

Organisation of African Unity / Interafrican Bureau for Animal Resources (OAU/IBAR)

Farming In Tse Tse Controlled Areas

(FITCA - Kenya Project)

LEVERAGING MICROFINANCE
FOR AGRICULTURE IN
WESTERN KENYA

Consultancy Report

Prepared by
KAMAU KABBUCHO

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Fineline Systems & Management Limited

Riara/Kingara Roads' Junction

P.O. Box 54536, Nairobi Kenya Tel 254-2-573165•Fax 254-2-573166•

E-mail: fsm@finelinesm.com

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List of Acronyms

| | | |
|--------------------|---|---|
| AFC | - | Agricultural Financial Co-operation |
| AI | - | Artificial Insemination |
| ART | - | African Retail Traders |
| BAT | - | British American Tobacco |
| BBK | - | Barclays Bank of Kenya |
| Co-op. Bank | - | Co-operative Bank of Kenya |
| EU | - | European Union |
| FGDs | - | Focus Group Discussions |
| FITCA-K | - | Farming in Tsetse Controlled Areas Kenya Project |
| FSA | - | Financial Service Association |
| GoK | - | Government of Kenya |
| HIV/AIDS | - | Human immunal virus/Acquired immune deficiency syndrome |
| IBAR | - | Interafrican Bureau for Animal Resources |
| ICDC | - | Industrial and Commercial Development Co-operation |
| KCB | - | Kenya Commercial Bank |
| KCT | - | Kenya Credit Traders |
| KETRI | - | Kenya Trypanosomosis Research Institute |
| KEVAPS | - | Kenya Veterinary Association Privatization Scheme |
| KFA | - | Kenya Farmers' Association |
| KIE | - | Kenya Industrial Estates |
| KShs. | - | Kenya Shillings (Currency) |
| KSTES | - | Kenya Small Traders Enterprise Society |
| LAGROTECH- | - | Lowlands Agriculture and Technical Services Limited |
| LDP | - | Livestock Development Programme |
| MFI s | - | Microfinance Institutions |
| MIS | - | Management Information Systems |
| MOU | - | Memorandum of Understanding |
| MSE | - | Micro and Small Enterprises |
| NBK | - | National Bank of Kenya |
| NGOs | - | Non Governmental Organizations |
| NS | - | Narrative Summary |
| OAU | - | Organisation of African Unity |
| OVI | - | Objectively Verifiable Indicators |
| PAHSP | - | Private Animal Health Service Provider(s) |
| PMU | - | Project Management Unit |
| PRA | - | Participatory Rapid Appraisal |
| RDI | - | Rural Development International, an Irish consulting firm |
| SACCOS | - | Savings and Credit Co-operative Societies |
| TSP | - | Technical Service Provider |
| WEDCO | - | Wedco Enterprise Development Limited |

Executive Summary

This report is based on the findings of a survey carried out for FITCA-K by Kamau Kabbucho of Fineline Systems & Management Limited. The survey was commissioned to identify strategies and mechanisms by which FITCA-K could provide credit for agriculture in the five districts of its operation. The five border districts of Bungoma, Teso, Busia, Siaya and Bondo are located in Western Kenya and lie within the tsetse fly infested belt.

The recommendations presented in the report are linked to the terms of reference and the views of the key stakeholders that include farmers, FITCA and government representatives in the five FITCA-Kenya districts. The first one is that FITCA should provide credit through the existing microfinance institutions and avoid direct involvement in the delivery of credit. This recommendation is based on three main factors that emerged during the focus group discussions:

- If FITCA-Kenya were to go into direct lending, it would face a serious credibility and image problem, as the project is already associated with the government and subsidized credit, with some farmers even anticipating loans at zero-interest. This is a big problem, which cannot be remedied quickly or conclusively.
- The second reason is that by working with existing MFIs, FITCA can leverage resources substantially, thus stretching the loan capital of Ksh. 10 million as at end of 2001 to reach many more of the farmers. These MFIs have an inclination to get into providing agricultural credit with their own loan capital but have so far hesitated because they lack internal capacity to develop market-driven agricultural credit which also effectively deal with the inherent risks. Thus by underwriting product development and marketing costs, FITCA would provide a strong incentive for these MFIs to get into agricultural lending.
- The third reason is the cost of setting up new retail outlets for agricultural loans from scratch, especially for a project that has a limited life.

In selecting partners to work with, it is recommended that FITCA base its decisions on the following factors:

- Is trusted and respected by the local community and has government support
- Seeks to improve the economic status of the poor in the FITCA districts
- Has operations in at least one of the FITCA districts
- Has an orientation to provide market-driven agricultural credit

- Has a vision of becoming a sustainable microfinance institution
- Has capacity for rural financial intermediation as evidenced by portfolio-at-risk of below 5% and a positive cashflow
- Has a willingness and proven ability to attract/provide loan capital from own financial resources
- Has a willingness to sign a partnership agreement with FITCA

None of the potential partners assessed by the consultant currently have adequate capacity to develop and market agricultural credit that fits the demand by farmers at reasonable cost and risk. Their incentive to get into agricultural lending is thus low. It is therefore recommended that FITCA develop a programme to strengthen the capacity of potential partners. The project budget for the first year is estimated at KShs. 32.6 million while the total budget over a four-year period is estimated at KShs. 176 million (see Annex 3).

Because FITCA itself does not have experience in capacity building of MFIs, it should identify a technical service provider to carry out this role. A detailed logical framework for the initiative is included in this report as Annex 2. It is recommended that FITCA sign a memorandum of understanding with each potential partner, which will clearly state the role and expectations of each partner.

Among the seven MFIs assessed for possible partnership, WEDCO, Lagrotech, Saga, and Akukuranot are recommended in the initial list. FITCA should work with these few partners for a while before increasing the number.

Generally, the demand for agricultural credit seems to be highest for the following crop and livestock production ventures:

- Enterprises built on draught power animals and technology
- Farm inputs
- Dairy and poultry
- Private sector delivery of veterinary services
- Retailing and wholesaling of animal drugs and medicines

Crop and livestock production in the FITCA districts could be a high-risk business because of unreliable incomes. Loans should thus be structured in a way that corresponds to the cashflows and maturity of crops/livestock projects financed with the loans, as expressed by farmers in the focus group discussions (Annex 1).

Desired loan amounts would vary by project but should be repayable over a maximum period of two years, including a grace period of 30 days. Framers also

desire a flexible loan repayment system, which can accommodate single balloon or seasonal payments.

Lastly, experience elsewhere in Kenya and globally indicate that microfinance has the potential of enhancing incomes at the individual and household levels. This then gives FITCA-K tremendous potential of realizing its general goal of improving the health and economic welfare of the people of the region. Access to microfinance for productive on-farm activities could lead to increase in incomes and employment. Availability of draught animal power, farm-input supplies and animal health services could transform crop/animal production with corresponding improvements in domestic food security.

Introduction

Overview

In November 2001, FITCA-Kenya –abbreviated for Farming in Tsetse Controlled Areas Project¹—contracted Mr. Kamau Kabbucho of Finline Systems & Management Limited to find out how the project could directly respond to the health and financial needs of the population in the five target districts of its operation. The five include Busia, Teso, Bungoma, Siaya, and Bondo. This report now presents the outcomes of the assignment following field interviews with:

- 28 farmers, 15 of them in focus group discussions and 13 individually
- 23 government officers
- Seven microfinance institutions
- Four private animal health service providers

The need for the survey was identified during a national stakeholders' workshop organized by FITCA-Kenya to approve the district plans and develop a national action plan.

At this meeting, participants realized that the participatory district planning workshops, held earlier in each district, had not analyzed in depth the financial needs of the farmers in the target areas. They had also failed to debate the institutions and mechanisms through which farm credit could be delivered on a sustainable basis to the farming community. The workshop recommended to FITCA-Kenya to carry out an in-depth assessment of credit institutions and financial needs in the target area in order to provide a reliable basis of setting roles to different agents. Stakeholders at the workshop also recommended to FITCA - Kenya to set aside Ksh. 2 million per district for agricultural credit once the needs are established.

The survey is therefore part of the overall FITCA-Kenya's strategy towards its goal of enhancing the health and economic welfare of the communities living in the region.

¹ Several areas of Kenya are infested with tsetse fly. The highest concentration of the fly is to be found in Busia, Teso and Bungoma districts of Western Province, and the neighboring Siaya and Bondo districts of Nyanza Province. As a carrier of sleeping sickness in humans and trypanosomiasis in livestock, tsetse fly doubly retards farming capacities of the communities in the affected areas. It reduces labour available to work the land, and also kills off livestock, including animals used for draught power. In a spiral cycle, this process contributes to food insecurity, poverty, and as higher incidences of diseases among the affected population.

Objectives of the Survey

The overall purpose of the survey was to learn about the financial needs of the people in the five districts, especially their on-farm investment needs and constraints. Another overall purpose of the survey was to identify existing rural/microfinance institutions, mechanisms and strategies that FITCA-K could partner with/adopt in supporting the delivery of agricultural credit to farmers in these districts. Specifically, FITCA-Kenya expected the consultant to: -

- Review the existing micro-financing institutions dealing with agricultural activities in the project area, taking into account their target clients, loan terms and conditions, and viability of perceived investments.
- Analyze the capacity of these institutions to deliver credit on behalf of FITCA-Kenya.
- Identify agricultural activities in the project area that might be sustainable in the medium term, e.g. food/cash crop production, livestock production, animal traction, poultry and dairy production, and delivery of private animal health services.
- Suggest a set of criteria for FITCA-Kenya to use in selecting existing farmers/women's groups for agricultural credit.

Process and methodology

Survey work started on 5th November 2001 with a preliminary desk-review of project background documents and reports, district development plans, and available information on microfinance institutions currently operating in the five districts—which according to a 1999 Novib report were numbering 15. By reviewing this information in advance, the consultant was able to reduce the list of potential MFI partners for assessment from 15 to seven, which was a more manageable number to review in detail within the given 10 days of fieldwork.

The seven MFIs were then assessed based on a set of 12 parameters as follows:

- Institutional orientation to agricultural credit as reflected in product and service portfolio.
- Readiness to partner with FITCA-Kenya and share resources/costs in delivering farm credit to the target population.
- Current capacity for financial intermediation as evidenced by number of clients and portfolio size, level of portfolio-at-risk, as well as the number and distribution of service outlets in the target districts.
- Mission, goals, and vision in addition to historical background, strategic alliances, and governance.

- Current number and quality of staff as evidenced in their professional education and training, as well as their general level of knowledge of the rural financial market.

Information on viable livestock and crop production opportunities available to farmers in the districts, as well as the marketing, technology, and other risks in farming was obtained through random face-to-face interviews with 13 farmers and through four focus group discussions. The financial needs and ability of the target population for credit was also investigated through the focus group interviews and interviews with individual farmers.

Besides the farmers, the consultant held interview with veterinarians, relevant government officials and members of the FITCA-K PMU to further explore the viable opportunities for delivery of farm credit in each of the five districts.

This study adopted a participatory rapid appraisal (PRA) approach and hence ensured the active participation of most of the stakeholders (farmers, MFIs, GoK, FITCA-K, and PAHP) within the limited time available for fieldwork.

Organization of the report

This report is organized into four sections. Section one, which comprises this part, presents the background to this survey, its objectives and methodology. FITCA –Kenya’s interest in microfinance is explained in section two, where the background, objectives and activities of the project are also discussed. Section three presents the findings of the survey, where information on rural financial services currently available for agriculture is discussed. The section also contains information on the viable investment opportunities in the five districts that could be financed with support from FITCA. Section four presents recommendations for an appropriate FITCA intervention based on the terms of reference, and draws from the consultant’s interpretation of the situation, knowledge of microfinance as a strategy for community development, and his understanding of the role and interests of FITCA-Kenya.

The scope of the assignment did not entail an assessment of the project and this report does not therefore seek to make comment on either the extent to which the planned activities have successfully been implemented or their impact on the target communities. Nonetheless, the report contains valuable insight into the project impact so far and direction which emerged during the focus group discussions (see annex 1). It is also note, for the record, that none of the credit activities proposed by stakeholders have been implemented.

Project Background

FITCA-Kenya is one of six projects operating in Ethiopia, Kenya, Tanzania, Burundi, Rwanda, and Uganda being implemented by the Inter African Bureau for Animal Resources (IBAR). IBAR is a regional agency of the Organization of African Unity (OAU) responsible for livestock development in the region.

The OAU/IBAR has for nearly a decade been making efforts to control the prevalence of tsetse fly in several African countries in eastern and central areas of Africa with a view to facilitating increased agricultural production in the affected communities. Wherever the fly is to be found across borders, OAU/IBAR has endeavored to promote simultaneous control campaigns by the government and communities of the neighboring countries. Such is the case between Kenya and Uganda, where tsetse infestation is present in the belt stretching from Western Kenya into Eastern Uganda.

In 1993, the Kenya and the Uganda governments, with facilitation of the OAU/IBAR, each designed a project to enhance human health and agricultural productivity in the tsetse infected belt. While Uganda chose to lay emphasis of its project on human health, Kenya elected to focus on agricultural productivity.

The project was conceived to run for four years from February 1999 at a total funding of ECU 4.6 million under Lome IV, 7th EDF. The financing agreement between EU and the GoK was finalized in January 1997. However, it was not until February 1999 that the project was officially launched in Busia.

At the time that the project was designed and negotiated, Kenya was experiencing difficulties with the donor community thus forcing the OAU/IBAR to become the implementation agency for the Kenyan component. An Irish consulting firm, Rural Development International (RDI), was contracted by EC and the OAU/IBAR, to take up responsibility for the provision of staff and financial accountability.

In Kenya, FITCA is being implemented in five districts of Bungoma, Teso, Busia, Siaya and Bondo, all of which are located in the Western part of Kenya bordering Uganda.

The overall objective of the project is to improve the health and economic welfare of the people of the region through increased livestock production. Two of the strategies adopted by FITCA-Kenya towards this goal are:

- Improving animal health services, management and nutrition, and the gradual upgrading of the indigenous livestock.

- Encouraging the target population to adopt a dual livelihood system in which better crop and livestock production leads to a higher household food security.

Project Activities

The five districts of Busia, Teso, Bungoma, Siaya, and Bondo have very high levels of poverty; with over 50% of the population living below the poverty line. Population density is high and though the districts have potential fertile soils and receive adequate rainfall, only less than 30% of the arable land is under cultivation for mainly subsistence. Farming and related economic activities in the five districts are severely constrained by the ravaging human sleeping sickness, tsetse transmitted animal trypanosomosis, other tick-borne diseases, poor physical and institutional infrastructure and the very high prevalence of HIV/AIDS.

- Land, the single most important resource in the five districts, is generally under-used leading to widespread poverty among a large proportion of the population. The district workshops organized by FITCA-Kenya in September 2000 to map out strategy for developing the area identified the following as some of the key factors limiting land use:
- Farmers in the five districts are generally lacking the appropriate skills to manage the land and land-based resources, such as abundant water;
- Farmers lack sufficient access to appropriate implements and technology, to open up more land for agricultural use;
- Farmers' capacity to access financial resources needed for appropriate inputs and related investments for increased productivity is limited;
- High extended family dependency, poor gender role allocation and cultural beliefs;
- Poor support infrastructure such as transport, marketing and storage facilities;
- High incidences of human diseases such as HIV/AIDS, malaria and sleeping sickness in the target area;
- Tick borne diseases and trypanosomosis are quite prevalent and seriously deplete livestock.

The stakeholders participating in the workshops were convinced that FITCA-Kenya could make a difference by:

- Assisting the farmers to institute measures to control tsetse infestation;

- Developing a sustainable livestock productivity enhancing programme based on people's needs;
- Promoting measures to assist farmers to access appropriate technologies and skills to open up more land, produce for both food and cash, and generally manage their land resources better.
- Specifically, FITCA-Kenya was asked by the stakeholders to work closely with farmers in the affected districts to:
 - Increase their knowledge about tick borne diseases and implement widespread tick control measures;
 - Not only control tsetse but also to treat trypanosomosis-affected stock;
 - Assist farmers in improving their livestock breeds for increased output;
 - Carry out widespread vaccination against poultry diseases;
 - Assist farmers to access animals for draught power and train farmers how to manage such animals;
 - Promote widespread adoption of apiculture

FITCA-Kenya's current group of six programme activities is directly based on the broad areas of needs identified by the stakeholders in the September 2000 district workshops. Delivery of agricultural credit is one of these six project activities. Table 1 below provides a detailed description of FITCA-Kenya's activities.

Table 1: Project Activities

| |
|--|
| <p>Microfinancing (Credit for crop and livestock production)</p> <p>Access to financial services was identified as a major constraint inhibiting restocking of traction and other animals even when the tsetse transmitted trypanosomosis risk has been brought under control. Besides restocking, the farmers would need access to credit for farm-input supplies and purchase of drugs and animal health services. FITCA therefore planned to hire the services of a microfinance consultant to advise on how best to utilize the existing MFIs to access credit for on-farm economic activities. FITCA further planned to support the provision of such services as a complementary strategy of realizing its objective of enhancing the health and economic welfare of the communities in this region.</p> |
| <p>Improved animal health delivery system</p> <p>Tsetse and Trypanosomosis control constitute a major challenge to the success of the project. Contrary to assumptions made in the project financing agreement, government financial and logistical resources needed to carry out tsetse control activities were no longer forthcoming. FITCA then, in collaboration with Kenya</p> |

Veterinary Association Privatization Scheme (KEVAPS) planned to promote the settlement of private veterinarians in each district. These would in turn assist in treatment and control of diseases and in training of farmers from a private sector perspective.

Draught Power and Cattle Development

Animal draught power is the backbone of the entire rural economy in all the five districts. Animal traction is critical for the envisaged increase in livestock products, household food security and tsetse control activities. It is also engrained in the cultural tradition of all the communities of this region. However, following the debilitating tsetse invasion of the 1997/8, the communities lost most of their animals including the all important traction oxen. It was therefore planned that once a viable animal healthy service delivery system was assured, FITCA in collaboration with other stakeholders would promote keeping of improved animal breeds. FITCA-Kenya further planned to initiate and support a microfinancing programme for farmers that would enable restocking.

Poultry Development

Poultry production is of great cultural significance among all the communities of this region. However, it is of equally, if not greater, economic significance. Besides being the most easily accessible asset to the rural community, it constitutes one of the most liquid savings of the poor people. At the household food security level, poultry provide diet and valuable proteins to the family. From the perspectives of on-farm economic activities, it is easily available for purchase of farm inputs, drugs for animals and exchange for other goods and services. Disease control and proper management of poultry have been identified as the main constraints inhibiting poultry production. Consequently, FITCA planned to undertake a socio-economic analysis that would advise the project on how to promote and commercialize indigenous poultry production.

Human Resource Capacity Development

To sustain the level of envisaged increased productivity, community mobilization and continuous training, especially in use of simple and effective tsetse control techniques, was considered critical. FITCA therefore planned to mobilize other stakeholders that include the government, NGOs, and private animal health providers to assume role in training and delivery of extension services.

Institutional Strengthening

To ensure continuous institutional support for the tsetse control and provision of a broad range of animal health services, FITCA planned to establish a diagnostic laboratory facility at KETRI, Alupe. The laboratory would be used to test blood meals from tsetse and other blood sucking Diptera.

Source: FITCA-K, District Strategic Planning Workshops, 2001

As discussed in the table above, FITCA-Kenya's microfinance component is expected to alleviate the following specific farmers' problems in the five districts:

- Lack of capital to purchase farm inputs such as fertilizers, insecticides and appropriate seed varieties.
- Lack of capital to acquire appropriate technologies to open up more land.
- Lack of capital to engage hired labour to work the land².

²Labourers are scarce due to rapid rural-urban migration of the able-bodied people, human disease epidemics, and men preferring off-farm employment thus leaving only women to work the land.

Access to Agricultural Credit

Demand for Micro Credit

Based on the discussions with 25 randomly selected farmers, microfinance is a relevant strategy in view of FITCA-K'S objectives and the prevailing livestock/crop production problems in the project area. Table 2 below shows the viable economic activities that could benefit from improved access to credit by farmers.

As indicated in the table, Busia had a total projected population of 391,913 people by end of 2001, of whom 17.4% of its labourforce derive a livelihood from self-employment in the informal sector while 8.8% and 4.9% derive their livelihood from wage employment and fishing respectively. However, agriculture was the main source of income with 73.7% of the labourforce depending on it. Major cash crops grown in the district are sugar cane and cotton while major food crops are maize, sorghum, potatoes, cassava, beans and millet. The district had 1,045 formal/licensed enterprises.

Teso on the other hand had a projected population of 197,676 people by 2001, with 20% of the labour force drawing their livelihood from self-employment and 5% from wage employment. Just as in Busia, a significant 75% of the population depend on agriculture for their livelihood. Major cash crops grown in the area are tobacco, cotton, sunflower, and sugarcane. There is also some dairy farming in Teso, where there are four agricultural Cooperative societies.

By 2001, Bungoma had projected population of 811,389. 55% of the District's labour force depend on agriculture for a livelihood, 6.2% are self-employed, while 29.3% depend on wage employment. The district has a very well developed sugar cane growing agro-business. And tobacco is also a major cash crop grown in the area.

The combined projected population of Siaya and Bondo by 2001 was 919,832, of whom 78.8% derive their livelihood from agriculture. At 0.5% of the labour force, the two districts have the lowest number of informal businesses. About 5.8% of the population in the two districts depend on wage employment for income. Bondo has 28 gazetted fish landing beaches. It is estimated that up to 70,000 (11%) of the labour force in the two districts depend on fishing for income.

Between 23% to 38% of the population in the five districts own some livestock, with

Table 2—District population size by employment and economic activities

| DISTRICT | Area (KM ²) | Total Pop. (2001 Projections) | Total Labour Force | Percentage of the Labour Force employed by Sector - | | | | Major Economic Activities | Licensed Businesses (1995) | Formal & Informal Fin./Credit Ints./ Ag |
|----------|-------------------------|-------------------------------|--------------------|---|--------------|-------|-----------------|--|----------------------------|--|
| | | | | Fishing | Agri. Sector | Waged | Informal Sector | | | |
| 1. BUSIA | 1,262 | 391,913 | 175,144 | 4.85 | 73.72 | 8.83 | 17.4 | <ul style="list-style-type: none"> • Cash crops – sugarcane, cotton, coffee, Rice • Food crops – maize, sorghum, potatoes, cassava, beans, millet • Forestry + agro-forestry • Tourism • Livestock – dairy, sheep, poultry, goats, bees, donkeys • Industries – Busia sugar company, bakeries | 1,045 | <ul style="list-style-type: none"> • KCB • NBK • K.I.E • AFC Cotton, coffee, fishir and consumer co-op |
| 2. TESO | 527 | 192,626 | 79,227 | - | 75 | 5 | 19.9 | <ul style="list-style-type: none"> • Food crops e.g maize, millet, cassava, sorghum, beans, rice, sweet potatoes, • Cash crops – sugarcane, cotton, tobacco, sunflower • Livestock – cattle, sheep, goats, poultry, bees • Fishing (approximate 28 operational fish ponds) • Tourism • Forestry + agro-forestry • Mining – sand scooping and bricks + tile making • Industries – cotton ginneries, B.A.T, Mastermind factories at Malakisi | 469 | <ul style="list-style-type: none"> • KCB • Post bank • 4 societies (1 d 2 coffee and 1 sacco • 250 women Grc 150 Self Help Group |

| | | | | | | | | | | |
|-------------------|-------|---------|---------|------|------|-------|------|--|-------|---|
| . BUNGOMA | 2,063 | 811,389 | 355,341 | - | 55.4 | 29.33 | 6.15 | <ul style="list-style-type: none"> • Food crops – maize, millet, sorghum, rice, cassava, sweet potatoes • Cash crops – sugar cane, coffee, tobacco, cotton, sunflower, horticulture • Livestock – cattle, sheep, goats, poultry, pigs, rabbits • Mining – quarrying • Fishing • forestry and agro-forestry • Industries - Webuye paper mills, Nzoia sugar company and E.A heavy chemicals, B.A.T, Mastermind, Malakisi, Cotton ginnery • Tourism | 2,825 | <ul style="list-style-type: none"> • KCB • BBK • Co-op Bank • NBK • AFC • KIE • KFA • ICDC • KSTES • ART • KCT • MACHO Credit • 20 societies (of 5 are dairy and 3 are |
| . BONDO and SIAYA | 3,523 | 919,832 | 414,134 | 10.8 | 78.8 | 5.84 | 0.5 | <ul style="list-style-type: none"> • Tourism • Forestry and Agro- forestry • Mining – Gold, sand • Fishing – 28 gazetted fish landing beaches, 18 of which have permanent fishing landing bandas (70,000 people derive livelihood directly and indirectly from fishing) • Food crops – maize, beans, cassava, sweet potatoes, millet • Cash crops – coffee, sugarcane, cotton • Livestock – cattle, poultry, bees, sheep, goats, pigs, rabbits • Industries – ginneries, molasses factories and jaggery plants | - | <ul style="list-style-type: none"> • KCB • AFC • KIE • ART • Kukopesha Ltd. • SACCOs • Producer societies cotton, fisheries, da • One consumer |

Source: Busia, Siaya, Teso and Bungoma District Development Plans: 1997 – 2001 and 1999 Kenyan National Housing and Population Census, Vol. II

Supply of Micro Credit

Mainstream financial institutions operating in the districts include KCB, which has at least one branch in each district. National Bank of Kenya has branches in Busia and Bungoma only, while Barclays Bank is operating in Bungoma only. AFC has a branch each in Bungoma, Busia, and Bondo. K.I.E has branches in Busia, Bungoma and Siaya. Among the microfinance institutions, WEDCO has the widest presence – having branches in four of the five districts (Table 3 below).

Generally, the five districts have very few institutions that currently provide agricultural credit (Table 3). At the time of the survey, in November 2001, the six MFIs assessed had a total portfolio of Ksh. 233.6 million of which less than 0.5% was for agriculture. LAGROTECH operating in Siaya was explicitly providing credit for seeds and farm inputs while Saga in Bondo was providing overdraft facilities against cotton delivered by farmers. Akukuranut was also at the time of the survey providing credit for financing bee keeping and sunflower. WEDCO, through its MSE loan products was accessing credit for dairy, piggery and poultry.

Between them, the six MFIs had reached 15,373 people. Discussions with the MFIs establish that four are intending to get into agricultural credit in a more serious manner but do not have adequate resources to conduct the market research and pilot test market-driven products and services. Because they already have a presence and are inclined to get into agricultural credit, FITCA – Kenya should leverage this capacity instead of itself directly creating local capacity for microfinance.

Table 3—Profiles of MFIs appraised

| MFI | Outreach (Districts) | Institutional Status | Portfolio Status | Current Products/Activities | Capacity Needs | Recommendations |
|------------|------------------------------|--|--|--|---|--|
| WEDCO | Busia, Siaya, Bondo, Bungoma | <ul style="list-style-type: none"> • NGO, MFI affiliated with CARE-K • Focus on MSE | <ul style="list-style-type: none"> • # clients 11,700 • Loan amount-Ksh. 230M | <ul style="list-style-type: none"> • MSE group loans • School fees loans | <ul style="list-style-type: none"> • MIS • On-farm products • Product development skills | Recommended for partnership in developing dairy/poultry and animal healthy financing initially targeting Busia and Bungoma Districts |
| LAGROTEC H | Siaya, Bondo | <ul style="list-style-type: none"> • Private sector ltd by shares • seed / farm inputs specialist company | <ul style="list-style-type: none"> • # clients 60 • Loan out Ksh 3.16m | <ul style="list-style-type: none"> • Supplier credit for seeds and farm inputs to retail stockists and farmers • Overdraft facility to farmers using group mechanism • Providing farmers with links and/or information for marketing farm produce • In-house staff SACCO | <ul style="list-style-type: none"> • MFI structure and systems • Training/orientation in microfinance • Product development skills | Recommended for partnership in developing farm-input products initially targeting Siaya and Bondo Districts |
| Saga | Bondo | <ul style="list-style-type: none"> • SACCO and private sector company limited by shares • Focus on Fisheries | <ul style="list-style-type: none"> • # Clients 2500 • Loan out Ksh 1.7m • Savings held Ksh 4m | <ul style="list-style-type: none"> • Group loans for fishermen • SACCO savings/loans • Overdraft for cotton farmers | <ul style="list-style-type: none"> • MIS • On-farm products • Product development skills | Recommended for partnership in developing financing for draught power technology initially targeting Bondo District |

| MFI | Outreach (Districts) | Institutional Status | Portfolio Status | Current Products/ Activities | Capacity Needs | Recommendations |
|--------------------------------------|----------------------|---|---|---|--|---|
| Akukuranut | Teso | <ul style="list-style-type: none"> Financial Service Association (FSA) | # shareholders 442 Share capital: Ksh. 755,100 # loans cumulative: 137 Loans out: Ksh. 365,557 # Savers 453 Savings held: Ksh. 6.98m | <ul style="list-style-type: none"> SACCO savings and credit Bee keeping finance/marketing Sunflower processing and marketing Cereals buying/selling HIV/AIDS education | <ul style="list-style-type: none"> Need for focussing and specialization MFI structure, systems and staffing Training/orientation in microfinance Product development skills | Though institutionally weak, has close links with community and could be a partner for developing financing products for draught power technology initially targeting Teso District |
| Bungoma Family Development Programme | Bungoma | NGO (?) Multi /integrated activities, no special focus | <ul style="list-style-type: none"> 22 groups of 30 Loan/grant fund Ksh. 3m Group loans | <ul style="list-style-type: none"> Credit/grants for food production Organic farming awareness No clear repayment terms | No capacity for microfinance | Not recommended. Grant giving organization not suitable for delivery of microfinance services |
| Nyanam Small Traders Society. | Siaya | Membership Society | Not obtained | <ul style="list-style-type: none"> SACCO loans to members - SME | No potential for on-farm financing | Not recommended. No potential for on-farm financing |

Strategy for Intervention

Overview

Experience elsewhere in Kenya and globally indicate that microfinance, appropriately designed and implemented, has the potential of effectively and sustainably addressing the challenges of poverty alleviation. Its ability to address poverty at the individual and household levels has given governments and development workers enormous potentialities for dealing with issues of mass poverty at the local, national and even global level.

Given this potentiality and the economic setting of the project area, the choice of microfinance as a complimentary strategy to achieve FITCA-K's objective has been correctly identified. However, successful implementation of a microfinance programme would be in conflict with the image and mode of operation of FITCA. It is therefore advisable that FITCA does not in any way involve or associate itself with the direct provision of microfinance. Instead, it should seek to strengthen the institutional capacities of selected MFI partners to effectively deliver the service.

Selection of Partners

Conclusions drawn on the basis of this survey strongly indicate that FITCA should provide credit through the existing microfinance institutions and outlets and not consider setting up its own retail network. This recommendation is based on three main factors that emerged during the focus group discussions.

If FITCA-Kenya were to go into direct lending, it would face a serious credibility and image problem, as the project is already associated with the government and subsidized credit, with some framers even anticipating loans at zero-interest. This is a big problem, which cannot be remedied quickly or conclusively. The second reason is that by working with existing MFIs, FITCA can leverage resources substantially, thus stretching the loan capital of Ksh. 10 million as at end of 2001 to reach many more of the farmers. These MFIs have an inclination to get into providing agricultural credit with their own loan capital but have so far hesitated because they lack internal capacity to develop market-driven agricultural credit which also effectively deal with the inherent risks. Thus by underwriting product development and marketing costs, FITCA would provide a strong incentive for these MFIs to get into agricultural lending. The third reason is the cost of setting up a new retail outlet for agricultural loans from scratch, especially for a project that has a limited life.

The following criteria have been developed to guide FITCA-Kenya in the selection of suitable partners. It is based on both the realities on the ground in the region and on known best practice that characterize successful microfinance institutions.

Table 4—MFIs selection criteria

| Parameters | Details for Selection |
|---|--|
| 1. Vision, mission, Goals and Strategies | <p>1.1 Has a vision to become a sustainable microfinance institution. Its mission and operations are not in conflict with the image and mode of operation of microfinance.</p> <p>1.2 Has goals of improving economic status of the low income community with microfinance as the main strategy</p> |
| 2. Leadership and Governance | <p>2.1 There is a Board which has a strong financial and or community development stake in the organization</p> <p>2.2 There are Board level policies and procedures that define the accountability of Directors</p> |
| 3. Management and management systems and structures | <p>3.1 The Chief Executive has requisite skills and experience in microfinance. Has strong commitment to community development and demonstrated high personal integrity</p> <p>3.2 Has adequate/reasonable level of systems – operations tracking and reporting, financial accounting, personnel – to manage and account for its resources.</p> <p>3.3 Other organs of the institution exist and are operational – i.e. not a one-person show</p> |
| 4. Organizational Resources | <p>4.1 The MFI has the organizational resources to implement a programme. These include: -</p> <ul style="list-style-type: none"> • <u>Personnel</u> that has the skills to implement the programme and/or provide technical and administrative support • <u>Physical facilities</u> that include offices, furniture and computers necessary to carry out its activities • <u>Financial resources</u>, especially an existing loan portfolio of not less than Ksh. 3m |
| 5. Products, Outreach and Performance | <p>5.1 Already has, or is willing to develop, an agricultural lending orientation</p> <p>5.2 Provides microfinance in at least one of the FITCA-K Districts and has the capacity to outreach over 2500 clients in the next 24 months</p> <p>5.3 Has a portfolio at risk of below 5% and a positive cashflow</p> |
| 6. Credibility and network | <p>6.1 The organization is trusted and respected by the local community</p> <p>6.2 The institution has reliable strategic alliances with other development actors – donors, Government, NGOs</p> <p>6.3 The organization is recognized by the District Development Committee</p> |
| 7. Willing and able to become a FITCA-K PARTNER | <p>7.1 The MFI is willing to become a partner of FITCA-K in accordance with the terms and conditions laid out in the FITCA-Kenya MFI Memorandum of understanding model</p> <p>7.2 The MFI is able to invest its own funds to leverage FITCA-Kenya funding</p> <p>7.3 The MFI is in a position to attract other sources of funding to invest in its activities</p> |

Suitable Partners

In selecting partners to work with, it is recommended that FITCA base its decisions on the following factors:

- Is trusted and respected by the local community and has government support
- Seeks to improve the economic status of the poor in the FITCA districts
- Has operations in at least one of the FITCA districts
- Has an orientation to provide market-driven agricultural credit
- Has a vision of becoming a sustainable microfinance institution
- Has capacity for rural financial intermediation as evidenced by portfolio-at-risk of below 5% and a positive cashflow
- Has a willingness and proven ability to attract/provide loan capital from own financial resources
- Has a willingness to sign a partnership agreement with FITCA

On the basis of these parameters, FITCA-Kenya would be better placed to partner with WEDCO in Busia and Bungoma, LAGROTECH in Siaya, Saga Thrift Enterprise in Bondo and Akukuranut in Teso (see table 3 above).

Akukuranut

Akukuranut is a Financial Service Association (FSA) based at Alupe in Teso District. As an FSA, it is owned and managed by its members who are drawn from the surrounding localities. It was established in 1999 with the support of World Neighbours and the technical assistance of K-Rep.

Akukuranut is the only MFI in Teso that could be identified during this survey. It has a current portfolio of agricultural loans for sunflower growing and oil extraction and for bee keeping. The demand for its services is high and it has built strong links with both the local community and strategic partners through which it obtains funding and technical assistance. The organization has expressed interest to work with FITCA-Kenya. Akukuranut is recommended as a partner for developing and pilot testing financing of draught power technology initially targeting Teso District.

Nonetheless, Akukuranut would require capacity building in market-oriented product development, portfolio and financial management, development of suitable management systems and structures and may require grant funding for hire of additional personnel with specialization in microfinance.

Saga Thrift Enterprise

Saga Thrift Enterprise Ltd is a private limited liability company operating in Bondo focusing on delivery of microfinance services from a private sector perspective. The Company has set up an innovative mechanism by which it sets up and manages rural savings and credit cooperative societies (SACCOs). This encourages strong local participation and enables Saga to mobilize local liquidity for intermediation.

The company has a strong Board with solid experience in banking and microfinance. Given its financial stake in the company, the Board has strong incentive to make Saga a successful and profitable microfinance institution. Members of the affiliate Saga SACCOs have financial interest in the Saga Thrift, the company contracted to provide professional management services for a fee. A large part of the loan capital fund is based on members' own savings. This gives them great freedom in how they use the loan as well as strong incentive and accountability to make the lending programme successful. At the time of the survey, most loans had been used to finance farming and fisheries. Under an arrangement with Malaba Cotton Ginneries, Saga Thrift also provides overdraft against cotton lint delivered and is itself the local collection agent at a fee of Ksh. 2 per kilogram of cotton delivered.

Saga Thrift has expressed interest and willingness to work with FITCA-Kenya especially in developing and pilot testing products for financing draught power technology and the provision of private veterinary services. With WEDCO pulling out of Bondo, Saga is likely to be the only MFI operating in the District.

This survey recommends Saga Thrift as a partner in development, pilot testing and rollout of products for financing draught power technology and provision of private veterinary service initially targeting Bondo District.

However, Saga Thrift will need technical support in developing its institutional capacity for market-driven product development, pilot testing and rollout. Further, Saga will need support in developing its management capacity and acquiring suitable information systems.

LAGROTECH

The Lowlands Agriculture and Technical Services Limited (LAGROTECH) is a private sector company whose core business is in propagating seed varieties that are suitable to the local environment. The company is based in Kisumu and has operations in Siaya, Bondo and Busia District.

LAGROTECH is the only institution that was found to be providing credit to farmers for farm input supplies, including seeds and fertilizers, mainly in the form of short-term supplier credit through its network of stockists. Further, the firm has a current arrangement with FITCA-K for provision of cassava seedlings to

farmers. A formal partnership in provision of agricultural credit would give both institutions an excellent opportunity to build their existing relationship.

While LAGROTECH has no background in microfinance, its unique strength in promoting local farmers to do commercial agriculture has deepened its appreciation of credit for farmers. LAGROTECH's biggest strength lies in its understanding of the risks involved in farming and the strategies available to farmers to reduce such risks. In this respect, LAGROTECH has developed a database of market outlets for farm produce and maintains a worldwide monitoring of agricultural produce price index which has proved useful in advising farmers on marketing. As part of its market development, LAGROTECH provides technical assistance to farmers and has recently recruited a micro enterprise officer in preparation for spinning off the lending programme as a full-fledged agricultural financial service firm.

LAGROTECH's potential collaboration with FITCA-K could provide an excellent mechanism for sharing its experience with the other partners.

LAGROTECH, however, will need support in developing products and systems for microfinance.

WEDCO

Wedco Enterprise Development Limited (WEDCO) is a private limited company owned by Wedco Charitable Trust. It was formed initially as a project of CARE International in Kenya to access credit to women in micro enterprise in Nyanza and Western Kenya. The success of the project attracted DFID funding to transform it to an independent institution. Today, WEDCO is one of the leading MFIs in Kenya and the main microfinance institution in this region. It is the only institution in this survey that has outlets in all the FITCA-K districts.

WEDCO's flagship portfolio is micro and small enterprise (MSE). However, given its rural focus, it has found itself extending credit to dairy, poultry and piggery farmers alongside its micro enterprise clients. WEDCO has had experience funding rice farming in Ahero area through a short-term project.

By partnering with WEDCO, FITCA-K could leverage substantial resources in support of agriculture in this region as WEDCO has own resources and big potential for attracting funding through its strategic networks. WEDCO has expressed strong interest in working with FITCA-K and it is recommended as a partner in developing, pilot testing and rolling out products for financing dairy farmers and private veterinary service provision, initially targeting Bungoma and Busia districts.

While WEDCO has the best outreach network and strongest potential for delivery of credit to farmers in the FITCA-K region, it will need support in developing its capacity for market-driven financial products development, acquiring suitable

information systems, networking its operations, and developing risk management systems in agricultural lending.

Potential Products and services

All the five FITCA-K Districts are infested with tsetse transmitted human sleeping sickness and animal trypanosomosis. While the tsetse-transmitted trypanosomosis is not the only major animal disease in this region, it is the most prevalent and one most dreaded by farmers. In discussion with both farmers and animal health service providers, two factors emerge as constraining farmers from restocking animals. These are first and foremost, the fear of losing the animals to disease and secondly, lack of liquidity.

Lack of animals, especially traction animals has perpetuated a vicious cycle of disease and poverty. The decimation of animals by trypanosomosis and tick-borne diseases in the 1997/8 period left the communities without the economically important traction animals. As a result, there has been little or no capacity to till the land resulting in bushes. In turn, bushes provide more breeding grounds for tsetse fly, which leads to increased deaths for animals and even fewer incentives for farmers to keep the animals. Ultimately, the community has less and less capacity for food production and even less incentive to clear bushes. Risks are presently higher for some crops and animals than for others, thus making it necessary for the project to target only viable enterprises.

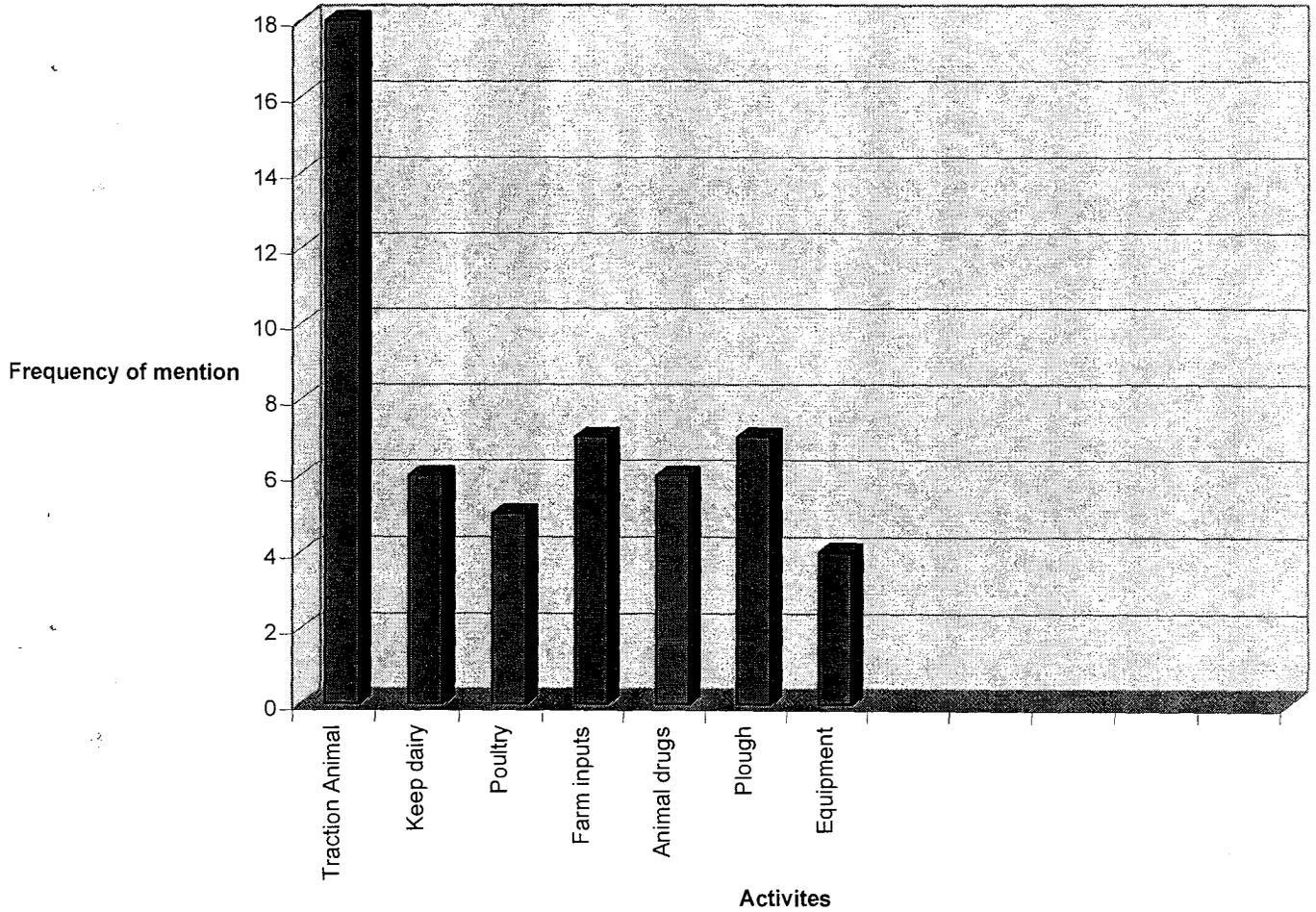
Breaking out of this cycle requires access to liquidity, suitably package and delivered in response to needs and ability. While liquidity was clearly identified as a constraint for restocking and for involvement in other on-farm activities, there is danger of making credit available on the basis of social rather than economic considerations. Further, access to credit without corresponding increase in tsetse control and animal health services would merely fuel the vicious cycle of disease and poverty. Credit therefore needs to be seen as a complementary rather than a substitute strategy.

Viable projects

In the commercial sector, informal business activities have proven a level of resilience that have made micro lending attractive even under very difficult social-economic circumstances. Microfinance institutions working in these conditions have devised lending technologies that have successfully delivered microfinance services to people with very low incomes. While such capacity has not been widely demonstrated in the area of agricultural credit, it is widely recognized that access to credit for on-farm activities has tremendous potential in the fight against poverty as majority of the poor in Kenya live in the rural areas.

The bar graph below shows the activities that were most frequently mentioned during interviews and FGD with farmers and PAHSP. They tally closely with the observations made earlier by FITCA-K and also with the conclusions reached by the consultant.

Most Frequently Mentioned Activites



Selection of Clients

In light of the recommendation that FITCA-K does not have a direct role in delivery of credit, the selection of clients will be the responsibility of the specific partner MFI that will also assume the credit risk. The MFI will be expected to conduct the necessary assessment of the viability of the activity proposed and the credit worthiness of the applicant. These processes will be fully defined for each product developed. However, to ensure that the implementation of the credit scheme meets with the objectives of FITCA-K, the following broad criteria is suggested: -

Table 5—Broad client selection criteria

1. Personal Eligibility

- Be Kenyan adult aged above 18 and of sound mind
- Reside and own property in the project operational area
- Be of good character – has no criminal record and not known to have been involved in fraudulent activities
- Has not previously defaulted with loan(s) (e.g. from financial institutions/NGOs/GoK/Employer/Relative/Friend)

2. Location Criteria

- Has an on-farm economic activity in the operational area of the project
- The activity is located within the operational area of the partner MFI

3. Activity Criteria

- Has a viable economic activity that will be carried on on-the-farm
- The activity has strong and direct linkages with on-farm activities such as providing essential services or supplies to farmers and/or marketing/transporting farm produce
- Willing to invest at least 25% of own funds in the proposed activity
- Available to personally manage/implement the activity
- Has experience and skills to implement the activity or similar undertaking
- The crop/animal output can be marketed by the farmer without the need for marketing intermediaries
- Relative crop/animal value is high

Institutional support for MFIs

None of the potential partners currently have adequate capacity to develop and market agricultural credit that fits the demand by farmers at reasonable cost and risk. Their incentive to get into agricultural lending is thus low. It is therefore recommended that FITCA develop a programme to strengthen the institutional capacity of potential partners. The Capacity building programme will have the following components: -

- Training the staff of the MFIs on market-based microfinance product development
- Providing technical support and training to the staff of the institutions to conduct qualitative market research and product development
- Providing technical support and hands-on training to the staff of the MFIs to refine product concepts and develop prototypes
- Support the institutions to acquire and install suitable management information systems
- Support the MFIs to pilot test viable products
- Support the MFIs to refine systems in line with pilot test outcomes
- Supporting the MFIs to market and rollout successfully pilot-tested products

Because FITCA itself does not have experience in capacity building of MFIs, it should identify a microfinance technical service provider to carry out this role. A detailed logical framework for the initiative is included in this report as Annex 2. It is recommended that FITCA sign a memorandum of understanding with each potential partner, which will clearly state the role and expectations of each partner.

The implementation of the programme is set out in three phases as follows: -

Phase One: Product Development (January – June 2002)

- Training in qualitative market research for microfinance
- Carry out market research and develop product concepts
- Test/Refine product concepts and develop prototype product(s)
- Develop pilot testing protocol

Phase Two: Pilot Testing (July 2002 – June 2003)

This is an action research stage in which the product so developed is offered to the market in a controlled 'laboratory' test clientele. It is important that this stage is carried on for duration of time that allows observation of the products through a complete cycle and/or growth of critical numbers that fully test the performance of the product under a range of conditions in the selected market.

Phase Three: Rollout (July 2003 – June 2004)

Rollout is a planned expansion stage in which the MFIs offer the product increase their outreach beyond the pilot test branches if the pilot test is successful. The results of the pilot will have been incorporate into a refined end product that suitably meets the needs of the target clientele.

The rollout phase may entail major changes of the MFI's systems and structures to cope with the expansion. It is therefore important that FITCA-K continues to be available to these institutions to provide varied support, which may also entail promotion, lobbying and advocacy.

Next steps/resources

The project budget for the first year is estimated at KShs. 32,650,000 while the cost over the four-year period is estimated at Ksh. 175,987,500. Of this, 65% (Ksh.110,000,000) will go towards building the loan capital fund, 17% (Ksh. 30,565,000) towards institutional support costs for the MFIs and 20% (Ksh. 35,422,500) towards the cost of providing technical support to the MFIs. It is recommended that the participating MFI's leverage FITCA-K funding with their own investment or other donor funding to meet the funding deficit that FITCA-K is not able to provide. A four year budget broken in annual amounts is provided in this report as annex 3.

Annexes

1. PROCEEDINGS OF INTERVIEWS/FOCUS GROUP DISCUSSIONS
2. LOGICAL FRAMEWORK
3. INDICATIVE MICROFINANCE PROGRAMME BUDGET
4. LIST OF PARTICIPANTS
5. FITCA-K REVISED BUDGET FOR YEARS 2002/3
6. TERMS OF REFERENCE

Annex 1—Proceedings of Interviews/Focus Group Discussions

| ISSUES | FARMERS VIEWS | GOVERNMENT OFFICIALS' VIEWS | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|----|----|----|----|----|-------|---|---|---|----|---|---------|---|---|---|---|---|------|---|----|---|----|---|-------|---|---|----|---|---|-------|---|---|----|----|---|---|
| <p>1. On problems facing farming in these areas</p> | <ul style="list-style-type: none"> • High rates of animal diseases <ul style="list-style-type: none"> - tsetse fly - de-worming drugs not effective • Many are either lazy or don't like farming as it is difficult with little or no cash income • Poverty – no money to hire tractor/animal traction or buy animals • Small farms – subsistence farming use • Fertilizers/other farm inputs not genuine – do not increase production higher than non-users • Unable to restock – Grade animals are not available even when one has money. Also preference for local breeds as they are more resistant to disease • Poor resale value of grade animals – butchers pay the same as for local breeds • There is poor food situation due to high prevalence of cassava mosaic disease - farmers not keen to grow it • Growing of Sorghum has declined as it is eaten with cassava which is not there • There is poor marketing of milk. No processing plant nearby. However, there is demand for fresh milk in town centers • Vet doctors not available when needed and cost of treatment very high • Recurrent attack by tsetse flies – there is no prevention mechanism despite treatment every three months • No breeding bulls and no reliable AI service – GoK service not functional and no private providers • Not being full time farmers and farm labour is unreliable and irresponsible. Must be closely supervised all the time | <ul style="list-style-type: none"> • Farming apathy as the risks due to animals diseases are too high • There cannot be any appreciable farming activity as long as no effective control of tsetse fly – 'there is no tsetse controlled area here – who has controlled the tsetse?' | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>2. On perceived trend of tsetse fly over the last five years</p> | <ul style="list-style-type: none"> • On a scale of 1-10, farmers indicated that they see no appreciable decline in tsetse menace over the last five years except in Teso and Bungoma <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Year →</th> <th>01</th> <th>00</th> <th>99</th> <th>98</th> <th>97</th> </tr> </thead> <tbody> <tr> <td>Busia</td> <td>7</td> <td>8</td> <td>8</td> <td>10</td> <td>8</td> </tr> <tr> <td>Bungoma</td> <td>3</td> <td>5</td> <td>8</td> <td>9</td> <td>8</td> </tr> <tr> <td>Teso</td> <td>3</td> <td>10</td> <td>9</td> <td>10</td> <td>9</td> </tr> <tr> <td>Bondo</td> <td>9</td> <td>9</td> <td>10</td> <td>9</td> <td>7</td> </tr> <tr> <td>Siaya</td> <td>8</td> <td>8</td> <td>10</td> <td>10</td> <td>9</td> </tr> </tbody> </table> | Year → | 01 | 00 | 99 | 98 | 97 | Busia | 7 | 8 | 8 | 10 | 8 | Bungoma | 3 | 5 | 8 | 9 | 8 | Teso | 3 | 10 | 9 | 10 | 9 | Bondo | 9 | 9 | 10 | 9 | 7 | Siaya | 8 | 8 | 10 | 10 | 9 | <ul style="list-style-type: none"> • 'There is upward trend of tsetse flies. Government funds are dwindling and funding where FITCA-K operates have been cut even further as FITCA is expected to provide' Role of FITCA-K not clear, 'it has not had much interaction with the ministry people except in meetings' |
| Year → | 01 | 00 | 99 | 98 | 97 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Busia | 7 | 8 | 8 | 10 | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bungoma | 3 | 5 | 8 | 9 | 8 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Teso | 3 | 10 | 9 | 10 | 9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bondo | 9 | 9 | 10 | 9 | 7 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Siaya | 8 | 8 | 10 | 10 | 9 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| | | |
|---|---|---|
| <p>3. On perceived effectiveness of control measures by FITCA/GoK</p> | <p>In Busia, Bondo and Siaya farmers interviewed said: -</p> <ul style="list-style-type: none"> • They have not seen 'FITCA-K' but have noticed effects of lowering tsetse flies where traps have been set • Information on ways to control tsetse fly not widespread • 'If your neighbour does not cooperate in clearing bushes or keeping traps, your efforts come to naught' • 'We have heard of them (FITCA-K) but not seen them and do not know what they do.' • 'They (FITCA-K) have not been able to move from farmer to farmer but we have seen some black nets in some farms/homes said to be FITCA's' • These government programmes only come here for feasibility studies. They disappear and come back when they have another feasibility to do. <p>In Teso, farmers interviewed felt that: -</p> <ul style="list-style-type: none"> • 'FITCA-K have done their very best to control tsetse fly' <p>In Bungoma, farmers felt that: -</p> <ul style="list-style-type: none"> • Tsetse infestation still very high in some divisions <p>In both Bungoma and Teso, farmers felt that: -</p> <ul style="list-style-type: none"> • There has been an upsurge in farming activities that include dairy and draught animals, local poultry, crop/improved cassava breeds (there has been a lowering of cassava mosaic), bee-keeping, sugar cane, tobacco, fodder cropping | <ul style="list-style-type: none"> • There has been no mobilization, no government and no community involvement in the FITCA-K control activities • Current FITCA approach of target and trap is not sustainable. It is labour intensive and since there is no pay, there is little incentive for people to participate. It is only feasible if sustained throughout, but the targets are expensive (Ksh2000 x 4 needed for a sq. km) |
| <p>4. Views on possible ways to control Tsetse flies</p> | <ul style="list-style-type: none"> • Train chiefs and assistant chiefs to mobilize the community • Involve more people/farmers through seminars and demonstration sites • Disseminate information on how to control tsetse at the individual farmers levels • Provide resources for farming and treatment for animals • Make treatment affordable • Involvement the whole community and invoke the chiefs act for families not complying with control measures | <ul style="list-style-type: none"> • Work through and/or have Collaboration with the GoK • Need to control/treat other animal diseases especially tick borne • Mobilize the local community and have an incentive system for farmers to clear bushes |
| <p>5. Perceptions on the need for credit</p> | <p>In all the districts, farmers expressed apprehension about credit unless there was assurance of control for tsetse, technical assistance for animal health and the credit be provided by a trusted organization – fear of losing their land if pledged as security.</p> <ul style="list-style-type: none"> • Without assurance of technical assistance, a loan for restocking is high risk • Majority of the farmers have no reliable source of income from which to repay the loan | <ul style="list-style-type: none"> • Until there is sustained control of tsetse fly, credit for farming is not feasible • Poultry, piggery dairy is sustainable and can repay loans |

| | | |
|--|--|--|
| | <ul style="list-style-type: none"> • We need to have a reliable cash crop the way cotton was. • The loans should be provided for unrestricted use not just farming • Access to credit is not the main issue. I would not be willing to restock if the issue of tsetse control is not resolved. Co-op Bank was here before FITCA-K, but since the coming of tsetse fly, there is no need for credit' • I would only take it if the lender were a trusted one. <p>However, it appeared that FITCA-K has created very high expectation for 'loans' among farmers in this region who seem to expect a grant arrangement</p> | <ul style="list-style-type: none"> • The scheme need to take into consideration seasonality and be seen to benefit farmers and not to constrain them • FITCA-K should use government extension officers to provide technical assistance to farmers |
| <ul style="list-style-type: none"> • Previous experience with credit | <p>There were farmers with previous experience of borrowing in all the districts</p> <ul style="list-style-type: none"> • In Bungoma, there was plentiful credit facilities for sugarcane and tobacco farmers • In Teso, there was limited credit for a few from Akukuranot for bee-keeping and sunflower oil seed • In Busia, dairy, poultry and pig farmers have been able to access WEDCO micro enterprise loans. • In Bondo, fishermen and women co-operatives get revolving loans from Saga while cotton farmers get immediate payment from Saga for cotton delivered Malaba Cotton Ginnaries • In Siaya, farmers have had limited credit from LAGROTECH for farm inputs | <ul style="list-style-type: none"> • A government sponsored Livestock Development Programme (LDP) has provided very limited revolving 'credit' in the form of heifers that are repaid by heifers once the first has calfed |
| <ul style="list-style-type: none"> • What priority uses for proposed credit | <p>In all the districts, farmers expressed interest for credit to:</p> <ul style="list-style-type: none"> - • Purchase draught animals • Keep dairy animals • Purchase animal drugs • Plough land • Buy farm input supplies • Pay school fees • Buy food – there is hunger • Do small scale businesses <p>There was need expressed for financing cash crop farming of :-</p> <ul style="list-style-type: none"> • cotton in Bondo • sugarcane, horticulture and tobacco in Bungoma • Bee-keeping, fodder crops for resale, and piggery in Teso | <ul style="list-style-type: none"> • In this tsetse belt area, most loan money will likely go into treating the animals • Animal traction has many benefits to the community |
| <ul style="list-style-type: none"> • What terms proposed for credit | <p>On loan duration, most farmers interviewed expressed preference for a loan with: -</p> <ul style="list-style-type: none"> • a repayment period of up to two years • at least one month grace period • seasonal repayment arrangement. <p>On security, farmers suggested the following forms of security: -</p> <ul style="list-style-type: none"> • Group guarantee | <ul style="list-style-type: none"> • Suggested that the scheme operate in similar arrangements as the LDP • Offer group loans • Have vetting/ recommendation |

| | | |
|--|--|--|
| | <ul style="list-style-type: none"> • Land title deed • The project being financed – e.g. the animals • Employer guarantee • Guarantee by the local GoK administration • Business and domestic premises • Commercial and residential plots • Hypothecation of cash crop (sugarcane, tobacco, cotton) • Farm implements and farm animals <p>On interest rates: -</p> <ul style="list-style-type: none"> • farmers who have been in collaboration with FITCA-K and GoK expect an interest-free loan that may or may not be repaid • However, there were enterprising farmers who expect co-operative societies level of interest (12 – 15% p.a. flat) and others who have borrowed from MFIs and conventional commercial sources and expect similar interest rates (up to 18% p.a. flat) <p>On sources of loan repayment, farmers suggested the following possibilities: -</p> <ul style="list-style-type: none"> • Income generated from the project financed was the leading source of loan repayment • Hire out of plough services (draught animals) • Farm produce • Employment income • Proceeds from sale of cash crop • • | <p>by GoK officials</p> <ul style="list-style-type: none"> • Be seen to benefit the farmers and not to strain them and in this respect consider seasonality and ability to repay from other farm income sources • Have a subsidized interest rate • Be a rural development programme focusing on land use |
| | | |

Annex 2—LOGICAL FRAMEWORK

| Narrative Summary (NS) | Measurable Indicators (OVI) | Means of Verification | Important Assumptions |
|--|--|---|--|
| <p><u>Goal:</u></p> <p>1 To develop a Complementary strategy for enhancing household incomes of the rural communities by increasing access to microfinancial services for on-farm productivity, employment and self employment</p> | <p>1.1 Incomes of project beneficiaries increase by at least 25% over the project period</p> <p>1.2 1500 jobs created over the life of the project</p> | <p>(for all indicators)</p> <p>1.1 Comparison of baseline data from partner MFIs with period sample survey and/or formal external evaluation</p> <p>1.2 FITCA-K quarterly/annual reports</p> | <p>(Goal)</p> <p>1.1 The current level tsetse control and animal health services will be increased or at least maintained.</p> <p>1.2 Political, economic and social stability will prevail in the country and in the specific FITCA-K districts</p> |
| <p><u>Objectives:</u></p> <p>1 To develop the capacity of viable local microfinance institutions (MFIs) to provide financial services for on-farm economic activities</p> | <p>1. 15% annual increase in number of clients accessing the microfinance services</p> | <p>1.1 Baseline data report of each partner MFI comparing performance against targets and impact against baseline data</p> | <p>1.1 Access to microfinance will increase the communities' capacity and incentive to plough land and restock farm animals</p> |
| <p><u>Outputs:</u></p> <p>1 Strengthen the institutional capacities of at least four local MFIs to provide financial services for on-farm activities in the FITCA-K districts on a sustainable basis</p> <p>2 Support the development of financial products that meet the needs of on-farm economic activities</p> <p>3 Support the pilot-</p> | <p>1.1 At least four MFI assisted during the project life – key indicators are: - - % cost recovery levels - staff capacity - institutional resources - management systems and structures - Number of clients - Impact at client level (incomes and employment)</p> <p>2.1 At least four products targeting on-farm activities developed during the project life</p> <p>3.1 At least one product</p> | <p>1.1 Comparison of baseline data with data during and post-project period with data provided by the partner MFI performance reports and/or external evaluations</p> <p>2.1 - ditto -</p> <p>3.1 - ditto -</p> | <p>1.1 Providing funds for institutional capacity building of MFIs increases their capacity and incentives for sustainable provision of on-farm microfinance services.</p> |

| | | | |
|---|---|---|--|
| <p>testing and rollout (delivery and diffusion) of successfully tested microfinance products.</p> <p>4 Collaboration and networking with other essential parties that include specialist microfinance technical service providers (TSP), GoK PAHSP, farmers, micro- entrepreneurs and other interested parties to ensure success.</p> | <p>pilot tested and rollout by each of the four MFIs supported</p> <p>1.1 Contract and/or collaborative arrangements made with a microfinance TSP, GoK, PAHSP</p> | <p>4.1 - ditto -</p> | |
| <p><u>Activities:</u></p> <p>1 Identify partner MFIs and enter a MOU</p> <p>2 Identify and contract a suitable microfinance technical service provider to support the the MFIs</p> <p>3 Finance the institutional capacity development of the selected partner MFIs</p> <p>3 Finance product development, pilot-testing and rollout of new microfinance products targeting on-farm activities</p> <p>4 Monitor and supervise implementation</p> | <p>Inputs/Resources</p> <p>Year 1 Ksh. 32,000,000</p> <p>Year 2 Ksh. 47,812,500</p> <p>Year 3 Ksh. 49,625,000</p> <p>Year 4 Ksh. 45,900,000</p> | <p>1.1 Quarterly and annual financial and performance reports from partners MFIs</p> <p>1.2 Reports of the microfinance TSP</p> | <p>1.1 Opportunities for partnerships exist the project area</p> <p>1.2 Demand for microfinance services is high</p> |

Annex 3—Indicative Microfinance Program’s Budget

| PARTICULARS | YR 1 | YR 2 | YR 3 | YR 4 | YR1 – YR |
|---|-------------------|-------------------|-------------------|-------------------|------------------|
| PHASE I: PRODUCT DEVELOPMENT | Ksh | | | | |
| 1. Training design and development | 850,000 | | | | 850,0 |
| 2. In-workshop training | 1,150,000 | | | | 1,150,0 |
| 3. Field training/research supervision | 1,150,000 | | | | 1,150,0 |
| 4. Prototype, costing and systems development | 1,150,000 | | | | 1,150,0 |
| 5. Operational support (25% of direct costs) | 225,000 | | | | 225,0 |
| Sub-total Phase I | 4,525,000 | | | | 4,525,0 |
| PHASE II: | | | | | |
| 6. Initial Loan Capital fund | 5,000,000 | 15,000,000 | | | 20,000,0 |
| 7. Product concept testing and refinement | 1,100,000 | | | | 1,100,0 |
| | 7,850,000 | | | | 7,850,0 |
| 8. Systems design /development /purchase | 1,150,000 | 550,000 | | | 1,700,0 |
| | 1,150,000 | 1,270,000 | | | 2,420,0 |
| 9. In-workshop training | 1,910,000 | 1,910,000 | | | 3,820,0 |
| 10. On-site training/supervision/follow-up | 4,775,000 | 7,045,000 | | | 11,820,0 |
| 11. Marketing (strategy and materials) | | | | | |
| 12. Operational support (25% of direct support) | | | | | |
| Sub-total Phase II | 28,125,000 | 25,775,000 | | | 53,900,0 |
| PHASE III: ROLLOUT | | | | | |
| 13. Loan Capital | | 10,000,000 | 35,000,000 | 45,000,000 | 90,000,0 |
| 14. Pilot test internal assessment/review | | 1,130,000 | 0 | 0 | 1,930,0 |
| | | | 500,000 | 300,000 | 1,100,0 |
| 15. Rollout review and documentation | | 3,850,000 | 1,050,000 | 50,000 | 4,850,0 |
| 16. Systems install/software / hardware | | 1,150,000 | 1,000,000 | 00 | 1,650,0 |
| | | 00 | 500,000 | 00 | 1,700,0 |
| 17. In-workshop training | | 1,500,000 | 1,150,000 | 550,000 | 2,000,0 |
| 18. On-site training/follow-up/supervision | | 4,407,500 | 500,000 | 00 | 14,332,5 |
| | | | 9,925,000 | | |
| 19. Marketing (strategy and materials) | | | | | |
| 20. Operational support (25% of direct support) | | | | | |
| Sub-total Phase III | | 22,037,500 | 49,625,000 | 45,900,000 | 117,562,5 |
| Total phase I - III | 32,650,000 | 47,812,500 | 49,625,000 | 45,900,000 | 175,987,5 |
| | 0 | | 0 | 0 | |

Annex 4: List of Persons and Institutions Visited

Kisumu, Nyanza Provincial HQ

- | | | |
|----|-------------------|----------------------|
| 1. | Dr. J.M. Oganda | PDVS |
| 2. | Ben Abdul | Livestock officer |
| 3. | Dr. F. O. Onyango | DVO (Hygiene) |
| 4. | Dr. Kalewa | Deputy DVO (Hygiene) |
| 5. | Nduto Nelson | Lab Technician |

LAGROTECH

- | | | |
|----|------------------------|----------------------|
| 6. | Dr. Johnson F. M. Onim | Managing Director |
| 7. | Charles Otieno | Microfinance Officer |

FITCA-K/PMU

- | | | |
|----|--------------------|-----------------|
| 8. | Dr. Burkhard Bauer | Project Manager |
| 9. | Francis P. Oloo | Liaison Officer |

BUSIA DISTRICT

- | | | |
|-----|--------------------------|--------------------|
| 10. | Dr. Mulekevu W. Khaemba | DVO |
| 11. | Dr. Kiboi | Veterinary Officer |
| 12. | Makokha Mwaro | Veterinary Officer |
| 13. | Dr. Joseph Karanja | PAHSP |
| 14. | Dr. Simon Karanja | PAHSP |
| 15. | Shikamae Nicholas | Farmer |
| 16. | Ruth Shisaka | Farmer |
| 17. | Reuben Oyasi | Farmer |
| 18. | Cresential Mugeni (Mrs.) | Farmer |
| 19. | Crispin Mugeni | Farmer |

WEDCO

- | | | |
|-----|-----------------|--------------------|
| 20. | James Mutonyi | Operations manager |
| 21. | Branch Manager, | Busia |

BUNGOMA DISTRICT

- | | | |
|-----|--------------------------|-----------------------|
| 22. | Dr. Wanjia Wanangwe | Deputy DALEO |
| 23. | Kanyanya John | District Zoologist |
| 24. | Mukindi Kennedy | Agricultural Engineer |
| 25. | Martin Shivanji | Farmer |
| 26. | Silfanus Isindu | Farmer |
| 27. | Peter Ota | Farmer |
| 28. | Muse Mzee Mutoro | Farmer |
| 29. | Frederick Naswa | Farmer |
| 30. | Gilbert Wamae | Farmer |
| 31. | Nicky Lutakai Sokwa | Farmer |
| 32. | Ms Imelda Mabonga | Farmer |
| 33. | Frederick Waswa Wandagwa | Farmer |

BUNGOMA FAMILY DEVELOPMENT PROGRAMME

- | | | |
|-----|-----------------|----------------------|
| 34. | Mr. Maboga | Director |
| 35. | Watala Earnest | Credit Officer |
| 36. | Ms Rose Wanjala | Agricultural Officer |

TESO DISTRICT

- | | | |
|-----|---------------------------|--------|
| 37. | Ms Teresa Etiang | Farmer |
| 38. | Geoffrey Olunguru | Farmer |
| 39. | Ms Pamela Waundu | Farmer |
| 40. | Festus Omonding | Farmer |
| 41. | William Baraza | Farmer |
| 42. | Councilor Anthony Kapteni | Farmer |

AKUKURANOT

- | | | |
|-----|----------------------|----------------|
| 43. | Charles Ichapa Emaso | Accounts Clerk |
|-----|----------------------|----------------|

BONDO DISTRICT

- | | | |
|-----|-------------------------|-----------------------|
| 44. | Dr. J. Ochieng Manyonge | Deputy DVO |
| 45. | Morris Wambiga | Liason Officer, LDP |
| 46. | Dan Aliwa | Co-operatives Officer |
| 47. | Ms Judith Abongo | Farmer |
| 48. | Ms. Dorin Onyango | Farmer |
| 49. | Melch Mwanzo | Farmer |
| 50. | Jackson Amolo | Farmer |
| 51. | Munyendo Isaac | Farmer |
| 52. | Ms Awanjo Ferogona | Farmer |

SAGA THRIFT ENTERPRISE

- | | | |
|-----|----------------|-------------------|
| 53. | Harry Mugwanga | Managing Director |
| 54. | Dickson Ambwao | Loans Officer |
| 55. | Michael Ochola | Finance Officer |

SIAYA DISTRICT

- | | | |
|-----|--------------------|-------------------------|
| 56. | Jack Chew | DAO |
| 57. | Paul Kodogo | Farm Management Officer |
| 58. | Ms Jennifer Opunga | Extension Officer |
| 59. | George Otieno | Farmer |
| 60. | Tom Wandalao | Farmer |
| 61. | Alfred Okaka | Farmer |
| 62. | Ms Jane Odhiambo | Farmer |
| 63. | Ms Benta Atieno | Farmer |
| 64. | Christian Oluaoch | Farmer |
| 65. | Ms Janet Njoni | Farmer |
| 66. | Patrick Njonu | Farmer |
| 67. | Ms Joani Odhiambo | Farmer |



January 24, 2002

Dr. Burkhard Bauer,
Project manager
FITCA-Kenya

Dear Dr. Bauer,

Revised Microfinance Budget

This is further to your request this morning that I give you a revised budget for the proposed microfinance programme.

My understanding from our telephone conversation is that your operating budget has been cut substantially and therefore budget for all your programme activities will have to be reduced accordingly. That microfinance programme budget will not exceed Ksh.10, 000,000.

Given this limitation, I would like to recommend that FITCA-Kenya work with one and not four partners. If you will consider working with one partner, WEDCO is best placed to serve the interest of the project. WEDCO has the following competitive advantage over the others: -

1. It is in a position and willing to co-invest in the project.
2. It has the widest network with a presence each of the five districts. It therefore already has outlets and would not need to invest in new ones.

3. It is the most professionally run and has the strongest technical and institutional capacity for this type of intervention
4. It has micro-enterprise products that could, with some refinements, meet some of the existing agricultural credit needs for activities that have trading cycles similar to micro-enterprise These include financing of dairy, poultry, veterinary services and animal drug/feed supply.
5. Institutionally, it is best placed to attract additional funding from other donors in the later phases of the programme.

The revised budget that I present here below is based on the assumption that FITCA-Kenya will work with WEDCO which is prepared to co-finance the programme.

FITCA-K
Microfinance for On-Farm Economic Activities
Draft Budget
(For indicative purpose)
24 th January 2002

| PARTICULARS | FITCA Contribution | WEDCO Contribution | TOTAL |
|---|--------------------|--------------------|-------------------|
| PHASE I: PRODUCT DEVELOPMENT PRODUCT DEVELOPMENT | Ksh | Ksh | Ksh |
| Training design and development | 750,000 | 120,000 | 750,000 |
| In-workshop training | 750,000 | 120,000 | 870,000 |
| Field training/research supervision | 750,000 | 120,000 | 870,000 |
| Prototype, costing and systems development | 750,000 | | 870,000 |
| Sub-total Phase I | 3,000,000 | 450,000 | 3,450,000 |
| PHASE II: PILOT TESTING | | | |
| Initial Loan Capital | 5,000,000 | | 5,000,000 |
| Product concept testing and refinement | 750,000 | 100,000 | 750,000 |
| Systems development/installation | 750,000 | 2,500,000 | 850,000 |
| In-workshop training | 750,000 | 120,000 | 3,250,000 |
| On-site training and research supervision/follow-up | 750,000 | 120,000 | 820,000 |
| Marketing (strategy and materials) | 750,000 | 500,000 | 820,000 |
| Sub-total Phase II | 8,750,000 | 9,175,000 | 17,925,000 |
| Total Phase I & II | 11,750,000 | 9,625,000 | 21,375,000 |

Farming in Tsetse Controlled Areas

Terms of reference for the consultant on micro-financing

Background/introduction

Lack of disposable income at farm level appears to be a major constraint to improved agricultural production in the project area. The socio-economic household survey, which covered the entire Project area and the five district workshops identified the following problems.

- The micro-financing institutions in the Project area are not addressing the farming community's financial needs. Access to credit through the existing institutions is difficult for farmers.
- Banks do not accept title deeds for credit,
- Investment in farm inputs appears at present impossible,
- Bush clearing through animal traction is an important component of sustainable tsetse control in Teso and will be encouraged once the trypanosomosis risk is reduced. However, without credit the farmers cannot purchase draught animals.

Objectives of the consultancy

The objectives of this consultancy are to review the present situation with regard to micro-financing institutions in the project area and to give recommendations on how the Project might best use of the existing institutions. The consultant will assess in particular:

1. **Review the existing micro-financing institutions dealing with agricultural activities in the project area**, taking into account identification of borrowers, loan requirements, interest rates charged, loan repayment and viability of perceived investments,

2. Analyze the capacity of these institutions to deal with credit schemes on behalf of FITCA-K. Particular emphasis will be placed on:

- conditions of credit schemes
- groups eligible for credit schemes,
- gender-sensitive attitudes, eg preferential inclusion of women
- interest in micro-financing on-farm activities
- training capacities of the relevant institutions,
- capacity to handle extra finances
- interest charged, cash flow problems, loan recoveries and defaults,

3. Identify agricultural activities in the project area that, in the consultant's

opinion and in taking into consideration information on agro-economics, might be sustainable in medium terms, e.g. food/cash crop production, livestock production, animal traction, poultry and dairy production and delivery of private animal health services,

4. Devise a set of criteria for FITCA-to use in selection of existing farmers/women's groups for credit schemes.

Plan of work and reporting

PLEASE LOOK AT WHAT YOU HAD ORIGINALLY I have changed the contents of the first and third bullet.

- three days in Nairobi and Kisumu to compile information on existing micro-financing organizations, notably Community Development Trust Fund (CDTF), Micro-Enterprises Support Programme (MESP) Nairobi and LAGROTECH in Kisumu and to assess the present policy and attitudes of MoA&RD on micro financing of agricultural activities.
- one day briefing at PMU Busia,
- two days/district to review existing micro-financing structures including community based groups involved in credit schemes and to contact five farmers per district in order to assess their needs for farm inputs and other investments,
- four days for preparation of draft report which will be presented together with a verbal presentation at OAU/IBAR.
- a final report will be submitted on receipt of comments from OAU-IBAR, the EU delegation and the project staff.

Expertise required

The consultant will have at least ten years of professional experience with micro-financing organizations. Good knowledge of the socio-economic problems in rural Kenya is an important prerequisite.