EVALUATION REPORT OF KILIMO BIASHARA CREDIT GUARANTEE SCHEME

Final Report

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ABBREVIATION

AGRA	The Alliance for a Green Revolution in Africa
AGMARK	Agricultural Market Development Trust
ADP	Agro dealer Development Program
AMFI	Association of Microfinance Institutions of Kenya
ASAL	Arid and Semi-Arid Lands
ASDP	Agriculture Sector Development Programme
CAADP	Comprehensive Africa Agricultural Development Programme
CGS	Cash Guarantee Fund
DAO	District Agricultural Officer
DADO	District Agribusiness Officer
EAGC	Eastern Africa Grain Council
EGF	Equity Group Foundation
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
FGD	Focus Group Discussions
GDP	Gross Domestic Product
GoK	Government of Kenya
HPA	High Potential Areas
IFAD	International Fund for Agriculture Development
KPOSB	Kenya Post Office Savings Bank
LPA	Low Potential Areas
MOU	Memorandum of Understating
MOA	Ministry of Agriculture
MOF	Ministry of Finance
NGO's	Non-Governmental Organizations

NCPB	National Cereals and Produce Board
PEV	Post Election Violence
PROFIT	Program for Rural Outreach of Financial Innovations and Technologies
SACCOs	Savings and Credit Cooperative Societies
SWOT	Strengths, Weaknesses, Opportunities and Threats
SHOMAP	Smallholder Horticultural Marketing Program

Figure 1: Regions of Kenya

Source: Maps of Kenya Website

Figure 2: Equity Bank Branch Distribution

Source: Equity Bank Website

EXECUTIVE SUMMARY

Background

The Kilimo Biashara Loan Scheme Initiative was launched in 2008 by President of Kenya H.E Mwai Kibaki. The program is a 4 year pilot partnership between the Alliance for a Green Revolution in Africa (AGRA), Equity Bank and the Government of Kenya (GoK). The program aims at availing credit at 10% interest rate per annum to small-holder farmers and agribusinesses and capacity building for agricultural sector value chain players in Kenya. The credit is to enable the beneficiaries to purchase fertilizer and other inputs to improve farm productivity, enhance food security and expand their income base.

Under the scheme, Equity Bank Ltd was to disburse a total of USD.50 million to smallholder farmers, agrodealers and other players along the farming value chains against a "cash guarantee fund" (CGS) of USD5.0 million set up by AGRA and IFAD. Following the failure of IFAD's portion to materialize on time, the arrangement was revised and Equity Bank amount was lowered to USD25 million against AGRA guarantee of USD2.5 million. The guarantee would buffer the bank's risk of lending money to farmers and agribusinesses with little or no collateral.

Objectives of the Evaluation

The Program was to run from September 1, 2008 to August 31, 2012 (4 years of which 3 years were the pilot phase). AGRA has commissioned the evaluation to enable it determine the worth or significance of the Kilimo Biashara loan Guarantee scheme strategy. The evaluation will provide pertinent information; statistics and judgment that will help AGRA and its partners better understand the results and initial impacts of the loan scheme. The findings of the evaluation will inform the design of future guarantee schemes if AGRA decided to engage with other banks.

Approach and Methodology: Approach:

The Program is nationwide working through Equity Bank's branch networks. Within the allowed time frame, the evaluation targeted 2 Equity Bank branches in each of the 5 provinces and 1 branch per district. A total of 16 branches were sampled. The selection of the branches was purposely done to include high potential areas (HPAs) and low potential areas (ASAL), areas inclusive of smallholder and large scale farmers.

Methodology

The framework for the evaluation was along the following lines: Program design and structure; Program relevance and rationale; Program effectiveness and efficiency; Program impacts and sustainability; and lessons learnt. The evaluation used a combination of qualitative and quantitative methods including: examination of secondary data sources, key informants interviews, beneficiary impact assessments, and focus group discussions with Kilimo Biashara loan scheme beneficiaries. Field visits to sampled Equity Bank branches was conducted to enable the evaluation team gain better perspective on the implementation of the project and its overall benefit to the target beneficiaries.

Key Lessons Learnt

1) Managing the political risk is critical with Public/Private partnership projects like Kilimo Biashara.

2) Avoid running credit schemes alongside charitable interventions i.e. Kilimo Biashara superseded the NAAIP Kilimo Plus Kit creating confusion amongst the targeted beneficiaries.

3) Group lending rather than personal loans is the best approach for lending to/and reaching small scale farmers who do not have collateral. Working with existing groups formed for other common reason/purpose than loans is better than forming new ones. Groups should also be kept small 15-20 members for them to be cohesive and capacitated.

4) Grain farming does not perform well in some agro-ecological zones and there is need for farmers

to diversify sources of income to mitigate against the risk of crops failure and loan default.

5) The guarantee fund risk sharing formula has to be right to encourage the lending institution to relax its lending criteria and roll out more credit to marginalized and high risk groups. The 10%:90% risk sharing with Equity bearing the highest risk does not encourage the bank to relax its requirements and to extend lending to individuals who otherwise would not borrow, which is the purpose of the guarantee. The additionality factor.

6) Equity learnt that the bullet loan repayments system creates a disconnect with the borrowers and there is tendency for them to forget their obligations to the bank. Installment approach works well for client/bank relationships.

7) A large geographical coverage by a branch has negative impact on loan administration and monitoring as officers have to travel long distances and not regularly.

8) Large scale farmers with fully secured facilities do not like their loans released through agro dealers as is the practice under Kilimo Biashara. Some have opted for loans under other products.

9) Credit alone and an improved yield are not sufficient in resolving issues of food security and improved incomes. There is need to address the entire value chain of maize, especially issues of marketing, pricing, storage and value addition which will make farming a profitable venture for the farmers.

10) To achieve the planned targets, AGRA must roll out the Kilimo Biashara Loan product through many other financial intermediaries. This will expand outreach and improve access to loans by intended beneficiaries by bringing the services closer to them.

Conclusions and Recommendation

Kilimo Biashara has had a positive impact by opening up credit to small-scale farmers and other value chain players. In effect, the guarantee did act as a catalyst that enabled the Bank to extend its risk to clients that were unreachable before and in a sector that is considered high risk. The program however managed to reach 43,775 small scale farmers, 1,513 large-scale farmers and 407 agribusinesses. The achievements fall short of the target set at design stage whereby the benefits of the program was expected to reach 15,000 agriculture value chain players, 2.5 million farmers. Issues constraining more uptake of credit include: lack of information on availability of credit; long distances to Bank outlets where they can be assisted; fear of commercial banks requirements; fear of default and having their assets attached or sold.

The evaluation also found that the scope of the projects has been greatly constrained by its focus on grain farming only (mainly maize and wheat). This has meant that the Kilimo product has not been used in different agro-ecological zones. Farmers also need to diversify their farming activities which will in turn diversify their income sources reducing loan default risks in cases of crop failure. Because of the low risk coverage of the guarantee 10%, the Bank still has to apply strict evaluation criteria since the bulk of the risk 90% was borne by them. This in effect must have locked out many would be beneficiaries who did not reach the risk threshold set by the bank. By increasing the risk sharing element AGRA/IFAD will enable the bank to relax its credit criteria and hence admit more marginalized stakeholders. More investment in supportive infrastructure, such as feeder roads and storage facilities; water harvesting/ irrigation infrastructure etc rather than credit alone are required in order to boost production of smallholder farmers, enhance food security, and raise the incomes and ultimately the standard of living of the rural population.

Recommendations

1) With the recent release of the other 50% credit guarantee fund by IFAD of US$2.5 million, AGRA should now work out a compensation arrangements of the 10% risk to Equity after which the pilot phase should be wound-up and the next phase determined.
2) In future, AGRA should incorporate a grant to support capacity building and training of the small-scale farmers rather than leave it all on the lending institution.
3) The 10% risk coverage of the guarantee scheme is too low and not enough risk sharing to encourage a financial intermediary to scale up its lending to such a risky sector or to relax its loan appraisal criteria and procedures.
4) Kilimo Biashara Scheme emphasis on grain farming only is not realistic considering the different agro-ecological zones.
5) It is recommended that for the large scale farmers, loans should be liberalized and the loan amount disbursed to the farmer directly rather than to agro dealers.
6) Establishment of an advisory board comprising of all partners as was recommended in the framework is critical to guide the implementation of the project and its success.
7) Government should revive NCPB as a vital link with the farmers both for input supply and to enable the farmer have an alternative market for their produce.
8) There is need to delink the NAAIP Kilimo plus subsidized inputs scheme and Kilimo Biashara to avoid confusing the farmers and creating an opportunity for default.
9) Effective collaboration with the Ministry of Agriculture is fundamental but rules of engagement need to be very well spelt out.
10) Release of loans to farmers needs to be timely to avoid derailing the planting season which in effect would impact on the yield, incomes and ability to service the loans.
11) Find a mechanism of allowing farmers enough time to sell their produce and at reasonable prices before the loan duration period expires.

1 INTRODUCTION

The Kenyan economy is the largest in East Africa. The economy is reasonably diversified, though the agricultural sector remains the most important contributing 30 per cent of the GDP annually and another 25 per cent indirectly, 65 per cent of Kenya's total exports and providing more than 70 per cent of informal employment in the rural areas[1]. The Kenyan economy growth was suppressed in 2008 and 2009 following the Post Election Violence (PEV) recording a 1.5 and 2.6 percent growth in 2008 and 2009 respectively. The macroeconomic performance improved significantly in 2010 recording a 5.6 percent growth[2]. These developments were attributable to amongst other fundamentals: increased credit to the private sector, low inflationary pressure, improved weather conditions and relatively stable domestic environment. In addition, the country benefited from improved prices of the main exports and increased remittances from abroad resulting from the global economic recovery. Despite the campaigns associated with the 2010 constitutional referendum, business and consumers confidence remained largely intact thereby boosting economic growth. An overview of the major contributors showed a rebound in agriculture production as a result of good weather, which led to decline in prices of various commodities and improved export prices. The abundance of agricultural output, coupled with increased competition in some key services, helped contain inflation in 2010.

The beginning of 2011 was characterized by high fuel oil prices, low rains, high inflation rates, instability in the foreign exchange market and political uncertainty surrounding the succession politics and implementation of the new constitution. With the approval of the constitution, continued investment in infrastructure and increased government policies targeting development in the private sector should all enhance Kenya's business environment and reinforce a dynamic private sector. Prudent monetary and fiscal policies are expected to reduce inflation and keep interest rates low, creating a credible and stable macroeconomic environment. Given these prospects, the Kenyan economy is forecast to grow by 5.3% in 2011 and 5.5% in 2012 (CBK 2010 Annual Report). This positive outlook may however be subject to two main challenges. First, Kenya will need to reduce its high reliance on agricultural outputs to limit its vulnerability to climate hazards by diversifying the economy. Secondly, Kenya may be vulnerable to another political shock as it faces 2012 elections.

[1] Republic of Kenya (2010): Agricultural Sector Development Strategy (ASDP) 2010-2020
[2] Central Bank of Kenya 2009 Annual Report

2 SECTOR REVIEW

2.1 Overview of the Agricultural Sector

Agriculture continues to be a fundamental instrument for sustainable development, poverty reduction and enhanced food security in developing countries. Agriculture contributes over 30 per cent of the Gross Domestic Product (GDP) and provides 60 per cent of all employment in Africa. Seventy to eighty per cent of the total population lives in rural areas and is dependent mainly on agriculture for its livelihood. Over 70 per cent of the continent's extreme poor and undernourished live in these rural areas[3]. Currently, agricultural productivity growth in sub-Sahara Africa (SSA) lags behind that of other regions in the world, and is well below that required to achieve food security and poverty goals. The food crisis that we are witnessing has many causes, including low and declining agricultural productivity especially in Africa, high energy prices, diversion of food grains to bio-fuels, climate change, and low grain reserves on the global market. Increasing agricultural productivity in Africa is therefore an urgent necessity. According to the ASDP, in Kenya the agricultural sector employs over 40 per cent of the total population and over 70 per cent of the rural people. Food security and poverty remain major challenges for the Government: over 43 per cent of Kenya's population is food insecure and about 46 per cent—many of whom are in the rural areas—live below absolute poverty.

In October 2006, the Kenyan government published vision 2030 an ambitious long-term strategy aimed at Transforming National Development. The vision will surpass the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC), which expired in 2007. Vision 2030 aims are to turn Kenya into an economic inspiration by increasing income per head to $3000, achieving annual economic growth of 10 percent, and transforming the country into an efficient modern democracy. Based on Vision 2030, the agricultural sector has developed the Agricultural Sector Development Strategy (ASDS) 2010-2020 that envisages a food-secure and prosperous nation. The overall objective of the ASDS is to achieve an agricultural growth rate of 7 per cent per year over the next 5 years. The ASDS was developed through a consultative process involving sector ministries, development partners, the private sector and key stakeholders.

One of the fundamental ways of improving agricultural productivity is through introduction and use of improved agricultural technologies. For a sustainable solution, medium to long-term measures are needed to raise agricultural productivity in Kenya and other African countries. The Alliance for a Green Revolution in Africa (AGRA) and its partners is working with African governments, other donors, Non-Governmental Organizations (NGOs) the private sector and African farmers to significantly and sustainably improve the productivity and incomes of poor, small-scale farmers in Africa. AGRA also undertakes policy advocacy and resource mobilization. The main goals of AGRA is by 2020 to: i) Reduce food insecurity by 50 percent in at least 20 African countries ii) Double the incomes of 20 million smallholder families and iii) Put at least 15 countries on track for attaining and sustaining a uniquely African Green Revolution.

In Kenya like the rest of Africa, the use of improved seed at 30% and fertilizer at 20% is very low among smallholder farmers. As a result yields are low, with high levels of food insecurity in many parts of the country. Several factors explain this low level of use of improved inputs by farmers:

a. Lack of access to credit by farmers due to limited density of financial institutions in rural areas;
b. Very high commercial interest rates that create disincentives for farmers' investment in e.g. technologies;
c. High risk of lending to agriculture, partly due to reliance on rain fed;
d. Skewed lending to and preference of banks for commercial farmers;

[3] Comprehensive African Agriculture Development Program (CAADP) Kenya

e. Poorly developed input supply systems;
f. Lack of access to working capital by agro dealers to stock-up on farm inputs; and
g. Limited access to finance by input supply companies (seeds and fertilizers companies) to expand their operations.

The year 2010 was good for the agricultural sector in Kenya as compared to previous years. The sector expanded by 6.5 per cent, the first positive growth in three years after recording negative growths of 2.7 the previous year (2009) and 4.3 per cent in 2008[4] This growth was primarily driven by favorable weather conditions although increased use of certified seeds, subsidized fertilizer to small scale farmers and good international prices also played a large part.

2.2 Overview of the Financial Sector

Information from the Central Bank Annual Report for the year 2010 show that as at 31st December 2010, the banking sector in Kenya comprised of the Central Bank of Kenya as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company), 2 representative offices of foreign banks, 5 Deposit-Taking Microfinance Institutions and 126 Fore Bureaus. As at 31 December 2010, the Association of Microfinance Institutions (AMFI) had 51 registered member institutions comprising of commercial banks, deposit taking Microfinance Institutions (MFIs), wholesale and retail microfinance institutions, development institutions and insurance companies. Microfinance activities are also undertaken by the Kenya Post Office Savings Bank (KPOSB), Non-Governmental Organizations, and Savings and Credit Cooperative Societies (SACCOs) in addition to the many credit only microfinance companies. The MFI institutions operate under different Acts of Parliament, including Cooperative Societies Act, Trustees Act, NGO Coordination Act, amongst others. In terms of size and volume of transaction, a mapping of their activities is yet to be carried out. The microfinance sector has also witnessed increased interest from commercial banks with a number of banks having either down-scaled their products or are in the process of setting up subsidiary companies to specifically engage in microfinance business.

According to the CBK reports the financial sector recorded its highest growth for the last decade in 2010 growing at 8.8 per cent compared to 4.6 percent in 2009. The growth was due to increased borrowing riding on financial innovation that enhanced access to financial services. The year 2010 also witnessed the continued growth of the Kenyan banking sector on various key fronts: increase in the number of service providers, advancements in technology which facilitated service-delivery channels, geographical expansion by service providers both within Kenya and regionally and greater product differentiation resulting in niche market growth, among others. These improvements mark an important stage along the path towards a more efficient, stable and accessible banking system. According to the FinAccess Study[5] of 2009, the proportion of those excluded from financial services in Kenya dropped in both rural and urban areas. The drop was more marked in urban areas where it declined by about half. In 2009, 22.6% of the Kenyan population aged 18 years and older was formally included compared to 18.9% in 2006. In urban areas, the formal strand increased from 32% in 2006 to 41% in 2009. Usage of non-bank financial institutions has more than doubled from 7.5% in 2006 to 18%. This can be mostly attributed to innovations such as mobile banking which have improved access to financial services countrywide. In accordance with the CBK survey, in only four years of existence of mobile phone money transfer services, four mobile operators have enrolled over 15 million customers. Increased access to finance would allow a majority poor people to escape poverty by building their assets through savings and credit.

In the past the major source of financing for the agriculture sector has been through multilateral and bilateral agreements with individual governments. But the issue of sustainability was not, in most cases, adequately addressed. Some of the farmers have failed to realize the intended benefits of a program after the aid agency pulled out. Government agencies are also constrained by inadequate resources to meet the financial

[4] Republic of Kenya (2010): Central Bank of Kenya (CBK) Annual Report.
[5] FinAcess National Survey 2009 is prepared by the Financial Sector Deepening and the Central Bank of Kenya

requirements of the smallholder sector. Although credit offered by commercial banks to the Agricultural sector increased by Sh24.6 billion during the last five years from Sh28.1 billion in 2007 to Sh52.7 billion by December 2010 (CBK Annual Report 2010), banks are still biased towards non-agricultural lending due to higher returns and lower risks compared to the agricultural sector. Commercial financial institutions such as banks and financial houses cannot effectively service the needs of smallholder farmers due to their high interest rates and other limiting factors such as collateral. Yet credit is a key ingredient for unlocking the financial constraints that limit the performance of the agricultural input markets, as well as output markets such as: i) expanding the use of improved seeds and fertilizers by farmers, ii) expanding the quality and range of agricultural inputs supplied into rural markets: iii) supporting the access of agricultural input supply companies to loans to expand their supply of inputs into rural areas; iv) facilitating investments in agro-processing and value addition activities to stimulate incentives for investing in improved technologies and v) improving overall food security and incomes of poor smallholder farmers. Although some farmers have benefited from micro-financial services operating at the local level, the magnitude has not been wide enough considering the populations involved. Given their highly liquid positions and capacity, commercial banks have the capacity of scaling up financial services to the rural populations and the agricultural sector in particular.

3 KILIMO BIASHARA PROGRAM

3.1 Program Goals Objectives and Origin

Kilimo Biashara Loan Scheme is a project under the Agro dealer Development Program (ADP) developed by AGRA. The overall goal of the ADP is to improve the functioning of the input markets by increasing access to farm inputs among poor, small holder farmers through the development of agrodealer networks. Agrodealers are a conduit for seeds, fertilizers, chemicals and knowledge to smallholder farmers throughout Africa. ADP was to provide training and credit to establish and support the growth of agro-dealers in remote, rural areas where farmers currently lack access to seed, fertilizer and other inputs. The program was expected to build and develop networks of certified agrodealers to enhance the quality, volume and range of agricultural inputs seeds sold. The ADP intervention would result is well functioning agrodealers (5,600 in 5 years and 10,500 in 10 Years) in order to support the adoption of seed of improved crop varieties and complementary agricultural technologies.

Objectives The Objectives of the program is to increase income and reduce poverty by promoting the development of a seed system that delivers new crop technology to farmers in an efficient, equitable and sustainable manner.

Kilimo Biashara Origin In April 2008, Equity Bank submitted a proposal to AGRA for Credit Guarantee Funding. In its proposal, Equity Bank was responding to a request from Ministry of Agriculture (MOA) and AGRA to open bank accounts and to administer the government subsidy voucher system. Equity had also agreed to disburse a total of US$50 million as a credit facility to poor smallholder farmers, agro-dealers and other players in the smallholder farming value chain in Kenya. The bank would do it against a 10% "Cash Guarantee Fund" of US$5 million that was to be established jointly by AGRA and International Fund for Agriculture Development (IFAD) on a 50:50 basis (US$2.5 million) each. The guarantee would buffer the bank's risk of lending money to farmers and small agricultural businesses with little or no collateral. The Ministry of Agriculture would dispense to farmers a subsidy of US$300 million over the period subject to availability of funds. In turn, the bank agreed to charge subsidized interest rate of 10% for smallholder farmers and 15% for agri-businesses instead of its normal commercial rates of 18% and above.

The Kilimo Biashara Loan Scheme Initiative was launched on 6th May 2008 by the Head of state in a highly publicized ceremony. The program is a 4 year pilot partnership between the Alliance for a Green Revolution in Africa (AGRA), IFAD/Ministry of Agriculture and Equity Bank Ltd, which aims at availing affordable credit to small-holder farmers and capacity building for agricultural sector value chain players in Kenya. The credit will run for 3 years and is to enable them to purchase fertilizer and other inputs to improve farm productivity, enhance food security and expand their income base. Under the scheme Equity Bank operates two types of loans: Farmers' loans for input credit and small business loans that target agro-dealers, processors, importers and input manufacturers to finance working capital and imports as well as cover operational needs.

The award of the credit guarantee of US$2.5 million to Equity by AGRA was communicated to Equity Bank Ltd via their Grant Reference No.2008 PASS 038, letter of dated 22 Augusts 2008. AGRA disbursed the guarantee funds to Equity Bank on 10th September 2008. Under the "Framework Agreement and Guarantee" drafted but not signed by all parties, IFAD's funding was to be made available from the Smallholder Horticultural Marketing Program (SHOMAP) that was being implemented in conjunction with the Government of Kenya.

3.2 Program Management and Institutional Arrangements

AGRA: Under the Kilimo Biashara project AGRA would put up a credit guarantee fund of US$2.5miilion equivalent to 5% of the Guarantee fund. This would be in form of a lump sum deposit to Equity and also mobilize more resources for the partnership. AGRA is a public charity registered in the United States of America under Section 501C of the Internal Revenue Code. The "Cash Guarantee Fund" is an innovative financing approach by AGRA with local banks that would enable it to expand its work in the region.

IFAD/MOA: Under the "Framework Agreement and Guarantee" drafted but not signed by all parties, IFAD's Cash Guarantee funding of US$2.5 million was to be made available from the Smallholder Horticultural Marketing Program (SHOMAP) that was being implemented in conjunction with the Government of Kenya. The US$2.5 million to be used to establish the guarantee fund for Kilimo Project would be diverted from the SHOMAP project. To do so, the government had to apply for an amendment to the financing agreement with IFAD under SHOMAP, and to also understudy the guarantee mechanism under the financing laws of Kenya. This resulted in a protracted process which delayed the release of funds to Equity Bank till June 2011. Under the agreement, MOA would offer capacity building and extension services to project beneficiaries, mobilize them and link the farmers (groups) to Equity Bank.

MOA/NAAIP: The role of the Ministry of Agriculture through its "National Agriculture Accelerated Input Access Program" (NAAIP) was to disburse to farmers a US$ 300 Million worth of vouchers to the most vulnerable farmers to be redeemed for farm inputs at agro-stores. The MOA/ NAAIP would identify the beneficiaries to the subsidies across the country; issue them with vouchers for redemption at selected agro dealers. Agro dealers would present the vouchers to Equity Bank for payment by debiting the MOA/NAAIP account with the equivalent and crediting the agro dealers with the value of the vouchers. To maintain sufficient stocks, Equity would fund the agro dealers through the "Cash Guarantee Scheme". The MOA through its various projects and extension officers system were also to link the farmers directly or through their organized groups to Equity Bank for credit under the Kilimo Biashara project.

EQUITY BANK: Equity Bank commenced business on registration in 1984. It has evolved from a Building society, a Microfinance Institution, to now the all-inclusive Nairobi Stock Exchange public listed Commercial Bank. Equity Bank vision is to "To be the champion of the socio-economic prosperity of the people of Africa". The bank exists to "transform the lives and livelihoods of Kenyans socially and economically by availing them modern, inclusive financial services that maximize their opportunities". With over 6.5 million accounts, accounting for over 57% of all bank accounts in Kenya, Equity Bank is the largest bank in the region in terms of customer base and operates in Uganda and Southern Sudan. By June 2011, Equity Bank Group had a deposits base of Kshs130 billion.

The role of Equity bank under the partnership is to offer credit facilities to targeted beneficiaries against the 10% risk coverage provided by the US$5 million "Credit Guarantee Fund" established by AGRA and IFAD/MOA with them. Equity Bank has extensive experience lending to farmers and small and medium enterprises engaged in Agri-businesses. Under the agreement reached between the partners, Equity Bank would grant advances to Eligible borrower's loans but subject to the Bank's eligibility criteria. Under the guarantee, Equity bank was to commit a sum of USD50 million to eligible borrowers at a concessional interest rate of 10% for farmers and 15% for other agribusinesses. In consideration of this, AGRA and IFAD/GOK agreed to share the loss suffered by the Bank in case of default by borrowers to a maximum of 10% of the principal amount advanced.

AGMARK: The Agricultural Market Development Trust (AGMARK), a local registered not-for profit organization implemented the Kenya Agro dealer Strengthening Program (KASP), funded by the Alliance for a Green Revolution in Africa (AGRA)through CNFA. The role of AGMARK under Kilimo Biashara project was to build the capacity of agrodealers in business management, safe product usage and handling, product knowledge and crop husbandry practices and sensitizing the agrodealers on the modalities and expectation of the Kilimo Biashara scheme. The objective was to inform agrodealers on the available credit window for financing their businesses, thus availing the inputs to smallholder farmers as well as improve production practices through over 1,300 demonstration plots established in the country under KASP.

4 EVALUATION PURPOSE AND METHODOLOGY

4.1 Objectives of the Evaluation

The Kilimo Biashara pilot Project was to run from September 1, 2008 to August 31, 2012. The project is now in its third year while the final year would be used to wrap up the credit. The purpose of the evaluation commissioned by AGRA is to determine the worth or significance of the Kilimo Biashara scheme strategy in achieving the objectives of increasing incomes and to reduce poverty, by promoting the development of a seed system that delivers new crop technology to farmers in an efficient, equitable and sustainable manner.

The evaluation is expected to provide pertinent information, statistics and judgment that will help AGRA and its partners better understand the results initial impacts of the loan scheme. Evaluating the Scheme will help AGRA understand what has worked well, what has not worked well, and why, in order to inform decisions on potential areas for improvement. The evaluation would also assess the outputs and outcomes of the scheme; determine the benefits to farmers and other players in the value chain; identify key lessons learned so far and formulate recommendations that will guide decisions about whether and how to continue the scheme, adjustments required to optimize its effectiveness and impact.

4.2 Evaluation Methodology

The detailed evaluation design included key evaluation/research questions, sources of data/information, and data collection methods and instruments, and a detailed evaluation implementation plan including key task, activities, and timelines. The following methods were used in the evaluation:

a) Desk review of documents such as the program documents (financing agreement and approved program estimates; financial reports; minutes of meetings, emails etc.) and external documents such as external assessment reports
b) Key informant interviews at the national level with selected program partners, financial institutions and relevant government departments and staff members of selected branches of Equity Bank in 5 provinces.
c) Focus group discussion interviews with beneficiaries in selected districts
d) Direct observation – through field visits with implementers and beneficiaries.

The evaluation team sought to determine the implementation status of the Kilimo project and whether the expected results have been or are likely to be achieved and the chances of sustaining these results. Evaluators also sought information to identify and assess the validity and continuing relevance of key program assumptions, to assess the quality of program management and the technical effectiveness of program activities, to identify factors internal and external to the program that have affected its implementation and results, and to identify the challenges and risks to the full attainment of intended program results.

Given the fact that the Kilimo Biashara Program is nationwide (see the Map on page 4 showing Equity Bank branch network), the evaluation could not visit all the Equity branches. The team used a sampling approach that included two (2) Equity Bank branches in each of the five provinces, and one (1) branch per district. The selection of the branches was purposely done to include high potential areas (HPAs) and low potential areas (LPAs) and areas inclusive of smallholder and large scale farmers. The agro dealers and input suppliers were generally selected from within the towns where Equity branches were located. Since the evaluation team did not know where the clients were located, they had to depend on Equity Bank staff to facilitate all interviews and provided assistance with scheduling meetings and appointments, as well as field visits with the selected stakeholders. Field work was split into two teams as follows:

Team 1: covered South Rift, Nyanza, Western and North Rift regions The branches visited were Narok, Kisii, Kericho, Kakamega, Bungoma, Kitale, Eldoret and Eldoret Market,

Team 2: covered Central, Eastern and Central Rift regions which included equity branches in: Embu, Chuka, Meru, Olkalou, Nyahururu, Nakuru Gate House, and Machakos.

4.3 Evaluation Challenges and Constraints

The AGRA commissioned evaluation process seems to have coincided with a very busy period in the Equity Bank calendar. The Equity staff also felt overwhelmed as they had to deal with several teams from AGRA which included an Audit team and another evaluation team. There was a general feeling in Equity that the work by AGRA was being duplicated and taking up a lot of their time. Consequently, the evaluation team's field work was postponed several times to await completion of the other two assignments and to free the staff. Initially the Evaluation had scheduled to spend two days at each Equity Bank branch selected but this was cut down to a day per branch by Equity Head Office. The Team made up for the rest of the time by increasing the number of branches visited from 10 to 16, eight per evaluation team.

The evaluation team also faced challenges obtaining information from Equity Bank including: information on any incremental operational costs resulting from Kilimo Biashara portfolio; staffing increases (if any) as a result of the program, training and other capacity building cost implications. Given the delay in receiving this information, the evaluation is of the view that the bank may not have in place a mechanism to capture expenses specific to the Kilimo Biashara project. These were treated as part of their regular operational expenses. The bank probably did not consider the incremental costs arising from Kilimo Biashara scheme significant enough to warrant their segregation. A key missing piece of information requested for was the statement on AGRA's US$2. 5m Guarantee fund account held with Equity Bank. Efforts by both the consulting firm (CARDNO) and AGRA staff to obtain such a document did not bear fruit. As such, the evaluations cannot report on the status of the AGRA grant account. The evaluation also did not have the benefit of AGRA project staff supervision and progress reports on the scheme. These would have informed the evaluation of any issues/findings that have immerged during the schemes' implementation and the actions and/or recommendations made/taken. A desk review of such reports would have helped the evaluators to familiarize with the program and to determine its progress and status.

The selection of beneficiaries to be interviewed was determined by Equity Bank as there was very limited time (one day only) allowed by Equity Bank headquarters for branches and the consultant to use a sampling framework for selection of interviewees. Besides, the location of these clients was only known to staff of Equity Bank. Given the time constraints the team could only visit clients who were located close to the branches and only Equity staff could locate them. Despite the various communications with the Bank prior to the evaluation, some of the branches were not prepared for the evaluation teams, which translated to poor identification and organizations of the beneficiaries to be visited. The staff also seemed not well briefed as to the purpose and objectives of the evaluation exercise. With lack of proper understanding, the field staff did not prepare adequately in advance the key beneficiaries to be visited and interviewed by the evaluation teams. The evaluation also coincided with a retreat for Equity branch managers and training of Agricultural credit officers (2 per branch) in Nairobi. Hence some key staff were missing in some of the branches and arrangements for the evaluation field visits were either done or completed while the team was at the branch.

Another constraint faced by the evaluation team is that Kilimo Biashara beneficiaries tend to be located long distances from the Equity branches. In Kisii the evaluation team had to travel over 65 Km from Kisii branch to Kilgoris and Trans Mara District to meet with the farmers. In Eldoret Kilimo clients were in Burnt Forest and Soi areas. The Agrodealers were equally spread out being where the farmers are located. The MOA - District

Agriculture Officers were located far from where the farmer's and agrodealers were located. Finding large scale farmers also proved challenging as the team had to travel long distances to locate them. Trying to achieve all this in a day and travel to the next location proved to be quite difficult. Given these constraints, the evaluation team was greatly limited in the sample size of those that could be effectively interviewed and time spent with them. The team was able to administer questionnaires to a total of 134 farmers (6 large scale farmers, 128 small-scale), 5 cereals traders and 16 agrodealers (see annex 1 for names of all interviewees). The evaluation team had anticipated to administer 20-25 farmers' questionnaires in each district (successful and unsuccessful) and 10-15 to other value chain players. The number of interview questionnaires administered by respective locations is given in table 1.

Table 1: Number of Farmers, Traders and Agro dealers Interviewed by Location

Location	Large Scale Farmers	Small-scale Farmers	Traders	Agrodealers
TIGANIA EAST		14		
MAARA GANGA		9		
NYANDARUA CENTRAL/OLKALOU		6		1
IMENTI NORTH	1	0		
LAIKIPIA WEST	1	12		1
KIPKELION		16		
TRANSZOIA	1	16		2
UASIN GISHU	1	33	2	2
KAKAMEGA		3	3	3
BUMULA		4		1
KERICHO		1		1
EMBU EAST		4		
NAROK NORTH	2	0		3
KHWISERO		1		
ELDORET WEST		1		
IKOLOMANI		1		
MERU SOUTH		1		2
STATUNGA		1		
KIMILILI		5		
TOTAL	**6**	**128**	**5**	**16**

Source: Evaluation Mission

Other reasons why the evaluation fell short of the target were: i) the number agrodealers that have benefited from Kilimo Biashara loan with Equity Bank is much smaller than anticipated at the planning stage. In most towns visited, the large agrodealers had established accounts with other banks; ii) large scale farmers and traders prefer other more flexible loan product in Equity rather than Kilimo Biashara; iii) The evaluation was also unable to meet with any unsuccessful farmers. The evaluation was told that most of the farmers who applied for facilities from within the groups systems received loans. Those that did not qualify for loans were eliminated ate the group level and did not apply to Equity for loans. Equity does not keep track of unsuccessful applicants nor does the bank capture their details in their system. Applications are only captured in the Bank's system if they are successful.

Ministry of Agriculture Officers

In some districts, district agribusiness development officers (DADOs) were interviewed. In others it was crop officers who were available while yet in others it was the district agricultural officer (DAO).

Table 2: List of MOA Officers contacted by Districts Visited

District	MoA officers interviewed	District	MoA officers interviewed
Embu	Crop Officer, Kyeni	Narok	DAO
Chuka	DADO	Kisii	DAO Kilgoris
Meru	Deputy DAO	Kericho	None
Olkalou	Extension officers in Olkalou Division.	Kakamega	None
Nyahururu	DAO	Bungoma	DAO
Laikipia	None.	Kitale	Kenya Seed, MD
Nakuru	DAO	Eldoret	None
Machakos	None	Eldoret Market	DAO

Source: Evaluation Team

5 MAJOR FINDINGS

5.1 Program Logic

The Ministry of Finance estimates that the annual credit needs of key agricultural value chains stands at Sh130 billion. However, the current level of credit to the sector is pegged at Sh40 billion, implying a funding gap of Sh90 billion. This means that only 30 percent of the demand for credit by the agricultural sector is currently being met. The Kilimo Biashara scheme therefore remains relevant even under the prevailing economic conditions in Kenya. Many of the critical assumption upon which the scheme was conceived still hold i.e.:

- Agriculture accounts form a large proportion of the national output and employment, and is especially important to the strategic objective of alleviating poverty.
- Smallholder farmers still lack access to credit which constrains their ability to buy certified good quality seeds and other inputs that would contribute to better yields.
- The use of improved seed and fertilizer still remains very low among smallholder farmers in Kenya; consequently yields are low leading to high levels of food insecurity in many parts of the country.

According to the 2009 National Financial Access Survey, 32% of Kenya’s bankable population is totally excluded from the Financial Services orbit. Despite the fact that agriculture accounts for over 70% of Kenya’s rural employment, only 1% of commercial lending is directed into agricultural activities. Inadequate knowledge of the agricultural value chain also limits banks' ability to develop innovative financial products that would grow the sector and ultimately stimulates economic growth. Because of the prevailing banking perception that lending to farmers and agro-businesses is “high risk” and the historical reluctance of banks to gamble on potentially “unacceptable” losses, the AGRA “Credit Guarantee Fund” has opened up much-needed funds by cushioning Equity Bank and reducing the financial risk of lending to the sector.

5.2 Design and Structure

Through the partnership, AGRA leverages IFAD, Equity Bank and the Government of Kenya to mobilize large scale financing for the development of the agricultural input market, expansion of access to finance for agri-input supply companies, agrodealers and farmers. By facilitating Equity Bank to develop and implement innovative Kilimo Biashara loan product and other products targeting smallholder farming subsector, the AGRA grant was meant to contribute to sustainable financing for increased productivity, food security and house hold incomes in rural Kenya. Based on the risk sharing arrangements, Equity Bank would lend to farmers at annual interest rate of 10% and 15% for other agribusinesses. These rates are cheaper than commercial market rate of 18%. It must be noted that the GOK has a subsidy scheme for inputs for the poorest of the farmers under NAAIP. In all, the project was expected at its completion to have the following outputs:

1) Made available up to US$50 million for rural businesses in the agriculture input and output value chains;
2) Increased the volume of business for 15,000 agricultural input value chain players
3) Over 2.5 million farmers increased their farm productivity, food security and incomes

4) Increased density of financial services in rural areas as other banks develop similar financial products for farmers and agricultural inputs and outputs supply companies.

In terms of making available US$50m to the agricultural sector, one needs to remember that since part of the guarantee fund that was to come from IFAD was delayed, the assessment has to focus on the 50% contributed by AGRA. The bank was able to advance some KSh.2 billion which was equivalent to about US$2.5 million. So in this specific instance the bank was able to achieve the key objective of the project of delivering new crop technology to farmers. The ability of the bank to deliver this service in an efficient and equitable and sustainable manner was however affected by challenges which included: misrepresentation by politicians; vagaries of weather and its negative impact on the farmers' ability to repay loans; and inadequate preparation for the implementation of the program leading to serious challenges in terms of capacity for the bank staff, farmers and government officers.

In terms of increasing volume of business for 15,000 input value chain players and reaching 2.5 million farmers, the evaluation is of the view that these targets set at design were overly ambitions for a pilot credit scheme. This is because with credit the institution administering the fund has to put in place appropriate structures and policies before they roll out the program. On the positive side, the innovativeness of Equity Bank staff on the ground that understood the challenges and sought to work out feasible solutions rather than give up was a positive factor in getting successful outcomes. One such approach is the group lending system. The Bank was however quick to learn about the dire need for capacity building of farmers' groups and made the necessary support available by organizing training funded by the Equity Group Foundation (EGF). All farmers in the groups receive twelve (12) weeks of training before they become eligible for loans. This is an issue that should have been considered during the design stage and funds for the capacity building of groups set aside within the grant. As it is, Equity has been obliged to capacitate the farmers through the foundation and at their own cost. In future, such support should be make part of the guarantee arrangements.

In terms of other value chain players (agrodealers, millers and traders), Equity seems to indicate that many of these categories of beneficiaries either already had facilities with other banks and financial institutions or preferred to borrow through other more flexible Equity bank commercial loan products. Banks are not very well informed with the needs of the players along the agricultural value chain. Hence and analysis of the specific crop value chain would maybe assist the financiers to understand the linkages and what aspects of it they can fund. In terms of crops targeted in the design, the program only selected grains mainly maize and wheat yet small-scale farmers have other activities they engage in such as dairying, horticulture, poultry, etc. Although these crops are not the preferred target by AGRA, food security cannot be considered only in terms of production of maize and wheat. Furthermore, focusing only on grains may not augur well to the risk exposure of financial institutions that support small-scale farmers. Maize and wheat are also significantly produced only in Rift Valley, Western and Nyanza Provinces.

There have been unintended positive results out of the program. One of these is the fact that Equity Bank has been forced to make use of its Equity Group Foundation to sponsor training programs for farmer groups on credit. This is a welcome move that is bound to have significant payoff in the future. Another unintended result has been the creation of some capacity within the bank itself for innovating farmer friendly credit products. These two areas will provide some competitive advantage to the Bank in future as potential competitors will have to adopt similar methods to enjoy the same level of confidence with farmers. On the negative side, there was hurried implementation of the Kilimo project before all partners were on board. The inadequate preparation not only affected the capacity building that should have preceded implementation but it also meant that beneficiaries were not involved in program design and were largely mobilized through meetings with Equity Bank staff, Ministry of Agriculture staff and the Provincial Administration.

5.3 Program Relevance and Rationale

Kilimo Biashara Program is coherent with national policies in terms of the desire to increase national food security and support small-scale farmers engage in commercial farming. The key problem identified at the start of the program was the low access to inputs by small-scale farmers and therefore the objective was to increase this access and focus it to the growing of food crops particularly grains. In an environment where banks are averse to lending to the agriculture sector especially small scale farmers there is definite need of a range of interventions that can support the sector. Kilimo Biashara scheme is one such intervention whose goal is to unlock the much needed credit to the small-scale farm sector. The grant is a strategic partnership for leveraging large scale commercial financing to expand access to affordable financing to farmers, agrodealers, input wholesalers and other players along the agriculture value chain. In this regard the credit guarantee scheme remains relevant and important to the growth and modernization of the agricultural sector.

5.4 Technical Efficiency and Effectiveness

5.4.1 Overview

Overall, there is a good appreciation of the positive effects of the Kilimo Biashara Loan product amongst the farmers and players in the value chain interviewed, as well as, with Equity bank staff despite the implementation challenges. For some of the small-scale farmers within the group lending system, this is the first time they have had the opportunity to interact and receive financial assistance from a major bank in the country. That in itself has been a major source of pride for these normally financially marginalized farmers. The fact that a major bank like Equity is willing to work with small-scale farmers groups is also a major shift from the traditional commercial banks approach, which focused on the profitable corporate segment of the market. Feedback from MOA officials who interact closely with the farmers is that the Kilimo Biashara approach has been effective in changing farmer's perception to agriculture as a profitable occupation. It has also proved that partnership with private sector to support agriculture sector can work, albeit implementation challenges from which important lessons can be drawn. The choice of value chain model provided the best approach to address the challenges faced by players in the agriculture sector in its totality.

Within Equity Bank, the Kilimo Biashara product has enabled the bank to diversify its client base and to bring in a level of smallholder farmers who were before unreachable and unacceptable. Out of Kilimo Biashara name tag, the bank has developed several other loan products such as the Kilimo Super and Kilimo Kisasa. The Kilimo Super product targets clients who need loans to purchase farm machinery and equipment while Kilimo Kisasa is for greenhouse purchase. These products were created to deal with clients who fell outside the Kilimo Biashara scheme in terms of amounts and commodities funded. Under the Kilimo Biashara the bank funds farmers' loans for input credit and small business loans that target agro-dealers, agro-processors, importers and input manufacturers to finance working capital and imports as well as cover operational needs.

One major challenge that Equity bank has had to deal with is the impressions created during the official launch of Kilimo Biashara Guarantee Scheme. The launch which was done jointly with the Government created the initial impression amongst the public and farmers in particular, that Kilimo was a government initiative and they were to benefit from grants channeled through Equity Bank. It has cost the bank time and a lot of resources to educate the public through media and contacts with their staff to change the perception caused by the launch. The evaluation also found that implementation of Kilimo Biashara loans did not start at the same time across Equity bank branches. Some rolled out the product in 2008 while others started in 2009. This is because the bank needed to put in place appropriate loan procedures, recruit and train staff that had skills in agricultural financing, group lending and dynamics. The bank may also have adopted a cautious approach with Kilimo Biashara initially piloting it in a few selected braches while the structures were being developed and refined.

5.4.2 Performance of the Implementing Institution (Equity Bank)

***Program Launch and Sensitization**:* Kilimo Biashara was launched by the head of state during an event held on 6th May 2008. Immediately after the launch the bank was inundated with customers and had to quickly lay down operational mechanism for the project. Equity Bank embarked on a sensitization of its entire credit managers, branch managers, marketing managers and the general staff to harmonize the market information and to promote the product. At the Ministry of Agriculture level, six sensitization forums were held in the Rift valley, Eastern, North eastern, Coast and Nairobi provinces. During the meetings, the agricultural extension officers were informed of their role in the partnership in linking with Equity branches and providing farmers with recommendations. This formed the basis for mobilization of farmers.

Public Awareness of the project was done through national and local Medias, interactive and presented programs on TV's and radio stations. Through the programs the target market beneficiaries were able to get first hand information and ask questions about the project. Print media was used through national newspapers and professional and organizational newsletters. Equity marketing department also utilized every forum possible including farmers days organized by MOA and other market players (Chemical companies, AGMARK etc) at the local levels to market the partnership and the product. The Bank established a Customer care desk in all its branches where information on the Kilimo Biashara product could be passed on to interested parties. This helped raise awareness about the program and resulted in many farmers and stockists visiting Equity outlets to get more information on the Kilimo Biashara product. The Bank has also recruited managers and officers with extensive agriculture knowledge and experience to manage the program. The Evaluation team was able to meet and interact with some of these officers and was impressed by the passion and commitment with which they work with farmers in linking them to the bank products and services and even to other players in the sector. Although now the bank has the right structures in place to handle the scheme, initially this was more of a crush program with Equity Bank doing what it could to salvage what could easily have become a monumental disaster. Opportunities for interaction with AGRA and similar donor funded programs were limited due to the failure to ensure the program was operationalized through a memorandum of understanding as was originally envisaged.

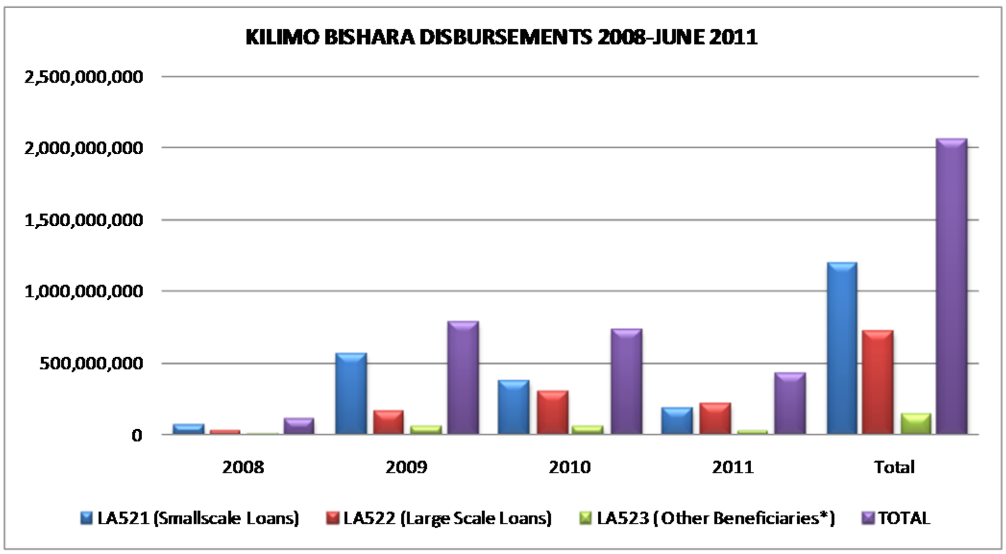
Status of Disbursement: Since the Kilimo Biashara Loan Scheme initiative was launched in May 2008, documents received from Equity Bank show that the bank has disbursed loans amounting to Ksh 2.062 billion. Of this, Ksh 1.195 billion (58%) was to 43,775 small scale farmers, 35% amounting to Ksh 710 million to 1,513 large-scale farmers; and 7% totaling to Ksh147 million to 407 agribusinesses including: Agro dealers, Agro processors, traders, input manufacturers, input importers and other players along the value chain. Table 3 and the pie chart gives the progressive disbursement from 2008 up to June 2011 and the number of clients reached each year by categories of beneficiaries (scheme code).

Table 3: Kilimo Biashara Disbursement by Amount and Number of Beneficiaries

	2008		2009		2010		2011(JUNE)		TOTAL		
SCHEME CODE	DISB. AMT	CLIENTS	DISB. AMT	CLIENTS	DISB. AMT	CLIENTS	DISB. AMT	CLIENTS	DISB. AMT	% Disbur.	CLIENTS
LA521 (Smallscale Loans)	69,682,538	4,398	560,718,058	22,387	377,612,887	11,758	187,565,863	5,232	1,195,579,346	58	43,775
LA522 (Large Scale Loans)	30,850,588	69	168,851,583	513	303,147,556	461	217,006,975	470	719,856,702	35	1,513
LA523 (Other Beneficiaries*)	7,555,000	40	57,975,600	180	56,621,611	118	25,250,000	69	147,402,211	7	407
TOTAL	**108,088,126**	**4,507**	**787,545,241**	**23,080**	**737,382,055**	**12,337**	**429,822,838**	**5,771**	**2,062,838,260**	**100**	**45,695**

Source: Equity Bank *Other beneficiaries include: agrodealers, traders, input manufacturers, input importers and agro processors

Figure 3: Kilimo Biashara Disbursement 2008 – June 2011



As will be observed from table 3 disbursements under Kilimo Biashara started off slowly in 2008 and peaked in 2009 and 2010. Year 2009 had the largest amount disbursed of Ksh787.54 million to a total of 23,080, followed by 2010 with total disbursement of Ksh738.38 million to 12,337 clients. Mid-2011 year results show that disbursements are still on an upward trend although the evaluation noted a general slow-down in some of the Equity branches visited like Bungoma. Kitale and Bungoma branches in Western Kenya have the largest Kilimo Biashara loan book totaling Ksh 411.2 million and Ksh243million respectively. Breakdown of the Kilimo Biashara portfolio by branch is given in annex 3 of the report. Bungoma branch is a good example of effects of bad loans on the capacity of the bank to deliver on its mandate under Kilimo Biashara. In 2009 the branch disbursed Ksh219m to 7810 farmers; in 2010 Ksh21.7m to 920 farmers and in 2011 a mere Ksh1.5m to 66 farmers. As at the time of the evaluation, the branch has cut down on lending and is focusing more on recovery. In 2009 when the scheme started there was a lot of interest in the program in the region hence the large loan book. Unfortunately, in 2009 the region was affected by massive crop failure as a result of low rainfall result in massive default in loan repayments.

Overall, there were also challenges with the delivery of inputs by agrodealers due delays in disbursement by Equity in the first year. This is because at the onset, the bank had to indentify farmers and farmers groups, train them for 12 weeks before they became eligible for loans. The evaluation was told that sometimes the 12 weeks training overlapped with the planting seasons. By the time the farmers loans were approved and they collected their inputs the planning seasons would be advanced. Hence there is need for the bank to synchronize its training programs with the farm activities and ensure that inputs reach the farmers timely. The situation is worsened when Agrodealers refuse to buy inputs until the farmers were available to buy them. In 2011 equity disbursed loans to farmers on time but farmers could not find seeds and other inputs. Due to lack of inputs farmers ended up planting late and in some cases using uncertified seeds.

Due to the crop failure experienced in 2009, the bank has adopted a more cautious approach in loaning to small-scale farmers while also directing more time and resources in managing delinquent accounts and ensuring recovery. The scheme also experienced slow uptake in areas such as central province where land holdings are small and not suited for maize and wheat farming, which are the selected grains for promotion under Kilimo and which do not perform well in these environments. In Eastern province rainfall remains a major challenge. In these regions, there are other competing cash crops such as tea, coffee, horticulture, poultry and dairy farming. Disbursement in these regions remains very low. The bank also keeps a very close watch on weather forecasts to mitigate against crop failure. Hence the decision to pilot with various insurance products including the Weather Index Insurance.

***Loan Repayment Duration*:** The loan recovery period does not seem to be standard across Equity Bank branches. In Narok the farmers were given 10 months while in Kitale, Kisii and Bungoma loan duration were 6-8 months. Equity target is to recover the full amount owed soon after harvest to minimize on the risk of the farmer being tempted to divert sale proceeds. Variations in loan repayment periods are a factor of the different agro-ecological variations leading to different maturing periods for crops. Another reason given was that repayment periods are negotiated with branch managers who are willing to take into the account the feelings of the beneficiaries. Most farmers interviewed felt that the loan repayment period were short and Equity should consider extending them. Farmers concern is that loan repayments coincide with the harvesting period when produce prices are at their lowest. Because of pressure to repay their loans, farmers are forced to sell their produce at these very low prices and hence incur heavy losses. Even where they don’t incur losses, they are unable to reap the full benefits from their increased farm outputs which results in frustration.

Some farmers suggested the loan period be extended to 12 months others 15 months to give the market time to stabilize and prices to rise. For example farmers in the maize growing areas claimed that in 2010 they sold their maize at Ksh1,200/= and two months later the government announced prices of Ksh2,000/=. Farmers are willing to reach an arrangement where Equity could hold their produce as surety against their borrowings while they await for better prices. The constraint is that Equity has not developed a mechanism for storing and managing such stocks. This is also outside Equity Banks mandate. It is the role of the Government and other stakeholders to develop storage and drying facilities close to the farmers. This is a critical input and the missing link for the farmers. Table 4 gives the loan duration periods for the sampled farmers. 52% of the farmers interviewed have a 10 month repayment period and 22% one year. There is need for the Bank to look into this issue and consider how farmers can be allowed enough time to sell their produce when prices are at their best.

Table 4: Loan Repayment Period by Number of Farmers

Loan Repayment Period in months	Number of Farmers	Percent
5	2	1.49
6	14	10.4
7	5	3.73
8	5	3.73
9	3	2.24
10	70	52.2
11	1	0.75
12	30	22.3
36	1	0.75
.	3	2.24
Total	134	100

Source: Evaluation Findings

As explained in another part of the report, initially the bank recovered loans from farmers using the bullet system i.e. one payment made at the sale of the harvest. This however was found to be burdensome to the farmers and so the bank decided to spread the loan repayments over the loan period with the final lump sum coming in after the farmers have sold their produce. Equity has set these weekly loan payments between Ksh500/= and Ksh2000/=. These are supposed to be comfortable enough to be paid from the farmer other economic activities. When loan repayments are made by installment the interest component is covered hence the loan does not fall into the nonperforming category even if there is a delay in repaying the principal loan. This implies that farmers must diversify to other economic activities for them to be credit worthy. This system seems to have worked quite well with the farmers.

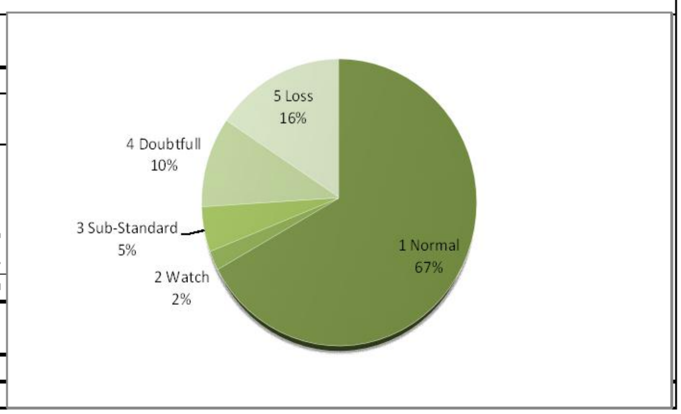
Kilimo Biashara Portfolio Health: According to reports received from Equity, year 2009 was not a good year for the Kilimo Biashara portfolio due to effects of drought resulting in crop failure particularly in the major grain producing parts of the country. Reports from Equity indicated that most small scale borrowers were not able to repay their loans even after the bank gave them extension in repayment periods and restructured their loans. As explained in another part of the report, initially the bank recovered loans from farmers using the bullet system i.e. one payment made at the sale of the harvest. This however was found to be burdensome to the farmers and so the bank decided to spread the loan repayments over the loan period with the final lump sum coming in after the farmers have sold their produce. The repayments are supposed to be comfortable enough to be paid from the farmer other economic activities. When loan repayments are made by installment the interest component is covered hence the loan does not fall into the nonperforming category even if there is a delay in repaying the principal loan. This implies that farmers must diversify to other economic activities for them to be credit worthy. This system seems to have worked quite well with the farmers. The status of the Kilimo Biashara loan book as classified under the Central Bank prudential guidelines and regulation is shown in table 5.

Table 5: Kilimo Biashara Loan Portfolio Classifications

Risk Classification of Equity Loans and Advances

		June 2011	% of Total
1	Normal	459,279,245.95	67
2	Watch	14,802,173.78	2
3	Sub-Standard	34,699,334.02	5
4	Doubtfull	70,553,012.13	10
5	Loss	108,341,441.87	16
	Total	687,675,207.75	100.00

Source: Equity Bank



Source: Equity Bank

As shown in the table 5 - 16% of the outstanding Kilimo Biashara Portfolio totaling to Ksh108.34 million is classified as loss. According to Central Bank classifications, these are loans that are uncollectible or are of such little value that their continuation as a bankable asset is not warranted. If we add to this the loans classified as doubtful i.e. loans that are not secured, the total comes to Ksh178.89 million, equivalent to 26% of the total outstanding loan book of Ksh687.67 million. Central Bank regulations require that these two loan categories are fully provided for by the financial institution. The evaluation would recommend an audit of these two categories of outstanding loans (loss and doubtful) to determine if they warrant drawdown of the guarantee in accordance with the agreed Terms and Conditions. The Scheme had provisions for any money recovered after a draw-down to be passed on to the guaranty kitty of AGRA. It was reported by Equity Bank that they had not drawn down on the fund in view of default guarantee because the operational framework between the partners had not been finalized. In terms of categorization of defaulters, an example from the status of loans received from Equity as at November 2009 (no current status was availed by Equity) shows that the largest outstanding at the time was on the small scale loans (see table 6). This is expected as small-scale farmers unlike the large scale farmers do not have a fallback position and ability to service their debt obligations if there is crop failure. This venerability is what makes small-scale farmers risky business for lending institutions.

Table 6: Loan Amount Outstanding as at November 2009 by category of beneficiary:

Category of Lending	No of customers	Amounts disbursed	Amounts outstanding	% Outstanding
Small scale	4,558	85,080,914	68,643,014	80%
Large scale	41	12,025,400	10,452,123	87%
Agri Business	12	2,850,000	2,734,342	97%
Totals	**4,611**	**99,956,314**	**81,829,479**	

Source: Equity Bank.

The performance of the Equity portfolio varies from region to region and is dependent on many factors including: financial literacy of borrowers, cultural aspects that makes one group better loan payees than another etc. In Bungoma, of the Ksh247m disbursed to 8,000 farmers close to Sh120m equivalent to 49% has been recovered from 4045 farmers. Of the outstanding Ksh127 million, Ksh59.5m is categorized as loss most of it from the 2009 season when the region suffered a crop failure. According to the manager Bungoma branch, the poor state of the portfolio is largely due to crop failure and not due to the unwillingness of the farmers to repay their loans. The evaluation learnt that in 2010 Equity was able to make good recoveries from some of the farmers that had defaulted on the 2009 cycle. If farmers make a good yield in 2011 more recoveries will be made. In the Chuka Branch out of the 1700 borrowers, 1000 had repaid their loans fully and those yet to complete their payments were 700 or 41.1% of the total number of borrowers. The gross amount borrowed was Ksh23 million and the amount outstanding was Ksh.6.8 million or 29.6% of the loan portfolio. Based on their close contact with the beneficiaries, the bank staff was confident all would eventually pay their loans and therefore there were no definite defaulters.

In the Mikinduri area of Meru North, 80% of the loans had been repaid and hence the amount outstanding was 20% of the loan. The bank staffs here were also confident that all the outstanding amounts would be repaid and there would be no defaulters. In the Ol Kalou branch, the lending started in 2009 with 1,500 small-scale borrowers and despite the drought, 1,300 of them managed to clear their loans with only 200 still in the process of clearing their loans. In 2009, a total of Ksh 54 million was lent out compared to Ksh 50 million in 2010 and Ksh 40 million in 2011. There were 1000 borrowers in 2010 and 933 in 2011, showing a decreasing trend as those who had not cleared earlier loans were denied repeat loans. The Nyahururu branch was serving two main regions: Laikipia West where wheat was the major crop and Nyahururu where maize was the main crop. The branch was expecting to lend a maximum of Ksh 40 million to maize growers and Ksh 5 million to wheat growers in 2011. By the time of the study, they had achieved KSh.15.2 million with 670 small-scale farmers and Ksh.2.9 million among 2 large-scale farmers. From previous loans some 400 farmers had not repaid. The evaluation requested the bank for a breakdown of non-performing Kilimo Biashara loans by categories of borrowers and branch but this was not provided.

In addition to those cited before, other reasons attributed to poor performance of the Kilimo Biashara portfolio are: i) weather both drought and prolonged heavy rains; ii) aflatoxin contamination of the already harvested crop due to poor post harvest handling; iii) price fluctuation; iv) low yields and v) unreliable markets. Another key factor is that most small scale farmers targeted by the project are first time borrowers. Previous financially excluded persons who do not have the loan repayment culture. As indicated in other parts of this report, the official launching politicized the scheme and some of the farmers did not believe they had to repay the money. The scheme became effective before the Bank had the extensive branch and agency network that it has today. Also before the informal money transfer systems like Mpesa had the outreach existing today.

5.4.3 Operational and Technical Approach

***Input Supply v/s Cash Loans Approach*:** Under Kilimo Biashara scheme, Equity Bank disbursed all loans in form of farm inputs. Although the approach of issuing inputs is justified for small-scale farmers who don't have a strong financial base, the approach does not seem to work well with large scale farmers. Especially when you consider that their loans are fully secured with the Bank. Information from the evaluation as draw from Equity Bank branches and the few large scale farmers interviewed is that this category of farmers prefer to have the proceeds from their loans released to them, and the freedom to use the loan proceeds as they deem fit within their agricultural activities. The evaluation was informed that most Large Scale farmers have the ability to program their farm activities in the best way they can and don't have to be micro managed. Because their input needs are large, they have a bargaining power with suppliers and many options of where to source their inputs. Because of the large scale nature of their activities those interviewed informed the evaluation team that they don't buy all their inputs at the same time to avoid tying-up large sums of money. They prefer to buy as the need arises. Some of the large scale farmers interviewed also engage in other economic activities like buying animals for fattening and resale as a way to mitigate against crop failure. For this category of farmers the evaluation would recommend and if equity agrees that the loan proceeds from Kilimo loans be released to them. In the case of small-scale farmers, there is need for caution. While it would be okay to give individual borrowers who have adequate collateral the loan proceeds in cash, in the case of groups, the bank may feel it needs to introduce additional security for relaxing the rule. This may not work out well for group lending which depends on peer pressure rather than collateral.

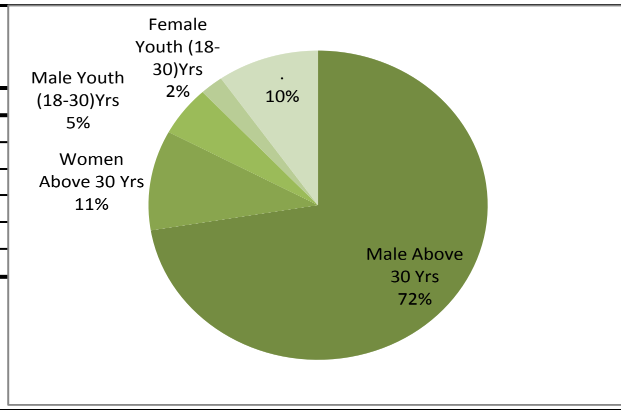
Small Scale Loans/Group Lending Approach: Equity Bank categorizes small-scale farmers as those borrowing any amount below Ksh100,000/=. Under Kilimo, Equity Bank has funded a total of 43,775 small scale farmers. To improve efficiency and accelerate outreach in the most cost effective way, the bank decided to work with farmers groups such as the one shown in the insert rather than individual small-scale farmers. In Group lending the borrowers are not required to put up collateral. The creation of joint liability is relied on to induce sanctions that help to discipline borrowers. The sanctions may be fairly subtle, induced by peer pressure from fellow villagers rather than by the direct actions of the bank. The sanctions may involve, for example, the loss of an errant borrower's reputation in the community, social isolation, and repossession of assets and/or restrictions on access to inputs necessary for business in the community. It had been expected that Equity bank would work with already existing and registered groups under the Ministry of Agriculture extension programs such as National Agriculture Accelerated Input Access Program (NAAIP), the National Agriculture and Livestock Extension Program (NALEP) and others.

When collaboration with MOA field extension officers failed to function efficiently, the bank encouraged farmers to form groups under the watchful eye of its officers. These were however found to be very loose groupings formed for the purpose of accessing loans. They were not cohesive and members lacked commitment. Many of them disintegrated as soon as their common goal of securing loans was achieved. This led to high default rates as the peer pressure mechanism was not effective and official were reluctant to take action on their delinquent group members. Where the bank worked with already existing groups (formed for other purpose rather than loans) their performance was much better. The evaluation team however found some very strong groups such as the one in the picture. Barsielle Savings and Credit Youth Group is a 20 member group located in the Kericho area. The group was started in 2006 and has had three loans which it has repaid without default. For the 2011 season the group was given a loan of Ksh1.8 million Apart from maize farming, group members like Ms Pamela Kiiriba also enjoy other facilities from the bank to set up commercial ventures. Pamela had received three loans under Kilimo of Ksh35,000, Ksh 90,000 and Ksh30,000 for maize farming. But Pamela also operates a posho mill at the local trading centre funded by Equity.

Luka Kosgei another member of the group who has an impressive growth record in loans. Luka started with a loan of Ksh7,000 in 2009 to farm half an acre of maize. The following year 2010, Luka was given a loan of Ksh76,000 to farm a 2 acre plot. In 2011, he received a loan of Ksh80,000 to farm a 3 acre plot. Apart from farming, Luka also owns a Motorcycle (commonly known as Boda Boda) which he bought from proceeds of his farm activities. With the diversified source of income, Luka was sure to service his loan with Equity Bank even incase of a crop failure. The experience gained from interaction with successful groups such as Barsielle and Schemers CBO in Sabuti, Nandi District is that where group leadership is good and committed the groups are strong and the members are reaping benefit from their association. Table 7 gives the breakdown of the sampled farmers by gender

Table 7: Breakdown of Successful Famers Interviewed by Gender and Age

Gender	Number of farmers	Percent
Male Above 30 Yrs	97	72.38
Women Above 30 Yrs	14	10.44
Male Youth (18-30)Yrs	7	5.22
Female Youth (18-30)Yrs	3	2.23
.	13	9.73
Total	**134**	**100**



Source: Evaluation Findings

A characteristic of most of the beneficiary farmers interviewed was that men above 30 years constituted 72% of the sample. Women farmers above 30 years constituted 11% of the sample. The better educated youth both male and female have not been major beneficiaries except as parts of families. The Bank should also put emphasis on the role of youth so as to promote sustainability in the program. When the evaluation enquired why women were few in most of the groups interviewed, the response was that women prefer membership of groups that are women only, rather than mixed sex groups, such as those formed by Kenya Women Finance and similar NGO's that deal with women alone projects. As part of their empowerment, each group must have a credit committee which assists bank staff in the assessment of member applications and in determining member's loan repayments abilities, verification of household goods to be attached, and in recovery in cases of default. To qualify for a loan, a group member had to meet laid down criteria including being in farming for not less than two seasons. Loans are given in form of inputs in all the districts except in Meru district where one group was advanced the loan in form of cash. Although loans are to individual farmers each borrower is guaranteed by group members and a Chattels Mortgage is registered on their personal assets. Table 8 shows a sample of some of the groups interviewed and loans received by each over the period of 2008-2011. These loans are then distributed to individual members.

Table 8: Sampled Group Borrowings by Year and Amount (2008-2011)

	Group Name & Location	Membership	(Amount Borrowed in Ksh)			
			2	2009	2010	2011
1	Ngetiech Group – Burnt Forest	1	-	-	-	1,200,000.00
2	Turudi Burnt Forest –Burnt Forest	1	-	-	-	580.000.00
3	Schemers CBO - Nandi	6		496,000.00	2,700,000.00	2,500,000.00
4	Barsielle Savings & Credit Youth Group – Londiani	2 0		350,000.00	1,200,000.00	1,800,000.00
5	Barsielle Photographers- Londiani	1	-	-	-	550,000.00
6	Shisanga Farmers Grp-Kakamenga	4	-	-	-	170,000.00

Source: Evaluation / Equity Bank

Table 8 above shows the group borrowings and membership. Group lending has both benefits and costs. One complaint is that group lending can be costly to implement. Studies show that even the large Grameen Bank is not able to fully cover its group operational costs. Studies by Opportunity International show that their programs recover just about 56% of full financial costs. Affiliates of ACCION International were found to be covering their full costs (or nearly doing so), but these tended not to serve a poor client base, and are moving away from group lending. To cut down on transaction cost of monitoring these groups Equity staff arranges to meet a cluster of groups at scheduled locations and at scheduled times. A second complaint is that loan terms are limited by what the group feels that it can jointly guarantee. So clients with growing businesses or those who get well ahead of their peers in scale may find that the group contracts bogs them down. Third, under some conditions, borrowers may collude against the lending institution and undermine its ability to harness "social collateral". Unless an institution has a social mission like Equity Bank, they may find the Group lending methodology expensive and challenging.

***Large Scale Loans/ Individual Loans Approach*:** These are loans higher than Ksh100,000/= and in most cases the borrower provides additional collateral. The bank has funded 1,513 of such under the Kilimo Biashara scheme. In some districts the bank aimed at individual farmers (Machakos , Nakuru and Narok). Large scale farmers tend to be quite spread out and located far from the branch. Given the time limit that the evaluation team had, it only managed to visit a few farms. During discussions with this category of farmers, one common complaint was on the disbursement of Kilimo loans through agrodealers. Equity Narok cited a case of a large scale wheat farmer who received a Kilimo Biashara loan Ksh2 million at the rate of 15%. The client objected to the release of the loan to an Agro dealers and instead opted for an agricultural commercial loan product which attracted a higher rate of 18%. The evaluation team was informed that large scale farmers need flexible loan products as their farming needs also include: lease of land, seeds, diesel, land preparation, harvesting and post harvest expenses. There is need to introduce this flexibility in the Kilimo Biashara loans and to allow the large scale farmer to manage their loans. At the moment in order to serve the needs of the large scale farmers, the bank provides them with a mix of Kilimo Biashara loan product for inputs and an agriculture commercial loan to cover other farming requirements. The evaluation would like to recommend that AGRA consider liberalizing large scale loans to allow Equity to disburse them in form of cash and the farmer to determine expenditure as they deem fit.

Farmers Training and Capacity Building: Farmers training in Loan administration techniques is carried out by Equity Group Foundation (EGF). The foundation is actively involved in training of farmers, youth groups and women groups. The bank uses group meetings to facilitate education and training, which may be particularly helpful for clients with little business experience and/or low literacy levels. The education may aid financial performance or it might be valued intrinsically as a way to improve levels of health and knowledge. Farmers groups receive 10-12 weeks training, one hour per week in Loan uptake and repayments. Training modules include: Financial Literacy; Budgeting; Savings; Debt management; Group Dynamics and cohesiveness. Since Kilimo Biashara involves change of perception in the way that the farmers carry of their farming activities, the evaluation team is of the view is that this training should also include skills on how to prepare simple business plans of their farming activities. It is also important for future programs to (i) share written information in both English and Kiswahili widely with the general public about the actual nature of the programme to avoid misrepresentation and politicization; and (ii) include the hiring and capacity building of personnel with relevant skills very early in the programme implementation.

Although it had been expected that Equity would work closely with the MOA-Extension services, the reality on the ground is that as of now, there is very little collaboration going on. MOA staffs were expected in addition to equipping the farmers with production skills they would also assist them in preparing business plans and in the commercialization of their farm activities. Most farmers interviewed indicated that MOA services do not cover this aspect of training. Hence the task of training the farmers in changing their perspective towards farming as a business has been left to Equity Bank with some very limited training provided by WFP. Of the number of farmers sampled by the evaluation 74% of them were trained by equity bank (See table 9). The financial implications of mobilizing farmers and equipping them with skills that can enable them to effectively participate in the financial sector can be quite enormous. The evaluation would like to recommend that AGRA should consider supporting EGF with a small grant to support the training of farmers. The evaluation would like to recommend two possible sources of the grant. I) this can be direct support by AGRA to EGF or ii) AGRA can allow Equity to apply part of the interest accrued on the "Credit Guarantee Fund" account for this purpose. Table 9 shows a breakdown of training by trainer amongst the farmers interviewed by the evaluation.

Table 9: Farmers Business Skills Training by Source

TRAINER	Number of Farmers	Percentage
Equity Bank	99	73.88
Ministry of Agriculture	25	18.66
WFP	7	5.22
Not Trained	3	2.24
Total	134	100

***Crop Insurance Cover*:** Earlier this year (2011) Equity started an in-house pilot in some of its branches offering farmers crop insurance. Some of the regions covered are Embu, Nakuru, and Narok. The bank will be observing the performance of the pilot to incorporate the same in future lending to farmers. Crop failure seems to be a phenomenon affecting farmers across the country due to effects of weather changes and is an issue of concern to the government and lending institutions who would like to mitigate such risks. In Narok the team was told of a farmer whose claim was being processed. The farmer had taken out insurance cover of Ksh1.7 million on anticipated yield of Ksh12 million. The crop did not achieve the expected yield due to drought, hence they qualified for compensation. Under the Equity in-house insurance, farmers are free to choose the type of cover to want which includes covers on: health, crop failure, yields and profits or a combination.

The World Bank in collaboration with the Financial Sector Deepening Program (SDP) are working with Equity in piloting the Index Based Weather Insurance as a way of mitigating farmers against losses incurred as a result of weather changes. Farmers in the wheat growing areas of Narok interviewed by the evaluation are yet to fully understand how the index insurance works. One farmer with 500 acres of wheat in Narok had one part of his farm receive adequate rainfall while the other half did not. The index showed that the entire farm area had received adequate rainfall without taking into consideration microclimate effects within the same location. Hence he did not qualify for compensation. There is therefore need for farmers to be trained so that they can have a better understanding and appreciation of the different insurance products and how they work. The tendency has been as the evaluation learnt, for farmers to abandon insurance any time they had favorable weather. They need to know that farming is a risky business and there is need to treat insurance as part of doing business. The government in itself should see the value of such insurances to encourage and motivate Kenyan farmers and find a mechanism by which cover to specific insurable risks in the agricultural sector can be subsidized. As the World Bank and FSD pilot the Index Weather Based Insurance, it is the hope of the evaluation that this is an issue that will be taken up with the government. Insuring the sector is not a matter that is totally alien to Kenya as this was in practice before.

Technological Advancement and its effect on Bank operations: In only four years of existence of mobile phone money transfer services, four mobile operators have enrolled over 15 million customers. A number of banks have signed up partnerships with money transfer service providers as they improve their banking-on-the-move menus. M-Pesa is still the most widely used method of mobile money transfer as evidenced by the 305.7 million transactions effected and valued at Ksh.727.8 billion in 2010 (CBK). In 2010 Equity Bank in collaboration with Safaricom launched a mobile money solution for its clients termed Mkesho. MKesho enables Equity bank clients to link their Mpesa accounts to the Equity account and to conduct transactions through their phones. This will revolutionize the way bank clients do business as they no longer have to travel to the branches unless they are seeking services other than cash deposits and/or withdrawals. These mobile money solutions will save the farmers travel time and expenses of having to reach the nearest equity branch to repay their loans.

5.4.4 Operational Constraints and Challenges

Branch Coverage Constraints: A large geographical coverage is a major constraint in delivery of efficient financial services in a cost effective way. For financial services to be accessible the delivery institutions have to be close to the end users. At the inception of the Kilimo Biashara Scheme the branches faced challenges that came with monitoring clients spread over a large geographical coverage. This made the process of mobilizing and managing farmers loans and groups, as well as, monitoring the use of loans and recovery expensive given that Equity staff were also few. In Kisii until the branch at Kilgoris was recently opened, farmers extended up to 120 Km from Kisii branch, as far as Isbania (at the border with Tanzania) and deep into the Transmara District. In Kisii the lack of presence by the bank contributed greatly to the high default rates. For loan recovery to be effective farmers need to see and feel the presence of the bank and its representatives.

Equity bank now has an internal policy that requires that its branches should not exceed 35 Km radius coverage. Apart from increasing its branch network country wide, the bank is also one of the five institutions approved by CBK and granted approval to operate the agent banking model. This will take banking closer to the people and further reduce the distances which farmers have to travel. This will enable the bank provide banking services in a more cost effective manner and at the same time enhancing financial services outreach and promoting financial inclusion of the unbanked Kenyan population. If the bank can lower the cost of doing business it is expected that this would in turn translate to lower interest rates and other bank charges to its clients. The combined branch and agency banking model will help bridge the financial exclusion gap and improve access to finance by rural folks and those unreached before by financial services.

Government Project Syndrome: Due to the manner in which the scheme was launched and lack of a clear operational framework to guide the partnerships, there was at the onset a misconception created to the public and which MOA – Extension officers propagated that Kilimo Biashara was "Government Money". This was confirmed by the DAO in Kisii one Mr. Omondi who informed the evaluation that the Kilimo Biashara was introduced soon after the Kilimo Plus Kitty, which distributed free inputs to venerable farmers. The Kilimo plus farmers were expected to graduate the following season to Kilimo Biashara loans. It became very difficult to convince such farmers that Kilimo Biashara was a loan that had to be repaid after they had received free inputs the previous season. There was also confusion among the farmers who received loans under Kilimo Biashara. They wondered why they were required to pay for inputs while some of their neighbor and relatives were being given inputs for free. Many defaulted which contributed greatly to the poor quality of portfolio in the early years (2008-2009). The scheme also did not perform well in those areas that have a history/tradition of non-payment of loans especially where AFC loans have not been paid. There was also conflicting information from the politicians and MoA officers who implied that Government would repay Equity loans even if the farmers failed to. Many choose not to repay as was the case in parts of Kisii. The poor quality of the Kilimo Biashara portfolio in Kisii is as a result of the unwillingness of farmers to repay loans rather than inability. This is often the case when people see the hand of government in such schemes. It was therefore important for Equity to distance itself from associating with government officials if the scheme was to succeed. The big lesson to learn from this is that launching of programs in which government is involved need to be handles very careful and avoid too much publicity.

***Failure of the Certified Seeds Distribution System*:** In 2011 farmers in the maize growing area experienced shortage of seeds which delayed planting and also resulted in staggered planting. Because of the shortage of quality of seeds farmers are not assured of what kind of yield to expect. There is also an issue of seed mismatch with some seeds coming from Kenya Seed, some from Western Seed and even some from unknown sources. The Evaluation team had the opportunity to meet with the Deputy Managing Director of the Kenya Seed Co. Ltd. The Evaluation was assured that the company has taken measures to ensure that the seed shortages experienced in 2011 will not happen again. The evaluation was informed that the shortage was also as a result of crop failure in 2009 due to poor rainfall. 70% of their seed production is weather dependent. The company harvested 15,000 Metric Tones instead of the 27m Kg expected in 2009 and they were not able to make up the shortfall in 2010. In 2011 they are expecting a harvest of 30m Kg of seeds while the national requirement is 25m Kg.

According to the Deputy Managing Director the introduction of improved seed use programs such as NAAIP and Kilimo Biashara has created an unforeseen demand for maize certified seeds especially in the main maize growing areas. For the first time, the company does not have excess seeds in its stores as was the case in the past. This is a good indicator that the use of certified seeds message is working with the farmers and they are seeing its benefit to demand more. To avoid exploitation of farmers by agrodealers, Kenya Seed management recommended and the evaluation is in agreement, that Equity Bank endeavor to use their approved /registered outlets to supply seeds as well as fertilizer to farmers. The outlets also offer better prices than other commercial agrodealers. For example during the planting seasons of 2011, Kenya seed outlets were selling a 10Kg bag of seeds for Ksh1,500 while other agrodealers were asking for Ksh2,500. In terms of links with other stakeholders Kenya Seed trains MoA extension officers in administering the seed varieties to the farmers. They also communicate with farmers through their field days, public barazas, demonstration plots etc Kenya seeds has depots in Kitale where the Head Quarter is, Nakuru, Kakamega, Kisii, Meru, Nairobi, Eldoret and Kericho. They also have numerous licensed small distributors across the country. The company has a network that extends to Uganda and Tanzania.

***Market and Pricing Failures*:** It is estimated that up to 15% of production in Sub-Saharan Africa is lost between farm gates and consumers, owing to poor roads and storage facilities. All this results in low incomes for smallholder farmers. The design of the project had assumed that the market to absorb farm outputs was readily available. Poor marketing and pricing structure, poor infrastructure, poor access roads, lack of market information, poor transportation, and poor storage facilities (resulting in post- harvest losses) have been a major constraint to the Kilimo Biashara projects success. Farmers lamented of poor prices for their produce and exploitation by the middlemen/brokers, while the government system though NCPB remained ineffective and unable to shield the farmers on either the input or output fronts. There was a bumper harvest in 2010 in Western Kenya as a result of good weather. But as at July 2010 prices collapsed and farmers sold their maize for as little as Ksh900 per 90 Kg bag. By February 2011 prices had risen to Ksh3,600/=, and by the time of the evaluation to Ksh4,500/=. This variation in prices and within very short spans of time can result in frustrations to farmers and discourage production.

There is need to undertake proper feasibility analysis of farmers' enterprises to ensure that they are indeed of commercial potential. Banks should make this a requirement and private service providers trained in farm management economics could then provide the service. It is no use complaining about lack of markets when the farmers have already produced and then lose the crop because of aflatoxin or some similar mishaps. The technology to go with the recommended enterprises should be made available to ensure that farmers' risks are minimized. Hence, there is need to build structures that will enable the farmers to sell their produce at the right price. Stakeholders should put in place drying facilities, fumigation and storage facilities (Warehouses). Equity Bank has introduced the Warehouse Receipt but farmers still sell their produce early in the season to middlemen/brokers due to lack of storage and pressure to meet loan repayments. Farmers should also be encouraged to do value addition. A major need for cereal growers is to have drying and storage facilities close to production areas so as to improve the quality and marketability of their produce.

Equity has experimented with warehouse receipt financing in Nakuru region with East Africa Grain Council and Lesiolo Grain Handlers. The bank is however hampered by lack of good and secure storage facilities and skills in post harvest handling amongst the farmers. Where farmers are well organized and have good storage facilities, the bank has linked them to bulk buyers such as World Food Program (WFP) and millers. A successful story of a well organized group that has been linked to WFP is Schemers CBO in Sabuti, Nandi district which was started in 2006. The CBO has a total membership of 65 farmers from different groups. The group has received three loans so far from Equity under Kilimo. First loan of Ksh 496,000 was made in 2009, second loan of Ksh 2.7 million in 2010 and they have currently borrowed Ksh2.5 million. The group has received orders from WFP to supply them with maize. In 2010 the group supplied 500 bags, in 2011 - 3000 bags and at the time of the evaluation they had a tender for 1500 bags. The group has received support from WFP in form of temporary canvas storage facility such as the one shown in the insert and they are now in the process of building a permanent structure on a plot purchased by the CBO members. The CBO members have in all 375 acres cultivated. During the meeting with the evaluation the members requested that the bank consider a loan for them to buy a tractor. At the rate of Ksh2000/= per acre the members had spent at the minimum Ksh750,000/= on land preparation an amount which could go to buying their own tractor. The group informed the evaluation team that the MOA had purchased eleven (11) dryers to place strategically within the communities countrywide especially in the main maize growing areas and the group was one of the beneficiaries. The availability of the dryer would greatly improve post harvest handling of maize by the group and also enable them meet the standards set by WFP and other bulk buyers. With availability of a dryer, the group plans to go into milling and value addition. Schemers CBO is a good example of what happens when farmers groups scale up into strong organizations. Equity would like to replicate this success story with all its groups.

***Agrodealers Constraints*:** To ensure that loans to farmers were used for the intended purpose, Equity disburses loan proceeds directly to Agrodealers trained and certified by AGMARK. AGMARK has trained and certified over 2073 agrodealers in business management in 85 districts located in agricultural areas across the country. This strategy was intended to help small- holder farmers by reducing the distance they would normally have to travel to access equipment and farm inputs, which are difficult to transport long distances, especially in areas where roads and other infrastructure are lacking. Unfortunately the agrodealers approach has also faced many challenges and in most places where the evaluation team went farmers wanted the freedom to choose their own input outlets. AGMARK certified Agro dealers like the one shown in the insert don't seem to be many and the program is also experiencing a number of challenges and needs to be reviewed to make it work better for the farmers. Some of these challenges are highlighted below:

a. Farmers complained of lack of integrity and exploitation by certified agro dealers. There has been Issues of input prices escalating during the planting seasons causing a lot of suffering to farmers. When this happens, loans approved by the bank cannot secure for the farmer the quantity of inputs required forcing them to opt for cheaper inputs, cut down on acreage or find other sources of finance to fund the input shortfalls. While NCPB sold a bag of fertilizer at Ksh2,500/= agro dealers would be selling the same at Ksh3,500/=.

b. AGMARK certified agrodealers seem to be few and farmers in some of the places visited by the evaluation are still forced to travel long distances to collect their inputs. Since Equity pays the agrodealers directly to supply inputs to farmer, farmers are forced to deal with the selected supplier. It becomes costly for the farmers if they have to make several trips before they received their inputs. Small-scale farmers prefer to deal with Agrodealers that they have built trust with over the years and those close to the communities to cut down on travel cost and time.
c. Giving some agrodealers' preference over others has opened up opportunity for price manipulation and corruption. This happened in Burnt Forest in 2011 where farmer's loans were channeled through one agro dealers, while the farmers had negotiated and collected inputs from their regular agrodealer. The agro dealers to whom the funds had been released demanded a 10% commission from the farmers since they were not buying from him. Eventually after an appeal from the farmers, the bank agreed to switch the payment to the farmer preferred agrodealer.
d. Equity has also had to deal with cases of farmers conspiring with agrodealer to convert some inputs into cash. Some agro dealers collect hefty commissions for doing this. Yet the burden of repaying the loan is left with the farmers. This prompted Equity to have their officers present during distribution of inputs to ensure that farmers received the inputs allocated and there was no collusion between the farmers and agro dealers to convert inputs into cash.
e. Equity has also had to deal with some certified agro dealers who have supplied farmers with faulty or substandard inputs compromising their yield and hence farmers abilities to repay their loans. This prompted the bank to blacklist some agro dealers and to take them off their list.
f. There have also been cases where an agro dealer has been paid by Equity only for them to fail to supply the farmers with all their input requirements. Agrodealers also tend to wait till Equity has paid them before they order for the inputs. If there are delays in them receiving inputs the consequences of this delay are borne by the farmers.
g. Where farmers can, to mitigate travelling long distances farmers have collected their inputs in groups. This was the case with group in Shereta (a village in Laikipia west district). There were only two certified agro dealers in the districts which is very low considering the large number of farmers.

The evaluation believes that the certification of agrodealers by which they are empowered to support farmers with knowledge on input use is very important to the success of the Kilimo Biashara project. More of these agrodealers should be trained so that they are found closer to the farmers. As the number of them grows farmers will have more to choose from which will reduce exploitation of farmers. As we indicated above, the program should also work with outlets accredited by other industry players like Kenya Seed Company to widen the options available to farmers. With added competition, this will improve pricing of inputs to farmers.

5.5 Effectiveness of other Implementing Partners

Delays in Release of Guarantee Fund by IFAD/GOK: Although AGRA was quick to release its part of the guarantee, the evaluation team learnt during the evaluation mission kickoff meeting with Equity Head Office that the IFAD/GOK part was only paid to Equity Bank in June 2011. During subsequent meetings with MOA/NAAIP the Evaluation was informed that the delay in disbursing the IFAD/GOK part of the guarantee was due to requirements for subsidiary agreements that had to be signed between the GoK and IFAD. The subsidiary agreement would allow government to move part of the IFAD loan to SHOMAP account to the Kilimo Biashara Credit Guarantee fund with Equity Bank. Effectively this meant that for almost three years (2008-2011) Equity Bank has operated with only 50% of the cash guarantee of US$2.5 million from AGRA, which only guaranteed them up to 5%. In turn, Equity has disbursed to the scheme a total of Ksh 2,062,838,260 which works out to just about half the US$50 million that the bank had agreed to disburse to

Kilimo Biashara beneficiaries. Given that the three year pilot period for the guarantee is over, there is need for the partnership agreement to be revisited and an agreement reached on whether to extend the pilot to give the bank time to disburse the remaining balance.

Lack of an Operational Framework and Structures: Clearly the intervention was planned in haste and therefore the inadequate preparation did not augur well for the achievements of expected results. Failure by the partners to sign the agreement which spelt out each partner's obligation, roles and responsibilities has denied the scheme a framework on which to operate. The roles and responsibilities of each of the program partners was set out in the Framework Agreement and Guarantee document that was to be signed between AGRA, IFAD and the Government of Kenya on one hand, and Equity Bank on the other. The lack of an operational framework meant that there was no formal agreement bidding the partners and there was no clarity to the expected roles and responsibilities of each party under the program. Although this does not seem to have hindered Equity Bank in rolling out the Kilimo Biashara program, in a way it contributed to the dysfunctional collaboration between Equity and the MOA staff on the ground. The collaboration collapsed because MOA staff demanded that Equity pay them some facilitation allowances to support the process of linking the farmers groups to the bank, and in providing recommendations to the farmers. MOA staff did not consider this as part of their regular work. A signed agreement with MOA would have cleared such issues. The delays in signing the agreement combined with delays in release of IFAD share of the guarantee fund has for three years been unfinished business, with Equity as the implementing partner left to soldier on under uncertain circumstances. Now that IFAD portion of the guarantee fund has been received all related partnership agreements should be signed. During discussions with the bank staff at the headquarters the impression was that the Bank would have wanted to draw down on the guarantee given that they amount of Ksh157 million in its book which is categorized as loss.

Challenges in collaborating with Ministry of Agriculture – Extension Services: The role of MOA was to give capacity building and extension services to the project beneficiaries, mobilize project beneficiaries, deposit a subsidy fund in Equity Bank, mobilize resources, offer instructions to Equity Bank on the subsidies beneficiaries and act as a partnership coordinator. Initially Equity worked very closely with District Agricultural Officers (DAO's). The Ministry provided extension services to small-scale farmers; advised farmers on improved seeds and other inputs to use; conducted seminars for farmers to inform the farmers of the availability of the Kilimo Loans and issued eligible farmers with letters of recommendation for funding. There was good response from interviewed farmers on the ground who indicated that extension officers have been able to provide them with advisory services. This is expected as providing extension services is the responsibility of the Government. Extension services officers are found at all levels within the government structure. Table 10 gives a summary of such responses. 48% of those interviewed had received advisory services from MOA extension services with 27% from Equity Bank.

Table 10: Advisory Services Provided by Different Organizations

Who provided advisory support	Number of farmers	Percent
Ministry of Agriculture	64	47.8
Equity	36	26.83
Cooperative Movement	2	1.5
Private individual	4	2.98
WFP	3	2.24
Kenya Seed	3	2.24
.	22	16.41
Total	**134**	**100**

Source: Evaluation Team

Although MOA were effective in supporting farmers with extension services, they did not do so well in linking them to Equity Bank and the Kilimo Biashara scheme. Some of the extension officers misrepresented the scheme to the farmers telling them that their loans were guaranteed by the government and they did not have to repay. Contrary to what was agreed, some MOA officers provided the farmers with recommendations without first verifying that they were genuine farmers. As a result, some of the recommendations sent to the Equity Bank contained incorrect information. There were cases of recommendations being issued to persons who were not farmers, the so called "briefcase farmers". These people would collect inputs and resell creating a bad debt from onset. The expectation by MoA officials that Equity should facilitate their work with the farmers complicated the collaboration further prompting the bank to opt to conduct its own verification of the farmers. It was alleged that some staff in the MoA also abused the process by soliciting bribes from farmers before issuing them with recommendations. The breakdown of this collaboration greatly affected the scheme and the bank lost a vital link to the farmers through the MOA extension officers. The framework had recommended the establishment of an advisory Board of the partners which would have effectively dealt with such operational issues and disputes. In the absence of a laid down mechanism, Equity Bank opted to cut off links with extension officer's altogether.

***AGMARK/Agrodealers Program Constraints*:** Some branches complained that they are not regularly updated by AGMARK with revised list of certified agro dealers. While in Eldoret, AGMARK was conducting training of agro dealers, and Equity branches in town were not aware or invited to such trainings which would have been a good opportunity for the bank to link up with the dealers. There is need to strengthen such ties. More certified agro dealers are needed to ensure their proximity to the farmers. Collaboration between AGMARK and NAAIP should be strengthened to ensure all the list of agro dealers in their data base is availed to the partners.

National Cereals and Produce Board (NCPB): This is the preferred source of supplies by farmers. Nevertheless, NCPB has a poor network of stores that are far from farmers and often does not have adequate stocks during planting season. In 2010 NCPB prices of a 50Kg bag of fertilizer sold at ksh2,500/= while the private agro dealers sold the same at Ksh3,500/=. Timely delivery of inputs by NCPB and purchase of farmer's grains is an issue that needs to be addressed urgently by the Government. The input distribution process is long and tedious creating room for ineffective delivery of inputs to farmers and corruption. It was reported to the evaluation that often agro dealers / input suppliers colluded with NCPB officials to be allocated inputs at government price and then sell to farmers at exorbitant prices.

5.6 Status of the Guarantee Fund

Despite numerous emails exchanges between the consultants and Equity Bank, and between AGRA and the bank calling for submission of reports and statements on the status of the Credit Guarantee Fund, these have not been received. Copies of such correspondences are attached in annex 5 of the report. The evaluation was however informed that an audit of the guarantee account commissioned by AGRA was carried out just about the same time as the evaluation. The evaluation was not able to review the audit as its outcomes were still being reviewed internally. The outcomes of the audit once the report is ready, will inform AGRA on the actual state of the account. In accordance with the grant terms, the AGRA deposit with Equity was to earn interest at the prevailing market rates. In the absence of a statement from the bank, the evaluation is unable to determine the growth in the fund. During the preliminary discussions with Equity Head Office staff the evaluation was however informed that the fund is intact as no drawdown has been made. Once again, the evaluation cannot verify this information in the absence of a statement on the account. The Bank did however express its concern that they are unable to draw down on the guarantee despite the fact that Ksh108.34 million (US$1.35 million) is classified as default under Kilimo Biashara.

In accordance with the terms of the grant, the bank will only be reimbursed for the part of its default after it has fully exhausted its own debt collection processes. At the end of the three years pilot period, any balances in the guarantee fund account would be paid back to AGRA after accounting for any defaults. In this regard, AGRA may have to depend on CBK supervision department loan classifications criteria as the task of verifying if recovery procedures have been exhausted for each bad loan may prove impossible. The ability by Equity bank to lower its lending requirements and relax its criteria for loaning to the agriculture sector value chain is constrained by the low risk sharing agreement under the guarantee scheme. The 10% risk coverage of the guarantee is too low, leaving the bank with the bulk of the risk 90%. This does not give the bank a level of comfort to soften its lending terms and to roll out credit to the farmers and other beneficiaries in the value chain as anticipated. AGRA, IFAD and GOK together and Equity Bank need to revisit this arrangement and reach a risk sharing arrangement that would be able to cause the bank to bring about the additionality by tapping into farmers otherwise not accessed by financial services. Since the AGRA/GOK portion of the 50% credit guarantee fund by IFAD of US$2.5 million, has been disbursed to Equity and the pilot period is over, the partners should now work out a compensation arrangements of the 10% risk due to Equity after which the pilot should be wound- up and the next phase determined. The outcome of the recently concluded audit would be able to assist AGRA is determining the amounts due to Equity. With the outcome of the evaluation and lessons drawn from the pilot, AGRA should be in a position to design a full scale credit guarantee scheme which will incorporate other industry players.

5.7 Monitoring and Reporting

The monitoring, evaluation and reporting systems arrangements for the management of the program were set out in the reporting schedule contained in the Grant offer letter from AGRA to Equity dated 22 August 2008. Reports that were to be submitted by Equity Bank included:

a) Interim Narrative and Financial reports to be submitted on a quarterly basis in the standard formats provided;
b) Fiscal year reports were to be submitted at the end of Equity Bank's financial year. This would include a separate audited reports of the guarantee fund;
c) Final Narrative and Financial reports to cover the entire period of the grant;

The reporting schedule contained in the grant assignment letter has not been adhered to going by the number of reports that have been availed to the Evaluation team. Only one report, the Status Report of May 2008 – January 2009 was made available to the evaluation. Because of the challenges of getting a proper MOU in place and the delay by IFAD/MOA in releasing their part of the grant deposit, there were serious challenges in the monitoring of the program and reporting. Equity Bank simply provided the basic information that was demanded by AGRA.

Another challenge was that AGRA started the program before it had in place a substantive M&E Unit and therefore the arrangements for monitoring and evaluation were not as rigorous as an M&E Unit would have preferred. Equity Bank was meant to have submitted quarterly reports to the advisory board consisting of one member from each of the partners AGRA, IFAD, MOA and Equity Bank. The evaluation has not found any evidence of the existence of an advisory board.

5.8 Program Management

The unsigned framework agreement was the instrument that was to guide the overall management of the program, and stipulated the duties and responsibilities of each of the Kilimo Project partners (AGRA, Equity Bank, MOA/IFAD). The framework also specified the operating principles of the grant fund including: its duration, coverage, housing and management of the Guarantee fund, lending policies and procedures and termination of the guarantee cover. The lack of a signed agreement meant that the parties concerned had no basis on which they could hold each other accountable. Under the framework, an advisory board was to be formed with representatives from all partners. This was not done and Equity as the implementing partner has applied its own lending procedures.

The lack of an operational framework has also meant that the operational link between Equity and the MOA that were to be established lacked some guiding principles that would set the rules of engagement. Eventually this affected the partnership engagement which by the time of the evaluation has dwindled to very little. The MOA extension officers were also expected to assist the farmers in appraising their farming enterprises. Farmers' intended enterprises must be properly appraised by competent people in terms of a proper farm business analysis that starts with a known market for a product before recommending investment in production. As a result of the breakdown of the system, Equity has established almost a parallel system in-house undertaking the tasks that were to be provided by MOA extension officers on the ground. Equity Bank does not have the capacity for this kind of analysis. On the other hand reliance on government officers for this kind of analysis is likely to create capacity constraints and moral hazard issues. The private sector capacity should be developed commercial basis to assist the farmers in preparation of business plans. This will also allow the farmer to choose who a service provider of their choice.

In the majority of cases, the program has targeted the right beneficiaries and where group methodology was applied it was generally successful and therefore can be replicated. There was no defined role for civil society and so no specific activities were identified where they have played a role. The exception was AGMARK an NGO that provided training for agro-dealers. The private sector stakeholders were represented by agro-dealers. Because of inadequate management of the program linkages between producers and buyers were not adequately developed and challenges of marketing continued especially in the case of maize. The inadequate preparation and capacity building of farmers' groups was responsible for this inadequacy. A modification of the approach would certainly have achieved better results but when all is said and done, there is considerable advance preparation that should have been done to ensure that farmers get the appropriate capacity building. The Cereal Growers Association (CGA) as a farmers' organization might be useful in facilitating group training where the focus is cereals and by extension. The Kenya Maize Development Program (KMDP) would also have been a natural partner, again in cereal production, as it has developed very attractive maize production technologies that would assist farmers improve on their maize production commercially.

5.9 Program Impact and Sustainability

The major assumptions made by the program designers were that:

a) By providing a guarantee of the loan which was very small (10%) this would make the Bank a little more flexible and therefore enable more farmers to access credit on favorable terms;
b) Focusing on one commodity (mainly maize) was suitable for small-scale farmers;
c) All that AGRA needed to do was to make money available to Equity Bank and the rest would follow.

Impact and Sustainably of the Implementing Partners:

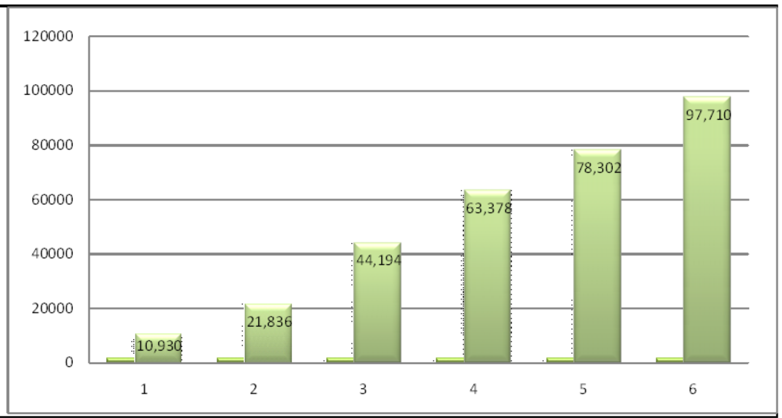
The guarantee was designed to reduce credit market failure in the agricultural sector. The crucial issue is whether or not market failure was reduced. In terms of impact, Equity Bank has transformed the lives and fortunes of thousands of small scale farmers in Kenya and empowering them to be creators and generators of employment Equity lends to Kenyans even very low income earners who have been able to borrow as little as Sh500 from the bank. In 2008 and 2009 Equity Bank was voted the best bank in Kenya during the Euromoney Awards for Excellence. In 2008 Equity was named the Best Microfinance bank in Africa during the annual African Banker Awards ceremony held in Washington DC, USA. According to the organizers, the award went to the micro finance lender who had contributed most to reduce poverty in Africa. The awards reward among other things achievements, record earnings, innovative practices and their commitment to corporate social responsibility and gender equality. They are designed to recognize the reforms, rapid modernization, consolidation, integration and expansion of the African Banking sector.

In terms of institutional sustainability, Equity Bank Group has a strong balance sheet which speaks for its sustainability as a provider of financial services in Kenya. Information gathered from the Equity website show that the bank's total loan book as at end of 2010 amounted to Ksh78.30 billion. In its 2011 half year report, the Bank Group's loans and advances had grown by 43% to close at Kshs97.71 billion. The bank managed to reduce its non-performing loans portfolio by more than 6%. Within the same period, the bank managed to sign up more than 1.3 million new customers. Effectively, Equity Bank Group's customer base grew from 4.96 million to 6.3 million representing a 28% growth. Although there is no data to confirm how many of the additional clients are farmers, it is expected that a large part of these would be persons engaged in agriculture in one way or other. The Group's deposits grew by 48% to Kshs130 billion up from Kshs87.8 billion. Total operating income for the period grew by 30% to Kshs13.1 billion up from to Kshs10.1 billion in the same period. Total operating expenses on the other hand grew by 17% from Kshs6.3 billion in June 2010 to Kshs7.3 billion in June 2011. The cost income ratio has come down from 62% to 56% during the period.

The Bank's total asset base also registered significant growth posting a 40% growth to close at Kshs171.35 billion up from Kshs122.5 billion. Equity Bank buoyed by increasing deposits increased its after tax profit registered an even higher growth to close at Kshs4.74 billion up from Kshs3.01 billion representing a 57% growth. As at March 2011, the bank had 163 branches, 515 ATM's and a total staff outlay of 5,772. Table 11 shows five years growth in Equity Banks Loan portfolio up to June 2011.

Table 11: Five year growth in Equity Bank's Loan Book

Year	Total Loans	Change	% increase
2006	10,930	-	-
2007	21,836	10,906	49.9
2008	44,194	22,358	50.6
2009	63,378	19,184	30.3
2010	78,302	14,924	19.1
2011	97,710	19,408	19.9



Source: Equity Bank

The total Kilimo Biashara loan book of Ksh2.062 billion is only equivalents to about **2%** of the total loans and advances book of Equity Bank of Ksh97.71 billion, as at June 2011. In evaluating the performance of Equity Bank as the implementing agency for the Kilimo project, one has to look at the issue of Additionality. Additionality is the extra lending that occurred to the target group, but would not have been possible without the guarantee. Did Equity Bank make loans as a result of the guarantee which otherwise it would not have been able to make? Given the sheer size of Equity Banks loan book and its growth over the years, it would be unwise to link such enormous growth to the existence of the Credit Guarantee. The view of the Evaluation is that the Bank has the financial ability to fund the agriculture sector even without the existence of the guarantee fund. Besides, the 10% guarantee would be considered too low to secure the bank enough to lend to a risky enterprise such lending to groups of small-scale farmers. What constrained Equity is the usual reluctance to lend to small-scale farmers and agri- businesses terming it as "high risk".

What the guarantee did was to catalyze the bank to take up the challenge of opening up much-needed funds to one of the largest sectors in Kenya. Through the risk sharing mechanism, the guarantee did encourage the bank to facilitate credit to this group. Most of the small-scale farmers benefiting from Kilimo Biashara are first time borrowers. Equity Bank Group corporate social responsibility and culture of supporting economic development played a big part in encouraging the bank to partner with the Government and AGRA in supporting this key sector of the economy. The initiative has helped to create an investment climate where farmers see farming as a business and where they feel their needs and those of the agri-businesses are being met by the financial sector. Participating in the Kilimo Biashara partnership leveraged the bank's public image. By building on the Kilimo Biashara tag as a marketing tool the bank has been able to attract clients for their other products. The Bank has also developed other Kilimo products for its clients. Equity is today considered as one of the most active and friendly bank servicing the agricultural sector. Given the huge investments going into the sector, the bank has positioned itself well for consideration in any future interventions.

Impact and Sustainability of the AGRA/IFAD "Credit Guarantee Fund"

As for the sustainability of the guarantee fund, for now the fund is intact as no claims have been made on it by Equity Bank. For as long as the claims do not exceed the amount of the fund, it will remain operational. The fund could however be easily decapitalized if Equity Bank suffers heavy losses from lending to the targeted Kilimo Biashara clients. The way to sustain the fund is to ensure that loans under the scheme are repaid and to minimize on claims against the fund. Despite the challenges therein, the evaluation did not find any evidence to suggest that the guarantee contributed in any way to any laxness on the part of the bank in loan screening, monitoring and collections. The Bank could not relax its requirements since the guarantee covered only 10% of the risk while the Bank carried 90% of the risk. Under the terms of the guarantee the bank would only be allowed to draw down on the guarantee after it has failed totally to recover the loan. The big challenge that the bank faces is with group lending which is not supported by any collateral.

By reducing risk through the guarantee, Equity Bank has been able to make loans to otherwise credit rationed clients. By offering partial guarantees, more borrowers have been able to benefit than would have been the case if the USD5 million was used to rediscount targeted loans. Over US$2.5 million has been disbursed in loans under Kilimo. The Bank has also learnt that farming is not outright risky business and if well managed smallholder farmers can operate profitably. Hopefully this will open up more lending to this sector in the future without the need for guarantees. Other financial intermediaries may also learn from Equity Bank's experience and open up more lending to the agricultural sector and small-scale farmers in particular. The guarantee through Kilimo Biashara has opened up opportunities for other financial players to come on board and to roll out similar or competitive products to the agricultural sector. We do expect to see variation of the Kilimo Biashara approach on the market.

Program Benefits to Beneficiaries:

In evaluating benefits to the target beneficiaries the team set out to determine if previously rationed borrowers receive loans and/or larger loans than would have occurred without the guarantee? A second question is whether or not the terms of loans for the target clientele became softer. Third, evidence if the borrowers actually benefited, that is, did they produce more, earn a higher income, live better, etc. The program has reached a total of 43,775 small scale farmers, 1,513 large-scale farmers and 407 agribusinesses. Considering that the bank now has over 6 million account holders this number is quite insignificant. The achievements also fall far short of the target set at design stage whereby the benefits of the program was expected to reach 15,000 agriculture value chain players, 2.5 million farmers by increasing their farm productivity, food security and incomes. It will also be noted that Kilimo Biashara has for the last three years operated only with half the guarantee fund anticipated since the IFAD/GOK portion was not paid up. Consequently Equity Bank has only been able to disburse about half of the US$50 million credit intended for farmers. Even if Equity had disbursed the full amount of credit to the tune of US$50 million it is unlikely that the targets set at design stage would have been achieved.

Issues constraining growth of credit amongst the small-scale farmer's access to credit include: lack of information on availability of credit; longs distances to Bank outlets where they can be assisted; fear of common people of commercial banks requirements; fear of default and losing their assets to creditors. The evaluation also found that the scope of the projects has been greatly constrained by its focus on grain farming only (mainly maize and wheat). This has meant that the Kilimo product has not been used in different agro-ecological zones. Farmers also need to diversify their farming activities which will in turn diversify their income sources reducing loan default risks in cases of crop failure. Most small-scale farmers interviewed expressed their desire to go into dairy farming and horticultural produce.

Interviews conducted in the field revealed that Kilimo Biashara has been able to open up credit to marginalized farmers who before had no access to any form of credit. Majority of those interviewed by the evaluations are first time borrowers i.e. farmers who previously were credit constrained. These are clients previously considered by banks as high risk. In effect, the guarantee did act as a catalyst that enabled the Bank to extend its risk to clients that were unreachable before and in a sector that is considered high risk. Because of the low risk coverage of the guarantee 10%, the Bank still had to apply strict evaluation criteria since the bulk of the risk 90% was borne by them. This in effect must have locked out many would be beneficiaries who did not reach the risk threshold set by the bank. By increasing the risk sharing element AGRA/IFAD will enable the bank to relax its credit criteria and hence admit more marginalized stakeholders. The 10% risk coverage is very low.

Of greatest benefit to farmers was the concessional interest rates of 10% and 15% offered by Kilimo in a market where cost of funds can be quite steep. The low interest rates has made credit affordable and encouraged more farmers to borrow. Credit on its own is not sufficient in affecting the lives of the farmers and increasing production. For credit to work effectively there is need for interventions across the entire value chain or else frustration will set in and farmers will not see the benefit of taking up credit. A good case is that of farmers in the Bura-Tana River who through a combination of farm inputs purchased through Kilimo and good irrigation were able to produce a historical bumper harvest in 2010. Unfortunately because of failure in the marketing system, lack of dryers and storage facilities most farmers in Bura lost their produce to infection and aflotoxin. Unless all issues along the value chain are addressed and streamlines, credit and improved seed alone will not succeed in improving yields, ensuring foods security and improving farmers' incomes.

5.10 Scalability of the Kilimo Biashara Initiative

The evaluation does not have any evidence from the pilot to suggest that other banks would copy the Kilimo Biashara model wholesale. Especially if they do not have either the capacity that Equity has, its institutional culture of social responsibility and capacity such as the Equity Group Foundation, to undertake training and capacity building of farmers and farmers groups. Through the pilot activity, the Bank has garnered many useful lessons and has already taken a number of initiatives to mitigate some of the glaring risks. Most banks also prefer to work with large commercial farmers and lack the technical understanding of agriculture value chain and its unique risks and challenges. In addition to working with the large banks which have the capacity to scale-up the program and to reach large numbers of clients, there is also need to consider in future working with non-bank intermediaries such as the Savings and Credit Cooperative Societies (SACCOS) and Microfinance Institutions that have the tradition of working with small scale farmers.

The only challenge is that the group lending approach which has been adopted by Equity in working with small-scale farmers has traditionally been an approach used by NGO's and MFIs. The approach is labor intensive and group lending can be costly to implement. Studies also show that it is not possible to fully cover group operational costs. The approach may therefore not fit in well with the profit profile and orientation of the large commercial banks. It is unlikely that some of the bug banks would be interested in adopting the group lending model. The 10% guarantee risk sharing offered by AGRA and partners may also not be attractive enough to convince some banks to take on the risk related to agriculture lending and to small-scale farmers in particular. Besides these challenges, the evaluation would suggest that in future a competitive process should be used in selecting implementing partners. Since this is a competitive environment, AGRA could negotiate different packages with different partners based on a criterion that would be developed. This criterion should include aspects related to the institutions past experience in delivering credit to the targeted beneficiaries and their willingness to invest in their capacity building.

In terms of the continued relevance of such intervention, the Evaluation finds Kilimo Biashara relevant for as long as access to financial services and financial institutions penetration in rural areas remains limited. It is in this regard that the government through the Ministry of Finance (MOF) has recently launched a program in collaboration with the IFAD dubbed the "Program for Rural Outreach of Financial Innovations and Technologies" (PROFIT). The initiative will create a risk-sharing facility very similar to Kilimo Biashara that will be passed on to commercial banks to encourage lending to small holder farmers. The $29.31 million (Sh2.6 billion) grant is intended to provide better access to financial services, increase incomes, and encourage the development of a range of tailored financial products, most importantly savings and remittance services, value chain financing, medium-term financing for the agriculture sector and micro venture capital modalities, as well as provide technical support services. PROFIT will be implemented throughout Kenya's rural areas, in particular in the arid and semi-arid lands and areas with agricultural potential and a high incidence of poverty. If effectively implemented small scale farmers will be able to access credit and channel that towards supporting agricultural production.

5.11 Lessons learnt

i) The manner in which a program jointly owned by the government and other partners is launched can greatly impact on the way it is perceived by the public. Managing the political risk is critical with Public/Private partnerships projects like Kilimo Biashara. Such projects run the risk of being politicized and in case of credit, once the public put a government money tag on a credit line, their tendency is not to repay. Reversing such perception can be costly. Care must be taken when launching such programs to ensure that a clear message reaches the public.

ii) Avoid running commercial projects alongside charitable interventions. Kilimo Biashara was to supersede the NAAIP Kilimo Plus free farm input Kits. Running the venerable group grant program parallel to a commercial product like Kilimo Biashara sends out conflicting information to farmers and provides them with the opportunity to feign ignorance and excuses to default on loan repayments. NAAIP should target venerable poor farmers who don't have the capacity to borrow. Expecting the same MOA officers to promote a free service such as Kilimo plus and also support a credit program does also send conflicting signals to the beneficiaries. Government officers are not good at promoting credit services.

iii) An important Lesson to Equity Bank is the need to ensure that the operational modalities and agreements by all participating partners are signed and delivery mechanisms drawn out before rolling out a scheme such as Kilimo Biashara. If not well conceived the bank may find itself morally obliged to implement a scheme riddled with problems or where some partners are not fully on board.

iv) Group lending rather than personal loans is the best approach for lending to/and reaching small scale farmers who do not have collateral. It is also better to work with already existing groups that have been formed for other common reason/purpose which unites the members rather than form new ones. Groups should also be kept small 15-20 members for them to be cohesive. Groups need capacity building and financial literacy training to appreciate the credit system better and for them to be cohesive.

v) Kilimo Biashara Scheme emphasis on grain farming only is not realistic considering the different agro-ecological zones. Because of dependency on rain fed and the risks inherit therein, farmers need to diversify their farming activities which will in turn diversify their income sources and effectively reduce the loan default risks in cases of crop failure.

vi) A risk sharing credit guarantee alone does not automatically translate to increase lending to a targeted sector and /or group of beneficiaries. The guarantee risk sharing formula has to be right to encourage the lending institution to relax its lending criteria and roll out more credit. The 10%:90% risk sharing between Equity bank on one hand and AGRA/IFAD on the other has not resulted into the expected outreach.

vii) In dealing with group lending, the bank learnt that the Bullet loan repayments system that requires the farmer to repay their loan in full at harvest time, was not effective in building bank/client relationship. The bank needs to remain connected to its clients and the use of small weekly installment works very well. This way the client is reminded constantly of their obligation to the Bank.

viii) For loan administration to be effective, banks must operate within a limited geographical coverage. It is in realization of this that Equity Bank has now a policy that requires the customer catchment for its branches to remain within a 35 Km radius.

ix) Large scale farmers prefer loan proceeds to be released to them rather than to input traders (agrodealers) as is under Kilimo Biashara. They want the freedom to choose and negotiate prices with agro dealers, and to buy their inputs as and when they are needed.

x) Credit alone and an improved yield are not sufficient in resolving issues of food security and improved incomes. There is need to address the entire value chain especially issues of marketing, pricing, storage and value addition which will make farming a profitable venture for the farmers.

xi) To achieve the planned targets, AGRA must roll out the Kilimo Biashara Loan product through many other financial intermediaries. This will expand outreach and improve access to loans by intended beneficiaries by bringing the services closer to then.

xii) Credit must be backed-up with a good insurance product to help farmers share the risk of farming. Hence the government should consider subsidizing insurance to encourage farmers to remain in farming even when they incur losses.

xiii) Training of farmers to educate them on various loan and insurance products is of utmost importance. Without such appreciation the farmers will not see the need of insuring their crop or any other farm activities.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

No one system of financing smallholder farmers can be perfect, rather the different sources have positive elements that can be built upon for the benefit of farmers. It is the role of various stakeholders in national governments and financial sectors to come up with effective, efficient and sustainable systems of financing smallholder farmers in order to transform this sector into one characterized by fully commercialized production. This conclusion is based on a simple model, where development is the product of a multitude of activities initiated by public and private sector (individuals, community, NGOs, corporate). If properly harnessed, these two driving forces can bring about the desired results. As far as Kilimo Biashara is concerned, the Credit Guarantee Fund is a time based intervention that was to expire within three years. Equity Bank on the other hand is a commercial enterprise that will lend to viable clients based on their ability to repay. The ability of the farmers to repay their loans timely will determine if Equity will have adequate confidence with a large clientele of farmers to lend to them without an external guarantee facility. Their ability to borrow will also depend on their ability to build viable enterprises.

Financing for the smallholder sector should aim at developing sustainable agricultural systems. This calls for financing of programs that directly benefit smallholder farmers. More investment rather than credit alone is required in order to boost production of smallholder farmers, thereby enhancing food security and raising the income and ultimately the standard of living of the rural population. There is a need to identify, test and introduce suitable seed varieties. Supplying high quality seeds adapted to local conditions is an effective means of increasing yields. There is need to set up input supply systems (agrodealers/stockists) so farmers can easily access inputs at affordable prices and provide credit facilities that recognize the problem smallholders have obtaining collateral, while at the same time ensuring repayment of loans. Training of more agro-dealers should be encouraged to meet the large number of farmers and also enable easier access to inputs by the farmers. Advancing the loan in form of inputs alone was also not realistic. Farmers especially the large scale ones need more than inputs. In order to support the farmers in terms of labor and land preparation costs, proper appraisal to determine the worth of an enterprise is needed.

Supportive infrastructure, such as feeder roads and storage facilities to facilitate marketing of produce, must also be developed. Apart from providing supportive infrastructure, smallholder farmers need assistance in setting up appropriate marketing information systems so that they have access to market information regarding prices, market demand and other external information. Emphasis on quality of produce and products should be a source of sustainable competitive advantage for smallholder farmers in the long run. This will enable them to sell to World Food Program, millers and other high end buyers directly and eliminate brokers and middlemen. Farmers also need training in post harvest handling. In order to translate farmers produce to greater benefit to them, farmers must be assisted to set up processing plants to add value and eliminate post harvest wastage and exploitation by middlemen/brokers.

Dependence on rain is very risky. There is a need to invest in water supplies, i.e., the construction of dams and building the necessary irrigation infrastructure. Water harvesting is an important aspect that will lead to micro-irrigation and consequently continuous production by the farmer. The evaluation also found that the projects focus on grain farming only is not realistic considering the different agro- ecological zones. Farmers need to diversify their farming activities which will in turn diversify their income sources reducing loan default risks in cases of crop failure. Most small-scale farmers interviewed expressed their desire to go into dairy farming and horticultural produce. Equity Bank should encourage more use of crop insurance and if possible incorporate the premiums into the loans.

More effort in extension services will have a positive impact on smallholder farmers. Capacity building is required at all levels from the government officers to the staff at the bank. The relationship between Equity bank and the Ministry of Agriculture should be strengthened. The group methodology although costly to operate is the better way of funding small-scale farmers without collateral. Farmers need to form larger and stronger groups to help them with to give them stronger bargaining power. Risks of political interference should be for-seen and contingency measures put in place. Such measures include funds set aside for publicizing the scheme through the officers involved, radios e.t.c. There should also be good relations between the bank officers and the agricultural officers so that they convey the same message.

6.2 Recommendations

a) Since the IFAD/GOK portion of the 50% credit guarantee fund by IFAD of US$2.5 million, has been disbursed to Equity and the pilot period is over, the partners should now work out a compensation arrangements of the 10% risk due to Equity after which the project should be wound-up and the next phase determined. AGRA should not be seen to be dragging out the payment process to avoid exhausting the fund. The outcome of the recently concluded audit would be able to assist AGRA is determining the amounts due to Equity.
b) The 10% risk sharing arrangement between IFAD and AGRA and Equity Bank is too low to motivate the bank to lower its lending requirements and relax its criteria for loaning to the risky agriculture sector. Since the bank carries the bulk of the risk 90% they are unlikely to relax their lending terms. The evaluation recommends a revision of this risk sharing arrangement. A proper study to determine an ideal risk sharing proportions will be required.
c) It is recommended that for the large scale farmers, Equity loans should be liberalized and the loan amount disbursed to the farmer directly. Besides, these facilities are fully secured. Large scale farmers do not require the entire loan amount/inputs at the same time because farming activities are in phases. As such, equity should disburse such loans in tranches with schedule agreed upon with the farmer.
d) There is need for all Kilimo Biashara partners to have a forum whereby they can come up with a common approach/mechanism in delivering support to the farmers. It is obvious that roles and responsibilities of each partner were not clearly defined resulting in conflict and suspicion. Establish the advisory board as was recommended in the framework.
e) Government should revive NCPB as a vital link with the farmers both for input supply and to enable the farmer have an alternative market for their produce. The force exerted by NCPB on the market would act as a deterrent to exploitative tendencies by middlemen/brokers which would stabilize prices and help the framers to benefit from their work.
f) To make the linkages of farmers to the market which includes World Food Program, millers and other high end buyers farmers need to be organized into marketing blocks (groups), they also need training in post harvest handling and storage.
g) Farmers need to be capacitated to set up processing plants to add value and eliminate post harvest wastage and exploitation by middlemen/brokers.
h) To avoid competition between NAAIP Kilimo plus free inputs and Kilimo Biashara, strict criteria should be established which will restrict the NAAIP kitty to only very venerable farmers. Those that don’t have the capacity to borrow from the credit facility.
i) Effective collaboration between Equity bank and the Ministry of Agriculture is fundamental and communication channels should be opened up to iron out whatever issues that exist. The MOA
j) The evaluation would like to recommend that in future the Kilimo Biashara scheme should incorporate a grant for training of farmers. Most small financial institution do not have the training capacity that Equity Bank has through its Equity Group Foundation. Funding for such a grant can be from the interest accruing in the “Credit Guarantee Fund” account and/or returns from secured investments e.g. treasury bills.
k) Training of the bank staff and the Agricultural officers should be done together since they will be working together in the program with Equity bank and the Ministry sharing the costs and if necessary seek external support.
l) Equity Bank should ensure that there is timely release of loans to the farmers to avoid derailing the planting season which in effect would impact on the yield and incomes. Equity Bank should announce loans within a time frame that will allow farmers to apply and receive loans before the season begins.
m) Loan duration is an issue that came out throughout the evaluation process. Farmers requested that the Bank should extend the loan repayments to allow them enough time to sell their produce

and at a time when prices are better. Some suggested 12 months others 15 months. While the Bank is concerned about overlapping the seasons and farmers diverting proceeds, it may wish to consider how they can accommodate the farmers' wishes.

ANNEXES

ANNEX 1 NAMES OF PERSONS MET

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NAMES OF PERSONS MET

AGRA:

Mr Samuel Amanquah	-	Program Officer, Monitoring & Evaluation
Ignatius B. Mutula	-	Grants Manager
Barbara Bamanya-Mujuni	-	Program Officer, Monitoring & Evaluation
Susan Ndungu-Mugo	-	Executive Assistant

EQUITY BANK: Head Officer:

Esther Muiruri	-	Manager, Agriculture Credit Department
Florence Nyawira Kariuki.	-	Agriculture Credit Officer

BRANCH	BRANCH	CREDIT
Narok	Joseph Ololchoki	Eunice N.
Kisii	Mungai Samuel-	Bariti Momanyi
Kericho	Edwins Baraza	Geoffrey
Kakamega	Robert O. Otiende	Joseph Gatere
Bungoma	Erick Tuda	Willis Amach
Kitale	Rael Tuiyot	Stephen
Eldoret	Stanley W. Nganga	Paul Nduati
Eldoret Market	Charles Kioni	Felix Rosana
Embu	Justus Kanga	Samuel Meru
Chuka	Nancy G. Gitonga	Bonface
Meru	Collins Mukangu	Isaac Ikunda
Olkalou	John Wambua	Phylis Kimani
Nyahururu	Sammy Karanu	Peter Waititu
Nakuru Gate House	Bonaventure	Joseph Muhia
Nakuru Kenyatta	Michael Gota	Benson
Machakos	Boniface Kyengo	Joseph Mahiri

Other Equity Bank Officers:

Felix Rosana	-	Relations Manager – Credit, Eldoret Market Branch
Samuel W.B. Mungai	-	Business Growth & Dev. Officer, Kisii branch
Kennedy Irungu	-	Agriculture Officer, Bungoma
Wataka Opicho	-	Agriculture Officer, Bungoma
John Koech	-	Agriculture Loan Officer
Jeremy Oselu	-	Agriculture Loan Officer
Janel Cherotich	-	Agriculture Loan Officer
Fredrick Ouma	-	Credit Officer
Charles Kelii	-	Credit Officer

Annex 1:
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AGMARK – KENYA

Mr James Mutonyi	-	Country Director

KENYA SEED COMPANY:

Alfred Busolo Tabu	-	Deputy MD
Joyce Agufana	-	Research and Agriculture Officer

NATIONAL ACCELERATED AGRICULTURE INPUTS ACCESS PROGRAM (NAAIP)

Rymer Sikobe	-	Program Deputy Coordinator

MINISTRY OF AGRICULTURE

Shem Okola	-	Agribusiness officer, Narok
Penina Mutuota	-	Agribusiness officer, Narok
Grace Gechaga	-	Deputy DAO, Narok
Mark Yego	-	Crops Officer, Narok
Suji Morris	-	DAO , Narok
Mr Anthony Mwango	-	DAO, Kilgoris:
Mr Omondi	-	Deputy DAO, Kilgoris:
Mr Earnest K. Muendo	-	DAO, Transmara District:

Annex:1
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LIST OF BENEFICIARIES MET

	SUCCESSFUL FARMERS	**DISTRICT**	**45**	**NICHOLAS RONO**	**KIPKELION**
1	ALBERT BAARU	TIGANIA EAST	46	PHILIP MARITIM	KIPKELION
2	B.KITHIA MUCHEKE	TIGANIA EAST	47	ROBERT KOECH	KIPKELION
3	CHRISTINA KALUNGU	TIGANIA EAST	48	WESLEY TANUI	KIPKELION
4	GEOFFREY MUTUA	TIGANIA EAST	49	ZAKAYO YEGON	KIPKELION
5	JAMES MUGATHIA	TIGANIA EAST	50	ANN NGENO	TRANSZOIA
6	JANET	TIGANIA EAST	51	CHUMA JAMES	TRANSZOIA
7	JULIUS GICHUNUKU	TIGANIA EAST	52	DAVID NGETICH	TRANSZOIA
8	JULIUS LINTURI	TIGANIA EAST	53	ERICK MITEI	TRANSZOIA
9	MACHALI IRWARE	TIGANIA EAST	54	EZEKIEL MUTAI	TRANSZOIA
10	NELSON MBAE	TIGANIA EAST	55	HENRY NGETICH	TRANSZOIA
11	STEPHEN MUGAMBI	TIGANIA EAST	56	HENRY SANG	TRANSZOIA
12	JANE KAGWIRIA	MAARA GANGA	57	JOSEPH KIPKURUI	TRANSZOIA
13	LUCY MUTEGI	MAARA GANGA	58	JOSEPH ROP	TRANSZOIA
14	WANJA MBABU	MAARA GANGA	59	JUKIA CHUMAO	TRANSZOIA
15	JACKSON KAMAU	NYANDARUA CENTRAL/OLKALOU	60	JULIUS ROP	TRANSZOIA
16	JAMES GITHUMBI	NYANDARUA CENTRAL/OLKALOU	61	MARCELINE MUGE	TRANSZOIA
17	JANE NYAMBURA	NYANDARUA CENTRAL/OLKALOU	62	NELSON KALIMA	TRANSZOIA
18	JOHN MUTHIE	NYANDARUA CENTRAL/OLKALOU	63	PAUL LELEI	TRANSZOIA
19	JOSEPH WAMBUA	NYANDARUA CENTRAL/OLKALOU	64	SAMWEL KEINO	TRANSZOIA
20	WILSON CHEGE	NYANDARUA CENTRAL/OLKALOU	65	SAMWEL KOECH	TRANSZOIA
21	SALESIO MUTEA	IMENTI NORTH	66	STEPHEN KAPKOREN	TRANSZOIA
22	BEATRICE NDERITU	LAIKIPIA WEST	67	CHRISTOPHER TARUS	UASIN GISHU
23	BERNARD KABIA	LAIKIPIA WEST	68	DORCAS SAINA	UASIN GISHU
24	DANIEL GATHUA	LAIKIPIA WEST	69	EDWIN KIMEI	UASIN GISHU
25	FRANCIS NAMUGI	LAIKIPIA WEST	70	EMILY BOEN	UASIN GISHU
26	JANE NGAHU	LAIKIPIA WEST	71	EZEKIEL MULWA	UASIN GISHU
27	LUCY WANGUI	LAIKIPIA WEST	72	ISAAC TOO	UASIN GISHU
28	PATRICK GICHUKI	LAIKIPIA WEST	73	JAMES TOM	UASIN GISHU
29	PETER GITONGA	LAIKIPIA WEST	74	JOHN KIMELI	UASIN GISHU
30	R.N. GICHURE	LAIKIPIA WEST	75	JOHN MUREI	UASIN GISHU
31	SAMUEL WATURU	LAIKIPIA WEST	76	JONATHAN BUSUKU	UASIN GISHU
32	SIMON MAINA	LAIKIPIA WEST	77	JULIUS KEMBOI	UASIN GISHU
33	WAIGWA WA KARIUKI	LAIKIPIA WEST	78	LAGAT ABRAHAM	UASIN GISHU
34	BENARD KOSKEI	KIPKELION	79	MARY KISORIO	UASIN GISHU
35	CHRIS KAPLANGAT	KIPKELION	80	NGALA RUTO	UASIN GISHU
36	DAVID CHERUT	KIPKELION	81	PAUL USHIRU	UASIN GISHU
37	DAVID KOSGEI	KIPKELION	82	PAULINE RUTTO	UASIN GISHU
38	DAVID KURUI	KIPKELION	83	PETER SENGER	UASIN GISHU
39	ELIJAH BARNO	KIPKELION	84	ROSELINE RUTO	UASIN GISHU
40	ERICK BETT	KIPKELION	85	SADAH ROTICH	UASIN GISHU
41	ISAIAH TANUI	KIPKELION	86	SAMWEL SONGOR	UASIN GISHU
42	JOEL TABON	KIPKELION	87	SARAH RONGOEI	UASIN GISHU
43	JOSHUA RONO	KIPKELION	89	SELY BUSHERE	UASIN GISHU
44	KIRUI ROBERT	KIPKELION	90	SILAS KB	UASIN GISHU

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91	SITENEI KEMBOI	UASIN GISHU		**AGRO-DEALERS**	**DISTRICT**
92	STEPHEN KOSGEY	UASIN GISHU	1	JAMES NDUNGU	**NYANDARUA CENTRAL/OLKALOU**
93	STEPHEN SIMAM	UASIN GISHU	2	CHARITY WAMUYU	**LAIKIPIA WEST**
94	ZAFARANI CHERUI	UASIN GISHU	3	PETER MWANGI	**LAIKIPIA WEST**
95	ANTONY AMBUKA	KAKAMEGA	4	DAVID MBUGUA	**TRANSZOIA**
96	ANTONY MUMIA	KAKAMEGA	5	JONATHAN CHERUI	**TRANSZOIA**
97	BENEDICTA	KAKAMEGA	6	PRISCA NYAWIRA	**UASIN GISHU**
98	AMOS MUNYASIA	BUMULA	7	SAMWEL KIARIA	**UASIN GISHU**
99	CHARLES KHAYEMBA	BUMULA	8	CHARLES KAMIDI	**KAKAMEGA**
100	NAMIKAYE NYONGESA	BUMULA	9	JOY MUTOLA	**KAKAMEGA**
101	PIUS MUNYASIA	BUMULA	10	SIMEON NDUNGU	**KAKAMEGA**
102	ALFRED NJIRU	EMBU EAST	11	KEFA OKUYOSI	**BUMULA**
103	RICHARD GATUMU	EMBU EAST	12	PHILIP LANGAT	**KERICHO**
104	JAMES MATINDI	NAROK NORTH	13	JOHN NJEHIA	**NAROK NORTH**
105	STEPHEN OMLAMA	KHWISERO	14	JOSEPHAT OLEI	**NAROK NORTH**
106	SINGOEI K MIELKY	ELDORET WEST	15	LYDIAH WANGOMBE	**NAROK NORTH**
107	PROTUS MULINDI	IKOLOMANI	16	JOHN WAHOME	**MERU SOUTH**
108	ANDREW ROTICH	STATUNGA	17	LEONARD GAINE	**MERU SOUTH**
109	BITANGI JOHN	KIMILILI			
110	JAPHETH KISIANGAN	KIMILILI			
111	MWANAMISI KOMBO	KIMILILI		**TRADERS**	**DISTRICT**
112	PATRICK SISUNGE	KIMILILI	1	CLEMENT KORAT	**UASIN GISHU**
113	SAMUEL MAFUMBO	KIMILILI	2	STEPHEN KOECH	**UASIN GISHU**
			3	BENARD OUNDO	**KAKAMEGA**
			4	CONSOLATA KENDI	**KAKAMEGA**
			5	JOSEPHINE	**KAKAMEGA**

Annex 2 LIST OF DOCUMENTS CONSULTED/ REFERENCES

LIST OF DOCUMENTS CONSULTED/ REFERENCES

Documents Received From AGRA:

- Partnership Proposal by Equity Bank dated April 2008
- Funds Request letter from Equity Bank CEO
- Grant Memo for 2008 PASS 038
- Grant Reference No.2008 PASS 038 of August 22, 2008
- Status Report for May 2008 – January 2009
- Memorandum – Grant Committee
- Framework Agreement and Guarantee
- Several Internal Memos and emails exchanges on the Grant

Documents Received From Equity:

- Kilimo Biashara November 2009 Report
- Kilimo Biashara Status report for 2010
- Kilimo Biashara Disbursement by Branches 2008 – June 2011
- Kilimo Biashara Disbursement by Classification of beneficiaries (small-scale, large-scale and Agribusiness)
- Kilimo Biashara Classification of Debt by Classification of beneficiaries (small-scale, large-scale and Agribusiness)
- Credit Policy Guidelines
- Equity Bank Kilimo Project Product Schedule

Equity Bank Website:

- 2009 Annual Report
- June 2011 – Half year report
- 2010 End of Year Share holders report
- 2010 End of Year Financial Report

Bibliography:

- Central Bank 2010 Report
- Central Bank Supervision Report 2010
- Evaluating Credit Guarantee Program in Developing Countries by Richard L. Meyer and Geetha Nagarajan1
- Credit Guarantee Schemes Conceptual Frame by Alvaro Ruiz Navajas
- Agricultural Value Chain Financing by FSD Kenya and USAID
- Microfinance beyond group lending by Beatriz Armendáriz de Aghion and Jonathan Morduch
- FinAccess National Survey 2009 – FinAccess Trust and Partners
- The Kenya CAADP Compact
- Agricultural Sector Development Strategy 2010-202

Annex 3 EQUITY BANK BRANCH PERFORMANCE

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EQUITY BANK BRANCH PERFORMANCE

DISBURSEMENTS BY BRANCH			
SOL_ID	BRANCH	DISBURSED AMT	COUNT
001	Corporate	480,000	2
004	Karatina	118,000	2
005	Kiriaini	711,900	5
007	Kangari	2,957,000	4
009	Thika 1	2,820,000	7
010	Kerugoya	1,637,000	34
011	Nyeri	744,215	16
013	Nakuru 1	44,232,514	331
014	Meru	24,898,950	1,579
015	Mama	1,400,000	2
016	Nyahurur	89,352,010	2,998
019	Embu	18,039,809	976
020	Naivasha	2,285,000	11
021	Chuka	45,116,155	3,677
022	Muranga	3,098,495	84
023	Molo	22,309,788	57
024	Harambe	1,945,000	2
025	Mombasa	3,571,000	16
027	Nanyuki	16,265,000	14
028	Kericho	27,508,555	735
029	Kisumu	7,103,500	74
030	Eldoret	184,092,374	1,514
031	Nakuru 2	130,039,833	302
033	Kitale	411,150,911	4,460
034	Thika 2	6,150,000	27
036	Narok	201,085,354	516
037	Nkubu	10,176,110	566
038	Mwea	18,100,000	144
039	Matuu	1,184,100	21

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DISBURSEMENTS BY BRANCH			
SOL_ID	BRANCH	DISBURSED AMT	COUNT
040	Maua	11,338,42	761
041	Isiolo	5,365,00	135
042	Kagio	2,129,83	33
043	Gikomba	720,000	1
044	Ukunda	9,332,36	533
045	Malindi	21,288,70	1,220
046	Mombasa	147,500	8
048	Bungoma	246,945,17	8,933
049	Kapsabet	7,551,30	138
050	Kakamega	22,699,11	549
051	Kisii	91,880,86	1,702
052	Nyamira	1,825,00	16
053	Litein	28,050,59	663
056	Kenpipe	470,000	2
057	Kikuyu	500,000	1
058	Garissa	26,687,75	1,079
060	Machakos	9,449,76	93
062	OlKalao	106,543,79	4,414
066	Gatundu	530,000	4
067	Wote	1,496,50	38
068	Mumias	2,895,18	91
069	Limuru	2,120,00	8
070	Kitengela	2,858,50	38
071	Githurai	800,000	1
072	Kitui	6,080,49	746
073	Ngong	600,000	4
074	Loitoktok	1,400,00	3
075	Bondo	15,623,77	650
076	Mbita Point	194,000	8
077	Gilgil	20,146,76	1,830

Annex 3:
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DISBURSEMENTS BY BRANCH			
SIL_ID	BRANCH	DISBURSED AMT	COUNT
078	Busia	11,567,00	210
079	Voi	221,00	3
086	Kajiado	50,000	1
087	Ruiru	1,570,00	7
089	Kenol	114,00	4
090	Tala	3,205,00	11
092	Nandi Hills	4,354,55	88
093	Githunguri	530,00	3
096	Mbale	6,511,50	151
097	Siaya	13,286,84	1,090
098	Homabay	15,324,47	287
099	Lodwar	530,00	7
104	Meru Mkt	1,067,00	62
105	Malaba	9,980,16	353
106	Kilifi	2,781,60	259
107	Kapenguria	16,762,60	322
109	Eldoret Mkt	45,335,50	861
110	Maralal	1,210,00	3
112	Luanda	630,00	6
116	Migori	100,00	2
119	Mtwapa	355,86	35
121	Hola	100,00	10
122	Bomet	250,00	3
127	Mpeketoni	758,20	39
TOTAL		2,062,838,26	45,695

Annex 4: KILIMO BIASHARA - EQUITY BANK PORTFOLIO QUALITY

KILIMO BIASHARA - EQUITY BANK PORTFOLIO QUALITY

SECTOR	NORM	WAT	SUB-	DOUB	LOSS	Total	P
Kilimo biashara	-	-	-26,752	0	0	-	
Kilimo biashara	-	-	0	0	0	-	M
Kilimo Biashara	-	-	-	0	0	-	
Total Agriculture	**-**	**-**	**-**	**0**	**0**	**-**	
Kilimo biashara	-	-	-	-	0	-	
Kilimo biashara	-	-	-	0	0	-	J
Kilimo Biashara	-	-87,815	0	0	0	-	
Total Agriculture	-53	-	-	-	0	-55	
Kilimo biashara	-	-	-	-	0	-	
Kilimo biashara	-	-	-	0	0	-	S
Kilimo Biashara	-	-	0	0	0	-	
Total Agriculture	-60	-1	-	-	0	-62	
Kilimo biashara	-	-	-	-	0	-	
Kilimo biashara	-	-	0	-	0	-	D
Kilimo Biashara	-	-	0	0	0	-	
Total Agriculture	-	-	-	-	0	-	
Kilimo biashara	-	-	-	-	-	-	
Kilimo biashara	-	-	-	-	0	-	
Kilimo Biashara	-	-	-	0	0	-	M
Total Agriculture	-57	-6	-1	-	-	-66	
Kilimo biashara	-	-	-	-	-	-	
Kilimo biashara	-	-	-	-	0	-	
Kilimo Biashara	-	-	-	-90,389	0	-	J
Total Agriculture	-67	-5	-6	-1	-	-81	
Kilimo biashara	-	-	-	-	-	-	
Kilimo biashara	-	-	-	-	-	-	
Kilimo Biashara	-	-	-8,008	-	0	-	S
Total Agriculture	-58	-3	-6	-6	-	-75	
Kilimo biashara	-	-	-	-	-	-	
Kilimo biashara	-	-	-	-	-	-	D
Kilimo Biashara	-	-	-	-84,408	-98,820	-	
Total Agriculture	(457,30	(34,04	(39,85	(106,71	(16,23	(654,14	
Kilimo biashara	(129,6	(29,1	(38,4	(92,5	(41,5	(331,4	
Kilimo biashara	(160,4	(9,3	(2,9	(4,7	(10,9	(188,4	M
Kilimo Biashara	(36,3	(1,7	(	(1	(1	(38,4	
Total Agriculture	(326,48	(40,32	(41,40	(97,40	(52,65	(558,26	
Kilimo biashara	-	-	-	-	-	-	
Kilimo biashara	-	-	-	-	-	-	J
Kilimo Biashara	-	-	-	-86,401	-	-	
Total Agriculture	(459,27	(14,80	(34,69	(70,55	(108,34	(687,67	