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(Kenya Dairy Sector Competitiveness Program)
Quarterly Progress Report
(October 2012 - December 2012)

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KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM

623-C-00-08-00020-00

QUARTERLY PROGRESS REPORT (OCTOBER 2012– DECEMBER 2012)

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List of Acronyms

BDS	Business Development Services
DTF	Dairy Task Force
ESADA	Eastern and Southern Africa Dairy Association
IPM	Integrated Pest Management
NKCC	New Kenya Cooperative Creameries
KDB	Kenya Dairy Board
KDSC	Kenya Dairy Sector Competitiveness Program
KENDAPO	Kenya National Dairy Producers Organization
KENFAP	Kenya National Federation of Agricultural Producers
KLBO	Kenya Livestock Breeders Organization
LOL	Land O'Lakes, Inc.
MOLFD	Ministry of Livestock Development
MOLD (DVS)	Ministry of Livestock, Department of Veterinary Services
MSWG	Milkshed Working Group
NGO	Non-Governmental Organization
PMP	Performance Management Plan
RMC	Resource Mobilization Centre
SBO	Smallholder Business Organizations
SPs	Service Providers
USAID	United States Agency for International Development
WWS	World Wide Sires Consortium

Executive Summary

The report summarizes the key activities implemented and the associated accomplishments for the Kenya Dairy Sector Competitiveness Program (KDSCP) in the period October – December 2012. The KDSCP activities contribute to the achievement of intermediate results under USAID/Kenya Mission’s SO7 on “Increasing Rural Households Income.”

The key highlights for the reporting period include:

- Facilitated the registration of 1897 animals with the Kenya Stud Book.
- During the reporting period, the program conducted recognition meetings in 7 milksheds. The meetings brought together all the stakeholders that had been working with the program since inception in the various milksheds. The aim was to appreciate each of them for their roles and to encourage them to continue being in business even after the program exit. Stakeholders exuded confidence that their operations will not be affected by KDSC coming to an end.
- Through its outreach efforts, the program facilitated capacity building of 5027 dairy farmers in the quarter. Program interventions focused on training dairy farmers to equip them with the necessary technical skills to increase herd productivity and incomes. The training forums, organized in collaboration with key stakeholders such as private service providers, Ministry of Livestock extension personnel, Kenya Dairy Board, covered diverse topics such as feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene.
- The program recruited and trained 18 new business service providers in the quarter. This now brings the total number of service providers working with the program to 1042, surpassing the 500 target set by the end of the program. These experts work with and deliver productivity enhancing technologies to specific farmer groups.
- The KDSC program continued implementing action plans developed by stakeholders to build capacity of the Smallholder Business Organizations (SBO) and to increase farm level productivity. Cumulatively, 135 farmer organizations have had their capacities built compared to the program target of 120 groups.
- Farmers also continued to enjoy financial services from financial service providers. K-LIFT (Kenya Livestock Finance Trust) a new financial service provider was introduced to the SBOs. By end of December 2012, K-LIFT had advanced loan facilities to about 32 farmers from the different SBOs working with the program. The loan amount disbursed so far is KES 4.2 million (USD 53,500), with other applications still being processed.

I.0 Introduction

Land O'Lakes is implementing the Kenya Dairy Sector Competitiveness (KDSC) Program with the financial and technical support of the United States Agency for International Development (USAID). KDSC is a five-year program that aims to improve Kenya's dairy industry competitiveness. Under this program, Land O'Lakes, Inc. employs a market-driven value chain approach, utilizing a Business Development Services (BDS) methodology. KDSC will help transform the Kenyan dairy industry into a globally competitive, regional market leader, with the overall goal of increasing smallholder household income from the sale of quality milk. Land O'Lakes is facilitating this transformation, while the industry stakeholders are leading it.

The Program objectives are three-fold:

- Increase competitiveness of the Kenyan dairy sector through collaboration among sector stakeholders and increased capacity of public sector agencies to serve the needs of the sector;
- Increase marketing of milk meeting quality standards by producer-owned milk bulking/cooling businesses; and
- Enhance access to market-linked business development services and technologies by male and female dairy farmers and processors producing dairy-related inputs.

In its implementation, the program pays particular attention to environmental and gender concerns and effects corrective action as appropriate. KDSCP takes into account the varying roles, assets, knowledge and skills that men, women and youth bring to dairy farming. The program therefore facilitates the implementation of opportunities for integrating youth and family members into dairy value-chain economic activities.

Towards Strategic Objective 7

KDSCP contributes to the USAID Strategic Objective 7.0 on "Increased Rural Household Incomes." The Program is implemented through a range of activities grouped into three broad components. The components and the associated outcomes are:

Component 1: Enhanced Capacity for Milk and Production Input Quality Certification and Market Promotion

Outcomes comprise:

- Increased smallholder household income
- Increased use of technology
- Improve and enact industry policies and acts that enhance competitiveness
- Develop and implement/enforce quality certification frameworks and work towards a graded payment system

- Dairy enterprises achieve national/international certifications and enforcing quality regulations on suppliers
- Increase feed marketed under new quality standards

Component 2: Dairy Smallholder Business Organization (SBO) Development

The key outcomes are:

- Producer organizations strengthened.
- Increased number of MBCs with HACCP and /or SBOs with national certifications.
- Increased raw milk sales by SBOs under agreements that pay premium for quality.
- Increased gross revenue of milk bulking/cooling businesses from sale of inputs and services other than milk
- Increased number of SBOs transformed into sustainable businesses entities
- Increased number of cooling units installed/rehabilitated by SBOs

Component 3: Availability of dairy Business Development Services

Key outcomes will include:

- Enhanced range of business services to producers
- Increased value of services/inputs provided by business service providers
- Increased number of smallholders purchasing private sector services at full commercial rates
- New technologies or management practices made available for transfer
- Increased number of dairy farmers receiving loans from financial service providers
- Increased number of smallholders engaged in new, diversified dairy-related enterprises
- Increased number of dairy farmers receiving short-term training

Implementation Strategy and Key Activities

The KDSC Program is implemented using innovative, international best practice approaches and methodologies that ensure achievement of expected results and sustainability of impacts long after the end of the program. Using this methodology, Land O'Lakes, Inc., the implementing agency, using local service providers and facilitators, supports market-based services/solutions, and action-oriented policy research to overcome both industry-level and enterprise-level constraints to competitiveness at key points along the dairy value chain. Industry stakeholders have since been engaged to be engaged to identify competitiveness constraints, and propose solutions to these constraints.

2.0 Program Implementation

In the reporting period, October-December 2012, in addition to continued focus on activities geared towards enhancing productivity and competitiveness of the dairy sector, the program stepped up efforts on the exit strategy and sustainability of the program. Program efforts concentrated on laying strong institutional foundations, especially for the institutions that were created during the tenure of the program. The program further continued to promote environmental consciousness activities where farmers and service providers were encouraged to undertake sustainable management practices in their respective enterprises. Detailed activities and achievements in the reporting period are summarized below and are organized by program component. As mentioned earlier, the interventions under KDSCP are grouped into three broad areas/components, namely initiatives to for enhancing quality of inputs and products, including policy and standards review and advocacy activities; Dairy smallholder business organization development and farm-level productivity activities; and activities that aim to increase dairy business development services.

2.1 Component One: Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion

Program interventions continued to focus on building producers' capacity to improve on milk production and access market opportunities. These were mainly done through training programs and creation of market linkages. Milk marketing continued throughout all the milksheds with marketing channels mainly being processors and DTA. DTA provide higher prices of between KES 35-40 (USD 0.43-0.5) while processors offered prices ranging from KES 29-35 (0.36-0.43). Pricing continued to depend on the quantities a SBO is capable of producing with those producing large quantities enjoying slightly fair prices.

In Kinangop milkshed, the program introduced Brown Cheese, a processor, to the farmers to ensure a wide market access for their produce. The processor took milk samples from 3 groups in the milkshed for quality testing and after certifying the quality was good started buying from SBOs in the milkshed. The program also continued to improve the value of dairy cows for its members through animal registration with KLBO in the Kenya Stud book. With new requirements by KLBO to have all inspectors register with Breeder Societies before being allowed to register animals as well as standardization of charges, the animal registration process is running smoothly. During the period under review, a total of 1897 animals were registered with Kenya Stud Book. Table I depicts a summary of animals registered by KLBO throughout the year 2012.

Table I: Animal registration records by KLBO in 2012

	Ayrshire	Friesian	Guernsey	Jersey	Pool	Red Poll	TOTALS
January	65	108	4	2	8	0	187
February	242	869	10	22	35	0	1178
March	312	914	14	23	57	0	1320
April	198	431	5	24	29	0	687
May	94	412	5	4	17	0	532
June	175	340	11	14	60	0	600
July	145	426	31	14	34	1	651
August	382	545	50	17	61	1	1056
September	222	367	55	15	104	0	763
October	118	440	3	25	57	0	643
November	395	459	64	18	71	1	1008
December	59	147	17	12	11	0	246
	2407	5458	269	190	544	3	8871

Details of Component One activities and outputs realized in the reporting period include:

Close out activities

With the program coming to an end in the next 4 months, this reporting phase saw the program management intensify the close-down mode activities. Activities implemented were mainly geared towards ensuring a smooth phase-out and continued sustainability of program operations. The main activities included;

Recognition meetings

During the reporting period, the program conducted recognition meetings in 7 milksheds. The meetings brought together all the stakeholders that had been working with the program since inception in the various milksheds. The aim was to appreciate each of them for their roles and to encourage them to continue being in business even after the program exit. Stakeholders exuded confidence that their operations will not be affected by KDSC coming to an end. During the meetings, the most outstanding SBOs and SPs were recognized and awarded certificates, T-shirts and dairy training manuals by the program management.



Left: Mr Njiba the newly appointed County Representative for the Gatanga milkshed makes his contribution during the recognition meeting. **Right:** Group photo of the participants in the Nakuru milkshed recognition meeting.

The following criteria were used to select award recipients in each of the milksheds;

- Growth in membership since 2008
- Growth in milk volumes
- Highest payout rate to the farmer
- ICT technology uptake , investment as a percentage of turnover
- Highest number of services
- Gender balance in management.
- Services to the farmers
- Level of farmer extension.

Milk shed activities

Numerous activities were undertaken by the milk sheds that were meant to strengthen productivity and enhance quality standards in the sub-sector. We highlight the key activities below;

- KDSC participation in the Nairobi International Trade Fair where together with its partners put up a stand for exhibition purposes. The partners who exhibited through KDSC stand included LGSEA, KVA, SSDFA, K-LIFT, Simba Machineries, Eldoville Dairies, Kengap and Mola Feeds. The program also participated in the Kitale Agricultural Show where its partners (WWS, KAGRC, and Fleckvieh) exhibited through its stand.
- Participation in World Food day event in Kericho milkshed where topics on food security, integrated farm practices, milk hygiene, dairy production, fodder production, poultry keeping and conservation were covered. Likewise in Nyeri milkshed KDSC participated in this event held at Kagumo Coffee Factory. Farmers from Tetu and New Tetu DCS attended. Dairy management, breeding, calf rearing and fodder conservation technique were taught.
- The program also entered into a new partnership arrangement with a new biogas service provider, Cypro East Africa, a plastic biogas manufacturer.

- In Kinangop milkshed, the program partnered with another program financed by the Netherlands Government to undertake a research aimed at promoting food security and business in the dairy value chain. The program was, through Kenya Dairy Board (KDB) requested to recommend sites where the proposed project would collect baseline data as well as carry out activities during implementation. Those identified in Kinangop are 5 processors, 5 feed dealers, 7 SBOs, 6 self help groups and 21 progressive farmers.

2.2 Component Two: Develop Dairy Smallholder Business Organizations (SBO)

The program continued to support activities meant to enhance the capacity of Smallholder business organizations (SBOs) and to increase farm level productivity. It continued to facilitate partnerships and linkages in all the milk sheds. SBOs working with the program were linked to inputs and services to enable them grow their businesses. Accomplishments in this quarter are highlighted below;

- Continued implementation of capacity building activities (management committee training, service providers training and linkages with BDS providers, among others). To date, 135 SBOs are beneficiaries of KDSC interventions. KDSCP continued to emphasise on SBOs adopting a commercial approach in their operations. This is meant to ensure they operate like business entities that are profitable so that they attract more membership to enable them achieve economies of scale. These efforts are so far bearing fruits with most SBOs getting concerned about viability of their enterprises.
- Training forums continued throughout the 8 milksheds and beyond (new FtF regions program expanded to). For instance, KDSC offered training to Mumias Sugar farmers at Mumias on breeding and feeding techniques. Training forums were organized in collaboration with key stakeholders such as private service providers, Ministry of Livestock extension, the Kenya Dairy Board and other development partners. Topics covered included feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene. During the quarter, a total of 5027 farmers were reached through various training forums. This takes the total number of farmers trained to date to 142,615.

Success story: Mr. Charles Mbau's farm becomes a successful Demo farm in the Nyeri milkshed

Charles Mbau is a dairy farmer and member of Tetu SBO. He is 49 years and married with 3 children. He has 2.5 acres of land which is divided as follows; fodder establishment -0.5 acre, homestead – 0.5 acre, tea plantation -1 Acre and Kitchen garden -0.5 Acre. His herd size comprises of 5 cows- 2 milking cows, 2 heifers and 1 calf. He gets an average of 10 litres/day/cow.



Charles at his zero grazing Unit



Charles inspecting the digester tank of the biogas unit

Owing to KDSC interventions, he has already set up the following structure; a permanent residential house, zero grazing unit, biogas unit, chaff cutter, feed store, piped water and electricity. Charles joined KDSCP in 2010 and his farm was selected as a demo farm after he showed keen interest in organized dairy farming. He started with one dairy cow and a young heifer which he purchased after becoming a member of Kangaru LFFS. In 2010 he started constructing a biogas unit (shown above), with assistance from KENFAP through KDSCP. In the same year he finalized the zero grazing unit in readiness for the biogas unit. In mid 2011, he completed the biogas unit was completed and became operation- he started using the gas from the unit for his domestic energy requirements. He then started serving his cows with superior bulls from WWS Ltd especially sexed semen.



Charles new constructed house

The impressive results he realizes were made possible by the good management and better feeding methods he learnt at LFFS and Field-days. Charles is today a proud owner of a permanent residential house which he constructed from a loan from a local bank and some proceeds from the dairy enterprise. The Wananchi Sacco bank was introduced to Kangaru LFFS members by KDSCP. The financial service provider has now given several dairy farmers credit as a result of this partnership. The farmer confesses that there has been “a lot of growth brought about by the program and is happy to be identified with it.”

2.3 Component Three: Increase Availability of Dairy Business Development Services

The KDSCP implementation method focuses on capacity building of providers i.e. switching from assisting micro enterprises directly to ensuring sustainable access to services, through functioning markets. To achieve this objective, and for effectiveness, outreach and impact, the program uses a portfolio approach in provision of BDS. It works with multiple partners as BDS providers. This approach is deemed viable especially considering the fact that the program is coming to an end soon. The BDS providers are expected to continue engaging farmers and other service demanders to ensure they stay in business long after program closure.

The program has continued to recruit and train new service providers, though much focus was given to increasing linkages of existing SPs to farmers for sustained business after the program exit. . The program has so far linked 1,042 service providers to farmers, surpassing the target of 500 service providers providing additional services to farmers, with about 18 new SPs realized in this quarter.

In the reporting quarter, the program continued to support farmers to access affordable financial services. The program continued seeking interested financial service providers with products that are suitable to small holder dairy farmers. A number of financial service providers – both banks and Savings and Credit Cooperatives (SACCOs) have been identified and introduced to farmers in all the eight milk sheds. In the reporting period, a new service provider, K-LIFT, was introduced to the SBOs and other service providers. K-LIFT (Kenya Livestock Finance Trust) is an organization that promotes sustainable private animal health services in Kenya by giving financial support to all cadres of animal health service providers such as veterinarians, animal health technicians etc. The loans can be given to individual companies, organized groups or co-operative societies involved in livestock business or those who wish to start such services. By end of December 2012, K-LIFT had advanced loan facilities to about 32 farmers from the different SBOs working with the program. The loan amount disbursed so far is KES 4.2 million (USD 53,500), with other applications still being processed.

The program also partnered with Fair Trade Organization of Kenya (FTOK) to ensure sustainability as it exits. Through membership in SSDFA, farmers who've been working with the program and who are drawn from different SBOs, will benefit from FTOK's interventions. FTOK intends to create awareness to members of the SBOs, on their roles, responsibilities and rights. This will ensure dairy farmers are properly represented, participate and receive efficient and effective services to evolve and/or strengthen their farmer's organizations from the grass root level.

KDSC further stepped up efforts to ensure stakeholder ownership of the e-portal. Sensitization was done to a wide stakeholder base and many of the members of the SBOs and different service providers were able to log into the portal and put their profiles. The portal is www.kdscpmis.com.

3.0 Performance Data Table

Impacts					
Performance Indicator	Baseline Value (2008)	Year 5		Cumulative/ progressive Actual	Comments
		Cumulative Annual Target	Actual (Q1)		
Household level impacts					
Sub-Sector Level Impacts					
Total volume of milk purchased from smallholder dairy farmers (MT)	316,980.3	360,980.3	54,889	735,668	Slight improvement observed compared to last quarter. This increase can be attributed to increases in yield resulting from continued use of technology in dairy management practices.
Total value of milk purchased from smallholder dairy farmers (US Dollar)	83.8M	95.4M	20.58 M	275.88	
% change in volume of milk conforming to quality standards increased (%)	96.25%	90%	45%	140%	The quantity of milk rejected continued to decline significantly with most milk sheds having less than 5% of total deliveries as reject.
Total value of milk conforming to quality standards increased (US Dollar)	96.25%	90%	45%	140%	
% change in volume of milk and dairy products sold by processors	398,637 MT	15%	40.5% (548, 996000 MT)	38%	Volume of milk sold through the value chain has been rising continuously during the program implementation.
% change in value of milk/ dairy products sold by processors (Percent)	106.3M US\$	15%	28% (US\$144M)	36%	
Firm level impacts					
Farmers using improved technology increased (Number)	39.9%	180,000	5,027	184,586	Program data shows a marked increase in the proportion of farmers using AI (97.36) compared to the baseline proportion (39.9%). The adoption of technology was low in the female headed households (72.58%) as compared to male headed households (83.71%).
Increase in productivity of milk per cow/day (Lt)	6.4 ¹	15	10.1	8.4	The program has been able to achieve 67.3% of the target of 15litres/cow/day. Kabete milkshed recorded the highest yields 16.5 litres/cow/day followed by Nyeri with 12.6litres/cow/day and Kinangop with 11.9litres/cow/day.

¹ This is baseline value got from the program survey. This differs with the value used in the PMP that was 10.3 litres/cow/day. The program therefore should base its interventions on the baseline value of 6.4 litres/cow/day.

Impacts					
Performance Indicator	Baseline Value (2008)	Year 5		Cumulative/ progressive Actual	Comments
		Cumulative Annual Target	Actual (Q1)		
Increase in gross margin per Lt of milk (Percent)	Kshs. 5.8 (USD 0.0725)	40	86.7	82.1	The average gross margin since the intervention of the program was KShs 10.56 (US\$ 0.132). This shows an increase of 82.1% compared to baseline value.
Reduction in cost of production - farm gate (%)	Kshs. 14.2	25	29.2	29.2	The cost of production reduced cumulatively by 29.2% against the project target of 25%. The cost of milk production reduced to Kshs. 10.08(US\$ 0.126).
Component 1 - Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion					
Number of industry policies improved/enacted	0	3	1	22	Program has been recognized by the MOLD in its facilitation that led to the development of the Dairy Master Plan. Dairy draft regulations developed by the project is undergoing review by legal professional so as to make it acceptable by the government. Kenya livestock policy has been published for consideration by the government
Number of quality certification frameworks (milk product, animal feeds) developed, implemented/enforced	0	2	0	1	
Total Value of non-project resources leveraged (US\$)	\$0	\$25M	0.02M	27.54M	Miharati FCS bought their truck and coolers. Biogas installations as well.
Increased revenue collected by KDB (%)	US\$ 1.066M	30%	50%	37.5%	Volume of milk sold through the value chain has been rising continuously over the years of program operation The cess is levied by KDB on all dairy products sold by.
Component 2 - Dairy Smallholder Business Organization (SBO) Development					
Number of producer organizations strengthened	0	120	11	135	No new SBOs reported in the quarter.
Number of SBOs/MBCs with HACCP and/or national certification	0	40	69	69	SBOs that have business plans implemented together with those whose management attended training on quality issues and have acquired national certification. Processors have achieved this certification in their milk chilling

Impacts					
Performance Indicator	Baseline Value (2008)	Year 5		Cumulative/ progressive Actual	Comments
		Cumulative Annual Target	Actual (Q1)		
					plants.
Number of SBO/MBCs transformed into sustainable business entities	0	120	11	135	All SBOs working with the program operate profitably, according to the official audit reports and the profit and loss accounts that are done on a monthly basis.
Component 3 - Availability of Dairy Business Development Services					
Number of firms providing new business services to producers (Number)	0	500	18	1042	Program activities have focused on embedded service provision to increase the sales volume and revenues for the providers. All SPs working with the program now provide farmer extension services as an embedded service.
New technologies/management practices made available for transfer (Number)	0	30	0	24	Include milk quality systems – component analyzer, tit dips, porta check, mastitis kits (3); new breed (distributed by fleckvieh East africa); ICT – data capture systems; new feeds – silage, hay, fodder- Lucerne; Grasses- oats, Rhodes; microbes; biogas; E market place and E learning via the Livestock E portal; Dairy manager as a software for SBOs record keeping; Chuff cutter, digital weighing scales, and digital thermal printers.
Number of producers receiving short-term training	0	153,000	5027	142,615	Farmers especially in TransNzoia demand trainings hence have shown some improvements for the program. Other areas still carry out a lot of mobilization in order to reach more members with trainings.

4.0 Appendices

Appendix I: Financial Report

Kenya Dairy Sector Competitiveness Program			
Contract No. 623-C-00-08-00020-00			
Quarterly Financial Report December 2012			
	Budget	Actual Expenditures thru December 2012	Remaining Funds as of December 2012
CLIN One (Year 1)			
Total Estimated Costs	\$ 1,902,995	\$ 1,902,995	
Fixed Fee	\$ 20,324	\$ 20,324	
Total Estimate Cost Plus Fixed fee	\$ 1,923,319	\$ 1,923,319	
CLIN Two (Year 2)			
Total Estimated Costs	\$ 2,183,292	\$ 2,183,292	\$ -
Fixed Fee	\$ 20,607	\$ 20,607	\$ -
Total Estimate Cost Plus Fixed fee	\$ 2,203,899	\$ 2,203,899	\$ -
CLIN Three (Year 3)*			
Total Estimated Costs	\$ 2,229,663	\$ 2,229,251	\$ 412
Fixed Fee	\$ 24,372	\$ 24,368	\$ 4
Total Estimate Cost Plus Fixed fee	\$ 2,254,035	\$ 2,253,619	\$ 416
CLIN Four (Year 4)**			
Total Estimated Costs	\$ 1,555,543	\$ 1,555,543	\$ -
Fixed Fee	\$ 16,261	\$ 16,261	\$ -
Total Estimate Cost Plus Fixed fee	\$ 1,571,804	\$ 1,571,804	\$ -
CLIN Five (Year 5)			
Total Estimated Costs	\$ 1,032,815	\$ 622,092	\$ 410,723
Fixed Fee	\$ 14,128	\$ 6,221	\$ 7,907
Total Estimate Cost Plus Fixed fee	\$ 1,046,943	\$ 628,313	\$ 418,630
Total Reimbursable Costs	\$ 8,904,308	\$ 8,493,173	\$ 411,135
Total Reimbursable Fixed Fee	\$ 95,692	\$ 87,781	\$ 7,911
Total Reimbursable Estimated Cost Plus Fixed Fee	\$ 9,000,000	\$ 8,580,954	\$ 419,046
* MOD # 8 Transferred \$ 64,865.11 from CLIN 1 to CLIN 3			
** CLIN 4 Expenditures began May 1, 2011 through April 2012			

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