development of agriculture and agricultural industries by making loans and providing managerial and technical assistance to the loan beneficiaries. AFC receives support from **USAID's Feed the Future** programme. AFC also partners with the Africa Development Bank Group (AfDB) and the Government of Kenya to implement the ENABLE Youth Kenya program. The program is one of AfDB's ENABLE Youth Initiatives under the Bank's Feed Africa Strategy for Agricultural Transformation in Africa.

The **National Treasury**, together with **Central Bank of Kenya**, Office of the President – SME Advisory Unit, Ministry of Trade, Kenya Bankers Association, Association of Micro Finance Institutions, donors, and other stakeholders, spearheaded the development of a Credit Guarantee Scheme (CGS) to promote enterprise growth by enabling access to quality and affordable credit. For the first phase of the program, the National Treasury has partnered with DTB and other banks to implement the Scheme as a Covid-19 emergency response facility. The emergency facility was established at the end of 2020. Currently, the Treasury is discussing with **the World Bank** the possibility to develop the emergency facility into a permanent support facility for supporting the SME sector to recover from the current Covid-19 crisis. **IFAD** is said to also be considering providing support to this Credit Guarantee Scheme.

Key regional and national organisations supporting financial access of MSMEs in agricultural value chains

The institutional landscape for supporting agricultural producers and MSMEs is rich with local and home-grown organisations and locally established international organisations. Several of them have developed products and services to improve access to finance in the agricultural sector.

In the framework of this evaluation, a number of organisations were identified and interviewed. And with respect to specific relevant experience in using and intermediating financial products and in providing technical assistance around agricultural finance, the following organisations can be highlighted as possible interesting partners in future activities supported by Sweden. This can align with country's goal to improve access to finance in the agricultural sector in Kenya, and possibly also the provision of technical assistance to financial institutions in managing and implementing loans under guarantee facilities and in generating a pipeline of bankable loan proposals by producers and MSMEs in agricultural value chains.

AGRA is an alliance established by Africans with the mission to design uniquely African solutions to meet their specific environmental and agricultural needs of farmers so they can sustainably boost production and gain access to rapidly growing agriculture markets. Agra is active in 11 focus countries in Africa, including Kenya. The alliance has built the systems and tools for Africa's agriculture; high-quality seeds, better soil health, access to markets and credit, and coupled by stronger farmer organisations and agriculture policies.

AGRA is also active in the area of finance. Its approach is to build an inclusive agricultural finance system based on partnerships with governments, financial institutions, SMEs, and farmers. It works on three specific objectives:

- Supply of capital that has the right cost and risk profile to be deployable in agriculture. National governments and development finance institutions (DFIs) have the capacity and capital that can de-risk financial institutions by offering them capital that can be blended with private sector capital to reduce the cost and risk of that capital. AGRA supports Governments, donors and DFIs to design and deploy such blended finance vehicles for agriculture that mostly seek to reduce the credit risk, the cost of lending and to provide capacity building for lenders and borrowers;
- Development of models that reduce the costs and risks of lending, through risk sharing among value chain actors, wholesale lending to rural financial institutions or SMEs or using digital solutions. AGRA supports financial services providers in the deployment of these models and facilitates the linkages to blended finance facilities and potential borrowers.
- Offer innovative solutions to borrowers that help to reduce the cost of reaching these actors with financial and non-financial services. Most solutions use digital channels and mobile money to achieve scale at reduced cost.

Agra provides TA in financial inclusion and in this area, it has worked with the above-mentioned IFAD guarantees in Kenya. The TA provision has two key target groups:

- a) SMEs becoming bankable. TA assessment of SMEs make them bankable for pre-appraisal. Develop database for banks on SMEs eligibility for lending. Works with many local partners to provide this assistance.
- b) Banks and MFIs: TA on understanding agricultural value and provide financial services for value chains. How does cash flow in value chain work?

African Agribusiness Academy (AAA) stimulates and supports entrepreneurship toward increased food security in Africa. Founded in 2010, the AAA is a Pan-African business platform for small- and medium-sized agri-food enterprises (SMEs). The AAA member companies share and pool knowledge and experiences, collaborate and form partnerships, support one another and provide inspiration and guidance for current and emerging agribusinesses, inside and outside of the network.

The AAA supports agricultural entrepreneurs by offering capacity development and training opportunities, marketing, communication and networking support and facilitating the collaboration and mutual learning of all members. It is also active in the area of financial inclusion, and supports MSMEs to prepare bankable loan proposals to financial institutions.

In 2018, AAA began a fund for SMEs known as the Foundation Africa Agribusiness Fund (SAAF) with pilots in Kenya, Uganda, and Rwanda. This Foundation is legally established in the Netherlands and received support from the Dutch Government. SAAF is a revolving fund that provides non-collateralised funding to MSMEs in the agricultural sector.

Kenya National Farmers' Federation (KENAFF) is an old institution whose history dates to 1946 when it was started by large scale British farmers as the KNFU. The organisation works with farmers in the country. KENAFF currently covers 41 out of the 47 counties and is serving 842,000 farmers. The organisation has devolved units at the county level following devolution of agriculture with counties playing a key role in implementation of the strategies and policies and national government mandated with policy-making, coordination, capacity building and research.

KENAFF implements a range of projects and programmes in specific value chains, in agricultural innovation and in climate-smart agriculture. It provides market intelligence to improve the access of its members to financial markets. It does not provide financial services to its members, though it links members with specific financial institutions.

KENAFF is an important advocacy channel for farmers to influence policies and programmes in agriculture of the Kenyan Government and of international development partners.

Kenya Private Sector Alliance (KEPSA) is a private sector apex and umbrella body in Kenya, set up in 2003, to bring together business community in a single voice to engage and influence public policy for an enabling business environment. The Kenya Private Sector Alliance (KEPSA) is a limited liability membership organisation. With current membership of over 500,000 direct and indirect members organised through Business Membership Organisations and Corporate members, KEPSA is a key player in championing the interests of the Kenyan business community in trade, investment, and industrial relations.

While KEPSA's mandate and membership comprise the whole private sector, it includes membership in the agricultural sector, such as Agricultural Employers' Association and Agriculture Sector Network and suppliers of inputs to agricultural value chains. While generally the KEPSA members are larger enterprises, also several smaller companies in the agricultural sector are member.

In the KEPSA foundation, within the framework of KEPSA's Corporate Social Responsibility strategy, specific attention is given to the specific target groups, such as youth, in mentorship programmes and an e-commerce booster programmes, with the support of the **MasterCard Foundation**. This Foundation also supports a specific MSME loan programme to provide collateral and interest-free loans to MSMEs. With the support of **the Joint SDG Fund** in Kenya, KEPSA has set up an incubation agricultural sector network to support technological innovation in the agricultural sector.

Self Help Africa (SHA) is an international development charity in small-scale farming and growing family-farm businesses. Self Help Africa in Kenya works with smallholder farmers to move them from subsistence to commercialisation through a range of projects. It assists the smallholder farmers in enterprise development and establishing business partnerships. SHA works with smallholder farmers, farmer groups and associations across the country, including in the arid and semi-arid areas,

to address food security and nutrition challenges and link farmers to markets through farming as a business approach.

Self Help Africa together with Imani Development Limited are the Fund Managers of the EU supported AGRIFI Kenya Challenge Fund (see above).

Agriterra is an international organisation, headquartered in the Netherlands, established in 24 countries, including in Kenya. Agriterra offers advisory services to cooperatives and farmer organisations. The organisation is focusing on strengthening the cooperative movement of farmers' organisations worldwide. Cooperatives play a crucial role in Kenya, and they require advisory services to effectively execute their mandate. Agriterra provides business advisory services to cooperatives, mostly done in a cost-sharing (50-50%) mechanism. Agriterra also provides technical assistance to financial institutions in developing products and services for lending to cooperatives. It does so by guiding cooperatives to improve management and governance and to prepare business plans for loans. Agriterra provides monitoring and post-finance support services to banks. Agriterra also intermediates between cooperatives and investors.

Agriterra has set up an Agri-Business Capital Fund, (ABC Fund) to support smallholder farmers and improve their livelihoods. The ABC Fund provides financing solutions to farmers in cooperatives, especially women and young people. Along with financing, the ABC Fund provides technical and advisory services that help its investees develop and strengthen their organisations. This Technical Assistance Facility (TAF) led by Agriterra provides support in areas such as business development, operations, marketing, governance, financial management and others.

Heifer International has established a national office and programme in Kenya since 1981, when starting to work with a women's dairy group in the western part of the country. Heifer's actions have since evolved to cover the dairy, poultry, and beef value chains, carried out in partnership with producer groups, financial institutions, county governments, processors, and input and service providers.

Heifer has developed a hub model in its *East Africa Dairy Development project (EADD)* to connect farmers to a one-stop shop where they can not only sell their milk, but also access services including financing, veterinary care, and purchase feed and medicine. The hubs also play an important role in providing quality assurance and transportation that farmers need to deliver on bigger contracts and play a vital role in connecting farmers to the formal economy.

Heifer is not only linking farmers with financial institutions. It has also established its own lending facilities to provide loans to farmers. These financial services are provided against subsidised interest rates and with easing of collateral requirements.

This listing of organisations is not exhaustive. There are many more organisations active in this field, mostly on a smaller scale and on some occasions also confined to specific agricultural value chains and to specific regions in the country.

The organisations presented above all have been visited and interviewed in the framework of this evaluation.

3.5 MAPPING AND INVENTORY OF RELEVANT FINANCIAL SERVICE PROVIDERS SERVICING MSMEs AND THE AGRICULTURAL SECTOR

The ecosystem of financial institutions providing financial services to MSMEs in general in Kenya is well developed and widely extended. The coverage of these institutions is nationwide and extends to the agricultural sector, although institutions in this sector are more thinly spread.

Annex 9 provides a comprehensive overview of financial institutions that are lending to the agricultural sector and the annex also includes a list of MFIs, who are operating at county-level and at this level they also reach out to rural populations, though not always with specific and target agricultural lending products.

The landscape of relevant financial institutions can be roughly divided in four different categories.

Commercial Banks:

There are at least nine commercial banks that have set up and developed agricultural loan portfolios. Some of these banks have specific strategies and a focus on agricultural lending such as the Cooperative Bank of Kenya. Other banks that, during this evaluation, were often identified as lenders to the agricultural sector are KCB, Equity Bank and Family Bank. Other banks have known activities in agriculture but were not regularly identified in this evaluation study: Bank of Africa, Commercial Bank of Africa, National Bank, Transnational Bank and also KCB's M-PESA.

Non-Bank Licenced Finance Provider (MFI):

At least 17 MFIs are known to be active in the agricultural sector. These MFIs include KWFT and SMEP as the loan portfolio guarantee taking partners in the Sida-USAID co-guarantee, but Letshego is not lending anymore in the agricultural sector and not included in this list.

The best-known and most often mentioned MFIs that lend to MSMEs in agricultural value chains are: KWFT, Faulu Microfinance Bank, Juhudi Kilimo, and Rafiki Microfinance Bank.

Many more MFIs are active at the county level, and these are presented in a detailed listing in Annex 9.

Mobile networks in Kenya, also provide finance to MSMEs and a number of Business Development Service (BDS) providers provide finance to their clients.

Government Development Finance Initiatives:

There are 9 Government supported and implemented institutions and programmes that provide finance and financial products and services to the agricultural sector. In the previous section of this chapter, we have already briefly referred to the Agricultural Finance Corporation, AGRIFI Kenya Challenge Fund, and the Agriculture Enterprise Challenge fund. Other funds are focused on target groups as women and youth.

International Financial Institutions:

This category comprises international banks and development finance institutions and international microfinance providers. Larger players are Agri3 from UNEP, Rabobank, and the Collaborative for Frontier Finance, Lendahand, Oiko Credit, root capital and others. And a number of development partners support programmes that provide financial services, such as IFAD and IDH. International not for profit networks such as Kiva, Global Partnerships and Acumen and international for-profit companies, such as Alterfin, AgDevCo, GreenTec Capital partners also offer financial services in the agricultural sector.

3.5.1 Key Findings on Relevance and Suitability of Financial Institutions

From the interviews conducted with key informants during this evaluation process, a number of key findings can be derived on the possible relevance and suitability of specific institutions in the specific area of agricultural finance:

- Key informants indicated that while several banks have expanded their portfolios to the agricultural sector and to MSMEs, banks have less targeted products and services and are often considered less flexible and, in some cases, they are also seen as somewhat intimidating institutions. These disadvantages do not always outweigh the advantage of lower interest rates. Banks, such as the Cooperative Bank of Kenya has more experience in agriculture but is also more distant from borrowers than MFIs and SACCOs;
- SACCOs are considered the financial institutions that are closest to agricultural producers and these institutions offer finance against lower interest rates than MFIs who are also close to communities and producers. They are interesting to consider in loan guarantee facilities, though with a considerable risk of poor management capacities and governance challenges. Targeting these institutions will require intensive and regular Technical Assistance and close monitoring of process and results;
- MFIs are also closer to MSMEs, including in the agricultural sector, both in terms of geographical coverage as well as in terms of organisational culture and identity. MFIs, therefore, are also interesting to be considered in guarantee portfolio instruments;
- Both SACCOs and MFIs are known to have considerable liquidity challenges and these institutions need capital and therefore a guarantee is not likely to resolve their key challenges. An option to be considered is to provide guarantees to Banks (such as Cooperative Bank, KCB and equity) for lending to MFIs and SACCOs. This was already possible under the co-guarantee arrangements but did not happen. If this option is considered, specific TA services are to be mobilised;
- Many key informants indicate that the supply of financial services, and corresponding conditions and requirements is extremely varied. There are institutions that offer interest-free loans, loans combined with grants and high-

interest loans and collateral requirements are also very different. These differences are also related to the way these institutions are supported and under what conditions they acquire capital and or loan (portfolio) guarantees. Many organisations engage in direct bilateral negotiations and start-up their specific initiatives. While competition, of course, is not bad, the different conditions behind the support provided to financial institutions can distort the market and also create confusion among the ultimate clients, the loan takers that can get access to finance against very different conditions. Key informants indicate that more regulation and coordination might be needed to establish a level playing field;

- MFIs are known often to disregard the National Credit Register and offer loans to previous defaulters at other institutions. There is still a challenge to ensure that the National Credit Register is better and more consistently used by the different institutions;
- While there is a good supply of finance available to MSMEs and to MSMEs in the agricultural sector, there are still opportunities for further targeting and prioritising specific client groups, most notably women (although less pronounced in the specific Sida-USAID co-guarantees where women were included), youth and disabled persons. More targeted support programmes, including the provision of guarantees can be important tools to increase lending to these groups.

4 Key Conclusions

This chapter with key conclusions is based on the previous chapters with findings and the data analysis provided in the Annexes to this report. The conclusions particularly refer to the questions in the evaluation matrix in Annex 2 and concise answers to all the evaluation questions are presented in Annex 5 of this report. For those readers that wish to obtain more information on specific aspects and finding that have constituted the chain of proof towards this chapter of conclusions it is highly recommended to go through this specific Annex.

4.1 ON THE USE AND RESULTS OF THE LOAN PORTFOLIO GUARANTEE INSTRUMENTS

- 1. Relevance and additionality: The guarantees helped the Kenyan partner financial institutions grow their portfolios of loans to MSMEs in agricultural value chains, but the relevance and degree of additionality varied among the partner institutions.**

The Sida -USAID loan portfolio guarantees with KCB and three MFIs in Kenya since 2012 were relevant as an instrument to change interest and orientation of these institutions towards increased lending to MSMEs in agricultural value chains, though the relevance of this instrument was not the same across the different institutions. This evaluation shows that the loan portfolio guarantees can encourage lenders to consider new market-segments, in terms of sectors and target groups, such as smallholders and MSMEs in agricultural value chains in Kenya. The guarantees were particularly relevant in those cases where the loan guarantee taking institutions were already investigating new inroads into these sectors and had already developed some explorative initiatives, or in some cases philanthropic or CSR initiatives. In these situations, the portfolio co-guarantees supported the institutions to consider MSMEs in agricultural value chains as possible new market segments also as a business strategy. This was the case for at least two of the takers of the Sida-USAID co-guarantees: KCB had developed an agricultural strategy and developed new lending approaches and products for the agriculture sector, during the implementation period of the co-guarantees. Among the MFIs the relevance of the co-guarantees was more diverse. At the start of the MFI co-guarantees, KWFT already was interested in lending to the agricultural sector (and to female owned businesses in the agricultural sector). Also, without the agricultural portfolio guarantee, KWFT would likely have remained in agriculture. SMEP was less active in the agricultural sector and during the loan-guarantee period explored new inroads and products for MSMEs in agricultural value chains. Letshego has shown a clearly different development: while the guarantee was relevant to predecessor Micro Africa at the start of the contract period, due to a change of ownership from Micro Africa Ltd to Letshego, the new ownership has changed its strategy away from agricultural lending and therefor relevance and additionality of the

guarantee to Letshego declined. These findings show that the relevance of the portfolio guarantee for increasing lending in the agricultural sector, depends very much on the initial orientation and interest of specific financial institutions and thus should be well-targeted to secure relevance and additionality. While the guarantees were relevant for KCB, KWFT, SMEP and Micro Africa, additionality was greatest for KCB and SMEP.

2. Awareness and knowledge of how a loan portfolio guarantee can be used to reduce risks for a lender venturing into new businesses in the agricultural sector was low at the time the facility was introduced, leading to suboptimal use of the Sida-USAID co-guarantees by all four Kenyan financial institutions.

Mid-level and senior executives from all the loan portfolio guarantee taking institutions in this evaluation have confirmed that their awareness and knowledge of specific technical and administrative requirements of these guarantees was limited. At the same time, at the start of the contract periods of these guarantees, technical assistance to the guarantee taking institutions regarding these requirements and the best practical use of the guarantees was limited. This combination of limited awareness and limited provision of TA contributed to a suboptimal use of the guarantees. The MFIs were quick in placing loans under the guarantees but filed very few claims for loan losses. SMEP filed claims for a limited number of loan losses, while the other two MFIs did not file a single claim at all. KWFT apparently placed mainly their lowest-risk loans under the guarantee (not the best use of a guarantee) and consequently had so few defaults and losses that they did not find it worth the effort of claiming reimbursement. SMEP and Letshego managers told the evaluators that they did have significant defaults and losses, but because of confusion in their credit administration departments about loans qualifying for the guarantees and unfamiliarity with the process for claiming reimbursement, only a few claims were made (in the case of Letshego, none). The MFIs also indicated that claims procedures were complicated, and that the long delays before receiving any reimbursement reduced their appetite for making qualifying loans. KCB was very slow in using the guarantee facility during the first years. A management change delayed the implementation of the bank's agribusiness lending strategy. Only after renewed Technical Assistance efforts by USAID within their broader Kenya Investment Mechanism, beginning in 2018 (by the TA-provider Palladium), did KCB resume using the guarantee facility. In the final years of the co-guarantee agreement, KCB now is making effective use of the facility, including filing claims under it. The experience with the co-guarantees shows that without some Technical Assistance regarding the best use and the administrative requirements of the facility, the MFIs were unable to make effective and efficient use of it. This is also illustrated by the fact that the MFIs haven't accessed the facility reserve-amount for well-performing lenders, while they could have done so. KWFT and SMEP executives now state that with their current knowledge of loan portfolio guarantee characteristics and requirements they would have made more strategic use of it, and they now also indicate that such a facility is indeed of strategic importance for venturing into new market segments and introducing new lending products and services. This is also the case for KCB, which is now making active use of the loan portfolio guarantee. While these three institutions confirm that they would likely apply again for new agriculture-focused portfolio guarantee facilities, Letshego, due to a change in strategy has less interest in these

guarantees for agricultural lending. These experiences show the importance of good communication and technical assistance to loan guarantee taking institutions, particularly in early years of (new) facilities. USAID confirms that this was a key lesson learned in the early years of the Sida-USAID co-guarantees, which has resulted in a different and much more pro-active TA approach, since 2018 in the framework of USAID's KIM program. KCB has clearly benefited from this change, as has KWFT, though through other contracting arrangements with USAID (outside the framework of the Sida-USAID co-guarantee).

- 3. The loan portfolio guarantees have been generally efficient, from the provider perspective, particularly for Sida, through its delegation of tasks to USAID. For the loan portfolio guarantee taking institutions, however, due to the sub-optimal use of these guarantees (as illustrated above), the costs might actually have been high.**

Over the entire periods of use of the loan portfolio guarantees, the MFIs and KCB paid origination and utilisation fees. In total, over 31,000 loans were placed under the guarantees and a reported amount of almost 19.3M USD was disbursed as guaranteed loans. In this light, only a limited number of claims for reimbursement of loan losses have been filed, and only by KCB and SMEP. At the end of 2020, only an estimated 105,000 USD has been paid on claims under the guarantee facilities (as 50% reimbursement of principal losses). This amount might still increase, as KCB may still present additional claims in the remaining guarantee facility contract period, though it is not expected that this increase will be high. The delegation agreement of Sida with DCA/DFC has been efficient, as it has enabled Sida and the Swedish Embassy to provide this support, while reimbursing 30% of the documented loan losses (USAID paying 20%). As the number of claims has been low, these claims payments have remained minimal. The main costs to Sida of providing the loan guarantees in Kenya are thus the staff time of professionals at the Swedish Embassy in Kenya and at the Sida HQ. This makes the loan portfolio guarantee a cost-efficient facility, particularly when considering the broad reach of the instrument to many types of borrowers. To some extent, this efficiency comes with the cost of limited exposure and engagement regarding the guarantees with the guarantee taking institutions, and particularly at the level of ultimate borrowers.

At the level of the loan guarantee taking institutions, efficiency-figures are quite different, considering that only a small number of claims have been filed under the guarantees, while all indicated that they have not bothered to submit claims for all defaulted loans or losses, for the reasons already discussed above. As a result, the loan portfolio guarantees cannot be considered efficient from the perspective of these institutions. With more and better targeted Technical Assistance accompanying guarantees, the efficiency for lenders might increase considerably.

- 4. While the formal reports on the loan portfolio guarantees provided a picture of a generally effective process of lending and repayment with limited losses and claims, both the amounts disbursed and the repayment rates were overstated, because several lenders did not report and claim for all their losses, and other errors in reporting under the facilities.**

The effectiveness of the guarantees was overstated in the formal reports because of two weaknesses in the reporting. The non-claiming of defaulted loans under the facility, as indicated above, results in a reporting that does not include data and information on defaults and losses on loans under the guarantees. In interviews with the lenders, it has become clear that defaults were much more common than reported under the loan guarantee facilities, where reported default rates have remained under 4% and for KWFT and Letshego, even at 0%. It is impossible to provide reliable figures on defaults, as these figures are not reported. In interviews, however, key informants from the financial institutions indicated that defaults might have reached more than 10% of the disbursed loans in some branches. Other estimates were even higher. Many of those defaults and losses were not reflected in the DCA Credit Management System used for administration of the guarantees, because the lenders did not file claims for reimbursement. The evaluators also found other signs that the system is not error-proof. For example, during the first year of the guarantee agreement, a few loans in Kenyan Shillings were not converted correctly into USD, leading to an over-reporting of loan disbursements of more than 3M USD, almost 30% of the total amount disbursed under that facility. With more careful early feedback to lenders and greater engagement around the portfolio reporting and claims processes, it might have been possible to avoid some of these omissions and errors.

5. The effectiveness of the loan portfolio guarantee instrument at the level of the ultimate beneficiaries, the individual borrowers in the agricultural sector, can mainly be seen in terms of improved and extended availability of tailored lending products and services to MSMEs in agricultural value chains. Effects of loan portfolio guarantees have been less pronounced in terms of access to and cost of finance for loan takers (interest rates, collateral requirements, etc.).

The existence of loan portfolio guarantees is generally not known to the borrowers. The financial institutions are not applying different conditions or requirements to loan takers with loans placed under the guarantee. Interest rates and stated collateral requirements are comparable to other loans. Particularly high collateral requirements for all financial institutions are posing a challenge in reaching out to loan takers in more precarious situations. The added security from a 50% portfolio guarantee provides comfort to the lenders but does not mean that banks' regular collateral requirements are eased proportionally. They often remain at 100% or more, and borrowers may also need to bring one or more guarantors for the loans. Under the portfolio guarantees provided, no initiatives were taken to revise formal requirements and conditions for lending. At the same time, the interviewed executives of KCB, SMEP and Letshego stated that the guarantee allowed these lenders to grow their agribusiness loan portfolios faster than they could have done without a guarantee, by making loans to certain borrowers and value chains that they would otherwise have considered too risky. In terms of product development, the guarantees have supported the lenders to provide new and more tailored products for MSMEs in agricultural value chains. KWFT provided many loans for alternative clean cooking equipment, and Letshego provided many loans for water tanks. Other packages have been developed by KWFT, SMEP and KCB. Also packaging loans with insurance is now offered in livestock and dairy farming. These product improvements have had a positive effect on access of loan takers to tailored financial products. Innovation and adaptation of loan tenors to

agricultural production cycles has been less common and is probably an important area where further fine tuning and adaption can increase utility and lower costs of loan products for enterprises in agriculture, particularly in short-cycle crop production. With respect to interest rates, the guarantee facilities have not prompted the banks to offer loans with lower interest rates. Market rate developments, with decreasing interest rates over the past decade and government policies on capping interests during some years have had more influence on the interest rates of the loan guarantee taking institutions. No special requirements were included in the guarantee facility regarding interest rates, and it appears that loans placed under guarantees carried the same interest rates as the lenders' other loans. In the case of KCB, the average interest rate charged decreased from over 20 % during 2012-2015 to 14% in 2019-2020. KWFT and SMEP disbursed loans during 2012-2016 at average rates of 22% (KWFT) and 20% (SMEP). Letshego's interest rates were considerably higher - between 30 and 35% at the start of the guarantee period and rising to the 35-40% range in later years 2016-2017.

6. Evaluating the impact of loan portfolio guarantees at the level of borrowers is complex and difficult. Donors may gain important insights into development impacts from technical assistance providers that engage directly with lenders and borrowers, but this type of information sharing was not stipulated in the delegation agreement between the Swedish Embassy and USAID.

This evaluation has clearly shown that it is difficult to estimate the ultimate impact on the borrowers from improved access to loans, more frequent borrowings, or greater amounts borrowed. These limitations refer not only to direct loan-use related economic impacts, but also to development impact and environmental impacts (even though some of the loans provided had prioritised clean energy and environmentally friendly investments). Conducting this type of impact research can easily compromise the confidentiality of loan guarantees, and so potentially contribute to increasing defaults. There is also a confidentiality challenge in acquiring information from borrowers about the use of loans, as this is often sensitive information which borrowers are reluctant to share with external evaluators. In this evaluation, the evaluators reached out to borrowers, without being able to establish a specific contribution from a guaranteed loan to a specific impact on a particular borrower. This evaluation could, therefore, verify the importance of access to finance for enterprises in agriculture in general, seeing that many borrowers requested and received repeated loans from their lenders. And at this level, the evaluators could verify that borrowers generally have been able to improve or expand their businesses and/or to address specific enterprise challenges. This was particularly the case with the borrowers of KCB, who took more substantial loans; the effects on business improvement and expansion among microfinance borrowers were also noticeable, though more modest. A common outcome for borrowers that obtain loans from an MFI is that they become regular customers, with known repayment histories and easier approvals of subsequent loan requests. Borrowers at KCB were somewhat more opportunistic and took loans from other lenders.

However, these developments and effects cannot be related to whether loans were placed under a guarantee. And for borrowers it is also not possible to specify differences between guaranteed and non-guaranteed loans, as by default, they are not

aware of this, and do not experience different conditions and requirements. This means that it is impossible to look at specific effects of specific individual loans. Another difficulty in this evaluation was that most of the guaranteed loans were disbursed a long time ago (during 2012-2016), which makes it challenging for borrowers to recall specific experiences about those loans. And a final difficulty in research, experienced mainly in the survey conducted in this evaluation, is that borrowers consider their loans a confidential arrangement between them and their lender and therefore hesitate to share information with external parties.

The implications of the challenges encountered above, are that gathering information about the effects of guaranteed loans, beyond basic monitoring of disbursement and repayment rates, can probably be best done by the financial institutions themselves. Where banks use a relationship management approach in SME lending, their front-line employees may be able to gather some basic data from borrowers, though assuring quality and consistency will remain a challenge. Where TA providers, such as Business Development Service (BDS) providers are involved in generating the loan proposals, they may have sufficient access to the borrowers to obtain information about later effects.

- 7. In Kenya, there are a variety of loan guarantee facilities and instruments, each with its own characteristics and requirements and serving different market segments in terms of target groups and sectors. These guarantee arrangements are often between specific development partners and specific financial institutions, each negotiating their own terms. The existence of multiple arrangements has created a divergence in the landscape of different financial instruments, with the possibility of creating market distortions and weak institutional sustainability.**

The financial ecosystem in Kenya is quite well developed with a variety of financial institutions providing credit to the private sector. These institutions include a number of institutions that are venturing into specific market segments and serving target groups, where more risks are involved, including MSMEs in agricultural value chains. The evaluators have observed that a considerable number of these financial institutions have worked or are still working with specific development partners and international investment funds and companies with loan portfolio guarantee instruments. These actors include public and private institutions (private banks and government regulated finance providers), government programmes or funds, and NGO's and BDS providers that have guarantee facilities attached to other services provided. There is a corresponding variety of strategies and practices in loan portfolio guarantees, for example in terms of guarantee percentage, or specific requirements for onward lending (interest rates, tenors etc.). Subsequently, in lending to specific clients, different institutions provide a variety of products, such as blended finance with grants, subsidised lending, or lending against market rate. And these strategies and practices also show huge variety when applied in different sectors, regions, and different client groups.

While it is positive that the overall supply of financial services in Kenya is probably among the best in Africa, the existence of so many different arrangements is creating confusion and it is distorting the market, creating an uneven playing field at two levels:

Loan guarantee taking institutions can shop around and negotiate different conditions for their guarantees. At the same time borrowers can shop around for better conditions for loans. While the possibility of shopping around in essence is a good thing, creating competition and forcing financial institutions to provide good quality services against decent rates, this is not the case when some institutions can offer better deals, because their loan products are subsidised, or their credit risk has been substantially reduced by a subsidised guarantee.

The bigger players active in the field of guarantees, particularly USAID, IFAD and IFC are not necessarily cooperating and coordinating, and this is a threat for a level playing field in the guarantees and related instruments. Loan guarantee providing institutions have specific arrangements with specific partners and some of these partners have multiple arrangements with different providers.

8. **The Covid-19 pandemic has affected the Kenyan economy and particularly the survival of SMEs after Covid-19. This emergency has created an important new opportunity for more coordination of efforts to assure access to finance by MSMEs during the Covid-19 crisis and the post Covid-19 recovery. The National Treasury has set up an emergency guarantee facility for MSME lending by financial institutions and this facility is in place since mid-2020. Currently there are concerted efforts to replace this emergency facility with a more permanent facility managed by a new institution. This provides an important and unique opportunity for more concerted and coordinated actions in the future.**

A positive development in the financial ecosystem in Kenya, triggered by the recent Covid-19 pandemic, is the fact the Kenyan Government has taken the initiative to build a home-grown national coordination mechanism and institution to contribute to a coordinated and concerted effort to provide financial solutions to the need for liquidity of MSMEs to survive and overcome the current Covid-19 crisis. The National Treasury, with technical assistance of the Swedish supported Financial Sector Deepening Trust (FSD) and with support of international partners has established an emergency guarantee facility in 2020 that is currently operating with a number of banks to provide loans to MSMEs. Currently, with support of FSD, the Treasury is looking into possibilities to set up a permanent national guarantee facility and institution (a guarantee company) to enable a coherent approach in supporting post Covid-19 recovery of MSMEs in the country. It is discussing with development partners such as the World Bank the possibility to attract international partners to support this facility. USAID is currently looking into the possibility of joining this initiative. While this initiative emerged out of an emergency situation, it may lead to the development of an institution with a home-grown capacity to coordinate and manage guarantee facilities, while ensuring more synergy and coherence between different initiatives to overcome the current situation of fragmented and diverse and sometimes contradicting initiatives. While the initiative is not focusing on the agricultural sector, it is likely to also include this sector.

While the initiative looks promising, it is likely to take a considerable time before the proposed new guarantee company is capitalised and capable of fulfilling its mandate. So, it may not immediately replace the existing emergency facility and other longer-existing guarantee arrangements. As such, it might not present an immediate alternative

option for Sida's future engagement in providing loan portfolio guarantees in Kenya, but it certainly provides an important perspective for further exploration of Sida's future guarantee interventions in Kenya.

9. **Strengthening inclusiveness and reaching out to smaller MSMEs (owned by more vulnerable target groups) is a challenge in the loan portfolio guarantee instrument, as many lenders tend to favour better established and generally somewhat larger borrowers. Strengthening inclusiveness requires a well-targeted approach and mechanisms to encourage the provision of loans and other financial services to vulnerable groups. While women have benefited particularly from MFI loans, other aspects of inclusion were not considered in these guarantees, except for limits on the sizes of qualifying loans.**

For the financial institutions as well as for BDS providers that are working on loan proposals for the pipelines of these institutions, there are obvious advantages of scale in providing larger loans rather than smaller ones. To some extent, this challenge was addressed in the Sida co-guarantee approach by not only providing guarantees to a bank but also to MFIs. However, even at the level of MFIs, it is more cost-effective to provide relatively larger-sized loans. If a guarantee facility is accompanied by support for BDS providers that help MSMEs develop bankable proposals, then their efforts can be steered towards defined target groups with specific financial incentives for particular sizes and types of proposals.

Women have generally had good access to loans under the multi-party co-guarantee facility with the MFIs. This was secured to a large extent by the choice of KWFT, where all loan takers considered under the guarantee were women. Also, SMEP with 67% of the loans provided to women and Letshego with 59% have prioritised women in lending. The larger sized lending by KCB was directed for 33% to women, though only disbursing 15% of funds to women. This shows that larger sized loans usually are taken by men. Most of the products and services developed by the financial institutions are focused on specific sectors and only in the case of KWFT is there a clear link with needs of women, in the provision of a loan product for clean cooking equipment. The dairy farming loans introduced by KCB and SMEP aim at a sector that is dominated by women. Otherwise, the evaluators have not seen efforts to ensure that women can benefit from specific and tailored services. Overall, it can be concluded that women have benefited substantially from the loan portfolio guarantee, though there is room for improvement at the level of KCB. Furthermore, no other targeted or tailored products and services were encountered in connection with the guarantee facilities, for youth, disabled people, smaller enterprises, refugees, Muslims etc. Some of the financial institutions already have other initiatives to target specific groups. KCB is working with MasterCard Foundation with lending to youth and is also developing Islamic banking and is exploring lending to refugees. Most of the financial partner institutions indicate that youth is an important priority target group and increasingly so also in the agricultural sector. This is also since many youths have migrated back to rural areas due to the Covid-19 crisis and are now developing agricultural production and processing initiatives.

4.2 ON FUTURE PROSPECTS AND POSSIBILITIES FOR SIDA'S ENGAGEMENT IN THE FINANCIAL SECTOR DEEPENING AND GUARANTEE FACILITIES IN KENYA

A specific request was made in the ToR of this evaluation assignment to also investigate possible new activities and partners for the continuation of Sweden's involvement in improving access to finance in the agricultural sector and possibly for other priority vulnerable groups in Kenya. The following conclusions can be drawn on this evaluation question.

- 10. Continued focus of Sida loan portfolio guarantees on agriculture in Kenya makes sense in the light of Swedish key interests and priorities in Swedish cooperation with Kenya. Agriculture remains a key sector in economic development of Kenya, and it is one of the sectors where access to finance is a key constraint that will require long-term and consistent efforts in the future.**

Sweden has had a long term and continued focus on agriculture in its cooperation with Kenya. It has been supporting two key initiatives that are relevant in the light of the portfolio guarantees that are subject to this evaluation. Sweden supports the Agricultural Sector Development Support Programme (ASDSP) and in the original design and planning of the portfolio guarantees it was foreseen to create linkages with specific value chains and agricultural sub-sectors that were prioritised in the ASDSP programme. Linkages were also foreseen with WFP purchases of food crops. These linkages, during the practical implementation of the portfolio guarantees were not pursued any further and synergies with the ASDSP have remained limited. With the increased focus of the ASDSP on developing specific value chains in specific counties and increased interest of the guarantee taking institutions in value chain lending approaches, there are good opportunities to strengthen linkages between these initiatives that have thus far largely been implemented separately.

Similar linkages and opportunities for synergy exist with the Swedish supported FSD trust, as also suggested above in the context of the Covid-19 SME guarantee initiative of the National Treasury where FSD is providing technical assistance. Specific challenges in access to finance in the agricultural sector could be addressed by establishing more direct and close working relations, such as:

- Exploring opportunities to develop guarantee facilities for lending to vulnerable target groups in the agricultural sector, such as women and youth. A specific group that could be targeted are youths that due to Covid-19 are migrating back to rural areas and reengage in agricultural production initiatives;
- Exploring opportunities for involvement in the new initiative of the National Treasury to establish a national SME guarantee facility and guarantee company as a follow-up to the current Covid-19 emergency facility;
- Exploring opportunities for extending guarantees to financial institutions for lending to agricultural cooperatives and SACCOs, as these cooperatives are one of the key mechanisms to reach agricultural producers that are currently underserved;

- Development of products and services that can cater to specific target groups and needs in the agricultural sectors, such as packaging loans and insurance and combining lending with technical assistance (BDS) to MSMEs

It is likely that these linkages with ASDSP and FSD would have been stronger without the delegation agreement of Sida with USAID regarding the co-guarantees. Now that Sida is considering other options to continue with portfolio guarantees and possibly other financial instruments in Kenya on its own or with other partners, it is probably feasible to establish more direct linkages between the different Swedish supported key initiatives in Kenya.

Without denying that there are other sectors and specific target groups that are not yet sufficiently included in access to financial services, it is obvious that challenges in the agricultural sector are still enormous, despite the existence of a considerable number of financial and TA support providers. The experience from the loan portfolio guarantees with KCB and the three MFIs has shown that developments generally take considerable time; and some financial institutions may change strategy and not consider MSME lending in agricultural value chains a core business. Further deepening of the finance sector in agriculture, particularly to smaller enterprises and vulnerable target groups, requires a long-term approach and possibly on some occasions choosing other partners that are looking at the agricultural sector as a key market segment.

In the light of these arguments, it makes sense for Sida and the Swedish Embassy to consider continuing to innovate and apply guarantee instruments in the agricultural sector, while exploring closer links with the Swedish supported ASDSP and FSD initiatives.

11. Exploration of new target client groups for guarantee instruments by the Swedish embassy is ongoing and specific new products and audiences are being considered. However, since the target groups and products considered are rather narrow and in situations where other institutions are already active, the opportunities to establish and roll out a new intervention may be limited.

The Swedish Embassy in Kenya has been exploring new opportunities for targeting future loan portfolio guarantee facilities at specific target groups such as lending to refugee groups and Islamic banking. While there is certainly a demand for these products, the markets for these products might be small and/or confined to specific locations. This is most notable with refugee lending, where specific partners are already discussing and developing initiatives for refugee lending, such as UNHCR and IFC in providing guarantees for lending to refugees and their host community in the Kakuma Kalobeyei refugee camp. Negotiations are ongoing with specific banking institutions, and the conditions of guarantees that are negotiated might not match with Sida's approach. It might be a challenge for Sida introduce alternative products and approaches, particularly when guarantee conditions proposed, such as the guarantee percentage, are stricter than negotiated between other partners. Despite the considerable number of possible microenterprise borrowers in the KK and Dadaab camps, these markets might be too small for multiple players, and the future status of the camps is not secured in the current political context in Kenya. Sida might consider

a very different target group for refugee lending, such as urban refugees, but that market segment might also be too small and too insecure.

Islamic banking is also considered in the current explorations by the Swedish Embassy, and this could be an area to further innovate and develop products and reach new target groups, particularly within specific regions of the country. There might be possibilities to work on Islamic banking and refugee lending while maintaining a focus on agriculture as a sector and possibly strengthen a specific focus on priority target groups in this sector, such as women, youth, and disabled people active in this sector. Such a focus would greatly enhance financial inclusion of these target groups, with a greater opportunity to ensure that this inclusion is also more closely linked with policies and systems changes in agriculture and in the ASDSP targeted counties and value chains, thus enhancing the possibilities for achieving deeper and more lasting changes.

12. In previous conclusions, reference was already made to the current initiative of the National Treasury in setting up a national home-grown facility and entity for guaranteeing loans to SMEs in the future. Key informants in this evaluation indicated this is an important initiative for Sida to consider to be involved in, though the process of establishing the facility and building capacity may be slow.

Considering that the National Treasury is currently in dialogue and negotiation with international partners, most notably the World Bank, setting up the national Credit Guarantee Company is likely to take considerable time. While Sida could establish a direct link with this initiative (or through FSD, which is closely involved in it), it is not clear whether the initiative, once it is well established, might present a feasible modality for Sida to offer portfolio guarantees in the future.

This might mean that a two-track approach is needed to ensure that Sida can follow up and respond to developments in the National Treasury initiative, while at the same time preparing new opportunities for its loan portfolio guarantees, though in such a way that new initiatives may later be linked with the Treasury initiative and/or eventually even absorbed in it.

It is also not clear at this time, what are the needs of the National Treasury in establishing a guarantee fund and whether it not it could be supported with a Sida guarantee or it needs capitalisation in the first place (or both). Furthermore, it is not clear whether joining the Treasury initiative would allow the same conditions, requirements and fees that are used by Sida in its portfolio guarantees.

This double track approach will enable Sida to continue its loan portfolio guarantees in Kenya without interruption and in case the National Treasury initiative does not materialise at all or materialises very slowly, establish and sign agreements with other partners. The same would apply in case the Treasury initiative does not match with Sida's requirements for its loan portfolio guarantees.

The above means that Sida and the Swedish Embassy should not miss the opportunity to be involved in a national initiative to coordinate and streamline loan guarantee

facilities in a currently much divided situation in which many different actors go their own way, without any coordination

- 13. Kenya has a good institutional support environment for providing technical assistance and business development services in the agricultural sector. Many of these organisations are home-grown or established as Kenyan companies or NGO's. This local capacity has not been sufficiently considered in the provision of TA in the framework of the Sida-USAID co-guarantees and in USAID's FIRM and KIM programme, where international companies were recruited to provide TA. This may be a missed opportunity of the guarantees in embedding their guarantees in a local support ecosystem and thus securing longer-term institutional sustainability.**

The evaluation team has spoken with a large number of organisations that provide technical assistance and business development support to agricultural producers, cooperatives and MSMEs. Several of these organisations are well established and have extensive networks and some have also specific experience with loan guarantee products and service, such as for example AGRA that has worked with IFAD guarantee instruments for agriculture in the past years. Other Kenyan based and well-established TA providers that were included in this evaluation research are Agra, Agriterra, African Agro Academy, Heifer and KENAFF.

USAID has not tapped upon this availability of local experience and expertise and networks in arranging its TA provision in framework of its guarantee facilities. It has sourced this TA through international tender procedures. Two international contractors have provided the TA in the different phases of the guarantees (in the framework of FIRM and KIM programmes). Although these contractors have employed Kenyan staff and have sub-contracted Kenyan BDS providers, these arrangements do not support local embedding and sustainability. When contracts are signed with international contractors, sustainable national capacities are not secured. USAID is now indicating that it is interested in the future to tender these services in the national market, recognising the existing expertise and experience of Kenyan organisations. While the use of local TA expertise and networks has been a missed opportunity in the previous phases of the co-guarantees, working with these local capacities can strengthen the local embedding and long-term sustainability of TA provision within loan portfolio guarantee instruments.

- 14. The identification and selection of the lenders as Kenyan partners was based on active search for possible partners and subsequent processes of dialogue and negotiation with specific financial institutions. No process of competitive tendering was done, which may have led to suboptimal selection of the finance providing institutions in the Sida-USAID co-guarantees. More competitive procedures based on submission of concrete proposals to make use of the loan portfolio guarantees may lead to selection of more committed and experienced partners than was the case in the current co-guarantees.**

The first conclusion in this chapter already stated that the relevance and additionality of the loan portfolio guarantee has been varied for the different selected partners. Particularly in the case of Letshego, the guarantee facility was not fully used, and with a shift in ownership from Micro Africa Ltd. to Letshego its lending strategy has largely

moved away from agricultural lending. In the case of KWFT, additionality of the guarantee was limited, while in the case of KCB and SMEP the guarantees have had the desired effect of helping to develop and distribute agricultural loan products, as a key element in the strategies of these institutions.

It is possible that in a process of competitive tendering, more financial institutions might have shown interest in this facility, as inventories show that there are a considerable number of institutions that are active in the agricultural sector. Requesting these institutions to submit concrete proposals on how they would have made use of guarantee facilities to expand lending in the agricultural sector and to reach specific vulnerable groups in this sector, would likely have led to interesting and possibly more effective approaches than have been followed in the Sida-USAID co-guarantees.

Over the past decade the financial sector in Kenya has deepened and at present there is a considerable number of financial institutions, both banks and MFIs, active in the agricultural sector as is shown in the inventory made in this evaluation report. This increases the possibility that future identification and selection of possible portfolio-guarantee partners will lead to more optimal use of these facilities.

15. Needs and context analysis can help to identify partners and approaches for a new loan portfolio guarantee that ensures that loans will reach the beneficiary groups that most need them. At the level of guarantee taking partners a needs and capacity analysis is required. For example, in the past few years, and aggravated during the Covid-19 crisis, some MFIs have suffered losses that leave them with insufficient capital to operate and grow. In those cases, capital infusions from other sources may be needed before the MFIs can serve as partners in a guarantee arrangement.

The experience from the co-guarantees indicates that simply offering a portfolio guarantee to a financial institution partner which has intentions or priorities that are compatible with the goals of Sida, is usually not sufficient to produce the desired results. The institutions often do not have sufficient in-house capacity to develop the required new strategies, financial products, delivery channels, or front-line staff capacity to realise their intentions. Similarly, they may not immediately know how to make the best use of a portfolio guarantee or create a process for placing appropriate loans under the guarantee facility. Even where they have experience with reporting loans and claiming reimbursements for losses from other foreign guarantors, their credit administration departments may not be familiar with the specific processes and requirements of Sida.

Some of the difficulties KCB and the MFIs experienced in using the Sida-USAID co-guarantee during the early years might have been avoided with some targeted technical assistance to them, based on an early needs analysis. Similarly, some of the difficulties they later had in documenting loan losses and claiming reimbursement might have been anticipated and avoided through an early process review. The lack of plans for such early technical assistance to the guarantee takers was highlighted as a weakness by the American contractor DAI at the end of their work for USAID in 2016, and it is the understanding of the evaluators that USAID has since then asked for more early engagement with their Kenyan guarantee partners.

5 Recommendations

- 1. Sida and the Swedish Embassy in Nairobi should continue exploring opportunities for using loan portfolio guarantee facilities in Kenya. They are advised to do so, while maintaining their current focus on enterprises in agricultural value chains and strengthening linkages and synergies with other Swedish supported initiatives in the agricultural sector (ASDSP) and in the financial sector (FSD).**

If continuing with a different arrangement than the current delegation agreement with USAID/DFC on loan portfolio co-guarantees, Sida should secure that it has the right systems and expertise in house to provide proper follow-up on the use and secure the developmental effects on the guarantees. To ensure this, it is important to invest sufficient time and effort in proper testing of these systems before they are put in practice. In this light, a continued partnership and cooperation between Sida and USAID and the newly established DFC in the area of guarantee instruments at global level remains important, even though in Kenya this may not be done in the form of a co-guarantee and a delegation agreement. Sida should ensure that it can continue to tap from DFC's accumulated experience, including the experience from using their Credit Management System.

In identifying opportunities for continuation in the agricultural sector, Sida and the Swedish embassy could look into possibilities to strengthen the focus of future guarantees to insure they contribute to greater inclusion of vulnerable target groups. In addition to women who are already identified as important target groups, guarantees could also target youth and/or disabled persons and they could also target refugees and Muslim population in specific regions, within the agricultural sector.

In considering more inclusive approaches in financial service provision at the SME and agricultural producer level, Sida and the Swedish Embassy should consider reaching out to those financial institutions that are closest to these producer groups. SACCOs and other forms of cooperatives in this respect are relevant institutions that are close to this bottom of the pyramid and have the capacity to reach out to smaller SMEs and individual producers. Developing a guarantee facility that encourages banks to increase lending to SACCOs, could have a strong development impact. Choosing this strategy also comes with a cost, because experience has shown that SACCOs generally face considerable challenges in governance and in capacity development. This may require additional investments in providing TA to the SACCOs.

To achieve more inclusive approaches in the loan portfolio guarantees, specific tasks could be set for TA providers to support specific target groups in preparing loan proposals. Incentive mechanisms could be considered to stimulate TA providers to

sufficiently support these target groups while also supporting enterprises that require larger loans.

In considering future opportunities for the use of loan portfolio instruments in Kenya, Sida and the Swedish Embassy in Nairobi are recommended to also consider the considerations presented in Section 5.2 of this report (conclusion on future prospects and possibilities for Sida's engagement in financial sector deepening and guarantee facilities in Kenya).

2. In exploring opportunities for future loan portfolio guarantees, the Swedish Embassy in Nairobi should follow the recent developments in the framework of the National Treasury to set up a national guarantee facility for SME lending as a response to the current Covid-19 related economic crisis and future recovery.

As the Swedish supported FSD trust is involved in providing TA to the Treasury, the embassy could align with FSD officers in this follow-up. In case the Supporting Access to Finance and Economic Recovery (SAFER) project of the Treasury provides a concrete perspective for well-coordinated and home-grown institutions to manage and implement guarantee facilities mobilising support from a variety of partners, Sida and the Swedish Embassy should consider to link or coordinate the terms of future guarantee facilities with relevant national institutions, thus contributing to increased coherence and alignment of different guarantee facilities implemented on the ground.

Cooperation with FSD and with the National Treasury and possibly other partners in Kenya around portfolio guarantees are likely to improve the embedding of guarantees in national systems and institutions and increase coherence and complementarity of these instruments.

In seeking this alignment and cooperation, Sida and the Swedish Embassy in Nairobi need to be aware of some challenges and develop responses and possibly different scenarios and timeframes on the short, medium, and longer term. The challenges are the following:

- It will probably take a considerable time for the Treasury Initiative to be implemented, with the required institutional capacity building, and so Sida and the Embassy may have to conduct parallel discussions with specific banks or MFIs on future guarantees to avoid gaps and discontinuation of current efforts and initiatives, while still exploring opportunities for future alignments;
- Cooperation with the Treasury might limit Sida's ability to apply its own preferred approaches and systems for portfolio guarantees, such as guarantee percentages, focus on specific sectors and target groups, claims procedures, origination and utilisation fees etc.;
- Cooperation with the Treasury might also cause Sida and the Swedish Embassy to have to consider other forms of support which might require ODA budgets;
- Finally, as is also the case with current arrangement with USAID, Sida and the Swedish Embassy will have to find mechanisms to that provide sufficient direct engagement with the loan guarantee taking institutions to ensure that its support continues to be aligned with policy priorities and that development impacts are achieved among priority target groups and sectors.

3. **When designing and implementing future loan portfolio guarantees, Sida and the Swedish Embassy should include from the beginning a substantial Technical Assistance facility that complements the loan portfolio guarantee arrangements to ensure an optimal use of the guarantee facilities right from the start.**

Sida, in developing and implementing future loan portfolio guarantee instruments in Kenya should cooperate with partners than can provide good quality technical assistance and follow-up, not only at the level of the guarantee taking institutions, but also to help prospective borrowers to develop a pipeline of bankable loan proposals. This Technical Assistance should also consider the current devolution process of the Ministry of Agriculture in Kenya and strengthen the involvement of county-level actors. At the loan portfolio taking institutions this will require a TA approach that helps strengthen staff capacities of county branches, and not only those at central offices. At the same time, TA should address challenges in local coordination and communication with county-level agricultural support and extension services of the Ministry of Agriculture to ensure that appropriate awareness-raising, training, and information about financing is provided to potential borrowers. Finally, TA should address organisations that can support SMEs and other potential borrowers in developing bankable proposals.

A TA facility, accompanying a loan portfolio guarantee facility, will likely need an ODA-budget, as its costs will exceed any origination and utilisation fees received under a guarantee agreement. In identifying possible partners for TA provision, Sida and the Swedish Embassy should consider focusing or even limiting tendering to Kenyan based organisations only, as there are many organisations with good experience and expertise and widely extended networks. Working with local partners may not only be more cost-effective, but it will also enhance local embedding and sustainability of future loan portfolio guarantee initiatives.

The research conducted in the evaluation has shown that there is already significant capacity built among national home-grown organisations to provide technical assistance and business development support to agricultural producers and SMEs, and to help them develop bankable loan proposals to banks or MFIs. Several of these local organisations have already gained experience in providing such support linked to existing loan guarantee funds. Several options for possible TA partnerships are included in this evaluation report.

4. **In the process of identification and selection of loan portfolio guarantee taking institutions in the future, Sida and the Swedish Embassy should consider introducing competitive tendering procedures and mechanisms. These will enhance relevance and additionality of the loan portfolio guarantees and as a result are likely to improve effectiveness in utilisation of the guarantee facilities.**

The participating institutions in the Sida-USAID co-guarantees confirm their continued interest in portfolio guarantees. USAID under DCA has cooperated with more 20 financial institutions on portfolio guarantees, and the current SME emergency guarantee scheme of the National Treasury provides guarantees to 7 banks. IFC and IFAD have also worked with guarantees with a variety of Kenyan institutions. This illustrates that interest in guarantees among finance providing institutes is considerable

and widespread. The existing financial ecosystem in Kenya provides favourable conditions for competitive tendering processes.

In a competitive tendering process, Sida and the Swedish Embassy could consider integrating specific criteria and requirements to focus future guarantees more on specific target groups, sectors, and locations to improve inclusivity and to increase developmental impact of the loan portfolio guarantees. The above could eventually be done in coordination with national guarantee facilities and institutions in case they materialise from the National Treasury initiative.

It is recommended to allow, at least to some extent, within a competitive tendering process that applying institutions can develop proactively their own proposals for specific approaches, focuses, instruments and facilities to reach specific priority target groups or sectors in Sida's and the Embassy's policies and strategies. This would be instead of inviting applicants to submit proposals that have to follow pre-defined parameters, requirements, and formats. Additionally, applying institutions could be invited to specify related needs of technical assistance to be effective in the realisation of these proposals. Specific points of attention could be awarded higher scores in a tendering process. Such a more open approach in tendering will enable Sida and Swedish Embassy to better assess commitment (and related to this relevance and additionality) of the bidders and at the same time it allows for the possible inclusion of new innovative proposals.

- 5. Due to the confidentiality of loan guarantees and of lender-borrower relations, the realisation of external (development impact) evaluations is challenging. Sida and the Swedish Embassy, based on their interest in creating development impact of their loan portfolio guarantees and other financial inclusion instruments, are recommended to build in a specific approach and methodology for systematic development impact analysis of loan provision under loan portfolio guarantees.**

A provision for impact analysis should be built in the design of loan portfolio guarantees right from the start. As impact research is costly and at the same time benefits from larger-scale impact research among larger numbers of loan takers, including among control groups, Sida could consider developing such an impact evaluation facility together with USAID and/or other partners (including possibly the National Treasury) to allow for cost effective realisation of impact analysis exercises of loan portfolio guarantees and if desired other relevant financial products.

Impact research of loan portfolio guarantees should not in the first place look at possible differences in impact between guaranteed and non-guaranteed loans, unless there are specific differences in conditions and requirements of these guarantees (in terms of required collateral, reduced interest rate etc.). As generally there are no differences between stated conditions and requirements of guaranteed and non-guaranteed loans, and the loan takers are not aware of existence of guarantees, impact research should particularly look at differences between target groups that have received loans and those who have not (either those who were under- or overqualified to be placed under a guarantee).

The loan portfolio guarantee agreements with partners should include provisions to generate specific monitoring and reporting information that is needed for proper impact evaluation exercises along with the implementation of the guarantee and in different stages of provision of specific loans. This would entail developing at least a base- and end-line assessment, and if possible, a mid-term assessment. Due to the confidentiality of loan agreements, to some extent, basic data required for impact assessment, can only be generated in the context of specific customers' relations with loan officers and/or technical assistance providers. As it is not a core business of financial institutions to monitor development impacts of their loan provision (guaranteed or not), it is probably best to include the collection and storage of development impact monitoring data in contracts with technical assistance providers, which will require a special financial provision in these contracts (possibly if done with other partners at a larger scale, some advantages of scale and cost-effectiveness might be achieved).

Monitoring data on development impact collected by the financial institutions and TA providers, could be externally validated by evaluation teams during baseline, mid-term, and endline reviews. These exercises could also combine impact research data from different guarantee arrangements, thus enabling a perspective of counterfactual research among different guarantees.

Considering that mechanisms for impact analysis also create a burden of time and aspects of confidentiality for individual loan takers, maybe an incentive for participating in an impact assessment exercise could be considered, to compensate the participant for time and effort. Such an incentive could be in the form of financial compensation or possibly extra TA assistance for a subsequent loan proposal of participants, depending on the available budget.

Annex 1 – Terms of Reference

Terms of Reference for the Evaluation of KCB and Multiparty guarantees and an assessment on prospects of guarantee projects in Kenya

Date: 2021

1. Background and Context

Agriculture is a critical sector of the Kenyan economy, directly contributing 33% of the total GDP, 60% of informal employment and 60% of exports annually. Therefore, the agricultural sector is not only the driver of Kenya's economy but also the means of livelihood for the majority of Kenyan people.

Despite this, the sector faces many challenges, some well-known including inadequate access to finance, low productivity, high postharvest losses, inadequate access to markets, inadequate supportive institutional framework, and conducive policy environment among others. Other challenges are unpredictable including those related to climate change, emerging health challenges such as the COVID 19 pandemic and insecurities at local, national, and regional environments. These challenges hinder the growth of the sector and ultimately affect general economic growth of the country. This has been manifested in high poverty levels with 36.1% of the population earning less than 200 KES per day and over 32% of the population being food insecure¹.

The country has responded to these challenges by developing national and county steering documents including a vision, policies, strategies, plans and programmes. The key overarching steering document is Vision 2030 where Agriculture is one of the sectors within the economic pillar that is expected to deliver the vision of a “globally competitive and prosperous nation with a high quality of life”. To realise this vision, the sector has formulated strategies including the Strategy for Revitalisation of Agriculture (SRA), 2004-2014, Agriculture Sector Development Strategy (ASDS), 2010-2020 and Agriculture Sector Transformation and Growth Strategy (ASTGS), 2019-2029 and has implemented programmes that have contributed to addressing these challenges. At the county levels, respective governments have gone further to develop their County Integrated Development Programmes (CIDPs) which have prioritised agriculture as a key driver of their economies. Towards the beginning of 2018, the government identified four thrust areas referred to as the Government's Big4 Agenda with agriculture expected to contribute substantially to two of the pillars: food and nutrition security and manufacturing.

¹ Kbs 2015-2016 Household baseline survey

In 2012 Sida together with USAID entered into a guarantee agreement with Kenya Commercial Bank Group (KCB). The guarantee was set-up as a loan portfolio guarantee. The total guarantee cover is 50 % of the principal amount of which Sida covers 30% and USAID 20%. The maximum authorised portfolio was set at the 15M USD and the guarantee had a total duration of six years, from September 2012 to September 2018. However, in February 2018 the guarantee was amended to extend the coverage expiration date to September 2021. This resulted in a decrease of the maximum authorised portfolio amount to 11,579,750 USD. The final date to disburse loans under this guarantee was one year prior to coverage expiration, September 2020. The guarantee was designed to support USAID/Kenya's Feed the Future strategy and Sida/Government of Kenya's Agricultural Sector Development Support Programme (ASDSP). It was structured with flexible terms to ensure that viable World Food Programme Purchase for Progress (WFP-P4P) smallholder farmers' organisation contract holders will be among qualifying borrowers, which were defined as "non-sovereign Kenyan individuals, businesses, and organisations, including those smallholder farmer organisations with forward delivery or direct contracts from WFP-P4P." Qualifying projects were defined as "investments along agricultural value chains, including the dairy, drought-resistant crops, horticulture, beans and maize value chains – defined broadly to include inputs and production, capital investments, aggregation, storage, processing, handling, and transportation. The guarantee agreement was set up with the restrictions of at least 40% of all Qualifying Loans should be for Qualifying Projects in the Coast, Eastern, Nyanza, Rift Valley, and Western Regions of Kenya. The guarantee was complemented with a Technical Assistance (TA) component to support both the bank and the borrowers. The TA was commissioned and managed by USAID.

In the same year of 2012, Sida entered another co-guarantee with USAID. The total guarantee cover was 50 % of the principal amount of which Sida covers 30% and USAID 20%. The maximum authorised portfolio was set at the 13M USD, 7-year competitive/multi-party loan portfolio guarantee was designed to encourage the three proposed partner financial institutions. The portfolio is divided between partners as following: Kenya Women Finance Trust Deposit Taking Microfinance limited –5M USD; Deposit Taking Microfinance limited (SMEP) – 4M USD; Micro Africa Limited Kenya (later named Letshego) - 2M USD and a reserve amount of 2M USD. The partner that first fully utilises its maximum guarantee amount had access to the reserve amount. The guarantee was set up to support the lending to the agriculture and clean energy sectors in Kenya; partners were expected to lend at least 10% of their facilities to the clean energy sector.

The objective of Sweden's strategy for Kenya from 2009-2013 was that the guarantees would contribute to improved management of natural resource utilisation with a focus on sustainable agribusinesses growth that benefits poor people. Specific linkage to the Sida supported Agricultural Sector Development Support Programme (ASDSP I) envisioned the guarantee to support commercialisation of smallholder agriculture, contribute to employment creation and food and nutrition security. The main goal of the guarantee for Sida was to promote and enhance access to finance and financial inclusion for the agricultural sector value chain actors including producers (farmers),

agro-input dealers, traders, post-harvest handling activities such as storage, processing, transport, marketers, etc., including active management of financial resources to specific regions in rural areas strengthens Sweden's country Strategy for Kenya (2009-2013). According to the Decision taken in 2012, use of the Embassy's development assistance was justified by the assumption that the intervention would provide a risk sharing facility to the financial institutions for them to expand their portfolio lending to the agricultural sector as well as clean energy by the microfinance institutions.

2. Evaluation purpose: Intended use and intended users

There are two purposes of the evaluation. The first purpose or the intended use of the evaluation is to evaluate the guarantees that were a part of the portfolio from 2012 until 2020 and to evaluate the development results that these have achieved. To help the Embassy of Sweden in Kenya, Sida and its partners to assess achieved results of the KCB and Multiparty guarantee in Kenya to learn from what worked well and less well.

The second part of the evaluation is to help the Embassy of Sweden in Kenya to explore future prospects on guarantees based on: the lessons learned from the first part of the evaluation; taking into account the new development strategy in Kenya 2021-2025; benefitting from the current programmes in the agriculture and market development portfolios; and the current economic and financial situation in the country. The evaluation of prospect guarantees should focus on Small and medium sized companies (SMEs) and agriculture as the previous ones but also other relevant sectors and target groups in Kenya.

“Embassy of Sweden in Kenya wishes therefore to conduct an evaluation that will focus on 1. the specific effects and impact of the guarantees to the borrowers and the financial institutions; 2. the future guarantee prospects.

The primary intended users of the evaluation are the Swedish Embassy in Kenya, Sida's Guarantees unit, USAID, and U.S International Development Finance Corporation, (DFC).

The evaluation is to be designed, conducted and reported to meet the needs of the intended users and tenderers shall elaborate on how this will be ensured during the evaluation process.

3. Evaluation object and scope

The evaluation object is the two guarantee projects, KCB and the multiparty guarantee and the recommendations for future guarantee projects.

The evaluation should have as its starting point Sweden's Strategy for development cooperation with Kenya (2009-2013) and the market and risk assessments that were conducted during the appraisal. These documents, together with Sida's appraisal document, provide background on the situation in the agricultural sector at the time. The agreements between the Embassy of Sweden, USAID and the guaranteed parties provides the terms of the portfolio guarantees, which should also be considered.

The scope of the evaluation is the access to capital to the agricultural value chain actors, Agricultural -MSMEs, and micro companies in the agricultural sector in Kenya. The time period assessed shall be from the agreement periods of the guarantees. Existing evaluations of the intervention and technical assistance provided by USAID should be included, where relevant to the aim of this evaluation.

For further information, the project/programme proposal is attached as Annex D. The scope of the evaluation and the theory of change of the project/programme shall be further elaborated by the evaluator in the inception report.

4. Evaluation objective and questions

The purpose or intended use of the evaluation is to assess the efficiency, relevance, effectiveness, sustainability and the improved management of natural resource utilisation with a focus on sustainable agribusinesses growth that benefits poor people, as well as commercialisation of smallholder agriculture, employment creation and food and nutrition security and particularly, *to what extent poor people and/or those living in remote areas benefitted from implementation of the guarantee intervention?*

The specific evaluation questions for each of the portfolio guarantees are:

- Gender: What is the proportion of female/male borrowers? Are there any gender-specific results? How has gender sensitive implementation been taken into consideration?
- Which value chains or part of the value chains were more synonymous with women e.g., producer, supplier, distributor, retailer, recycler etc. and advise on how to tailor TA support to these value-chains for more uptake of financial services by the female borrowers?
- Have the guarantees/services provided under the loans contributed to improved access to finance for poor people, and in this case how? Are there specific examples? In addition, could you give an overview of KYC requirements for these beneficiaries especially the poor MSMEs lenders
- How fast were the guarantees utilised (graph)?
- How did the guarantees impact terms and conditions from the intermediary to the borrower (collateral, tenure, pricing vs reasonably comparable portfolio)?
- Were their aspects of digital finance tools and services in the guarantee facility? Which and how did this influence the beneficiaries especially women and youth
- How much more risk did the lenders assume, e.g.
 - What were the default rates vs. those of some reasonably comparable loan portfolio?
 - how did the borrower demographics and solvency differ?
- What was the degree of asset-based vs cashflow-based lending?
- How many loans were implemented in rural/urban areas?

- To which extent has the guarantees contributed to an improved access to finance for the SMEs in the agricultural sector? Are there any specific examples?
- Did these SMEs have other sources of financing or rather preferred sources like microfinance, SACCOs pulled investment like table banking, merry go round, chamas etc. Could you gauge the appetite for looping/formalising these group investments and providing a guarantee facility?
- Was the TA support to the partners reliable, adequate, and targeted? If not, how could this be modelled even better to meet the needs of the beneficiaries?
- Could a high turnover of staff in the agricultural unit of the agent bank as well as the multiparty financial institutions affected the marketing/uptake of the services and if so, how could this be mitigated?
- To which extent has the guarantees contributed to an improved access to finance in the energy sector? Are there any specific examples?
- To which extent has the guarantees contributed to employment/created new work opportunities?
- Is there any specific impact on areas such as youth employment, women employment, refugee employment?
- What did the intermediaries like/not like about the Sida guarantee? Ideas?
- How do the financial institutions, lenders, view the linkages with their own funding cost/local/hard currency etc. in providing credit to the underserved/unserved segments?
- Do the guarantees affect the amount of regulatory capital the financial institutions need to commit for the loans?
- How have the financial institutions altered their lending to the target sectors after the guarantees ended or were fully utilised? Did they continue to lend at similar volumes/terms without the guarantee?
- To the degree that different financial institutions saw differing levels of utilisation and impact, what contributing factors led to these differences in guarantee effectiveness?

Regarding administration of the guarantee facility, one could draw elements of subordination of one guarantee partner to the other to partly have influenced possible traction or uptake of the services by Sida's target groups ref. to strategies:

- Was there a commonality of interest- that is did the two guarantee partners have the same beneficiaries in mind if at all, some or specific sectors, and could one compare and contrast loan uptakes in these areas where interests meet vis a vis other areas.

The specific evaluation questions related to future prospects / recommendations:

- Based on the experience,

- What opportunities/barriers do the lenders see in reaching poorer and more rural demographics?
- Does the experience create a track record which now opens up more lending to a previously underserved segment? Why/Why not?
- What additional knowledge/competencies would be needed in the intermediary to better serve currently unserved/underserved segments and productive use/income generating activity?
- To what extent are the guarantees still relevant given Sweden's current development assistance strategy in Kenya?
- What other similar guarantees are there in Kenya at the moment?
- Are there any guarantee contributions in Kenya that are in the start-up phase that are energy/climate change/water and sanitation/ waste related that could be relevant for Sida to engage in (co guarantee or TA)?
- What are the key takeaways from these guarantees to be aware off in the future guarantee projects in Kenya?
- Which other partners/ financial institutions are suitable for potential guarantee projects?
- How can a Sida guarantee contribute to the existing programmes within agriculture and market development portfolios?
- Has USAID/DFC carried out any evaluations and in such case what findings have been made?

Relevance

- To what extent did the project conform to the needs and priorities of the beneficiaries?
- How could the project been designed to conform to the needs and priorities of the beneficiaries to a greater extent and adapted to the existing environment?
- Are there other guarantee structures e.g., first loss on a portfolio rather than pari passu which would yield different results?

Efficiency

- Can the costs for the project be justified by its results?

Effectiveness

- To which extent did the project contribute to intended outcomes? If so, why? If not, why not?

Impact

- What is the overall impact of the project in terms of direct or indirect, negative, and positive results?

Sustainability

- Is it likely that the benefits of the project are sustainable?

Questions are expected to be developed in the tender by the tenderer and further developed during the inception phase of the evaluation.

5. Methodology and methods for data collection and analysis

It is expected that the evaluator describes and justifies an appropriate evaluation approach/methodology and methods for data collection in the tender. The evaluation design, methodology and methods for data collection and analysis are expected to be fully developed and presented in the inception report. Given the situation with Covid-19, innovative and flexible approaches/methodologies and methods for remote data collection should be suggested when appropriate and the risk of doing harm managed.

The evaluator is to suggest an approach/methodology that provides credible answers (evidence) to the evaluation questions. Limitations to the chosen approach/methodology and methods shall be made explicit by the evaluator and the consequences of these limitations discussed in the tender. The evaluator shall to the extent possible, present mitigation measures to address them. A clear distinction is to be made between evaluation approach/methodology and methods.

A *gender-responsive* approach/methodology, methods, tools, and data analysis techniques should be used².

Sida's approach to evaluation is *utilization-focused*, which means the evaluator should facilitate the *entire evaluation process* with careful consideration of how everything that is done will affect the use of the evaluation. It is therefore expected that the evaluators, in their tender, present i) how intended users are to participate in and contribute to the evaluation process and ii) methodology and methods for data collection that create space for reflection, discussion and learning between the intended users of the evaluation.

In cases where sensitive or confidential issues are to be addressed in the evaluation, evaluators should ensure an evaluation design that do not put informants and stakeholders at risk during the data collection phase or the dissemination phase.

6. Organisation of evaluation management

This evaluation is commissioned by the Embassy of Sweden in Kenya. The intended users are the Embassy, Sida's Loans and Guarantee Unit, USAID, and DFC. As the evaluation will serve as an input to inform the Embassy on whether it should continue working with similar guarantees under future strategies, the intended user is the

² See for example UNEG United Nations Evaluation Group (2014) *Integrating Human Rights and Gender Equality in Evaluations*, <http://uneval.org/document/detail/1616>

commissioner. The evaluated parties have not contributed to the ToR but will be provided with an opportunity to comment on the inception report as well as the final report but will not be involved in the management of the evaluation. Hence the commissioner will evaluate tenders, approve the inception report and the final report of the evaluation. The start-up meeting and the debriefing workshop will be held with the commissioner only.

7. Evaluation quality

All Sida's evaluations shall conform to OECD/DAC's Quality Standards for Development Evaluation³. The evaluators shall use the Sida OECD/DAC Glossary of Key Terms in Evaluation⁴. The evaluators shall specify how quality assurance will be handled by them during the evaluation process.

8. Time schedule and deliverables

It is expected that a time and work plan is presented in the tender and further detailed in the inception report. The evaluation shall be carried out starting on the first week of March. The timing of any field visits, surveys and interviews need to be settled by the evaluator in dialogue with the main stakeholders during the inception phase.

The table below lists key deliverables for the evaluation process.

Deliverables	Participants	Deadlines
1. Start-up meeting (over video conference)	Embassy of Sweden	2021-04-06
2. Draft inception report		2021-04-27
3. Inception meeting (over video conference)	Embassy of Sweden Sida's Guarantees Unit USAID (optional)	2021-04-30
4. Comments from intended users to evaluators		2021-05-14
5. Final inception report		2021-05-28
6. Debriefing workshop	Embassy of Sweden	2021-05-30
7. Draft evaluation report		2021-06-05
8. Comments from intended users to evaluators		2021-06-19
9. Final evaluation report		2021-06-25
10. Evaluation brief/seminar (over video conference)	Embassy of Sweden Sida's Guarantees Unit USAID (optional)	2021-06-28

³ DAC Quality Standards for development Evaluation, OECD, 2010.

⁴ Glossary of Key Terms in Evaluation and Results Based Management, Sida in cooperation with OECD/DAC, 2014.

The inception report will form the basis for the continued evaluation process and shall be approved by Sida before the evaluation proceeds to implementation. The inception report should be written in English and cover evaluability issues and interpretations of evaluation questions, present the methodology, methods for data collection and analysis as well as the full evaluation design. A specific time and work plan for the remainder of the evaluation should be presented which also cater for the need to create space for reflection and learning between the intended users of the evaluation.

The final report shall be written in English and be professionally proofread. The final report should have clear structure and follow the report format in the Sida Decentralised Evaluation Report Template for decentralised evaluations (see Annex C). The methodology used shall be described and explained, and all limitations shall be made explicit, and the consequences of these limitations discussed. Findings shall flow logically from the data, showing a clear line of evidence to support the conclusions. Conclusions should be substantiated by findings and analysis. Recommendations and lessons learned should flow logically from conclusions. Recommendations should be specific, directed to relevant stakeholders and categorised as a short-term, medium-term, and long-term. The report should be no more than 35 pages excluding annexes. The evaluator shall adhere to the Sida OECD/DAC Glossary of Key Terms in Evaluation⁵.

The evaluator shall, upon approval of the final report, insert the report into the Sida Decentralised Evaluation Report for decentralised evaluations and submit it to Sitrus (in pdf-format) for publication and release in the Sida publication data base. The order is placed by sending the approved report to Sida@sitrus.com, always with a copy to the Sida Programme Officer as well as Sida's evaluation unit (evaluation@Sida.se). Write "Sida decentralised evaluations" in the email subject field and include the name of the consulting company as well as the full evaluation title in the email. For invoicing purposes, the evaluator needs to include the invoice reference "ZZ610601S," type of allocation "sakanslag" and type of order "digital publicering/publikationsdatabas.

9. Evaluation Team Qualification

In addition to the qualifications already stated in the framework agreement for evaluation services, the evaluation team shall include the following competencies 1) understanding of private sector market development in agriculture and energy, 2) banking and loan systems, and 3) risk sharing instruments for development purposes. These competencies must be relevant for the Kenyan context.

For team members that are not core team members, or a quality assurance team member, a CV shall be included in the call-off response and contain full description of the evaluators' qualifications and professional work experience.

⁵ Glossary of Key Terms in Evaluation and Results Based Management, Sida in cooperation with OECD/DAC, 2014

It is important that the competencies of the individual team members are complimentary. It is highly recommended that local consultants are included in the team.

The evaluators must be independent from the evaluation object and evaluated activities and have no stake in the outcome of the evaluation.

10. Resources

The maximum budget amount available for the evaluation is 800,000 SEK.

The Program Officers/contact persons at the Swedish Embassy is Elena Sahlin, regional program specialist and Duncan Marigi, program manager for agriculture. The contact persons should be consulted if any problems arise during the evaluation process.

Relevant Sida documentation, contact details to intended users (cooperation partners, Swedish Embassies, other donors etc. will be provided by the embassy contact persons.

The evaluator will be required to arrange all the logistics for example booking of interviews, preparing meetings and field visits etc.

Annex 2 – Evaluation Matrix

Criteria	Research Questions	Sources of Verification	Research Methods
Relevance At user and systems level Core focus: loan guarantee taking institutions and loan takers	To what extent did the project/facility conform to a) the needs of the guarantee taking institutions; and b) the needs and priorities of the beneficiaries?	Sida/Swedish Embassy USAID/DCA KCB/MFIs Loan takers	Desk Review KIIs Stakeholder mapping
	To what extent has this project/facility been additional to other existing finance facilities (microfinance, SACCOs, pulled investment like table banking, merry go round, Chamas etc.) for these user groups and what are its comparative (dis)advantages? Do possibilities exist to link guarantee backed facilities to these traditional facilities?		
	To what extent has this project/facility been articulated and integrated into existing financial sector arrangements in Kenya?		
	Are there other guarantee structures that could yield different results?		
Efficiency Can the costs for the loan portfolio guarantees be justified by its results? Core focus: loan guarantee taking institutions and donors	How are results of the project/facility compared with its costs?	USAID/DCA KCB/MFIs Loan takers	Desk Review Portfolio Analysis KIIs Site visits Survey
	How has the project/facility enabled timely and good access and quick availability? (In a comparative perspective of the different finance institutions)		
	How do users assess efficiency of loan access and use compared to other available alternatives? (in a comparative perspective of the different finance institutions)		
	Effects of guarantees on terms and conditions from the intermediary to the borrower (collateral, tenor, pricing vs reasonably comparable portfolio). (In a comparative perspective of the different finance institutions)		
	Effects of staff continuity/turnover at the financial institution on client relations and uptake of loans (in a comparative perspective of the different finance institutions)		

ANNEX 2 – EVALUATION MATRIX

Effectiveness To which extent did the loan portfolio guarantees contribute to intended outcomes? If so, why? If not, why not? Core focus: the loan guarantee taking institutions	What have been key effects/outcomes that can be directly and indirectly attributed to the project/facility? (In a comparative perspective of the different finance institutions)	USAID/DCA DAI KCB/MFIs Local, regional public, civil, private institutions Ministry of Agriculture Loan takers	Desk Review Portfolio Analysis KIIs Site visits Survey
	What intended effects/outcomes have not been obtained and what are the causes for this? (In a comparative perspective of the different finance institutions)		
	What have been unexpected and unintended developments that have influenced speed and course of the guarantees and its uptake? (In a comparative perspective of the different finance institutions)		
	Which and how much Technical Assistance was provided to a) the Guarantee taking institutions and b) the loan takers? Was the TA support to the partners reliable, adequate, and targeted? (In a comparative perspective of the different finance institutions)		
	How do users compare access, utility, and effects of borrowing from the guarantee taking institutions compared with other available sources and mechanisms of finance available to them? (In a comparative perspective of the different finance institutions)		
	Appreciation of the Sida Guarantees by the guarantee taking institutions (and comparison with other support instruments available to them)		
Impact What is the overall impact of the loan portfolio guarantees in terms of direct or indirect, negative and positive results? Core focus: loan takers and public, private civil institutions	What has been the developmental impact of the loan guarantees at the ultimate user level	KCB/MFIs Local, regional public, civil, private institutions Ministry of Agriculture Loan takers	Desk Review KIIs Site visits Survey
	What has been the economic impact of the guarantees, more specifically in terms of access to market of ultimate users?		
	Effects of guarantees on a) environmental sustainability and climate resilience of ultimate users; b) access to (clean) energy; c) employment creation (for women, youth, refugee groups)		
	Effects on reforms in the agricultural financial sector		
	Unintended and unexpected positive and negative impacts of the project/facility		
Sustainability Is it likely that the benefits of the loan portfolio guarantees are sustainable?	Sustainability of results at the ultimate user level (business-financial, developmental, environmental), disaggregated for gender	KCB/MFIs Local, regional public, civil, private institutions	Desk Review KIIs Site visits
	Effects of the guarantees on the sustainability of operations of the lending institutions		

ANNEX 2 – EVALUATION MATRIX

Core focus: loan guarantee taking institutions and loan takers	Contribution of the guarantees (models, methods etc.) to financial sector deepening in the agricultural sector of Kenya, particularly in terms of access to finance for SMEs in the agricultural sector	Ministry of Agriculture Loan takers	Stakeholder mapping
Adherence to Cross-cutting policy priorities	To what extent and how has gender-equality been addressed at all implementation levels of the guarantees?	Sida/Swedish Embassy KCB/MFIs Loan takers	Desk Review KIIs Site visits
Core focus: loan Guarantee taking institutions	To what extent and how have the guarantees contributed to environmental sustainability and climate resilience and adaptation at the ultimate user level?		
	To what extent and how have the guarantees reached out to ensure inclusion of poorer target groups and contributed to poverty reduction?		

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Annex 4 – List of Interviewees

Organisation	Name	Function / Unit
Swedish Embassy in Nairobi	Elena Sahlin, Duncan Marigi	Regional Programme Specialist Sr. Programme manager Agriculture & rural development
Sida in Stockholm	Christopher Onajin Axel Berglund	Unit for Guarantees and Catalytic Financing for Development, Dept. Partnerships and Innovation Programme Manager
DCA/DFC	Grace Hoerner	Director, Relationships - Africa Office of Development Credit/Mission Transaction Unit
USAID, Kenya	Benson Kimithi Brook Adam	Director, Relationships - Africa Office of Development Credit/Mission Transaction Unit Team Leader Investment team
Palladium Group	Benard Muhande	Develop programme specialist Access to Finance and Credit Guarantee Advisor
KCB	Clarise Aduma Naomi Ndele Daniel Biketi Anthony Mumo Andrew Njeru	Agribusiness Development Manager Head, SME Banking and Agribusiness Agribusiness Development Manager (starting) Head of Credit Credit Administration Officer
KWFT	Benson K. Kitabu, George Kinyanjui,	Director of Finance and Strategy Microfinance Director
SMEP	Symon Kamore Martin Maiyo Ezra Kirimi, Michael Mugwe William Nderitu Isaiah	Managing Director and CEO Chief Accountant Head of Finance and Strategy Team Leader, Agribusiness Head Agribusiness Head of Credit
Letshego	Geoffrey Korir, Jacob Kyalo, Jobes Omondi, Amos Mutinda	Head of Finance Head of Operations Head of Microfinance Senior Operations Mgr. in Eastern Region
ASDSP	Benson Mwangangi	Head Business Development M&E Officer Technical Advisor

ANNEX 4 – LIST OF INTERVIEWEES

	Rosemary Magambo Japhet Kiara Mikael Segerros	Technical Advisor
FSD Trust	Tamara Cook Francis Gwer	Chief Executive Officer Financial Sector Policy Specialist
IFC in Kenya	Luba Shara Sandra Leticia Sanchez Flores	Senior Operations Officer Financial Inclusion Consultant - Forced Displacement Initiative
Agriterra	Wilfred Chepkwoni	Business Advisor
Equity Bank	Paul Kiundu George Macharia Esther Muiruri	Agribusiness Marketing Manager Micro Credit Sector Head Associate Director in charge of Agribusiness
Danish Refugee Council	Alistair Cowan	Alternative Finance Specialist
UNHCR	Danya Kattan Maria Kiani Carmeline Wanjiru Meshack Mwololo Edith Ingutia Urayayi Mutsindikwa	Livelihoods and Economic Inclusion Officer Inter-Agency Officer Programme Officer Asst. Livelihoods & Economic Inclusion Officer Asst. National Livelihoods and Economic Inclusion Officer Cash Based Interventions (CBI) Expert
Kenya National Farmers Federation (KENAFF)	Daniel Mwendah M'Mailutha	CEO
Kenya Private Sector Alliance (KEPSA)	Benjamin Musungu	Public-Private Sector Dialogue, EAC and Agriculture Sector Board Coordinator
Africa Agribusiness Academy	Charles Gitau	Kenya Country Director
Heifer International	George Odhiambo	Country Director Kenya
AgroKenya	Suleiman Kweyu	Director
Lendahand	Thomas Plaatsman	Investment Manager
Hand in Hand East Africa	Albert Wambugu	CEO
Agra	John Macharia Ezra Anyango	Country Manager Kenya Senior Programme Officer Blended Finance

ANNEX 4 – LIST OF INTERVIEWEES

LEDCA Alliance	Patrick M. Muli	Enterprise Manager
County Govt. office, Machakos	Michael Mukiti	Livestock Extension Officer

Annex 5 – Key Findings, Revisiting the Evaluation Matrix

In this Annex, the evaluation questions under the specific evaluation criteria are responded concisely, based on the data collected and analysis during the research phase of this evaluation

1. Relevance

To what extent did the project/facility conform to a) the needs of the guarantee taking institutions; and b) the needs and priorities of the beneficiaries?

The loan portfolio review and interviews with the loan portfolio guarantee taking institutions show that this facility has served the needs of these institutions, though due to limited provision of TA during the first years of this facility and limited communication around operational and managerial aspects of these guarantees, the use of the facility was suboptimal. The financial institutions, with their current knowledge of the loan portfolio guarantees and their experience in using these facilities, now indicate that such facilities are still relevant to support the institutions to further develop and roll out new products and services for the agricultural sector and to extend services to new target groups in the agricultural sector and possibly other specific market segments, such as refugee lending, Islamic banking, and youth.

The facility has also served needs of beneficiaries, as many thousands of loan takers have applied for and received loans. Among the MFI these were in majority women and a considerable number of first-time borrowers. Access to finance among these groups thus has increased. The specific loan products have enabled loan takers to invest in specific agricultural uses and in improving cooking equipment and water storage (especially relevant for women) and energy solutions, as well as specific agriculture and trade related uses. Conditions and requirements of lending to these beneficiaries were similar as for other client groups, though characteristics of loan takers were such that, without the existence of the guarantees might not have gotten a loan.

Although some specific products and services for households and for MSMEs in agricultural value chains were development, more finetuning and tailoring products to specific needs of specific target groups in this sector, the relevance of lending could be further increased, such as by aligning tenors with agricultural cycles, providing insurance with loans (already done in livestock), warehousing credit, etc.).

To what extent has this project/facility been additional to other existing finance facilities (for these user groups and what are its comparative (dis)advantages? Do possibilities exist to link guarantee backed facilities to these traditional facilities?

The loan portfolio guarantees have had limited linkages with other facilities for the same user groups, while opportunities exist, such as providing lending by KCB to MFIs under the guarantee, which was technically allowed but not explored. Similarly, no lending was done to SACCO's and other forms of cooperatives in the agricultural sector, although group lending was done by all MFIs.

There might be opportunities to expand and development more cooperative lending building on experiences of group-lending of the banks. Similarly, and likely more effective, would be to explore linkages with other organisations that work with SACCO's and cooperative to ensure that Technical Assistance and guarantees could be provided in a combined approach. This has not happened under the Sida-USAID co-guarantees.

To what extent has this project/facility been articulated and integrated into existing financial sector arrangements in Kenya?

The Sida-USAID co-guarantees, despite original intentions in the planning stage, were not articulated and integrated in other Sida supported programmes in the financial and agricultural sectors, such as the FSD and ASDSP programmes.

The provision of technical assistance was integrated in the broader FIRM and KIM technical assistance programmes of USAID that supported the whole guarantee portfolio of DCA/DFC. The financial institutions under the Sida-USAID co-guarantee have benefited from this arrangement.

The USAID TA provision was contracted at international service providers and although these providers have sub-contracted Kenyan BSD providers, opportunities to establish closer alignment with relevant and representative Kenyan organisations have remained limited.

Through the delegation agreement with USAID the possibilities for Sida and the Swedish Embassy to link their co-guarantees with other arrangements were not actively explored.

In the identification of possible partners, some specific banks and MFIs that might have had stronger links with and embedding in the agricultural sector could have been explored, such as the Cooperative Bank of Kenya, and MFIs as Faulu or Juhudi Kilimo.

Possibilities to link with the national devolution process of agriculture to the county level, have also not been explored, while this could have been done by seeking alignment with the value chain focus developed at county level in the ASDSP programme. Also, TA provision could have included reaching out to devolved agricultural extension service at county levels, in the regions prioritised by the co-guarantees.

More recently, possibilities to link with the initiative of establishing an SME Covid-19 emergency loan guarantee facility, exists. FSD, and several international partners, including USAID, are exploring possibilities for coordination and cooperation and it could be interesting for Sida to join.

Are there other guarantee structures that could yield different results?

There are a variety of guarantee facilities in Kenya, and DCA/DFC is an important player in this field with over 20 facilities. Most guarantees have specific focuses on sectors, regions, target groups and banks and MFIs though all target SMEs in general.

There are several relevant facilities that reach out to the agricultural sector, which are identified in the stakeholder mapping in this evaluation. Closer alignment could be sought with several of them, for example with IFAD that has had a specific guarantee for agricultural lending, working together with AGRA as a national provider of technical assistance to financial institutions and to loan takers to develop pipelines for lending. Other options are the Agriculture Enterprise Challenge Fund, The AGRIFI Kenya Challenge Fund, and the Agricultural Finance Corporation.

In this evaluation it was observed that several MFIs, including KWFT and SMEP and SACCOs, who are close to MSMEs in agricultural value chains often face challenge in capitalisation and have limited liquidity for lending. Their capital needs could be relieved to some extent by using loan guarantee instruments that allow for bank lending to MFIs. Also, alternative mechanisms to provide capital to these organisations could be considered. While such capital is available internationally, possibilities to provide capital in Kenyan Shillings are limited, while this is a specific need of MFIs and SACCOs.

2. Efficiency

Can the costs for the loan portfolio guarantees be justified by its results?

From the perspective of USAID and Sida it can be said that the guarantees have been cost-efficient. Only a small number of claims was submitted to the facility, limiting both the out-of-pocket expenses as well as time investment in handling the claims.

For Sida the delegation agreement with USAID and DCA has been efficient to minimise cost and level of effort in following up on the guarantees. However, this has come at the cost of direct exposure of Sida and the Swedish Embassy to the facility and particularly to development impact of it. It has also decreased possibilities to establish coordination and linkages with ASDSP and FSD.

From the perspective of the guarantee taking institutions the guarantees have been much less cost-effective. The institutions have paid fees for facilities that they have not fully used and subsequently they have decided to not file all claims for defaulting loans under the facilities.

Furthermore, the MFIs have not used the reserve-facility once experience with the facility was build and thus probably allowing for a more efficient use of it.

The key reason for this sub-optimal use of the facilities was the lack of specific knowledge on the guarantee facilities and the limited communication and technical assistance provided to the financial institutions particularly at the start of the facilities.

How has the project/facility enabled timely and good access and quick availability?

The loan guarantees had a quick uptake by the MFIs, particularly KWFT and SMEP, though during the first years, TA provision was not intensive and knowledge among the FMIs about the facilities was limited, which resulted in not placing many claims under the guarantees and no use of the reserve.

The uptake has been particularly slow by KCB, which in the first years made only limited use of the facility. Only after more intensive and regular TA provision from 2017 and beyond, KCB accelerated its use of the facility.

The TA provided to the financial institutions has proven to be essential for developing strategies and dedicated products and services to reach out to MSMEs in agricultural value chain and to develop a pipeline of proposals for lending. The TA has also supported KCB better understand the requirements and procedures under the guarantee and thus make better use of it.

How do users assess efficiency of loan access and use compared to other available alternatives?

The loan takers with KCB, who are generally more financially literate and have accumulated loan experiences, regularly consider KCB as one out of more options. They also consider other options for loans and to acquire capital for their operations.

The MFIs are more important as single options for their clients. The loan takers usually do not go to many different institutions. Once a first loan is received from an MFI it becomes easier to acquire subsequent loans. This the clients of MFIs are regular customers, more than is the case with KCB.

Key informants indicate that SACCO's and some dedicated MFIs and some specific banks (such as Cooperative Bank) might have a better understanding of the needs in agricultural finance and have a closer relationship with loan takers at individual and cooperative level. These institutions might provide good alternative options for a loan portfolio guarantee instrument.

Effects of guarantees on terms and conditions from the intermediary to the borrower

The main effect of the guarantees for the Financial Institutions has been that they have started reaching out to new segments and with new products in the agricultural sector. And these institutions indicate that they would not have done this or much slower, without the guarantees. The guarantees have improved the risk tolerance of the financial institutions.

There were no measurable effects of guarantees on different conditions and/or requirements for the loan takers at these institutions in terms of collateral, tenor, and interest rates, though KCB and SMEP executives indicated that requirements for other

security or collateral were eased in individual cases. The effects at the loan taker level is the availability of specific loan products for them.

Regular costumers at MFIs over time experience easier and more flexible procedures and requirement. While the guarantees might have triggered the MFIs to take on new clients, it is unlikely that effects on regular clients are related to the existence of the guarantee.

Effects of staff continuity and turnover at the financial institution on client relations and uptake of loans

The financial institutions face considerable turnover in their staff and have expanded their coverage by expanding their branch networks. This requires recruiting new staff, particularly at decentral level.

The staff members at branches have limited or no knowledge at all of guarantees and how to identify suitable loans for the facility.

There is a need for continuous upgrading and training of staff at the financial institutions level. And important is to continue to invest in training and capacity development of BDS providers and loan takers themselves in preparing loan proposals. This also needs continued attention at the level of the financial institutions to ensure that their product development matches the provision of TA to ensure that quality of the pipelines for lending is good.

3. Effectiveness

What have been key effects and outcomes that can be directly and indirectly attributed to the project/facility?

The most important and noticeable effects of the guarantees are that the financial institutions, except for Letshego, have increased their agricultural loan portfolios. In the case of KCB and SMEP, specific agricultural products were developed, and these institutions now have an agriculture business strategy.

Some of the newly developed products have been rolled out among many clients (e.g., the cooking equipment of KWFT) but other products still need to be further developed, as well as specific strategies and options for loan tenors.

The above is not relevant anymore for Letshego, now that it has moved away from agriculture, though at the start of the guarantee it offered specific products for agriculture (e.g., water-tanks, biogas installations).

What intended effects/outcomes have not been obtained and what are the causes for this?

An unintended effect was that defaulting is under-reported in the CMS of DCA, as the financial institutions have decided to not place claims for all their defaulted loans. This

leads to reporting information that is more positive and optimistic about the effects of the guarantee than in reality has been the case.

It was unforeseen that Letshego would drop out because of a change in the business strategy, after the international acquisition of Micro Africa by Letshego. This has led to an only partial use of the facility by Letshego and ultimately a change in strategy that was opposite to the intention of the portfolio guarantee.

No close links and cooperation were established with ASDSP and FSD, and also anticipated links with WFP buying of food-products did not materialise. This is most likely caused by the delegation agreement that allowed USAID and DFC to manage and implement the guarantees according to their own priorities and interests, which were different from Sida's interests in the agricultural sector and in developmental impact of this instrument.

What have been unexpected and unintended developments that have influenced speed and course of the guarantees and its uptake?

KCB's uptake of the loan guarantee has been much slower than expected. It has required significant time before this large institution effectuated the change of developing an agricultural strategy and establish a pipeline for lending. The slow uptake was influenced by the fact that TA at the start of the guarantee under the FIRM programme was not sufficient. This was recognised in an evaluation of FIRM, and it was corrected in the next phase of TA provided under the KIM programme. These have resulted in a clearly accelerated development of the agricultural loan portfolio by KCB.

In earlier years, in the registration of loans of KCB an error in reporting was made by not using the exchange rate for some loans from KES to USD. This has led to overreporting of loans of KCB in the guarantee and this has also caused higher costs for KCB in utilisation fees for loans that where only a fraction of the amount reported. This error in reporting amounts to 3M USD.

The Covid-19 pandemic is currently influencing many developments in the areas of finance provision to MSMEs and in strategies of MSMEs to survive economic challenges caused by the crisis. This is not affecting the MFI loans anymore as they have all been closed, though it can still influence loan repayments and defaulting in the case of KCB. The effects of Covid-19 on the agricultural sector are less than in many other sectors, though are likely to have a massive influence in the coming years and thus are relevant to consider for future initiatives in loan portfolio guarantees. A recent initiative of the National Treasury with the Central Bank to set up a Covid-19 emergency guarantee for SME lending by a number of banks is very relevant in this respect, particularly now that negotiations are underway to develop this initiative into a permanent facility.

Which and how much Technical Assistance was provided to a) the Guarantee taking institutions and b) the loan takers? Was the TA support to the partners reliable, adequate, and targeted?

The TA provided under the FIRM programme was limited and it mainly addressed the banks only. After the evaluation of FIRM, under the KIM programme TA provisions was improved and now also considered both the financial institutions as well as BDS providers to support loan takers in developing bankable loan proposals. These changes have only affected KCB as the MFIs had finalised their lending at this stage. In case of KCB, it has supported the improvement of capacities of the Bank as well as the establishment of a pipeline of loan proposals in a short period of time.

No links and cooperation were explored in the guarantees and TA provision with other national or regional organisations with expertise and networks in agricultural finance, while the institutional ecosystem of such organisations in Kenya is strong. This might mean that opportunities to reach out to other target groups and to develop more tailored and appropriate products have not been fully used in the Sida-USAID co-guarantees.

How do users compare access, utility, and effects of borrowing from the guarantee taking institutions compared with other available sources and mechanisms of finance available to them?

This aspect cannot be verified, as guarantees are by default a confidential facility. Users do not know about the existence of these facilities and thus cannot express an opinion on them.

At user level, also no differences in conditions and requirements of guaranteed and non-guarantees loans have existed and therefore it is also not possible to analyse differences. From the user perspective a change might have been experienced in access to loans. While in the past no lending products were offered to them, with the guarantees new possibilities for lending have arisen.

The MSEs that apply with KCB for a loan, often have used and are still using alternative sources for borrowing. For them KCB is an option among others and depending on their experiences they might decide to stay or move on as clients. During interviews it could be observed that KCB in the recent years is using a very pro-active approach to acquire new customers.

As observed earlier for clients of MFIs this is different as they often do not have the luxury to shop around for finance. Once they have built a customer relation with a specific MFI they prefer to stay as a regular customer, because over time it becomes easier to apply for subsequent loans.

Appreciation of the Sida-USAID co-guarantees by the guarantee taking institutions

At present and with the knowledge gained from the experience the MFIs and KCB now indicate that they have appreciated the guarantee facilities and they show an interest in applying for future guarantees if these would be offered. At the start of the facilities this appreciation was different, because the financial institutions were not sufficiently aware of how to make the best use of these facilities.

Although the financial institutions know about Sida as co-guarantor, thought the delegation agreement with USAID, these institutions have no direct relation with Sida. Therefore, they do not express a specific appreciation with Sida. With respect to their relationship with the DCA/DFC, USAID and Palladium as TA provider during the KIM period, the financial institutions express satisfaction with the services received. Under KIM USAID has continued TA support to KWFT and SMEP under other contractual arrangements outside the context of the Sida-USAID co-guarantee.

4. Impact

What has been the developmental impact of the loan portfolio guarantees at the ultimate user level?

In the framework of this evaluation, it was not possible to verify the development impact of the loan portfolio guarantees at the ultimate user level. There are a number of reasons for this:

- In the first place, impact analysis requires baseline data and control groups, which were not available for this evaluation;
- Secondly, information on loans is confidential and sensitive. At the level of the banking institutions the customers' confidentiality cannot be compromised. At the level of loan takers, they are reluctant to share information on specific loan experiences and data, although many loan takers are willing to talk about generic aspects of loan taking;
- Thirdly, most of the loans under the guarantees were already provided a long time ago and it is difficult for loan takers to recall specific aspects of specific loans;
- And lastly, loan takers are not aware of the existence of a guarantee and therefore in interviews or surveys it is difficult to discuss specific aspects and differences between guaranteed and non-guaranteed loans.

To allow for a proper impact analysis, within the financial institution and customers relations or within the framework of assistance provided by TA providers, more and specific data on developmental aspects should be generate at different moments during the loan experience and if possible, also a period after loan taking. Such information to allow for a more sophisticated impact analysis was not available for the Sida-USAID co-guarantees.

The evaluators tried to resolve this by administering a survey among loan takers that had received guaranteed loans and only in more recent years (among KCB and Letshego clients). However, as this survey was administered by an external evaluation team, respondents did not feel safe to share information. With assistance from Letshego only a small number of surveys among Letshego loan takers. Could be obtained, not allowing for a statistical analysis.

These evaluability challenges require more coordinated and if possible larger exercises among variety of different loan guarantees, where specific datasets can be obtained among large groups of loan takers. And even then, if there are no differences in conditions and requirements between guaranteed and non-guaranteed loans, impact research might only be possible on comparing effects between loan takers with

different characteristics or in different regions and with different institutions and comparing these with MSMEs that didn't have had access to loans at all. These evaluability challenges require more in-depth discussion among different institutions providing loan guarantees and interested in development impacts.

In this evaluation, only anecdotic information could be obtained among loan takers and this information was not based on specific loans but on their experiences in loan taking over time (that might have included one or several loans obtained under a guarantee). The anecdotic information shows that access to loans is important for MSMEs in agricultural value chains and once access to loans is obtained there is a clear graduation process among loan takers that allow them to take repeated loans at MFIs becoming regular customers and when further developing, these loan takers become emancipated and financially literate to also take loans at larger banking institutions. While the smallest MSMEs only show limited and slow developments and are vulnerable to external influences such as Covid-19, the more established MSEs, once accessing larger loan amounts show better growth potential and contribute to employment creation. These graduation processes, according to the loan stories of people And TA providers interviewed can take a lot of time, even more than a decade.

What has been the economic impact of the guarantees, more specifically in terms of access to market of ultimate users?

As explained above, this question cannot be responded.

Anecdotic information in this evaluation shows that loans provided under the guarantees had limited impact on the smallest MSMEs and these smallest enterprises often remain at the level of multiple small activities to spread risks and survive. Larger companies that have more focus have more growth potential.

This provides a dilemma to loan guarantees, because the economic impact of loans is bigger among stronger and more established companies, but at the same time these loans present less risks and maybe do not need a guarantee.

Effects of guarantees on a) environmental sustainability and climate resilience of ultimate users; b) access to (clean) energy; c) employment creation (for women, youth, refugee groups)

As explained above, this question cannot be responded.

Effects on reforms in the agricultural financial sector

The loan guarantees have not had a direct effect on reforms in the agricultural financial sector, though at the specific institutions level the guarantees have supported KCB and SMEP to expand their networks at county level and to increase their agricultural portfolios. And for All MFIs the guarantees have supported the development of new services and loan products to new clients. These effects are mostly related with deepening and expanding access to finance in agriculture.

The guarantees were not strongly related with the Agricultural devolution process in Kenya, as the focus was on specific private sector financial institutions. A more intensive and regular working relationship with Agricultural extension services at county level and with the often strong, national and regional organisations active in BSD, technical assistance and financial assistance in agriculture could have had stronger influence on strengthening coordination and cooperation between different institutions.

Although not a direct of the guarantees, the collective efforts of a variety of partners, including the FSD trust in provision of financial services including in the agricultural sector, have had an effect on the development and establishment of the Kenyan Credit Reporting System (CRS) and also in reforms within this system to improve the utility of it for both loan takers and loan providing institutions. These improvements still need more time to consolidate and particularly MFIs still have to develop a stronger discipline to refer to the CRS system when assessing loan proposals and clients. However, the CSR represents an important development in the financial sector that will produce new behaviour under financial institutions and loan takers in the future.

Another systems reform change that is again not directly related to the Sida-USAID co-guarantees, though certainly related to the collective efforts of loan guarantee providers and national TA and financial institutions, is the recent initiative of the National Treasury to establish a Covid-19 emergency loan guarantee facility for SME lending with a number of banks. This emergency facility is inspired by previous guarantees provided by a variety of partners, including Sida and USAID. If the current emergency facility will be developed into a permanent national guarantee facility, this would be an important systems reform to which the Guarantees have contributed and the support through the Swedish co-funded FSD trust has even been more relevant in the past two years to enable this reform.

There are also additional effects at specific financial institutions level. Several development partners, including Sida and the Swedish Embassy in Nairobi, are based on the current experience discussing new guarantee facilities in different sectors and possibly for new target groups. These new initiatives consider new (guaranteed) lending to youth, refugees and in Islamic Banking. While these new sectors are relevant and interesting, at the same time it should be recognised that further reforms and financial sector deepening in the agricultural sector is still much needed and in this sector some of the new target groups mentioned above could be included, and more effort to include women is also still very much desired.

Unintended and unexpected positive and negative impacts of the project/facility

Although not directly related to the Sida-USAID co-guarantees and important recent unintended development is that the Covid-19 pandemic has brought new challenges particularly for the smallest MSMEs in the agricultural sector. As many of these small MSMEs have often multiple income generating strategies and need to shift between different strategies to cope with the crisis, there is a substantial risk that loans are being deviated from the original intended use. This development can cause a substantial increase in defaulting in the future. While the loans provided by the MFIs under the co-

guarantees were too early to be affected by this recent development, it is important to take this risk into account when preparing new guarantee arrangements.

The interest capping by the Kenyan Central Bank from September 2016 until November 2019 has probably had negative impact on agricultural lending in general, as risks in this sector have usually caused higher interest rates. The interest capping might have affected the appetite of specific institutions to lend to the agricultural. This capping policy has not influenced the MFIs who had already distributed their loans by this time. KCB was also not affected, as its interest rates were below the interest capping rate established by the Central Bank.

5. Sustainability

Sustainability of results at the ultimate user level (business-financial, developmental, environmental), disaggregated for gender

As was the case with some of the impact related questions this question is impossible to verify what these sustainability effects at the ultimate user level have been.

In this evaluation, the evaluators have observed one clear sustainability effect of the guarantees on the loans provided by the MFIs. At this level, loan guarantees have enabled these institutions to take on new clients and many of these clients, over time, have become regular customers of these MFIs, taking multiple loans over longer periods of time.

Effects of the guarantees on the sustainability of operations of the lending institutions

The sub-optimal use of the guarantees by the financial institutions (paying high fees and not using the facility fully and by placing only a few claims under the guarantee) has led to limited sustainability of the effects of these guarantees for the immediate future.

However, the financial institutions confirm that they have undergone a process of awareness raising on guarantees and now are much more knowledgeable about technical aspects of loan guarantees and about product and service development for new markets and clients in the agricultural sector. This provided much better conditions for future sustainable of possible follow-up guarantees used by these financial institutions.

KCB, SMEP and KWFT indicate that they are interested to continue to use loan portfolio guarantees in the future.

Contribution of the guarantees (models, methods etc.) to financial sector deepening in the agricultural sector of Kenya, particularly in terms of access to finance for SMEs in the agricultural sector

As stated above, the guarantees have, to some extent, contributed to financial sector deepening in the agricultural sector. However, it should be noted that there have been

many players in this field, within USAID's FIRM and KIM programme and Feed the Future strategy and many other players. Therefore, the specific contribution of the Sida-USAID co-guarantees has been small.

A negative aspect and effect of the fact that there have been many players in this field is that the different initiatives all have their own specific focus, approach, and conditions, leading to considerable fragmentation between initiatives and in case different subsidy and blended finance arrangements are established this fragmentation can lead to an uneven playing field both at the level of the loan guarantee taking institutions as well as at the level of ultimate loan takers.

The stronger presence KCB and SMEP in the agricultural sector and the dedicated strategies and institutional capacity for lending to MSMEs in the agriculture is likely to be sustainable, as these institutions (and KWFT) look at MSMEs in agricultural value chains as market segments and not anymore as a CSR or philanthropic activity.

Some new approaches and products are still under development and in the future can contribute to improved sustainability of agricultural lending. Two trends are particularly relevant: Value chain Finance and blended finance and insurance products. Several financial institutions have included these elements in their agricultural business strategies.

Mentioned earlier and also relevant for sustainability is the fact that the Sida-USAID co-guarantees have had limited linkages with other national programmes (ASDSP and FS) and national institutions (e.g., National Treasury, devolved agricultural extension services) and with well-established and representative agricultural organisations, BDS providers and financial service providers. Stronger links and more cooperation with these organisations will likely lead to expansion of scope and impact and to increased embedding in national systems and institutions and thus strengthened sustainability.

6. Adherence to Cross-cutting Policy Priorities

To what extent and how has gender-equality been addressed at all implementation levels of the guarantees?

Women have been targeted in the guarantee provided to KWFT, where 100% of the loan takers were women. This is not surprising given the mandate of this organisation. Also, the other MFIs have prioritised women in their lending, while KCB has reach out to 33% of female clientele.

While these results are remarkable, the good inclusion of women in lending has been mainly achieved by targeting them in customer relations. Though, specific approaches and loan products for women, except for the cooking gear in the KWFT lending, have not been strong in the business strategies and products of the institutions. With a stronger focus on product development that are catering to the situation and needs of women, the impact of the guarantees on women could become even stronger.

Youth and disabled or other specific target-groups have not been considered by the financial institutions in the framework of the Sida-USAID co-guarantees.

To what extent and how have the guarantees contributed to environmental sustainability and climate resilience and adaptation at the ultimate user level?

There have not been strong effects of loans on environmental sustainability. It has not been a key aspect in loan provision in general, though a number of specific products have been provided in the area of biogas and alternative energy. KWFT has been providing clean cooking gear, but this was largely done with LPG. While this is certainly an improvement compared to firewood and traditional stoves, still the technology is not contributing to improved environmental sustainability. The lending in energy has remained a relatively small part of the portfolio. And in Agriculture, the evaluators have not observed specific products and services to improve climate smart agriculture. Further increase in focus on environment is likely to be needed to strengthen environmental impact. And it is also likely that mainstreaming environment and climate smart agriculture in all loan products will have a bigger contribution than the approach applied to earmark a specific percentage of the loan guarantees for clean energy solutions. There is considerable room for improvement in this area, particularly when working with organisations that have built specific expertise in clean energy and climate smart agriculture.

Within the loan portfolio guarantee a checklist for environmental assessment of projects was developed. This list only was to be applied in larger projects and these have hardly occurred under the guarantees. Therefore, a shorter and simpler checklist for environmental assessment of specific activities could be considered, so that it can also applied in smaller loan proposals.

To what extent and how have the guarantees reached out to ensure inclusion of poorer target groups and contributed to poverty reduction?

The MFIs have been relevant to reach out to smaller MSMEs and smaller loan amounts. This multi-party guarantee therefore has been crucial, as the guarantee with KCB has clearly targeted more established companies (like any other bank would do).

While the guarantee with KCB would have allowed to provide MFI lending or lending to SACCOs (or other cooperatives), this approach has not been pursued in the guarantee arrangement implementation. This has limited the reach to the poorest target groups, and it has also limited the potential to alleviate an important challenge faced by many MFIs and SACCOs, which is lack of liquidity. Several of these institutes need capital.

In the TA provision arrangement in the KIM programme, BDS providers receive incentives for pipeline development of loans to KCB. These incentives are a percentage of loan amounts and as such these incentives might direct BDS providers to larger companies with higher finance needs. In case inclusion of the poorer and smaller MSMEs in loan provision is prioritised, this approach needs to be reconsidered to avoid that attention will be directed too much to the larger clients. Specific incentives for smaller loans could be considered.

The Financial Institutions have developed more tailored products to agricultural clients and smaller lenders, though there is still room for improvement that can particularly

benefit smaller loan takers. This can be done by introducing loan-tenors that are shorter and more appropriate to agricultural cycles, and by introducing the possibility of providing cash-flow data as collateral for loans and by providing more tailored and blended products to MSMEs.

Annex 6 – Loan Guarantee Portfolio Analysis

General data

The following table shows the utilisation of the guarantee facilities, derived from the DFC Credit Management System as of December 2020.

Summary data on KCB and Multi-party Guarantees

	Current maximum (USD)	Number of guaranteed loans	Cumulative disbursements (USD)	Cumulative utilisation %	Number of paid claims	Total claims paid* (USD)	Default Rate %
KCB	11,579,750	815	9,530,129	82	11**	46,503	0.98**
KWFT	5,000,000	21,566	4,999,883	100	0	0	0
SMEP	4,000,000	7,481	3,599,974	90	876	68,533	3.81
Micro Africa/ Letshego	2,000,000	1,239	1,157,356	58	0	0	0
Reserve	2,000,000	0	0	0	0	0	0

* Estimated claims paid by Sida and USAID.

** KCB may yet submit additional claims for defaults that happened through March 2021.

The following observations are supported by a preliminary analysis of the raw datasets supplied by DFC.

Geographic reach

The guarantee agreement with KCB stipulated that at least 40% of loans should be disbursed to borrowers in 5 target regions (other than the Nairobi Area and Central Region). In fact, 74% of the loans and 87% of the cumulative disbursements were made in the target regions.

The loans disbursed by the three microfinance institutions were also broadly distributed among regions.

Reaching women and first-time borrowers

While not stated as a formal requirement in the guarantee agreements, the expectation was that women and first-time borrowers would benefit from the loans.

Composition KCB and Multi-party loans according to gender and first-time borrowers

	Pct. of loans to women	Pct. of disbursements (USD) to women	Pct. of loans to first-time borrowers	Pct. of disbursements (USD) to first-time borrowers
KCB	33	15	38	19
KWFT	100	100	100	100
SMEP	67	63	N/A	N/A
Letshego	59	56	8	6

Reaching target sectors

The agreement offered KCB guarantees for loans to the agricultural sector, and all borrowers were in agricultural production or related agri-businesses. Maize farmers received about 2/3 of all disbursements from KCB.

The agreement with the three microfinance institutions was for loans to borrowers in the agriculture value chain and in the clean energy sector, with a target of at least 10% of qualifying loans being for clean energy, and with agricultural loans capped at 90% of the facility maximum. KWFT made more than 16,600 loans for liquefied propane gas (LPG) and related cooking equipment, and a small number of loans for solar lanterns, solar panels, and biogas infrastructure. Combined, these categories constituted 78% of all KWFT loans and 1.8M USD or 38% of all KWFT disbursements. Most appear disbursed to borrowers in trade and sectors other than agriculture. 62% of KWFT borrowers were in agriculture, crop and livestock farming; borrowers in “trade” received 34% of KWFT loans. The portfolio data for Letshego include 53 loans (4%) for biogas infrastructure and the remainder for agricultural uses. SMEP borrowers were all in agricultural value chains and there is no evidence of any SMEP loans for clean energy.

Tenors and interest rates

The guarantee agreements did not specify the lenders’ pricing of loans, but did require that loan tenors should be no less than 3 months (for KCB), or no less than 12 months (for loans by the microfinance institutions).

In the KCB portfolio, 28% of loans were for tenors of 3-6 months; a large majority of KCB loans and disbursements were for tenors of 12-18 months.

In the portfolios of the three microfinance institutions, a tenor of 12 months was by far the most common. Each of the institutions also seem to have included small numbers of loans with tenors of less than 12 months.

The interest rates charged by the lenders were very different. During the years from 2012 through mid-2016, KCB seemed to apply differentiated pricing, probably reflecting perceptions of different risks, around an average of 20%. In late 2016 the bank abandoned this differentiation, possibly as a result of the parliament-decreed interest rate cap. All loans disbursed from November 2016 through 2017 were priced at 14%. During 2019 and 2020, all loans of all sizes were priced at 13%.

All KWFT loans (disbursed during the period October 2012-June 2013) were priced at 22%.

Almost all SMEP loans (disbursed 2013-2015) were priced at 20%; a few were at 22-25%.

The data on early loans disbursed by Micro Africa seem to be missing the interest rate; subsequent loans by Letshego were all priced at 39%, and later at 34-36%, presumably reflecting a declining interest rate environment. Only a few Letshego loans called “asset finance” were offered at 29-30%.

Collateral cover

The raw portfolio data cannot tell us to what extent the guarantees helped to reduce the lenders’ collateral requirements. Among the KCB loans, collateral data appear to be missing for 75%. Of the KCB loans with collateral data, very few have collateral of less than 100% of the loan amount; collateral between 100% and 110% is common, as is collateral over 200%.

At least two of the three microfinance institutions also required collateral from borrowers. Letshego indicated a flat 120% cover for all loans. SMEP reported collateral of more than 100% for 2/3 of the loans. The KWFT loan data do not contain information about collateral.

Timing of guaranteed loan disbursements

Most of the loans disbursed under the two guarantee facilities were disbursed before 2017. KWFT disbursed all of its 21,566 loans in 2012-2013. SMEP disbursed all of its 7,481 loans during 2013-2015. Micro Africa/Letshego disbursed most of its loans between 2013 and 2016, and only 106 loans totalling 39,000 USD during 2017. KCB disbursed more than 300 loans for about 3M USD, during 2012-2017, and after the extension of the guarantee period, an additional 228 loans in 2019 and 266 loans in 2020 (for about 1M USD in 2019 and more than 2M USD in 2020).

Specific data on loan guarantee taking institutions

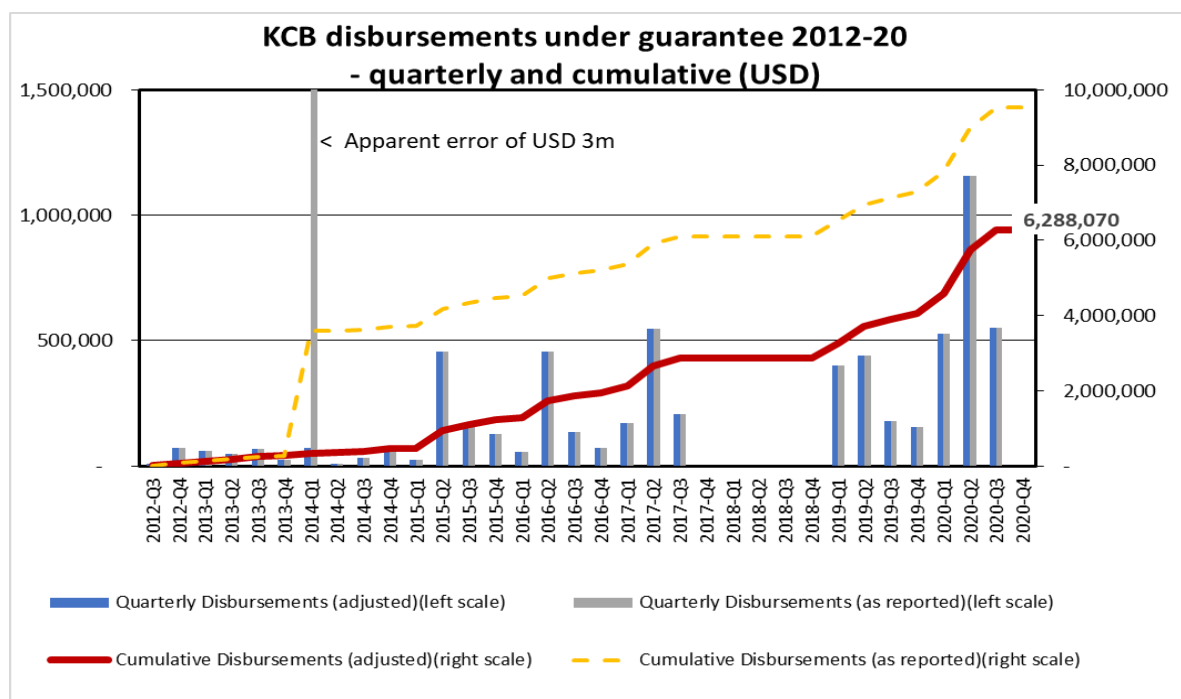
This Annex contains an analysis of data received from the Development Finance Corporation about the loans disbursed by KCB and the three microfinance institutions covered by the guarantee. While all loans were denominated in Kenya Shillings, in this analysis they will be stated in USD equivalents.

A. Utilisation of the Facility by KCB

Following the establishment of the 15M USD guarantee facility in 2012, and its extension in 2018, KCB placed 815 loans under it over a period of 9 years. For a few of the loans disbursed in early 2014, there appears to have been an error in conversion of the disbursed Kenya Shillings (KES) to USD. As a result, the reported amount of disbursed KCB loans under the guarantee appears to have been overstated by more than 3M USD. In this analysis, we use adjusted figures for the disbursements in USD equivalent, calculated by using a realistic exchange rate for the loans in question. Estimated in this way, cumulative disbursements over the 8 years amount to 648M KES, equivalent to an adjusted 6,288,070

USD (rather than 9.5M USD, as previously reported). According to these adjusted estimates, KCB disbursed approximately 2.9M USD during the years 2012-2017 and an additional 3.4M USD after the facility period was extended in 2018. Under the reduced 11.5M USD facility limit established in 2018, these cumulative disbursements are equivalent to an utilisation rate of 54%.

The most recent disbursements consisted of 228 loans in 2019 and 266 loans in 2020.



Claims so far

From the 815 loans disbursed by KCB, at this time DFC has paid claims for defaults on only 11 loans, in the amount of 18,601 USD, so the combined claims payments by Sida and USAID can be estimated at 46,503 USD. They reflect a default rate (through 2020) of 0.98%. Since the guarantee period only ended in late March 2021, KCB may yet submit additional claims for loan defaults that occurred before that time.

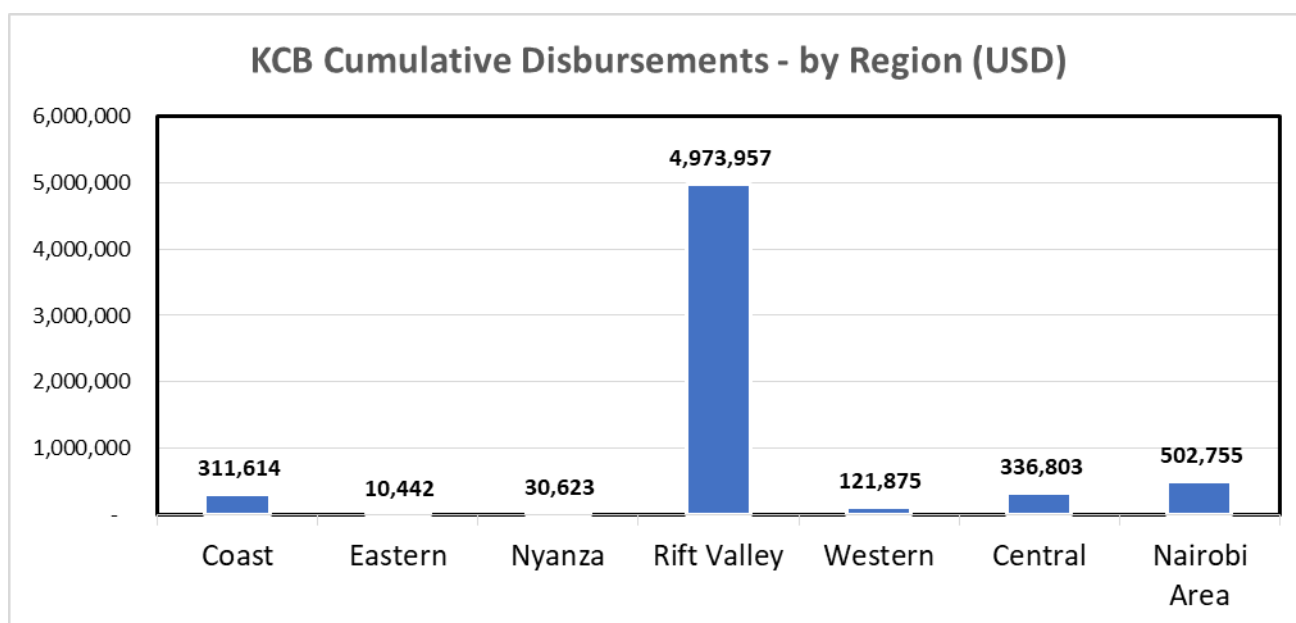
Cumulative disbursements by size of loan

The loan sizes varied widely, as illustrated in the table below. The largest loan was equivalent to 104,000 USD. None were close to the maximum of 600,000 USD permitted in the guarantee agreement. The average loan size was 7,715 USD.

KCB Cumulative Disbursements by size of loan	Number of loans	Total Disbursed (USD)
USD 50,000+	15	1,317,967
USD 20,000-49,999	68	2,157,573
USD 10,000-19,999	58	901,766
USD 5,000-9,999	135	1,033,934
Under USD 5,000	539	876,830
Total	815	6,288,070

Cumulative disbursements by region

79% of all disbursements by KCB were to borrowers in the Rift Valley, as shown in the chart and table below.



Region	Amount Disbursed (USD)	Average Size (USD)	Number of Loans
Coast	311,614	2,782	112
Eastern	10,442	3,481	3
Nyanza	30,623	3,403	9
Rift Valley	4,973,957	10,720	464
Western	121,875	9,375	13
Central	336,803	1,763	191
Nairobi Area	502,755	21,859	23
	6,288,070	7,715	815

74% of the loans and 87% of the cumulative disbursements were in the main target regions for the facility (Coast, Eastern, Nyanza, Rift Valley and Western). This is well above the target minimum 40% of guaranteed loans in those regions that was required in the guarantee agreement.

Disbursements to women and first-time borrowers

15% of the amounts disbursed were to women or women-owned businesses; 19% were to borrowers that borrowed for the first time from KCB.

	Number of loans	Total disbursed (USD)	Average size (USD)
All borrowers	815	6,288,070	7,715
Women owned	268	943,296	3,520
First time borrowers	307	1,202,904	3,918
Women first time	149	310,876	2,086

Multiple loans to certain borrowers

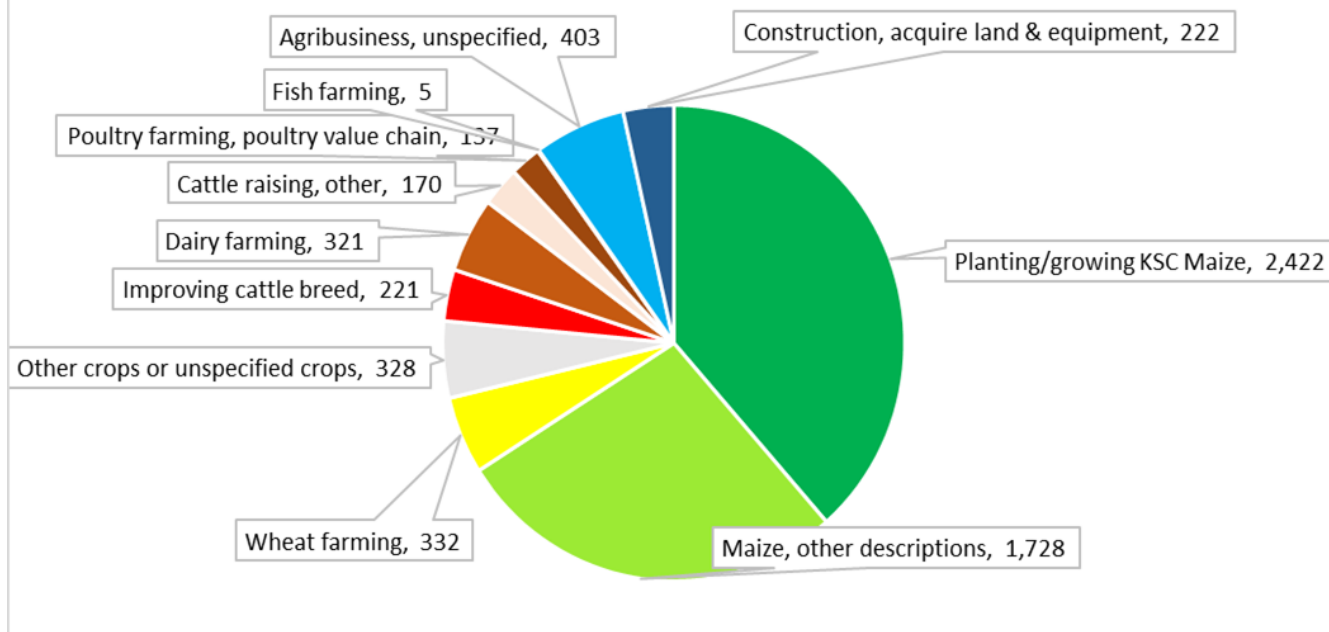
During the 8-year period, 348 borrowers received more than one loan from the guaranteed portfolio. In most cases these loans were consecutive in timing - i.e., subsequent loans were approved after at least a portion of the initial loan had been repaid. Repeat borrowers were identified by simple name matching.

Loans per borrower	Number of loans
1 loan only	467
2 loans	138
3 loans	87
4 loans	44
5 loans	20
6 loans	30
7 loans	7
11 loans	22
Total	815

Disbursements by purpose of the loan

All KCB loans were used for agriculture or related agribusinesses. Maize farming was the purpose for two thirds of all disbursements. Cattle raising and dairy farming accounted for 11% of the disbursements. See the chart and table below.

KCB Disbursements by Purpose of Loan (USD '000)



Purpose of loan:	Number of loans	Amounts (USD)
Planting/growing KSC Maize	261	2,422,322
Maize, other descriptions	163	1,727,650
Wheat farming	24	331,882
Other crops or unspecified crops	27	327,828
Improving cattle breed	40	220,563
Dairy farming	79	320,874
Cattle raising, other	39	170,053
Poultry farming, poultry value chain fin.	140	136,633
Fish farming	1	4,931
Agribusiness, unspecified	16	403,126
Construction, acquire land & equipment	25	222,208
Total	815	6,288,070

Loan Tenors and Interest rates

More than 90% of the loans and of the amounts disbursed had tenors of 18 months or less.

Loan Tenor	Number of Loans	Amounts (USD)
3-6 months	231	607,969
7-12 months	377	3,956,630
13-18 months	164	1,130,850
19-24 months	20	115,954
25+ months	23	476,666
Total	815	6,288,070

The stated interest rates for the guaranteed loans were in the range between 9.5% and 23 % p.a., with average rates highest, around 20%, during the early years.

During the initial years, from 2012 through mid-2016, there was evidence of differentiated pricing, presumably reflecting different perceptions of credit risk, with some borrowers paying several percentage points more or less than the typical level. In late 2016, the bank seems to have abandoned this differentiation, possibly as a result of the parliament-decreed interest rate cap. All loans disbursed from November 2016 through 2017 were priced at 14%. During 2019 and 2020, all loans of all sizes were priced at 13% p.a.

Collateral cover

Data on collateral was only provided for 191 of the 815 KCB loans. There were 5 loans with collateral of less than 100% of the loan amount. 77 loans had collateral cover of 100 – 110%, 42 loans with cover of 111 – 199% and 67 with cover of 200% or more.

B. Utilisation by KWFT (now Kenya Women Microfinance Bank):

KWFT placed loans under the multi-party guarantee facility and reached the limit of 5M USD within the first fifteen months after completing the guarantee agreement. All loans were disbursed during the period October 2012 - December 2013. Because of imperfections in the date formats used in the data files, it was not possible to chart the utilisation by month or calendar quarter.

It appears that KWFT never filed claims for any loan defaults.

The reserve of an additional 2M USD guarantee facility was offered to KWFT but never used.

Description of the guaranteed KWFT loans

KWFT Loans by size (USD)	Number of loans	Total disbursed (USD)
Less than 100	2,803	186,844 *
100-199	14,405	1,680,716
200-499	2,119	720,470
500-999	1,393	967,008
1000-4999	834	1,190,217
5000 or more	12	76,350
Total	21,566	4,821,605

A large majority of the KWFT loans were for the amount of 10,000 KES or similar sizes (i.e. close to 100 USD per loan).

*Note: Exchange rates used in DCA files vary. For a large number of small loans booked by KWFT in the last quarter of 2012, an unrealistic exchange rate was used, resulting in a too low USD equivalent of the initial booking value of the loans denominated in KES. At some later time, DCA or KWFT presumably corrected that, and so determined that the 5M USD guarantee limit had been reached. We did not have the corrected values for

individual loans for our tabulations. Rather than attempting to correct exchange rates for multiple individual loans, we used the initial, imperfect USD equivalent booking values. That is the reason why our loan total is 4,821,605 USD, somewhat lower than the fully used facility limit of 5M USD. These modest differences are not material for our analysis.

KWFT loans distribution by county

The loans were not coded by region, but a distribution by county is shown on the next page:

KWFT loans by county	Number of loans	Total disbursed (USD)
Baringo	407	138,474
Bomet	699	325,828
Bondo	99	10,280
Bungoma	374	73,963
Busia	279	42,280
Elgeyo Marakwet	446	139,695
Embu	602	157,599
Garisa	1	120
Homabay	680	131,181
Isiolo	83	9,796
Kajiando	74	13,076
Kakamega	291	33,984
Kericho	1,244	393,041
Kiambu	679	225,319
Kibwezi	62	6,943
Kilifi	661	87,599
Kirinyaga	336	51,337
Kisii	583	166,717
Kissi	642	196,921
Kisumu	405	45,197
Kitui	463	51,199
Kwale	372	44,824
Laikipa	-	- *
Lamu	12	1,345
Machakos	874	102,564
Makueni	597	67,138
Marsabit	14	1,258
Meru	1,150	172,265
Migori	1,005	142,026
Mombasa	481	54,453
Mumias	27	2,994
Muranga	436	61,325
Nairobi City & County	293	51,333
Nakuru	779	226,848
Nandi	642	204,256
Narok	248	128,516
Nyamira	400	151,359
Nyandarua	482	113,113
Nyeri	803	104,810
Samburu	-	- *
Siaya	318	34,841
Taita Taveta	574	104,831
Tana River	42	4,467
Tharaka Nithi	400	84,205
Tranzoia	381	122,468
Turkana	18	2,246
Uasin Gishu	1,124	349,883
Vihiga	235	27,529
West Pokot	22	10,376
Other & missing data*	727	149,783
Total	21,566	4,821,605

KWFT loans by gender and borrower status

All the borrowers were marked as Female and first-time borrowers with KWFT:

KWFT Loans by borrower gender	Number of loans	Total disbursed (USD)	KWFT loans by borrower status	Number of loans	Total disbursed (USD)
Female	21,566	4,821,605	First time borrower	21,566	4,821,605
Male	-	-	Other	-	-
Total	21,566	4,821,605	Total	21,566	4,821,605

KWFT loans by purpose and sector

KWFT loans by purpose (or loan category)	Number of loans	Total disbursed (USD)	Average size (USD)
LPG	16,680	1,810,230	109
Solar Lantern	171	15,561	91
Solar Panel	43	15,652	364
Biogas	7	5,729	818
Crop Farming	1,739	1,095,780	630
Cereals	1,015	619,217	610
Green House Farming	12	14,655	1,221
Mixed Farming	846	694,617	821
Dairy farming	338	246,945	731
Poultry Farming	21	9,116	434
Aquaculture	451	184,788	410
Other, KPLC, Agrovat,			
Beekeeping	243	109,315	450
Total	21,566	4,821,605	224

A large majority of the KWFT loans (10,000 KES or close to 100 USD per loan) were for liquefied petroleum gas and equipment for cooking. These loans, which KWFT considers for “clean energy”, together with loans for solar lanterns, solar panels, and biogas, amounted to 78% of all KWFT loans and 1.8M USD or 38% of total disbursements.

More than half of KWFT loans and of the total disbursements were for borrowers in agriculture. The second-largest segment of borrowers were active in trade:

KWFT loans by business sector of the borrower	Number of loans	Total disbursed (USD)	Average size (USD)
Agriculture	12,941	2,771,470	214
Crop farming	378	86,148	228
Livestock	74	13,800	186
Hunting and fishing	16	3,517	220
Manufacturing	282	77,151	274
Trade	7,413	1,782,596	240
Electricity and water	73	13,709	188
Hotels, restaurants, kiosks	117	21,197	181
Transport and communication	7	4,643	663
Building and construction	27	3,663	136
All other services	238	43,711	184
Total	21,566	4,821,605	224

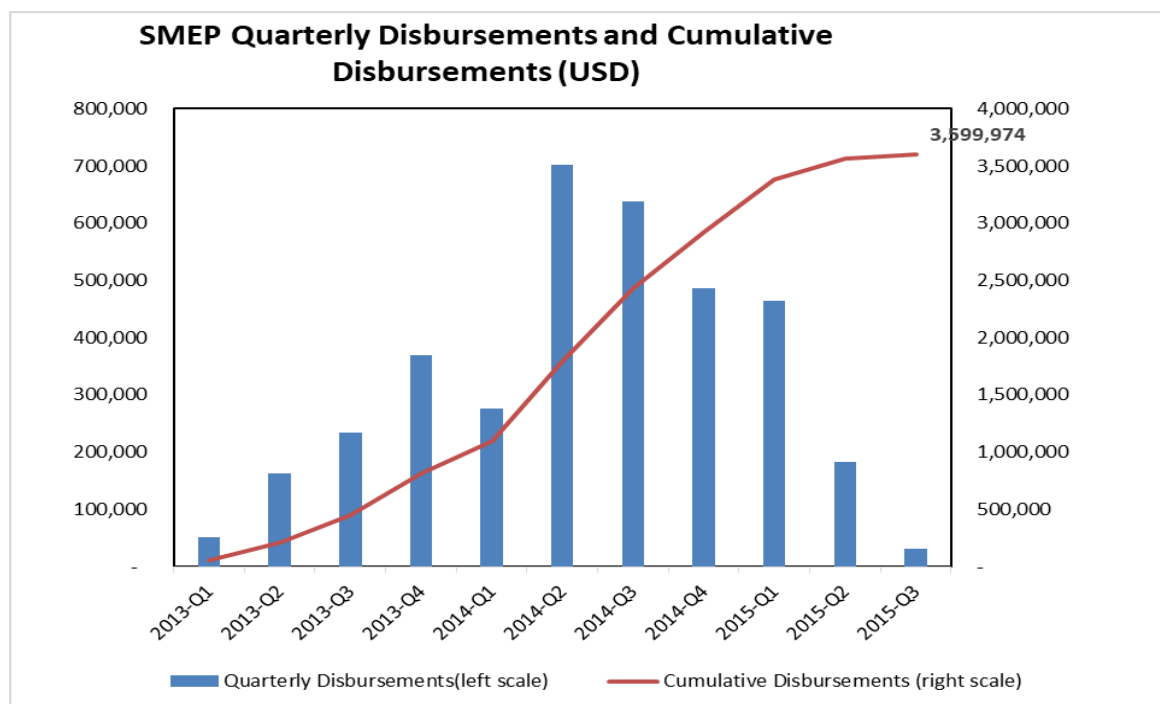
Tenors and interest rates

KWFT loans by tenor	Number of loans	Total disbursed (USD)	Average size
6 months or less	288	45,153	157
7-11 months	232	51,222	221
12 months	20,837	4,640,128	223
13-24 months	208	71,165	342
25 months or more	1	13,937	13,937
Total	21,566	4,821,605	224

All loans were offered at an interest rate of 22%.

C. SMEP utilisation of the guarantee facility

SMEP placed 3.6M USD of agricultural loans under the guarantee during 2013-2015, resulting in 90% utilisation of the facility. This was the maximum allowed, as SMEP did not book any clean energy loans under the facility.



SMEP loans by size (USD)	Number of loans	Total disbursed (USD)
Less than 100	222	21,017
100-199	2,840	534,721
200-499	2,561	971,299
500-999	1,321	1,026,428
1000-4999	525	914,394
5000 or more	12	132,116
Total	7,481	3,599,974

The average loan size was 481 USD.

SMEP loans by tenor (months)	Number of loans	Total disbursed (USD)
3-6 months	0	
7-12 months	6,895	2,656,651
13-24 months	568	815,122
25 months or longer	18	128,201
Total	7,481	3,599,974

Almost all loans had a tenor of 12 months and an interest rate of 20% p.a. A small number of loans were booked for 364 days.

SMEP loans by interest rate charged	Number of loans	Total disbursed (USD)
18% or less	8	21,002
20%	7,357	3,350,994
22-25%	116	227,977
More than 25%	-	-
Total	7,481	3,599,974

SMEP loans by collateral to loan cover ratio	Number of loans	Total disbursed (USD)
0 - 50 %	637	657,494
51 - 100%	1,146	630,239
101 - 150%	3,548	1,584,010
151 - 200%	599	317,253
More than 200%	1,551	410,978
Total	7,481	3,599,974

One-third of SMEP loans had 100% or less of collateral cover.

SMEP loans by gender of borrower	Number of loans	Pct of loans	Total disbursed (USD)	Pct of disbursements
Female	5,008.00	67%	2,255,623	63%
Male	2,473.00	33%	1,344,351	37%
Total	7,481.00	100%	3,599,974	100%

Two-thirds of the SMEP loan takers were women.

SMEP loans by sector of borrower business	Number of loans	Total disbursed (USD)
Crop farming	124	35,313
Cereals farming	2,193	946,149
Maize farming	74	76,563
Horticulture, vegetables	835	405,328
Fruit farming	75	23,723
Coffee or tea farming	35	15,800
Sisal farming	6	2,721
Sugar cane	10	2,864
Mixed farming	171	81,852
Dairy farming	1,099	496,129
Poultry farming	516	304,146
Livestock, beef, pork	140	59,475
Butchery	3	4,773
Green grocer, fruit vendo	169	73,079
Grocery	209	78,002
Cereal/ feed vendor	111	60,621
Livestock seller	5	2,578
Other, and misspelled	1,706	930,859
Total	7,481	3,599,974

Borrowers were engaged in a wide variety of agricultural activities, with cereal and dairy farming the most common.

SMEP loans by purpose/loan product	Number of loans	Total disbursed (USD)
Dhahabu	138	315,386
Group Working Capital	684	693,828
Inuka 1 Loan	2,927	791,326
Inuka 2 loan	1,887	735,859
Kilimo Biashara	733	418,351
Madola	316	243,880
Mavuno	796	401,343
Total	7,481	3,599,974

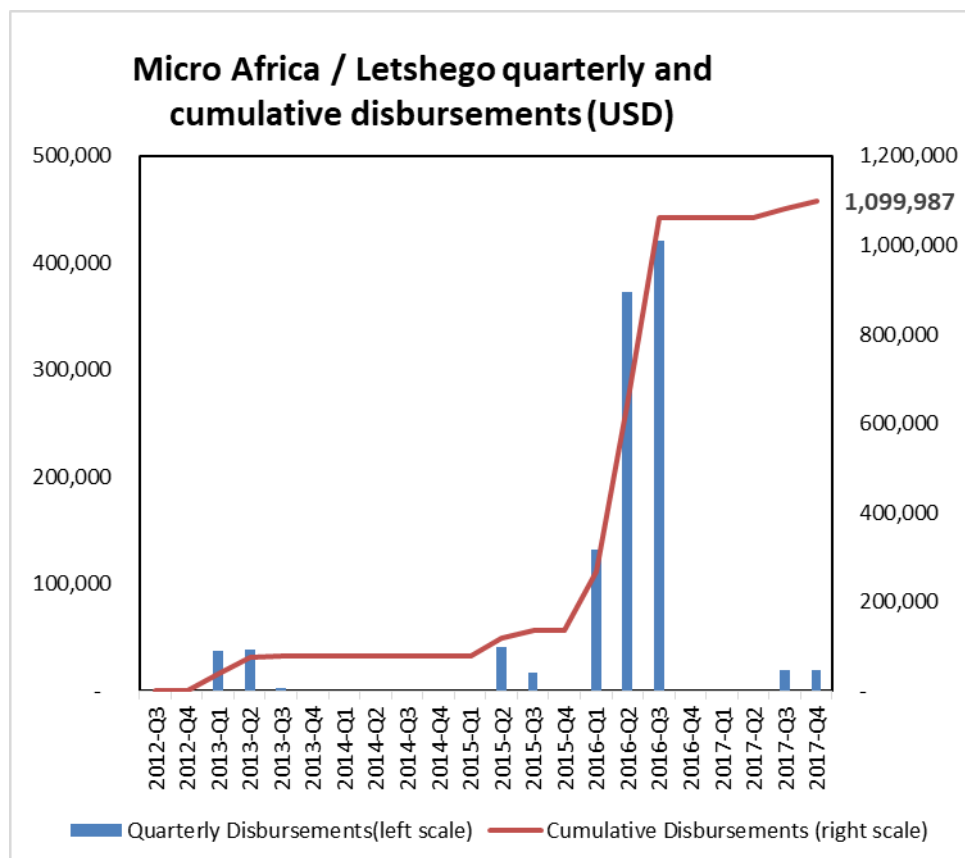
ANNEX 6 – LOAN GUARANTEE PORTFOLIO ANALYSIS

SMEP loans by county	Number of loans	Total disbursed (USD)
Bungoma	267	113,327
Busia	216	67,055
Embu	637	261,547
Isiolo	60	29,512
Kajiado	377	204,302
Kakamega	102	60,573
Kericho	37	20,811
Kiambu	234	174,311
Kilifi	349	157,776
Kirinyaga	290	159,012
Kisii	32	9,919
Kisumu	35	24,926
Kitui	249	91,960
Kwale	25	11,313
Laikipia	91	42,530
Makueni	569	246,426
Meru	325	136,936
Migori	172	55,024
Mombasa	139	108,353
Muranga	105	27,160
Nairobi	105	117,184
Nakuru	134	109,680
Narok	78	42,387
Nyandarua	1	1,909
Nyeri	733	305,823
Siaya	459	100,570
Taita Taveta	1,165	615,804
Tharaka Nithi	112	71,742
Tranzoia	110	47,489
Uasin Gishu	273	184,614
Total	7,481	3,599,974

SMEP borrowers were distributed widely, in more than half of the counties nationwide.

D. Micro Africa / Letshego utilisation of the facility

This analysis is based on a combination of several smaller datasets provided by DFC. The number of loans is slightly higher and the total amounts slightly lower than those reported directly from the Credit Management System, but none of the differences are material for the purpose of this analysis.



Micro Africa disbursed a small number of loans under the facility in 2013. After the acquisition by Letshego, several years passed before additional loans were placed under the facility, in 2015-2017. The cumulative utilisation of the facility was less than 60%.

Letshego loans by size (USD)	Number of loans	Total disbursed (USD)
Less than 100	8	677
100-199	85	13,140
200-499	161	52,912
500-999	784	600,615
1000-4999	234	399,791
5000 or more	5	46,181
Total	1,277	1,113,315

ANNEX 6 – LOAN GUARANTEE PORTFOLIO ANALYSIS

Letshego loans by tenor	Number of loans	Total disbursed (USD)
0-2 months	5	2,395
3-6 months	26	9,919
7-12 months	1,109	840,431
13-24 months	136	238,796
25 months or longer	1	21,775
Total	1,277	1,113,315

The datasets include a small number of loans with tenor of less than 12 months. It is possible that most of these were later eliminated from the formal records of the guarantee facility.

Letshego loans by interest rate charged	Number of loans	Total disbursed (USD)
29-30%	5	4,001
34-36%	856	866,816
39%	309	190,070
Not available	107	52,429
Total	1,277	1,113,315

All Letshego loans were marked with collateral cover at 120% of the loan value.

Letshego loans by gender of borrower	Number of loans	Pct of loans	Total disbursed (USD)	Pct of disbursements
Female	754	59%	624,568	56%
Male	496	39%	473,531	43%
Not available	27	2%	15,217	1%
Total	1,277	100%	1,113,315	100%

More than half of the loans and disbursements were made to women.

Letshego loans by status of borrower	Number of loans	Total disbursements (USD)	Average size (USD)
First time borrower	99	66,419	671
Repeat borrower	1,072	994,700	928
Not available	106	52,196	492
Total	1,277	1,113,315	872

*first time borrowers exclusively for loans disbursed in 2013
in subsequent years no borrowers were marked "first time"

Letshego loans by region	Number of loans	Total disbursements (USD)	Average size (USD)
Central	219	191,839	876
Coast	5	4,387	877
Eastern	339	267,174	788
Nairobi Area	237	267,424	1,128
Nyanza	38	30,099	792
Rift Valley	332	299,538	902
Western	-	-	
Not available	107	52,853	494
Total	1,277	1,113,315	872

There were large numbers of Letshego borrowers in all regions except Western and Coast regions.

Letshego loans by sector of borrower	Number of loans	Total disbursements (USD)	Average size (USD)
Agriculture	1,150	1,032,355	898
Energy	50	42,092	842
Not available	77	38,868	505
Total	1,277	1,113,315	872

Letshego loans by stated purpose of the loan	Number of loans	Total disbursements (USD)	Average size (USD)
Agricultural, unspecified	1,056	982,658	931
Install biogas infrastructure	53	44,830	846
Asset financing	5	4,001	800
Other crop and livestock	163	81,826	502
Total	1,277	1,113,315	872

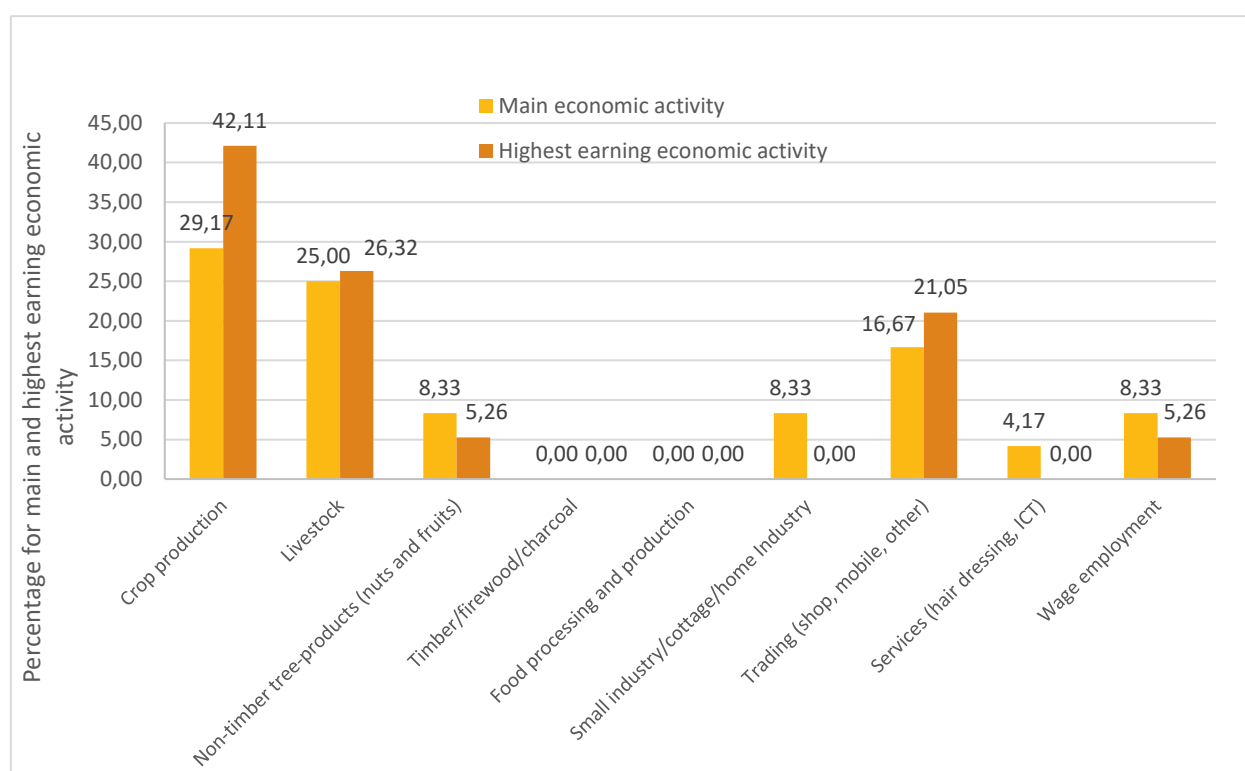
The majority of loans were for agricultural purposes. A small number of loans were to finance biogas infrastructure.

Annex 7 – Survey Result of Loan Takers at Letshego

Beneficiaries main and highest earning economic activities

Letshego beneficiaries were mainly involved in crop production (29.17%) which also happened to be the highest income generating category (42.11%). Livestock and dairy farming were also important, followed by trade activities. The figure below shows that for all these three activities, income generation was relatively high, which indicates that the investments (and probably loans taken) have contributed to the most profitable income generating activities. This was particularly so for crop-production, followed by trading and livestock. Investing in non-timber tree products, wage employment, home industries and services happened, though these activities were relatively less profitable. Letshego clients did not take loans for wood production and for food processing.

Beneficiaries main and highest earning economic activity (% , n=15)



Loan applications, approval, and repayments

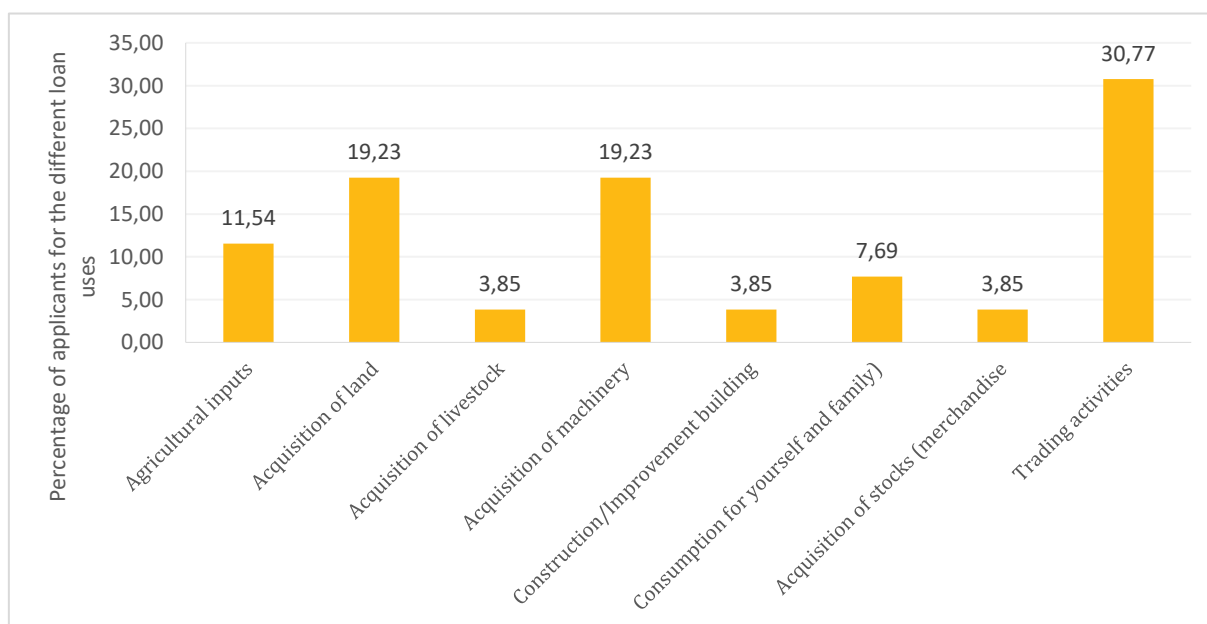
Beneficiaries generally took multiple loans ranging from 1 to 10 per clients. Those who applied for loans twice were generally more successful in getting their loans approved. This indicates that a number of loan applicants have only applied once and then tried other means or providers for getting finance. Others applied multiple times, but were repeatedly unsuccessful, indicating a low capacity to prepare good loan proposals. All loan applications that were approved were repaid. This could be attributed to rigorous due diligence processes for the applicants by the financial institution.

Number of loans applied	% Applications	% Approvals	% Repayment
One	26.67	6.67	6.67
Two	26.67	20.00	20.00
Three	13.33	6.67	6.67
Four	20.00	13.33	13.33
Six	6.67	6.67	6.67
Ten	6.67	6.67	6.67

Specific use of loans received

The beneficiaries applied loans for different purposes. Most respondents have used their loans for trading activities (30.77%). Fewer loans were used for acquisition of machinery and land. And not many loan takers took loans to acquire agricultural inputs or livestock, construction. This is an indication that most of the Letshego clients used their loans to improve access to markets.

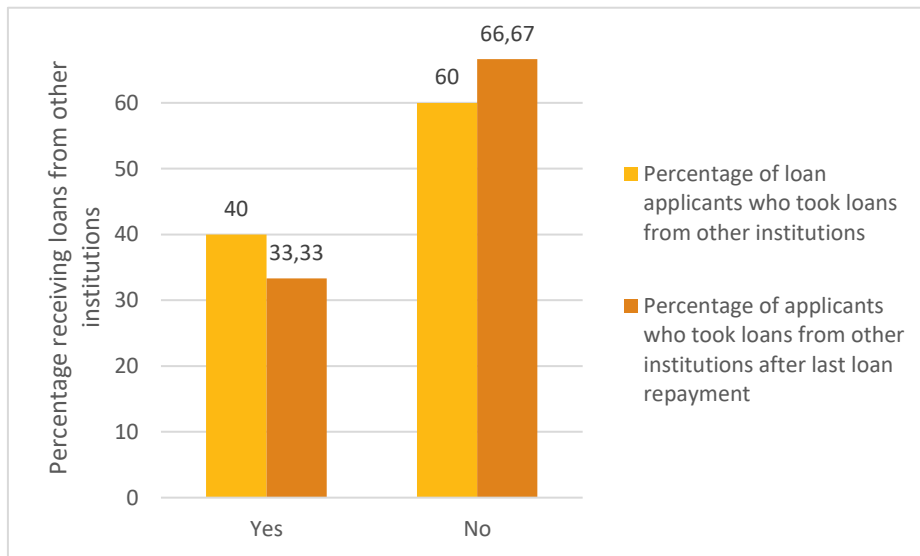
Use of loans received (n=15)



Loans from other institutions

Letshego beneficiaries also took loans from other institutions. Some loan takers mentioned that they had also received loans at the Equity Bank, KWFT and from mobile banking. Furthermore, a considerable number (33%) of the beneficiaries took new loans at other banks after repaying their loans. This might be related with the change in Letshego's lending strategy that moved away from agriculture. Therefore, some of the agricultural clients had to look for other providers of loans.

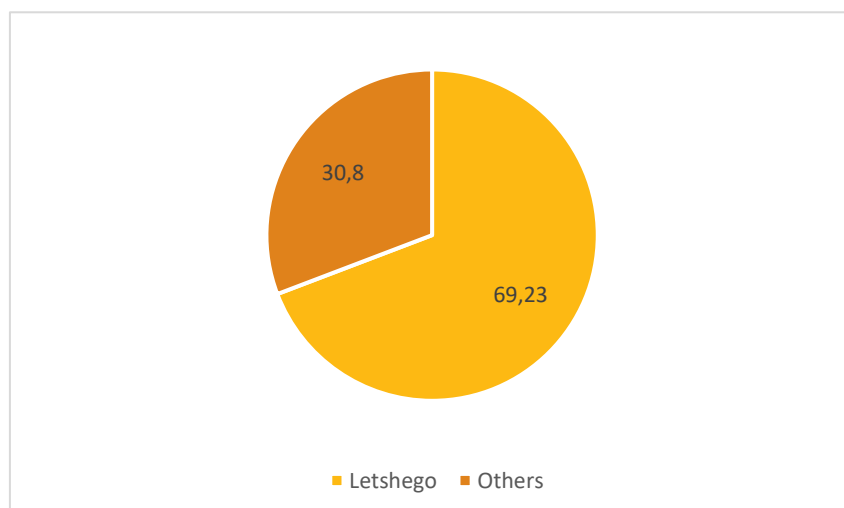
Loans from other institutions (% , n=15)



Satisfaction with loan providers

The majority of the Letshego beneficiaries were satisfied with the services they got. The beneficiaries indicated that they were generally happy with short loan processing period, friendly repayment terms and the fact that they could successfully secure loans at Letshego, compared to other institutions. A significant number of loan takers (30.8%) mentioned that have also been satisfied with services from other financial institutions, indicating that when moving to other service providers, these other institutions also generally provide good quality of services.

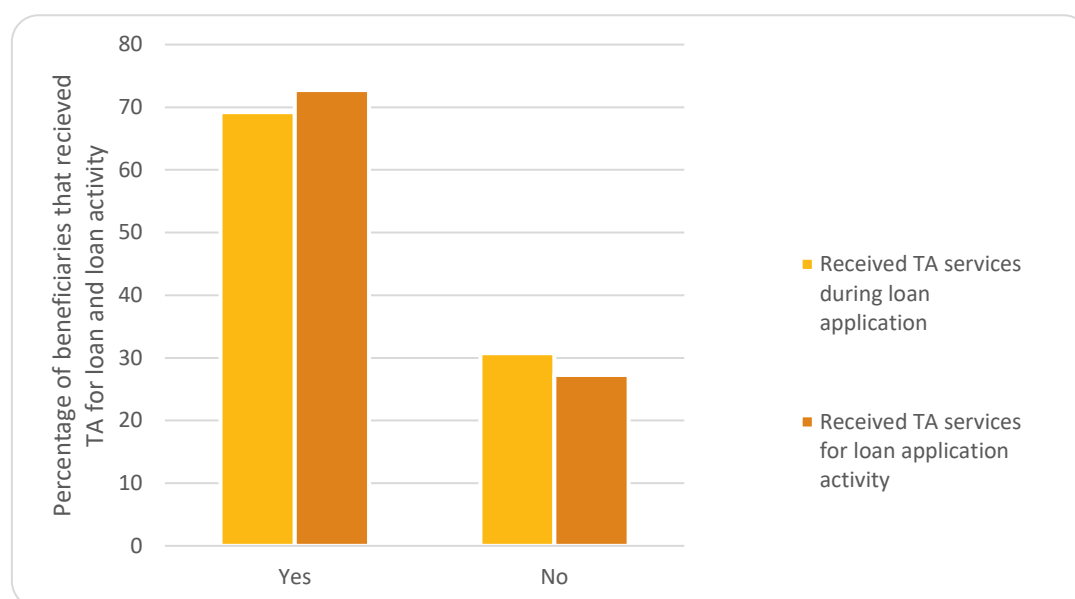
Satisfaction with loan providers (% , n=15)



Technical assistance received

The Majority of the beneficiaries received technical assistance during loan application and also support in implementing the loan activity. These figures indicate that Letshego has followed up its clients also during the loan application. These support- and follow up services are critical for loan applicants and have contributed to the successful loan repayments.

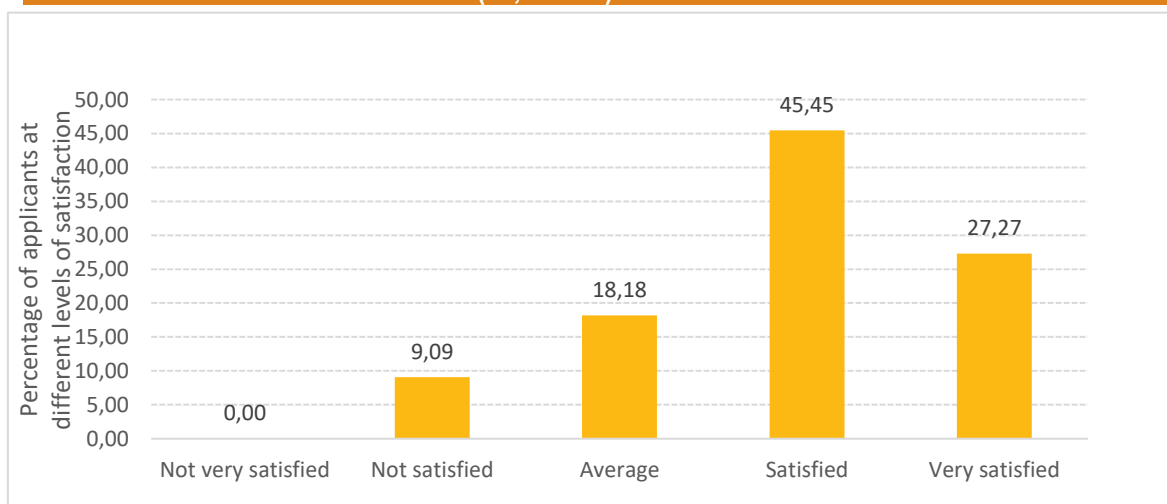
TA services during loan application and for loan activity (% , n=15)



Satisfaction with technical assistance

The beneficiaries that received the service were generally satisfied with these services. This underscores the importance and the need to ensure that such services enable the loan recipients to effectively utilise their loans and realise benefits enhancing their repayment ability and desire for subsequent borrowing. The satisfaction rates expressed in the figure below, show that Letshego has generally provided good quality of TA services to its clients.

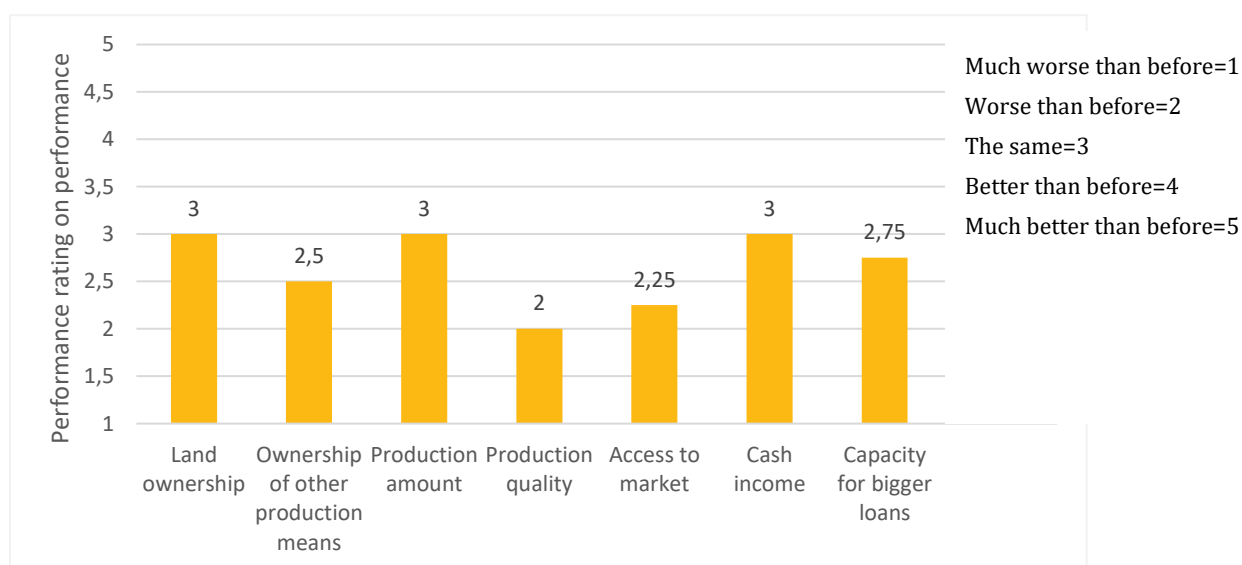
Satisfaction with TA services (% , n=15)



Impact of loan applications

Although the loans were advanced with the aim of ensuring that loan recipients improved their performance and profitability of their different undertakings, loan takers indicate that their financial situation generally has not improved significantly after the application and repayment of their loans. While in general land ownership, production amount and cash income levels have remained the same in the period after taking loans, the respondents are more critical on other aspects. They indicate that they have not been able to improve the quality of their products and to acquire better market access. They also indicate that it has been more challenging to invest and maintain their means of production. These results indicate that clientele, after the loan taking experience, might have been successful in the specific activity for which the loan was used, but in general their income and market access positions have not improved. This might indicate that access to loans even with technical assistance for implementing the loan activity is not enough to alleviate the challenging situation in which most loan takers find themselves.

Rating on improvement of different performance indicators (n=15)



Conclusion

While the loan takers of Letshego generally express satisfaction with the loans acquired from Letshego and the services received, it seems that many continue to struggle to improve the quality of their produce and thus to improve their market access. This is an indicator that for loans to have impact more dedicated support from BDS providers is required to enable the loan takers to effectively upgrade the capacities of their companies to invest in production quality improvements as the most important bottleneck in achieving market access.

The respondent group to this survey was small and only from one institution (from KCB not sufficient responses were obtained to allow further processing and analysis). This means that impact research of results of loan taking, in the period after loan taking is important and further research is recommendable. For this purpose, more specific

monitoring and evaluation tools and mechanisms are required. This will be taken up in the conclusions and recommendations of this evaluation.

Recommendations made by loan takers for improvements in loan provision and related services for MSMEs in agricultural value chains

The survey respondents recommended the following:

- More and better quality of training and information dissemination on loans;
- Training and capacity development in financial management and business operations;
- Reduction of interest rates;
- More flexibility in loan products and services; e.g. in providing of smaller loans to small enterprises, shorter loan processing periods, and simplification of loan application processes.

Annex 8 – Change Stories of Individual Loan Takers

KCB

Loan taker 1

By Kenyan standards, he is a large-scale dairy farmer and breeder with 140 dairy animals on his farm which he manages supported by 12 permanent employees and 4 casuals among them students on internship. He began his dairy farm in 2011 and bought his semen from USA and the Netherlands. On average, the dairy cows were producing 35 to 53 litres of milk a day with growth potential of 25% through improved efficiency. As such, BIDCO animal feed department was working with him on customised feed formulation that would increase his milk yield per animal. He was also hoping that with time he would offer demand driven farmer trainings on specific topics. He begun banking with KCB 3 years back. In 2019, he took his first and current loan of 11.5M KES which he utilised to construct a milking parlour and improve the dairy cows' housing unit. The loan processing fees amounted to Ksh. 800,000 which he noted was very high. At the time, he was negotiating with KCB for a loan to purchase a tractor to help mechanise animal feeding. He termed bank loans to be expensive and explained that farmers preferred loans from SACCOs. Due to the high costs of loans and the size of his business, alternative sources of credit were something he was eager to explore. Among them was equity and venture capital although the concepts were not common in Kenya unlike in other developed countries. He emphasised the need for banks to establish business relationships with their customers including supporting their clients with business viability assessments and other business development services other than just advancing credit. He recommended: farmers training which would enhance their financial management skills and thus grow their businesses; adjustment of loans repayment periods depending on the nature investment; and customisation of agricultural products due to unique nature of agricultural investments.

Loan taker 2

They are KCB clients for over 10 years involved in dairy and crop production and transport businesses. They began dairy farming in 2017 after they learned from a friend that it was profitable. Unfortunately, from their herd of 30, only 9 were remaining as they had lost 10 to foot and mouth disease and sold some since their productivity had declined. To grow their dairy production again, they had accessed loan of 300,000 KES which they were servicing and had used it to improve the cow shed and purchase dairy cows. To avert the loss in future, they had insured six of their animals at 3% of their value, estimated at Ksh. 100,000 through KCB. Milk sales were through Githunguri Dairy Cooperative,

which was purchasing milk at 41 KES per litre. The cooperative was also supplying animal feeds to them, through a check-off system from milk sales. Other than foot and mouth disease, consistent feed quality was also identified as a major challenge. The inconsistent feed quality emerged during Covid-19 as some of the factories supplying the cooperative with animal feeds had closed down. Although they indicated interest in dairy cow production trainings, they had received none. Apart from KCB, they were also banking with K-Unity, through which milk payments were made. They recommended unsecured loans and additional repayment period for the loan facility.

Loan taker 3

She is a resilient dairy farmer and also runs a stationery business. She was restocking her dairy cows having lost 8 animals to foot and mouth disease in April which was after her insurance had lapsed and had not renewed it. Other challenges included water and fodder unavailability and Covid-19 which had affected her businesses. Her highest producer was producing 35 litres of milk a day and she was hoping to increase her dairy herd from 16 to 40 with time. She had been banking with KCB for 10 years and was at the time servicing a loan of 1.8M KES which she had used to construct a dairy animal housing unit and purchase dairy cows. Before the current loan, she had approached KCB to help her finance land purchase where she had intended to expand her animal production business as the farm was near her residence and had good animal structures. The land was being sold at 14M KES and KCB could only finance 7M KES. She therefore approached Family Bank to top up the amount but could only finance 1M KES and thus was not able to acquire the piece of land.

Loan taker 4

He is a large-scale wheat, barley and Irish potato and livestock producer with 500 acres of land, privately owned and under lease tenure. In order of importance, Irish potatoes topped the list followed by barley, livestock and wheat. He was selling barley to EABL at 3,300 KES per 90kg bag, wheat to Mombasa millers at 3,200 KES per 90kg bag and Irish potatoes to traders at 900 KES for 50kg bag. He had plans to diversify into irrigated horticulture production (onions and tomatoes) as they fetched a better price by reducing acreage under wheat. Some of the challenges he was facing were: unpredictable weather which in some instances would result in total crop failure or low yields; pests and diseases; wildlife crop damage especially the quelea bird which destroyed 2 acres of his wheat crop; poorly organised markets resulting in low produce prices; increase in agrochemical prices and inability to access markets during Covid-19 and; poor quality inputs. He was servicing his third loan with KCB amounting to 800,000 KES which he had used to buy farm inputs and lease land for crop production. He also planned to acquire another loan to mechanise his farm using the latest technology. He noted that the credit facilities were beneficial enabling him to practice and expand his farming business. Key bottleneck in accessing credit was delayed loan processing period for the first and second loan which forced him to sell some of his livestock to finance input purchases. Due to the delay, he planted late, and the crops did not perform well resulting in low yields. Other challenges were high interest rates, limited repayment period and exclusion of agricultural loans from flexible repayment terms during Covid-19 and yet farmers were equally affected. He recommended loan takers training and provision of weather and market information.

Loan taker 5

He grows wheat and maize on 250 acres of land. He was also rearing livestock, had rental businesses, and was planning to start poultry farming. He had taken two loans from KCB with the first one having been in 2020 and the current one amounting to 1M KES at an interest rate of 13% and repayable within 6 months. He also insured his crop farming at a cost of 80,000 KES. He highlighted some of the challenges he was facing in accessing credit to include delayed processing of up to one and a half months, collateral requirements, and high processing fee. He explained the unique characteristics of agriculture with production limited to seasons and thus called upon the banks to structure agriculture loans seasonally. Although he was also banking with other financial institutions, he preferred KCB due to their competitive interest rates. Without the loan services from KCB, he indicated that he would not have been able to access farm inputs and had plans to acquire another loan in future to purchase a ploughing tractor which would help him plough his land on time. Farming challenges experienced during Covid-19 were inability to access farm inputs especially ploughing services which he was outsourcing from outside the county and movement had been banned and, high costs of chemicals. Other challenges were unreliable rainfall, soil erosion and destruction of wheat by quelea-quelea birds lowering his yields and increasing cost of production due to control measures employed. It is unfortunate that he had not received training on production of the different crops he was growing on the farm. He noted that such trainings would be important as he would be able to manage his farm better. He recommended insurance financing, loan takers trainings and shorter loan processing period.

MICRO-FINANCE INSTITUTIONS (MFIS)

1. Letshego**Loan taker 1**

She was a beneficiary of a credit facility from Letshego. Her first loan was through a group which she used to purchase a water tank to harvest water for domestic use at an interest rate of 20%. She later took another loan amounting to 150,000 KES which she used to purchase an inventory of liquefied propane gas cylinders at an interest rate of 18%. She attributed the growth of her liquefied propane gas cylinder's business to the loan. The business was valued at 800,000 KES with an increase in monthly income from 20,000 KES to 50,000-60,000 KES. She indicated that, if she were to borrow again, she would enjoy a lower interest rate of 15% as a repeat client. However, she could not qualify since Letshego required land title deed or vehicle logbooks as collateral which she did not have.

Loan taker 2

As a repeat loan taker with Letshego, he had taken several loans with the institution over time. The initial loan was 30,000 KES which was accessed through a group. Later on, he borrowed a loan of 60,000 KES to finance purchase of a water tank to harvest rainwater for domestic use. Before then, the family relied on a nearby river for household water needs. With time, he increased his borrowing to 70,000 KES and took several loans of that amount which he used to buy small land parcels with coffee bushes. However, he

could not continue taking loans with Letshego as they had abandoned group lending which he was accessing loans through. He therefore moved to Premier Kenya MFI, where he accessed a loan of 135,000 KES at an interest rate of 22%. He was also accessing unsecured loans from Green Farmer MFI at an interest rate of 20% and utilised some of the funds for onward lending to his neighbours at a higher interest rate.

Loan taker 3

She had accessed several loans from Letshego. Among these was loan amounting to 42,000 KES which was used to purchase a water tank to harvest water for domestic use and 40,000 KES which she used to purchase a motorcycle which she would hire out and get rent payment of 300 KES per day. Recently, she acquired a loan of 30,000 KES which she used to purchase a dairy cow that was producing on average 6 litre of milk per day, sold at 90 KES locally. She noted that the loans had been beneficial as she is able to get milk for family consumption and used proceeds from her businesses to pay school fees for her children. Apart from accessing financial services from Letshego, she was also maintaining an account with KCB. She indicated willingness to continue accessing credit from Letshego.

Loan taker 4

She was accessing loan through a group from her former credit provider, Letshego. She accessed 20,000 KES in 2015 that was used to pay university school fees for her children and repaid the loan in 6 months. Later in 2017, she received another loan of 38,000 KES which she utilised to buy a water tank and repaid it in 12 months. Through the water tank investment, she was able to establish and irrigate a small vegetable kitchen garden for family consumption and would also sell some water to her neighbours at 20 KES per 20-liter container. She then accessed group loan from Women Enterprise Fund valued at 350,000 KES at no interest rate but with deductible loan fees. In 2020 she was able to receive another group loan of 40,000 KES payable over a year at 1,500 KES per month. She was involved in multiple farming activities including rearing dairy cows and poultry and grows maize, bananas, and macadamia. This was in addition to charcoal selling business. The returns from her multiple farming activities and other businesses were used to pay school fees for her two children. Apart from accessing financial services from Letshego, she maintained accounts with other financial institutions.

Loan taker 5

She had been accessing loan as an individual with Letshego since 2012. Her first loan amounted to 250,000 KES which was repayable within a year and was utilised to offset balance from a car purchase. In the subsequent year, she accessed another loan of 400,000 KES which she repaid within a year and used it to facilitate deposit for another car. The two vehicles were used for taxi business, although one had been sold owing to heightened competition from other taxi service providers thus decline in returns. Later in 2014, she took a loan of 37,000 KES which she repaid in six months and utilised it to purchase a water tank for domestic water consumption. By the time of the interview, she was in discussion with Letshego for another loan another loan as she could meet the

lender's collateral requirements of a car logbook. She hoped that Letshego could increase the repayment period to over one year for loans of over 200,000 KES.

2. KWFT

Loan taker 1

She is a village elder and a farmer who keeps livestock (cattle and sheep) and grows different crops including maize, beans and recently in 2019 vegetables. She spoke highly of KWFT since she begun banking with them in 2005. She attributed her family developments to the loans acquired from the institution. Her first loan with the bank was in 2005, amounting to 50,000 KES which she used to expand her clothes and vegetable businesses. She had since acquired other loans from KWFT that she used to build her house and business premises through the Nyumba smart product, bought a motorcycle for supplying vegetables to her customers, water tank and a solar panel for light the house. She was servicing a loan of 70,000 KES at an interest rate of 22% on a reducing balance which she had utilised in acquiring inputs for the current vegetable crop and in setting up an MPESA shop. She was supplying her vegetables to local hotels and traders and was making sales of 1,100 KES per day. She noted that the farming business was good as it earned her income. However, piped water supply was unreliable and had to look for alternative water sources to irrigate her vegetables, which was costly. Therefore, she was negotiating with KWFT for a bank loan to help her drill a borehole. She hoped to utilise the water not only for vegetable production but also irrigate her maize crop and sell them as green maize which would fetch better market price. She was receiving agricultural production trainings from the local extension officer who was also training six of her other neighbours. She was working closely with the local public extension officer who was training other neighbours to attest the usefulness of the trainings her crop was doing compared to other farmers who were not receiving trainings. The training services were complemented by the bank's agribusiness officers. She indicated satisfaction with the services received from KWFT including the short loan processing period of about 3 days and good client relationship. As such, she had no intention of sourcing financial services from any other institution and had referred other people for financial services from KWFT.

Loan taker 2

She is a horticulture farmer who had been growing bulb onions until 2020 when she and the husband with advice from KWF bank manager ventured into tomatoes farming and realised it had good returns. She was therefore replacing the bean crop with tomatoes and had ordered 4,000 tomatoes seedlings. As tomato production is labour intensive and required regular supply to the market, she had staggered her production, with her crop being at different stages of growth. To support with farm activities, she had engaged four full time workers. As the horticulture business was giving her good returns, she had introduced her daughter who she noted was doing well. However, Covid-19 had devastating effects on her business as she lost market for her tomatoes and milk, but the situation was improving and business were resuming back to normal. She had been banking with KWFT since 2004 and had never accessed credit facilities from other banks since then. She explained that credit access was through groups as groups supported in

appraising the loans. This helped in averting default as the approval process was based on a members' ability to repay based on the group's assessment. As the chair of the group, she had trained her group members as well as other groups in other locations on financial literacy. At the time, she was servicing a loan of 400,000 KES since October 2020. She used the loan to stock her garment business, bought a water pump, pipes, and prepared the land under tomatoes. She had also benefited from Nyumba smart and a water tank financing while other members of her group had acquired jiko koa and water purifiers. She noted that KWFT products were women friendly as they reduce burden on women. She also indicated that loan processing period had significantly reduced from about a one and a half month to a day. However, she was careful to caution that the processing period depended on the nature of the loan and the customer having met all the bank requirements. Collateral for the loan was group co-guarantee and other household items. Once a customer satisfied the bank requirements, the bank would then appraise the venture and advise the customer accordingly. Apart from the KWFT, she had not received training from any other source.

Loan taker 3

She is a poultry farmer but also keeps dairy animals and grows tomatoes, cabbages, kales, maize, banana, and French beans. Her main source of income was poultry production. She begun with only 50 chicks to 600 improved kienyeji chicken at the time. On average she was getting 3 trays of eggs sold locally at 340 KES each. She was also selling cocks for meat at 1,000 KES. She had been banking with KWFT since 2008 and had since taken loans with the institution. She used loans from the KWFT to pay school fees, buy household items and chicken production. At the time she was servicing a loan of 150,000 KES which she used to buy chicks, feeds, and household items. During Covid-19, her husband added more chicks and they also diversified to horticulture production. Some of the challenges they were facing in their farming business were lack of means of transport to deliver produce to the market and high cost of farm inputs. They were hopeful that through KWFT they would acquire a loan to purchase a truck. The family was also banking with ABSA and Equity Bank. They recommended networking forums for KWFT clients; incentives for long serving members; and farmer trainings which they had not received.

Loan taker 4

She had been banking with KWFT since 1988 during which she applied and got her first loan of 20,000 KES which she used to buy a sewing machine. Since then, she had taken many other small business loans to finance business expansion, build two business premises, finance education for her 5 children, land purchase and farming. She had also benefited with water tank financing and Nyumba smart product. She noted that during her early years with KWFT, women were very skeptical about accessing credit facilities from financial institutions. The banks required land titles as security, but KWFT allowed women to access credit using household items as collateral. She sensitised the community, and they formed a group that at the time had 12 active members. As at the time of the interview, she had applied for a loan to finance purchase of fertilizer, water pump, water tank and irrigation pipes. She hoped to increase land under tomato production which she indicated had good returns. Her other farming ventures were production of pigeon peas,

kales and watermelons on a 5-acre piece of land. She was contented with services from KWFT and indicated that loan processing period was short and the relationship between clients and the bank officials was good. She had benefited from agricultural trainings from the county government, and she was a Trainer of Trainer in her locality.

3. SMEP

Loan taker 1

He owns 6 dairy animals which he milks with an average yield of 20 litre per cow which he sells locally at a cost of 60 KES per litre. Through loans obtained from SMEP, he was able to acquire more dairy animals from 1 to 6, bought a pickup truck for fodder and feed transportation and bought a plot where he was rearing pigs. He also had plans to buy land and expand his dairy farm. Additionally, as at the time of the interview, he had applied for a loan to purchase animal feeds and build a better pigsty. He expressed his satisfaction with SMEP credit services among them the short processing period and other friendly terms including trainings on financial literacy which complemented the trainings received from the public extension officers from the county on animal production. He also had plans to insure his dairy animals through SMEP having lost 5 of them in 2019 to foot and mouth disease. He attributed his success in agribusiness to own farm management with support from the family.

Loan taker 2

She is a poultry farmer, who had been severely affected by the Covid-19 pandemic. Before Covid-19, they would hatch an estimated 4,000 chicks per month, however, this had reduced drastically to none, but the business was picking up. Due to Covid-19 she had diversified to rearing ducks and guinea fowls which had ready market and fetched better price than chicken. She had also bought a brick machine used to make bricks for sale and was also leasing out the machine. Through her husband, they had obtained two loans from SMEP. The first one was used to fabricate a hatchery while the second one was used to regularise power supply with KPLC, repair the brick machine and poultry production. She noted that the hatchery business was earning her high income as she would make 60 KES per chick hatched. She had participated in trainings through the ministry of agriculture on different aspects including poultry keeping. Although she was not the one directly engaged with SMEP on credit services, it was the husband, she indicated that SMEP had good customer relations with clients and were ready to renegotiate repayment terms in case of payment difficulties.

Loan taker 3

He is a young businessman, who owns a chain of businesses including liquefied propane gas cylinder business, electronic shop and two hotels run under the Smart Choice Company. He is an ambitious young man whose story is inspiring having dropped from school at primary school level (class five) and begun menial jobs including hawking groundnuts. From the hawking business, he was able to establish a French Fries selling point by the roadside which enabled him acquire capital to establish the other businesses. He had plans to expand his hotel business by setting up a big hotel in the nearby town of

Kenol. He intended to finance it through disposing off his assets and was not keen to consider co-investment. He had so far obtained 3 loans from SMEP and had completed paying the last one in the month May. Although his businesses were affected by Covid-19 and had to close for 3 months and his loan was in arrears for the period, he was able to resume business fully and repaid his loan in good time. He indicated that he was able to pay his loans within shorter periods than those stipulated saving on the interest. He was happy with the services received from SMEP compared to other financial institutions. He recommended that SMEP ease lending terms for long serving clients who had high daily turnovers.

Annex 9 – Stakeholder mapping of providers of financial services for SMEs and households in Kenya

This annex contains an inventory of financial service providers active on the Kenyan market, with a focus on those providers that (in 2020) provide loans to households and SMEs at the county level in Kenya and mainly in the agricultural sector. Therefore, this list does not include all known finance providers active in Kenya.

Of the loan guarantee taking institutes in de Sida-USAID co-guarantee arrangement, Letshego is not included in this list, as it has stopped lending to the agriculture sector in Kenya. The other loan-guarantee taking partners are included in the list below

This inventory is based on research and inventories that were made by ASDSP and by The African Agro-Academy. These organisations have more detailed data on these financial service providers, but due to confidentiality of data cannot be further disclosed in this report.

For further in-depth information, the reader is referred to ASDSP and the African Agro-Academy.

List of Financial Institutions based or headquartered in Kenya that are known to be currently providing finance to the agricultural sector in Kenya

Commercial Banks (10)
Bank of Africa
Commercial Bank of Africa
Cooperative Bank of Kenya
Equity Bank
Family Bank
Industrial Development Bank
KCB M-PESA
Kenya Commercial Bank
National Bank
Transnational Bank
MFIs (Non-Bank licensed financing provider) (17)
Century Microfinance Bank
ECLOF Kenya
Farm Capital Africa Ltd
Faulu Microfinance Bank Limited

Greenland Fedha Limited (GFL)
Industrial & Commercial Development Corporation (ICDC)
Jitegemea Credit Scheme
Juhudi Kilimo
Kenya Climate Ventures (KCV)
Kenya Women Microfinance Bank
Musoni Microfinance Ltd
NetBizImpact
Rafiki Microfinance Bank
SMEP Microfinance Bank
Sumac Microfinance Bank
U & I Microfinance Bank
Kenya Industrial Estates
Momentum Credit
Government Development Finance Initiatives (9)
Agriculture Finance Corporation
AGRIFI Kenya Challenge Fund
Commodities Fund
The Kenya Planters Cooperative Union (KPCU)
Women Enterprise Fund
Youth Enterprise Development Fund
National Funds/Facilities with international funding
Agriculture Enterprise Challenge Fund
Aceli Africa
Mobile Network Operators, providing finance (2)
Safaricom
Equitel

Source: this list was developed based on information provided by the African Agro-Academy, July 2021

List of international organisations that are currently providing finance to the agricultural sector in Kenya

Type of Finance service provider	Country of HQ
Providers of Micro-Finance and Investment funds (7)	
Root Capital	Costa Rica multinational
Finance in motion	Germany
Lendahand	Netherlands
Oiko Credit	Netherlands
Triodos Investment Management	Netherlands
Responsability	Switzerland
Branch	USA

Banks and Development Finance Institutions	
AGRI3	UNEP (UN) and Rabobank (Netherlands)
The Collaborative for Frontier Finance	Multinational
Rabobank	Netherlands
Donor supported funds or programme	
IFAD	UN
IDH	Netherlands
Companies that provide finance with BDS services	
Alterfin	Belgium
GroFin	South Africa
AgDevCo	UK
Accion	USA
GreenTec Capital Partners	Germany
Not-for profit / Philanthropic Funds and initiatives providing finance	
Kiva	USA
Acumen	USA
Global Partnerships	USA

Source: this list was developed based on information provided by the African Agro-Academy, July 2021

List of MFIs that are active at the county-level

County	Micro finance institution
Baringo	KWFT, Pamoja Development Organisation, Jiweze Micro finance
Bungoma	SMEP, KWFT, Faulu, Centum, Premier Credit, Juhudi Kilimo, Platinum
Busia	Hand in Hand EA, AFC
Bomet	Juhudi Kilimo, Kimbilia Daima Sacco, Patnas Sacco
Elgeyo Marakwet	Faulu Kenya, KWFT and Juhudi Kilimo
Embu	Nawiri SACCO, Daima SACCO, County SACCO
Garissa	-
Homabay	Great Wangochieng Community Bank, Homabay Farmers Community Bank, Juhudi Kilimo
Isiolo	-
Kakamega	Kakamega County MFI Corporation, Kenya ECLOF, SMEP, Faulu, Rafod MFI
Kajiado	Asa Kenya, Bidii credit, Unaitas, Bingwa, OLLIN, KWFT
Kiambu	Tai SACCO, Faith based SACCOs, dairy societies
Kericho	Imarisha SACCO, Kenya Highlands SACCO, Juhudi Kilimo
Kilifi	Imarika, Yehu, KWFT
Kirinyaga	Bingwa Sacco, Fortune, Biashara Kilimo, Nufaika, Ollins, BMAS
Kitui	Universal Traders SACCO, KWFT, Financial Services Association
Kisumu	Metropolitan National Sacco
Kisii	Wakenya Pamoja SACCO, Juhudi Kilimo. KWFT
Kwale	YEHU, KREP, KWFT

Lamu	KWFT
Laikipia	Unison SACCO, Taifa SACCO, Nyala SACCO, Siraji
Machakos	Machakos, Universal Traders SACCO and KWFT
Makueni	Universal Traders SACCO, KWFT, Juhudi Kilimo
Mandera	-
Meru	Capital SACCO, Yetu SACCO, Chai SACCO, Times U SACCO, KWFT
Migori	Musoni, SMEP, KWFT
Mombasa	-
Murang'a	AMICA, UNAITAS, KWFT
Marsabit	KWFT, Trans nation SACCO
Nairobi	Faulu Kenya, KWFT and Caritas
Nakuru	Unaitas, Rafiki, KWFT, Tower SACCO
Nandi	Juhudi Kilimo, Vision Fund, ECLOF, KWFT
Narok	Faulu, KWFT, Tala micro finance, SACCOs
Nyandarua	Tower SACCO, Muki SACCO, Nyala SACCO KWFT
Nyamira	Juhudi Kilimo, KWFT, Vision point
Nyeri	Faulu Kenya, KWFT
Samburu	Supa Sacco, Tower SACCO
Siaya	Step and Fly, ASA, Bora Sacco, Seed Sacco, Got Agulu
Taita Taveta	Qwetu SACCO, SMEP, KWFT
Tana river	-
Tharaka Nithi	Southern SACCO, Thananai SACCO, Centenary SACCO, KWFT
Trans Nzoia	Kilimo Juhudi, Rafiki, KWFT
Turkana	KWFT and Biashara Fund
Uasin Gishu	Kilimo Juhudi, KWFT, Faulu,
Vihiga	Juhudi Kilimo, Step and Fly, Rafiki
Wajir	-
West Pokot	Faulu Kenya, KWFT

Source: overview provided by ASDSP, July 2021

Annex 10 – Evaluation Approach and Methodology

OVERALL APPROACH

The approach and methodology of this evaluation was around the Evaluation Questions and other key issues raised in the ToR. The overall approach is based on the following pillars:

1. **Use of mixed methods:** mixed methods are important because many of the evaluation questions cannot be responded using quantitative or qualitative methods only. Through the use of mixed methods, more insight was obtained in process and governance aspects and contribution of the guarantee interventions to effects at the level of ultimate target groups;
2. **Participatory approach:** participation of implementing partners and direct stakeholders is important at all stages of the evaluation process, to ensure that evaluation process can minimise the burden on the stakeholders involved and investigate needs and demands to increase the usability of the evaluation to different stakeholder groups;
3. **Balancing accountability and learning:** This evaluation has applied a backward-looking perspective to ensure that this evaluation can assess performance and accountability of the project and loan portfolio guarantee partners. At the same time a forward-looking perspective was applied to generate lessons and insights that are relevant for Sida's and the Swedish Embassy in Nairobi's future strategy and planning and possible design of future projects and facilities in finance provision;
4. **Iterative process:** After each step in the evaluation process the evaluation team has checked with the direct stakeholders if the process thus-far has generated sufficient insights to be able to respond the evaluation questions. The possibility for review and re-planning was in-built in the evaluation exercise. This was done at the end of the inception phase with an inception report and if and when needed during the research phase in consultation with the Swedish Embassy in Nairobi;
5. **Multi-disciplinary teamwork:** The evaluation combined specific expertise on finance and loan management with expertise on social economic development and on institutional arrangements and multi-stakeholder cooperation and with expertise in agricultural development (shared among the four core team members);
6. **Gender sensitive:** the team is gender sensitive and has searched for specific answers of different target-groups and genders (disaggregated data) in the guarantee facilities. The evaluation team is gender-balanced with 2 male and 2 female experts.

METHODS AND TOOLS FOR DATA COLLECTION

This evaluation team has combined the following research methods and tools to ensure a balance of qualitative and quantitative analysis of the evaluation criteria and research questions.

During Data Collection

- Briefing workshops with the Swedish Embassy, USAID and the loan taking institutions to discuss methodology and planning and to prepare for the final details for the locations to be visited;
- Desk-review of planning and reporting documents at the level of the guarantees as a whole as well as at the level of different guarantee using partners. Furthermore, contextual, policy and strategic documents at country and Sida and USAID level were reviewed. And additional reviews and evaluation documents on USAID's financial and technical assistance programmes (FIRM and KIM) were conducted;
- Analysis of the loan guarantee portfolios of the loan guarantee taking partners. Details on portfolio analysis are provided in Annex 6;
- Semi-structured and checklist guided key informant interviews. Different respondent-groups were identified: a) loan takers; b) Guarantee taking institutions; and c) other stakeholder organisations and boundary partners at the local, county, and national level. Interviews with key informants at the Embassy, USAID and Sida level as well as with government organisations were conducted as open interviews. In total 55 key informants were interviewed throughout the evaluation process, excluding visits and meetings with 17 loan-takers (and their families) in the field (who's anonymity is assured);
- Field visits to five selected locations with each of the loan-guarantee taking institutes were conducted. These visits lasted one full-day and included meetings with the local branches of the institutes, rural extension services, and between 3-5 loan takers in each location;
- A short and simple survey was administered to collect basic data of beneficiaries on satisfaction of services and with performance of service providers. This was only done among loan takers from KCB and Letshego. The survey was not very successful as we did not achieve sufficient responses from KCB loan takers (only 2 responses) and from Letshego only 17 responses were received. The survey responses were analysed in Annex 7, though because of the low response rate it could only be used as a secondary and complementary source of information for cross-checking of data;
- Stakeholder mapping of relevant partners in loan and TA provision in the agricultural and energy sector in Kenya, as input for identification of possible cooperation partners for Sida in the future. Results of this mapping are presented in Annex 9 and summarised in Section 3.5 of the main report;
- Debriefing and validation workshop (2 hours) with the Swedish Embassy after the end of the field visit (5 July 2021) to present and discuss preliminary research findings and to identify remaining gaps in the data-collection and analysis;

During Data analysis and development of conclusions

- Cross-checking of data and triangulation of evidence collected from the data collection phase was done during the analysis phase. The key questions in the evaluation matrix all have had at least two different data sources to ensure that cross checking and triangulation could be applied during the data analysis phase;
- Peer review and teamwork: the different team members have work together during data collection and also during analysis and report writing to ensure that all elements of the analysis were critically reviewed and peer-reviewed in the team;

DRAFT AND FINAL EVALUATION REPORT WRITING

The draft and final report of this evaluation was done in two steps, allowing for sufficient time for feedback on the draft report by the Swedish Embassy, and if deemed relevant by them by other stakeholders. The comments of the evaluation stakeholders on the draft report were processed in a transparent way, with a table to indicate how specific comments were addressed in the final report and by submitting the final report in a track change and a clean version.

Quality backstopping was provided by an independent external reviewer to ensure that the final evaluation reports complies with the agreed quality standards.

For more detailed information and background to the approach, methodology and sampling methods d reader is referred to the inception report of this evaluation that was published on 15 June 2021.



Evaluation of KCB and multi-party guarantees and assessment of prospects of guarantee projects in Kenya

This evaluation considers loan portfolio co-guarantees in Kenya, supported by Sida and USAID 2012-2021. The guarantees were provided to KCB and three Micro Finance Institutions targeting agriculture and clean energy. The evaluation looks back at effects of the guarantees and it provides lessons for future programming.

Relevance and additionality of guarantees to move financial institutions more towards lending in agricultural value chains was varied. The use of the guarantees was sub-optimal, but improving over time. The guarantees were generally efficient. The most important effect is seen in improved and extended availability of tailored lending products and services to MSMEs in agriculture.

Sida is recommended to:

- Continue loan portfolio guarantees focusing on agricultural value chains in Kenya;
- Link up with the initiative of the National Treasury to set up a national guarantee facility for SME lending (post Covid-19 recovery);
- Include substantial TA in all guarantee arrangements;
- Introduce competitive tendering for guarantee-provision to improve effectiveness of the instrument;
- Build in a specific approach for impact analysis of loan provision in the guarantee arrangements.

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