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(Kenya Dairy Sector Competitiveness Program)
Quarterly Progress Report
(January 2013 - March 2013)

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KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM

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QUARTERLY PROGRESS REPORT (January 2013– March 2013)

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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List of Acronyms

BDS	Business Development Services
DTA	Dairy Traders Association
DTF	Dairy Task Force
ESADA	Eastern and Southern Africa Dairy Association
FTOK	Fair Trade Organization of Kenya
IPM	Integrated Pest Management
NKCC	New Kenya Cooperative Creameries
KDB	Kenya Dairy Board
KDSCP	Kenya Dairy Sector Competitiveness Program
KENDAPO	Kenya National Dairy Producers Organization
KENFAP	Kenya National Federation of Agricultural Producers
KLBO	Kenya Livestock Breeders Organization
K-LIFT	Kenya Livestock Finance Trust
KVA	Kenya Veterinary Association
LOL	Land O'Lakes, Inc.
LGSEA	Livestock Genetic Society of East Africa
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
SACCO	Savings and Credit Cooperative
SBO	Smallholder Business Organizations
SPs	Service Providers
SSDFA	Small Scale Dairy Farmers Association
USAID	United States Agency for International Development
WWS	World Wide Sires

Executive Summary

The report summarizes the key activities implemented and the associated accomplishments for the Kenya Dairy Sector Competitiveness Program (KDSCP) in the period January – March 2013. The KDSCP activities contribute to the achievement of intermediate results under USAID/Kenya Mission’s SO7 on “Increasing Rural Households Income.”

With the close-down of the program on April 30, 2013 fast approaching, this quarter focussed more on finalization activities and moved away from pursuance of activities geared towards enhancing productivity and competitiveness of the dairy sector. Finalization activities focussed on a smooth exit strategy and sustainability of program activities, as well as planning and action to ensure project closeout will be administratively timely and fully compliant.

The key highlights for the reporting period include:

- Final recognition meeting held in Nyeri milkshed, attended by USAID representatives. The meeting brought together all the stakeholders that had been working with the program since inception. The aim was to appreciate each of them for their roles and to encourage them to continue being in business even after the program exits. Stakeholders exuded confidence that their operations will not be affected by KDSCP coming to an end.
- Facilitated the registration of 2,397 animals with the Kenya Stud Book.
- Facilitated capacity building of 11,486 dairy farmers, through training programs that focussed on various topics, including feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene.
- Dairy Task Force meeting held.
- Final school milk committee meeting held.
- K-LIFT (Kenya Livestock Finance Trust) introduced in the previous quarter continued to advance credit facilities to program beneficiaries with a total of 35 farmers receiving loans in the current quarter.

As KDSCP’s end date nears, the project has met or exceeded all the indicators set out to measure project impacts during the life of the project, many of these by wide margins. Most notable of these are the total value of milk purchased from smallholder dairy farmers which rose from USD 83.8 M at baseline to USD 292.2 M by the end of the project against a target set at USD 95.4 M; and the increase in smallholder income which rose by 208% against project target of 80%.

The productivity per cow measured by litres of milk per cow per day was unfortunately not met. The target set was 15 litres/cow/day, but owing to the variance in adoption of dairy productivity enhancing technologies promoted by the program, the average value attained was 10.14 litres/cow/day. However, it’s important to note that there were individual farmers who surpassed even the target and recorded yields above 16 litres/cow/day. Overall, KDSCP should be considered a tremendous success due to its transformational contribution to the Kenya dairy sector.

1.0 Introduction

Land O'Lakes has implemented the Kenya Dairy Sector Competitiveness (KDSCP) Program with the financial and technical support of the United States Agency for International Development (USAID). KDSCP is a five-year program that has aimed to improve Kenya's dairy industry competitiveness. Under this program, Land O'Lakes, Inc. has employed a market-driven value chain approach, utilizing a Business Development Services (BDS) methodology. KDSCP has helped 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 facilitated this transformation, while the industry stakeholders led 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 has paid particular attention to environmental and gender concerns and effected corrective action as appropriate. KDSCP has taken into account the varying roles, assets, knowledge and skills that men, women and youth bring to dairy farming. The program has therefore facilitated 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 has been implemented through a range of activities grouped into three broad components. The components and the associated outcomes for the life of the project were:

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

Outcomes comprise:

- Increased smallholder household income by 208% against a program target of 80%.
- Increased use of technology for 184,586 against program target of 180,000.

- Improved and enacted 22 industry policies and acts that enhance competitiveness against target of 3.
- Developed and implemented/enforced 5 quality certification frameworks and work towards a graded payment system, against a target of 2.
- 69 SBO dairy enterprises achieved national/international certifications and enforcing quality regulations on suppliers, against a target of 40.

Component 2: Dairy Smallholder Business Organization (SBO) Development

The key life of project outcomes are:

- 135 producer organizations strengthened, against 120 set as target.
- Increased number of milk bulking centres (MBC) with Hazard Analysis and Critical Control Points (HACCP) and/or SBOs with national certifications; 69 SBOs met this criteria, against target of 40.
- Increased raw milk sales by SBOs under agreements that pay premium for quality to 779,211 MT against target of 360,980 MT.
- Increased number of SBOs transformed into sustainable businesses entities; 135 SBOs became sustainable, against target of 120.
- 90 cooling units were installed/rehabilitated by SBOs, against target of 35.

Component 3: Availability of Dairy Business Development Services

Key outcomes include:

- Enhanced range of business services to producers; 1042 new firms now provide new business services to producers against target of 500.
- 146,299 smallholders are now purchasing private sector services at full commercial rates, against target of 100,000.
- 31 new technologies or management practices were made available for transfer, against a target of 30.
- Increased number of dairy farmers receiving loans from financial service providers to 58,581 farmers, against a target of 45,000 farmers.
- 154,101 dairy farmers received short-term training, against a target of 153,000 farmers.

Implementation Strategy and Key Activities

KDSCP has been implemented using innovative, international best practice approaches and methodologies that ensured 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, supported 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 identify competitiveness constraints and propose solutions to these constraints.

2.0 Program Implementation

This report covers the period January – March 2013, essentially, the last full quarter of the program implementation. With the close-down of the program on April 30, 2013 fast approaching, this quarter focussed more on finalization activities and moved away from pursuance of activities geared towards enhancing productivity and competitiveness of the dairy sector. Finalization activities focussed on a smooth exit strategy and sustainability of program results, as well as planning and action to ensure project closeout will be administratively timely and fully compliant. Detailed activities and achievements in the reporting period are summarized below and are organized by program component.

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 milk sheds with marketing channels, notably processors and Dairy Traders Association (DTA). The total volume of milk sold during this quarter (mainly in January and February) was 43,543,974 kgs. The month of March had minimal activities owing to the general election, which disrupted normal operations in the field. Milk prices ranged between KES 30 (USD 0.38) – 35 (USD 0.44).

The program also continued to improve the value of dairy cows for its members through animal registration with the Kenya Livestock Breeders Organization (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 2,397 animals were registered with Kenya Stud Book.

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

Close out activities

This being the last quarter before program exit, efforts on close-down activities were stepped up. Activities implemented were mainly geared towards ensuring a smooth phase-out and continued sustainability of program operations. The main activities included:

Recognition meetings

The program conducted the last recognition meeting in the Nyeri milk shed. Like the previous meeting, it brought together all the stakeholders that had been working with the program since inception in the Nyeri milk shed. The aim was to appreciate each of the stakeholders for their roles and to encourage them to continue being in business even after the program exits. Stakeholders exuded confidence that their operations would not be affected by KDSCP coming to an end, because they have gained much knowledge and skills from the program on how to continue being competitive in the sector. During the meetings, the most outstanding Small Business Organizations (SBOs) and Service Providers (SPs) were recognized and awarded certificates, t-shirts and dairy training manuals by the program management. The USAID team,

led by Dr. Julius Kilungo and Mr. Harrigan Muhungo, graced the occasion and presided over the award of various prizes.



Dr. Julius Kilungo of USAID handing over a certificate to one of the leaders of a cooperative society.

School milk committee meeting

During the quarter, the school milk committee met with the production and marketing committee of the Dairy Task Force (DTF) and reviewed the school milk report. The document was accepted and the chairman set a date to present it to the National Dairy Task force. The school milk report was aimed at providing an insight on how to re-introduce the school milk program in Kenya in a bid to boost the culture of milk consumption in the country. The report was to draw lessons from some of the best similar programs around the world and benchmark against those when implementing the Kenyan program. The analysis of the school milk program provided very helpful insights in designing a model for a national school milk program.

DTF meeting held to review progress and status of dairy sector

The team reviewed the action plan set out in 2008, looked at accomplishments, lessons learnt and made recommendations on the way forward of the DTF, once KDSCP closes. They brainstormed on a new name in view of the new political dispensation and realization of the need to coordinate with the various Counties. They also co-opted new members in the forum and decided it will continue as a Voluntary organization.

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. The key activities are highlighted below:

- Kenya Veterinary Association (KVA) carried out vaccination exercises in Lessos, Kericho and Trans Nzoia milksheds. A total of 51,970 animals were vaccinated.

- Livestock Genetic Society of East Africa (LGSEA) members were involved in the sale of semen to program beneficiaries. 117,250 doses of local semen and 43,000 doses of imported semen were sold.
- Small Scale Dairy Farmers Association (SSDFA) held a farmers' meeting in Runyejes (Embu County) to lay the foundation and strategies for the dairy sector in preparation for the county government, due after the March 4 election. At the meeting, farmers were introduced to various service providers, including Virtual City technologies, K-Lift, KLBO, LGSEA, KVA and Fair Trade Organization of Kenya (FTOK). Farmers were also encouraged to take advantage of new technologies such as a digital weighing scale for accurate measurement.
- The total number of Artificial Insemination (AI) received by various farmers across all the milk sheds was 25,450.
- LGSEA was able to recruit an additional 90 new members nationally in the quarter to act as their agents.

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

KDSCP 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 to 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). The program has to date benefitted 135 SBOs.
- Training forums continued throughout the 8 milksheds, as well as in the new FtF regions that were not initially covered by the program, but which were included to conform to USAID's new regional FtF approach. 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 disease control, feed/fodder production and management, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene, among others. During the quarter, a total of 6,986 farmers were reached through various training forums, translating to a total of 149,601 farmers reached to date¹.
- SSDFA engaged a CEO, signed an MoU with FTOK, and now have a complete office space in the Westlands area.
- The KDSCP Final Evaluation study is on-going. The main objective of the evaluation is to document the impact (intended or unintended) results of KDSCP. It is also expected to generate key lessons learned and best practices.
- Activities to launch the Whey drink started; Eldovale Processor, one of the processors supported on product Development, submitted the activities required to launch the Whey

¹ Trainings have been under-reported as most of the service providers have not been recording trainings conducted; there is no incentive for service providers to invest in recording trained stakeholders. The program has been keen to only count where there is documented evidence.

drink and these are under review. They have recommended one consultant to support in the launch, and these activities will be carried out in April.

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, working 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. No new SPs were reported in the current 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. K-LIFT (Kenya Livestock Finance Trust), having been introduced to farmers in the previous quarter, stepped up its efforts to reach out to farmers for financial support. At the end of this reporting period, a total of 37 farmers benefitted from K-LIFT financial assistance in the form of loans. The total amount advanced was KES 7.4 million (USD 92,500).

KDSCP further stepped up efforts to ensure stakeholder ownership of the Livestock and Farmer e-portal, which is an online directory of all stakeholders providing information on input supply sources, linking producers with suppliers, linking business enterprises to financial service providers and helping the SBOs and service providers meet conditions to access credit by providing relevant information on criteria. There is also a learning section where various relevant manuals, tools and brochures on dairy production and marketing information are stored. 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 create their profiles. The portal is www.kdscpmis.com. During the quarter, discussions were held with LGSEA, Small Scale Dairy Farmers Association, and the e-portal developer on how best to re-design the portal, make it user friendly, and decide which organization has the best potential to sustain it after the program exit. The two institutions have submitted proposals on how they would run the portal after the exit of KDSCP. They are in the final stages of evaluation and one institution will be handed over the portal, once approved by USAID.

3.0 Performance Data Table

Impacts					
Performance Indicator	Baseline Value (2008)	Year 5		Life of project (LoP)/Actual achievements	Comments
		Cumulative Annual Target	Actual (Q2)		
Household level impacts					
Increase in smallholder household income (%)	2043	80%	400%	208%	From the last farmer survey conducted, it was estimated that farmer incomes from the sale of milk increased to US\$ 127.74 (Kshs. 10,219.06) per month. The cumulative average income since the beginning of the project as at the last survey was US\$78.74 (KShs 6,299) showing an increase of 208% compared to baseline value
Number of rural households benefiting (Number)	0	300,000	10,452	338,210	There is continued increase in membership to SBOs due to benefits accruing from belonging to these groups. Of all active members of the SBOs, women account for 44%.
Sub-Sector Level Impacts					
Total volume of milk purchased from smallholder dairy farmers (MT)	316,980.3	360,980.3	43,543	779,211	Declined production compared to last quarter. Mainly due to price-related factors and the political environment which slowed most of activities in the field.
Total value of milk purchased from smallholder dairy farmers (US Dollar)	83.8M	95.4M	16.32 M	292.2	
% 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. Quality also increased due to increased animal registration with 2,397 animals being registered in the Kenya Stud Book in the quarter.
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%	
% change in value of milk/ dairy products sold by processors (Percent)	106.3M US\$	15%	28% (US\$144M)	36%	Volume of milk sold through the value chain has been rising continuously during the program implementation.

Impacts					
Performance Indicator	Baseline Value (2008)	Year 5		Life of project (LoP)/Actual achievements	Comments
		Cumulative Annual Target	Actual (Q2)		
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 ²	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.
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 I - 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.
Number of quality certification frameworks (milk product, animal feeds) developed, implemented/enforced	0	2	1	5	

² 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		Life of project (LoP)/Actual achievements	Comments
		Cumulative Annual Target	Actual (Q2)		
					Dairy Bill ready for implementation Livestock policy was at parliament before the election Alfa Bill passed in parliament Feed policy ready and was in parliament before election
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 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

Impacts					
Performance Indicator	Baseline Value (2008)	Year 5		Life of project (LoP)/Actual achievements	Comments
		Cumulative Annual Target	Actual (Q2)		
					program now provide farmer extension services as an embedded service.
New technologies/management practices made available for transfer (Number)	0	30	0	31	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, zero-grazing, aluminum cans, water harvesting, irrigation technologies, feed blocks by KARI, mobile biogas (by Skyplast).
Dairy farmers receiving loans from financial service providers	0	45,000	15,767	58,581	Private AI service providers and SBOs working with the program have benefitted from program linkages with financial service providers. About 37% of those receiving loans were women.
Number of producers receiving short-term training	0	153,000	11,486	154,101	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 March 2013				
		Budget	Actual Expenditures thru March 2013	Remaining Funds as of March 2013
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	\$ 815,228	\$ 217,587
Fixed Fee	\$	14,128	\$ 8,152	\$ 5,976
Total Estimate Cost Plus Fixed fee	\$	1,046,943	\$ 823,380	\$ 223,563
Total Reimbursable Costs	\$	8,904,308	\$ 8,686,309	\$ 217,999
Total Reimbursable Fixed Fee	\$	95,692	\$ 89,713	\$ 5,980
Total Reimbursable Estimated Cost Plus Fixed Fee	\$	9,000,000	\$ 8,776,021	\$ 223,979
* 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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