Attracting Microfinance Investment Funds: Promoting Microfinance Growth through Increased Investments in Kenya

Matu, Jeffrey Ben

Duke University, International Development Program

18 April 2008

Attracting Microfinance Investment Funds: Promoting Microfinance Growth Through Increased Investments in Kenya

Master's Project
Master of Arts in International Development Policy
Terry Sanford Institute of Public Policy
Duke University

Jeffrey Ben Matu

Principal Policy Advisor
Dr. Graham Glenday

April 18, 2008

Acknowledgements

This paper could not have been written without Dr. Graham Glenday who not only served as my policy advisor, but also encouraged and challenged me to do my best. I would also like to thank my other committee members; Dr. Cory Krupp and Dr. Rosemary Fernholz for patiently guiding me through the writing process and for their suggestions and continued support.

To my family and friends, I thank you for your encouragement with reading and commenting on the paper. And to my wife Sharon, for believing in me and encouraging me to never accept less than my best efforts.

Finally I would like to thank Jennefer Sebstad, Leila Webster, Stefan Staschen, and Jerry Grossman for reading and making comments on my drafts.

Thank you all.

Table of Contents

List of Figures and Tables

Figures

Tables

List of Acronyms

AIMS – Alternative Investment Market Segments
AMFI – Association of Microfinance Institutions
ATMs – Automated Teller Machines
BEE – Black Economic Empowerment
CBK – Central Bank of Kenya
CCK – Communications Commission of Kenya
CGAP – Consultative Group to Assist the Poor
CPI – Corruption Perception Index
DFID – Department for International Development
FIMS – Fixed-Income Securities
FSD – Financial Sector Deepening
G8 – Group of Eight
GCR – Global Competitiveness Report
GDP – Gross Domestic Product
GoK – Government of Kenya
HDR – Human Development Report
ICT – Information and communication technology
IFC – International Finance Corporation
KCB – Kenya Commercial Bank
KEMCAP – Kenya Microfinance Capacity Building Program
KIA – Kenya Investment Authority
KNBS – Kenya National Bureau of Statistics
KPOSB – Kenya Post Office Savings Bank (Postbank)
Kshs – Kenyan Shilling
MFI – Microfinance Institutions
MIF – Microfinance Investment Funds
MIMS – Main Investment Market Segments
MoF – Ministry of Finance
MoIC – Ministry of Information and Communication
MoTI – Ministry of Trade and Industry
MSE – Micro and Small Enterprise
NBFI – Non-Bank Financial Institution
NGOs – Non-governmental Organizations
NSE – Nairobi Stock Exchange
POS – Point of Sale
SA – South Africa
SACCO – Savings and Credit Co-Operative
SID – Society for International Development
SIDA – Swedish International Development Cooperation Agency
SME – Small Medium Enterprises
SOE – State-owned Enterprises
SRI – Social Responsible Investment
TA – Technical Assistance
TI – Transparency International
UN – United Nations
UNDP – United Nations Development Programme
USAID – United States Agency for International Development
WB – World Bank
WDI – World Development Indicators

Executive Summary

Although microfinance has played a significant role in providing a wide range of financial products and services, many microfinance institutions (MFIs) in Kenya still face major challenges with efficiently and effectively delivering microfinance services in the country. As the demand for these services continues to grow, *the limited sources of available capital have greatly undermined the capabilities of MFIs to efficiently operate their services and expand their various microfinance activities*.[1] This has led to a financial gap in the supply of microfinance services, and consequently has reduced the opportunities for the poor to access basic socio-economic benefits that could potentially improve their wellbeing.

The widening financial gap in the microfinance sector has been attributed to self-governance issues, capacity building issues, non-compliance with reporting requirements, and a lack of appropriate performance criteria. These and other factors have jeopardized MFIs sustainability and have compromised the delivery of microfinance services in the country.

While the Association of Microfinance Institutions (AMFI) has been playing a vital role in promoting the growth and development of microfinance through building the capacity of MFIs, the organization still faces challenges in its efforts to promote sustainable, efficient, and effective delivery of microfinance services.

There is a need for a policy that advocates for better access to capital sources and investment opportunities for microfinance sustainability, and also encourages MFIs to increase their accessibility, build capacity, be more transparent, adopt acceptable performance standards, and promote professionalism to enhance service delivery.

This paper analyzes three policy alternatives which include: (i) maintaining the status quo, (ii) government regulation of all MFIs, and (iii) voluntarily self-regulating by member MFIs as alternatives for closing the financial gap in the supply of microfinance services. All the three alternatives are evaluated against the following criteria: efficiency, financial and political feasibility, and accessibility to determine the best policy option.

Based on the evaluation criteria, combining government and self-regulation policies offer the best prospects for ensuring a favorable microfinance environment is created in Kenya. In addition, combining the two policies offer MFIs opportunities to raise their efficiency and effectiveness in delivering microfinance services, while offering the Government of Kenya an opportunity in freeing up resources for development in the country.[2]

Overall, the policy alternative of combining government regulation and self-regulation policy has the greatest potential in addressing *the limited sources of capital that is undermining the capabilities of MFIs in Kenya to efficiently operate and expand their microfinance activities*.

[1] According to the Problem Tree analysis of the microfinance sector in Kenya, the root causes that have mainly contributed to the financial gap include the following: weak capacity building procedures, lack of performance criteria, weak transparency and accountability systems, and weak regulatory framework that have greatly undermined the capabilities of MFIs to effectively operate and expand their activities (**see Annex a**).

[2] **see Annex e**: Evaluation of Alternatives

1. Introduction

This paper explores the feasibility of microfinance investment funds (MIF) as key drivers for channeling alternative sources of funding to microfinance institutions (MFIs) and in helping with the expansion of microfinance in Kenya. As demand for microfinance services continues to grow, MFIs will have challenges in delivering microfinance services, which will adversely impact their future growth and development. The growing competition to access funding sources has led to a financial gap[3] in supplying microfinance services, which is jeopardizing MFI sustainability in the country. In 2006, the Microfinance Act was passed to enhance the regulatory and legal framework for microfinance and to support the growth and development of microfinance in Kenya.[4] This has greatly helped boost the sector resulting in increases in microfinance loan volumes, especially for deposit-taking MFIs such as Equity Bank, K-Rep Bank,[5] and Jamii Bora. The ability of MFIs to collect deposits has some advantages, especially as the pool for alternative funding shrinks. Accordingly, the major arguments for attracting MIFs to incorporate or invest in the country is that in addition to channeling alternative sources of funds, it also supports MFIs in their early stages of development to grow and to be more attractive to investment opportunities.[6]

Although microfinance has been playing a significant role in providing a wide range of financial products and services, many MFIs in Kenya still face major challenges in their efforts to efficiently and effectively deliver microfinance services.[7] A vast majority of the MFIs in Kenya are informal and unregulated,[8] which has limited their funding sources further weakening their institutional capacity to supply microfinance services and limits their ability to grow.

2. Background

2.1. Microfinance Sector

2.1.1. Oversight Body Overseeing Microfinance

In 1999, the Association of Microfinance Institutions (AMFI) was registered under the Societies Act as an umbrella organization to represent the microfinance institutions operating in Kenya. The AMFI's activities were initially funded through a 3-year grant from the United States Agency for International Development (USAID), which aimed to support the growth and development of MFIs, by promoting sustainable, efficient, and

---

3 Financial gap is defined as the difference between the existing supply of financial services and the actual 'formal' financial services supply required in the country (**see Figure 2**).

4 (2006). The Microfinance Act, 2006. C. B. o. Kenya. Nairobi, The Government Printer. **No. 19:** 589.

5 CGAP (2008). The Rating Fund: The Microfinance Rating and Assessment Fund, Consultative Group to Assist the Poor.

6 Devaney, P. L. (2006). Omidyar Network and the SEEP Network Microfinance Investor Roundtable: Major Themes and Next Steps. Microfinance Investor Roundtable. P. L. Devaney. Washington, D.C.**:** 6 pages.

7 FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. FinaAccess Study. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

8 Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. C. B. o. Kenya, IRIS Center.

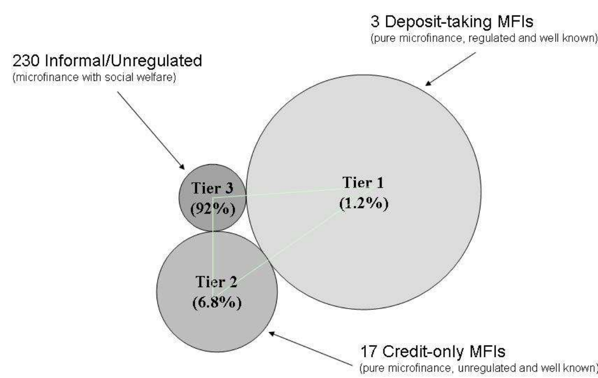
effective delivery of microfinance services. Further, AMFI aimed to organize a network of MFIs in the country who were committed to developing and making available a wide array of microfinance services to those who needed it, especially those whose needs were unmet by the formal financial sector.[9]

AMFI has been playing a vital role in promoting the growth of microfinance in Kenya in addition to supporting MFIs to build capacity in order to overcome some of the challenges facing the sector. AMFI was instrumental in drafting and preparing the Microfinance Bill, which was passed and enacted into law in 2006.[10]

2.1.2. Microfinance Institutions

While Kenya has more than 250[11] organizations that practice some form of microfinance business, only 20-practice pure microfinance, of which 3 are deposit-taking and 17 are credit only. The remaining 230 MFIs combine microfinance with social welfare activities.[12] According to the Microfinance Act,[13] MFIs in Kenya are classified into three different tiers, with the first tier being deposit-taking institutions such as banks, the second tier being credit only facilities, and the third tier being informal organizations supervised by an external agency other than the government.[14] These distinct classifications have led to some of the MFIs specializing in certain niche markets, which have contributed to their growth and sustainability in delivering microfinance. For example, the ability to collect deposits has enable Equity Bank to appeal to those excluded by the high the high costs of accessing traditional banks,[15] while Jamii Bora has identified itself as the financial provider to former thieves and beggars.[16]

Figure 1: Microfinance structure and MFI market share in Kenya



Source: (Omino 2005)

---

9 USAID/Kenya. (2003). "The Association of Microfinance Institutions." Agriculture and Microenterprise Development Retrieved 2/2, 2008, from http://www.usaidkenya.org/ke.agbuen/activities/microfinance.html.

10 Ibid.

11 SantaMaria, A. (2007). "Microfinance Regulations in Kenya." MicroFinance Sector Retrieved 1/28, 2008, from http://www.parismfn.org/parismfn/2007/in_kenya_there_.html.

12 Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. C. B. o. Kenya, IRIS Center.

13 (2006). The Microfinance Act, 2006. C. B. o. Kenya. Nairobi, The Government Printer. **No. 19:** 589.

14 Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. C. B. o. Kenya, IRIS Center.

15 Johnson, S., M. Malkamaki, et al. (2006). "Tackling the 'Frontiers' of Microfinance in Kenya: The Role for Decentralized Services." Small Enterprise Development **17**(3): 13 pages.

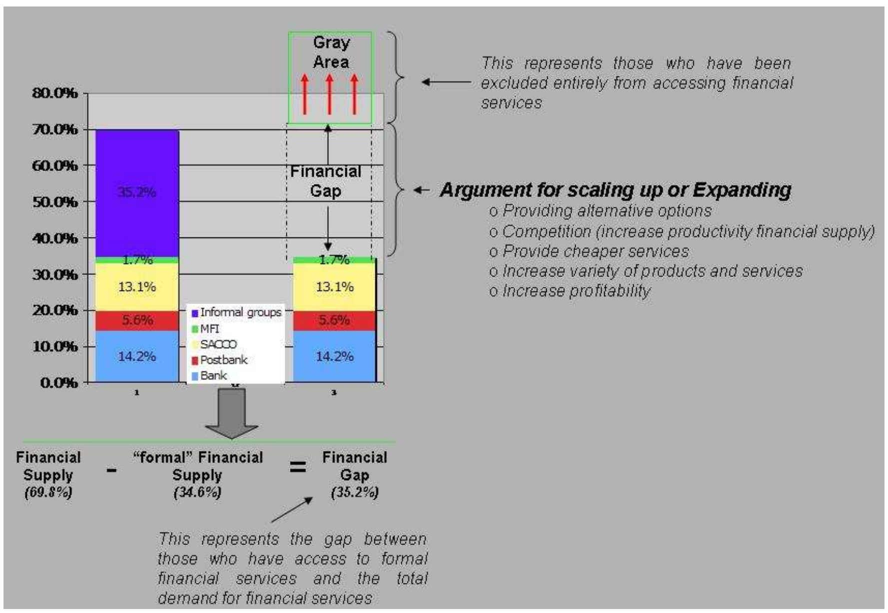
16 Microcredit (2008) Beggars, Savers and Borrowers: The 'Good Families' of Jamii Bora. Microcredit Summit E-News **Volume**, DOI: March 2008

In 2007, Kenya received global recognition during the Group of Eight (G8) summit in Berlin for the progress made in the microfinance sector. On behalf of the sector, James Mwangi of Equity Bank was honored at the summit with the 2007 Global Vision Award on Microfinance,[17] a considerable milestone, which has highlighted the success of microfinance in the country.

2.1.3. Challenges in Microfinance

Despite the enactment of the Microfinance Act, AMFI still faces challenges in building the capacity of the microfinance sector and reducing the inefficient delivery of microfinance products and services. Furthermore, the continued success and rapid growth of microfinance has led to a financial gap in the funding needed to meet the growing demand.[18]

Figure 2: Distribution of financial services in Kenya



Source: (FSD 2007)

This could seriously impact the ability of Kenyans to access the financial resources needed to obtain basic socio-economic benefits such as education, healthcare services, land ownership, income generating activities, and credit facilities. A study on the financial sector found that 35.2 percent of Kenyans in need of financial services, where unable to access the formal financial services.[19] In addition, there was another 30.2 percent who are entirely excluded from accessing any financial services (see Figure 2). This has greatly undermined the overall wellbeing of the poor people by limiting their opportunities to improve their socio-economic status.

---

17 Ombara, O. (2007). Equity Bank CEO to Address G8 Meeting. The Standard. Nairobi, The Standard Group.

18 FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. FinaAccess Study. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

19 Ibid.

2.2. Sociopolitical Setting

2.2.1. Demographics

According to the World Development Indicators (WDI), Kenya's population was estimated at 35,143,188 in 2006, which represented a percentage change increase of 17.9 percent from the 2000 population results.[20] In addition, the demographic data from WDI found that in 2006, Kenya's population was growing at a rate of 2.42 percent per annum[21] and it is estimated that the projected population will reach 38,929003 by 2010 if the current growth rate continues.

The urban population growth rates are significantly higher than the national growth rate for the period 2000-2006 at 5.94 percent, while the rural population growth rates are far below the national average for the same period.[22] The population density in Kenya is about 62 people per square kilometer with about 79 percent of the population living in the rural areas and the remaining 21 percent live in the urban areas. Additionally, approximately 54.4 percent of Kenyans are in the age group 15-64. The population is young, with 42.8 percent of the population aged 0-14 years and only 2.8percent aged 65 years and over (**see Annex d**).[23]

Table 1: Population size, population density, and annual growth rates of Kenya (1990 – 2006)

Population distribution	Population		Annual growth rate (%)		Population density (pple/sq. km)	
	2000	2006	1990-2000	2000-2006	2000	2006
Rural population	24643533.6	27763118.15	-3.20%	0.97%	43.29	48.77
Urban population	6045798.404	7380069.381	-3.66%	5.94%	10.62	12.96
Total Population	30689332	35143187.53	3.10%	2.42%	53.91	61.74

Source: (WDI 2007)

2.2.2. Labor and Employment

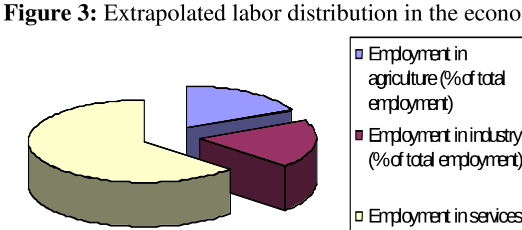
The WDI data on labor and employment take into consideration the gender distribution in agriculture, industry, and services and factor it as a percentage of the total male or female in employment. In Kenya, the service sector is the largest contributor to GDP comprising more than 67.6 percent of the total share of the economy, while agriculture is 16.6 percent and industry is 16.52 percent.[24]

Table 2: Extrapolated labor distribution in the economy

Gender Distribution of Labor in the Economy	Distribution Percentage
Employees, agriculture, female (% of female employment)	12.39
Employees, agriculture, male (% of male employment)	20.81
Employees, industry, female (% of female employment)	9.40
Employees, industry, male (% of male employment)	23.64
Employees, services, female (% of female employment)	79.56
Employees, services, male (% of male employment)	55.63

Source: (WDI 2007)

Figure 3: Extrapolated labor distribution in the economy



Source: (WDI 2007)

[20] WDI (2007). Kenya's Population Size and Population Distribution, World Bank.
[21] Ibid.
[22] Ibid.
[23] Ibid.

However, based on Kenya's national survey by Financial Sector Deepening (FSD), a majority of the population is dependent on agriculture for employment.[25] Although the service sector accounts for more than 67.6 percent of GDP, about 75 percent of the population is employed in the agricultural sector.[26]

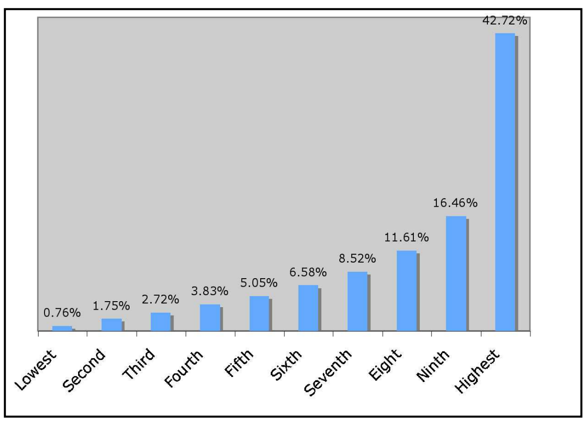
The labor participation rate as a percentage of the total population (15 years and over) is 81 percent, the participation rate for men is much higher at 90 percent while female's participation rate is below the total average at 71 percent (see Table 2).[27]

2.2.3. National Income Distribution

A study by the Society for International Development (SID) found that the distribution of income in Kenya was extremely uneven and the rich controlled a large portion of the national income. According to the study, 42 percent of the national income in the country was in the hands of 10 percent of the richest households, while only 0.76 percent of the national income was in the hands of the lowest 10 percent.[28]

The study also found that in terms of Kenyan shilling that "*for every one shilling earned by the lowest 10 percent, the highest 10 percent earned more than Kshs 56*." Additionally, when the income groups are subdivided into ten cumulative percentages of household income groups, the gini coefficient, which measures the inequality of income distribution, was 0.571.[29]

Figure 4: Share of income distribution by household groups



Source: (Odhiambo 2004)

2.2.4. Information and Communications Technology

The rapid growth of information and communications technology (ICT) in Kenya has facilitated innovative ways for delivering financial services in addition to changing the methods of payment, which has helped with the expansion of microfinance in the country. Services such as M-Pesa allow mobile phone users with pre-paid accounts to

---

[24] Ibid.

[25] FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. FinaAccess Study. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

[26] FFP (2006). Kenya's Economic Indicators. Country Profiles, The Fund for Peace.

[27] WDI (2007). Kenya's Population Size and Population Distribution, World Bank.

[28] Odhiambo, W. (2004). Pulling Apart: Facts and Figures on Inequality in Kenya. Nairobi, Society for International Development (SID)**:** 85 pages.

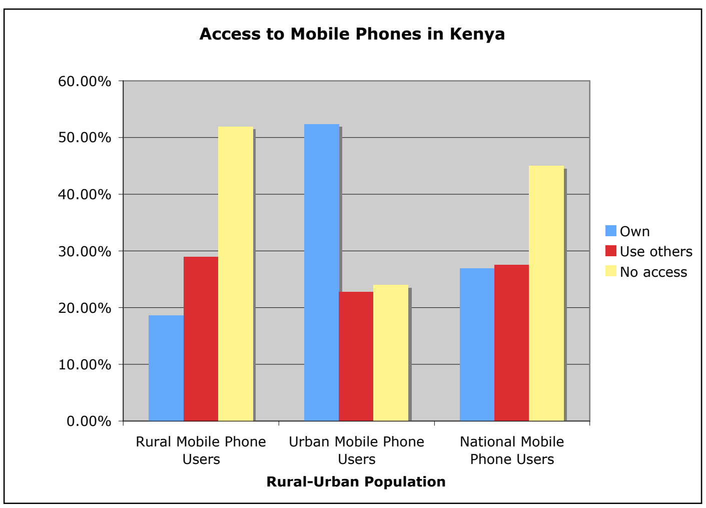
[29] Ibid.

transfer money to anyone within their mobile network.[30] For example, customers register with Safaricom for an M-Pesa account to activate their mobile phone to turn cash into *e-money* at Safaricom authorized dealers; this then would allow customers to use their mobile phones in making payments and transferring money to other customers within the Safaricom network.[31] This has made it possible for MFIs to integrate services such as M-Pesa into their payment methods and this has in turn enhanced the distribution of microfinance loans and the collection of repayments of loans, which has greatly reduced the transaction costs.

2.2.5. Mobile Phones

In terms of mobile phone access in Kenya, 26.9 percent of the population 18 years and above own a mobile phone.[32] According to FSD Kenya's 2006 national survey, 52.3 percent of the urban population owned a mobile phone, while almost half the number, about 18.6 percent reported owning a mobile phone in the rural areas. In addition, those who reported not owning a mobile phone still had access to one through a family member or a friend. The likelihood of using someone else's mobile phone was much higher in the rural areas, where 29 percent were reported compared to 22.8 percent in the urban areas.[33]

Figure 5: Percentage of rural-urban population with access to mobile phones in Kenya



Source: (FSD 2007)

2.2.6. Methods of Payment

As a result of the rapidly growing ICT sector in Kenya, electronic payment methods such as: PesaPoint – an automated teller machine (ATM), Sokotele – a point of sale device (POS), cash-in cash-out services, credit cards, and M-Pesa have been gaining

---

30 Vodafone. (2007). "Safaricom and Vodafone Launch M-PESA, A New Mobile Payment Service." Retrieved 10/24, 2007, from http://www.sendmoneyhome.org/uploads/2007/02/vodafone-m-pesa-launch-final.pdf.

31 Hughes, N. and S. Lonie (2007). "M-PESA: Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya in Kenya." <u>Innovations</u> **2**(1-2): 14 pages.

32 FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. <u>FinaAccess Study</u>. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

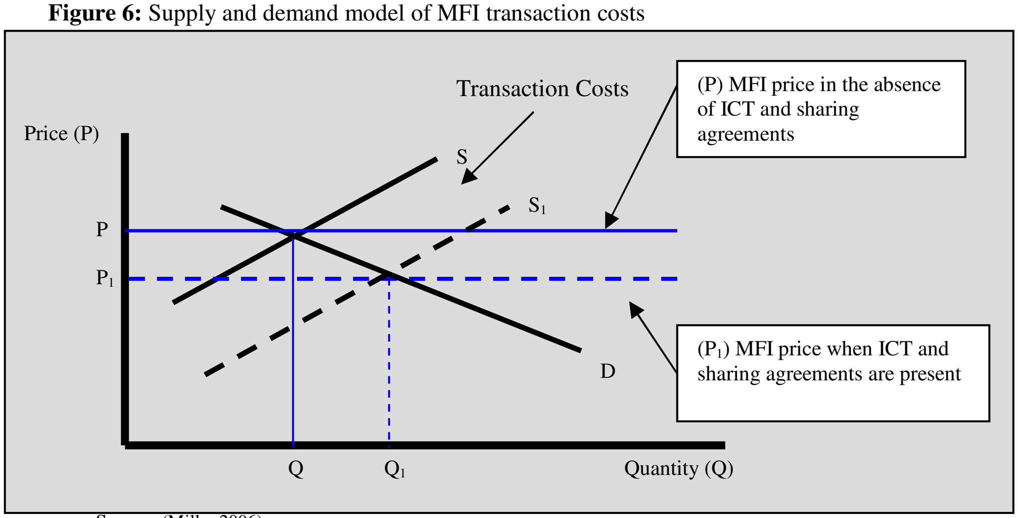
33 Ibid.

prominence and most MFIs are hoping to utilize them as the preferred form of payment for their microfinance services due to their cost saving nature.[34]

According to the Governor of the Central Bank of Kenya (CBK), Professor Njuguna Ndung'u, the use of ICT solutions such as electronic payment methods has greatly benefited microfinance through the reduction of both the high fixed costs associated with running branches, mainly in rural areas, and lowering operating costs for MFIs through sharing their point of services with other vendors.[35]

In addition, the recent CBK microfinance prudential regulation proposals aim to further facilitate sharing agreements with non-bank vendors such as retail shops, supermarkets, pharmacies, and gas stations, which would improve transaction costs and result in increases of microfinance services in Kenya.[36] In view of these proposed microfinance prudential regulations, if the transaction cost (S) of delivering microfinance fell to (S_1), the price of microfinance products and services (P) would fall to (P_1), resulting in an increase in the number of microfinance products and services being sold (this assumes a fairly competitive market for microfinance products).[37]

Figure 6: Supply and demand model of MFI transaction costs



Source: (Miller 2006)

2.3. Investment Climate

Kenya has had a long history of economic leadership in East Africa and is one of the largest and most advanced economies in the region.[38] All investors investing in the country receive equal treatment and their investment activities are governed under the

---

34 Pickens, M. (2007) Moving Beyond Bank Walls: Notes on Regulation of Branchless Banking in Kenya. CGAP - Technology Program **Volume**, 19 pages DOI: November 2007

35 Ngung'u, N. (2007). Proposed Microfinance Prudential Regulations. Workshop to Review the Proposed Microfinance Prudential Regulations, Kenya School of Monetary Studies, Nairobi, Central Bank of Kenya.

36 Ibid.

37 Miller, R. L. (2006). Economics Today. Boston, Pearson Addison-Wesley.

38 USA.gov (2007). 2007 Investment Climate Statement - Kenya. D. o. State. Washington.

Investment Promotion Act 2004.[39] The law provides the administrative and legal procedures to achieve a more effective investment climate.

The law sets the following requirement for foreign investors:

Table 3: Foreign investments requirements in Kenya

- ❑ The minimum foreign investment threshold at $500,000
- ❑ Investors must receive an investment certificate from Kenya Investment Authority (KIA)
- ❑ Foreign employees are expected to be key senior managers or have special skills not available locally
- ❑ Foreign investors are required to sign an agreement with the government stating training arrangements for phasing out expatriates
- ❑ Any enterprise, whether local or foreign, may recruit expatriates for any category of skilled labor if Kenyans are not available
- ❑ Work permits are required for all foreign nationals wishing to work in the country

Source: (USA.gov 2007)

2.3.1. Business Forms

Foreign firms establishing Kenyan subsidiaries usually choose the private limited liability company, as the laws regulating their establishment and operation are less stringent. There are no restrictions on exit procedures for a branch of a non-resident company except that a branch must be registered.[40]

2.3.2. Business Environment

According the Heritage Foundation's Index of Economic Freedom 2008, the overall business environment in Kenya in terms of doing a business is "*relatively well protected by Kenya's regulatory environment*."[41] Kenya is ranked 71st out of 178 countries in the ease of doing business, where starting a business takes an average of 57 days, compared to the world average of 43 days.[42] In term of Economic Freedom, Kenya is ranked 82nd out of 157, where investment freedom and freedom from government (share of government in the economy) received a score of 50 percent and 84.8 percent respectively. This has resulting in Kenya receiving a country rating of C (**see Annex m**).[43]

2.4. Economic Sector

2.4.1. Employment Sectors

The Kenya National Bureau of Statistics (KNBS) 2005-06 labor force survey found that of the 18.8 million Kenyans in the age group 15-64, 13.5 million were actively

[39] GoK (2004). Investment Promotion Act 2004. M. o. Finance. Nairobi, Government Printers**:** 19 pages.

[40] Deloitte. (2006). "Kenya Snapshot." International Tax and Business Guides Retrieved 3/4, 2008, from http://www.deloittewebguides.com/index.asp?layout=countrySnapshotDtt&country_id=250000025&rf=0.

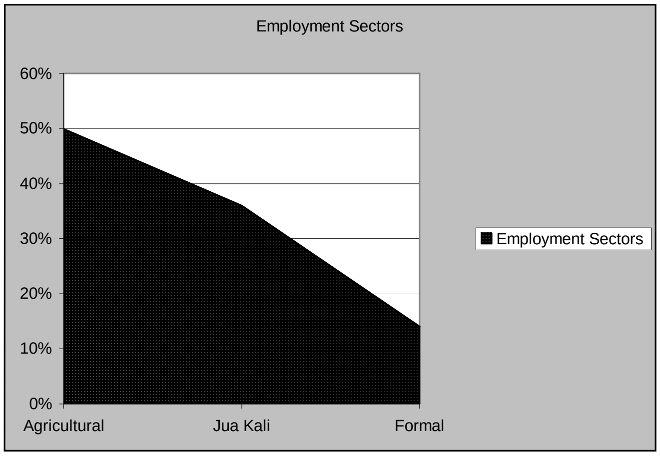
[41] (2008). Index of Economic Freedom, Heritage Foundation.

[42] DBI (2008). Doing Business Index, World Bank.

[43] Coface (2008). Country Ratings, The Coface Group.

participating in the labor force. The population actively participating in the labor force can be subdivided into three sectors; agricultural, formal, and the *Jua Kali* sectors.[44]

Figure 7: Sectors where the labor force is participating



Source: (Pollin, Githinji et al. 2007)

2.4.2. Agricultural Sector

The 2005-06 labor force survey by KNBS found that *"officially"* more than 50 percent of the actively participating labor force in Kenya was employed in the agricultural sectors where approximately 6.75 million Kenyans,[45] though other *"unofficial"* estimates show a much higher percentage engage in the sector. The agricultural sector is where the majority of Kenyans are employed and it plays a significant role for rural households.[46]

2.4.3. Formal Sector

According to the survey by KNBS, the formal sector accounts for the smallest share of actively participating labor force in the country and represents about 14 percent of total employment, which is 1.89 million.[47] The formal sector is officially recognized by the Government of Kenya (GoK) and those employed pay a tax on the salaries they earn.

2.4.4. The Jua Kali Sector

"Jua Kali" means "hot sun" and was once synonymous with people who worked long hours under the sun making handicrafts as a means of livelihood. Over time, the term *Jua Kali* has been broadened to include all forms of livelihood (non-agricultural) that are not officially registered by GoK to operate in the economy. Hence, *Jua Kali* literally means the informal economy. Further, according to internationally accepted

---

[44] Pollin, R., M. w. Githinji, et al. (2007). An Employment-Targeted Economic Program for Kenya. Brazilia, UNDP.

[45] Ibid.

[46] FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. FinaAccess Study. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

[47] Pollin, R., M. w. Githinji, et al. (2007). An Employment-Targeted Economic Program for Kenya. Brazilia, UNDP.

definitions, *Jua Kali* can also describe self-employment in non-agricultural activities and is used as a key indicator for the informal economy.[48]

According to the KNBS, the *Jua Kali* sector accounts for 36 percent of total employment and it employs more than 4.86 million people. A large number of workers in the *Jua Kali* sector work more than 40 hours per week with low pay.[49] As per the survey, a majority of these people are unable to support themselves and their families.

2.4.5. The Banking System

The role of the traditional banking institutions in Kenya is to channel funds from households, firms, and governments with excess savings to those who have a shortage of investable funds.[50] Similarly, MFIs provide financial services, primarily savings and credit to the poor who do not have access to the traditional banking institutions.[51]

The innovative lending strategies of MFIs in providing microcredit and other financial services to the poor are often considered a challenge to traditional financial institutions.[52] Products and services offered by both the traditional financial institutions and MFIs in Kenya are similar and include the following: loans, savings and deposit, payment services, insurance, money transfer, and non-financial services

The key difference is the smallness of products and services offered by MFIs. Other features that distinguish microfinance services from those provided by the traditional financial institutions include the absence of collateral to access services and the simplicity of MFI operations that use innovative ICT solutions.[53]

The conventional wisdom is that MFI services are expected to force the traditional institutions to pay greater attention to the banking needs of the poor. However, despite the presence of the MFI institutions, the traditional banking system in Kenya continues to only serve a small proportion of the market, largely ignoring those considered "unbankable" such as poor households (see Figure 2).

2.4.6. Nairobi Stock Exchange

Kenya's capital market sector has been growing rapidly and has developed into a sophisticated financial system, which is ranked 48 out of 131 economies.[54] The 2007-2008 Global Competitiveness Report (GCR) ranked the quality of Kenya's business environment 52 out of 131 and the overall business competitiveness was ranked 62. The role of the capital markets in Kenya is essential for the financial sectors and they provide financing opportunities for enterprises.[55]

---

48 Fairbourne, J. S., S. W. Gibson, et al. (2007). MicroFranchising : creating wealth at the bottom of the pyramid. Cheltenham, UK ; Northampton, MA, Edward Elgar.

49 Pollin, R., M. w. Githinji, et al. (2007). An Employment-Targeted Economic Program for Kenya. Brazilia, UNDP.

50 Mishkin, F. S. (2006). The economics of money, banking, and financial markets. Boston, Addison Wesley.

51 CGAP. "Definition of Microfinance Institutions." Retrieved 2/15, 2008, from http://www.cgap.org/portal/site/CGAP/menuitem.5cb3955e992401606780801059 1010a0/

52 Johnson, S. (2004). "The Impact of Microfinance in Local Financial Markets: A Case Study from Kenya." Journal of International Development **16**(3): 34 pages.

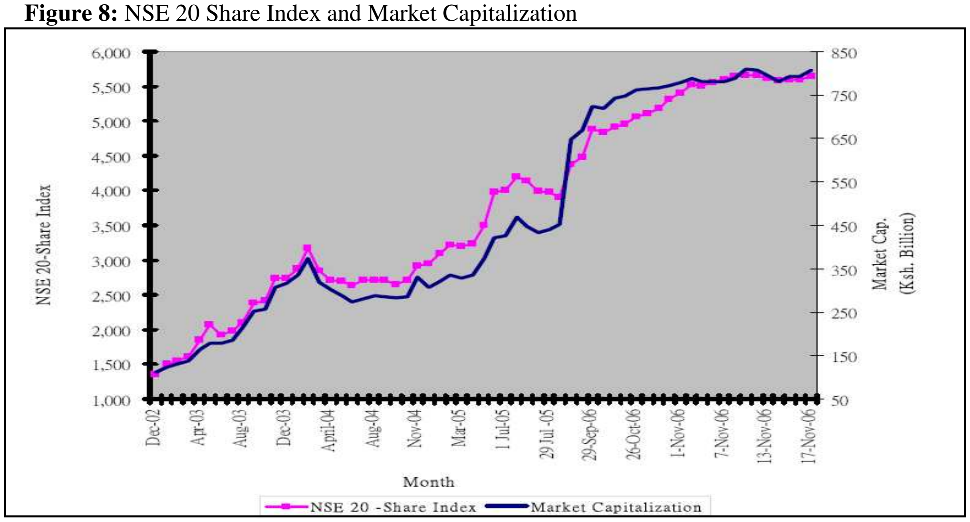
53 Vodafone. (2007). "Safaricom and Vodafone Launch M-PESA, A New Mobile Payment Service." Retrieved 10/24, 2007, from http://www.sendmoneyhome.org/uploads/2007/02/vodafone-m-pesa-launch-final.pdf.

54 GCR (2007). The Global Competitiveness Report 2007-2008. Global Competitiveness Report: Country Economic Analysis, World Economic Forum.

55 GoK (2002). The Capital Markets Act (CAP 485A). CMA. Nairobi, Ministry of Finance: 6 pages.

Kenya's capital market under the Nairobi Stock Exchange (NSE) has undergone unprecedented growth, with the equity and bond issuance reaching an all time high. The NSE currently has 53 companies with equity listings in the Main and Alternative Investment Market Segments (MIMS and AIMS). Additionally, there is another listing for trading government and corporate bonds and other fixed-income securities (FIMS).[56] The total equity market capitalization of these 53 companies as of July 31 2007 was Kshs. 811.23 billion.[57]

Figure 8: NSE 20 Share Index and Market Capitalization



Source: (NSE 2007)

3. Problem Statement

This paper explores the feasibility on MIFs and attempts to analyze the factors and policies that influence the location decision in terms of how they allocate their investments. Accordingly, this paper seeks to answer the following policy questions:

3.1. Policy Question

i. What factors must be in place before an MIF can establish itself in a location and what role would it play in promoting the growth of MFIs? Can an MIF sustain itself, while offering both financial and social returns on investment to investors?
ii. Is it necessary and feasible for an MIF to incorporate in Kenya and if so, what are some of the factors and policies that would influence the location decision of an MIF?

3.2. Problem Definition

The growth of MFIs in Kenya has been met with challenges as the pool for funding continues to shrink mainly due to limited donor funds and growing competition in the microfinance sector in accessing those funds. The resulting financial gap in the country

---

56 NSE. (2007). "NSE Listed Companies and Market Capitalization." Listed Companies Retrieved 11/2, 2007, from http://nse.co.ke/newsite/inner.asp?cat=companies.

57 NSE. (2007). "NSE Monthly Statistical Bulletin." Market Statistics Retrieved 11/2, 2007, from http://nse.co.ke/newsite/inner.asp?cat=sbullet.

for sustaining microfinance activities has necessitated the need for MFIs to seek alternative sources of funding for their growth and financial sustainability.

3.2.1. Why is there a financial gap for sustaining microfinance activities?

According to the Problem Tree analysis of the microfinance sector in Kenya, the root causes that have mainly contributed to the financial gap include the following: weak capacity building procedures, lack of performance criteria, weak transparency and accountability systems, and weak regulatory framework that have greatly undermined the capabilities of MFIs to effectively operate and expand their activities (**see Annex a**).

*Therefore, the **limited sources of available capital** have greatly undermined the capabilities of MFIs in Kenya to effectively operate and expand their microfinance activities.*

3.3. Stakeholder Analysis

In addressing the above mentioned financial gap, a stakeholder analysis of the groups directly or indirectly involved in the microfinance sector will allow for better understanding of their resource needs and their interests. To understand the level of involvement relating to strategies for closing the financial gap in Kenya, stakeholders will be subdivided according to their power and salience in the Stakeholder Matrix based on the following attributes to guide their strategic responses (**see Annex b**):[58]

Table 4: Description of stakeholder attributes

Attributes	Stakeholders
Promoters: Stakeholders who attach a high priority to the reform policy a priority and whose actions can have an impact on the implementation of the policy.	AMFI, Tier 1 MFIs, Tier 2 MFIs, GoK, MoF, CBK, MoTI, FSD, MSE, USAID, DFID, SIDA, WB, IFC, SRI Investors/private sector, business community
Defenders: Stakeholders who attach a high priority to the reform policy but whose actions cannot have an impact on the implementation of the policy.	Tier 3 MFIs, KEMCAP, Excluded groups
Latents: Stakeholders whose actions can affect the implementation of the reform policy but who attach a low priority to this policy.	KIA, NSE, SACCOs, KPOSB, Traditional Banks
Apathetics: Stakeholders whose actions cannot affect the implementation of the reform policy and who attach a low priority to this policy.	MoIC, CCK

Source: (WB 2001; WB 2008)

The following are key stakeholders involved directly or indirectly with the provision of microfinance services in Kenya:

3.3.1 Primary Stakeholders

AMFI is interested in building the capacity of MFIs and reducing the inefficiencies in delivering microfinance services in the country.[59] The prospect of additional sources of

[58] WB. (2008). "Stakeholder Analysis." Public Sector Governance Retrieved 3/13, 2008, from http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20638051~pagePK:210058~piPK:210062~theSitePK:384455,00.html.

[59] USAID/Kenya. (2003). "The Association of Microfinance Institutions." Agriculture and Microenterprise Development Retrieved 2/2, 2008, from http://www.usaidkenya.org/ke.agbuen/activities/microfinance.html.

capital in the microfinance sector would help address some of the challenges facing most of the MFIs in their efforts to deliver microfinance services, while sustaining and expanding their activities.

Tier 1 MFIs consist of the 3 deposit-taking MFI banks and they mainly rely on deposits and savings as their key source of raising capital for the provision of microfinance services. They are interested in alternative sources of capital to help meet the growing demand for microfinance services.

Tier 2 MFIs consist of the 17 credit only MFIs who rely on loans that they provide at or close to market rates as their key source of raising capital for the provision of microfinance services. They are interested in alternative sources of capital to grow their loan portfolio in order to expand their microfinance activities.

Tier 3 MFIs consist of the 230 smaller MFIs that focus on both microfinance and social welfare. They rely on charity and donor support as their key source of raising capital for their microfinance activities. They are interested in cheaper access to private capital to grow and sustain their programs.

Traditional banks have access to various sources of capital to expand and sustain their financial activities, which include deposits and savings and investments services. The traditional banks are interested in alternative sources of capital, which can be used to grow their portfolio.

Non-bank financial institutions (NBFI) such as Savings and Credit Co-Operatives (SACCOs) and Kenya Post Office Savings Bank (KPOSB or PostBank) rely on mobilizing deposits and savings as their main source of capital for sustaining their lending activities. These NBFIs are interested in alternative sources of capital that is long-term based, which can enable them to increase their loan portfolio.

Private sector such as social responsible investors (SRIs), are interested in placing their investments where they can receive social and financial returns. They are mainly concerned with accurate and timely information, which they use to make their financial decision as to where to invest their money.

Business community Micro and Small Enterprises (MSEs) and Small Medium Enterprises (SMEs) are interested in both investment opportunities and accessing additional sources of capital to grow their businesses. These groups are mainly concerned with accessing affordable capital that they can use to grow and sustain their business activities.

Interest groups such as workers unions and cooperatives are interested in enhancing their socio-economic wellbeing through increased access to financial services. These interest groups are mainly interested in a wider range of financial products and services to meet their financial needs.

Excluded groups from the financial sector make up 35.2 percent of Kenyans who are unable to access ‘formal’ financial services.[60] This group faces challenges in accessing affordable financial services are forced to turn to informal financial providers such as family, friends, and money lenders, which has greatly hindered their ability to improve their socio-economic status.

“Unbankable” groups in Kenya make up 30.2 percent of Kenyans who are unable to access any financial services.[61] This group faces challenges in accessing basic socio-economic benefits such as education, healthcare services, land ownership, income generating activities, and credit facilities that can help them improve their socio-economic status.[62]

3.3.2 Secondary Stakeholders

Public sector agencies such as CBK, Ministry of Finance (MoF), and the Ministry of Trade and Industry (MoTI) are interested in improving the policy environment to facilitate the growth and development of business. They are mainly concerned with ensuring that access to information and resources are adequate to support the delivery of microfinance services in the country. The prospect of attracting investments to the microfinance sector through policy would help with the expansion of microfinance in Kenya.

Political groups such as Members of Parliament (GoK) are interested in ensuring that their constituents have access to economic opportunities through microfinance services. They are primarily concerned with the growing population that cannot access basic socio-economic benefits that could potentially improve their status.

Non-governmental organizations (NGOs) that provide social welfare are interested in increased access to financial services that could help enhance economic opportunities for many Kenyans. They are primarily concerned with affordable access to financial services.

Civil society especially those representing the MSEs are mainly interested in increasing investment opportunities to help grow and sustain businesses. Other civil society groups such as FSD are interested in the growth and development of the financial markets to support wealth creation and reduce poverty.[63] The civil society is primarily concerned with ensuring that the business environment is favorable for both the MSEs and for potential investors.

---

60 FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. FinaAccess Study. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

61 Ibid.

62 SID (2004). Pulling Apart: Facts and Figures on Inequality in Kenya**:** 85 pages.

63 FSD. (2005). "Who We Are." Financial Sector Deepening Kenya Retrieved 3/13, 2008, from http://www.fsdkenya.org/home/index.html.

3.3.3 External Stakeholders

International agencies (such as USAID, DFID, SIDA, WB, and IFC) are interested in the growth and development of microfinance in Kenya. They are primarily concerned with providing the necessary resources (loans, grants, guarantees, and technical assistance) that can help MFIs develop and grow their microfinance activities.

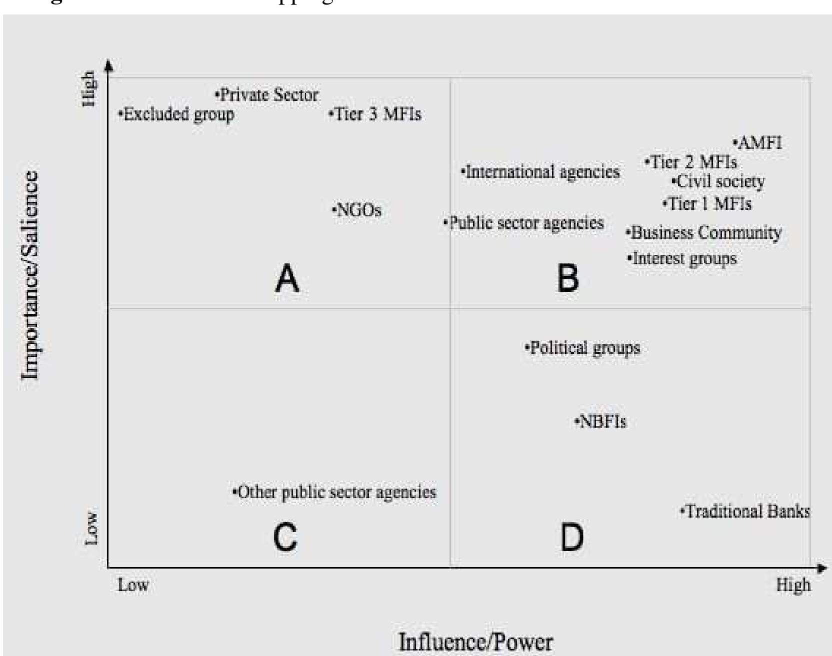
Other public sector agencies (such as MoIC and CCK) are interested in providing ICT infrastructure that will facilitate the use and growth of technology in the country. These public sector agencies are mainly concerned with the efficient use of technology and the reduced cost savings in providing services that depend on ICT.

3.3.4. Explanatory Note of Stakeholder Analysis

According to the stakeholder mapping, quadrants **A**, **B**, and **D** are the vital stakeholders in this policy reform and they have significant influence on the policy objectives. The summary of each quadrant is as follows:

- ***Quadrant A*** *(Defenders):* Stakeholders of high importance to the policy reform, but with low influence.
- ***Quadrant B*** *(Promoters):* Stakeholders who have a high degree of influence on the policy reform and are critical in the implementation process.
- ***Quadrant C*** *(Apathetics):* Stakeholders in this quadrant are those with low influence on the policy reform and whose interests are not the main target of this policy reform.
- ***Quadrant D*** *(Latents):* Stakeholders with high influence and who can affect the outcome of the policy reform, but whose interests is not the main target of this policy reform.

Figure 9: Stakeholder mapping



Source: (see Annex b)

3.4. Goals and Objectives

The goal of this paper is to ensure that *a favorable microfinance environment to attract investments in Kenya is created*. To achieve this above goal and deliver significant change in the microfinance sector, the following are recommended objectives:

- Increase capacity: Improving MFIs operation through continual training of staff and through organizational development to help address their capital and management constraints in addition to encouraging the growth of their services. The training process should encourage the development of professional managers in microfinance.
- Enhance information: Implementing procedures that will enhance accessibility of information on MFI activities. This will help ensure accurate information of microfinance services to reduce risks and improve performance.
- Increase performance: Implementing benchmarks for peer group evaluation and comparison with industry norms. This will ensure that MFIs are collecting and disseminating lessons learned and best practices to improve their overall performance.
- Enhance self-governance: Increasing accountability of MFIs by promoting self-regulation where MFIs act as checks-and-balances of how microfinance is delivered in the country. This will help assess MFIs on how well their social, environmental, and financial objectives are balanced and to ensure that MFIs are operating under acceptable industry norms.

4. Implication of Existing Microfinance Environment

The following are the outcomes of the existing microfinance environment in Kenya that *has greatly undermined the capabilities of MFIs in efficiently operating their services and in expanding their microfinance activities*. The outcomes of the current microfinance environment include: self-governance issues, capacity building issues, non-compliance to reporting requirements, and un-standardized performance criteria.

4.1. Self-governance Issues

AMFI with its mission of "*creating an all inclusive and influential regional network of financial institutions that provide quality microfinance services to low income people*,"[64] is a membership organization of MFIs in Kenya that promotes self-governance in the provision of microfinance services in the country. Although AMFI recognizes how vital microfinance is for the vast majority of Kenyans who lack access to financial services,[65] it faces challenges in getting MFIs involved with the process of governing their delivery of microfinance services in the country. The current membership consists of 33 MFIs of the total 250 MFIs in the country (**see Annex c**).[66] The lack of governance

64 AMFI. (2007). "Mission Statement." Association of Microfinance Institutions of Kenya (AMFI) Retrieved 2/2, 2008, from http://www.amfikenya.com/.

65 USAID/Kenya. (2003). "The Association of Microfinance Institutions." Agriculture and Microenterprise Development Retrieved 2/2, 2008, from http://www.usaidkenya.org/ke.agbuen/activities/microfinance.html.

66 AMFI. (2007). "Mission Statement." Association of Microfinance Institutions of Kenya (AMFI) Retrieved 2/2, 2008, from http://www.amfikenya.com/.

criteria has weakened the ability of some of the MFIs to effectively deliver microfinance services, which has hindered them from achieving credible levels of accountability thus further jeopardizing their sustainability.

4.2. Capacity Building Issues

Capacity building of MFIs refers to both the financial and non-financial capacity and deals with how MFIs manage their resources to effectively deliver microfinance.[67] As the competition to deliver microfinance services continues to grow and the traditional banks venture into microfinance, MFIs face challenges in their outreach activities and maintaining their sustainability.[68] The outcome of the competition is that as traditional banks begin providing microfinance services, MFI staff and clients are being poached by these banks, which has weakened both the financial and non-financial capacity of MFIs in Kenya.[69]

Table 5: Description of capacity building issues

Financial capacity is the ability of a MFI to absorb and manage increased funds for loan disbursement. **Non-financial capacity** is the ability of a MFI to utilize institutional and human resources for skill development, information management systems, and networking opportunities with other microfinance service providers.

Source: (gdrc 2007)

4.3. Non-compliance Reporting Requirements

The microfinance sector in Kenya has developed and grown in the absence of no regulatory oversight and non-compliance with reporting on their activities. Although this strategy has been beneficial for MFIs in the transformation stage, it is clear that there are some MFIs not operating on a sound basis.[70] For example, the growing number of cases of pyramid schemes – "*the get rich quick deposit taking outfits in which investors have lost billions of shillings*."[71] The non-compliance with reporting on MFI activities not only compromises the sustainability of developing MFIs, it also costs MFIs in terms of securing money from private sources since many do not report their activities.

4.4. Un-standardized Performance Criteria

The lack of appropriate performance criteria in the microfinance sector has led to uneven distribution of microfinance services, which is adversely impacting the scaling up of microfinance in the country. However, there are efforts underway by AMFI and the Kenya Microfinance Capacity Building Program (KEMCAP) to operationalize a performance monitoring system for MFIs in order to stimulate the development of the sector and provide consistency and accountability for delivery of microfinance.[72]

---

67 gdrc. (2007). "MFI Capacity Building." Microfinance Networks and Resource Centers Retrieved 3/5, 2008, from http://www.gdrc.org/icm/framework/frame-3.html.

68 Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. C. B. o. Kenya, IRIS Center.

69 Microskills. (2008). "Microfinance: Training and Capacity Building." Retrieved 3/5, 2008, from http://www.microskills.co.ke/trainings.html.

70 Mutua, A. (2007). Pyramid Schemes. O. o. G. Spokesperson. Nairobi, Office of Public Communications: 1 page.

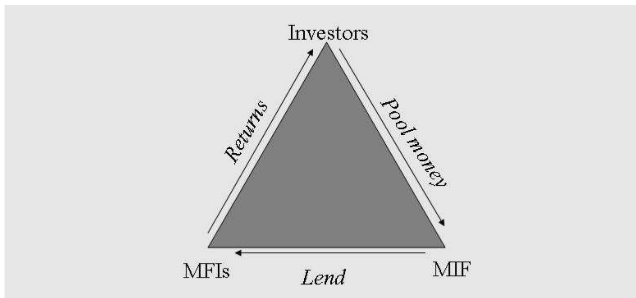
71 Sambu, Z. (2007). Eight saccos deregistered in pyramid schemes crackdown Business Daily. Nairobi.

72 Ndung'u, N. (2007). Kenya Microfinance. The Kenyan Microfinance Conference, Strathmore University, Nairobi, CBK.

5. Assessment of Microfinance Investment Funds

Microfinance investment funds are *specifically created vehicles which have been set up to invest in microfinance assets and in which social or commercial, private or institutional investors can potentially invest their capital.*[73] These vehicles allow for the pooling of investor capital that is made available for lending to MFIs, generating benefits to investors when they are repaid.

Figure 10: Structure of vehicles that channeling capital

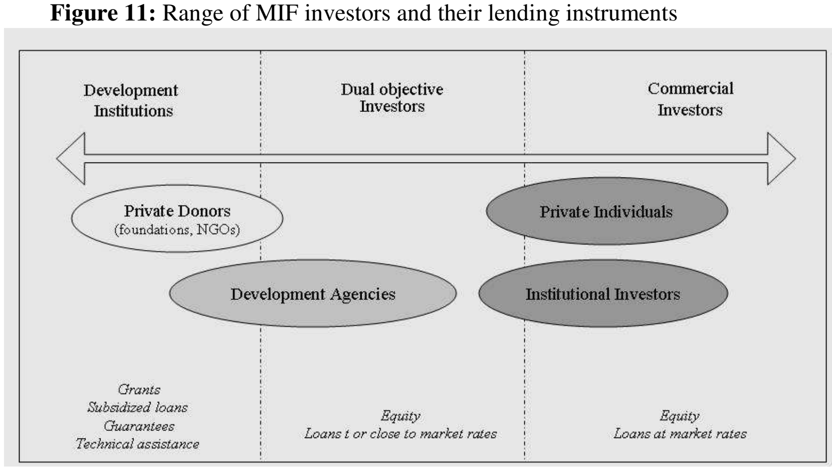


Source: (Matthäus-Maier, Von Pischke et al. 2006)

5.1. Range of MIF Investors

According to Patrick Goodman's presentation at the 2004 Financial Sector Development Symposium in Berlin, the main types of MIFs investors fall under the following four categories; private donors, development agencies, private individuals, and institutional investors (**see Annex i**).[74] These investors use a variety of lending instruments such as grants, subsidized loans, loans at or close to market rates, equity participation, guarantees, and technical assistance (TA) as means of supporting the microfinance sector. These investors include the following:

Figure 11: Range of MIF investors and their lending instruments



Source: (Matthäus-Maier, Von Pischke et al. 2006)

---

[73] Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

[74] Ibid.

Private Donors such as Foundations and NGOs usually support microfinance sectors through providing lending that is much closer to the market interest rate. Sometimes they provide subsidized lending at little or no interest rate.

Development Agencies such as the bilateral and multilateral agencies usually support microfinance sectors through providing lending instruments that are similar to private donors and additional they take equity stakes in their investments.

Private Individuals such as shareholders usually support microfinance sectors through participating in social investments instruments products such as loan instruments or taking equity stakes in their financial investments.

Institutional Investors such as pension funds, insurance companies, mutual and investment funds usually support microfinance sectors by investing their asset portfolios in microfinance or by setting up their own dedicated investment funds that provides lending instruments such as loans and equity stakes.

5.2. Categories of MIFs

In order to distinguish the categories of MIFs that are available for microfinance, MIFs are subdivided on the basis of their objective. This includes subdividing MIFs based on their balance between financial objectives and social objectives, types of investors involved, terms offered, and the MFIs that are primarily targeted. This can be subdivided into three categories: commercial, commercially oriented, and development funds.[75]

Commercial Microfinance Investment Funds mainly target private and institutional investors and the funds have a well defined objective, which is distributed through memoranda, prospectuses, and annual reports that allow investors to compare their investments with others.[76] These types of funds are generally profit driven.

Commercially Oriented Microfinance Investment Funds mainly target private donors, development agencies, private and institutional investors and the funds have a well-defined objective, which is similarly distributed as in the case of commercial microfinance investment funds. This type of fund has a financial objective, but is not necessarily profit driven.[77]

Microfinance Development Funds mainly target private donors and development agencies and the fund mainly aims to provide capital to MFIs to support their development without necessarily seeking a financial return. Investors do not require documentation such as the other two categories and they mainly seek to maintain their

---

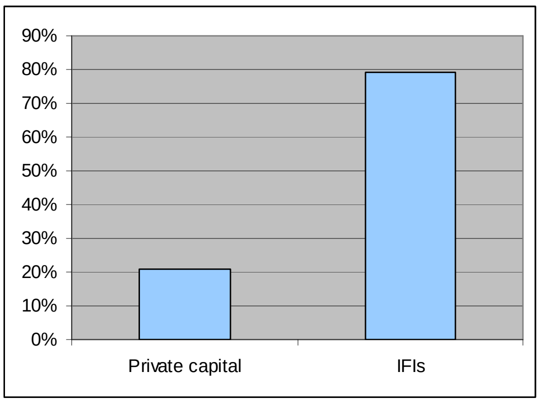
[75] Ibid.
[76] Ibid.
[77] Ibid.

original capital, which is achieved by providing subsidized loans or loans at below market rates.[78]

5.3. Financial Sources of MIFs

According to a 2004 survey conducted by the Consultative Group to Assist the Poor (CGAP) and Appui au développement autonome (ADA) on microfinance investors around the world, close to 79 percent of all capital that goes to financing MFIs is dominated by socially motivated public funding consisting of government sponsored agencies such as the international financial institutions (IFIs). The remaining 21 percent is from other private capital sources mainly consisting of the private and institutional investors.[79]

Figure 12: Share of MIF financing (2004)



Source: (Matthäus-Maier, Von Pischke et al. 2006)

Table 6: Amount of MIF financing in 2004 (in millions)

Private Capital *(debt/equity)*	**IFIs** *(debt/equity)*	**Bilateral/Multilateral Donors** *(grants)*
$126	$484	$500 - 1000

Source: (Matthäus-Maier, Von Pischke et al. 2006)

Although grants are not included in the above sources of financing for MIFs, it is estimated that bilateral and multilateral donors and private foundations to MIFs contribute approximately $500 million to $1 billion in grants each year.[80]

Despite IFIs dominating the global capital in microfinance, their investment in Sub-Saharan Africa is small representing about 6 percent of the global share. Further, the CGAP and ADA survey also found that the amounts that IFIs provide in terms of lending instruments (debt, equity, and guarantees) to Sub-Saharan Africa represents 26 percent while private capital represents 74 percent, which was the largest source of MIF financing.[81]

Table 7: Amount of MIF financing to Sub-Saharan Africa (in millions)

Private Capital			**IFIs**			**All Investors**
Debt	Equity	Guarantees	Debt	Equity	Guarantees	Total
$30,000,000 48%	$15,000,000 24%	$1,000,000 2%	$2,000,000 3%	$6,000,000 10%	$8,000,000 13%	$62,000,000 100%

Source: (Matthäus-Maier, Von Pischke et al. 2006)

78 Ibid.
79 Ibid.
80 Ibid.
81 Ibid.

5.4. Portfolio of MIFs Invested in Africa

In 2007, there are more than 45 microfinance investment funds that either allocate their investments directly or indirectly to MFIs in Africa. Accordingly, of the 45MIFs, 4 are incorporated in Africa (of which 2 are based there: *AfriCap* – Mauritius and *KEF* – South Africa) and the remaining 41 are incorporated outside the continent.[82] These funds are well diversified across the various lending instruments, which provide different opportunities for investors.[83]

These MIFs range in their total assets where a majority (89.8 percent) operates above the conventionally accepted sustainable size of having microfinance portfolios of at least $20 million.[84] According to the MIX market, of the 45 MIFs that reported investing in Africa, only 38 MIFs reported their total asset and the share of fund allocation. The total assets of the 38 MIFs were approximately $1.7 billion and they were invested in 1506 microfinance institutions (**see Annex j**).[85]

Table 8: Total assets and the size of microfinance portfolios of 38 MIFs invested in Africa (2007)

Size of MIF (total asset)	Fund Assets	% of Size	Number of Active MF Investments	Number of Active MF Investments in Africa	% of MIFs
$0 - $5million	$21,208,072	1.23%	80	16	5.31%
$5m - $10million	$21,468,391	1.24%	36	4	2.39%
$10m - $20million	$134,986,262	7.83%	218	42	14.48%
Greater than $20million	$1,546,900,959	89.70%	1172	108	77.82%
TOTAL	**$1,724,563,684**	**100%**	**1506**	**170**	**100%**

Source: (MIX 2008)

Further, the sizes of these 38 MIFs are projected to grow to $0.36 billion in 2008, which represents a 21.15 percentage change of the total fund assets. Additionally, the microfinance portfolios of those whose asset size is below $5 million will experience the largest percentage change in their assets of about 94 percent. On the other hand, those MIFs whose total asset size is greater than $20 million will experience the least percentage change of about 19 percent.[86]

Table 9: Percentage change of total assets of the 38 MIFs invested in Africa (2007)

Size of MIF (total asset)	Fund Assets (2007)	Projected new Funds allocated to MF Investments (1year)	Projected Fund Assets	% change of Fund Assets
$0 - $5million	$21,208,072	$19,927,230	$41,135,302	93.96%
$5m - $10million	$21,468,391	$5,000,000	$26,468,391	23.29%
$10m - $20million	$134,986,262	$44,005,632	$178,991,894	32.60%
Greater than $20m	$1,546,900,959	$295,800,305	$1,842,701,264	19.12%
TOTAL	**$1,724,563,684**	**$364,733,167**	**$2,089,296,851**	**21.15%**

---

82 MIX (2008). Microfinance Portfolios of Investment Funds, The MIX Market (Microfinance Information eXchange).

83 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

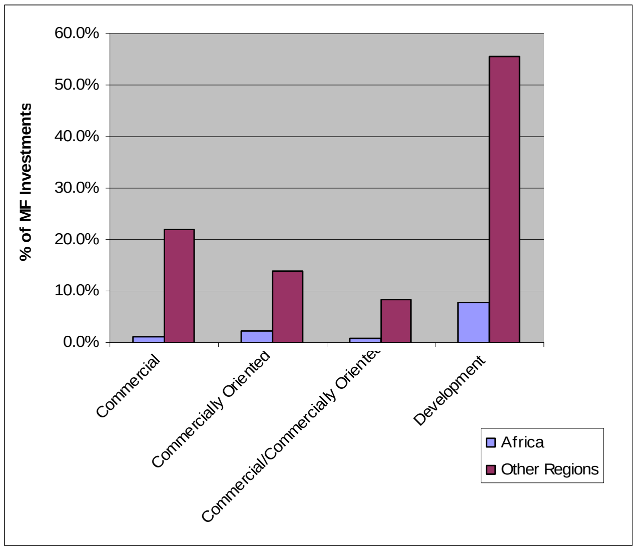
84 Ibid.

85 MIX (2008). Microfinance Portfolios of Investment Funds, The MIX Market (Microfinance Information eXchange).

86 Ibid.

In terms of distribution of where the 45 MIFs are invested, 22 percent are commercial funds and their asset size is $0.53 billion. 14 percent are commercially oriented and their asset size is $0.26 billion. 8 percent of the investment has a mix of both commercially orientation and development aspects and their asset size is about $0.05 billion. The largest share, 56 percent are development funds and their asset size are about $0.86 billion.[87]

Figure 13: Distribution of MIF activities



Source: (MIX 2008)

However, of the 45 MIFs, it is estimated that less than 12 percent are invested in MIFs in Africa. According to the data from the Mix Market, of the MIFs investing in Africa; 1.1 percent are commercial funds, 2.2 percent are commercially oriented, 1 percent has a mix of both commercially oriented and development funds, and the largest share of funds are the development funds which represents 7.7 percent of the total assets invested in Africa.

Although a large share of the MIFs invested in Africa are development funds, there is a growing distribution of MIFs such as the commercial and commercially oriented that are becoming more attractive to private individuals and institutional investors, which are helping to provide alternative financing for microfinance.[88]

5.5. Social Responsible Investments

The Social Investment Forum defines social responsible investments (SRI) as an "*investment process that considers the social and environmental consequences of investments during financial analysis*."[89] Accordingly, socially responsible investors rank

---

87 Ibid.

88 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

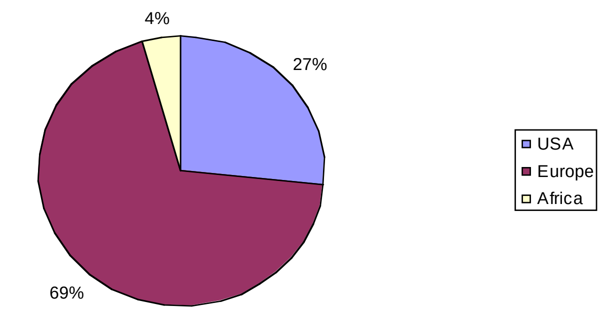
89 SIF (2006) Report on Socially Responsible Investing Trends in the United States - 10 Year Review. **Volume**, 74 pages DOI: January 24, 2006

SRIs high when they make financial decisions on where to place their investments and this trend has been growing rapidly, especially in the US and Europe.[90]

A 2007 study by Deutsche Bank found that in the US, more than 10 percent of assets are related to SRI and that in Europe SRI has grown by 27.3 percent since 2003.[91] As SRI continues to grow, microfinance is likely to benefit as social investors pursue more investments that are social and environmental friendly.

The challenge then is to ***attract MIFs that either allocates a larger share of their investments in Africa or to incorporate in Africa***. Among the 45 MIFs profiled, the largest MIFs are either incorporated in the US or in Europe, where 69 percent are US based, 27 percent are European, are the remaining 4 percent are African based.[92]

Figure 14: Country of incorporation for MIFs in Africa



Source: (MIX 2008)

6. Analysis of Factors Supporting Location Decision of MIFs

The success and rapid growth of microfinance in many developing countries in terms of the increasing MFI loan volumes and emerging professionalism of the sector, has raised its investment profile. Microfinance has traditionally been funded by donor organizations, but their shrinking financial ability to support MFIs has led to a financial gap that private capital has begun fill (see Figure 12).[93]

As private capital continues to grow, MIFs will have to play a much greater role in attracting and leveraging private capital to achieve an optimal level for their viability and eventually for their success.[94] The following factors have contributed to the success of MIFs:

---

90 Dieckmann, R. (2007). Microfinance: An Emerging Investment Opportunity - Uniting Social Investment and Financial Returns. International Topics. D. B. Research. Germany, Deutsche Bank**:** 20 pages.

91 Ibid.

92 MIX (2008). Microfinance Portfolios of Investment Funds, The MIX Market (Microfinance Information eXchange).

93 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

94 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

Country Risk refers to "*a collection of risks associated with investing in a foreign country*."[95] In terms of investments, the risks involved with investing in a foreign country include political risk, currency risk, credit risk, operation risk, and liquidity risk, which could impact the growth and performance of MIFs.[96]

Corporate Governance in the context of investments, it refers to the "*overall mode of ruling an organization to ensure that systems and structures are in place to provide conformity with the reasonable expectations of a relevant interest group of shareholders and possibly other stakeholders*." This mainly deals with the supervision of management operation of MFIs and ensuring that implementation of the main mission is adhered to on behalf of the investors.[97]

Business Environment refers to an "*administrative and economic environment that is favorable to businesses and facilitates private sector development*."[98] This is an environment that strengthens the state of the business community by ensuring that there is increased transparency on the decisions affecting the private sector. According to the World Bank's Doing Business index (DBI), decisions affecting the private sector depend on the relative ease of doing business in a country, which covers the following three areas: starting a business, business liabilities, and investor protection.[99]

Access to Capital Markets is integral for the growth of MIFs. Capital markets allow MIFs to diversify risks in addition to accessing domestic capital. This helps lower both the operational and monitoring costs when trying to convert currencies, which reduces inherent exchange rate risks associated with currency conversions.[100]

6.1. Case Analysis of MIFs in Africa

In an attempt to understand the location decision of the various MIFs that invest in Africa, I will conduct a case analysis of those countries where MIFs are distributed.

According to the analysis of the profiled 45 MIFs, a vast majority is either incorporated in the US or Europe and a few are incorporated in Africa (namely South Africa and Mauritius). The following are some of the observations on MIF investments:

6.1.1. Country Risk Analysis

According to the Coface Group, who mainly monitor country trends for investment opportunities, Mauritius and South Africa received a country rating of A3 and are both globally ranked 18th and 57th respectively out of 157 countries.[101]

---

95 INVESTOPEDIA. (2008). "Definition of Country Risk." Retrieved 2/29, 2008, from http://www.investopedia.com/terms/c/countryrisk.asp.

96 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

97 Ibid.

98 UNDP. (2007). "Creation of a Favorable Business Environment." Retrieved 2/29, 2008, from http://un.by/en/undp/news/belarus/26-03-07-2.html.

99 DBI (2008). Doing Business Index, World Bank.

100 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

101 Coface (2008). Country Ratings, The Coface Group.

This analysis found that investors preferred to invest in countries that received reasonable ratings from agencies that assessing country risks (**see Annex m**).

Table 10: Description of Coface country rating

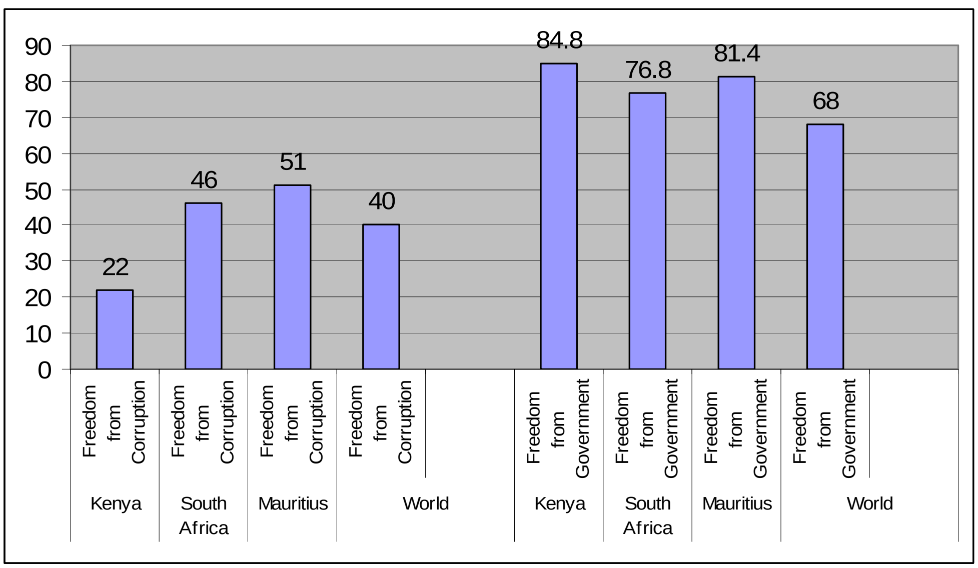
Rating A3: A country rating of A3 indicates that changes in the country's environment are generally good. There may be some volatility in the political and economic environment, which could potentially affect corporate payment behavior. The business environment is secure with occasional difficulties for business in terms of default rates.

Source: (Coface 2008)

In terms of freedom from government, which looks at the size of government in the economy (total government expenditure), Mauritius has a score of 81.4 percent where government spending as a percentage of GDP is 24.9 percent, whereas, South Africa has a score of 76.8 percent and government spending is 27.8 percent of GDP (see Figure 15).[102]

This analysis found that the more active the government was in the domestic economy in terms of operating state owned enterprises (SOEs) and other government projects that compete directly with the private sector, there was a high likelihood that private investors would stay away since they could not compete.[103]

Figure 15: Government participation and corruption perceptions



Source: (2008)

In Figure 15, both Mauritius and South Africa score above the world average in terms of freedom from corruption. According to Transparency International's (TI) Corruption Perceptions Index for 2007, Mauritius is one of Africa's least corrupt countries and is ranked 53rd out of 179 countries (ranked 3rd in Africa). In Mauritius, "*corruption is not*

[102] (2008). Index of Economic Freedom, Heritage Foundation.

[103] Sidak, G. and D. E. M. Sappington (2002) Competition Law for State-Owned Enterprises. American Enterprise Institute for Public Policy Research (AEI) **Volume**, DOI: December 3, 2002

seen as an obstacle to foreign direct investment." On the other hand, although South Africa scores higher in the 2007 CPI, corruption is perceived as a significant impediment to foreign direct investment and is globally ranked 43rd (ranked 2nd in Africa).[104]

This analysis found that while corruption may be prevalent in a country, investors were mainly concerned with the corruption in government functions since this is where they would be most impacted. For example, initiatives that requires foreigners to co-partner with local investors, may hinder investors from investing freely or compromise investments due to 'functional' corruption of paying bribes to get things done.[105]

6.1.2. Corporate Governance Analysis

According to the Heritage Foundation's Index of Economic Freedom 2008, foreign and domestic capital in Mauritius is treated equally and there is a well defined foreign investment code that allows investors to freely invest. In Figure 16, Mauritius has a investment freedom score of 70 percent, which is much higher than the world average of 50 percent.

In terms of investment freedom in South Africa, investors can freely participate in their economy though policies such as the Black Economic Empowerment program (BEE)[106] that aim to increase black ownership in economic activities and other labor laws have created disincentives for some investors. As a result, South Africa received a 50 percent score.

As for protecting investors against misuse of corporate assets,[107] both Mauritius and South Africa perform much better than the national average in OECD and Sub-Saharan countries.[108] In Figure 17, the corporate governance systems for Mauritius and South Africa score high, this has helped to enhance the overall investment climate of these countries, which has allowed for better interaction between the management of MIFs and its shareholders. Further, strong corporate governance has helped "*ensure that all the financial stakeholders are able to receive their fair share of the company's earnings and assets*."[109]

This analysis found that if the *"overall mode of ruling an organization"* was mainly driven by the government with little or no private sector participation, the integrity of investments can be compromised and it could potentially create a disincentive for private sector involvement, which could further jeopardize systems and structures that enhance corporate governance and attract investors. In addition, the protection of investors is important and appears to have a positive relation with the levels of investments.

---

104 CPI (2007). Corruption Perceptions Index Transparency International.

105 Sampson, A. and M. Jarvis. (2007). "Corruption and the bottom line - how to play the game (how to stay in the game)." World Bank Retrieved 4/18, 2008, from http://psdblog.worldbank.org/psdblog/2007/10/corruption-and-.html#more.

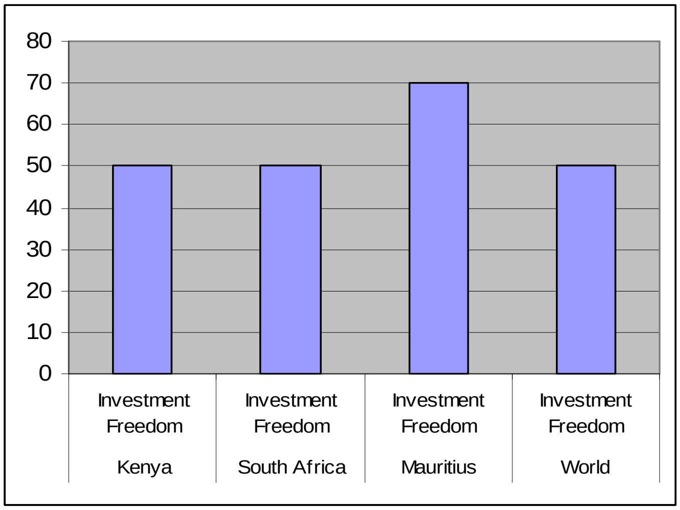
106 BEE is not affirmative action, although employment equity forms part of it. The program is driven by the South African legislation under the BEE Act of 2004 and uses a scorecard to measure a company's empowerment progress in meeting BEE's objectives of involving more black in economic activities.

107 DBI measure the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain. The Indicators distinguish 3 dimensions of investor protection: transparency of related-party transactions, liability for self-dealing, and shareholders' ability to sue officers and directors for misconduct.

108 DBI (2008). Doing Business Index, World Bank.

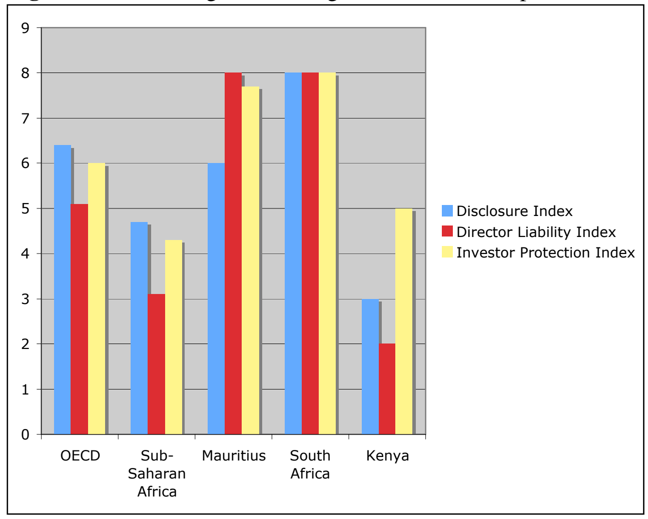
109 Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

Figure 16: Analysis of investment freedom



Source: (2008)

Figure 17: Protecting investors against misuse of corporate assets

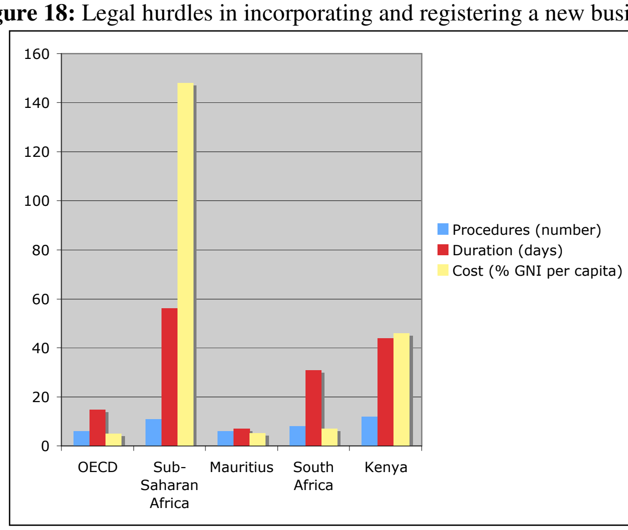


Source: (DBI 2008)

6.1.3. Business Environment Analysis

In terms of overcoming the legal hurdles of starting a business, Mauritius and South Africa, are ranked 27th and 35th globally. When compared to other African countries, they are ranked 1st and 2nd respectively (**see Annex n**).[110]

Figure 18: Legal hurdles in incorporating and registering a new business



Source: (DBI 2008)

In Figure 18, the number of procedures for getting a business started for both Mauritius and South Africa are similar to the Organisation for Economic Co-operation and Development (OECD) countries and are well below the Sub-Saharan Africa average. In Mauritius, it takes 6 procedures to get a business started, while in South Africa, it takes

[110] DBI (2008). Doing Business Index, World Bank.

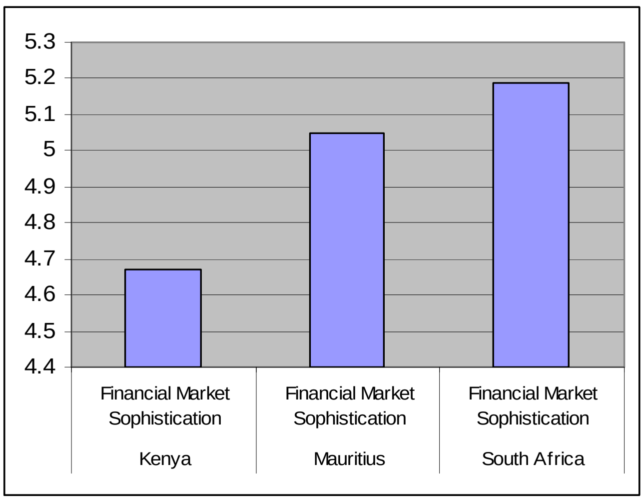
8. The OECD average number of procedures for starting a business is 6 while in Sub-Saharan Africa it's 10.8.[111]

This analysis found that the legal hurdles that business face when starting up and the liabilities they incur are significant when investors are determining their investment decisions. Accordingly, there is a positive relationship between investments flows and the business environment (in terms of procedures required to obtain a business registration, number of days it takes to start, and the cost of starting the business).

6.1.4. Capital Market Analysis

South Africa has the largest capital market in Africa and in terms of global financial market sophistication is ranked 25th out of 131 capital markets in the world, which represents a score of 5.19.[112] Mauritius' financial market sophistication is ranked 32nd, which represents a score of 5.05 (see Figure 19). When compared to other African countries, they are ranked 1st and 2nd respectively.

Figure 19: Financial market sophistication



Source: (GCR 2007)

This analysis found that access to domestic markets plays a significant role in attracting investments since they provide alternative financing opportunities, especially for investors who are trying to mitigate exchange rate risks. Hence, access to domestic markets provides financing opportunities in local currencies and there is a positive relationship between the financial market sophistication and investment flows.[113]

6.2. Implication of Analysis

The implication of the case analysis of MIFs investing in Africa found that; (1) a country's risk rating, (2) the corporate governance systems that protect investments, (3)

---

[111] Ibid.

[112] GCR (2007). The Global Competitiveness Report 2007-2008. Global Competitiveness Report: Country Economic Analysis, World Economic Forum.

[113] Litan, R. E., M. Pomerleano, et al. (2003). The future of domestic capital markets in developing countries. Washington, D.C., Brookings Institution Press.

the administrative and economic environment that businesses operate under, and (4) the ease of accessing domestic capital markets plays an integral role in determining where investors choose to place their investments.

The major findings of the case analysis are that a favorable business environment is needed to attract investments. Accordingly, the following are the summaries from the analysis of MIFs in Africa:

- *There is an inverse relationship between the government's involvement in the economy and levels of investment:* The share of government activity in the economy as a share of GDP may crowd-out private investment activity. According to the crowding out theory, government spending that competes with the private sector inherently causes the cost of private investment to increase.[114]
- *There is an inverse relationship between '**functional**'[115] corruption and the levels of investments:* The levels of corruption, which is measured by TI's Corruption Perception Index are not seen as an obstacle to foreign investments as much as bureaucratic procedures.
- *There is an inverse relationship between government regulation and the levels of investment:* Government regulation, which is measured by Heritage Foundation's Index of Economic Freedom plays a significant role in determining foreign investment. Accordingly, the more a government dictates how businesses should operate, the lower the investment levels. However, a stronger government regulation is preferred when it is specifically targeted to enhance certain processes and procedures, which have had positive outcomes especially where there is strong public-private partnership. For example, Mauritius has adopted liberal investment policies that allow investors to invest freely in their economy, which contributed to high inflows of capital into the country.
- *There is a positive relationship between business environment and the levels of investments:* The administrative environment and the inherent cost of operating a business is important for investment, which investors use to base their investment decisions since it would ultimately affect their expected return.[116]
- *There is a positive relationship between the sophistication of financial markets and the levels of investments:* The role of capital markets are essential for the viability of financial sectors and is instrumental for accessing finances. Hence, the ease of accessing domestic capital markets has a positive relationship with the levels of inflows of capital.

As a consequence, the policy implication for a country trying to attract MIF investments is to ensure that they have a favorable business environment, where the government does not crowd out investors and corporate governance systems are in place to mitigate potential investment risks. This would help build the value of investments in the country.

---

[114] Mankiw, G. (2004) Domestic Effects of Foreign Direct Investment (Keynote Speech by N. Gregory Mankiw, Chairman of the Council of Economic Advisers). American Enterprise Institute for Public Policy Research (AEI) **Volume**, DOI: December 2, 2004

[115] 'Functional' corruption looks at government processes or procedures that could inherently impact businesses and the private sector from operating efficiently as a result of hurdles in getting things done and where efficiency is dependent on the ability to bribe government officials.

[116] CFA (2008). Corporate Finance and Portfolio Management. Boston, Pearson.

7. Policy Alternatives

7.1. Evaluation Criteria

The following evaluation criteria provide stakeholders with essential information for the analysis of the policy alternatives and in selecting the preferred policy.

- Efficiency: The policy should enable MFIs to effectively absorb and utilize their financial and non-financial resources to economically deliver microfinance services.
- Financial feasibility: The policy should be cost-effective and affordable for MFIs to adopt and implement in their day-to-day operations.
- Political feasibility: The policy should be agreeable to all the stakeholders and should generate mutual consensus.
- Accessibility: The policy should promote the ease of accessing microfinance service, while promoting microfinance delivery.

7.2. Description of Alternatives

The following describe the alternatives that can assist with achieving the goal of ensuring a favorable microfinance environment in Kenya, which include: (i) ***Status Quo***, (ii) ***Government Regulation***, and (iii) ***Self Regulation***. To determine whether the proposed alternative fulfills the goal, each alternative is evaluated on how it will accomplish the following objectives: *increase capacity, enhance information, increase performance, and enhance self-governance*.

The following alternative strategies outlined provide opportunities to channel additional sources of funding to microfinance.

Policy Alternative 1: Status Quo

Alternative 1 consists of guidelines for the provision of microfinance in Kenya and only applies to deposit-taking MFIs. The policy establishes some restrictions on MFIs banks that includes requirement for licensing, governance, deposit protection, and government supervision. Under this policy alternative, non deposit-taking would not be subject to the above terms and conditions and the favorable microfinance environment described would not occur. A status quo policy assumes that the future growth and development of microfinance would comply with existing policy environment.

Analysis of Status Quo

Pursuing the status quo policy option would limit the growth and development of microfinance in the country and would further exacerbate the financial gap challenging Kenyans in accessing basic socio-economic opportunities that could help improve their livelihoods and socio-economic status. This policy option would also limit investment opportunities for smaller MFIs, which would weaken their ability to expand and deliver microfinance services.

Although the status quo policy is both politically and financially feasible, it does not promote the efficient delivery of microfinance services and resources; in addition, access to microfinance services will continue to be a challenge. Hence, selecting to maintain the "status quo" policy is failure to deliver financial resources to expand microfinance and to provide economic opportunities to Kenyans.

Policy Alternative 2: Government regulation

Alternative 2 consists of rules for the provision and delivery of microfinance in Kenya and it applies to all MFIs. The policy establishes restrictions that include requirements for capacity building, accessibility of information, performance criteria, and governance structure. Under this policy alternative, all MFIs would be subject to the above terms and conditions to ensure that the envisioned microfinance environment occurs. A government regulation policy assumes that the future growth and development of microfinance would comply with government requirements on MFIs that would be supervised by the Central Bank.

Analysis of Government regulation

Pursuing a government regulation policy for all MFIs in Kenya would help address some of the current issues in the microfinance sector; issues in self-regulation, capacity building, non-compliance reporting, and performance standards. This would enhance the sector and raise the quality of MFI services, in addition to helping with the growth and development of microfinance in the country. This policy would help with improving the investment prospects by mitigating some of the inherent risks involved with investing. For example, some of the challenges identified in the microfinance sector such as poor information systems, weak transparency and accountability procedures, and appropriate evaluation procedures to benchmark against acceptable industry norms, can be addressed through the government's legislative ability to enforce rules (**see Annex e**).

Although the lack of a regulatory framework (except for the deposit-taking MFIs) has been crucial for the growth and development of microfinance in Kenya, a government regulation policy would weaken those MFIs in the developing stage of their operations or may lead to their collapse. While this policy offers a better opportunity for improving efficiency of microfinance provision, politically and financially it may not be feasible, especially for those MFIs that could not afford to comply.

In the short term, the cost of conforming to a government regulation may outweigh the benefits for some of the MFIs, but the long term benefits of an improved microfinance sector that efficiently delivers services outweighs the short term impact. For example, if the policy is properly implemented and specifically targets the challenges identified in the problem tree analysis, in the short term, many MFIs would be forced to close their doors (especially rogue outfits), however, as the sector starts to operate effectively more investments may start pouring in, which would help increase the sources of available capital for MFIs to efficiently run their operations, in addition to providing capital to expand their activities.

While this policy offers a promising future for microfinance in Kenya, it may not be agreeable to all stakeholders, since it would impact their bottom-line, while for others, it may not be affordable to conform to the policy.

Policy Alternative 3: Self-regulation

Alternative 3 consists of guidelines for the provision and delivery of microfinance in Kenya and are voluntarily for MFIs. The policy establishes structural arrangements for MFIs that include requirements for capacity building, accessibility of information, performance criteria, and governance structure. Under this policy alternative, MFIs members would be subject to the above terms and conditions to ensure that the envisioned microfinance environment occurs. A self-regulation policy assumes that the future growth and development of microfinance would comply with voluntarily requirements, which is self managed by member MFIs.

Analysis of Self-regulation

Pursuing a self-regulation policy offers enormous benefits for individual MFIs since decision-making is done by consensus among the MFIs, including setting their own standards. This policy option is voluntarily and gives MFIs a lot of flexibility in determining their administration and level of operation. Self-regulation allows MFIs to improve their efficiency in delivery microfinance services in a cost-benefit manner without constant interference from the government, which would allow MFIs to focus more on their core activities.

While self-regulation seems viable for MFIs wanting to grow and development without interference, it has been challenging for smaller MFIs. Self-regulation is vulnerable to elite capture if not applied well and smaller MFIs feel dwarfed and are not actively involved in the decision making process (which has been the key challenge why many MFIs have not joined AMFI).

In terms of the evaluation criteria, self-regulation has a lot to offer in the areas of developing microfinance professional and enhancing the performance of MFIs in meeting their objectives – balancing social and financial needs (**see Annex e**).

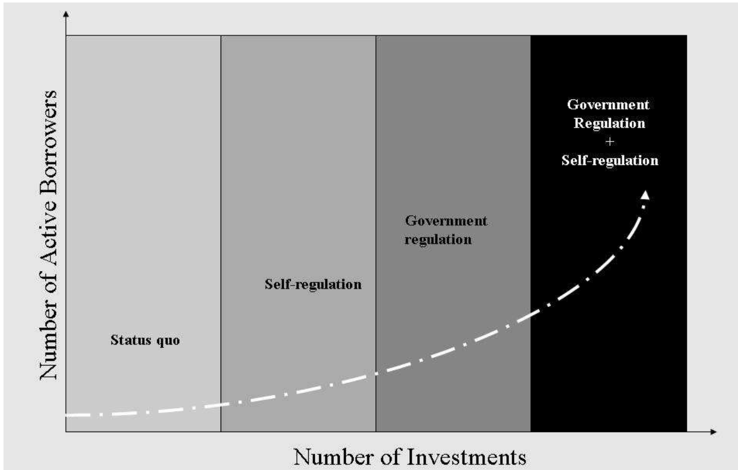
Compared to a government regulation policy, self-regulation has great potential to guide the development and growth of microfinance in Kenya. However, since the inception of AMFI in 1999, there have been challenges in getting MFIs involved in the process. Additionally, in terms of the environment needed to attract investors, a self-regulation policy may face some resistance in getting MFIs to voluntarily conform to agreed rules.

7.3. Preferred Policy Alternative

The preferred policy alternative should consist of rules and framework for the provision and delivery of microfinance in Kenya and it should apply to all MFIs. The preferred policy should establish rules to guide MFIs operation, in addition to providing the framework for microfinance delivery. The rules and framework should include requirements for capacity building, accessibility of information, performance criteria, and governance structure.

Based on the evaluation criteria, a combination of policy alternative 2 and 3 – (*government regulation and self-Regulation policies)* is the best policy option for closing the financial gap facing MFIs in the country and for providing the greatest opportunity for the growth and development of microfinance in Kenya (see Figure 20).

Figure 20: Benefits of policy alternatives



Source: (**see Annex e**)

In terms of achieving the goal of ensuring that *there is a favorable microfinance environment in Kenya to attract investments*, a combination of policy option 2 and 3 has the following to offer:

- **Enhancing information:** The growth and development of ICT in Kenya has facilitated the ease of accessing information and services such as microfinance. While it is true that ICT has greatly enabled accessing financial services, it is not always the case. The growing number of people losing their lifesavings to fraudulent operators has been on the rise due to the lack of information on their activities, in addition to those who cannot access 'formal' financial services in spite of the availability of advanced technologies. This has also been a challenge even for investor willing to invest in the sector since there is no information of their microfinance activities. A government regulation policy would be most effective in weeding out rogue operators and in ensuring that information is available to guide both consumers and investors in their investment decisions. As seen in Figure 20, targeting policies to enhance the process and procedures of information distribution has a positive relationship with the levels of investments.
- **Performance:** The 2007 global recognition that the microfinance sector in Kenya received at the G8 summit is a considerable milestone, which highlights the sector's effort in delivering financial services in the country. Though this is true for some of the MFIs, a vast majority may not be achieving acceptable industry norms of delivering microfinance services. This has compromised the integrity of the sector, where MFI objectives may not be aligned with what is considered "acceptable microfinance practices"[117] yet benefiting under the microfinance environment. A government regulation policy requiring MFIs to report on their activities would increase transparency and accountability in microfinance, while a self-regulation policy would be more effective in ensuring that MFI's are balancing their objectives according to industry norms (**see Annex e**).
- **Self-governance:** The cost of enforcing a stand-alone government regulation would be extremely high and may strain government resources. Although AMFI

117 "Acceptable microfinance practices" is where MFIs are operating or progressing their activities by optimally balancing their objectives (social, environmental, and financial), without compromising their mission.

has been unsuccessful in self-regulating the microfinance sector, a government regulation that provides support to AMFI would enhance the checks-and-balances of MFIs. It would also give AMFI some legitimacy, which would encourage more MFI to partake in the process of self-governance of the microfinance sector, would further enhance the performance and transparency of MFIs in the country. Additionally, a government regulation that specifically targets the promotion of self-governance would help reduce the inherent cost associated with enforcement, while at the same time, it would help minimize constraints that discourage microfinance development. For example, the growing numbers of "known" microfinance operators who are taking advantage of consumers are usually well-known to MFIs and a government regulation that supports self-governance would encourage MFIs to report such activities, which would provide a checks-and-balance on how MFIs operate.

7.4. Implementation Strategy

MIFs present opportunities for the continued growth and development of the microfinance sector in Kenya. They allow for alternative sources of funding to be channeled into MFIs, which is essential for closing the financial gap and helping with the expansion and delivery of microfinance services in the country.

Because of the great benefit that MIFs offer and their far reaching impact in aiding the economic growth goals of the country, this implementation strategy will deal with issues of self-governance, capacity building, non-compliance reporting requirements, and un-standardized performance criteria in the microfinance sector (**see Annex h**).

The implementation strategy sets out five strategic objectives for addressing the challenges facing MFIs, which include *capacity building, accessibility, transparency, performance, and professional management*. Each objective describes the effort that will be carried out by MFIs and other stakeholders to ensure its successful implementation.

The implementation strategy makes a commitment to the agreed strategic objectives that provides a framework for all stakeholders to engage in through assigned responsibilities as described below.

Capacity building: As a first step towards implementing the preferred policy option, all the stakeholders involved in the microfinance sector (those who can affect or be affected) should meet and agree on capacity requirements needed to effectively deliver microfinance activities. AMFI and KEMCAP will be responsible for coordinating the capacity building efforts to strengthen microfinance activities and ensuring they are able to achieve sustainability. This should start immediately the preferred policy option has been adopted. For the first 3 months, capacity-building sessions should be conducted on a weekly basis to ensure that all stakeholders are adequately prepared for the implementation process, in addition to acquiring the necessary skills for efficient and effective provision of microfinance services in the country. After the initial 3 months, capacity building should be done on an ongoing basis with at least 1 capacity building session scheduled annually.

Accessibility: Ensuring the administrative and economic environment for businesses to operate is integral for the sustainability of the preferred policy option. Easily accessible and affordable sources of funding should be made available through government policies. Accordingly, a consultative group meeting of all stakeholders along with representatives from KIA, CBK and MoF should be convened to work on the ways of reducing the cost of doing business in the country. KIA and AMFI should coordinate this effort and it should start after the capacity building process. This would allow enough time for all stakeholders to understand the challenges facing the sector and the alternative options available for resolving them.

Transparency: Developing a transparent framework for the microfinance industry should focus on standardizing the reporting requirements that can help improve the accountability of MFIs. Standardizing the operation procedures and accounting standards of MFIs would promote efficiency of microfinance delivery and it would also help create a more effective microfinance environment over the long-term that provides quality microfinance services. This should be coordinated by AMFI.

Performance criteria: Similar to transparency, performance guidelines should be put in place and it should be similar across the board for all MFIs. Standardizing the performance criteria for MFIs will contribute to raising the quality and efficiency of microfinance delivery in the country. Additionally, having a standardized performance criterion would provide confidence in the microfinance sector, especially in terms of attracting greater investment opportunities. Immediately following the capacity building process, AMFI should help setup and coordinate a working group of selected members from the stakeholder list to work on a performance guideline for institutions delivering microfinance and to submit it before the stakeholders within 6 months of the working group's inception. The working group's recommendations with the mutual agreement from the stakeholders should be immediately adopted and implemented within a 1-year time frame.

Professional management: AMFI and KEMCAP should create programs for capacity building with an emphasis on developing experts that would help with ensuring that microfinance resources are efficiently used in meeting their intended goal. All stakeholders should work on developing management guidelines that will promote professionalism and strengthen MFIs' ability to compete in the ever-changing microfinance environment. This should be coordinate by AMFI along with selected representatives from the represented MFIs. Developing a professional management process should be integrated with the capacity building process, in addition to incorporating it with the ongoing discussions of the working group looking at the performance guidelines for the microfinance sector.

7.5. Monitoring and Evaluation

All the stakeholders should agree on a performance-based evaluation criterion. Benchmarking with industry best practices such as the DBI and Rating Fund[118] should be developed to follow up with the implementation strategy. The monitoring and evaluation should entail regular follow ups and consistently publishing microfinance information to ensure challenges with the preferred policy option are being addressed appropriately and modified where possible. This would help ensure higher efficiency as the policy is implemented.

8. Policy Implication

While the preferred policy option offers MFIs with efficient and effective opportunities for delivering microfinance services in the country, it also offers GoK an opportunity in freeing up resources that could go towards other development projects that are important for the socio-economic goals of the country.

On the issue of key benefits that the preferred policy option has to offer to both the MFIs in the country and to MIFs is shown in Table 10 (**see Annex f**).

Table 11: Description of the benefits for the preferred policy option

Benefits to MFIs	Benefits to MIFs
Well regulated environment	Increased investment fund portfolio size in both assets and profits
Enhanced administrative efficiency of MFIs in delivering microfinance	Increased flexibility to respond to capital needs of MFIs
Access to a variety of investors/capital sources	Access to adequate sources of capital
Reduced operation costs of providing microfinance services	Enhanced social performance through increasing outreach activities in the country that reach a larger number of microfinance clients and reaching the segment of the population not served by financial services
Ease of expanding service delivery due to better profit margins	Reduced operational risks in their lending activities through increased transparency and accountability of MFIs
Improved professional management and performance of MFIs and microfinance resources	Increased MFIs as potential investment opportunities, while reducing their risks
Increased transparency and accountability MFIs	Effective governance of investment funds as a consequence of a stable and business friendly environment
Access to technical assistance for industry experts	

While all three policy alternatives (status quo, government regulation, and self-regulation) offer both MFIs and MIFs benefits, only the preferred option provides enormous benefits to not only the MFIs and MIFs, but also to the government (**see Annex h**).

[118] The Rating Fund aims to encourage greater demand from MFIs services, strengthen the quality of supply, as well as improve transparency of MFI's financial performance (http://www.ratingfund.org/)

9. Conclusion

To ensure that the preferred policy option sustains itself continued efforts by AMFI in organizing public awareness events, conferences, and forums to reinforce the benefits of implementing and adopting the policy should be done on an ongoing basis to ensure that its efforts are not compromised and that all stakeholders are engaged with the process and are fully committed.

The following are recommendations to ensure that the goal of having a favorable microfinance environment in Kenya to attract investments:

- Combining the government regulation and self-regulation policies
- CBK should provide support to AMFI in reviewing regulations that can improve a sound microfinance environment, while at the same time, minimizing or removing regulatory constraints that discourage microfinance development
- Enhancing information distribution processes that facilitate access to information on microfinance activities to reduce risks and improve MFI performance
- Encouraging transformation of MFIs to Banks
- Integrate continual learning processes for staff development and regularly reviewing organization development goals
- Promoting professionalism in MFIs through management programs to improve financial performance and MFI capacity
- Developing benchmarks for peer group evaluations
- Strengthening efforts to ensure that the private sector is actively engaged and overall development of partnerships with stakeholders involved in the microfinance sector

Finally, the preferred policy option of *combining government regulation and self-regulation* will not only help close the financial gap that has greatly undermined the capabilities of MFIs in Kenya, but it will also attract MIF investment that will promote the development and expansion of microfinance activities in the country.

10.Bibliography

(2006). The Microfinance Act, 2006. C. B. o. Kenya. Nairobi, The Government Printer. **No. 19:** 589.

(2008). Index of Economic Freedom, Heritage Foundation.

AMFI. (2007). "Mission Statement." Association of Microfinance Institutions of Kenya (AMFI) Retrieved 2/2, 2008, from http://www.amfikenya.com/.

CFA (2008). Corporate Finance and Portfolio Management. Boston, Pearson.

CGAP. "Definition of Microfinance Institutions." Retrieved 2/15, 2008, from http://www.cgap.org/portal/site/CGAP/menuitem.5cb3955e992401606780801059l010a0/

CGAP (2008). The Rating Fund: The Microfinance Rating and Assessment Fund, Consultative Group to Assist the Poor.

Coface (2008). Country Ratings, The Coface Group.

CPI (2007). Corruption Perceptions Index Transparency International.

DBI (2008). Doing Business Index, World Bank.

Deloitte. (2006). "Kenya Snapshot." International Tax and Business Guides Retrieved 3/4, 2008, from http://www.deloittewebguides.com/index.asp?layout=countrySnapshotDtt&country_id=250000025&rf=0.

Devaney, P. L. (2006). Omidyar Network and the SEEP Network Microfinance Investor Roundtable: Major Themes and Next Steps. Microfinance Investor Roundtable. P. L. Devaney. Washington, D.C.**:** 6 pages.

Dieckmann, R. (2007). Microfinance: An Emerging Investment Opportunity - Uniting Social Investment and Financial Returns. International Topics. D. B. Research. Germany, Deutsche Bank**:** 20 pages.

Fairbourne, J. S., S. W. Gibson, et al. (2007). MicroFranchising : creating wealth at the bottom of the pyramid. Cheltenham, UK ; Northampton, MA, Edward Elgar.

FFP (2006). Kenya's Economic Indicators. Country Profiles, The Fund for Peace.

FSD. (2005). "Who We Are." Financial Sector Deepening Kenya Retrieved 3/13, 2008, from http://www.fsdkenya.org/home/index.html.

FSD (2007). Financial Access in Kenya: Results of the 2006 National Survey. FinaAccess Study. finaccess. Nairobi, Financial Sector Deepening (FSD) Kenya**:** 44 pages.

GCR (2007). The Global Competitiveness Report 2007-2008. Global Competitiveness Report: Country Economic Analysis, World Economic Forum.

gdrc. (2007). "MFI Capacity Building." Microfinance Networks and Resource Centers Retrieved 3/5, 2008, from http://www.gdrc.org/icm/framework/frame-3.html.

GoK (2002). The Capital Markets Act (CAP 485A). CMA. Nairobi, Ministry of Finance**:** 6 pages.

GoK (2004). Investment Promotion Act 2004. M. o. Finance. Nairobi, Government Printers**:** 19 pages.

Hughes, N. and S. Lonie (2007). "M-PESA: Mobile Money for the "Unbanked" Turning Cellphones into 24-Hour Tellers in Kenya in Kenya." Innovations **2**(1-2): 14 pages.

INVESTOPEDIA. (2008). "Definition of Country Risk." Retrieved 2/29, 2008, from http://www.investopedia.com/terms/c/countryrisk.asp.

Johnson, S. (2004). "The Impact of Microfinance in Local Financial Markets: A Case Study from Kenya." Journal of International Development **16**(3): 34 pages.

Johnson, S., M. Malkamaki, et al. (2006). "Tackling the 'Frontiers' of Microfinance in Kenya: The Role for Decentralized Services." Small Enterprise Development **17**(3): 13 pages.

Litan, R. E., M. Pomerleano, et al. (2003). The future of domestic capital markets in developing countries. Washington, D.C., Brookings Institution Press.

Mankiw, G. (2004) Domestic Effects of Foreign Direct Investment (Keynote Speech by N. Gregory Mankiw, Chairman of the Council of Economic Advisers). American Enterprise Institute for Public Policy Research (AEI) **Volume**, DOI: December 2, 2004

Matthäus-Maier, I., J. D. Von Pischke, et al. (2006). Microfinance investment funds : leveraging private capital for economic growth and poverty reduction. Berlin ; New York; Frankfurt, Germany, Springer ; KfW Entwicklungsbank.

Microcredit (2008) Beggars, Savers and Borrowers: The 'Good Families' of Jamii Bora. Microcredit Summit E-News **Volume**, DOI: March 2008

Microskills. (2008). "Microfinance: Training and Capacity Building." Retrieved 3/5, 2008, from http://www.microskills.co.ke/trainings.html.

Miller, R. L. (2006). Economics Today. Boston, Pearson Addison-Wesley.

Mishkin, F. S. (2006). The economics of money, banking, and financial markets. Boston, Addison Wesley.

MIX (2008). Microfinance Portfolios of Investment Funds, The MIX Market (Microfinance Information eXchange).

Mutua, A. (2007). Pyramid Schemes. O. o. G. Spokesperson. Nairobi, Office of Public Communications**:** 1 page.

Ndung'u, N. (2007). Kenya Microfinance. The Kenyan Microfinance Conference, Strathmore University, Nairobi, CBK.

Ngung'u, N. (2007). Proposed Microfinance Prudential Regulations. Workshop to Review the Proposed Microfinance Prudential Regulations, Kenya School of Monetary Studies, Nairobi, Central Bank of Kenya.

NSE. (2007). "NSE Listed Companies and Market Capitalization." Listed Companies Retrieved 11/2, 2007, from http://nse.co.ke/newsite/inner.asp?cat=companies.

NSE. (2007). "NSE Monthly Statistical Bulletin." Market Statistics Retrieved 11/2, 2007, from http://nse.co.ke/newsite/inner.asp?cat=sbullet.

Odhiambo, W. (2004). Pulling Apart: Facts and Figures on Inequality in Kenya. Nairobi, Society for International Development (SID)**:** 85 pages.

Ombara, O. (2007). Equity Bank CEO to Address G8 Meeting. The Standard. Nairobi, The Standard Group.

Omino, G. (2005). Regulation and Supervision of Microfinance Institutions in Kenya. C. B. o. Kenya, IRIS Center.

Pickens, M. (2007) Moving Beyond Bank Walls: Notes on Regulation of Branchless Banking in Kenya. CGAP - Technology Program **Volume**, 19 pages DOI: November 2007

Pollin, R., M. w. Githinji, et al. (2007). An Employment-Targeted Economic Program for Kenya. Brazilia, UNDP.

Sambu, Z. (2007). Eight saccos deregistered in pyramid schemes crackdown Business Daily. Nairobi.

Sampson, A. and M. Jarvis. (2007). "Corruption and the bottom line - how to play the game (how to stay in the game)." World Bank Retrieved 4/18, 2008, from http://psdblog.worldbank.org/psdblog/2007/10/corruption-and-.html#more.

SantaMaria, A. (2007). "Microfinance Regulations in Kenya." MicroFinance Sector Retrieved 1/28, 2008, from http://www.parismfn.org/parismfn/2007/in_kenya_there_.html.

SID (2004). Pulling Apart: Facts and Figures on Inequality in Kenya**:** 85 pages.

Sidak, G. and D. E. M. Sappington (2002) Competition Law for State-Owned Enterprises. American Enterprise Institute for Public Policy Research (AEI) **Volume**, DOI: December 3, 2002

SIF (2006) Report on Socially Responsible Investing Trends in the United States - 10 Year Review. **Volume**, 74 pages DOI: January 24, 2006

UNDP. (2007). "Creation of a Favorable Business Environment." Retrieved 2/29, 2008, from http://un.by/en/undp/news/belarus/26-03-07-2.html.

USA.gov (2007). 2007 Investment Climate Statement - Kenya. D. o. State. Washington.

USAID/Kenya. (2003). "The Association of Microfinance Institutions." Agriculture and Microenterprise Development Retrieved 2/2, 2008, from http://www.usaidkenya.org/ke.agbuen/activities/microfinance.html.

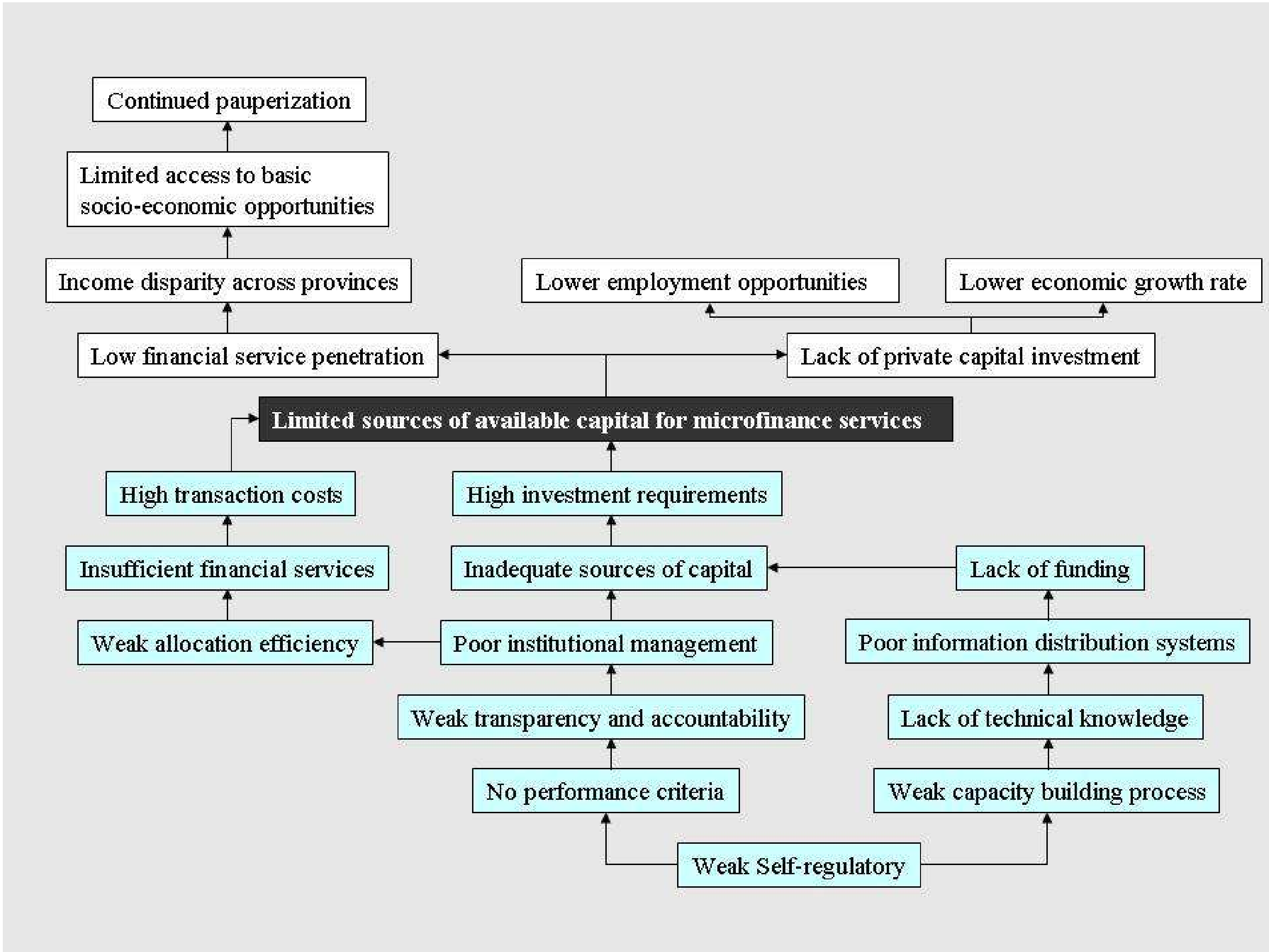
Vodafone. (2007). "Safaricom and Vodafone Launch M-PESA, A New Mobile Payment Service." Retrieved 10/24, 2007, from http://www.sendmoneyhome.org/uploads/2007/02/vodafone-m-pesa-launch-final.pdf.

WB. (2001). "What is Sustainable Development." Retrieved 3/27, 2008, from http://www.worldbank.org/depweb/english/sd.html.

WB. (2008). "Stakeholder Analysis." Public Sector Governance Retrieved 3/13, 2008, from http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/EXTANTICORRUPTION/0,,contentMDK:20638051~pagePK:210058~piPK:210062~theSitePK:384455,00.html.

WDI (2007). Kenya's Population Size and Population Distribution, World Bank.

Annex a: Problem Tree Analysis



Annex b: Stakeholder Matrix

Group	Salience (Importance/Interest in issue)	Power (Resources/Influence)	Position on the issue (-3 to +3)
Primary Stakeholders			
AMFI	Capacity building of MFIs Reducing inefficiencies of delivery of microfinance	Can lobby MFIs and GoK Has support of international agencies	+3
Tier 1 MFIs	Need additional sources of capital to expand services	Has resources or ability to raise resources from mobilizing savings Can lobby GoK and international agencies	+2
Tier 2 MFIs	Need additional sources of capital Needs investors	Has resources or ability to raise resources from international agencies Can lobby GoK and international agencies Has linkages with international organizations	+2
Tier 3 MFIs	Need additional sources of capital Needs investors and guarantees Need technical assistances	Little or no financial resources Can lobby international agencies Has linkages with international organizations	+3
Traditional Banks	Need additional source of capital to expand their portfolio	Has resources Can lobby GoK and private sector	-3
NBFIs	Need additional sources of long term capital	Has resources or ability to raise resources from mobilizing savings Can lobby GoK and interest groups	-1
Private sector	Need accurate and timely information for financial decision on investments	Has resources Can lobby business community	+3
Business community	Need investors Need access to affordable capital	Can pressure GoK and political groups Can lobby private sector and interest groups	+3
Interest groups	Want to enhance their socio-economic wellbeing Want to access a wide range of financial services	Has resources Can pressure GoK and political groups	+3
Excluded groups	Need access to financial resources	Has no resources Can lobby political groups	+3
Secondary Stakeholders			
Public sector agencies	Develop financial market conditions Can improve business environment	Regulatory and oversight body Can influence policy framework	+2
Political groups	Want to enlarge the political base	Can lobby GoK and international agencies Can influence policy framework	+1
NGOs	Social motivation – want access to economic opportunities	Has resources (financial and technical assistance) Can pressure GoK and political groups Can lobby international agencies	+2
Civil society	Interested in the growth and development of financial sector Want increased access to investment opportunities Want access to affordable financial services	Can pressure GoK and political groups Can lobby international agencies and excluded groups	+3
External Stakeholders			
International agencies	Social interest and the reduction of poverty Interested in the growth and development of the financial sector	Has resources (financial and technical assistance) Can pressure GoK	+3
Other public sector agencies	Provision of basic infrastructure Ensuring the efficient use of resources	Can influence policy framework	0

Annex c: List of 33 AMFI members

	AMFI MEMBERS	
1	AAR Credit Services	Nairobi
2	ADOK TIMO	Kisumu
3	Agakhan Foundation	Nairobi
4	AIG Insurance	Nairobi
5	BIMAS	Embu
6	CIC Insurance	Nairobi
7	Co-operative Bank	Nairobi
8	ECLOF	Nairobi
9	Elite Microfinance	Mombasa
10	Equity Bank	Nairobi
11	Faulu Kenya	Nairobi
12	Fusion Capital Ltd	Nairobi
13	Jamii Bora	Nairobi
14	Jitegemea Credit Scheme	Nairobi
15	Jitegemee Trust	Nairobi
16	K-rep Bank Ltd	Nairobi
17	K-rep Development Agency	Nairobi
18	KADET	Nairobi
19	Kenya Gatsby Trust	Nairobi
20	Kenya Post Office Savings Bank	Nairobi
21	Kenya Women Finance Trust	Nairobi
22	Micro Kenya Ltd	Nairobi
23	Millenia Multipurpose credit Society	Nakuru
24	OIKO CREDIT	Nairobi
25	Plan Internationa - Central/Nyaza	Nairobi
26	SISDO	Nairobi
27	SMEP	Nairobi
28	SNV	Nairobi
29	SUNLINK	Nairobi
30	Swiss Contact	Nairobi
31	WEDCO	Kisumu
32	WEEC	Kiserian
33	Yehu Enterprises Support Services	Kwale

Annex d: Kenya's Demographic Data (1990 – 2006)

Series Name	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population ages 0-14 (% of total)	48.9	48.4	47.9	47.4	46.8	46.3	45.8	45.3	44.9	44.4	44.1	43.7	43.4	43.1	42.9	42.8	42.8
Population ages 15-64 (% of total)	48.4	48.9	49.4	50.0	50.5	51.0	51.5	51.9	52.4	52.7	53.1	53.4	53.8	54.0	54.2	54.4	54.4
Population ages 65 and above (% of total)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.9	2.8	2.8	2.8	2.8
Population, female (% of total)	50.2	50.2	50.2	50.2	50.2	50.2	50.2	50.2	50.2	50.2	50.2	50.1	50.1	50.0	50.0	49.9	49.9
Population, male (% of total)	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.9	49.9	50.0	50.0	50.1	50.1
Rural population (% of total population)	81.8	81.6	81.5	81.3	81.2	81	80.9	80.7	80.6	80.4	80.3	80.1	79.9	79.7	79.5	79.3	79
Urban population (% of total)	18.2	18.4	18.5	18.7	18.8	19	19.1	19.3	19.4	19.6	19.7	19.9	20.1	20.3	20.5	20.7	21

Source: (WDI 2007)

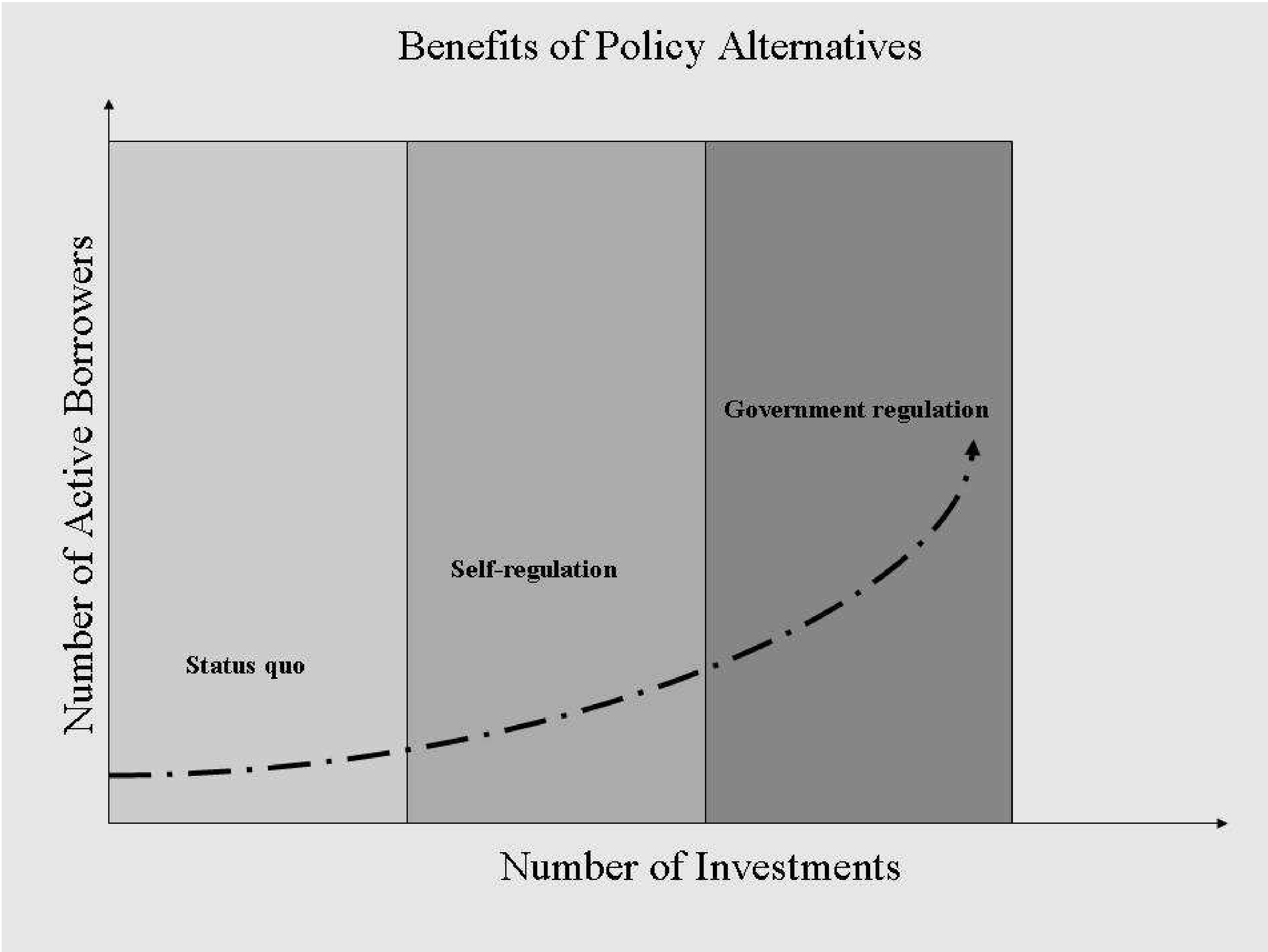
Annex e: Evaluation of alternatives

Objectives	Impact Category	Policy Alternatives		
		Status Quo	Self-Regulation	Regulation
Enhance information on microfinance activities	Availability of information	**Poor** Access to information is difficult	**Good** Considerable improvement from Status Quo, it provides information relevant to microfinance	**Very Good** Requires MFI to provide financial information
Benchmarking with peer groups/industry norms	Enhance procedures for comparing MFI effectiveness	**Low** Inherent difficulties with MFIs agreeing on evaluation procedures	**Medium** Considerable improvement to Status Quo	**Very Good** Provides rules to ensure that evaluation procedures are in place
Economical and efficient use of technology	Availability of technology	**Low** Inherent weak allocation efficiency	**Good** Considerable improvement to Status Quo	**Very Good** Provides rules that will increase allocation efficiency
	Impact on reducing transaction costs	**Low** High net costs	**Very Good** Low net costs and lowering access to financial services	**Very Good**
Develop microfinance professionals	Improve financial and non-financial capacity	**Medium** Inherent difficulties in absorbing & managing resources	**Very Good** Ensures MFIs are building the "right" capacities	**Good** Considerable improvement to Status Quo
	Develop managers	**Very Poor** High risks of losing managers	**Very Good** Lowers risks of losing managers and develops professionals	**Medium** Considerable improvement to Status Quo
Increase accountability	Enhance performance and sustainability of objectives	**Low** Inherent difficulty of balancing objectives	**Very Good** Flexible and allows MFIs to balance their objectives	**Good** Considerable improvement to Status Quo, but rigid and could compromise objectives
	Improve transparency	**Poor**	**Medium** Considerable improvement	**Very Good** Provides rules to ensure MFI activities are transparent
Political feasibility	Likelihood of adoption	**Very Good**	**Medium** Large potential benefit, but may not be attractive to smaller MFIs	**Low** Not attractive to a majority of the MFIs

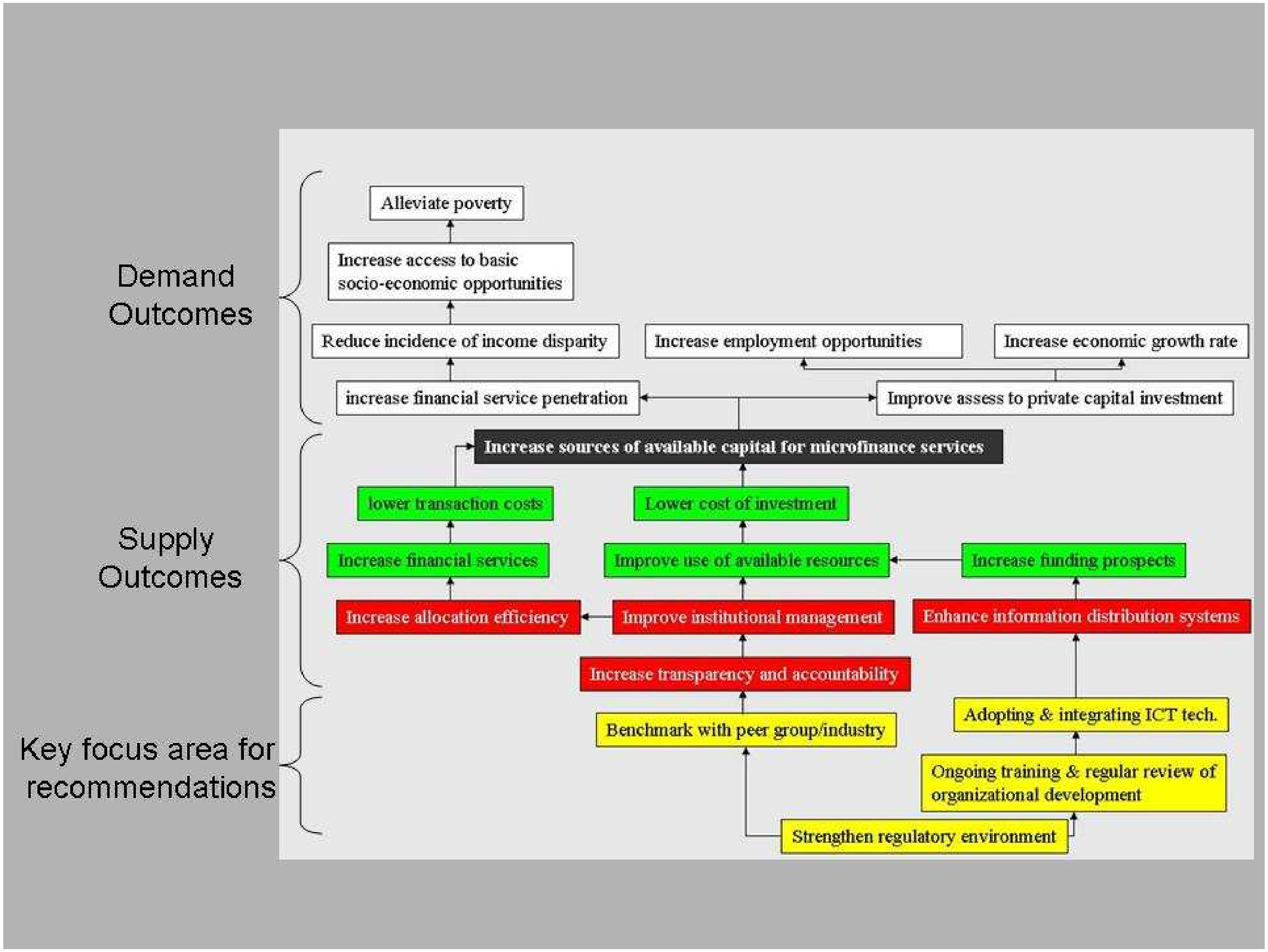
Annex f: Impact of Policy Alternatives

Status Quo	Regulation
Limited access to sources of capital. Larger MFIs can attract investments easily, while smaller MFIs struggle to attract investors and are unsustainable Weak governance structures overseeing microfinance activities Unequal distribution of microfinance resources High transaction costs of delivering microfinance services Low institutional capacity Lack of transparency and accountability of MFI operations Lack of performance standards	Improved governance structures overseeing microfinance activities Better distribution of microfinance resource Improved access to sources of capital Enhanced transparency and accountability of MFI operations High transaction costs of delivering microfinance service due to increased cost of compliance Reduce ability of smaller MFIs to compete leading to a some of MFIs stopping their service delivery Reduced supply of microfinance services
Self-regulation	**Combination (Government and Self-regulation)**
Better self-regulated environment Better administrative efficiency of MFIs in delivering microfinance Improved distribution of microfinance resources Improved access to sources of capital Better transparency and accountability of MFI operations Reduced operation costs of providing microfinance services Improved professional management and performance of MFIs and microfinance resources	Well self-regulated environment due to the higher incentives and benefits of having more access to investors/investment opportunities Enhanced administrative efficiency of MFIs in delivering microfinance Better equitable distribution of microfinance resources Greater access to a variety of sources of capital/investors Better transparency and accountability of MFI operations Reduced operation costs of providing microfinance services Improved professional management and performance of MFIs and microfinance resources

Annex g: Analysis of Policy Alternatives on MFIs and MIFs



Annex h: Policy outcome of preferred policy option



Annex i: List of 45 MIFs invested in Africa

	Fund Name	Country of Incorporation	Fund Assets (US$)	% of Fund Assets allocated to MF Investments	Number of Active MF Investments	Projected new Funds allocated to MF Investments	MIF Categories
1	Luxmint - ADA	Luxembourg	$2,107,728	100.0%	18	$947,905	DF
2	DBMDF	United States	$3,259,923	86.8%	28	$1,000,000	DF
3	FIG	Switzerland	$3,481,771	72.1%	17	-	DF
4	Kolibri Kapital ASA	Norway	$3,900,000	25.3%	5	$4,000,000	DF
5	CRESUD	Italy	$3,958,650	66.7%	12	$1,979,325	DF
6	Goodwell	Netherlands, The	$4,500,000	100.0%	0	$12,000,000	CO
7	Dignity Fund, L.P.	United States	$5,495,000	91.0%	8	$5,000,000	C
8	ICCO	Netherlands, The	$6,496,272	72.9%	20	-	CO/DF
9	Unitus	United States	$9,477,119	n/a	8	-	CO/DF
10	INCOFIN	Belgium	$10,556,400	96.3%	19	$5,278,200	DF
11	Rabobank	Netherlands, The	$12,180,900	78.2%	89	-	CO/DF
12	SIDI	France	$12,652,433	38.1%	37	-	DF
13	I&P Developpement	France	$12,665,300	n/a	8	$8,865,710	CO
14	Advans SA	Luxembourg	$12,938,814	100.0%	2	$4,861,722	CO
15	ACCION Investments	Cayman Islands	$12,969,985	96.5%	5	$5,000,000	CO
16	AfriCap	Mauritius	$13,300,000	24.1%	3	-	CO
17	OTI	United States	$13,500,000	n/a	13	$5,000,000	DF
18	St. Honore Microfinance Fund	Luxembourg	$15,874,783	53.5%	6	$15,000,000	C
19	ALTERFIN	Belgium	$18,347,647	38.2%	36	-	DF
20	Consorzio Etimos	Italy	$21,380,343	66.5%	107	-	DF
21	Impulse (Incofin)	Belgium	$23,751,900	97.2%	22	$3,298,875	C
22	MicroVest I	United States	$24,230,000	93.2%	25	$7,500,000	C
23	Oxfam Novib Fund	Netherlands, The	$28,125,000	100.0%	77	-	CO
24	ShoreCap Intl.	United States	$28,333,000	37.6%	9	$2,500,000	CO/DF
25	TFSF	Netherlands, The	$31,884,269	70.2%	18	$7,917,300	CO
26	Rural Impulse Fund	Belgium	$38,000,000	0.0%	0	$38,000,000	CO
27	HTF	Netherlands, The	$39,968,387	93.0%	37	$3,958,650	DF
28	KEF	South Africa	$48,550,000	n/a	-	$20,480,000	DF
29	CMI	Netherlands, The	$50,000,000	100.0%	7	$15,000,000	CO
30	Dual Return Fund	Luxembourg	$50,586,594	83.7%	55	$15,000,000	C
31	Triodos-Doen Foundation	Netherlands, The	$56,593,726	79.9%	74	$6,597,750	DF
32	Citigroup Foundation	United States	$63,000,000	n/a	42	$2,400,000	DF
33	CORDAID	Netherlands, The	$63,473,991	54.6%	90	$9,473,730	CO
34	Gray Ghost	United States	$75,000,000	100.0%	16	-	C
35	Calvert Foundation	United States	$106,258,735	25.6%	50	$12,000,000	DF
36	Dexia Microcredit Fund	Luxembourg	$161,837,903	66.7%	105	$20,000,000	C
37	responsAbility Fund	Luxembourg	$180,141,111	88.2%	132	-	C
38	Oikocredit	Netherlands, The	$455,786,000	43.5%	306	$131,674,000	DF
39	BIO	Belgium	-	n/a	16	-	CO/DF
40	DEG	Germany	-	n/a	9	-	CO
41	Fundació Un Sol Món	Spain	-	n/a	16	$642,235	CO
42	KFW	Germany	-	n/a	99	-	DF
43	UNCDF	United States	-	n/a	12	$4,500,000	DF
44	USAID Credit Guarantees	United States	-	n/a	25	-	DF
45	VDK MFI Loan Portfolio	Belgium	-	n/a	-	$32,988,750	CO
	TOTAL		**$1,724,563,684**		**1683**	**$402,864,152**	

*The highlighted microfinance investment funds are incorporated in Africa

Annex j: List of 38 MIFs that reported their total asset and share of fund allocation

	Fund Name	Country of Incorporation	Fund Assets (US$)	% of Size	Number of Active MF Investments	% of MIFs	% of Fund Assets allocated to MF Investments	Projected new Funds allocated to MF Investments
1	Luxmint - ADA	Luxembourg	$2,107,728	0.12%	18	1.20%	100.0%	$947,905
2	DBMDF	United States	$3,259,923	0.19%	28	1.86%	86.8%	$1,000,000
3	FIG	Switzerland	$3,481,771	0.20%	17	1.13%	72.1%	-
4	Kolibri Kapital ASA	Norway	$3,900,000	0.23%	5	0.33%	25.3%	$4,000,000
5	CRESUD	Italy	$3,958,650	0.23%	12	0.80%	66.7%	$1,979,325
6	Goodwell	Netherlands, The	$4,500,000	0.26%	0	0.00%	100.0%	$12,000,000
7	Dignity Fund, L.P.	United States	$5,495,000	0.32%	8	0.53%	91.0%	$5,000,000
8	ICCO	Netherlands, The	$6,496,272	0.38%	20	1.33%	72.9%	-
9	Unitus	United States	$9,477,119	0.55%	8	0.53%	n/a	-
10	INCOFIN	Belgium	$10,556,400	0.61%	19	1.26%	96.3%	$5,278,200
11	Rabobank	Netherlands, The	$12,180,900	0.71%	89	5.91%	78.2%	-
12	SIDI	France	$12,652,433	0.73%	37	2.46%	38.1%	-
13	I&P Developpement	France	$12,665,300	0.73%	8	0.53%	n/a	$8,865,710
14	Advans SA	Luxembourg	$12,938,814	0.75%	2	0.13%	100.0%	$4,861,722
15	ACCION Investments	Cayman Islands	$12,969,985	0.75%	5	0.33%	96.5%	$5,000,000
16	AfriCap	Mauritius	$13,300,000	0.77%	3	0.20%	24.1%	-
17	OTI	United States	$13,500,000	0.78%	13	0.86%	n/a	$5,000,000
18	St. Honore Microfinance Fund	Luxembourg	$15,874,783	0.92%	6	0.40%	53.5%	$15,000,000
19	ALTERFIN	Belgium	$18,347,647	1.06%	36	2.39%	38.2%	-
20	Consorzio Etimos	Italy	$21,380,343	1.24%	107	7.10%	66.5%	-
21	Impulse (Incofin)	Belgium	$23,751,900	1.38%	22	1.46%	97.2%	$3,298,875
22	MicroVest I	United States	$24,230,000	1.40%	25	1.66%	93.2%	$7,500,000
23	Oxfam Novib Fund	Netherlands, The	$28,125,000	1.63%	77	5.11%	100.0%	-
24	ShoreCap Intl.	United States	$28,333,000	1.64%	9	0.60%	37.6%	$2,500,000
25	TFSF	Netherlands, The	$31,884,269	1.85%	18	1.20%	70.2%	$7,917,300
26	Rural Impulse Fund	Belgium	$38,000,000	2.20%	0	0.00%	0.0%	$38,000,000
27	HTF	Netherlands, The	$39,968,387	2.32%	37	2.46%	93.0%	$3,958,650
28	KEF	South Africa	$48,550,000	2.82%	-	-	n/a	$20,480,000
29	CMI	Netherlands, The	$50,000,000	2.90%	7	0.46%	100.0%	$15,000,000
30	Dual Return Fund	Luxembourg	$50,586,594	2.93%	55	3.65%	83.7%	$15,000,000
31	Triodos-Doen Foundation	Netherlands, The	$56,593,726	3.28%	74	4.91%	79.9%	$6,597,750
32	Citigroup Foundation	United States	$63,000,000	3.65%	42	2.79%	n/a	$2,400,000
33	CORDAID	Netherlands, The	$63,473,991	3.68%	90	5.98%	54.6%	$9,473,730
34	Gray Ghost	United States	$75,000,000	4.35%	16	1.06%	100.0%	-
35	Calvert Foundation	United States	$106,258,735	6.16%	50	3.32%	25.6%	$12,000,000
36	Dexia Microcredit Fund	Luxembourg	$161,837,903	9.38%	105	6.97%	66.7%	$20,000,000
37	responsAbility Fund	Luxembourg	$180,141,111	10.45%	132	8.76%	88.2%	-
38	Oikocredit	Netherlands, The	$455,786,000	26.43%	306	20.32%	43.5%	$131,674,000
	TOTAL		**$1,724,563,684**	**100%**	**1506**	**100%**		**$364,733,167**

Annex k: Categories of MIFs invested in Africa

	Fund Name	Country of Incorporation	Fund Assets (US$)	% of Fund Assets allocated to MF Investments	Number of Active MF Investments	Projected new Funds allocated to MF Investments	MIF Categories	Number of Active MF Investments in Africa
1	Luxmint - ADA	Luxembourg	$2,107,728	100.0%	18	$947,905	DF	4
2	DBMDF	United States	$3,259,923	86.8%	28	$1,000,000	DF	5
3	FIG	Switzerland	$3,481,771	72.1%	17	-	DF	4
4	Kolibri Kapital ASA	Norway	$3,900,000	25.3%	5	$4,000,000	DF	
5	CRESUD	Italy	$3,958,650	66.7%	12	$1,979,325	DF	3
6	Goodwell	Netherlands, The	$4,500,000	100.0%	0	$12,000,000	CO	
7	Dignity Fund, L.P.	United States	$5,495,000	91.0%	8	$5,000,000	C	
8	ICCO	Netherlands, The	$6,496,272	72.9%	20	-	CO/DF	3
9	Unitus	United States	$9,477,119	n/a	8	-	CO/DF	1
10	INCOFIN	Belgium	$10,556,400	96.3%	19	$5,278,200	DF	6
11	Rabobank	Netherlands, The	$12,180,900	78.2%	89	-	CO/DF	10
12	SIDI	France	$12,652,433	38.1%	37	-	DF	7
13	I&P Developpement	France	$12,665,300	n/a	8	$8,865,710	CO	4
14	Advans SA	Luxembourg	$12,938,814	100.0%	2	$4,861,722	CO	1
15	ACCION Investments	Cayman Islands	$12,969,985	96.5%	5	$5,000,000	CO	
16	AfriCap	Mauritius	$13,300,000	24.1%	3	-	CO	11
17	OTI	United States	$13,500,000	n/a	13	$5,000,000	DF	2
18	St. Honore Microfinance Fund	Luxembourg	$15,874,783	53.5%	6	$15,000,000	C	
19	ALTERFIN	Belgium	$18,347,647	38.2%	36	-	DF	1
20	Consorzio Etimos	Italy	$21,380,343	66.5%	107	-	DF	8
21	Impulse (Incofin)	Belgium	$23,751,900	97.2%	22	$3,298,875	C	3
22	MicroVest I	United States	$24,230,000	93.2%	25	$7,500,000	C	
23	Oxfam Novib Fund	Netherlands, The	$28,125,000	100.0%	77	-	CO	10
24	ShoreCap Intl.	United States	$28,333,000	37.6%	9	$2,500,000	CO/DF	2
25	TFSF	Netherlands, The	$31,884,269	70.2%	18	$7,917,300	CO	2
26	Rural Impulse Fund	Belgium	$38,000,000	0.0%	0	$38,000,000	CO	
27	HTF	Netherlands, The	$39,968,387	93.0%	37	$3,958,650	DF	5
28	KEF	South Africa	$48,550,000	n/a	-	$20,480,000	DF	
29	CMI	Netherlands, The	$50,000,000	100.0%	7	$15,000,000	CO	2
30	Dual Return Fund	Luxembourg	$50,586,594	83.7%	55	$15,000,000	C	
31	Triodos-Doen Foundation	Netherlands, The	$56,593,726	79.9%	74	$6,597,750	DF	6
32	Citigroup Foundation	United States	$63,000,000	n/a	42	$2,400,000	DF	
33	CORDAID	Netherlands, The	$63,473,991	54.6%	90	$9,473,730	CO	4
34	Gray Ghost	United States	$75,000,000	100.0%	16	-	C	
35	Calvert Foundation	United States	$106,258,735	25.6%	50	$12,000,000	DF	39
36	Dexia Microcredit Fund	Luxembourg	$161,837,903	66.7%	105	$20,000,000	C	10
37	responsAbility Fund	Luxembourg	$180,141,111	88.2%	132	-	C	5
38	Oikocredit	Netherlands, The	$455,786,000	43.5%	306	$131,674,000	DF	12
39	BIO	Belgium	-	n/a	16	-	CO/DF	
40	DEG	Germany	-	n/a	9	-	CO	
41	Fundació Un Sol Món	Spain	-	n/a	16	$642,235	CO	3
42	KFW	Germany	-	n/a	99	-	DF	9
43	UNCDF	United States	-	n/a	12	$4,500,000	DF	10
44	USAID Credit Guarantees	United States	-	n/a	25	-	DF	8
45	VDK MFI Loan Portfolio	Belgium	-	n/a	-	$32,988,750	CO	
	TOTAL		**$1,724,563,684**		**1683**	**$402,864,152**		**200**

*Highlighted Acronyms

- C – Commercial microfinance investment funds
- CO – Commercially oriented microfinance investment funds
- DF – Microfinance development funds

Annex l: MIFs lending instruments

	Fund Name	Fund Assets (US$)	% of Fund Assets allocated to MF Investments	Number of Active MF Investments	Number of Active MF Investments in Africa	MIF Categories	Lending Instruments	Eligible Partners
1	Luxmint - ADA	$2,107,728	100.0%	18	4	DF	Loans, Equity, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
2	DBMDF	$3,259,923	86.8%	28	5	DF	Loans	Bank, NBFI, Cooperative/Credit Union, NGOs
3	FIG	$3,481,771	72.1%	17	4	DF	Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
4	Kolibri Kapital ASA	$3,900,000	25.3%	5		DF		
5	CRESUD	$3,958,650	66.7%	12	3	DF	Loans	NBFI, Cooperative/Credit Union, NGOs
6	Goodwell	$4,500,000	100.0%	0		CO		
7	Dignity Fund, L.P.	$5,495,000	91.0%	8		C		
8	ICCO	$6,496,272	72.9%	20	3	CO/DF	Loans, Equity, Grants, Gaurantees, TA	Rural Bank, NBFI, Cooperative/Credit Union, NGOs
9	Unitus	$9,477,119	n/a	8	1	CO/DF	Loans, Equity, Grants, Gaurantees, TA	Bank, NBFI, NGOs
10	INCOFIN	$10,556,400	96.3%	19	6	DF	Loans, Equity, Gaurantees	Bank, NBFI, Cooperative/Credit Union, NGOs
11	Rabobank	$12,180,900	78.2%	89	10	CO/DF	Loans, Grants, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
12	SIDI	$12,652,433	38.1%	37	7	DF	Loans, Equity, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
13	I&P Developpement	$12,665,300	n/a	8	4	CO	Loans, Equity	Bank, NBFI, Cooperative/Credit Union, NGOs
14	Advans SA	$12,938,814	100.0%	2	1	CO	Loans, Equity, Gaurantees, TA	
15	ACCION Investments	$12,969,985	96.5%	5		CO		
16	AfriCap	$13,300,000	24.1%	11	11	CO	Equity, Gaurantees, TA	Bank, NBFI, NGOs
17	OTI	$13,500,000	n/a	13	2	DF	Loans, Equity	
18	St. Honore Microfinance Fund	$15,874,783	53.5%	6		C		
19	ALTERFIN	$18,347,647	38.2%	36	1	DF	Loans, Equity, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
20	Consorzio Etimos	$21,380,343	66.5%	107	8	DF	Loans, TA	
21	Impulse (Incofin)	$23,751,900	97.2%	22	3	C	Loans, Equity, Gaurantees	Bank, NBFI, Cooperative/Credit Union, NGOs
22	MicroVest I	$24,230,000	93.2%	25		C		
23	Oxfam Novib Fund	$28,125,000	100.0%	77	10	CO	Loans, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
24	ShoreCap Intl.	$28,333,000	37.6%	9	2	CO/DF	Loans, Equity, TA	Bank, Rural Bank, NBFI
25	TFSF	$31,884,269	70.2%	18	2	CO	Loans, Equity	Bank, NBFI, Cooperative/Credit Union
26	Rural Impulse Fund	$38,000,000	0.0%	0		CO		
27	HTF	$39,968,387	93.0%	37	5	DF	Loans, Equity, Gaurantees	Bank, NBFI, Cooperative/Credit Union, NGOs
28	KEF	$48,550,000	n/a	-		DF		
29	CMI	$50,000,000	100.0%	7	2	CO	Equity	Bank, NBFI, Cooperative/Credit Union, NGOs
30	Dual Return Fund	$50,586,594	83.7%	55		C		
31	Triodos-Doen Foundation	$56,593,726	79.9%	74	6	DF	Loans, Equity, Gaurantees	Bank, NBFI, Cooperative/Credit Union, NGOs
32	Citigroup Foundation	$63,000,000	n/a	42		DF	Grants, Gaurantees, TA	NGOs
33	CORDAID	$63,473,991	54.6%	90	4	CO	Loans, Equity, Grants, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
34	Gray Ghost	$75,000,000	100.0%	16		C		
35	Calvert Foundation	$106,258,735	25.6%	50	39	DF		
36	Dexia Microcredit Fund	$161,837,903	66.7%	105	10	C	Loans, Gaurantees	Bank, NBFI, Cooperative/Credit Union, NGOs
37	responsAbility Fund	$180,141,111	88.2%	132	5	C	Loans, Equity	Bank, NBFI, Cooperative/Credit Union, NGOs
38	Oikocredit	$455,786,000	43.5%	306	12	DF	Loans, Equity, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
39	BIO	-	n/a	16		CO/DF		
40	DEG	-	n/a	9		CO		
41	Fundació Un Sol Món	-	n/a	16	3	CO	Loans, Grants, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
42	KFW	-	n/a	99	9	DF	Loans, Equity, Grants, Gaurantees, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
43	UNCDF	-	n/a	12	10	DF	Loans, Grants, TA	Bank, NBFI, Cooperative/Credit Union, NGOs
44	USAID Credit Guarantees	-	n/a	25	8	DF	Gaurantees	
45	VDK MFI Loan Portfolio	-	n/a	-		CO		
	TOTAL	**$1,724,563,684**		**1691**	**200**			

Annex m: Coface Country Risk Rating

Rating: A1 The political and economic situation is very good. A quality business environment has a positive influence on corporate payment behavior. Corporate default probability is very low on average.
Rating: A2 The political and economic situation is good. A basically stable and efficient business environment nonetheless leaves room for improvement. Corporate default probability is low on average.
Rating: A3 Changes in generally good but somewhat volatile political and economic environment can affect corporate payment behavior. A basically secure business environment can nonetheless give rise to occasional difficulties for companies. Corporate default probability is quite acceptable on average.
Rating: A4 A somewhat shaky political and economic outlook and a relatively volatile business environment can affect corporate payment behavior. Corporate default probability is still acceptable on average.
Rating: B Political and economic uncertainties and an occasionally difficult business environment can affect corporate payment behavior. Corporate default probability is appreciable.
Rating: C A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behavior. Corporate default probability is high.
Rating: D A high-risk political and economic situation and an often very difficult business environment can have a very significant impact on corporate payment behavior. Corporate default probability is very high.

Annex n: Doing Business Index

Economy	Ease of Doing Business Rank	Starting a Business	Protecting Investors	Paying Taxes
Singapore	1	9	2	2
New Zealand	2	3	1	9
United States	3	4	5	76
Hong Kong, China	4	13	3	3
Denmark	5	18	19	13
United Kingdom	6	6	9	12
Canada	7	2	5	25
Ireland	8	5	5	6
Australia	9	1	51	41
Iceland	10	14	64	27
Norway	11	28	15	16
Japan	12	44	12	105
Finland	13	16	51	83
Sweden	14	22	51	42
Thailand	15	36	33	89
Switzerland	16	35	158	15
Estonia	17	20	33	31
Georgia	18	10	33	102
Belgium	19	19	12	65
Germany	20	71	83	67
Netherlands	21	41	98	36
Latvia	22	30	51	20
Saudi Arabia	23	36	50	7
Malaysia	24	74	4	56
Austria	25	83	122	80
Lithuania	26	57	83	71
Mauritius	27	8	11	11
Puerto Rico	28	7	12	39
Israel	29	17	5	69
Korea	30	110	64	106
France	31	12	64	82
Slovakia	32	72	98	122
Chile	33	39	33	34
St. Lucia	34	45	19	32
South Africa	35	53	9	61
Fiji	36	69	33	52
Portugal	37	38	33	66
Spain	38	118	83	93
Armenia	39	47	83	143
Kuwait	40	121	19	8
Antigua and Barbuda	41	27	19	108
Luxembourg	42	41	107	17
Namibia	43	101	64	48
Mexico	44	75	33	135
Hungary	45	67	107	127
Bulgaria	46	100	33	88
Tonga	47	24	98	24
Romania	48	26	33	134
Oman	49	107	64	5
Taiwan, China	50	103	64	91
Botswana	51	99	107	14
Mongolia	52	62	19	90
Italy	53	65	51	122
St. Vincent and the Grenadines	54	32	19	58
Slovenia	55	120	19	63
Czech Republic	56	91	83	113
Turkey	57	43	64	54
Peru	58	102	15	77
Belize	59	116	107	47
Maldives	60	34	64	1
Samoa	61	104	19	53
Vanuatu	62	73	64	18
Jamaica	63	11	64	170

Annex n.1: Doing Business Index

Economy	Ease of Doing Business Rank	Starting a Business	Protecting Investors	Paying Taxes
St. Kitts and Nevis	64	79	19	85
Panama	65	31	98	169
Colombia	66	88	19	167
Trinidad and Tobago	67	40	15	45
United Arab Emirates	68	158	107	4
El Salvador	69	130	107	101
Grenada	70	32	19	59
Kazakhstan	71	57	51	44
Kenya	72	112	83	154
Kiribati	73	86	33	10
Poland	74	129	33	125
Macedonia, FYR	75	21	83	99
Pakistan	76	59	19	146
Dominica	77	23	19	64
Brunei	78	117	121	28
Solomon Islands	79	85	51	26
Jordan	80	133	107	19
Montenegro	81	98	19	129
Palau	82	56	165	73
China	83	135	83	168
Papua New Guinea	84	76	33	79
Lebanon	85	132	83	33
Serbia	86	90	64	121
Ghana	87	138	33	75
Tunisia	88	68	147	148
Marshall Islands	89	15	147	74
Seychelles	90	48	51	35
Vietnam	91	97	165	128
Moldova	92	81	98	111
Nicaragua	93	70	83	156
Kyrgyz Republic	94	49	33	152
Swaziland	95	142	175	40
Azerbaijan	96	64	107	141
Croatia	97	93	122	43
Uruguay	98	151	83	131
Dominican Republic	99	84	122	139
Greece	100	152	158	86
Sri Lanka	101	29	64	158
Ethiopia	102	106	107	29
Paraguay	103	66	51	93
Guyana	104	86	64	100
Bosnia and Herzegovina	105	150	83	142
Russia	106	50	83	130
Bangladesh	107	92	15	81
Nigeria	108	80	51	107
Argentina	109	114	98	147
Belarus	110	119	98	178
Nepal	111	60	64	92
Micronesia	112	46	165	70
Yemen	113	175	122	84
Guatemala	114	128	122	116
Costa Rica	115	113	158	162
Zambia	116	82	64	30
West Bank and Gaza	117	166	33	22
Uganda	118	114	122	55
Bhutan	119	52	122	68
India	120	111	33	165
Honduras	121	135	147	160
Brazil	122	122	64	137
Indonesia	123	168	51	110
Lesotho	124	126	141	49
Algeria	125	131	64	157
Egypt	126	55	83	150
Malawi	127	108	64	78

Annex n.2: Doing Business Index

Economy	Ease of Doing Business Rank	Starting a Business	Protecting Investors	Paying Taxes
Ecuador	128	148	122	57
Morocco	129	51	158	132
Tanzania	130	95	83	104
Gambia	131	94	165	173
Cape Verde	132	156	122	117
Philippines	133	144	141	126
Mozambique	134	125	33	72
Iran	135	77	158	97
Albania	136	123	165	118
Syria	137	169	107	98
Uzbekistan	138	54	107	159
Ukraine	139	109	141	177
Bolivia	140	157	122	172
Iraq	141	164	107	37
Suriname	142	163	174	23
Sudan	143	95	141	60
Gabon	144	147	147	93
Cambodia	145	162	64	21
Djibouti	146	165	173	51
Comoros	147	145	122	46
Haiti	148	170	158	96
Madagascar	149	61	51	86
Rwanda	150	63	165	50
Benin	151	137	147	161
Zimbabwe	152	143	107	144
Tajikistan	153	161	176	155
Cameroon	154	160	107	166
Côte d'Ivoire	155	155	147	140
Togo	156	176	138	138
Mauritania	157	167	141	171
Mali	158	149	147	151
Afghanistan	159	24	178	38
Sierra Leone	160	89	98	145
Burkina Faso	161	105	138	133
Senegal	162	159	158	164
São Tomé and Principe	163	126	122	153
Lao PDR	164	78	176	114
Equatorial Guinea	165	172	141	136
Guinea	166	171	165	163
Angola	167	173	51	120
Timor-Leste	168	140	122	62
Niger	169	153	147	115
Liberia	170	141	138	119
Eritrea	171	174	98	103
Venezuela	172	134	165	174
Chad	173	177	122	124
Burundi	174	124	147	109
Congo, Rep.	175	154	147	176
Guinea-Bissau	176	178	122	112
Central African Republic	177	139	122	175
Congo, Dem. Rep.	178	146	147	149