Rafiki Microfinance Bank

Impact Management Case Study

Location Kenya
Sector Financial Services
Key Stakeholders Clients
Total Reach 54,000

Business Model

Rafiki Microfinance Bank is a microfinance institution which widens financial access for low-income communities, becoming a key catalyst of their empowerment and progress out of poverty. The Kenyan bank also provides lines of credit to businesses, supporting the country’s private sector to scale-up while generating new wealth opportunities and creating jobs.

Agriculture remains the backbone of Kenya’s economy, directly contributing 24% to annual GDP and indirectly contributing another 27%. The country’s vibrant agricultural sector accounts for 65% of all exports and employs more than 75% of the country’s population, playing a critical role in creating jobs and raising the living standards of the Kenyan people.

‘Traditional’ financial services rarely reach small-scale rural agricultural enterprises as the costs of delivering financial services to fragmented small businesses are generally too high, reducing their access to credit and possibilities of investment.

In order to address the difficulties farmers face in accessing credit, Rafiki Microfinance Bank is providing financial services to 54,000 smallholder dairy farmers (40% of whom are women) through the “Dairy Xpress” value chain financing project.

Founded in 2011, Rafiki Microfinance Bank strives to facilitate the establishment and scaling-up of enterprises in order to achieve economic empowerment, generating a revenue of USD 62 million in 2019. It is the third largest microfinance institution in Kenya with 19 branches spread across 11 counties. The bank provides branches, internet banking, mobile banking, agency banking and Visa ATM network services as delivery channels, and offers savings facilities, credit, money transfer services, and trade finance, forex and bancassurance services across the energy, housing, trade, health, education and agriculture sectors. Rafiki targets those operating in the gap between micro-enterprises and large or medium enterprises (called the “missing middle”) whose primary lending spread is between USD 1,000 and 350,000.

4 Rafiki Microfinance Bank’s internal records.
Key Stakeholders

Kenya still faces pressing development needs: 36% of the population continues to live on less than $1.90/day, 5 11.5% of the population is unemployed, 6 and inequality is relatively high. The country’s workforce is predominantly comprised of small-scale farmers who only have access to rudimentary farming tools. In fact, subsistence farmers, pastoralists and small-scale commercial farmers, which comprise the small-scale farmer category, collectively contribute 75% of Kenya’s agricultural output. However, these small-scale producers are not integrated into value chains, and therefore miss out on the opportunity to achieve higher profit margins attached to processed or semi-processed commodities. Since these farmers cannot guarantee constant high-quality production and pay transport and storage costs, their production goal cannot shift from subsistence to commercialization. 7 Moreover, the agricultural sector is still rife with gender inequality: women represent between 50% and 80% of the workforce but receive only 1% of agriculture credits and 7% of extension services. 8 However, the Kenyan market has recently been driven by innovation, creating products made available by technology-enabled solutions. This is because Kenya has high mobile (91%) and internet penetration (84%), which offers a welcome platform to deliver innovative products and services to customers.

1. Assessing Readiness and Capacity

Motivated by the benefits brought by collecting social impact data as a mechanism to both prove and attribute social and environmental impact, Rafiki Microfinance Bank was interested in gathering reliable data from its customers in order to align its product and service offerings to changing customer needs. In light of the growing competition, Rafiki Microfinance Bank recognized the importance of creating market-driven financial products and services.

Rafiki Microfinance Bank joined BCTA’s Impact Champions Programme to in order to equip staff with the necessary tools for monitoring and evaluating the impact of the bank’s initiatives, especially in the agribusiness space.

At the start of the Impact Champions Programme, Rafiki Microfinance Bank was found to have an advanced capacity for undertaking impact measurement and management. This was because the leadership and management at Rafiki Microfinance Bank viewed social impact management as a critical activity and wanted to dedicate significant time and resources to achieving impact. Moreover, Rafiki Microfinance Bank benefitted from a culture of collecting data and making business decisions based on the regular monitoring and reporting of Key Performance Indicators (KPIs) across functions. Lastly, Rafiki Microfinance Bank’s field staff had experience of collecting and using data in their daily operations.

Rafiki Microfinance Bank benefits from impact management, as it allows them to:
• Build their reputation and brand;
• Improve customer engagement; and
• Enhance and scale impact

Companies can have an initial, medium or advanced level of impact management capacity

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I. Impact Value Chain

The Impact Value Chain is a visual map of how an organization’s strategy and operations contribute to its business value and the Sustainable Development Goals (SDGs). The Impact Value Chain allows the organization to holistically understand the effects of its inclusive business activities on different groups of people and the planet.

Rafiki Microfinance Bank works in Kenya’s rural areas where smallholder farmers lack access to quality farming inputs (seeds, tools, etc.) and the market for agricultural products is limited, as farmers struggle to sell their output without the necessary market linkages. Moreover, in the communities in which Rafiki operates, there is a lack of financial literacy among farmers, which thereby limits their access to credit.

Supporting smallholder farmers to understand and navigate Kenya’s financial system, Rafiki Microfinance Bank delivers financial literacy training and organizes community banks, a money-lending system whereby the funds are gathered by the local community itself. In order to address farmers’ barriers to accessing credit, Rafiki’s clients are also given extended loans. Bridging the gaps between markets and rural communities, Rafiki Microfinance Bank therefore encourages contractual farming as a mechanism for developing market linkages.

2. Planning For Impact

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As a result of Rafiki Microfinance Bank’s activities, farmers have more opportunities to sell their agricultural output through pre-established contracts and gain access to quality seeds via the new markets to which they gain access. As a result of the bank’s approach, farmers now have increased access to credit and have gained financial literacy and management skills.

In the medium term, Rafiki Microfinance Bank’s presence in rural communities leads to significant changes for agribusinesses. Farmers benefit from higher yields, higher income levels and an increase in the variety of viable crops. By gaining access to new markets and financial training, farmers are able to purchase important agricultural inputs and are less exposed to financial risk.

In the long run, Rafiki Microfinance Bank empowers rural communities, which then benefit from increased food security and increased employment opportunities, especially for women and youth.
Rafiki Microfinance Bank tracks the performance of its inputs, outputs, outcomes and impact goals using the following framework:

**Rafiki Microfinance Bank’s Impact Value Chain**

<table>
<thead>
<tr>
<th>Problems &amp; Opportunities</th>
<th>Inputs/Activities</th>
<th>Outputs</th>
<th>Outcomes</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of access to inputs (good quality seeds, fertilizers, etc.)</td>
<td>Extend credit for farmers</td>
<td>Increased access to credit for farmers</td>
<td>Higher yields of agricultural products</td>
<td>Increased food security</td>
</tr>
<tr>
<td>Lack of access to credit</td>
<td>Enhance access to new markets by encouraging contractual farming</td>
<td>Improved access to quality varieties of seeds</td>
<td>Ability to purchase requisite agricultural inputs</td>
<td>Empower rural communities</td>
</tr>
<tr>
<td>Limited market for agricultural products (vegetables, grains, meat products, etc.)</td>
<td>Conduct financial literacy training and organize community banks</td>
<td>Farmers selling produce / commodities through contracts</td>
<td>Increase in variety of crops</td>
<td>Increased employment opportunities for women and youth</td>
</tr>
<tr>
<td>Lack of financial literacy among farmers</td>
<td></td>
<td>Improved financial literacy and management among farmers</td>
<td>Higher income levels for farmers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Reduced financial risk</td>
<td></td>
</tr>
</tbody>
</table>

**Decision-Making Questions**

- What % of farmers do not have access to inputs?
- What % of farmers do not have access to credit?
- What % of farmers do not have access to markets?
- What % of farmers have not participated in a financial literacy programme?
- What is % increase in the number of farmers accessing credit lines?
- What % of farmers are involved in contractual farming?
- How many farmers participated in trainings?
- What is the % increase in the number of farmers using new seeds?
- What % of farmers selling under contracts?
- How many farmers improved their financial literacy?
- What is the % increase in the number of farmers using credits?
- What is the % increase in income of farmers?
- How are we improving the livelihoods of farmers?
- How many households have been included in the value chains listed?
- To what extent do our operations promote female empowerment?

**Indicators**

- No indicators added
- Indicates whether Rafiki has improved farmers’ access to market, reducing post-harvest losses
- Number of female smallholder farmers who have established a credit line for their farming ventures
- Number of farmers who have signed contracts for delivery of their cassava produce
- Number of female farmers who have been trained on financial literacy and technical aspects of agribusiness
- Number of female farmers who have increased yield due to access to new seeds and other inputs
- Number of farmers who have increased income due to financial literacy and market linkages
- Number of women farmers accessing saving and credit facilities from Rafiki under the initiative
- Percentage change in the income of farmers
- Change in yield due to access to new seeds
- Number of jobs created for women and youth
- Number of female smallholder farmers enlisted in the initiative

**SDGs**

1. **No Poverty**
2. **Zero Hunger**
5. **Gender Equality**
8. **Decent Work and Economic Growth**
II. Understanding and Describing Impact

The Impact Management Project (IMP) is a forum for building global consensus on how to measure and manage impact. Through a series of consultations and convenings across the world with thousands of practitioners including investors and multilateral institutions, IMP has developed shared fundamentals on how to describe and understand through the lens of the five dimensions of impact. These five dimensions are: WHAT, WHO, HOW MUCH, CONTRIBUTION and RISK.

- WHAT tells us what outcomes the enterprise is contributing to and how important the outcomes are to stakeholders.
- WHO tells us which stakeholders are experiencing the outcome and how underserved they were prior to the enterprise’s effect.
- HOW MUCH tells us how many stakeholders experienced the outcome, what degree of change they experienced, and for how long they experienced the outcome.
- CONTRIBUTION tells us whether an enterprise’s and/or investor’s efforts resulted in outcomes that were likely better than what would have occurred otherwise.
- RISK tells us the likelihood that impact will be different than expected.

Rafiki Microfinance Bank is contributing to three distinct outcomes: (1) increased food security, (2) empowered rural communities, and (3) increased employment opportunities for women and youth. Rafiki mapped each goal against the five dimensions of impact to better understand its significance and to better manage and communicate its impact.

They mapped each of these effects on the five dimensions of impact to understand better its significance and to be able to better manage and communicate impact.

Business Call to Action integrates IMP’s shared logic in the Impact Lab to help companies plan for impact measurement and management starting with assessing their outcomes considering the five dimensions described above.
Goal 1: Increased food security

What is the importance of your goal to your stakeholders?
- Suppliers and Producers
  - Not Important
  - Important

Who
- Suppliers and Producers
  - Underserved
  - Well-served

Contribution
How does the impact compare to what is likely to occur anyway?
Because of our efforts, our stakeholders’ access to SDGs is:
- Likely Worse
- Same
- Likely Better

Goal 2: Empowered rural communities

What is the importance of your goal to your stakeholders?
- Suppliers and Producers
  - Not Important
  - Important

Who
- Suppliers and Producers
  - Underserved
  - Well-served

Contribution
How does the impact compare to what is likely to occur anyway?
Because of our efforts, our stakeholders’ access to SDGs is:
- Likely Worse
- Same
- Likely Better

Goal 3: Increased employment opportunities for women and youth

What is the importance of your goal to your stakeholders?
- Suppliers and Producers
  - Not Important
  - Important

Who
- Suppliers and Producers
  - Underserved
  - Well-served

Contribution
How does the impact compare to what is likely to occur anyway?
Because of our efforts, our stakeholders’ access to SDGs is:
- Likely Worse
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3. Monitoring Performance

Rafiki surveyed 90 customers from a pool of 300 smallholder farmers. This survey was carried out in six Kenyan counties over a period of six months. These counties – Migori, Homabay, Busia, Kisumu, Nakuru and Siaya – are located in the central rift valley region and the western side of the country.

What

- Access to credit (70%), training on financial management (31%) and training on agribusiness techniques (25%) were the most common services from which farmers benefited
- 34% of farmers noted that access to farming equipment and tools is expensive

Who

- 33% of Rafiki’s farmers own and cultivate less than two hectares of land
- 49% of the respondents are women
- 58% stated secondary education as their highest level of formal education
- 42% of the farmers surveyed are between 31 and 40 years of age

How Much

- 35% of the respondents were found to be very satisfied with Rafiki’s services, rating their likelihood of recommending the bank’s service as 9 or 10
- 72% of farmers experienced an increased in crop yield, from which 50% reported a significant increase
- 80% of farmers experienced an improvement in crop quality, from which 60% reported a significant increase
- 78% of farmers experienced an income increase, driven mostly (61%) by access to credit
- 32% of the people surveyed reported not having access to any another effective alternative for agribusiness loans
- Due to Rafiki’s activities, 60% of respondents reported creating new jobs, with half of these farmers reporting the creation of at least two jobs

Risk

- Rafiki Microfinance Bank’s impact is contingent on external factors that might influence the livelihoods of its farmers. The company faces a relatively high external risk as external variables, such as weather conditions, can affect the agricultural output and farmers’ livelihoods
- Rafiki also faces a moderately high execution risk since the bank cannot track where its clients allocate the credit issued. This could potentially interfere with Rafiki’s intended outcome of farmers using credit to invest in farming activities that stimulate their agricultural output

Rafiki’s impact goal of empowering rural communities has been demonstrated by the potential of its programme to facilitate access to credit, since this was highlighted as the main reason for income increases by 78% of farmers.
Lessons Learned

The Impact Champions Programme gave Rafiki’s staff a deep understanding of impact creation, monitoring, measurement and evaluation processes associated with the microfinance bank’s initiatives. In this particular case, the staff recognized the impact of agribusiness products and partnerships with smallholder farmers, and how best to align products and services to customer needs.

The data collected by the field survey provided insights and feedback in terms of customer preferences towards features of existing products and services. Several concerns were raised by customers in terms of product offerings and relevance to their needs. Moreover, insights from customers demonstrated that the company’s delivery channels need readjustment. These two issues will be considered by management and Rafiki’s product offerings will be adapted based on these customer inputs.

Way Forward / Next Steps

This impact assessment study is crucial, as Rafiki is currently streamlining their strategy towards agribusiness in line with the microfinance bank’s plans to grow the overall agribusiness portfolio to 30 companies. The bank will also explore the use of digital channels in service delivery to increase access and enhance overall customer experience. Hence, the study’s findings will be invaluable for determining service delivery channels, strategic operational decisions and customer engagement methods. Rafiki Microfinance Bank believes that this will ensure maximum impact of the bank’s initiatives in creating jobs, increasing household incomes and raising living standards for the Kenyan population.