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EVALUATION OF THE USAID/KENYA PRIVATE SECTOR PROGRAM

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Kenya*

Prepared by: *Management Systems International*
Alexander, MacLennan, Trundell & Co. 003192

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EXECUTIVE SUMMARY

This study entitled "Evaluation of the USAID/Kenya Private Sector Program" was initiated by the USAID/Kenya Office of Projects. The report covers activities financed by the following projects: Rural Private Enterprise (No. 615-0220), Private Enterprise Development (615-0238), Informal Sector and Loan Guarantee Grant (615-0227), and policy aspects of the Commodity Import Program (615-0213 and -0240). Also included in this review are relevant centrally funded activities of A.I.D.'s Bureau for Private Enterprise.

For several years USAID Kenya has been implementing a wide-ranging private enterprise development strategy. This strategy consists of 24 distinct activities under five projects and accounts for over $154 million in USAID funding. It is perhaps the most ambitious private enterprise strategy yet implemented by A.I.D. in Africa and includes significant efforts in the areas of finance and equity market development, technical assistance and training, and policy reform.

USAID is proposing to incorporate a second phase private sector strategy into its new Country Development Strategy Statement (CDSS). This strategy is to be largely based on a planning exercise undertaken during FY 1989 and FY 1990 consisting of two parts: (1) the USAID/Kenya Private Enterprise Program Evaluation (the subject of this report); and (2) the Manual for Action in the Private Sector (MAPS) review of constraints and opportunities in Kenya's private sector. The evaluation was undertaken while some project activities were in early stages of implementation and others in their final stages. Thus, the report offers proposals for mid-course corrections as well as considerations for the Mission's future private enterprise program efforts.

The evaluation was funded jointly by USAID/Kenya and the A.I.D. Bureau for Private Enterprise under the Private Enterprise Development Support (PEDS) Project. Fieldwork was conducted from March 27 through April 21, 1989 by a ten person team from Management Systems International and AMT, the Arthur Young affiliate in Nairobi, under a subcontract to Arthur Young and Company, Washington, D.C.

USAID's total program in Kenya is focused on three strategic objectives: (i) increasing per capita food production; (ii) increasing the role and efficiency of private enterprise as the principal engine of economic growth; and (iii) reducing the rate of population growth. The activities reviewed in this report represent a major contribution to the second objective (to which there are additional contributions from other, mainly agricultural, projects). These activities also contribute to the first objective, food production, through provision of fertilizer and financing of industries providing inputs, supplies and marketing outlets to farmers.

The overall purpose of USAID's Private Enterprise Program is to support efforts by the Government of Kenya (GOK) to promote sustainable and broad-based economic growth by encouraging the private sector. Prominent among the objectives of the program are (i) the provision of commodities needed to achieve higher levels of output from existing production capacities; (ii) the making available of organized credit and training services to encourage the growth of small and rural enterprises; (iii) the establishment of new policies and

institutions required for more development-oriented capital and financial markets; and (iv) assisting in the implementation of practical measures to give effect to the GOK's commitment to creating a suitable "enabling environment" in the private sector.

The evaluation employs a common framework for summarizing and comparing the many private sector activities undertaken to date with USAID funding. The framework includes three major components:

i. Common indicators for project impact, output, and expenditures.

ii. Two matrices used for comparing and evaluating individual project activities. These are the descriptive and evaluative matrices presented in Chapters II and III.

iii. Analysis of findings on individual USAID-funded efforts at three levels: project activity level (e.g., PED-credit activities, K-MAP training, Kenya Equity Management, etc.), program element level (financial and equity markets, management and entrepreneurship development, and policy dialogue), and at the overall private sector program level.

Given the large number of activities to be reviewed, the evaluation relies heavily on secondary data: project papers, project implementation letters, project correspondence, semi-annual review documents, monitoring data, and extensive interviews with project officers, participating agencies and some beneficiaries. Several earlier evaluation reports were available on particular activities and these were also carefully reviewed by the evaluation team. Overall, however, very limited information was available on direct development impacts of USAID's activities. Data on project outputs and expenditures were uneven and not always comparable, and information on institutional impacts was largely undocumented. One result of these limitations was the allocation of considerably more effort to data collection than had been foreseen in the Statement of Work.

While the evaluation confirms a continuing high priority for major elements in USAID's current private sector development program, an important finding of this study is that several project activities financed by USAID appear to have reached the limits of their likely effectiveness. In several cases, it was found that projects depend on policy reforms to accomplish their objectives fully. This synergy between project activities and policy dialogue is one of the strengths of USAID/Kenya's comprehensive approach to private sector development. The Evaluation Team recommends that opportunities to take action on policy issues arising from projects be more fully exploited in the future.

The evaluation recommends that consideration be given to a number of significant changes in future programming. Overall, the study recommends that the Mission's strategy evolve from its current experimental and institution building orientation to focus its attention on national objectives, systemic change and the sustainability of the activities undertaken. More specifically, it is suggested that the Mission:

(a) Focus the program on structural solutions rather than institutional development or short-term service delivery. The program should be directed toward nationwide impacts on businesses. In this approach, projects would be used to demonstrate models that will later be adopted on a nationwide scale, or build capacity that will have significant impact on the basic structures and services supporting private enterprise in Kenya.

(b) Emphasize institutional performance rather than institutional strengthening, and terminate involvement at the earliest practical date with institutions and interventions that demonstrate limited outreach capabilities, sustainability prospects, or national importance.

(c) Redirect and subordinate training and technical assistance resources toward support for the Mission's principal program-level objectives in policy reform and capital market development.

(d) Restrict the size of credit projects for small and medium-scale enterprises (SMSEs) to amounts that allow commercial banks to experiment with changes in lending procedures without incurring unacceptable costs or risks.

(e) Identify and work with financial institutions that are willing and able to lend to USAID target markets with lower subsidies than are currently provided.

(f) Make greater provision for long-term sustainability in all project designs through targeting lower risk SMSE and rural enterprise markets, encouraging charging fees for services, providing loans rather than grants for PVO lending programs, and concentrating resources on institutions that demonstrate the greatest effectiveness.

(g) Shift the emphasis of training programs to training of trainers and possibly a new initiative in the field of entrepreneurship.

(h) Provide more resources and management attention to identifying and acting on policy reform opportunities arising from projects, particularly on issues concerning capital markets, international trade and investment.

Finally, this evaluation recommends that the current scarcity of impact data be addressed by specific steps to ensure that collection of such data is given high priority by individual project managers, that reporting requirements in existing agreements are enforced energetically in the future, that impact data requirements are dealt with forcefully as new agreements are negotiated, and that periodic impact audits are performed as part of the Mission's routine project performance review process.

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ACRONYMS

A.I.D. - Agency for International Development
AMT - Alexander, MacLennan, Trundell & Co. - Kenyan subsidiary of Ernst and Young (formerly Arthur Young)
APDF - Africa Project Development Facility
ARD - Agriculture and Rural Development/USAID
BAS - Business Advisory Services
BBK - Barclays Bank of Kenya
CBE - Community Based Enterprise
CBK - Central Bank of Kenya
CDSS - Country Development Strategy Statement
CIDA - Canadian International Development Agency
CIF - Cost, Insurance, Freight
CIP - Commodity Import Program
CMDA - Capital Market Development Authority
DHS - Deloitte, Haskins & Sells
EI - Entrepreneurship International
EPZ - Export Processing Zone
FKE - Federation of Kenyan Enterprises
FOB - Freight on Board
FSN - Foreign Service National
FX - Foreign Exchange
FY - Fiscal Year
GDP - Gross Domestic Product
GOK - Government of Kenya
HIID - Harvard Institute of International Development
HRD - Human Resources Development
IESC - International Executive Service Corps
IFC - International Finance Corporation
IFI - Intermediate Financial Institution
IG - Inspector General (A.I.D.)
ILO - International Labor Organization
IMF - International Monetary Fund
IPC - Investment Promotion Centre
IPS - Industrial Promotion Services
KAM - Kenya Association of Manufacturers
KBS - Kenya Bureau of Standards
KCB - Kenya Commercial Bank
KCFC - Kenya Commercial Finance Corporation
KEC - Kenya Equity Capital
KEM - Kenya Equity Management
KNCCI - Kenya National Chamber of Commerce and Industry
KREP - Kenya Rural Enterprise Program
KSh - Kenya Shilling
KUSCCO - Kenya Union of Savings and Credit Cooperative Organizations (credit union federation)
KWFT - Kenya Women's Finance Trust
K-MAP - Kenya Management Assistance Program
LIK - Leather Industries of Kenya
LOP - Life of Project
M&E - Monitoring and Evaluation
MAPS - Manual for Action in the Private Sector
MIS - Management Information System
MSI - Management Systems International
NBFI - Non-Bank Financial Institution

ACRONYMS (continued)

NCCK - National Christian Council of Kenya
NGO - Non-Governmental Organization
NSE - Nairobi Stock Exchange
ODA - Overseas Development Assistance
OIT - Office of International Training
OTC - Over the Counter
PACD - Project Activity Completion Date
PED - Private Enterprise Development Project
PEDCO - Private Enterprise Development Consultant
PEDS - Private Enterprise Development Support
PfP - Partnership for Productivity
PIET - Partners for International Education and Training
PIL - Project Implementation Letter
PIO/P - Project Implementation Order/Participant Training
PIR - Project Implementation Review
PRE/W - Bureau for Private Enterprise/A.I.D. Washington
PRJ - Project Office/USAID
PSC - Personal Service Contractor
PVO - Private Voluntary Organization
REDSO - Regional Economic Development Support Office
REP - Rural Enterprise Program
RfA - Request for Application
RFP - Request for Proposal
RPE - Rural Private Enterprise Program
SAAP - Structural Adjustment Assistance Program
SCB - Standard Chartered Bank
SMSE - Small and Medium-Scale Enterprise
SSBE - Small Scale Business Enterprises (program of NCCK)
SSE - Small Scale Enterprise
TDY - Temporary Duty
TOR - Terms of Reference
UNDP - United Nations Development Program
USAID - United States Agency for International Development (overseas mission)
USD - US Dollar
USDH - US Direct Hire
UTAMMO - Belgian tanning company, technical and marketing partners of LIK
WEI - World Education, Inc.
WEREP - World Education Rural Enterprise Program
YWCA - Young Women's Christian Association

EVALUATION OF USAID/KENYA PRIVATE SECTOR PROGRAM

I. INTRODUCTION

For several years, USAID/Kenya has been creating and implementing a wide-ranging private enterprise development strategy. The strategy consists of 24 distinct activities and accounts for U.S. $154 million in USAID funding. It is, by most accounts, the most ambitious private enterprise strategy yet implemented by A.I.D. in Africa and includes significant efforts in the areas of finance and equity market development, entrepreneurship and management development, and policy reform.

By design, USAID/Kenya's private enterprise development program was intended to maximize the Mission's exposure to, and participation in, diverse approaches to private enterprise promotion in Kenya and to provide an opportunity for participation by a number of established and newly-created private sector organizations. It was, quite consciously, an experimental strategy intended to explore the feasibility of certain apparent opportunities; to foster the development of private sector institutions in Kenya; to establish USAID's credibility in private sector programming; and to provide a knowledge base for subsequent strategic decisions.

USAID is proposing to update its private sector strategy in the context of its new Country Development Strategy Statement (CDSS). This strategy is largely based on a strategic planning exercise currently underway which consists of a comprehensive analysis of the Kenyan private sector and an evaluation of the Mission's past private sector activities. This latter evaluative effort is also intended to serve two secondary purposes. Namely, to provide recommendations for improving the implementation of current activities and to document the aggregate effects of the Mission's efforts to date to promote private sector development. Through A.I.D.'s centrally-funded Private Enterprise Development Support Projects (PEDS), USAID contracted with J. E. Austin to oversee the analysis of strategic options and with Management Systems International (MSI) to oversee the program evaluation exercise. AMT, the Arthur Young affiliate in Kenya, worked with MSI for this evaluative activity, and fieldwork was carried out between March 27 and April 21, 1989.

The team conducting the evaluation included the following individuals:

- Lawrence S. Cooley (MSI), Coordinator
- Barbara Brown (MSI), Team Leader (Management Information Systems) and Technical Specialist (Entrepreneurship and Management Development)
- Allen Eisendrath (MSI), Team Leader (Financial and Equity Market Development)
- Kenneth Murrell (MSI), Team Leader (Entrepreneurship and Management Development)
- Gregory Votaw (MSI), Team Leader (Policy Reform)

- Mahlon Barash (MSI), Technical Specialist (Financial and Equity Market Development)
- Serafina Kathurima (AMT), Technical Specialist (Entrepreneurship and Management Development)
- John Onuong'a (AMT), Technical Specialist (Financial and Equity Market Development)
- Nimish Shah (AMT), Technical Specialist (Management Information Systems)
- Graham Shaw (AMT), Technical Specialist (Financial and Equity Market Development)
- Mike Taylor (AMT), Technical Specialist (Policy Evaluation)
- Ann Marie Ndethiu (AMT), Research Associate
- Sandi Severn (USAID), Technical Specialist (Management Information Systems; Entrepreneurship and Management Development)

The scope of work for this evaluation exercise is attached as Annex 1 below. Extremely broad in nature, this scope presumed a comparative perspective and charged the evaluation team with assessing each program activity in comparable terms and, to the extent possible, making determinations as to the comparative cost and effectiveness of these activities. The exercise was to include assessments of each activity in its summary report, but to focus its principal conclusions and recommendations on the "program level", using the activities reviewed to inform a more general discussion of past performance, operative constraints and future needs. Implicit in this exercise was the presumption that the future private sector strategy of the Mission would include some deliberate narrowing of scope and focusing of effort as well as a deliberate response to certain of the most important constraints and opportunities revealed through the implementation of its initial private sector strategy. We are aware of no evaluation of comparable breadth previously conducted of an A.I.D. mission's overall private sector portfolio.

It is important to note that this one-month exercise was not intended to substitute for individual project evaluations, nor was it expected to collect primary data on project impact other than on an illustrative basis.

II. NATURE AND OBJECTIVES OF THE USAID/KENYA PRIVATE SECTOR PROGRAM

The private sector portfolio of USAID/Kenya includes an unusually broad array of activities. While these activities share a common overall goal of promoting free enterprise, sustainable economic growth and broad based participation in the growth process, little attempt has been made to integrate the portfolio in operational terms or to focus on one or two specific intermediate objectives. In this sense the program deviates from the conventional definition of a program as "an integrated set of project, non-project and policy dialogue actions designed to achieve a discrete objective within a defined time frame". While not conventionally programmatic, however, USAID's portfolio of private sector activities reflects a definite strategy and set of operational objectives. Prominent among these objectives are the following:

- significant contribution to broad based, sustainable economic growth through a series of discrete interventions;
- discovery and/or development of Kenyan organizations effective in supporting continued development of the private sector;
- establishment of the knowledge, credibility and contacts needed to be effective in promoting private sector growth; and
- clarification of USAID intervention strategies most likely to be effective in the future.

The content and nature of USAID's private sector strategy are described at some length in the scope of work of this exercise, in USAID's 1985 private sector strategy statement and in the draft report of the Manual for Action in the Private Sector (MAPS) study. For purposes of the current evaluation, it is useful to summarize this information in the form of a single, descriptive matrix (Figure 1) and a schematic program logframe (Figure 2). Figure 1 presents information on the following areas of each project:

Implementing organizations
Length of project budget (both USAID and other source contribution)
Stage and pace of implementation
Costs to date
Services provided
Cost to recipient

In addition to the 24 activities listed in Figure 1, USAID's private sector strategy or program could be defined to include relevant aspects of the Training for Development Project (i.e., overseas training of private sector participants), the Agriculture Management Project (i.e., strengthening of private sector input supply and export marketing institutions), and new Mission projects in agriculture marketing and health care financing. For administrative reasons, however, these projects are excluded from the Mission's definition of its private sector program and hence from this study.

FIGURE 1
DESCRIPTIVE MATRIX OF USAID/KENYA PRIVATE SECTOR PROGRAM

	ACTIVITY	IMPLEMENTING ORGANIZATIONS		LOP BUDGET			STAGE AND PACE OF IMPLEMENTATION	COSTS TO DATE			SERVICES PROVIDED			COST TO RECIPIENT
	Credit & Equity Finance(1)	Name (1)	Type	USAID ($ 000s)	% of Program(3)	OTHER(4) ($ 000s)		Accrued(5) $(000s)	% Ttl (6) Prgm Exp	% of LOP (7)	Nature and Term	Target	Target Group	
1	RPE- COMMERCIAL BANKS	CBK/KCB/BBK/SCB	Banks	25,924	16.8%	14,000	Ending/Slow	8,070	15.4%	31.1%	long term loans	159 loans, $36 M	Rural/OFF Farm	<4 yr term,13% >4 yr term,16%
2	RPE- PVOs	REP/PVOs	PVOs	2,971	1.9%		Ending/Slow	1,484	2.8%	49.9%	wrkng capital loans	1341 loans, $1.6M	Informal & Small Formal	15%
3	KEM/KEC	KEM	Capital Mgt Firm	6,920	4.5%	13,470	Beginning/Slow	500	1.0%	7.2%	long term loans	10-15 New businesses	New Enterprises	equity investment
4	IPS	IPS	Venture Capital Frm	3,450	2.2%	22,040	Beginning/Medium	739	1.4%	21.4%	long term loans	10-15 New businesses	Productive Enterprises	equity investment
5	REP-PED	REP-PED	PVOs	1,885 (2)	1.2%	2,282	Mid/Slow	273	0.5%	14.5%	wrkng capital loans	16NGOs,$704K 20CBEs,$330K	NGOs,CBEs, SSEs	15%
6	KCFC	KCFC	NBFI	250	0.2%	2,500	Ending/Medium	250 (9)	0.5%	100.0%	long term loans		SMSEs	18.5%
7	LIK	LIK	Tannery	0	0.0%	7,200	Mid/High	0 (10)	0.0%		long term loans	establish tannery	Entity in private agribusines	12.5%
8	Jua Kali	KCB	Bank	270	0.2%	270	Ending/High	270	0.5%	100.0%	wrkng capital loans	150 loans, $270K	Microenterprise	15%
9	Money & Capital Mkt Dev.	CMDAC	Gov't Agency	600	0.4%	0	Mid/Medium	190	0.4%	31.7%				
10	Credit Guarantee	CBK/KCB	Bank	1,351	0.9%	362	Mid/Slow	373	0.7%	27.6%	wrkng capital loans	$1.4M	SSEs	15%
	Sub-Totals			43,621	28.3%	62,124		12,149	23.2%					
	Mgt & Entrepreneurship													
1	RPE- COMMERCIAL BANKS	DHS/KCB/BBK/SCB	Banks	2,332	1.5%		Ending/High	454	0.9%	19.5%	Trning & TA	All mgrs in 3 banks	Branch managers	Feas. Study Cofirancing
2	RPE-PVOs	REP/PVOs	PVOs	4,477	2.9%		Ending/High	2,916	5.6%	65.1%	Trning & TA	All grant recipients	PVOs	None
4	KAM	KAM	Business Association	56	.0%	149	Mid/High	158	0.3%	282.1%	Seminars	2 Seminars/ year	Managers/Owners	$135/seminar
5	K-MAP Training	K-MAP	NGO	101	0.1%	47	Mid/High	22	.0%	21.8%	Seminars	4 Seminars/ year	Managers/Owners	$14/seminar
6	K-MAP Counselling	K-MAP	NGO	459	0.3%	422	Mid/Medium	102	0.2%	22.2%	Counselling	300 visits/ year	Managers/Owners	$22 membership Fee
7	REP-PED	REP	PVOs	3,956 (2)	2.6%	0	Begin/Low	273	0.5%	6.9%	Trning & TA	All low income recipients	Bsn Assoc,CBEs, Individuals	none
8	IESC	IESC	PVO-Intl	1,728	1.1%		Begin/High	173	0.3%	10.0%	Counselling US Retirees	20 cnsltncies year	Formal Sctr Bsn Mid-large	Ave. $5350/ consultancy
9	Strategic Support-EI	PIET	Government Contractor	293	0.2%		Medium/High	73	0.1%	31.3%	US Training	5 Trainees/ year	Mgrs - S-M-L	$1,000 est airfare
10	Strategic Support-KNCCI	KNCCI	Business Association	98	0.1%	0	Beginning/Medium	51	0.1%	52.0%	Equipt. & Tech. Assis	NA	Indigenous Owned Firms	maintenance of equipment
11	Jua Kali	KCB	Bank	135	0.1%	0	Mid/High	22	.0%	16.3%	Entrprnrship training	All loan applicants	Urban Micro-Enterprises	none
	Sub-Totals			13,575	8.8%	618		4,244	8.1%					
	Policy													
1	IPC	IPC	Govt agency under MinFin	2,714	1.8%	3,414	Beginning/Slow	15	.0%	0.6%	Instit suprt & studies	14 plcy stds	Local & foreign investors	None
2	KAM	KAM	Business Association	657	0.4%	50	Mid/Medium	148	0.3%	22.5%	Policy analy	10 studies	None	None
				3,371	2.2%	3,464		163	0.3%					
3	CIP - Technical Assistance	MinFin & other ministries	Government	13,610	8.8%	NA	Mid/Medium	9,440	18.0%	69.4%	Policy stdis	NA	NA	
4	CIP - Imports	MinFin & other ministries	Government	80,200	52.0%	(8)	Ending/Medium	26,468	50.4%	33.0%	Imports	NA	Full import price	None
	Grand Total			154,377	100.0%	66,206		52,464	100.0%					

(1) RPE=Rural Private Enterprise,PVOs=Private Voluntary Organizations,KEM/KEC=Kenya Equity Management/KECapital,IPS=Industrial Promotion Services,PED=Private Enterprise Development,KCFC=Kenya Commercial Finance Corporation,LIK=Leather Industries of Kenya,KAM=Kenya Assoc of Manufacturers,Jua Kali=Micro-Enetrprises,K-MAP=Kenya Management Assistance Program,IESC=International Executive Service Corps,EI=Entrepreneurship Intl,KNCCI=Kenya Natl Chamber of Commerce,IPC=Investment Promotion Centre,CIP=Commodity Import Program,CBK=Central Bank of Kenya,KCB=Kenya Commercial Bank,BBK=Barclays Bank of Kenya,SCB=Standard Chartered Bank,DHS=Deloitte,Haskins&Sells,NGO=Non-governmental organization,NBFI=Non-bank financial institution,REP=Rural Enterprise Program

(2) The total budgeted for the Rural Enterprise Program part of the PED project is $5.841m, of which $1.034 is for loans. Lacking further component breakdown it was assumed that of the balance ($4.807m) for grants a similar proportion (1034/5841) should be allocated for administrative costs for the loan portion ($851K). The total (1034+851=1885) is the proportion assigned to the loan component. The remainder (5841-1885=3959) is assigned to the M&E component.

(3) Previous column/Grand Total

(4) E.g., Government,private sector,PVOs

(5) Includes both actual and accrued expenses. See attachments for calculations of RPE project.

(6) Accrued (previous column)/Grand Total

(7) Accrued/corresponding LOP

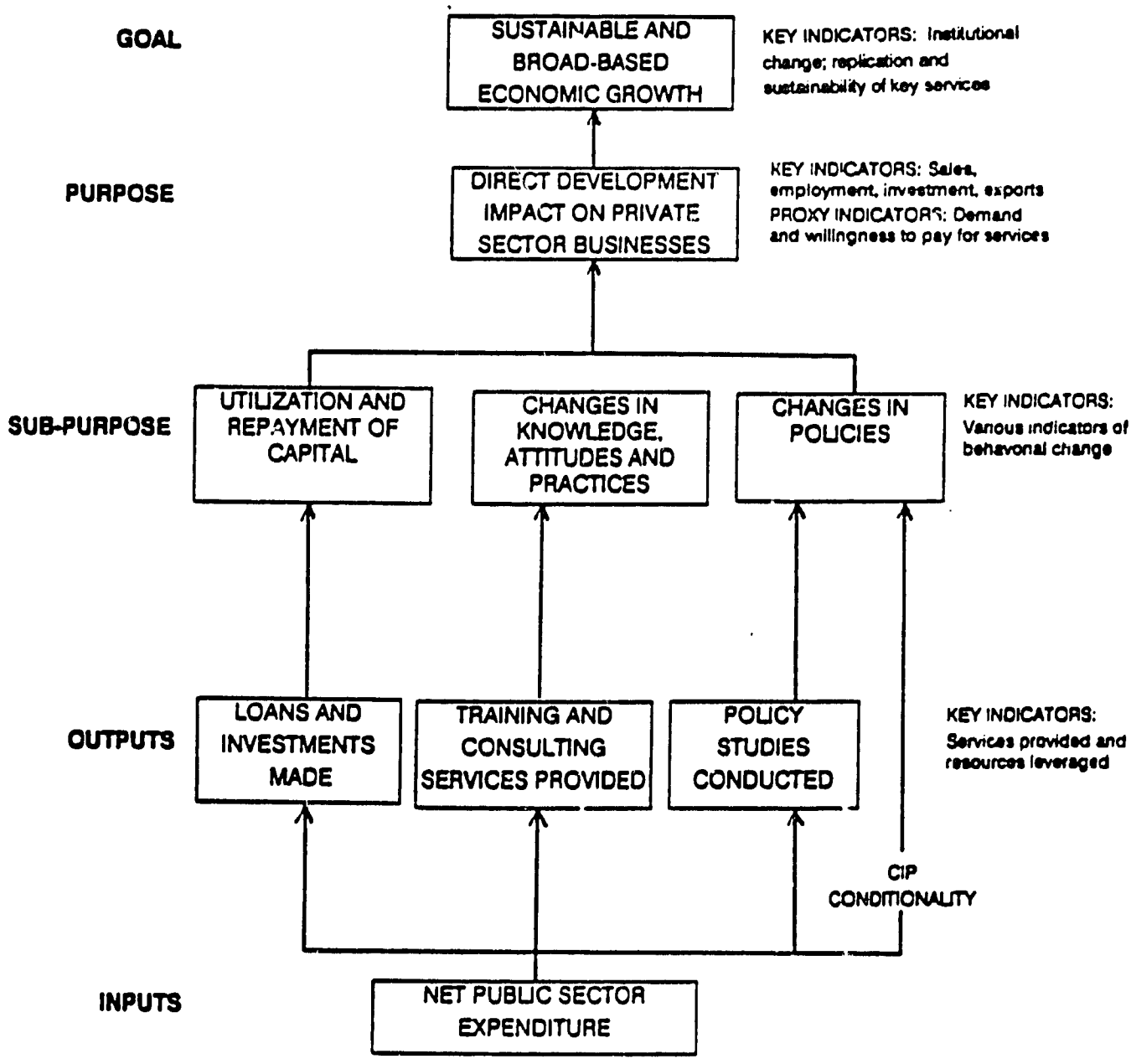
(8) Several other donors and Kenya's export earnings contribute to financing total import programs.

(9) KCFC received a $250,000 training grant from A.I.D./PRE.

(10) LIK received a term loan at market interest rates from A.I.D./PRE. The project had no out of pocket cost to USAID/Kenya.

FIGURE 2

PROGRAM LOGFRAME



The program logframe suggests that a comparable logic can be applied to USAID's private sector activities with regard to finance and equity market development, entrepreneurship and management development and the policy studies aspect of its policy dialogue agenda. In each case, concrete outputs can be identified in terms of loans and investments made, training and counselling provided, or studies conducted. These services can be characterized in terms of their source, nature and recipient, quantity and quality, and timeliness and cost. Institutional development efforts are relevant at this level only to the extent that they influence the quantity and quality of services provided. At the sub-purpose level, principal attention is appropriately focused on the utilization of the outputs provided with USAID assistance. In the case of loans and investments, relevant considerations concern the additionality, use and repayment of the capital provided or leveraged. In the case of training and technical assistance, of particular relevance are changes in knowledge, attitudes and practices of those who received these services. In the case of policy studies and Commodity Import Program (CIP) conditionality, emphasis at this level is on the actions taken by the Kenya government and others in response to the studies conducted or the leverage exercised.

At the purpose level, all activities can theoretically be assessed in terms of their net impact on sales, employment, investment and exports. In practice, attribution at this level is frequently difficult and proxy measures such as demand for services and willingness to pay often constitute the best available data on the direct development effects of credit and technical assistance programs. The direct development impacts of policy changes are often identifiable only through econometric research or informed interpretation of the behavior of basic economic indicators.

At the goal level, the object of all of the activities undertaken can be judged in terms of their contribution to sustainable and broad based economic growth. The implicit hypotheses linking purpose and goal-level objectives concern the demonstration, capacity building and incentive altering effects of individual activities. Success at this level is judged by the extent to which relevant institutions are willing and able to sustain and replicate the types of service provision and policy reform initially undertaken with USAID support and encouragement. Efforts at institutional development can thus be seen both as direct contributions to the production of outputs and as contributions to sustainability and replication objectives at the goal level. Ultimately, however, the achievement of goal level objectives will be a result of the viability of the services and policy regimes introduced as well as a reflection of the capacity of the institutions involved.

III. METHODOLOGY

Initially it was assumed that this study would rely primarily on secondary data collected routinely by project implementors and episodically by previous project evaluations. In practice, very few data were found on the behavioral (i.e., sub-purpose) results of the activities undertaken or on their direct development effects. Data on project outputs and expenditures were uneven and not generally comparable, and data on institutional effects were largely undocumented. One result of these data limitations was the allocation of considerably more effort to primary data collection than had been expected.

Given the comparative nature of this study, it was deemed important to impose the maximum possible level of consistency on the form and nature of the available data. Besides collection and compilation of a considerable amount of primary data, this need for consistency resulted in substantial reformatting and re-analysis of existing data to facilitate comparison of "apples and oranges". Finally, given the programmatic nature of this study and its objectives, the indicators selected for attention correspond to the various levels of the program logframe and to the additional management considerations of unplanned effects, constraints and opportunities encountered, and administrative burden on USAID.

In conducting this exercise, a substantial amount of useful data was extracted from project papers, strategy documents, previous project evaluations, trip reports and internal memoranda. A partial listing of the documents reviewed is presented as Annex 2. In addition, standardized management information retained by project implementors and client files were reviewed as important data sources. Interviews were conducted with key informants in USAID, the Government of Kenya and implementing organizations (see Annex 3 for list), and with a sample of businesses that had received one or more of the services provided with USAID support.

A standard outline was developed for collecting and presenting information on each of the 24 activities reviewed. This outline included the following topic areas:

Basic Objectives and Stage of Implementation
Available Data
Major Findings
- Costs
- Actual Outputs
- Compliance
- Constraints to Implementation
  - External
  - Internal
- Institutional Impact
- Direct Development Impacts (on borrowers, training participants, etc.)
- Sustainability
- Unplanned Effects
- Opportunities Identified
- Administrative Burden on USAID
- Additional Observations

Conclusions
Recommendations

Summary matrices were compiled using the data obtained from the individual activity assessments. The first of these matrices summarizing descriptive data is presented as Figure 1. Evaluative information is summarized in Figure 3. This latter matrix involves information on the following items:

Principal Outputs to Date
Unit Cost(s)
Subsidy/Incentive to Intermediary
Direct Development Impacts
Impact on Implementing Institution
Sustainability
Administrative Burden
Innovative Features

This evaluative information forms the basis of conclusions and recommendations offered in this report. These conclusion and recommendations concern the improvement of existing projects and lessons learned for the future and are summarized at the following three levels:

- the individual activity within a project;
- the private enterprise program "component" (i.e., financial and equity market development, entrepreneurship and management development, and policy reform); and
- the overall private sector portfolio.

Figures 4a, 4b and 4c present in graphic form the percentage of Life of Project (LOP) budget, percentage of administrative burden and percentage of actual expenditures to date of the three main components of the USAID private sector portfolio - Credit and Equity Finance, Management and Entrepreneurship and Policy.

To supplement the information provided through this analytical review of the portfolio, individual vignettes describing individual businesses were prepared. The purpose of this information, presented in Annex 5, is to provide additional insight into the nature of the clients served, services provided and the impact of those services on the businesses that received them.

Finally, the evaluation team was asked to review available monitoring and evaluation systems at the Mission with regard to its private sector program and to make recommendations concerning the improvement of these systems. Basic findings, conclusions and recommendations on this matter are included as part of the text of this report and are further detailed in Annex 6.

FIGURE 3
EVALUATIVE MATRIX OF USAID/KENYA PRIVATE SECTOR PROGRAM

ACTIVITY (1)	PRINCIPAL OUTPUTS TO DATE (1)	UNIT COST(S)	SUBSIDY/INCENTIVE TO INTERMEDIARY	DIRECT DEVELOPMENT IMPACTS	IMPACT ON IMPLEMENTING INSTITUTION: Project Impact To Date	IMPACT ON IMPLEMENTING INSTITUTION: Potential	SUSTAINABILITY: Income Source	SUSTAINABILITY: Prospect	ADMINISTRATIVE BURDEN: Administrative Time Days (3)	ADMINISTRATIVE BURDEN: % (4)	ADMINISTRATIVE BURDEN: Relative Burden(5)	INNOVATIVE FEATURES
Credit & Equity Finance												
RPE- COMMERCIAL BANKS	29 lns disb, $5.1M	$.40/$1;$1.57/$1	Incentive pymnts for lns to SSEs;2% fr adm costs	1,520 jobs(217 women)	Medium	Low	Interest income	Medium	131.8	6.5%	38.6% Low	Non-farm,rural areas LT lending
RPE- PVOs	10 PVO grnts for lns 1365 lns,$566K disb	$1.67/$1;$6.69/$1 (2) $1.25/$1;$6.09/$1	Grant for loans & costs	2,567 jobs (89% women) 5,665 bene;14%,24%^sl	Medium	High	Interest income, donor support	Medium	131.8	6.5%	336.6% High	Comerc rates to SSEs Instit devlpmnt of PVOs
KEM/KEC	75 proposals, 0 lns	$407/proposal	$452K mangement grant	None	Medium	Medium	Investment income	Medium	98.8	4.9%	108.3% Medium	First venture capital firm
IPS	2 lns,$620K;5 staff 13 proposls reviewed	$3.17/$1	$.19/$1 lent; 8 yr funds at 8%	40 employees;$4.3M sls	Medium	Medium	Investment income	Medium	59.8	2.9%	131.5% Medium	Indigenizing IPS investing
REP-PED	4 lns CBEs,$32K;$54K ME lns;10 appl,$38K	$1.73/$1	Grant for loans & costs	Prjctd-143 bene;125%^sl ave prft 23.4%	Low	Low	Interest income	Medium	122.2	6.0%	491.8% High	Loans to PVOs,direct lns Ins to CBEs,self-suff
KCFC	86 loans	$.10/$1	$250K grant	987 FT jobs,5000 PT	Medium	Medium	Interest income	Low	13	0.6%	394.5% High	Direct settlement of purchase w supplier
LIK			None	245 jobs;^export ernngs	Low	Low	Profits on sales	High	13	0.6%	NA	Risk spreading,consortium financing
Jua Kali	164 lns,164 lns,$153K	$1.78/$1	135K grant; 98% guarntee	987 jobs;^sales	Low	Low	Interest income	Low	79.3	3.9%	2228.2% High	Comercial bank expertise for ME lending
Money & Capital Mkt Dev	3 studies;1 study tour; 78 days consultancy	$1,904/consult day $9,924/study		None	High	High	Transfer taxes, member fees	High	244.4	12.0%	3090.2% High	Collabortion w NGOs
Credit Guarantee	31 lns,$373K;41 apprvd, $373K;100 applic,$540K	<$.01/$1 disb	75% guarantee	40 jobs;^28% sls; ^3% assets;10% HOEs	Medium	Medium	Interest income	Medium	13	0.6%	73.0% Medium	Cash flow lending,intangbl coll - A/R,stocks
Sub-Totals									907.1	44.6%	157.8% High	
Mgt & Entrepreneurship												
RPE- COMMERCIAL BANKS	132 bank officers trained 1320 partic days		$4.4m for institution building for all of RPE both banks & PVOs	57% intrvwd mgmt chngs in loan procedures	High	High	Fee for service	Medium	46.8	2.3%	152.2% High	Loan training
RPE-PVOs	304 PVO managers trained, 117 groups,4077 individ	$200/trainee		Skill improvement by PVO clients	High	High	PED Project & other donors	Medium	NA	NA	NA	PVOs as vehicle for small busnss advisory services
KAM	4 seminars,101 partic 363 partic days	$37/partic day	Seminar subsidy after partcipant fee collected	70% report mngmnt chngs	High	High	Participant fee	High	71.5	3.5%	9686.3% High	
K-MAP Training	5 client seminars, 473 partic days	$54/partic day	Voluntary inputs, private sector seminar subsidies	Perception of positive impact by clients	Medium	High	Other donors,fee for service	Medium	40.9	2.0%	3072.1% High	Use of voluntary business organization
K-MAP Counselling	83 counselling days	$1471/partic day	voluntary counsel service from priv sect big busns	Perception of positive impact by clients	Medium	High	Other donors,fee for service	Medium	135.9	6.7%	2246.2% High	Model of volunteerisa in business advisory srvcs
REP-PED	3 grnts totalling $60,000	None so far	$22m in operating expnses	None so far	Low/building	High	Other donors,fee for service	Medium	31.2	1.5%	59.8% Medium	None thus far
IESC	27 consultancies 1458 TA days	$137/TA day	3/31/89- $173K or $7400 per consultancy	Perception of positive impact by clients	NA	NA	Fee for service, donors	Medium	133.9	6.6%	587.9% High	Private sector pays for consulting services
Strategic Support-EI	21 partic traind 374 partic days	$502/rcpient day	None	9 employees;50% report sls incr;100% mgmt chg	NA	NA	NA	NA	54.6	2.7%	1777.8% High	Private sector internship
Strategic Support-KNCCI	Equipment procurement	NA	procurement costs; increased institution supprt	6000 membership records input	High	High	Member fees	High	105.3	5.2%	8151.6% High	None
Jua Kali	1900 partic days	$14/day/partic	KCB-2.5M Shs grant for training & loans admin				Fee for service	Low	0	0.0%	0.0%	Intro to credit training, training to screen applc
Sub-Totals									620.1	30.5%	346.5% High	
Policy												
IPC	1 three person tour	NA	Services free to investor exept 50% fesiblty stdis	None yet	Low	High	GOK tax revenues fr new industries,emply	Medium	122.9	6.0%	343.5% Medium	1 stop approvals; promotional orientation
KAM	2 policy studies	$70-75,000/study	Consultant fees,printing costs	Effective agenda for disc w GOK	Medium	High	Potent:incr member fees;engrphs,contrib	Medium	130	6.4%	1501.1% High	Sample intrvws,biwkly mtgs re resrch,lcl/expat integ
Sub-Totals									252.9	12.4%		
3 CIP - Technol Assistnc	Streamline MOF records, decentralize plans	NA NA	Foreign exchange cost of technical assistance		Medium	High	Integrated in govt process	High	NA	NA	NA	Searching for effective tools of policy dialogue
4 CIP - Imports	Substantial imports, macro targets	NA	Import scarce commodities	Improved indust/agr prod better MOF+imprt admin	High	High	New exports will cover BOP gap	Medium	254.8	12.5%	24.1% Low	Quicker imports, more U.S. sourcing
Grand Total									2,034.9	100.0%	NA	

(1) RPE=Rural Private Enterprise,PVOs=Private Voluntary Organizations,KEM/KEC=Kenya Equity Management/KECapital,IPS=Industrial Promotion Services,PED=Private Enterprise Development,KIFC=Kenya Commercial Finance Corporation,LIK=Leather Industries of Kenya,KAM=Kenya Assoc of Manufacturers,Jua Kali=Micro-Enetrprises,K-MAP=Kenya Management Assistance Program,IESC=International Executive Service Corps,EI=Entrepreneurship Intl,KNCCI=Kenya Natl Chamber of Commerce,IPC=Investment Promotion Centre,CIP=Commodity Import Program,CBEs=Community based enterprises,NBFIs=Non-bank financial institutions,REP=Rural Enterprise Program

(2) The first figure on this line is total operating costs (including training) to date of NGOs with grants for loans to small and micro-enterprises; the second figure includes, in addition, total home office (HEI) and REP program costs to date for the entire program (including time spent on NGOs that have not received grants for loans, since disaggregated information is not available at this level). The second line figures are for corresponding costs, but include only recurring costs, i.e., excludes prorated fixed costs.

(3) USAID Project Development Officer (direct hire) # days spent per year plus Personal Service Contractor # days spent per year.

(4) Administrative days (previous column)/Grand Total

(5) % administrative days/LOP Budget (% of Program): <50%=Low,50-150%=Medium,>150%=High

FIGURE 4A: USAID LOP BUDGET

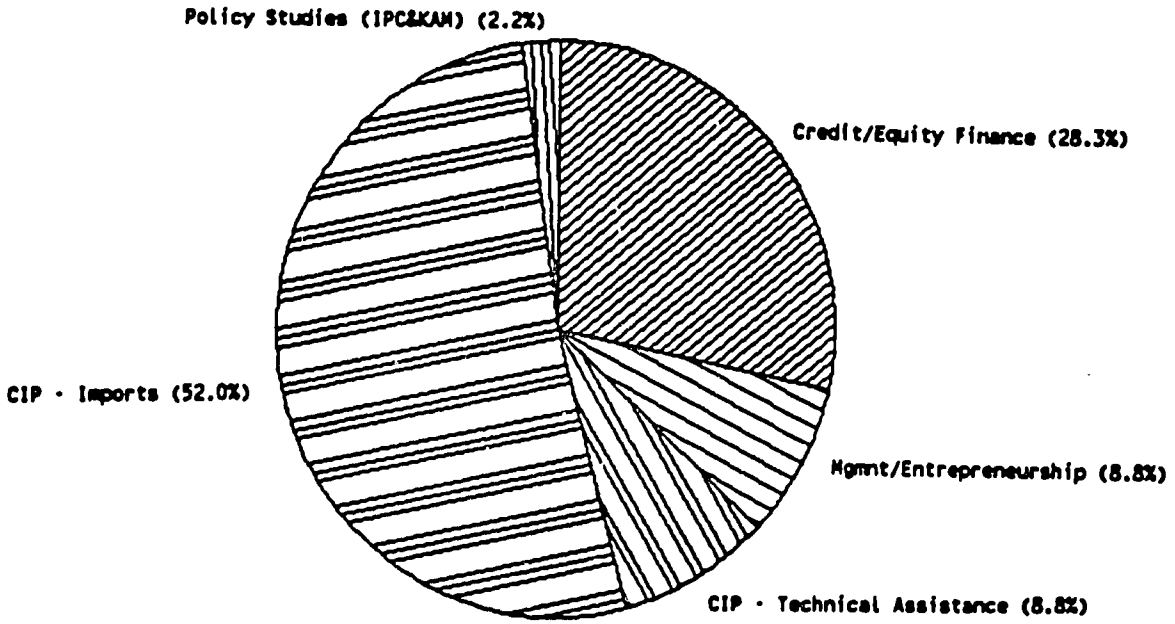


FIGURE 4B: USAID ADMINISTRATIVE BURDEN
PDO & PSC Administrative Days/Year

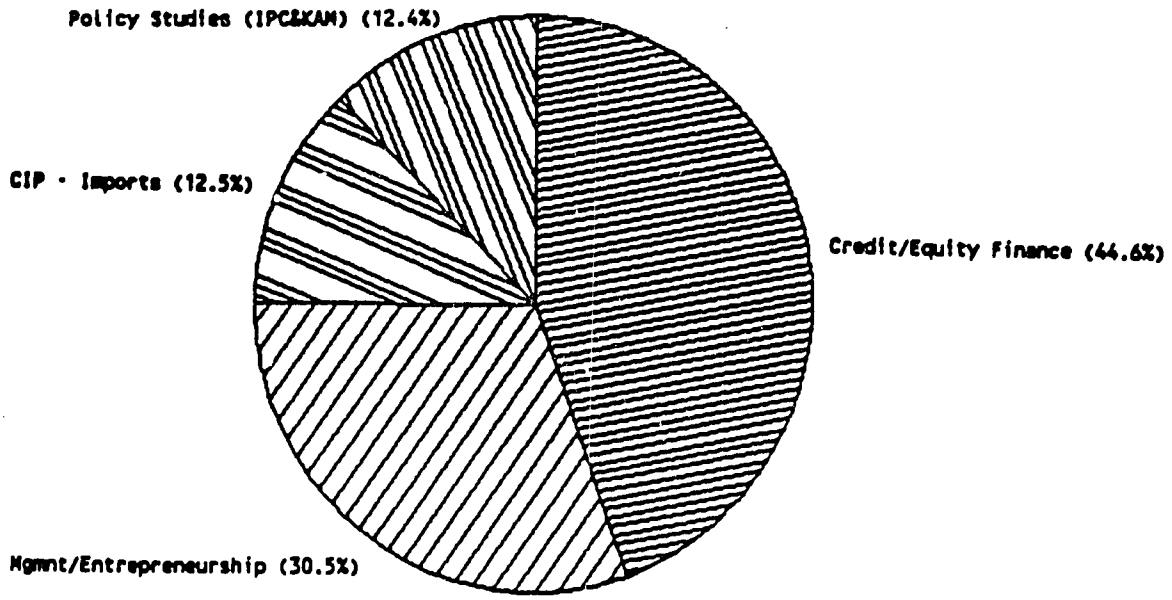
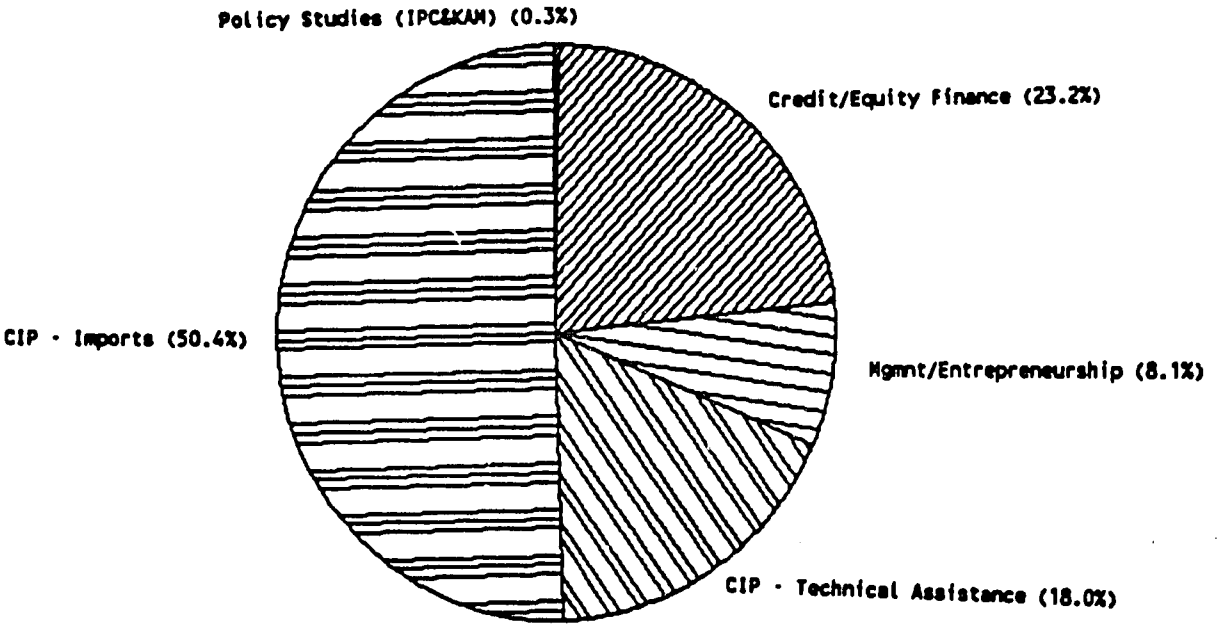


FIGURE 4C: USAID ACTUAL PROGRAM EXPENSES TO DATE April 1989



IV. MAJOR FINDINGS REGARDING FINANCIAL AND EQUITY MARKET DEVELOPMENT ACTIVITIES

A. OBJECTIVES AND STAGE OF IMPLEMENTATION

1. Objectives

The following hierarchy of objectives describes the USAID/Kenya Private Enterprise Program with regard to financial and equity market development:[1]

Program Goals:
1. Sustainable growth of financial and equity markets in Kenya.
2. Increased capital flows to SMSE, micro-enterprises and rural businesses on a sustainable basis.

Program Purpose: Increases in sales, employment, investment and foreign exchange earnings in Kenyan businesses, particularly SMSEs and rural businesses.

Program Sub-purpose: Loans paid back by borrowers; additional sources of long-term support identified for worthwhile but commercially variable programs; changes in business knowledge, attitudes and practices by business people, bankers and service providers.

Program Outputs: Loans to businesses are the principal program output. Other outputs include: training of staff in financial institutions and PVOs; technical assistance to financial institutions, Nairobi Stock Exchange, and Capital Markets Development Authority; information and technical assistance to support policy dialogue on finance and equity issues; training of micro and small businesses; counselling and technical assistance to small urban and rural enterprises.

Program Inputs: USAID expenditures on project activities, including:

<u>Credit Activities</u>
RPE - Commercial Banks
RPE - Private Voluntary Organizations
PED - Rural Enterprise Programme
Kenya Commercial Finance Company
Jua Kali Programme
Credit Guarantee Scheme
Leather Industries of Kenya

<u>Equity Markets Activities</u>
Kenya Equity Management/Kenya Equity Capital/Trust for Equity
Industrial Promotion Services
Money and Capital Market Development Components of PED and CIP

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[1] This was constructed with reference to the USAID/Kenya Office of Projects Private Enterprise Objective Tree and the MAPS Phase One Articulation of the Current Mission Strategy.

2. Stage of Implementation

USAID's credit portfolio is relatively mature, but implementation has generally run behind schedule. $29.4 million in credit projects are in the last quarter of their life (Rural Private Enterprise, KCFC, and Jua Kali), and another $6.2 million at the middle stage of implementation (between 25% and 75% of project life elapsed). Implementation of credit projects has been slow because of difficulties in obtaining government approval, limitations caused by GOK credit ceilings, reluctance of banks to lend given the high opportunity costs of USAID credit activities, and the slowness of the PVO institution building efforts.

USAID's venture capital activities are too new to allow meaningful evaluation of impact. The two venture capital activities are still engaged in project start up, including hiring and training staff, establishing investment procedures, considering proposals and searching for investors. However, there are several reasons why these venture capital activities should not be considered "slow":

a. Venture capital firms are typically very careful in providing equity to start up projects because of the risks of establishing new businesses and investing on an unsecured basis. These risks are particularly serious in Kenya, because of ineffective protection provided to minority shareholders and weaknesses in the stock market.

b. USAID is working with private, for-profit companies that seek to maximize their earnings and to build and protect their reputation in the market place. KEM and IPS feel obligated to make sound investments, an objective which makes the two companies very slow in making investments.

c. It is difficult to locate co-investors for venture capital projects (and investors for KEC) because Kenya lacks sound venture capital exit routes and investors now receive high real returns from T-Bills, real estate, and bank time deposits.

d. It has been difficult to establish a sufficient flow of proposals from indigenous entrepreneurs.

USAID's money and capital market development activities under the CIP and Strategy Support component of the Private Enterprise Development Project have been slow, but this is a result of the low absorptive capacity of the Nairobi Stock Exchange and the Capital Markets Development Advisory Committee.

B. FINDINGS

1. Costs of the finance and equity activities to date: $12,149,000

Analysis of Total Program Costs: Finance and equity market activities accounted for 46.7% of USAID/Kenya private enterprise expenditures until March 31, 1989.[2] Compared to the expenditures for the entire private enterprise program, including CIP expenditures, finance and equity activities account for 23.3% of the total budget.

ANALYSIS OF UNIT COSTS

Institution/Project	USAID Expenditure per $Lent
RPE-PVOs	$6.59 a/
Jua Kali Loans	$1.78
REP under PED Project	$1.73
RPE-Commercial Banks	$1.57
Credit Guarantee Scheme	$1.25 b/
IPS	$1.23
KCFC	$ .10
Leather Industries of Kenya	$0.00

a/ This is a total including operating costs for NGO grants, home office costs for World Education, Inc. and K-REP, and excluding costs associated with training. For further analysis of costs, see Annex 4-1, page 8.

b/ This figure includes an estimate of reimbursable administrative expenditures by KCB (KSh. 5 million) because the bank has not submitted any reimbursement requests as of 4/15/89.

Figures in this table suggest that USAID pays only slightly more to provide loans to micro and small enterprises than to larger enterprises. It is no surprise that the three lending programs that target micro and small enterprises have the highest cost per dollar lent. It is, however, remarkable that costs under Jua Kali and REP lending programs are only one-third more than lending to SMSEs. Given that many small and microenterprises would not have been able to obtain credit from the formal sector (and may not have been able to get any credit), it seems clear that the additionality of a USAID dollar spent on small and micro credit is much greater than a dollar spent on medium enterprise lending.

[2] This is not including the expenditures on commodities (but including expenditures on technical assistance) under the CIP.

This does not mean that USAID expenditures on small and micro-enterprise lending contributes more toward the Mission's private enterprise objectives than expenditures on medium scale lending. Small and micro lending may have higher additionality but also may have lower impact on investment and sales, and lower sustainability, than medium scale lending. There is insufficient data to compare the investment and sales impacts of the three types of lending.

USAID COSTS PER LOAN a/

Institution	Cost per Job
RPE Commercial Banks	$5,309
RPE PVOs	898
IPS	18,475 b/
REP-PED	no data available
KCFC	253
Jua Kali Credit	no data available
Credit Guarantee Scheme	9,325 c/

a/ Cost per job created is calculated by dividing total USAID expenditure on the credit activity by the number of jobs reportedly created in businesses receiving USAID loans. The time period is from loan disbursement to 3/31/89.

b/ Because this project is new, there has been very little time for employment to increase. Cost per job created will no doubt decrease dramatically after several years.

c/ Footnote b/ is true here, too.

These figures are not very reliable, largely because the table compares projects that have just begun (Credit Guarantee Scheme and IPS) with projects that are largely complete (KCFC). Nevertheless, they do suggest two (very tentative) conclusions. First, it is more costly to create jobs through commercial bank SMSE lending than through PVO lending. Second, jobs created under the KCFC project were very inexpensive because the KCFC project provided a loan to KCFC rather than a grant.

2. Outputs

a. General Findings

Loans disbursed under all financial and equity market activities total $10,998,000 as of March 31, 1989. Compared to the total finance and equity element expenditures, $12,149,000, we can see that USAID/Kenya spent $1.10 for every dollar of credit that has been disbursed under the program.

A total of over 1,700 loans have been made under the program. The number of businesses that have received loans is somewhat smaller than this because some businesses have received repeated loans.

b. Comments

USAID is currently paying substantial subsidies to encourage financial institutions to lend to targeted businesses. The program spends $1.10 to get institutions to lend $1.00. This expenditure is in most cases not capitalized in a SMSE lending fund by USAID or the financial institution, and therefore the money does not produce future benefits for SMSEs after the term of the project. Notable exceptions where project funds are recycled are the RPE -Commercial Bank component (which the GOK has agreed to allow to remain in a revolving fund for 25 years), and the PRE LIK and KCFC revolving fund credits.

Because USAID funds are generally not recycled, the effective subsidy to SMSE lending is much higher than if funds were used to capitalize revolving fund lending accounts. The expected cost of lending under a revolving fund arrangement could be comparable to the KCFC project, with a $.20 expense for each dollar lent.

If the objectives of USAID credit activities are primarily to demonstrate the "benefits" of SMSE lending and to build capacity of intermediate financial institutions (IFIs) to lend to SMSEs, then the high cost of lending under current activities may be justified. In this case, USAID's high initial expenditure will result in the establishment of a long-term stream of credit benefits as local IFIs replicate USAID-funded projects on their own.

If, on the other hand, local IFIs do not replicate USAID lending programs on their own, then USAID is paying a rather high price for providing credit to SMSEs. This issue is discussed further in Section C.6., Institutional Impacts.

3. Compliance

There is insufficient data to determine the general level of compliance with business eligibility requirements under the credit activities. However, during the reviews of borrowers undertaken during the USAID/Kenya RPE and KCFC Evaluations, almost all borrowers fit the eligibility criteria established.

Most available funds under the RPE Commercial Bank lending program went to relatively large businesses. Sixty-five percent of the total amount approved to date has gone to 12 percent of the companies in the program. Most of these companies are large by local standards, with average gross assets for the group of $10.3 million.

4. Constraints to Implementation

a. Interest rate ceilings. The single most important constraint faced by USAID's credit activities is government ceilings on interest rates. Because of the lending rate ceilings (15% on short-term commercial bank loans; 18% on long-term loans), there is excess demand for credit in Kenya, and therefore banks ration their funds in favor of large, well-established, formal sector businesses.

Under these conditions, SMSE lending is unprofitable for two reasons. First, administrative and risk costs tend to be higher in the SMSE market. Second, and perhaps most important, there is a high opportunity cost to lending to SMSEs. To lend to SMSEs, the IFI would be required to use its relatively scarce funds for loans that have lower net earnings than its traditional accounts. In addition, the IFI must divert scarce staff resources from their usual lending activities to SMSE lending.

Several banks working with USAID credit projects stated that government credit ceilings are an impediment to meeting USAID lending targets. In fact, however, interest ceilings are a much more significant constraint to USAID projects than GOK credit ceilings because interest ceilings provide strong incentives for banks to concentrate resources on large, well-established borrowers. Credit ceilings are often the excuse that banks give for not lending to SMSEs, while the actual cause is interest rate ceilings.

b. Cumbersome and Expensive Application and Monitoring Procedures. Financial institutions under the Credit Guarantee Scheme, Jua Kali Program, RPE-Commercial Banks, and RPE-PVO activities reported that procedures for making and monitoring loans are too cumbersome. These costly procedures include:

i. Procurement requirements under the RPE Commercial Bank Project;
ii. A 100 page loan application form (designed by the GOK Treasury Department) under Credit Guarantee Scheme;
iii. Monthly loan reporting requirements under RPE-PVO Project.

5. Constraints in Equity Market Development

a. Lack of a Viable Stock or Over the Counter Market (OTC). Lack of a viable equity market makes it difficult for investors to evaluate and sell equity. It also makes it difficult for equity investors to find co-investors who are willing to properly disclose corporate earnings.[3] Lack of a viable stock exchange and OTC market makes it very difficult for IPS and KEM to sell equity at fair market prices and to encourage co-investors to operate on a transparent and fair basis.

b. Insufficient Supply of Business Proposals from Indigenous Entrepreneurs. Both IPS and KEM officers reported that they have not received many good business proposals from indigenous entrepreneurs.

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[3] When a viable equity market exists in a country, venture capitalists can promise co-investors that they will get higher returns on investment from properly disclosing corporate earnings to the public than from diverting earnings into personal accounts. This is true because disclosed earnings will translate into higher equity values on a competitive and "bullish" stock market. When there is no viable stock market in a country, venture capitalists cannot use the same promise of large capital gains to encourage co-investors to disclose earnings, and so must rely on (i) greater management control; or (ii) trust.

c. Government Regulation of the Stock Market. The GOK has provided few positive incentives to selling equity to the public, but several serious disincentives exist. Disincentives include:

High rates of corporate taxation;
Taxation of corporate income and dividends;
Regulation of stock prices by the Capital Issues Committee; and
Lack of protection for minority investors.

As noted in both the Bishop and Ferris reports produced for USAID, it will be difficult to increase the role of Kenya's stock market until the Government makes major changes in government regulations regarding equity investment and market operations.

d. Technical skills available in the USAID Mission. USAID's activities in capital markets development have made it necessary for the Mission to provide technical expertise in areas outside of the Mission's fields of greatest technical strength. These areas include: securities trading and analysis; securities market operations and regulation; and venture capital operations.

6. Institutional Impacts

Institutional impacts observed include the following:

RPE-Commercial Banks:	An increase in term lending. Several banks have made 8 year loans for the first time.
RPE-PVOs:	Most PVOs have taken actions to address problems identified by Inspector General's report on RPE program.
KCFC:	No significant changes.
Jua Kali:	No significant changes.
Credit Guarantee Scheme:	Acceptance of non-traditional forms of collateral.

USAID credit activities have resulted in few permanent changes in lending procedures within participating IFIs. In addition, IFIs have not begun to lend to businesses targeted under USAID projects on their own (where they were not lending to the target group before the start of the project). IFIs have been willing to change their lending programs only for the life of a project.

This failure to accomplish lasting change is primarily due to lack of financial incentives for commercial banks in Kenya to develop new business in USAID target markets. Typical factors that drive major commercial banks "down

market" do not exist in Kenya at the moment.[4] Therefore, the banks have not found it necessary or profitable to begin lending to SMSE markets targeted by USAID projects on their own.

It is reported by officers at KCB, Barclays Bank and by Deloitte, Haskins and Sells that as a result of USAID credit projects, banks have made the following changes:

- Improved their cash flow and project analysis skills;
- Provided more term loans;
- Accepted non-traditional forms of collateral, such as accounts receivable and inventory.

It is also notable that a survey undertaken as part of this Program Evaluation found that 57% of bankers trained under USAID credit projects reported changing their lending practices as a result of the training. These reported changes could not be verified during the evaluation but the evaluation team found that banks had made few measurable changes in their SMSE lending practices outside of the USAID-sponsored lending programs. It does not appear that any changes in attitudes and practices resulting from USAID projects are being translated into changes in the non-USAID lending programs of the banks.

7. Equity Markets

USAID's equity markets activities appear to have played an important catalytic role in the development of Kenya's capital market. Starting with a low base (very little stock market activity and a rudimentary money market), USAID has stimulated interest in building institutions in several areas:

- Development of competitive trading in the Nairobi Stock Exchange (NSE);

- Deregulation of the NSE;

- Increase in availablity of venture capital;

- Sale of public corporations to the public; and

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[4] These factors include:

- Declining spreads in wholesale lending markets because of recession, deregulation or domestic instability;

- Increasing competition among banks in all markets because of deregulation;

- Sustained high growth in the SMSE sector;

- Long-term excess liquidity in the banking system;

- Significant pressure from the government to lend to SMSEs.

- Development of a money market.

Although program expenditures have been small ($1,429,000), USAID activities have been highly visible, and USAID's capability to deliver expertise is recognized in these areas. Bankers and brokers indicated strong interest in receiving more assistance in capital markets development. Although things have changed very slowly in Kenya's capital markets over the past decade, USAID activities have been very cost effective in supporting continuing interest in institution building and deregulation, and have laid foundations for the establishment of key equity market institutions.

8. Direct Development Impact

a. Credit Projects

USAID credit projects have been associated with a total employment increase of more than 5,339 jobs to date.[5] Given that several of the projects have just begun implementation, it is expected that the number of jobs created in firms receiving USAID credit will increase substantially over the next several years.

Information on sales increases was available for two of the six credit projects carried out by USAID. Estimated sales increases are:

Project	Sales Increase
RPE PVOs NCCK a/	67% of clients had a 40% + increase 11% of clients had a 20 - 40% increase 21% of clients had a 0 - 20% increase
KWFT b/	Average Increase: 142%
Credit Guarantee Scheme c/	Average Increase: 28%

a/ Sales increase during last 12 months.
b/ Sales increase during last 6 months.
c/ Average increase in sales during period of loan.

There was a general lack of rigorous and valid information on changes in sales and assets among USAID loan recipients. In part, this is because several projects are too new to assess longer term changes in sales and assets (e.g.,

[5] This does not include jobs created in businesses receiving loans under the Jua Kali and PED-REP projects. No employment data was available for these projects.

The employment figure for the RPE-PVO component is estimated by adding the 1675 full time jobs to one third of the 2733 part time jobs created in businesses receiving USAID loans. One third was used as an adjustment factor to convert part time to full time jobs.

RPE-Commercial Banks). This deficiency, however, is also a result of lack of compliance by financial institutions with loan impact reporting requirements. IFI officers frequently stated that it is too difficult and expensive for them to collect data on changes in sales and assets.

Because of this lack of adequate sales and assets information, it is difficult to draw rigorous conclusions about the impacts of USAID credit activities on sales, employment or capital formation. This deficiency makes it impossible to assess the comparative cost-effectiveness of USAID loan programs in achieving private enterprise objectives.

There is, however, sufficient information to make one tentative statement. The majority of businesses receiving USAID loans increased their sales significantly during the period of their loan. A conservative estimate of the sales increase experienced by a majority of businesses under credit projects might be 25%. Little else can be said, because of weaknesses in the data set.

9. Equity Markets

USAID equity market development activities have had little direct impact on sales, assets or employment in Kenya, other than through the PRE-financed LIK project which created a substantial number of jobs. To date, only two loans (totalling KSh. 11 million) have been made by the venture capital companies, and the companies receiving these loans have just recently received their USAID sponsored loans.

There have been no measurable sales and employment impacts of the Mission's money and capital market development activities.

Both venture capital and money and capital market development activities have great potential to produce direct development impacts over the long term. The venture capital activities have the potential to demonstrate the viability of direct equity investment in productive enterprises as an alternative to real estate, government securities, interbank lending, and other less productive investment instruments. Money and capital market activities promise to establish and strengthen efficient markets for capital in Kenya.

10. Sustainability

USAID credit projects are generally unsustainable (as currently constituted) on a commercial basis because IFIs cannot charge sufficient interest to cover direct and opportunity costs of lending to markets targeted by USAID.

USAID's activities with the Capital Market Development Authority (CMDA) and Nairobi Stock Exchange (NSE) have the potential to become self-sustaining in the near future. Both the CMDA and NSE have possible sources of future revenues.

USAID's venture capital activities are commercially sustainable only if KEM and IPS are able to create a sufficiently large flow of investments to cover their costs. As a pilot effort, the sustainability of USAID's venture capital components is still uncertain.

11. Unplanned Effects

a. USAID's financial and equity market activities have raised numerous private enterprise policy issues. These include:[6]

- GOK interest rate and credit ceilings;
- Lack of economic rationality and efficiency in import and export regulations;
- Disincentives to owning, selling and trading stocks and money market instruments.

b. A.I.D. is considered an important source of capital markets development expertise. It was reported by Mr. Chelashaw and Mr. Kariuki that A.I.D. is considered one of the primary sources of technical expertise (and financial support) for Kenya's capital market development effort. A.I.D. has a good reputation as a provider of technical assistance in the capital markets area.

12. Opportunities Identified

Opportunities for future action identified as part of this review of USAID finance and equity market activities include the following:

a. Action on policy issues raised in credit and capital market projects.

b. Rationalization of subsidies provided under credit projects. This would involve changing the package of incentives provided to IFIs to give the institutions an incentive to (i) reduce administrative and loan loss costs; (ii) compete for USAID credit resources with other IFIs; (iii) use more of their own funds to carry out targeted lending.

c. Reduction of subsidies provided under credit projects. This would allow USAID to lend more using the same resources. Several suggestions are made in the individual activity assessments, and in Conclusion and Recommendation #2 below.

d. Supporting the financial markets deregulation policy dialogue efforts of NGOs that represent the finance industry. Associations representing the finance industry may be able to play an effective role in encouraging the GOK to liberalize interest rate regulations.

e. Continuing to support efforts of the NSE to engage the GOK in policy dialogue on securities markets deregulation; involving other business NGOs in securities market policy dialogues, for example, the insurance industry association, KAM and KNCCI.

f. PRE's loan to Leather Industries of Kenya helps a "project" that is generating substantial sales, employment and investment, and other important development impacts (foreign exchange, environmental protection standards, and agribusiness linkages). According to several officers in

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[6] Please see the activity assessments in Annex 4 for a more complete discussion of the policy issues that have been raised.

financial institutions, there is substantial potential for additional investment in Kenyan agribusiness.

13. Administrative Burden on USAID

USAID's finance and equity markets activities required 907 days per year of Projects Office staff time (direct hire plus Personal Services Contractors). This accounts for 45% of all Projects Office staff time spent on private sector projects.[7] In terms of only direct hire staff time, finance and equity market activities required 578 days per year; this is 55% of total direct hires Projects Office staff time devoted to private sector activities.

Credit activities (including LIK and KCFC) accounted for 504 direct hire and PSC person days, or 56% of all staff time consumed by finance and equity activities. Equity market development activities (including KEM and IPS) accounted for 403 person days per year, or 44% of total staff time for finance and equity activities.

Activities under the Money and Capital Markets activities (including Strategic Support component of PED and related components of the Commodity Import Program) account for a total administrative burden of 244 person-days per year. This is 27% of all finance and equity Projects Office staff time, and 12% of the Office's total staff time spent on private enterprise activities. Given the extremely high private enterprise development benefits that are possible through deregulation of financial and equity markets, the Mission spends relatively little staff time on these problems.

Venture capital activities have taken a relatively small amount (159 days) of Projects Office staff time to date.

14. Additional Observations

Over 20 bank officers in KCB, KCFC, Standard Chartered Bank and Barclays Bank and principals of three banking schools stated that training provided to bank loan officers under USAID projects has been very well suited to their needs. Even though major changes in commercial banking practices are difficult given current financial market constraints, the banks appear to have found the training useful.

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[7] See Figure 3 for total administrative days spent including personal service contractors (PSCs).

C. CONCLUSIONS AND RECOMMENDATIONS

1. The loan to training mix is very effective

USAID's credit programs gave IFI personnel opportunities to apply skills and knowledge gained in training programs to USAID-sponsored lending programs. The expertise gained from training programs is valuable despite the difficulties that banks have in expanding their lending to SMSEs.

Recommendation 1: Continue providing substantial training inputs under credit programs. (Source: Credit activity assessments.)

2. Improving the "pricing" of credit projects

Now that USAID has had an opportunity to develop a wide range of credit projects, it is necessary to refine the "pricing" of loan agreements. It is probable that USAID can increase the ratio of loans provided for each USAID dollar expended by reducing subsidies, encouraging competition for USAID loan funds, putting a higher proportion of credit dollars into revolving funds, and streamlining administrative costs.

Recommendation 2: More consideration should be given to the cost structure of local financial markets and to pricing USAID credit activities accordingly. Subsidies provided should be reduced over time, and competition among financial institutions for USAID's credit resources should be encouraged. Given the interest that banks have expressed in USAID-funded training for bank personnel, it is likely that USAID could decrease the subsidies for training by charging higher user fees. (Source: Review of credit program subsidies.)

3. Finance and equity activities contribute to policy dialogue

USAID credit, equity market and venture capital projects are demonstrating many important policy constraints and issues in capital markets development.

Recommendation 3: These policy issues should be (a) identified at the project level on a periodic basis (perhaps once a year), and (b) acted on using Mission policy dialogue resources, such as the Strategy Support component of PED.

In particular, there is a need for information, institution building and dialogue to address policy issues arising from credit activities. Policy information in the following areas (among others) would be useful:

- Institutional arrangements for an independent capital markets regulatory authority;
- Public benefits to be gained from expansion of public equity markets;
- Operation of competitive stock and equity markets;
- Public benefits from interest rate deregulation; and
- Benefits to financial institutions of financial markets deregulation.

As mentioned in Section B.12., Opportunities Identified, there is an opportunity to build the capacity of NGOs to conduct policy analysis and formulate policy positions concerning financial and securities markets development. This is true for export/import and other government economic regulatory issues as well.

It is essential that these policy issues be addressed independently from credit project activities. If policy issues are not isolated from project activities that give rise to them, then Kenyans may begin to view USAID credit projects as policy dialogue efforts that infringe on local sovereignty in policy matters.[8] (Source: Activity assessments.)

4. Mismatched perceptions of the purposes of credit projects

Financial institutions with which USAID has worked generally see USAID and other donor credit projects as providing two main benefits:

(i) Donor credit projects provide cheap funds on attractive terms;

(ii) Donor projects are good public relations and help promote the IFIs' relationships with the GOK.

In contrast, USAID views its credit projects as playing a catalytic role in local financial markets by giving IFIs opportunities to experiment with new clients, lending procedures and standards. In USAID's private enterprise program, credit projects demonstrate the viability of lending to SMSEs and rural businesses, and build capacity to carry out this type of lending.

Recommendation 4: It is important that project designers and evaluators understand the lack of agreement on project objectives among USAID, the GOK and local banks. Banks have little incentive to change lending practices as long as current financial market conditions remain. Under these circumstances, program planners and evaluators should not expect significant institutional changes to result from credit projects involving commercial banks. (Source: Interviews with bank staff.)

5. Declining marginal utility of credit projects

Numerous bank officers stated that, in their view, USAID credit projects have been unprofitable and are a heavy administrative burden. Nevertheless, the banks are willing to undertake new and innovative types of lending if they receive sufficient subsidies.

The larger the credit project, the more of a burden the project is to normal bank operations. It seems clear that USAID gets as much or more institutional impact from small projects ($1 to 3 million range) as it does from large projects ($10 to 20 million). To the extent that institution building and policy dialogue are the goals of USAID credit activities, the marginal impact of additional dollars spent on projects seems to decline rapidly as USAID credit funds rise above $3 million.

The reason that the marginal impact of USAID credit project funds declines after several million dollars is that, under local financial market conditions, financial institutions do not find it profitable to use their scarce funds for

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[8] It is also important to note that the World Bank in Kenya has been the leading development agency in advocating financial market and industrial policy reform. USAID's efforts should be viewed in the context of the World Bank's ongoing efforts.

the markets targeted under USAID projects. Local IFIs have enough "traditional clients" as well as other uses for their resources (e.g., Treasury Bills) to make lending to most small businesses very unattractive. As the amount to be lent under a USAID project rises, so does the opportunity cost for the bank.

Recommendation 5: Until credit ceilings and interest rate regulations are liberalized, it will be difficult to make significant institutional impacts on local commercial banks and finance companies. Keep the amount of funds provided to any single IFI small enough so that the institution can experiment without diverting substantial resources to "unprofitable" lending activities. (Source: Interviews with finance institution staff.)

6. Building banking relationships

Officers at both KCB and KCFC mentioned that they feel that they have lost money under USAID credit projects because A.I.D. has not upheld certain parts of their loan agreements.[9] Whether correct or not, these statements reflect a need for USAID to carefully maintain its relationships with local financial institutions.

Recommendation 6: Time spent in clearing up outstanding misunderstandings is essential to maintaining good working relationships with the banks and building credibility in the market place. (Source: Interviews with bank officers.)

7. Lack of funds mobilization activities

USAID has few, if any, activities on the funds mobilization side of financial markets development.[10] There are no project components aimed at mobilizing unsubsidized funds for IFIs that lend to smaller or rural businesses. There is also little effort to assist IFIs that traditionally raise funds from USAID's target markets and then lend these resources back to the target market. Examples of these institutions are credit unions, savings societies, and cooperatives.

Recommendation 7: More attention should be given to IFIs that both raise and lend funds within SMSE and rural markets. (Source: MSI experience; World Bank 1989 World Development Report.)

8. Identify alternative financial institutions

Banks have found it costly and unprofitable to implement USAID lending projects. They have suggested that USAID look for alternative institutions to carry out small and micro-enterprise lending. Alternatives suggested include: credit unions, private voluntary organizations, finance companies, "second tier" banks, savings societies, government banks and cooperatives. Except for the examination of PVOs implementing USAID lending programs, analysis of the feasibility of working with alternative institutions was beyond the scope of this program evaluation. It is expected that the USAID MAPS project will

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[9] See the RPE Commercial Bank and KCFC activity assessments in Annex 4 for discussion of these disagreements.

[10] USAID's equity market development activities are, however, oriented toward funds mobilization.

provide further information on opportunities presented by Non-Bank Financial Institutions (NBFIs).

Because it is clear that the most prominent institutions in the formal banking system do not have the capacity to serve small businesses given current financial market constraints, some attention should be given to IFIs that have small and rural enterprise lending as their corporate strategy and technical specialization.

Recommendation 8: USAID should continue to investigate the feasibility of using alternative financial institutions as intermediaries for its credit projects. Specific suggestions include:

- Further experimentation with finance companies as credit intermediaries for rural SMSE credit;

- Continued investigation of the potential of credit societies, "second tier" banks, cooperatives and credit unions to operate USAID small and micro-enterprise lending programs on a cost-effective basis;

- Institution building to improve the performance of credit unions and savings societies. (Source: Interviews with staff of financial institutions.)

9. Jua Kali lending

Jua Kali lending programs are not profitable for commercial banks. The USAID Jua Kali project has been very well designed and implemented, but this is definitely not sustainable without continuing subsidies exceeding 100% of the amount lent. USAID could find ways to encourage GOK to make marginal reductions in the administrative subsidies provided to formal sector IFIs, but the subsidies will have to continue.

Recommendation 9: (i) Make a policy decision within the private sector program concerning the level of subsidy that is acceptable as a cost of providing loans to Jua Kali businesses. (ii) Target future Jua Kali lending programs at specific sub-markets. The subsidy provided depends heavily on the specific sub-market to be served. (iii) Use alternatives to the formal commercial banking system, such as cooperative savings societies and credit unions. (Source: Bank interviews; MSI experience.)

10. Lack of business impact information

Banks are not collecting the business-level impact data that USAID needs to determine project impact. IFIs generally consider it burdensome and unnecessary for their own management purposes to collect impact information for USAID.

Recommendation 10: A program of periodic "impact audits" would help obtain valid and reliable impact data. Under this program, an impact audit team would visit a sample of borrowers from all credit programs on a yearly basis to determine changes in sales, assets and employment.

USAID/Kenya, like other Missions and bureaus within the Agency, has found it difficult to obtain valid data on borrowers from financial institutions. This is because IFIs often do not understand why USAID needs the information, because collecting the right information for USAID is a burden, and because USAID often does not enforce reporting requirements. "Impact auditors", because they would be hired once a year to collect information specifically tailored to USAID's needs, could take more care to obtain appropriate, valid and representative information.

USAID currently pays financial institutions and Deloitte, Haskins and Sells to collect information on changes in sales, assets and employment. Administrative subsidies or direct payments for monitoring borrowers are already built into project budgets, but in many cases USAID is not getting the data. It is probable that a local audit, accounting or consulting firm would be able to collect better data for the same or lower expenditure than is

currently spent for borrower impact data.[11] (Source: Review of available program impact data.)

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[11] An indicative estimate for the cost of conducting yearly impact audits of a 10% to 25% sample of all borrowers under USAID credit projects by a local firm might resemble the following:

USAID's "credit portfolio" has approximately 1700 loans outstanding as of 3/31/89. A 15% stratified, random sample could provide adequately representative data for analysis of the impacts of USAID credit activities. Thus, USAID would need to conduct a yearly impact audit of 255 borrowers. This could be reduced somewhat by excluding borrowers from target groups for which there was good impact data already available.

A well trained team can conduct approximately four to five interviews per day if we assume that the interviews take 45 minutes each and travel time between interviews is 1 hour. At this rate, the total field time required is 57 person days. Using three teams of two interviewers (one junior and one senior), field interviews would take 9.5 days, requiring 28 days of senior time and 29 days of junior time.

An additional 24 days is required to prepare the questionnaire and research methodology, plan field logistics, and train interviewers (12 days of senior time, 12 days of junior time).

Data analysis, data entry and writing time after the fieldwork would take approximately 30 person days, depending upon what would be done with the data. The cheapest solution would be to limit work after the interviews to entry of the data into the data base, and production of simple summary statistical reports. This might take 10 person days: 4 junior and 6 senior.

Travel time to and from projects would be perhaps 12 extra days (6 senior, 6 junior) and overall project management time would be perhaps 3 senior days.

	Days	Corporate Rate	Cost
Direct Labor			
Senior	55	$250 ($125x2.0 multiplier)	$13,750
Junior	51	$120 ($ 60x2.0 multiplier)	$ 6,120
Other Costs			
Car Rental (57 days @ $80 per day)			$ 4,560
Office & Communication			$ 1,000
Estimated Total Project Time & Materials Cost:			$25,000

It should be noted that this is only an indicative estimate; it would vary according to actual local time and materials rates, and specific USAID information requirements.

V. MAJOR FINDINGS REGARDING MANAGEMENT AND ENTREPRENEURSHIP DEVELOPMENT ACTIVITIES

A. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The management and entrepreneurial development component of the USAID private sector portfolio provides training and consulting services intended to bring about changes in the knowledge, attitudes and business practices of several types of institutions and target groups. PVOs, small businesses and commercial banking institutions are among the groups receiving assistance. USAID projects delivering these services are at various stages of implementation, making comparisons difficult. However, there are a number of successes to be noted and lessons learned about this approach to expanding private sector growth.

B. AVAILABLE DATA

Very little information was found either on behavioral results or direct development impact of the management and entrepreneurial development portfolio. Even with data that were available, a low level of consistency and comparability makes empirical judgments very difficult. As the evaluation progressed, considerable efforts were made to reconstruct conditions preceding and following the delivery of training or technical assistance services. Information was collected principally through review of files, telephone interviews and face-to-face interviews with trainees.

By their very nature, training and technical assistance activities produce changes that are uneven and frequently indirect. Someone may change an entire product line based on something in a 15-minute segment of a five-day seminar; but it is difficult to trace such serendipitous happenings. Thus the difficulty involved in evaluating this type of activity results not only from problems associated with data availability, but is inherent in the nature of the activity itself.

C. MAJOR FINDINGS

1. Costs

The following chart summarizes the costs to USAID of the Mission's current management and entrepreneurial development component activities:

Intervention	Ave. cost per person a/	Ave. cost per day
Training	$284 b/	$94
Counseling	$1,285	$209
Technical Assistance	$200	Unknown

a/ These averages are made up of very different types of activities with a diversity of funding formulas and can be misleading if taken as anything other than broad indicators.

b/ REP PVO training is not included because per recipient assistance costs are not broken down between PVO training and small business technical assistance.

Training activities include the Jua Kali "entrepreneurship" training, the KAM and KMAP seminars, the Entrepreneurs International Program and REP training of PVO managers. The costs vary widely from a low of $14/day for Jua Kali training to a high of $502/day for EI participants. Likewise, on a per participant basis, EI participant training costs $8,940 and Jua Kali participant training costs $128. Comparing KAM and KMAP seminar costs, KMAP seminar costs are more than three times those of KAM seminars on a per person basis, and 69% more on a per day basis. While programs differ widely in delivery cost, a substantial portion of the differences cited in USAID unit costs reflect differences among programs with respect to fees charged to participants.

Counseling activities include KMAP and IESC counseling. KMAP counseling, despite the use of volunteers, is substantially more expensive than the IESC counseling. This is due in part to the fact that IESC clients defray costs with an average $5350 contribution per consultancy and are further subsidized by an AID/W core grant. KMAP counseling costs also reflect overhead and administrative support services, whereas IESC has other sources of support for those costs.

"Technical assistance" refers exclusively to the rural enterprise assistance given in the RPE project through REP and its PVO grantees. These costs have been much higher in the recent past (see IG audit report), but are now reported to be at around $200 per recipient. Cost per recipient day of assistance is not calculated.

A cost efficiency analysis of these activities indicates that training, technical assistance and counseling were provided at an average cost to USAID of $266 per person. Counseling and training were provided at an average cost of $113 per recipient day of assistance. By this criterion, the most cost efficient activity was Jua Kali training at $128 per person, or $14 per day. The least cost efficient activity was EI participant training at $8,950 per person, or $502 per day. In general, training is a more cost efficient

activity than counseling and technical assistance to rural enterprises because of the use of local resources and economies of scale.

2. Actual Outputs/Results

USAID has financed the delivery of training or consulting services to 5,560 individuals. Seventy-three percent of those assisted are involved in small business activities in rural areas; 3% are urban Jua Kali business owners; 5% are staff of PVOs engaged in small enterprise promotion activities; and 2% are commercial bank officers. Twenty-two percent of individuals assisted received training, 73% received technical assistance, and 4% received counseling under the KMAP and IESC programs. Few individuals or enterprises received more than one of these types of assistance.

The following chart summarizes the outputs of the management and entrepreneurial development component:

Intervention	Persons assisted	Days of assistance
Training	1,239	4,430 a/
Counseling	244	1,541
Technical Assistance	4,077	unknown
Total	5,560	

a/ RPE PVO training reported as technical assistance

3. Compliance

The training and technical assistance activities undertaken appear to comply with USAID requirements concerning recipients. No specific targets exist for female participation, and good gender disaggregation data is not available for several projects, but the "gender gap" is still an issue. In the case of EI, for example, only 5% of participants were female. It is impossible to determine which intermediaries are sensitive to the gender issue because of the lack of empirical data. Intermediaries are aware of the need to collect this data, but there is no evidence of even one marketing campaign to attract female business owners.

Several activities are targeted at "small businesses", although there are widely divergent definitions of what constitutes a small business. Sales, assets and employees are variously used as measures for business size. In general, however, services are being delivered to the "small" businesses as defined by the various measures.

Ethnicity data is not being entered into the USAID M&E system for many projects. In looking at client lists, Asian surnames do occur, but do not

predominate or constitute a significant proportion of clients compared to indigenous Kenyan clients.

4. Constraints to Implementation

Constraints to the Mission's management and entrepreneurial development activities relate to the nature of the interventions themselves. Counseling by volunteer business persons, whether U.S. executives or local Kenyan business managers, is inherently constrained by the availability of volunteers, appropriateness of their experience, and the intensive, individualized services required. Other constraints concern lack of screening procedures for identifying participants, lack of empirical methodologies for assessing training needs and impacts, focus on business skills (e.g., bookkeeping), lack of follow-up, and general lack of outreach and follow-up capabilities of intermediary organizations.

5. Institutional Impacts

The current management and entrepreneurial development activities of RPE appear to be of only moderate importance to the intermediary institutions involved, as judged by their efforts to institutionalize these activities. The commercial banks have their own training schools which offer a range of courses to their staff, although the long-term lending training courses offered through RPE are unique. No training of trainers is offered to transfer this course to the commercial banks, and the lending activity currently associated with this training is perceived by those interviewed as only of moderate importance to the banks. When questioned about the sustainability of this activity, commercial bank officers did not feel this type of training would continue without USAID investment.

PVOs have several other sources of grant income from donors with less demanding reporting and evaluation requirements than USAID. While this may lead some organizations to pursue easier funding channels, REP training assistance is highly valued. Future prospects for offering PVOs training in strategic planning for sustainability could make a significant contribution to the PVO community in Kenya. Training of trainers activities would also contribute to ensuring the sustainability of these activities, and make PVOs less dependent on REP for support services.

USAID financing is ostensibly making important institutional impacts on the activities and services offered by KNCCI and KAM, not so much because of the level of financing provided, but because of the nature of the interventions and the visibility they offer to the institutions involved.

6. Direct Development Impact

Positive sales and investment impacts have been reported by some EI participants. For other activities, some changes in business management practices, acquisition of technical knowledge, skills improvement, and positive client satisfaction were noted. Across the portfolio, many respondents felt USAID activities are moderately to highly effective, depending on the activity. Evidence of demand exists for all management and entrepreneurial activities, although in no case did fees charged even approximate the costs involved.

As noted above, little empirical data is available on the impact of USAID/Kenya's management and entrepreneurship activities. In principle, it should be possible to measure the development impact of elements of this component. For example, in Malawi MSI compared baseline and two-year post-training data on comparable control and experimental (i.e., trained) groups of business owners. The findings indicated that sales and employment significantly increased when entrepreneurship training was given.[12] Other factors such as loans, technical assistance, etc., were accounted for in both populations, leading to the conclusion that entrepreneurship development assistance had made a significant difference in business performance. Such attribution is typically unfeasible, however, for brief programs with diverse objectives.

7. Sustainability

Sustainability issues concern continuation of benefits after completion of USAID support. Sustainability is judged high, medium or low on a comparative basis given the demand for services, technical capacity to maintain them, and existence of current or potential sources of income to continue the USAID-funded activity.

Fees for services is one strategy to ensure continuation of benefits. KAM, KMAP and IESC currently charge subsidized rates for services related to USAID activities. KAM fees come closer to paying for real service costs than do KMAP and IESC fees, and KAM has 5,300 members. Given this situation, the KAM seminars may be more economically sustainable. The sustainability of Jua Kali training is judged low, not because of service demand, which is high, but because services are now free and the ability of recipients to pay the real cost of services is low. Other Jua Kali training is taking place in Nairobi on a 200-300 KSh fee basis, which is also inadequate to cover costs. The prospect for sustainability is therefore considered low, unless sustained sources of subsidy can be found.

Identification of additional and ongoing donor or host country support is an acceptable strategy for ensuring sustainability, if such support is likely to be continued over time. In this regard, the PVOs and KMAP have moderate prospects for continuing benefits due to other donor interest in these activities. KNCCI has high potential for continuing benefits, provided staff continue to be trained to operate the computer system being installed.

8. Unplanned Effects

The KMAP model has attracted the interest of rural businesses and donors in other African countries. In the EI program, trainees want to form an alumni support group, possibly under the auspices of KAM, and have transferred technology from the U.S. to individuals outside of the EI program. REP has managed to sell training services to outside groups, and many Jua Kali trainees have indicated that they were attracted to the KCB loan program because of training, not loans. KAM seminar participants report training other staff in their businesses (80%) and improving interdepartmental communications (50%) as

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[12] MSI, Entrepreneurship Training and the Strengthening of Entrepreneurial Performance (DAN-5314-C-00-3074-00), AID/W S&T, April 1989.

unplanned effects of the training received. Training and counseling activities of the USAID portfolio have received very positive press coverage, have generated interest in the business community for these services, and have served more generally to promote the private sector and the sponsoring organizations.

9. Opportunities Identified

There were three major opportunities identified. First, the team believes that a number of additional opportunities exist for the Mission to use its management and entrepreneurship portfolio to support Mission objectives in the area of policy reform and financial markets, and to support a possible new initiative in export promotion. Second, the team felt that the current portfolio of management and entrepreneurship activities had provided valuable visibility for the private sector in general and the sponsoring organizations in particular, and that further attention to that "promotional" objective could provide valuable results.

Finally, the team felt that a major unexplored opportunity exists in the field of entrepreneurship development. By all accounts, the absence of middle and higher level African entrepreneurship represents a substantial brake on the growth of Kenya's private sector. Entrepreneurship is not currently a focus of any of the Mission's ongoing training and consulting activities which have, instead, emphasized information dissemination and management improvement. There are no relevant offerings at the University of Nairobi or at the polytechnic levels despite considerable avowed interest. There have been a variety of efforts by other donors to promote "entrepreneurship" at the micro-enterprise level; but virtually none of these efforts have focussed on the middle and higher level entrepreneurs needed to fuel economic growth. The United States has been a pioneer in developing behavioral approaches to fostering entrepreneurship and would appear to have some comparative advantage in this field.

10. Administrative Burden on USAID

The management and entrepreneurial component absorbs 620 days of direct hire and PSC staff time in the Projects Office; this is 31% of total days available. Considering only direct hire time available, this component accounts for 199 person days of USAID time annually, 21% of the total administrative effort associated with the overall private sector program.[13] Thirty-eight percent of the direct hire staff time of the management and entrepreneurial development component is devoted to RPE and REP activities. Forty-one percent goes to equipment procurement and management for a computer system granted to KNCCI.

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[13] See Figure 3 for total administrative spent including personal service contractors (PSCs).

D. CONCLUSIONS AND RECOMMENDATIONS

1. It will probably never be possible to attribute direct development impact to relatively modest training and consulting interventions. The rationale for these efforts should cease to be stated in terms of direct development results and should increasingly be seen and planned in terms of: (1) strengthening and enhancing the credibility of policy-relevant organizations; (2) promoting the image of the private sector more generally; and (3) strengthening the staff and systems of key financial market institutions. As such, training and consulting should be subordinated to the two principal objectives of the private sector program, policy reform and financial market development. The two exceptions to this policy might be a serious initiative in the field of entrepreneurship development which, if undertaken, should be expressed to justify itself in terms of direct development impact, and TAT to support a trade and investment objective under a future private enterprise strategy.

2. Sustainability and self-sufficiency can and should be critical considerations in any continuation of assistance to intermediary organizations for training and consulting activities. USAID assistance should include help to these organization, where appropriate, in identifying long-term sources of financial support. USAID assistance should, in any event, be of fixed duration.

3. The RPE and REP project activities should increasingly focus on training of trainers activities and PVO sustainability.

4. Local demand for management and entrepreneurial development exceeds the supply of available resources and expertise. In addition, there is evidence of the ability and willingness of clients to pay higher fees for training and consulting services. Jua Kalis, PVOs, and small business owners should be charged training and consulting fees. USAID should encourage participating institutions to charge fees for services whenever feasible, and to identify alternative means of meeting the financial costs of service delivery.

5. The absence of targets for female participation has resulted in limited participation by women in many activities. USAID should reinforce agency guidelines in this area, and each project should design and conduct marketing campaigns to identify and attract more female clients.

6. Data being collected on service delivery and impacts of technical assistance and training are not adequate for routine performance evaluation purposes. USAID should request that intermediary agencies produce monitoring and evaluation plans and work plans for data collection and analysis. USAID should also assist projects in establishing evaluation indicators for measuring the impact of their activities on target populations.

VI. MAJOR FINDINGS REGARDING POLICY DIALOGUE ACTIVITIES

This chapter summarizes major findings with respect to:

(a) Policy Impact Studies sponsored by the Kenya Association of Manufacturers (KAM) - Element No. 3 of Project No. 615-0238;

(b) Policy, Sector and Feasibility Studies sponsored by the Investment Promotion Center (IPC) - Element No. 2 of Project No. 615-0238; and

(c) Technical Assistance and other Policy Dialogue Activities in connection with Commodity Import Projects (CIP)--various elements of Projects Nos. 615-0213 and 615-0240.

A. OBJECTIVES AND STAGE OF IMPLEMENTATION

The objective of these activities is to support the policy development process by providing foreign exchange needed to implement structural adjustment programs, and by financing studies and technical assistance required to articulate and implement policy reform strategies outlined in Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth and other relevant policy statements by GOK.

Secondary objectives aim at institutional development of several types. For example, assistance is provided to build the Investment Promotion Center (IPC) into an effective instrument for mobilizing foreign and local investment, for accelerating the approval and start-up of investment projects, and for advising government on practical steps to improve the policy environment. In this sense, the IPC is an instrument for policy dialogue. Other institutional objectives, all of which are recognized to require several years to complete, are: (i) streamlining of import licensing procedures; (ii) strengthening of KAM's capacity to prepare useful policy papers for Government consideration; (iii) establishment of a computerized information system in the Ministry of Finance; (iv) reactivation of private marketing and distribution channels for agricultural chemicals; and (v) inauguration of an effective Capital Markets Development Authority along lines first recommended by the Central Bank in a report prepared with assistance from the International Finance Corporation in 1984. Such long-term institutional objectives are more important than individual studies or other activities, which are undertaken mainly as steps toward institutional maturity.

These projects are in various stages of implementation:

(a) In some ways the Commodity Import Projects can be considered most mature, since the first such project was started in 1983 and its funds are more or less fully committed. Similarly, licenses have been issued against the full amount available under Project No. 615-0240 although some of these will not be used, and therefore are likely to be cancelled and reallocated. Studies and other technical assistance financed by these projects are mostly long-term and much of the work is nearing completion (including the present phase of the decentralization of planning processes and computerizing Ministry of Finance information functions).

(b) The program of studies sponsored by KAM is on schedule at a rate of two studies per year. The first two were completed and widely distributed in 1988 and are expected to have some impact on budget decisions to be announced in June 1989. Two additional studies have just been commissioned for 1989. KAM has a well developed system for picking topics, monitoring the progress, and disseminating study findings.

(c) The IPC is in the early stages of its development and just within recent months is beginning to pick up momentum in its activities and effectiveness. Its first study, on Export Processing Zones, is being commissioned as part of an ambitious 1989 work program. USAID financed a recent (February) study tour to Santo Domingo, New York and Ireland, which provided a compelling vision of IPC possibilities. This has had an energizing effect on senior management. Staff is being added and trained to handle the heavy work load assigned to the center.

B. DATA COLLECTION METHODS

Given the very short time available for this aspect of the evaluation, the team has relied mostly on reports in A.I.D. files, interviews with IPC and KAM officers and staff, discussions with HIID and other consultants, interviews with businessmen, and experience with similar projects in other countries.

Policy dialogue activities are fairly easy to identify as far as IPC is concerned, where the entire institution is devoted to implementation of the GOK's determination to create an environment hospitable to private investment and specific studies are simply a small manifestation of that larger purpose. Similarly with KAM, studies to enhance the quality of policy discussions in Kenya are clearly distinguished from training seminars. The evaluation team experienced more difficulty unravelling policy dimensions of Commodity Import Projects (CIP); data separating import financing from technical assistance was not immediately apparent from Status Reports but was eventually sorted out in interviews. Policy discussions in connection with import programs do not seem to be well documented, cover a very wide range of issues and also involve the allocation of budgetary counterpart funds in Kenyan Shillings. Under the circumstances, it has been difficult to trace effects with precision.

C. FINDINGS

Costs: The first two KAM sponsored studies cost about $70-75,000 each, after allowing for advertising the RFP and printing the final reports. Later reports may require larger allocations as more complicated topics are taken up and inflation continues to increase nominal prices. IPC had expended very little of the funds allocated to it as of the time when the evaluation team was in Kenya. The $8 million provided for technical assistance in the first CIP has been largely disbursed; most of the $6.2 million provided under the second project is committed for long-term services running into 1991.

Outputs: KAM is a well-established organization and is keeping to its schedule of two studies per year. IPC has had teething troubles which may have been overcome. Its main impact on policy -- both as the implementing

agency designated by GOK to provide prompt one-stop service to investors and as a source of new ideas for accelerating development -- will be in the future. Surveys suggest that the CIP has enabled beneficiaries to increase employment significantly and to increase production by an even greater percentage. Technical assistance financed in connection with these projects is considered very useful by agencies to which consultants are assigned, a judgement with which the evaluation team concurs on the basis of its limited observation of results. More generally, the team finds that policy studies, institution building and import financing have all been well received by private sector participants as well as by government officials.

Compliance: The evaluation team found no significant instances of non-compliance. It is probable that the Capital Markets Development Authority (CMDA) will not be functioning fully by June 1989, partly because some measures of deregulation in the financial sector, expected to be announced with the budget in June, will have to work themselves out before new financial instruments can be introduced effectively. The Mission is already aware of the possibility of that delay. The important thing is that steady progress is being made toward establishing the CMDA, which will require several years to develop operating procedures and to build a body of sound operating traditions.

Constraints to implementation: The principal constraint to implementation of policy studies in Kenya is scarcity of professionals with experience in policy analysis. A related problem is the lack of familiarity with such analysis in government and therefore uncertain demand for it. These manpower constraints can only be overcome partially by importing short-term advisors.

The constraint shows up initially in the limited extent to which adequate Terms of Reference can be framed to specify key policy issues and pragmatic options for dealing with these (as compared with more theoretical issues describing inefficiencies associated with price controls or import licensing worldwide or "in principle"). Short-term advisors, unless they have long prior experience in Kenya, are severely handicapped in defining practical, real-time Kenyan problems, in articulating realistic options for dealing with such problems, and in positing "a theory of the case" once a problem is identified.

Fortunately, USAID has often funded long-term advisors who can support and coach the relatively small number of short-term experts which the present system can absorb. It is also fortunate that advisors bring to their assignment a tradition of empirical research, a persistent curiosity determined to discover in the field whether, for example, interest rates ceilings do in fact lower the cost of borrowing for small businessmen in remote areas, as is the stated intention of government. This type of policy analysis takes the discussion of policy options from the realm of theory (what works in an American "liberal capitalist" system) and addresses proven local needs. It is this emphasis on empirical analysis, along with the willingness to test theoretical models against contemporary local political crosscurrents, that the practice of modern "policy analysis" brings to Kenyan problem solving. Continued funding of technical assistance that contributes sound policy analysis skills will contribute directly to resolving current policy reform problems and will also strengthen the analytic capacity among Kenyan professionals. Creating a tradition of sponsoring such studies at IPC and KAM, as well as in key government planning agencies, can contribute further to the relaxation of this constraint.

Another general constraint in connection with CIP and other policy reform efforts is that USAID's contribution is part of a larger pool of resources mobilized by the GOK, partly with assistance from the Consultative Group, and that all development assistance is only part of on even larger pool of resources available to finance imports and investment. The effectiveness of this very important aid from the United States can be either enhanced or limited by movements in Kenya's terms of trade, any weather-induced boom or set-back to local production and revenues, and the actions or regulations of other donors. Thus, a $15 million grant could finance about 1 percent of 1986 or 1987 imports to Kenya at FOB values (and substantially less than 1 percent of imports at their CIF values arriving in Mombasa); looked at another way, a 1 percent increase in the average price of imports (or a 1-1/2 percent decline in the average price of Kenya's exports) would counterbalance the effect of a $15 million grant. There is no doubt that CIP-type assistance is very valuable to the Kenyan economy; but donors are constantly aware that the usefulness of their aid can be multiplied or undermined by the actions of others and the vagaries of the market over which neither they nor the GOK have any direct control.

Institutional impacts: The Evaluation Team noted the following institutional impacts already realized:

(a) Import licensing has been streamlined and papers are often processed more expeditiously than in the past; also, regulations are announced in a more timely fashion and the list of imports licensed "automatically" has gradually expanded.[14]

(b) The availability of fertilizer to farmers has increased significantly, and the network of private distributors is being expanded and revitalized.

(c) The Nairobi Stock Exchange is showing signs of vitality and expansion. Other developments foreshadow the emergence of more sophisticated and diversified capital markets and financial instruments during the next few years.

(d) The IPC has adopted an ambitious work program for 1989 and has begun to track new investment proposals, especially where manufacturing in bond for export is proposed, with a view to establishing itself as an effective agency providing a fast, one-stop investment expediting service.

(e) The KAM has established itself as a major contributor to formal policy dialogue between government representatives and the private industrial sector with the publication and widespread distribution of two studies in 1988 and the commission of two more in 1989.

(f) A computerized information system is working in the Ministry of Finance.

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[14] Much of the progress on import licensing is attributable to efforts under World Bank programs with the GOK.

Several institutional goals - the complete delicensing of imports, removal of remaining price controls, deregulation of interest rates, and similar reliance on market forces - lie some years in the future; similarly, a program of policy studies financed by both governmental and private sources without external subsidy seems unlikely to develop without several more years of experimentation funded in part by USAID, the World Bank and similar sources.

Direct development impact: Given the early stage of policy studies at this time and the diffuse or indirect nature of impacts from imports and policy changes, the Evaluation Team found no satisfactory way to attribute jobs, sales, investment, or other measurable "outputs" directly to elements of the policy dialogue supported by this group of projects. There is reason to believe that impacts have been positive, but it has not been possible to quantify these benefits. Nor is it possible to attribute particular improvements in policy to individual interventions within the USAID program. Policy change is a long, often tedious process, in which many hands play a part. Even when the evaluator can trace a particular announcement to a particular document, it is dangerous to attribute a causal relationship, let alone to allege a single causal influence. One of the most useful roles policy analysts can play is to give voice to options that leaders have already indicated they favor; is the analyst's report or the Minister's predisposition "the cause" in such instances?

Sustainability: It is too early to assess the sustainability of policy reform trends by the GOK. The current import regime depends heavily on aid; but that aid itself is predicated on the GOK's conviction that it will support a difficult adjustment process, designed to make the Kenyan economy self-supporting in future. Similarly, the present program of policy studies undertaken by KAM implies a longer-term commitment to such studies to be financed in future by KAM's membership and other audiences for those studies. Equally, the IPC mandate from government is broad and important. But it would be premature to say that all the policy-related activities currently subsidized by USAID as part of its private enterprise development program will be sustained when USAID funding ends. What one can say is that continuation is a reasonable probability if these next few experimental years establish appropriate traditions and give continued evidence of the value of the work that is being subsidized in its pioneering phase.

Unplanned effects: The Evaluation Team observed few unplanned effects. One paradox of commodity aid should perhaps be noted -- namely, that there is occasionally a tendency for government to defer reforms until they are offered as part of a policy bargain. It has also been observed by some participants that governments resist "conditions" when they feel donors are going to approve projects anyway because of program and budget pressures. Clearly, the most successful policy reforms are based on a common understanding of the issues involved and the resources needed to carry out change. Images of "arm-twisting" may read well in the press but rarely have a meaningful place in discussions between two sovereign nations, especially when one has long-term responsibility for the stability and welfare of its society and the other is trying to provide resources needed to achieve development objectives to which it believes the first party is already committed.

One danger of external support for import liberalization, observed in other countries as well, is that donors enjoy running their programs efficiently, they relish the interaction with beneficiaries and they are required to impose their own administrative controls on the process even while urging recipient countries to abandon such controls. In the excitement and satisfaction of good management of an ambitious and complex program, all persons involved will forget from time to time that the purpose of the exercise is to eliminate controls not simply to make them more efficient.

Opportunities identified: Financing from Kenya's development partners, including USAID, to increase imports of essential production commodities has verified the possibility of increasing industrial and agricultural outputs and exports (as well as employment, albeit by a smaller percentage) by providing more inputs and thus making better use of existing capacities. The opportunities for further financing of this type must be given high priority in programming assistance for the next 3-5 years at least. Similarly, opportunities to analyze current projects and other economic development experience to identify new project financing opportunities and to seek ways to relax policy constraints will continue for many years.

Several specific and immediate possibilities become apparent to the Evaluation Team and deserve further conversation between GOK and the Mission. All of those listed here require more study than the evaluators had time for before they can be described as firm prospects.

(a) There seems to be a natural linkage between programs to decentralize development planning and efforts to promote small enterprises; this linkage among credit, training and other projects at the District level should be made more explicit.

(b) Similarly, it will be beneficial to link IPC plans for regional investment seminars, starting in Kisumu, more directly with District Development Planning activities.

(c) Given the prospect of further steps being taken soon to relax regulations governing interest changes, it seems to be a matter of some urgency to study how new interest structures are likely to impact on target enterprises and also how they may affect incentives to participating lending institutions in programs targeted for smaller industries. There may be possibilities to use USAID-financed pilot projects to test the likely effects of future alternative interest regimes.

(d) Widespread determination to accelerate the development of smaller enterprises has given new life to various organizations, some of which may provide useful channels for servicing this segment of the economy. For instance, the Kenya Small Traders Society has instituted a savings scheme among the members, which may provide a pool of funds to mobilize for small-scale manufacturing. Another possibility mentioned to the Evaluation Team is the Harambee Savings and Credit Society, which is reported to be channeling a fairly large flow of Nairobi-generated savings to a variety of small but important

investment projects in the hinterland. Preliminary ideas such as these obviously call for much careful study before they can be identified as having serious new project potential.

(e) Based on the experience of similar organizations in other countries, it seems probable that IPC could benefit from in house access to more long-term consulting services. Foreign investors are likely to seek conversations with knowledgeable expatriates before making locational decisions; and there are many relatively minor tasks and issues on which the IPC Managing Director might wish for advice and assistance without going through a complex contracting process. Such assistance might quicken the pace of activities and further strengthen the prestige of IPC within GOK.

(f) As new policies are implemented (for example, in connection with the proposed Capital Markets Development Authority) a host of new and fairly specific training and study needs will be identified to assist in making particular new measures operationally effective.

(g) There seems to be an opportunity to link project experience even more closely with policy analysis and policy institution building. If a policy committee does not already exist within the Mission, it would seem useful to establish one. Such a "committee" would further strengthen efforts to inform all Mission personnel of current policy emphases of GOK (and which of those are of greatest interest to donors) and to encourage practical feedback from specific project experience toward defining the next generation of practical policy studies.

Administrative Burden: The administrative burden within USAID/Kenya of "policy study" activities seems to have been minimal. To date IPC institution building, including commissioning an initial study regarding the potential of Export Processing Zones, and interactions regarding KAM-sponsored studies, are reported to have required very modest inputs of time from Mission personnel in Nairobi. While one professional spends full time on CIP projects, her tasks are focused more on facilitating import licensing, coaching about how to arrange complementary banking facilities, and providing advice on U.S. sources of supply than on policy issues. Much of the macro-policy work, including liaisons with other donors as well as senior officers of ministries and of the Central Bank, is handled by the Director and his Program Office and has not been recorded by the Evaluation Team.

Although it may not be necessary to devote more staff time to policy-elements of projects in the future, it could be useful to do so. The Evaluation Team sees opportunities to provide better focus for some studies before they are commissioned and to ensure that both IPC and KAM studies state realistic policy options clearly, along with pros and cons for each major option. In some instances it will be useful to develop a theory of the case before commissioning research or analysis. In all instances, it will be advisable to participate in framing the empirical research needed to define issues and options more clearly. Given the increasing emphasis of GOK on implementation of practical programs to carry out the general principles and private sector emphasis of Sessional Paper No. 1 of 1986, it would seem appropriate for the Mission to continue to strengthen its policy analysis and

program formulation capability. In any Phase II program it may be useful to provide "coaching" services to strengthen all aspects of policy analysis by assigning these tasks to a long-term contractor rather than diverting Mission personnel to these tasks. It is also expected that project financing will continue to be used to test new ways of providing support to Kenyan entrepreneurs as well as to provide training to managers of institutions that are expanding their services to the private sector and to investment activities outside the Nairobi-Mombasa corridor.

D. CONCLUSIONS

The terms "policy dialogue" and "policy analysis", when used in USAID-funded projects, cover a wide variety of activities. Original research is included at one end of the spectrum, and direct conditionality is at the other, with pilot projects to test new program proposals falling somewhere in between. Given the relatively liberal policy environment in Kenya, and the U.S. Government's interest in sustaining long-term positive relations with the Kenyan Government, the aim in such policy dialogue activities should be to foster an active, open pragmatic dialogue regarding significant issues. Where such a dialogue exists, USAID can play, and has been playing, a constructive role. But the most significant dialogue is among points of view within Kenya, not between Kenya and USAID.

Policy dialogue is an essential and useful complement to project and commodity financing activities. Policy analysis is particularly useful when it takes the form of empirical research regarding the impact of government policies (and USAID-assisted programs) on specific enterprises and localities. The Evaluation Team was therefore not surprised to hear reports that very senior politicians have been particularly influenced by results of surveys reported by KAM and others.

Just as there are many types of "dialogue" and "studies", there are also many pockets from which to pay for them--both within the USAID program and considering all multilateral and bilateral financing available to Kenya. Similarly, there are many ways to influence and to assist in policy formulation and implementation. Some of these ways are reflected in broad discussions of macro-policies, which provide the context for all assistance but are particularly relevant to commodity import financing; in other instances, it is more appropriate for the Government to seek USAID support for experimental programs (e.g., credit for smaller industries), which after fine-tuning in a project context that can later be replicated on a wider scale. In some cases, the appropriate mode is a more academic study that lays out facts, analyses, and their implications, and then suggests an agenda for government officials to consider as they frame new policies and programs.

Leaders of the GOK, and officials working with them, already know the general thrust of USAID preferences and opinions -- the relative efficiency of free markets, the need to limit population growth, the productivity of a healthy private sector, and the advantages of encouraging export sales and investment by foreigners in Kenya. These points of view have been advanced officially in the oft-quoted Sessional Paper No. 1 of 1986 and are incorporated more recently in the Development Plan for 1989-1993. There is some impatience with repeated "advice" on these points, which is bound to be misunderstood as

preaching. By contrast there is a great hunger for "show how", that is to say, for collaborative work that identifies and tests pragmatic steps to relax well-recognized constraints and defines practical ways to move toward mutually understood and accepted objectives.

An effective "policy dialogue" supported by successful projects is possible only when there is alignment on purposes and a willingness to trust. Moreover, most useful dialogue is buttressed by personal relationships of mutual respect and understanding, which then influence the quality of relations between the principal agencies concerned.

There remains a scarcity of empirical policy research in Kenya, studies that examine the realities of business and town or village life to discover the underlying policy issues and to clarify both the pros and the cons of various options for action. There continues to be an appetite for the proper structuring of questions and for stating objectively the advantages and disadvantages of alternative action plans; USAID has the opportunity to satisfy this need in selected cases and thus to establish a standard for studies which will be available for imitation and dissemination for many years to come.

Highly complex agreements are rarely understood by all concerned parties and almost never understood in a common way. Although admittedly handicapped by the very short period of its field work, the Evaluation Team, in its interviews with Kenyan businessmen and officials, found little awareness of specific conditions and policy understandings incorporated in major assistance projects. There is much discussion of "conditionality" generally, but very little appreciation of particular issues and concerns. It will be useful in the future to continue a wide-ranging general discussion in support of government policy reforms and specific measures considered urgent by World Bank and IMF experts; but at the same time it will be desirable to be highly selective in points tied to the disbursement of funds under specific grant or lending agreements.

E. RECOMMENDATIONS

This Evaluation has confirmed the value of USAID's diverse program of policy-conscious support of Kenya's structural adjustment program and recommends continuation of assistance in creating an increasingly favorable climate for both local and foreign investors, as called for by President Daniel Arap Moi in his forward to the Development Plan 1989-1993. "The Plan challenges Kenyans to cultivate an entrepreneurial spirit which revolves around dynamism, inventiveness, innovation, initiative and a propensity to take risks. Entrepreneurs and businessmen react to the signals present in the business environment. Government will, therefore, create an environment which is conducive and rewarding to entrepreneurs and which will generate a climate favorable to both local and foreign investors in order to foster the necessary meaningful transfer of technology and creation of jobs..."[15]

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[15] Development Plan 1989-1993, p. 39

Within this framework it is appropriate that USAID continue its support for the commodity import program, which is so essential to making full use of existing productive capacity, although the dollar amounts earmarked for this purpose can be reduced as Kenya's export earnings grow. In the judgement of the evaluation team it will be even more important to continue actively to assist with a program of studies and advisory services focused on establishing the "enabling environment" which all parties recognize as necessary for sustained economic expansion.

The Evaluation Team recommends that the Mission continue to strengthen its policy capabilities not only by the appointment of new staff and the further analysis of recent project experience but also by commissioning its own studies of important policy issues in selected cases and continuing to revise internal management procedures in ways that give additional attention to policy questions, especially those which are raised out of experience with particular USAID financed projects.

Continued emphasis on empirical studies and the formulation of policy options is recommended. To the extent possible, the Mission should strive to ensure that studies it finances are models that can be imitated by others in the future. This mandate will include "little" things like an executive summary and bibliography for each study; it will base recommendations on empirical observations; and it will recognize that there is often more than one solution and that political factors must be taken into account before implementation schedules are announced. In short, studies will aim at policy--a realistic plan of action to create elements of an environment in which economic forces drive toward growth and equity--not at theoretical neatness.

Few projects work out exactly according to plan. Moreover, several activities in the private enterprise program are intended as experiments to be revised on the basis of initial experience before replication on a larger scale. Policies can be tested in a very practical way through these projects, which may therefore need to be renegotiated as experience accumulates. If, for example, a credit project is handicapped by an unrealistic ceiling on interest rates, the USAID Mission in Kenya should be encouraged to bring such evidence to the attention of government--regardless of whether it favored higher or lower rates when financing was first negotiated.

The Mission is urged to keep agreements simple and focused on major goals and objectives. The proposed mechanisms for achieving these goals are important pieces of back-up information but can be recognized from the start as likely to require mid-course adjustments in response to experience.

It is recommended that mechanisms be strengthened, both within the Mission and between GOK and USAID, for quarterly or semi-annual review of project experience in order to distinguish (i) which original undertakings will need to be enforced more actively, (ii) which might best be revised, (iii) what previously unforeseen (or unhandled) policy constraint is preventing desirable results, and (iv) how such concerns are most effectively conveyed to project partners. Without some such regular review and consultation mechanisms the lessons of experience cannot be exploited promptly or fully.

Policies can limit the effectiveness of projects--and when revised, may eliminate the need for some projects. Similarly, as noted earlier, experience with some projects can point to policy constraints that are becoming ripe for action. All projects should be reviewed for policy implications from time to time. Commonly, the exigencies of project management preclude this and some special review procedures may be necessary to encourage project managers and Mission programmers to stand back from project details periodically and to search for broader lessons and implications.

The Evaluation Team found some instances of misunderstandings about USAID policies and "conditions" which are potentially damaging to the projects, to the possibility of constructive policy dialogue, and even to the reputation of the United States. Because misunderstanding and misinformation are inevitable, it will require constant vigilance to ensure that people generally, and influential people in particular, know (i) that USAID does not insist that interest ceilings of any kind, let alone unrealistic ceilings, be imposed on loans to small enterprise and (ii) that surplus U.S. fertilizer is not dumped on Kenya at exorbitant prices.

VII. MAJOR FINDINGS REGARDING THE USAID/KENYA MONITORING AND EVALUATION SYSTEM

A. INTRODUCTION

The scope of work called for the Team to review the existing dBase program maintained by the Projects Office and assess its ability to provide answers to the questions of project managers and the division chief on private sector program management and impact. The consistency, comparability and relevance of data collected, and its utility in measuring component and program impact using the dBase program, were also to be reviewed. A review of the existing level of ability among professional and support staff with regard to inputting and accessing this data was also requested.

The Team was charged with developing recommendations in the following areas:

- data collection
- data input systems
- staff training
- the system itself
- reports which can and should be generated by the M&E system
- scope of work for additional programming as needed.

There are a number of underlying assumptions about the system and its operation on the part of USAID/Kenya which should be noted. First, one key assumption appears to be that the dBase program is the single tool in which collected data will be entered, manipulated for reporting purposes, and from which reports will be prepared on clients served to assess the direct development impact of USAID's private sector program. Second, the system as currently operated presumes that the data can be entered into the system at the secretarial level and that the reports needed will be generated on demand through the professional staff member in charge of the system.

The monitoring and evaluation system should be continued with a software program as the "system". In this context, the "system" includes an organized method of collecting data from clients, implementing agencies and project managers. This data may be used by component and project managers to monitor progress over time, and for the program managers to be able to make comparative and evaluative assessments about similar interventions. Any monitoring and evaluation reports should be complementary to the semi-annual PIRs.

By placing primary responsibility for data gathering and analysis with the implementing institutions, managerial capacity could be enhanced while reducing the administrative burden on the Mission. In practice, however, most of the analysis has been left to USAID, thus diminishing the potential institutional development impact of establishing a monitoring and evaluation system. Institutional goals would presumably be better served by an approach that included project managers working with implementing institutions to develop their capacity to gather, maintain and analyze data with routine periodic reports to USAID.

B. CURRENT SITUATION

1. Hardware

At present there is no hardware dedicated to the operation of the M&E system. The database system is diskette-based and can therefore run on any IBM-compatible machine. Other computerized spreadsheets and schedules that are used to manage the PED program are also located on diskettes maintained by individual project officers.

While systems managed by individuals are better maintained on diskettes, the database system has program-wide use and therefore should be as accessible as possible. The portability of a diskette-based system is a useful feature, but it does have its drawbacks. Among these are the fact that:

- starting the system is a cumbersome and slow process
- data manipulation (e.g. sorting, indexing, etc.) takes a long time
- the size of the data files is limited by the diskette capacity
- diskettes are more susceptible to being damaged or misplaced.

2. Software

The M&E database program is developed in dBase III, a widely used and powerful database programming software package. The system was designed in 1988 by USAID/Kenya personnel in response to an AID/W handbook guideline requiring missions to focus on monitoring and evaluation of their programs.

The designers of the system focused their attention on the requirements of each project officer in managing projects and tried to consolidate these individual requirements into the system. As a result, the databases are large and cumbersome to maintain and are not easy to understand or use.

The system also does not appear to be fully completed. It currently is composed of a series of discrete database files only. No programs have been written to assist with data entry or report extraction. No date of entry on baseline data is provided, making it impossible to determine the currency of the data or when it was last updated. In addition, the current system has no password or other protective device for guarding against the inadvertent deletion or alteration of data.

At the present time, potential users must have at least a basic knowledge of dBase in order to use the system in its simplest form. Any complex report production requires the assistance of an experienced dBase programmer. This weakness in the way the current software is presented partially defeats the purpose of the system and has contributed to its lack of acceptance and use among USAID staff.

3. Operating Procedures

There are basically three activities in the M&E operating cycle:

- data collection
- data input
- report production

Data collection is the responsibility of the intermediary agency. Client baseline data is to be collected when the client receives the "service" and should be submitted at the time the "service" is provided. Although these requirements are stated in the contractual agreements between USAID and the intermediary agencies, they are often not adhered to. Data is frequently late, of poor quality, incomplete or non-existent. Intermediaries that are particularly poor are commercial banks and government agencies. Interviews indicate that among the reasons for this are inadequate training, lengthy and complex form design, and inadequate follow-up and enforcement from the Mission in the event of non-compliance.

When the system was first designed, USAID provided data input forms to the implementing agencies for their use in collecting and supplying data to USAID. The data collection forms were not accompanied by a set of instructions, nor did adequate training take place to instruct the implementing agencies in their use. They are also long and complicated. This is mainly as a result of trying to make the system collect all data relevant to managing each project. The administrative burden on the intermediaries in completing these forms has led to a poor response rate, particularly from banks. Another major problem with data collection is that the meaning and measurement of certain fields of information are ambiguous (e.g. are sales cash, credit or both?; do assets value land at current market value or at the time of purchase?) Thus the integrity and comparability of the data that is found in the M&E system, particularly regarding some of the small business statistics being gathered, is suspect.

Data input is done by Office of Projects staff. Originally one secretary was designated to perform this task but she has since left. Currently input is done by officers or other secretaries familiar with dBase and as a result there is no continuity. Another problem with data input is the lack of validation. With standard dBase input screens, data fields can be filled with any characters. The database files now have several cases of irregular data (e.g. the same ID Service Code has sometimes been entered as S001 and sometimes as S0001) which affect its integrity for reporting.

Report production is also done by USAID staff. Typically, officers who require reports request a secretary who is familiar with dBase to produce them. This practice works well for simple listings but is not geared for analysis or for reports where multiple files need to be accessed. For example, it is very difficult to track multiple services to the same client or company.

Although a documentation manual does exist, it serves mainly as a guide to the structure of the system and the various data collection forms. It does not provide instructions on how to enter data, print reports, etc. Thus it is very difficult for a new or non-dBase user to utilize the system without extensive hands-on training.

4. Staffing and Training

Of the 11 professional staff and four secretaries in the Office of Projects, only two secretaries and three professionals are familiar with the dBase system. With the exception of perhaps one secretary and one professional (soon to transfer to AID/W), the competency on the software program is low. This has been a major constraint in establishing and using the M&E system as

designed. The professional staff member who is charged with the overall responsibility of managing the program, one other professional and one secretary only received training on dBase III+ in December 1988. Following that training, the two newly trained professionals reviewed the dBase program and found it to be cumbersome. Their conclusion was the system, as originally designed, was administratively burdensome to USAID and not utilitarian at the component, project or program management levels.

There are presently only two officers who are conversant with running the M&E database system. In addition, one secretary who is familiar with dBase is sometimes used to extract data. This lack of familiarity among staff is another major contributory factor to the under-utilization of the system.

There has been no significant training for Mission staff on how to use the system. To date, training has been limited to the two officers attending a dBase course and some on-the-job self-instruction.

Training has been provided to personnel in some of the intermediary institutions on how to collect data and complete the data input forms. However, as staff in these institutions move, the knowledge they have acquired often does not get passed on to their successors. As a result, data collection becomes irregular and of poor quality.

C. CONCLUSIONS

Hardware

1. The speed of processing is considerably slowed by running the system off of diskettes.

2. The lack of a fixed but accessible location is partly responsible for the under-utilization of the system.

Software

3. Current operation of the M&E database system requires a relatively advanced skill level in dBase III+, a fact which restricts the use of the system.

4. The integrity of the data being captured is not very good due to lack of validation at the time of input.

5. The current M&E software needs considerable modification in order to make the system more functional and usable for USAID personnel.

6. Report production is limited to simple listings of the various data files. Useful formats that include page breaks, totalling, etc. are difficult to produce.

7. The size and structure of the database files are cumbersome to maintain and access [illegible] the requirements of the system.

8. The client databases provide no date of entry on baseline data.

Data Collection

9. To various degrees, intermediary organizations find USAID data requirements burdensome and confusing.

10. The commercial banks have neither the interest nor current capability to gather impact information on clients served. They do, however, have the capability to improve their baseline reporting with appropriate assistance from USAID.

11. Component managers generally have enough information gathered through their own personal information systems and through the PIRs to track compliance on individual project activities and track progress on institutional development issues.

Data Input

12. Data being reported by intermediary organizations to USAID is not being inputted in a consistent and accurate manner.

13. The current system does not provide a protective mechanism for guarding against the inadvertent deletion or alteration of data.

14. The data entry instructions for inputting the data are extremely long and many fields are not necessary for all clients.

Report Production

15. Beyond a descriptive listing of clients and intervention data, no reporting formats have been designed or programming done to make statistical calculations for program-level evaluation. With the programming assistance, the dBase system has the capability of providing this information.

16. Simple but well-structured reports on various program-wide statistical and compliance data should be regularly produced from the combined sources of the dBase III+ client database and individual project management files maintained by component managers.

Staffing and Training

17. Lack of trained staff and insufficient understanding of the capacity and potential of the current dBase system has contributed to its under-utilization.

D. RECOMMENDATIONS

Overall

1. The dBase system should only provide essential information for the purposes of frequency counts, programmatic evaluation and comparison.

2. Sources of data outside the dBase system (e.g. compliance issues, institutional development, etc.) developed by the project managers and implementing agencies should be supplementary as a means of further explaining and modifying conclusions reached by the dBase analysis.

Hardware

3. In order to make the system more accessible and to give it a sense of identity, the M&E database should be installed on a machine with a hard disk drive. The computer should ideally be dedicated to the M&E system and be located in a generally accessible place within the Projects Office. Additional benefits of this approach would include:

   - much larger capacity for storing data records
   - quicker start-up, data manipulation and report production
   - better security (when coupled with appropriate back-up procedures)

Software

4. The database files should be scaled down to include only data that is easy to collect and is useful on a program-wide basis (i.e. they should not be designed to manage individual projects).

5. A program that is user-friendly and menu-driven (see sample in Annex 6) should be written to act as an interface between the data files and the user in order to make the system functions easily accessible to personnel without dBase skills.

6. Special password protection should be built into the system so that data entry and editing facilities are restricted to authorized users only (to minimize data corruption), while report production routines remain generally accessible.

7. Various housekeeping routines (e.g. back-up, restore, reindex, etc.) should be incorporated to assist in the daily management of the system. A scope of work for enhancing the software program is described in Annex 6.

Data Collection

8. The current set of data input forms should be substantially modified. Revised forms should be self-explanatory accompanied by a form completion guide. This process is already in progress and there have been a number of iterations thus far. (See Annex 6 for a sample client baseline form).

9. Project managers should exert more pressure on implementing agencies to collect regularly the required data and submit this data on a timely basis to USAID. This might be done by creating incentives for agencies to comply (e.g. sharing data analysis reports produced by USAID with implementing agencies), or taking firmer actions for compliance (e.g., making specific quarterly report requirements).

Data Input

10. Input screens should be designed to correspond with data input forms to ease the data-entry task.

11. Data entry programs should be written that enable various forms of data input validation (upper or lower case, alphabetic or numeric, etc.) in order to improve data integrity.

Report Production

12. A set of special report programs should be written to enable easy extraction of frequently required data in standard formats (see samples in Annex 6).

13. As report requirements are likely to change and grow with continued use of the system, a subsequent analysis should be done in order to incorporate these into the system.

14. The system should continue to have an ad hoc reporting and query facility, and capacity for special format reports, even though these features will only be accessible by users with at least basic dBase skills.

15. A quarterly monitoring report to the Chief of the Office of Projects should be produced in part by the dBase system and in part from project managers' files. A suggested format in found in Annex 6.

Staffing and Training

16. At least two administrative staff should be trained to become more conversant with the system. One should have prime responsibility and the other should serve as a back-up.

17. The trained administrative staff should perform all data entry and editing and could be called upon to produce reports as well. They should also be responsible for basic housekeeping activities such as taking regular data back-ups.

18. The operation of the M&E system should not require the full-time attention of an administrator.

19. Additional training is required at the intermediary institution level. Staff responsible for collecting and reporting this data should be trained not only in data collection techniques, but should also be informed about the importance of this data, its end use, and should be made aware of the potential of the system for offering management guidance to the implementing agency.

20. The use and interpretation of various indicators of direct development impact such as changes in sales, employment, investment, etc. must be standard across all the data collecting points. Staff training on these issues should be a regular activity conducted by USAID officers responsible for the system. The steps required for each level of data reporting and the personnel who should be responsible for each step are described in Annex 6.

VIII. PROGRAM CONCLUSIONS

This chapter summarizes findings concerning the costs, outputs and impacts of USAID/Kenya's current private enterprise program, and identifies key constraints facing the program.

A. PROGRAM COST

The LOP budget for the USAID private enterprise program activities as of March 31, 1989 is $154 million dollars. The Program accounts for about 43% of the Mission's total LOP authorization for active projects.

Accrued private enterprise expenditures to March 31, 1989 are $52.46 million. Of this total, $4.24 million was spent on management and entrepreneurship development activities, $12.15 million was spent on finance and equity, $9.60 million on policy studies and assistance, and $26.47 million was spent on commodity imports (including fertilizer). In percentage terms, these proportions are 8% for management and entrepreneurship, 23% for finance and equity activities, 18% for policy studies, and 51% on commodity imports. (See figures 3.A and 3.C.) Excluding fertilizer, the allocation of accrued expenditure was 16% for management and entrepreneurship, 47% for finance and equity activities, and 37% for policy studies and assistance.

A total of 2,035 person-days per year of USAID staff time (including PSCs) were spent administering the program. This equals 4.06 person-years of direct hire and FSN staff time per year.

As proportions of total direct hire and FSN staff time expended on private sector activities (excluding commodity import administration), 45% of staff time goes to finance and equity, 30% to management and entrepreneurship, and 25% goes to policy studies and related technical assistance.

B. PROGRAM OUTPUTS

Loans disbursed under all financial and equity market activities total $10,998,000 as of 3/31/89. Over 1,700 loans have been made.

The management and entrepreneurial development component has delivered services to 5560 individuals. Seventy-three percent of those assisted are involved in small business activities in rural areas; 3% are urban Jua Kali business owners; 5% are staff of PVOs engaged in small enterprise promotion activities; and 2% are commercial banking officers. Other outputs are listed in Figure 3 and in the activity assessments.

Principal outputs from policy activities include one three person policy tour, two policy studies, substantial imports, streamlined Ministry of Finance records and improved GOK plans for implementing government programs.

C. CONSTRAINTS

1. Current regulation of interest rates and equity markets constitute major constraints to USAID's capital mobilization efforts. USAID finance and capital market development activities will be successful and cost-effective over the long-term only if the government continues to liberalize Kenya's capital markets.

2. The absorptive capacity of the GOK for technical assistance in capital markets development is limited. The GOK has been urged by international and bilateral agencies to carry out a capital markets reform program. Despite the fact that capital markets reform is extremely important to the accomplishment of USAID's private enterprise objectives, the GOK is likely to implement its reform of capital markets slowly and unevenly.

3. There is a scarcity of sound business proposals from indigenous entrepreneurs. Officers in IPS, KEM and the Africa Project Development Facility mentioned that this shortage makes it difficult to undertake investment programs that concentrate on indigenous entrepreneurs.

4. Policy analysis capabilities in Kenya are still weak. There are not many experienced policy analysts in universities or consulting firms. Furthermore, the tradition of policy analysis in GOK is weak, and many agencies lack capability to absorb policy information or to commission useful policy studies.

5. Recent government practice has relied heavily on administrative controls in the economy.

6. High loan default rates and high administrative costs make it difficult to establish loan programs on a sustainable basis.

D. POTENTIAL OF USAID PRIVATE ENTERPRISE ACTIVITIES

A number of excellent pilot programs have been undertaken. Some have substantial future potential. Many have hit the limits of what is possible in the current policy environment. Activities with future potential include:[16]

1. Supporting policy studies, empirical information, and "show how" to the GOK and NGOs to encourage policy dialogue and reform.

2. Assistance in deregulation of financial markets to allow financial institutions to charge higher interest rates to rural, microenterprise and SMSE borrowers.

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[16] Program potential is defined here as the amount of expected sales, employment and investment benefits associated with a project; the "additionality" of USAID's contribution; the likelihood of further institutional impact; and/or the probability that the activity will eventually be sustained without USAID assistance.

3. Assistance in deregulation of the stock market. There is interest in continuing with stock market reforms, and continued deregulation is essential to mobilizing long term investment capital.

4. Assistance in building capital market institutions:
   - Capital Markets Development Authority
   - Nairobi Stock Exchange
   - Government financial and equity market regulatory agencies
   - Local NGOs representing the finance industry

5. The Commodity Import Program, because it facilitates the import of essential industrial inputs, and because a precipitous decline in this program would damage USAID credibility with the Government of Kenya.

6. The Investment Promotion Centre because of its potential to streamline investment procedures.

7. Continuing to encourage marginal changes in lending practices in formal sector financial institutions. Big changes are not feasible now, but small ones are, and small projects should be adequate to encourage continued changes.

8. Continuing to fund promising pilot programs for small and microenterprise lending on a selective and limited basis and with principal focus on replication and improving the cost-efficiency of these programs.

9. Increased agribusiness lending because of the success demonstrated by the LIK project and the large number of agribusiness investment opportunities that exist in Kenya. Various delivery mechanisms may be appropriate for this: loan guarantees, direct loans to businesses, and establishment of targeted agribusiness IFI lending programs.

10. Establishing mechanisms to recycle USAID funds for lending to targeted businesses. This arrangement has the potential to increase substantially the amount lent per USAID dollar invested.

11. There is substantial demand among government officials for "show how", that is to say, for collaborative work that identifies and tests pragmatic steps to relax well-recognized constraints and defines practical ways to move toward mutually understood and accepted objectives.

Activities with limited potential given current conditions include:

1. Encouraging substantial changes in the lending behavior of major commercial banks: Kenya's major banks are not willing to incur the opportunity costs of lending larger amounts to small and microenterprises, rural businesses, and new businesses without significant subsidies or margins.

2. Lending to large corporations under the RPE project. The additionality of these loans appears to be very low; most of these businesses would have received similar loans without USAID assistance.

3. Short seminars for business. These seminars are typically insufficient to have a material impact on businesses. In some cases, however, USAID may wish to continue funding such activities for their public relations value.

4. Volunteer business counseling because of (i) lack of good fit between client needs and available counseling expertise, (ii) lack of sufficient numbers of local counselors to ensure sustainability, and (iii) lack of follow-up assistance to recipients.

5. Current approaches to Jua Kali (microenterprise) lending have little potential to be carried out on an unsubsidized basis or to be extended to large numbers of microbusinesses. In addition, other foreign donors appear willing to provide continuing subsidies to microenterprise programs.

E. ACTIVITIES WITH SIGNIFICANT POTENTIAL NOT CURRENTLY INCLUDED IN THE PRIVATE ENTERPRISE PROGRAM

1. Trade and investment promotion. Trade and investment activities could play a key role in providing employment opportunities and increasing economic activity in general. However, for this potential to be realized, there must be major improvements the infrastructure that supports trade and investment, e.g., rationalization of import tariffs for raw materials and capital goods, provision of incentives to export sales, and creation of an OTC market that can help export-oriented new starts raise capital.

2. There is substantial opportunity to improve entrepreneurship skills among indigenous business persons working in medium scale enterprises.

3. Assistance in strategic planning for REP and local PVOs to help these institutions become sustainable in the future.

F. INSTITUTION BUILDING OBJECTIVES

Assessment of institutional impact revolves around two areas of organizational development: (i) current and potential impact of USAID activity on the knowledge, systems, skills and practices of individual institutions, and (ii) sustainability of specific activities through achievement of financial viability and/or identification of long-term sources of income or subsidy. In both these areas, the lack of institutional baseline or impact data has hampered empirical evaluation of impact.

Nevertheless, USAID private sector activities have made significant institutional impacts on several intermediary institutions. These impacts are relatively small in the case of commercial banks, and are moderate for NGOs, business support organizations like KMAP, and for money and capital market organizations such as the Nairobi Stock Exchange and the Capital Market Development Advisory Council. The potential for continued institutional growth is promising in NGOs, business associations and capital market institutions, but not very promising for the country's largest commercial banks, given current constraints in financial markets.

Encouraging further institutional growth among PVOs providing services to small and microenterprises will require substantial inputs in training, technical assistance in administration and systems design, and monitoring and audit. Providing funds to these organizations on a loan (rather than grant) basis promises to both strengthen the financial operations of PVOs and to assist USAID in "weeding out" organizations that are not attaining performance goals.

In looking at the sustainability of institutions supported through USAID activities, it is important to note that there are other potential sources of income in Kenya that institutions should be encouraged to explore and exploit. These sources are discussed in the individual activity reports.

G. CONDITIONALITY

The traditional concept of "conditionality" is of limited usefulness, even for the CIP component of the Private Sector Program. Experience calls into question the wisdom and feasibility of tieing disbursements to specific results in terms of policy decrees, budgetary allocations or other agreed targets. There is widespread recognition in Kenya of the value of a market-driven economy free of administrative controls; discussion is mainly on what measures to implement to achieve such decontrol and how best to implement them, given socio-political and resource constraints inherited from the past and complicated by uncertainties in the international economy.

An important focus of USAID-financed technical assistance on policy issues in Kenya must be the quality of the local dialogue on these subjects; only when local discussion is well-informed is there likely to be a thoughtful audience for contributions to that dialogue from USAID. This is not to suggest that policy issues are not important; quite the contrary. However, it is vital to recognize that the agenda is best set nationally and that USAID's greatest usefulness now and for the next few years is likely to be in terms of "show how" in the management of policy change rather than in further prescriptions regarding changes to be sought. Commodity assistance is an important element in this equation insofar as import financing directly constraints policy change. More generally, such financing probably serves to enhance USAID's credibility in policy discussions.

USAID financing for policy analysis in Kenya is relatively recent, and studies incorporated in the Private Sector Program are too new for results to be evaluated conclusively. Nevertheless, the evaluation team feels USAID should be encouraged by early results and concludes, partly on the basis of positive experience with similar programs in countries like Indonesia and Thailand, that further financing in this arena will pay good dividends if continued over the next 5-10 years.

H. LACK OF VALID IMPACT DATA ON THE PRIVATE ENTERPRISE PROGRAM

There is currently very little valid impact data being collected by activities under the Private Enterprise Program. The result is that it is very difficult to determine the impacts of USAID private enterprise activities.

I. POLICY ISSUES ARISING FROM PROJECTS

Existing activities have revealed a number of policy and procedural constraints that can and should be given a place in USAID's future policy dialogue agenda. (These are noted in the individual activity reports.) Additional review of private sector program activities would no doubt identify further opportunities for policy dialogue.

J. SUSTAINABILITY OF USAID PRIVATE ENTERPRISE ACTIVITIES

Sustaining the benefits created by the USAID private enterprise program presumes a stable source of income for the activities, either from user charges (for credit, training and technical assistance) or from a dependable source of subsidy. Many of the current activities and organizations assisted by USAID have not yet developed sufficient sources of income to carry on without continued USAID support.

K. COMPLEMENTARITY

It was clear from a review of USAID's private enterprise program that several activities complement each other. Specifically:

1. Some of the Mission's credit and equity programs are supported effectively by Mission-funded training and technical assistance activities;

2. Credit and equity activities have highlighted the importance of continued policy dialogue on private sector issues;

3. Training, study tours and technical assistance activities contribute in several cases to policy dialogue and policy institution building.

This complementarity is one of the program's important strengths; and further enhancing this complementarity should be a priority in future programming. Because the value of the program's activities is greater than the sum of its individual activities, it is difficult to rank certain program elements and activities in terms of their independent impact on private sector development.

L. BALANCED EMPHASIS ON EFFICIENCY AND EQUITY

Broad-based economic participation and a more equitable distribution of income on the one hand, and efficient use of capital on the other, are two central objectives of USAID/Kenya's Private Enterprise Program. Relatively fewer resources are used to promote domestic capital mobilization.

Broad-based participation and income distribution have been addressed principally by the Mission's focus on SMSEs, micro and rural businesses, and to some extent by the Mission's targeting of women and indigenous entrepreneurs. Other means of achieving these distributional objectives could include:

- Emphasizing employment generation and investment as an explicit strategy for promoting equity;

- Assisting further in the development of entrepreneurship;

- Encouraging larger enterprises to subcontract and to build technical and marketing linkages to smaller enterprises;

- Promoting employee stock ownership; and

- Promoting interest rate deregulation.

Efficient use of capital is pursued by supporting the development of equity markets and venture capital, providing technical assistance to existing businesses, and through the Commodity Import Program. Relatively little is spent on promoting interest-rate and equity market deregulation, two key means of encouraging capital mobilization and market efficiency.

M. PRIVATE SECTOR OPPORTUNITIES IN OTHER MISSION PROGRAMS

Some of USAID's most important private sector activities and policy dialogue opportunities lie outside what is currently included in USAID's internal definition of its private sector portfolio. Administratively, the current separation tends to isolate the "private enterprise program" from private enterprise opportunities arising from the Mission's agriculture, health, housing and training programs.

All of the technical offices of the Mission carry out "private enterprise" related activities, and most Mission projects have private enterprise development objectives and activities. The effectiveness of the Mission's private enterprise program would ostensibly be increased if there were closer collaboration between these offices, Projects Office staff concerned with private enterprise projects, and the relevant A.I.D. central bureaus with regard to the identification and exploitation of opportunities to promote private enterprise.

IX. PROGRAM RECOMMENDATIONS

The Evaluation Team wishes to record its general view that the private sector program implemented by USAID/Kenya includes an unusually wide array of imaginative and worthwhile activities. Many efforts were explicitly experimental, involving new or untested organizations and various innovative approaches to the problems of service delivery and incentives. These activities provide a rich array of options for the Mission's future strategy. The Mission should continue to experiment but should focus principally on national objectives, structural changes, measurable economic impact, replication and sustainability. While this focus can and should result in some concentration of USAID's private sector efforts, it is important to retain and enhance the complementarity among activities that make up the program.

This chapter focuses on suggestions for enhancing the impact of both the current USAID private enterprise portfolio and a future USAID private sector program.

A. PROGRAM OBJECTIVES

Until now, USAID/Kenya has had a private enterprise strategy (i.e., experimentation, demonstration and institution building), but no clear, unified set of program objectives. Based on this review, the team believes the Mission is now in an excellent position to consider evolving towards a program based on a clearly specified set of national level program objectives. One model of a future USAID/Kenya private enterprise program that was suggested during the Mission's current strategy formulation exercise is the following:

PROGRAM GOAL	**Increased Private Sector Investment**			
PROGRAM SUB-GOALS	(1) Policy Reform	(2) Export Promotion		
			(3) Capital Markets Development	(4) Entrepreneurship Development

Whether or not this particular model is adopted, in a subsequent private enterprise program, the team felt that USAID's goals would be well served by selecting particular organizing objectives that direct resources toward a single national goal and a set of strategies designed to make a meaningful contribution to it. Viewing the Mission's private sector activities from this programmatic perspective makes it easier to identify activities that will have large-scale effects, and that will complement each other in achieving a single private sector development goal.

B. FOCUS ON INSTITUTIONAL OUTPUTS

In the future, USAID's focus should probably shift from institutional development to supporting increased output and outreach by the most successful of the institutions with which USAID has worked. Performance measures such as client base, cost recovery, efficiency (i.e., cost per unit of product or service), and possibly impact should become criteria for the renewal of institutional support.

C. SUSTAINABILITY

Ensuring sustainability of private enterprise services should be a critical consideration in future USAID programming. Encouraging and assisting institutions to charge an adequate price for services and/or to obtain long-term government, donor or charitable support is critical to this effort. Any short- or long-term USAID subsidies should be undertaken with the sustainability perspective in mind.

To increase the long-term sustainability of its private enterprise activities, USAID could take several kinds of actions within its current program. These include:

1. Providing loans instead of grants to PVOs for credit activities.

2. Assessing the possibility of establishing endowments, or long-term agreements among donors and the GOK, to provide partial support to particularly successful PVOs.

3. Transferring training activities for bank personnel to institutions such as the bank training schools.

4. Encouraging the government to abolish interest rate ceilings for the costliest target markets.

5. Charging higher fees for training and technical assistance services. There is considerable evidence of the ability and willingness of clients to pay higher fees for management and entrepreneurship services.

6. Encouraging competition among financial institutions for USAID credit resources to reduce credit subsidies to intermediaries provided under credit projects to local IFIs.

7. Establishing revolving funds for lending activities.

8. Providing commercial credit at market rates (or higher) to encourage sustainability and to strengthen the local financial system.

D. TECHNICAL ASSISTANCE AND TRAINING TO SUPPORT PRIVATE ENTERPRISE PROGRAM SUB-GOALS

Technical assistance and training (TAT) should be viewed as complementary and subordinate to the Mission's principal private sector development objectives, and should be designed and evaluated accordingly. A secondary objective of such programs is to provide positive visibility for the Mission and for private enterprise in general.

Technical assistance and training have key supporting roles to play in several areas of the Mission's private enterprise program. In the current program, TAT provides essential support to capital markets and economic policy reform objectives. In future programming, TAT could play a critical role in export promotion and should continue to be directed at capital markets development and economic policy reform. In general, there is a need for the program to focus TAT activities on more clearly defined program objectives.

In the framework outlined in A above, for example, TAT directed toward the capital markets objective might include:[17]

- helping the Capital Markets Development Advisory Council to draft legislation establishing an independent capital markets authority;
- assisting the Kenya Banker's Association in developing position papers on interest rate regulations;
- training Kenyan stock brokers in market operations through study tours;
- providing long and medium-term participant training for Kenyans in the areas of financial markets operation and regulation, and micro- and macroeconomics.
- continuing actively to assist with a program of studies and advisory services focused on establishing the "enabling environment".

E. POLICY ISSUES ARISING FROM PROJECTS AND POLICY COORDINATION

The Mission should continue to strengthen its internal procedures for identifying and dealing with policy issues, perhaps by establishing a Policy Committee, which would meet periodically. Additional training and consulting resources should also be provided to support policy improvements by the Government of Kenya.

Existing activities have revealed policy constraints that must be dealt with if private enterprise expansion is to be sustained and accelerated. This will almost certainly continue to be the case as projects mature and as this year's policy changes open up opportunities for further changes in the future. First priority should be given to policy issues arising from specific project experience (e.g., interest rate ceilings inhibiting the flow of institutional credit to small enterprises; lack of legal protection for minority investors).

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[17] Many of these things are already being done under the program.

But the committee should also review the policy priorities of the GOK and other donors to ensure that USAID's assistance is promptly supportive whenever such action is appropriate.

Although this recommendation is framed in terms of establishing a Policy Committee, it is possible that the Mission will find it most efficient simply to bring a policy agenda to some existing management committee. The point is to give focus periodically to policy issues arising from USAID's projects and from new opportunities in the economy at large, to agree on steps to clarify (and where necessary to lobby for changes in) policies, and to increase policy-consciousness throughout the Mission.

As a start, it will be useful to make an inventory of allocations in various projects that can be used for policy activities, and to see what policy issues currently need attention, either because projects cannot go forward properly or because these projects suggest new avenues for USAID assistance. A small effort might result in two lists:

(i) An inventory of policy issues that need attention, ranked according to feasibility of inducing policy changes through small USAID investments;

(ii) An inventory of policy resources - funds that can be used to produce studies, to disseminate information, to provide training and technical assistance related to policy efforts, and to build policy institutions.

Once the habit of policy discussion is established, it may be useful occasionally to invite outsiders to participate (e.g., to schedule a presentation by a senior Treasury official when the new budget is announced, to hear from the leader of the HIID team how he views the long-term trends in Kenyan development, to have Thunder and Associates explain the new policy possibilities opened up by computerization of Ministry of Finance information functions, or to discuss with World Bank staff the successes and failures of structural adjustment programs).

Certain risks are likely to accompany increased attention to policy issues. While it is important for project officers to bring policy questions to the attention of Mission management, decisions about how and when to bring such issues to the attention of government must remain firmly with the Director. Nothing could be more damaging to the possibility of effective policy dialogue than project personnel agitating with project counterparts regarding new policy ideas that have not been carefully considered in light of other Mission priorities.

F. COMMODITY ASSISTANCE

Separate comment is necessary regarding a possible gradual reduction of commodity import financing (from over $15 million per annum in recent years). This recommendation reflects the Team's conclusion that such resources, while obviously important to Kenya and to USAID's credibility, are relatively minor in terms of Kenya's needs and result in less obvious impact than do certain of the Mission's project activities. While a precipitous decline in CIP funding would almost certainly be counterproductive, we recommend some gradual redirection, particularly if on-going economic restructuring enables Kenya's

export earnings to grow at a more rapid rate than payment requirements for imported commodities and debt-servicing. The exact magnitude of such financing is difficult for the Evaluation Team to comment on. Considerations to be balanced include:

1. A conviction that USAID's comparative advantage is in technical assistance and project support and that the bulk of donor financing for industrial imports and other commodities must come from the World Bank and other multilateral sources.

2. An awareness that import liberalization requires a pool of financing from several sources, including USAID; that USAID particularly wishes to register its strong support in an unmistakably practical way for GOK liberalization policies; and that assistance in the commodity arena helps USAID to maintain an active role in policy discussions associated with international support for the structural adjustment process.

3. A belief that mutual a priori acceptance of goals and targets can minimize destructive misunderstandings, even though specific targets cannot be enforced stringently in an international economy that is subject to sudden changes due to circumstances over which GOK has little control.

4. Evidence that recent USAID financing has been instrumental in acquainting Kenyan businessmen with U.S. sources of supply and thus increasing trade between Kenya and the United States.

5. A sense that there is some minimum amount below which commodity import financing is no longer an appropriate or practical component of the overall USAID program.

The Evaluation Team feels that to some extent USAID may wish to consider commodity imports financing to be a residual within total program amounts, i.e., whatever is not otherwise allocated once all "project" requirements have been satisfied.

G. SELECTING THE RIGHT INSTITUTIONS

As suggested above, the Evaluation Team recommends that future private sector program efforts gradually shift their perspective from institutional strengthening to institutional performance. This suggests the following possible recommendations:

1. Consider allocating an additional $2-3 million to IPC, if the seven year program now underway achieves its major objectives.

2. Allow for financing short-term, quick-response assistance to institutions such as the Ministry of Finance and KNCCI. Just as computerization often characterized institution building needs in the 1980s, there will be other discrete assistance opportunities in the 1990s.

3. Maintain current funding levels for IPS for the duration of its present funding cycle. By that time, IPS should have succeeded in attracting co-investors, thereby generating considerable sales and employment at the end of the current project.

4. Maintain current funding levels for KEM for the duration of its present funding cycle. There should be no need for a follow-up project, because by the end of the PED agreement KEM will have either established itself as a viable venture capital organization or will no longer be a viable project.

5. Maintain Jua Kali programming with KCB over the next three years. At the same time, USAID should explore other "second-tier" commercial banks or NBFIs as possibilities for providing these services at a lower rate of subsidy.

6. Maintain services to Barclays Bank under the RPE project. However, serve notice that no future assistance will be provided through Standard Chartered due to its unwillingness to commit its own funds to long-term small business lending.

7. Maintain current programming with PVOs under REP. Meanwhile, review on a yearly basis changes made to sustain services, terminating agreements with PVOs that have not made progress toward achieving sustainability by the end of the current commitment period. REP should also have made significant progress toward covering its costs by the end of the current funding cycle.

8. Funding to LIK and KCFC will be ending and should not be required for future activity.

9. Continue to support the Capital Market Development Authority through its start-up process as long as it requires technical assistance or training.

10. IESC activities should be maintained at present levels.

11. Until significant progress is made in managing the current level of service activity, KMAP funding should not be increased.

H. ATTACKING FINANCIAL MARKET REGULATIONS

As discussed in the financial and capital markets section of this report, little progress can be made to increase the availability of credit to smaller businesses unless there are significant changes in current interest rate regulations. It is important therefore to use directive lending projects (such as KCFC, PED, and REP) only under one of the following circumstances:

1. There is a strong possibility of the activity continuing because of pending or recently completed financial market deregulation;

2. The activity encourages financial market reforms; and/or

3. Credit and services can be provided to the target group through continuing subsidies, either from the Government of Kenya or from donors.

It is also important to continue to provide the government and the relevant financial institutions assistance in implementing financial market reforms. This assistance could be in the form of technical consulting, training, and demonstration projects. Continued emphasis on empirical studies and the formulation of policy options is recommended. To the extent possible, the Mission should strive to ensure that studies it finances are models that can be imitated by others in the future.

I. OPPORTUNITIES ARISING FROM OTHER USAID PROGRAMS

It is important during the planning of USAID's future private sector strategy not to overlook the rich possibilities offered by the Mission's agriculture, health, housing and general training programs.

It may be worthwhile to establish a mechanism for acting on U.S.- Kenyan trade and investment opportunities arising from projects. Resources needed include feasibility studies, seed capital, loan guarantees, and trade and investment advice. Some means would need to be found to identify business opportunities and to channel resources to them. One suggestion would be to appoint a Mission staff person as the trade and investment action officer. This person could then assist in the development of opportunities identified in other areas of the Mission's portfolio.

J. MICROENTERPRISE PROGRAMS

Compared to the thousands of microenterprises currently existing in Kenya, USAID-supported microenterprise programs reach relatively few beneficiaries. In addition, current microenterprise programs are far from a point where assistance will be carried on after the completion of USAID support. At this time, no mechanism for involving the private sector in provision of Jua Kali credit on a profitable basis is evolving from USAID supported projects.

For both equity and efficiency reasons it is important that microenterprise programs provide benefits to large numbers of businesses. To accomplish this, programs must build the capacity of local institutions to provide this assistance and must demonstrate a model for microenterprise assistance that is sustainable over the long term. Therefore the Evaluation Team recommends that any future microenterprise projects begin by formulating a strategy to reach large numbers of microenterprises. This strategy should identify any long-term subsidies that may be required to serve Jua Kali borrowers, and focus on developing means of making microenterprise credit profitable for private sector institutions.

K. PROGRAM IMPACT DATA

USAID should insist that all private sector projects and activities accept responsibility for documenting their effectiveness in terms of the stated objectives of the program. This will require establishment of an adequate program data base and implementation of procedures to collect valid impact data on a periodic basis. Collecting impact data will require: (i) enforcing reporting requirements for collaborating institutions; and (ii) some form of periodic impact audit carried out independently of implementing institutions. The periodic impact audit also helps to assure that USAID monitors the validity of information submitted by implementing agencies.

At the level of the firm, sales, employment, and (for larger enterprises) fixed investment are the most feasible purpose-level objectives to monitor on an ongoing basis. It is very difficult to obtain valid data on profits on a continuing basis. This is both because of the reluctance that businesses have in divulging these important facts, and because smaller businesses often do not keep valid data on these measures of business performance. As a minimum, it would be worthwhile to monitor the sales and employment status of businesses receiving USAID assistance. At the national level, key indicators include private investment, private sector GDP, exports, and aggregate employment in selected sectors of the economy.

Concerning institutional development objectives, the team suggests that an approach to monitoring and evaluating the success of institutional programs focus on four types of indicators:

- Improvements in the quantity and/or quality of output of the organization's principal products or services, or efficiency in producing these outputs;
- Increases in demand for, willingness to pay for, and/or satisfaction with the organization's principal products or services;
- Improvements in the organization's financial performance and self-sustainability;
- Improvements in the organizations prospects for technical self-sufficiency in the absence of USAID funding.

Specific indicators of institutional development include quantity and quality of "product" delivered by the organization, whether this is credit to targeted businesses, technical assistance hours, training hours, policy studies or other measurable outputs; changes in unit costs of products delivered, reduced staff turnover, client satisfaction, demand for services, and price paid by clients for these services.

L. TRAINING USAID STAFF IN PRIVATE ENTERPRISE SUBJECTS

Because of the highly technical nature of many of the issues involved in financial and equity market reform activities, it would be worthwhile for the Mission to consider additional training to Private Sector staff in business and finance where appropriate 6-12 week courses can be identified.

EVALUATION OF THE USAID/KENYA PRIVATE SECTOR PROGRAM: ANNEXES

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for: *USAID/Kenya*

Prepared by: *Management Systems International*
Alexander, MacLennan, Trundell & Co.

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Prime Contractor: Ernst & Young

December 1989

Ernst & Young

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ANNEX 1

SCOPE OF WORK

EVALUATION FOR OFFICE OF PROJECTS
USAID/KENYA
OF
PRIVATE ENTERPRISE DEVELOPMENT
PROGRAM

ANNEX 1
ATTACHMENT 1
PIO/T 615-0238-

EVALUATION

FOR

OFFICE OF PROJECTS

USAID/KENYA

OF

PRIVATE ENTERPRISE DEVELOPMENT PROGRAM

I. PROGRAM TO BE EVALUATED

USAID/Kenya developed one of the first distinct private enterprise development strategies in Africa and is now the leading private enterprise donor in Kenya. The $111 million USAID/Kenya Private Enterprise Program is multi-faceted, employing a "target of opportunities" approach to achieve the program goal of increased economic growth among private enterprises in Kenya. The portfolio contains 16 diverse interventions which can be separated into three programmatic elements:

1. policy dialogue with the GOK,
2. financial and equity market developments, and
3. entrepreneurial and management development.

To help acquaint the contractor with the structure of the portfolio, an "Objective Tree," showing the top three levels of the tree, has been included in Appendix A. The entire tree will be prepared and available to the evaluation team on its arrival in Kenya.

II. PURPOSE OF EVALUATION

The results of the evaluation will provide USAID/Kenya's Office of Projects with information on the relative effectiveness of the various interventions and the validity of project assumptions for use in long-term program planning. The results of the evaluation will be used to adjust current resource

allocations for the most efficient use of funds, to take corrective actions under current components, to provide information for follow-on activities and/or to confirm current effective, cost efficient project activities and to help shape the future private enterprise program.

In preparation for the submission of the Country Development Strategy Statement (CDSS) in FY 90, this evaluation and a Manual for Action in the Private Sector (MAPS) activity are scheduled to begin in the second quarter FY 89. It is expected that both the Definition and Description portions of MAPS will be completed prior to the start of the evaluation. The results of this evaluation, combined with the MAPS exercise, will provide extensive information to the Office of Projects for use in program planning.

III. BACKGROUND

The USAID/Kenya Private Enterprise Program, while referred to as a "targets of opportunities" approach is in fact a complex set of interventions in various stages of implementation. For example, two credit programs can show the variation in the timing of interventions: one, the Rural Private Enterprise (RPE) is completing its sixth year and is within a fiscal quarter of its original PACD; another, Kenya Equity Management (KEM) received its initial funding in June, 1987 and is still considering its first investment. Two other programs illustrate the use of a single implementing agency in multiple elements of the portfolio: the Kenya Association of Manufacturers (KAM) implements both policy studies and a series of training seminars while the Informal Sector (Jua Kali) Loan Program implements both credit and training programs. Some of the implementing agencies in all three elements are also targets of institutional development activities.

Of the three elements in the private enterprise strategy, the largest amount of funds is programmed for the development of financial and equity markets. The entrepreneurial and management development component is the second ranked element in terms of program funds used. Policy dialogue receives the least amount of program funds. However, if the $46 million Commodity Import Program (CIP) is included in the policy dialogue element, that component becomes the largest. The following table indicates the composition of funding sources of the program:

Project Name	Project #	Budget	Intervention
Structural Adjustment	615-0213	$31,500,000	Commodity Import
Structural Adj. Assistance	615-0240	$14,500,000	Commodity Import
Program Grant*	615-0227	$ 3,055,000**	Informal Sector Credit Program
Program Grant*	615-0227	$ 1,390,000	Loan Guarantee
Rural Private Enterprise	615-0220	$36,000,000	Credit/NGO Development
Private Enterprise Develop.	615-0238	$25,000,000	Policy/ Training/ Credit/Equity

* Local currency equivalent
** Stage II of Program, $2,778,000, scheduled for 2nd Quarter FY89, is included in this figure.

Appendix B contains a table of the sixteen interventions to be evaluated identified by the elements -- policy dialogue with GOK, financial and equity markets development, and entrepreneurial and management development. A matrix of interventions uses is included as Appendix C. The contractor can become further acquainted with the status of the various interventions by reviewing the Project Implementation Review (PIR) as of September 30, 1988, available in AFR/PD. The PIR and reports of the last evaluation conducted on some interventions will be available on the team's arrival in Kenya.

Two projects funded by PRE in 1983, the Leather Industries of Kenya (Project 940.0002.12) and the Kenya Commercial Bank through Kenya Commercial Finance Company (Project 940.0002.3) bear close resemblance to the venture capital and formal sector lending components, respectively, of the current program portfolio. Both projects were evaluated in 1987. They were also included in the recent study by Management Systems International entitled "Lessons from Experience, The Design and Implementation of Commercial Lending Programs, AID's Bureau for Private Enterprise." These projects are the most mature of the entire private enterprise portfolio. The prior evaluations provide a baseline for comparing both the existing portfolio at this stage of its development and with the current impact of these two projects. The evaluators of the financial systems

program element will therefore review the prior evaluations, collect information on their current status and impact during the course of their consultations with IPS and KCB, draw conclusions and integrate the findings into those of the overall evaluation.

IV. STATEMENT OF WORK

The evaluation may be considered to be comprised of two interrelated components: 1) evaluation at the individual project and project component level for each element of the program and 2) a comprehensive evaluation of private enterprise development activities at the program level. The evaluation will also include a review of the Mission's current monitoring and evaluation system for capture of baseline data on the private enterprises served through the program. The statement of work will be divided along these lines.

A. Project Level Evaluation

On the credit programs, the environment of Kenya is important for the evaluators. For example, IMF conditionality resulted in the restriction of 1988 credit to 100.08 percent of the 1987 credit level. USAID/Kenya's credit programs were included in this ceiling. The evaluators must consider such external factors in program assessment and qualify their findings as appropriate.

The evaluators will focus their attention on the following questions at the project component and project level:

1. Financial and Equity Market Developments:

    a. Employment: What is the change in employment, including gender disaggregation, as a result of the intervention? Were jobs saved as well as created? Is there a displacement factor evident that would decrease or offset employment generation? What was the cost to USAID for each job created?

    b. Sales: What is the change in sales as the result of the intervention? What was the cost to USAID for each dollar of increased sales?

c. Investment: Is there increased capitalization as a result of the intervention? Was there an improved use of available capital -- e.g., reduction in amount of funds tied up in inventory? What was the cost to USAID for each dollar of increased investment?

d. Institutional Development: For projects and components that include specific goals for institutional development of the implementing agency (e.g. Investment Promotion Center and Rural Enterprise Program), what activities can the agency sustain at the end of the projects without further assistance from USAID? In what administrative, financial or programmatic area(s) does the agency need additional training to increase its effectiveness and/or sustainability?

e. Unplanned Benefits: What unplanned benefits have occurred as the result of the intervention? What unplanned institutional development impact has the program had for interventions which did not have institutional building as a prime objective? For example, has more competition been generated or has the health quality (sanitary production/increased nutritional value/etc.) of products been improved?

f. Local Support: What level of local support exists for the intervention? Is USAID catching the wave or creating it?

g. Assumptions: Were the assumptions in the logical framework for the project valid?

h. Administrative Burden: What administrative burden is placed on USAID by the individual interventions?

i. Monitoring and Evaluation Is the appropriate data being collected by the Mission's M & E system? Should changes, additions or deletions be made in the type of data collected? Is the data being collected at the appropriate level (implementing agency or USAID)?

2. Management and Entrepreneurial Development:

For interventions in this element, the above questions also apply. For the question on institutional development, the implementing agencies to be reviewed in this element are the Kenya Association of Manufacturers (KAM) and the Kenya Management Assistance Program (K-MAP).

3. Policy Dialogue

a. For the Commodity Import Program, the above questions can be applied.

b. What policy changes of the GOK can be attributed, at least in part, to the intervention?

c. What is the most effective methodology for measuring results of policy dialogue interventions? Note: The methodology developed by the contractor should be agreed to by the Office of Projects prior to the evaluation. Using those measuring techniques, what has been the impact of the intervention on GOK policy issues in the private sector?

d. What new avenues of discussion with the GOK have been opened as a result of policy dialogue activity? Is the opening of new channels of dialogue a positive indicator of success?

e. Have existing channels of policy dialogue been changed? Is the GOK now taking the role of initiator for dialogue meetings? Is the dialogue now taking place with higher level personnel in the GOK? Are the changes, if any, in communication patterns a positive indicator of impact on policy?

f. What cooperation and support has the implementing agency received from other interest groups to support their policy positions in discussions with the GOK? How has this improved their institutional development?

g. For all interventions in this element, the standard questions on the monitoring and evaluation system -- Is the appropriate data being collected by the Mission's Monitoring and Evaluation system? Should changes, additions or deletions be made in the type of data collected? Is the data being collected at the appropriate level (implementing agency or USAID)? -- should be answered.

B. Program-level evaluation

For the development of the CDSS and the future programming of funds to gain the most positive effect on the growth of private enterprise in Kenya, USAID requires information that will allow a comparative review of the interventions currently employed in

the portfolio. Note: The various implementation stages and the differing management intensity levels of the interventions as well as the size, ethnicity and location (e.g. rural or Nairobi/Mombasa) of the beneficiaries may influence the Mission's programming decisions outside the raw data on cost efficiency of the intervention and the effectiveness of the implementation agency.

The following indicators will be used:

a. employment

b. sales increase

c. investment increase, and

d. secondary benefits.

The evaluation should include a response to the following questions:

1. Within each element - credit/financial markets, policy dialogue, and management/entrepreneurial development - what is the rank order of the comparative success of the interventions based on the cost efficiency of the indicators?

2. What is rank order of the relative cost efficiency of the three elements - credit/financial markets, policy dialogue, and management/entrepreneurial development? Note: USAID recognizes this will be a best judgment conclusion because the policy dialogue element does not use the same indicators as the other two elements. Further, the evaluator may well discover that secondary or unplanned effects have a greater impact on the program goal of economic growth than the first three indicators. Such effects should be explored, reported as findings and weighed in the balance of program effectiveness.

3. What constraints to private enterprise development were identified during the evaluation that require USAID's action?

4. What is the overall success of the program in institutional building? How could these activities be strengthened?

5. Is the monitoring and evaluation data base system being effectively utilized to track any change in the end-users of the project funds? Is the data base of assistance in response to AID/W requests for information on the beneficiaries (e.g. micro-enterprises served, number of enterprises with women owners, etc.) of the Mission's projects? How can it be improved?

The contractor will present the results of the evaluation and the answers to the questions referenced above in a final report. Further details of the reporting format are included in Section VII. of this Scope of Work, but the following must be clearly stated -- and distinguished from one another -- in the report:

1. answers to the specific questions posed;

2. the findings of the evaluation -- the evidence;

3. the evaluators' conclusions -- their interpretation of the evidence; and

4. the evaluators' recommendations for reprogramming of funds, follow-on activities and/or refocusing of the portfolio based on their judgment.

C. Data Systems Evaluation

The data systems analyst will review the existing D-Base data recording system and assess its ability to provide answers to questions on program management and impact posed by evaluators and project managers. This exercise will include a review of baseline data provided by project clients and the data's consistency, comparability and relevance to measuring impact of the interventions. The analyst will also assess the ability of professional and support staff to input and access monitoring and evaluation data.

Based on the findings of the above, the analyst will then make recommendations for improvement of the system. These recommendations will cover at least the following:

- data collection forms
- data input systems oral procedures
- staff training
- the system itself
- reports which can and should be generated by the M&E system.

To the extent that additional programming work is needed for points four and five above, the analyst will prepare a scope of work to upgrade the system to make it more relevant, accurate and accessible to users.

V. METHODS AND PROCEDURES

The evaluation methodology will be interviews with implementing agency personnel, project management staff and random samples of the clients served by the interventions. Precise methodology for the program-level evaluation and the policy element evaluation will be discussed with the team during the Preliminary Evaluation Design Meeting to be held in the first days of the evaluation exercise early in March 1989. USAID/Kenya has cabled CDIE for references on program evaluations of this complexity as well as on evaluations of policy dialogue interventions.

It is expected that the evaluation team will be comprised of an overall team leader who is an evaluation specialist and three sub-teams, representing each of the three intervention elements to be analyzed. Each sub-team will also have a designated leader. The overall leader is responsible for execution of the evaluation and for the timely production of a final report and debriefing. Each sub-team leader is responsible for the execution of the individual project evaluations within his or her element as well as for the element evaluation.

Person-weeks estimated to be required for the completion of the evaluation are as follows:

Intervention Element	# of people	X	# of weeks	=	Total person weeks
1. Policy-related program	2 people	X	2 weeks	=	4 weeks
2. Financial systems	3 people	X	4 weeks	=	12 weeks
3. Mgt. & Entrepreneurship	3 people	X	4 weeks	=	12 weeks
4. Coordinator	1 person	X	2 weeks	=	2 weeks*
5. Data Systems Analyst	1 person	X	2 weeks	=	2 weeks
Total Person Weeks					32 weeks

*It is expected that the Evaluation Coordinator will be in Kenya only for the first and final weeks of the evaluation.

A tentative timetable for the completion of the evaluation is as follows:

Date (1989)	Event
March 18	Consultants arrive
March 19	U.S. consultants meet with Kenyan teammates
March 20-21	Preliminary Evaluation Design Meetings
Mar 22-Apr 5	Evaluation field work
April 6-9	Prepare preliminary report draft
April 10	Submit preliminary report draft
April 11-13	Discussion of draft with staff; draft revision
April 14	Final debriefing by team leader; final report submitted
April 15	Consultants return to U.S.

VI. COMPOSITION OF EVALUATION TEAM

The timing, expertise, and organization of the consultant teams described below are illustrative. The contractor is welcome to provide an alternative mix of skills and organizational arrangements if it would better meet the evaluation's objectives. Substantive and significant involvement of Kenyan expertise is not, however, negotiable. The recommended composition of the evaluation team is given below.

The evaluation team is expected to include ten members, at least four of whom will be Kenyan. A individual in USAID/Kenya's Office of Projects will also be a member of the team. The recommended skills and composition of the teams are:

1. The evaluation coordinator (team leader) who should have broad experience in evaluation of USAID projects and specific experience in reviewing private sector activities.

2. The policy program team should be comprised of two individuals: an economist and a political scientist/institutional analyst.

3. The financial systems team should be comprised of three persons whose combined experience contains familiarity with commercial banking, financial and capital markets, institutional and social impact analysis, and general business analysis.

4. The management and entrepreneurial team should be comprised of three members whose combined experience contains familiarity with micro-enterprise development, social analysis, and institutional development analysis.

VII. Reporting Requirements

The evaluation team must prepare both a written report and a formal debriefing by the evaluation team or the team leader. The written report will focus on the program level evaluation. Evaluations of the individual interventions should be included as appendixes. The report must contain the following sections:

1. Basic program identification sheet (Objective Tree)

2. Executive summary of no more than six pages, single-spaced (Details of this requirement contained in Appendix D).

3. Table of contents.

4. The body of the report must include a description of the country context in which the program was developed and is being executed and provide the information (evidence and analysis) on which the conclusions and recommendations are based. To the maximum extent possible the report should quantify both costs and benefits. The report must be fewer than 40 pages in length and may contain appendices or annexes which include details supportive of the body of the report.

5. The report should end with a full statement of conclusions and recommendations. Conclusions should be succinct, with each topic identified by a short subheading related to the questions posed in the Statement of Work. Recommendations should correspond to the conclusions. Whenever possible, the recommendations should specify who, or what agency, should take the recommended actions.

6. Appendices should include, at the minimum, the following:

   a. the evaluation Scope of Work;

   b. the pertinent Logical Frameworks, together with a brief summary of the current status/attainment of original or modified inputs and outputs (if these are not already indicated in the body of the report);

c. description of the methodology used in the evaluation;

d. evaluations, or mini-reports, on the individual interventions

e. a bibliography of documents consulted; and

f. a list of persons contacted.

A preliminary draft of the report will be submitted by the contractor by April 10, 1989. The contractor will discuss the findings and a formal debriefing to USAID and the GOK on April 11 and April 13, 1989. A final report, reflecting comments on the preliminary report and discussions held during the week of April 10 will be submitted by April 14, 1989. The team leader is responsible to see that the preliminary and final reports are completed in a timely and professional manner.

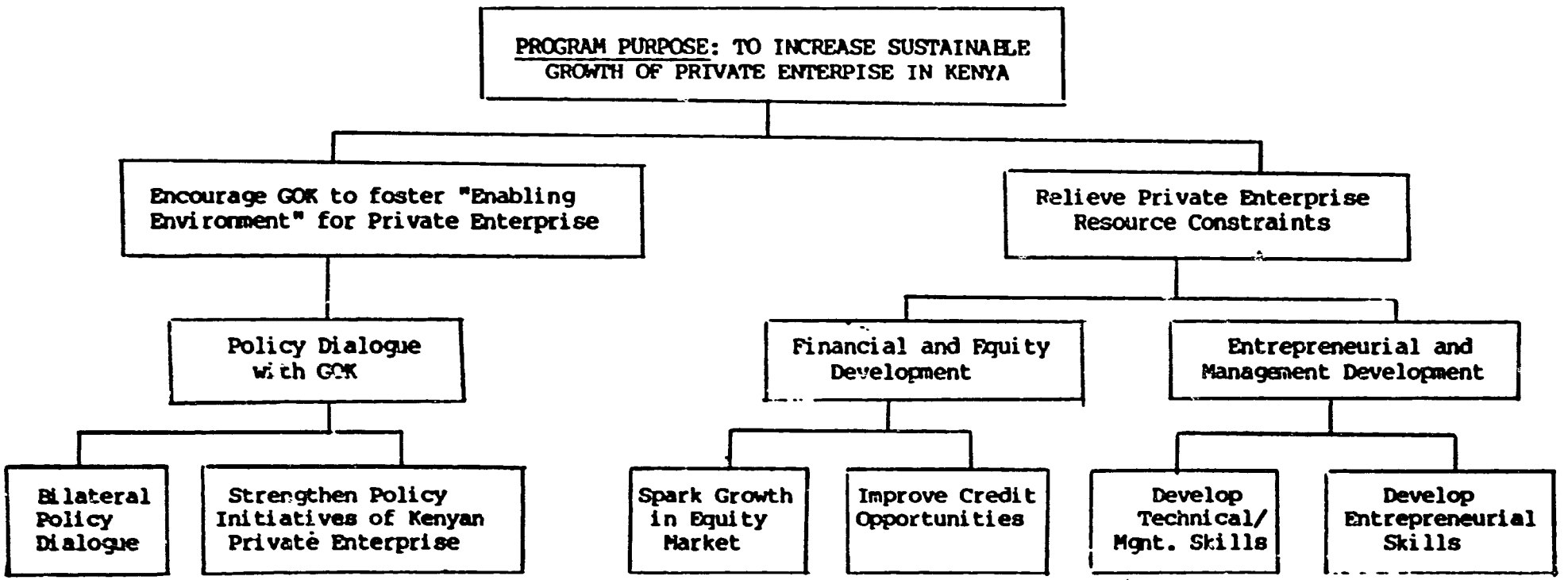
The contractor will also draft the AID Evaluation Summary (Form AID 1330-5).

VIII. Funding

The evaluation will be funded from the Private Enterprise Development Project (615-0238). An Illustrative Budget is contained in Attachment 2.

OBJECTIVE TREE

PRIVATE ENTERPRISE PROGRAM
of
USAID/KENYA-OFFICE OF PROJECTS



APPENDIX A

Appendix B

Matrix of Intervention by Program Elememnt

Intervention	Policy Dialogue with GOK	Financial and Equity Development	Entrepeneurial and Management Development
Project 615-0220, RPE			
Rural Private Enterprise - Loans		X	
Rural Private Enterprise - Grant (Training)			X
Project 615-0238, PED			
Investment Promotion Center - Investment	X		
Investment Promotion Center - Training			X
KAM - Policy Studies	X		
KAM - Seminars			X
K-MAP - Volunteer Counselling			X
K-MAP - Seminars			X
Kenya Equity Management - Equity		X	
Idustrial Promotion Services		X	
Rural Enterprise Program - Loans		X	
Rural Enterprise Program - Grant (Training)			X
IESC - Consultancies			X
Project 615-0213, SAP and Project 615-0240, SAAP			
Commodity Import Program	X		
Program Grant, 615-0227			
Informal Sector (Jua Kali) Loan Program		X	
Loan Guarantee Program		X	

PRIVATE ENTERPRISE PROGRAM: matrix of project uses

PROJECT	To Test (pilot and R&D)	To Introduce/ Demonstrate	To Build Capacity (infrastructure)	To Deliver Goods & Services(operational)	To Attract Resources (magnet)
Kenyan Policy Dialogue Interventions					
1) Strengthen IPC			X	X	
2) Strengthen KAM	X		X	X	
Financial Market Interventions					
3) Strengthen IPC			X	X	X
4) Strengthen IPS			X	X	X
5) Create KZN	X	X	X	X	X
6) Local Currency Prog.:					
a. Jua Kali	X			X	
b. Loan Guarantee	X			X	
7) RPE (credit)		X	X	X	X
8) CTP				X	
Human Resource Development and Technical Assistance Interventions					
9) RPE (banker training)			X		
10) RPE (PVO support)			X	X	
11) ISSC				X	
12) KMAP	X		X	X	

APPENDIX C

EXECUTIVE SUMMARY OUTLINE

The Executive Summary is a two to three page, single-spaced document containing a clear, concise summary of the most critical elements of the report. It should be a self-contained document that can stand alone from the report. The summary should be written in such a way that individuals unfamiliar with the project can understand the project's basic elements and how the findings from the evaluation are related to it without having to refer to any other document.

1. Name of mission or AID/W office initiating the evaluation, followed by title and date of full evaluation report.

2. Purpose of the activity or activities evaluated. What constraints or opportunities does the activity address; what is it trying to do about the constraints? Specify the problem, then specify the solution and its relationship, if any, to overall mission or office strategy. State the logframe purpose and goal, if applicable.

3. Purpose of the evaluation and methodology used: Why (and if a single project or program evaluation, at what stage - interim, final, ex post) was the evaluation undertaken? Briefly describe the types and sources of evidence used to assess effectiveness and impact.

4. Findings and conclusions: Discuss major findings and interpretations related to the questions in the Scope of Work. Note any major assumptions about the activity that proved invalid, including policy related factors. Cite progress since any previous evaluation.

5. Recommendations for this activity and its offspring (in the mission country or in the office program). Specify the pertinent conclusions for A.I.D. in design and management of the activity, and for approval/disapproval and fundamental changes in any follow-on activities. Note any recommendations from a previous evaluation that are still valid but were not acted upon.

6. Lessons learned (for other activities and for A.I.D. generally). This is an opportunity to give A.I.D. colleagues advice about planning and implementation strategies, i.e., how to tackle a similar development problem, key design factors, factors pertinent to management and to evaluation itself. There may be no clear lessons. Don't stretch the findings by presenting vague generalizations in an effort to suggest broadly applicable lessons. If Items 4-5 above are succinctly covered, the reader can derive pertinent lessons. On the other hand, don't hold back clear lessons even when these may seem trite or naive. Address:

- Project Design Implications. Findings/conclusions about this activity that bear on the design or management of other similar activities and their assumptions.

- Broad action implications. Elements which suggest action beyond the activity evaluated, and which need to be considered in designing similar activities in other contexts (e.g., policy requirements, procedural matters, factors in the country that were particularly constraining or supportive).

Acronym List
for
USAID/Kenya's Office of Projects

PRIVATE ENTERPRISE DEVELOPMENT PROGRAM

CIP	Commodity Import Program
IESC	International Executive Service Corps
IPC	Investment Promotion Center
IPS	Industrial Development Services
KAM	Kenya Association of Manufacturers
KEM	Kenya Equity Management
K-MAP	Kenya Management Assistance Program
PED	Private Enterprise Development Project (615-0238)
REP	Rural Enterprise Program
RPE	Rural Private Enterprise Project (615-0220)
SAAP	Structural Adjustment Assistance Program Project (615-
SAP	Structural Adjustment Program Project (615-0213)

9250G

Acronym List
for
USAID/Kenya's Office of Projects

PRIVATE ENTERPRISE DEVELOPMENT PROGRAM

CIP	Commodity Import Program
IESC	International Executive Service Corps
IPC	Investment Promotion Center
IPS	Industrial Development Services
KAM	Kenya Association of Manufacturers
KEM	Kenya Equity Management
K-MAP	Kenya Management Assistance Program
PED	Private Enterprise Development Project (615-0238)
REP	Rural Enterprise Program
RPE	Rural Private Enterprise Project (615-0220)
SAAP	Structural Adjustment Assistance Program Project (615-
SAP	Structural Adjustment Program Project (615-0213)

9250G

ANNEX 2

DOCUMENTS REVIEWED

DOCUMENTS REVIEWED

Project Papers:

Private Enterprise Development, 613-0238, 04/03/87
Commodity Import Program (CIP), 615-0213, 09/20/85
Rural Private Enterprise, 615-0220, 08/11/83

General Documents

USAID/Kenya, Private Enterprise Strategy Statement, Edition 2, Sept. 13, 1985.

Africa Project Development Facility Report on Operations for 12 months ended October 31, 1988.

USAID/Kenya Office of Projects, Semi-Annual Project Implementation Review, Period Ending September 30, 1988.

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National Christian Council of Kenya, Mid-Term Evaluation Report, Small-Scale Business Enterprise (SSBE) in Nakuru, Kisumu, Mombasa, November 1988, by Gertude Skopiyo, Consultant (Nairobi).

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Long-Term Lending, Kenya Rural Enterprise (RPE) Programme, undated by Deloitte Haskins & Sells Training Services.

3/6/89, USAID/Kenya Private Sector Phase One Draft Report, by J.E. Austin Associates (MAPS Activity).

K-MAP 5th Cooperative Agreement Report, July-Sept., 1988. Oct. 1988, K-MAP.

Progress Review of Kenya Management Assistance Program, Cooperative Agreement 615-0238-A-00-7025-00, December 21, 1988 by PRJ-USAID/Kenya.

Privatization of the National Commercial Bank of Jamaica, A Case Study, Research in Progress, September 1987, by Roger S. Leeds, Center for Business & Government, Harvard University.

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Informal Sector Program Grant Agreement, 12/86, Kenya Commercial Bank Limited & GOK-represented by IPC (Jua Kali Loan Program).

Entrepreneurs International, Manual for USAID Participation, Nomination Procedures and Guidelines, 6/88, AID/W-OIT.

FINANCE COMPONENT

Rural Private Enterprise

RPE Project Paper
USAID Implementation letters
Cooperative Agreements
Regional Inspector General audit (8/88)
DHS progress and annual reports
REP reports and evaluations

Kenya Equity Management/Kenya Equity Capital

A. Semi-annual Project Review, 3/31/89. Office of Projects, USAID/Kenya

B. Memorandum of Conversation, May 11, 1988, from Barry MacDonald to D. Kline, G. Bertolin, and M. Mcwherter

Kenya Commercial Finance Company

A. Primary Data
KCFC project proposal submitted to PRE
KCFC/PRE Loan Agreement and correspondence files
Review of a sample of KCFC's borrower files

B. Secondary Data
Kenya Commercial Finance Company evaluation report by Management Systems International

Leather Industries of Kenya

A. Primary Data
USAID/Kenya LIK project files and Bureau for Private Enterprise Loan Agreement.

LIK Board Papers

B. Secondary Data
"Leather Industries of Kenya - Direct Loan Case Study". Management Systems International/Bureau for Private Enterprise.

Jua Kali

A. Primary Data
KCB/USAID correspondence and agreement files

B. Secondary Data
Evaluation of The KCB Informal Sector "Jua Kali" Loan Program. Feb/March 1988. Linda McGinnis (USAID/Kenya) & Raj Bhatia (Investment Promotion Centre).

Money and Capital Market Development

"Recommendations to The Nairobi Stock Exchange," R. Bishop, May 1988
USAID Project No. 615-0240, PIL No. 25
Memorandum 6372G drafted by M. McWherter, 3/12/87 concerning suggestions for money and capital market development.

Credit Guarantee Scheme

The only documentary source for data on the program is a report on borrower statistics generated at the team's request.

MANAGEMENT AND ENTREPRENEURESHIP

Rural Private Enterprise

A. Primary data sources include a random sample survey of KCB, Barclays and Standard banking officers who have received training.

B. Secondary data sources include:
"Rural Private Enterprise", AID Project Paper, August 1983
Audit of Kenya Rural Private Enterprise Project, February 1989
Evaluation of 18 long-term lending courses, October 1988
Mid-Term Evaluation of REP of RPE, June 1987
REP Program Report as of June 30, 1988,
and other DHS, USAID, and banking documents.

Kenya Association of Manufacturers

A. Primary Data: Interviews with randomly selected seminar participants, interviews and office visits by team

B. Secondary Data: Seminar Participant Forms in USAID files
Reports from KAM on Seminars in USAID files

Kenya Management Assistance Program

The last two semi-annual cooperative agreement reports,
The 3/31/89 project review
Several local newspaper articles
The original PED project paper
The Dec. 88 Progress Review report
A 1989 workplan
A K-MAP self-sustainability memo
P.R. brochures
Forms and file documentation
Interviews with counselors and local business leaders.

Rural Enterprise Program (Private Enterprise Development)

No primary data was collected. Secondary data sources include:

The PED Project paper
Project financial status report as of 3/31/89
REP Program Report 6/30/88
and various PVO files and reports.

International Executive Service Corps

The project team reviewed written materials, including A.I.D. documentation of IESC programs, correspondence and past project evaluations; quarterly status reports, IESC individual client files (a random sample of 20 were reviewed), and existing independent evaluation reports on IESC activities, and USAID Mission evaluations.

Entrepreneurs International (Strategic Support)

No primary data was collected. Secondary data sources include OIT evaluations of EI participants from interviews conducted 9/26-10/3/88, and USAID files.

Kenya National Chambers of Commerce and Industry (Strategic Support)

Secondary data: B. Bassam's 1987 Report
M. Renzi's 1989 Status Update
IESC Reports in USAID Files

Jua Kali

Secondary data sources include: the evaluation of the Kenya Commercial Bank Informal Sector "Jua Kali" Loan Program, Feb-March 1988, Linda McGinnis, USAID and Raj Bhatia, Investment Promotion Center, KCB and USAID memos, and the Jua Kali Grant Agreement.

POLICY COMPONENT

Investment Promotion Center

The Centre's work program for 1989 and supporting documentation on particular subprojects (e.g., scope of work for an Investment Seminar in Kisumu).

Several newspaper reports on IPC (e.g., The Nation, April 16, as well as earlier in the week).

Private Enterprise Development (PED) Project Paper of April 3, 1987
The Project Grant Agreement relating to IPC (June 1987)
The Semi Annual Project Review and Financial Status reports
Similar background sources.

Kenya Association of Manufacturers

Terms of Reference for two additional studies which are about to be commissioned
The already referenced USAID financial reports and implementation review

ANNEX 3

INDIVIDUALS CONTACTED

INDIVIDUALS CONTACTED

FINANCE COMPONENT

Rural Private Enterprise

Persons contacted for the commercial bank component were:

Mr. Justus Omolo, Project Officer, USAID;
Ms. Judy Beckwith and Mr. Mwende Thiribi, DHS;
Mr. Lawrence Masaviru, Mr. P.P. Muiruri, Mr. A.N Kebeya,
Mr. Johnson Muguimi and Mr. William Odeny, Kenya Commercial Bank;
Mr. S.K. Muumbi and Mr. J.D.W. Mburu, Standard Chartered Bank;
Mr. Michael Bristow and Mr. Harjit Singh, Barclays Bank of Kenya;
Mr. Birech Kuruna, Central Bank of Kenya.

Persons contacted for the PVO component were:

Mr. Fred O'Regan, Mr. Albert K. Mutua, Mr. C. Aleke-Dondo,
Mr. Stephen Mirero, Rural Enterprise Program;
Mr. George Donde, National Council of Churches of Kenya;
Ms. Florence Munene, Kenya Women's Finance Trust, Kiambu Office.

Kenya Equity Management/Kenya Equity Capital

Ms. Holly Wise, USAID/Kenya
Mr. Mike McWherter, USAID/Kenya
Mr. Bruce Bouchard, KEM
Mr. Godfrey Chamungwana, Standard Chartered Bank
Mr. Dickson Gachuche, Kenya Finance Company
Mr. William Wood, Thabiti Finance Company
Mr. Richard Parry, Africa Project Development Fund
Mr. Nizar Meruani, Diamond Trust of Kenya
Mr. Ngenye Kariuki, Nairobi Stock Exchange
Mr. Bal Raj Kapoor, Industrial Promotion Services
Mr. Lorne Olsen, IESC

Industrial Promotion Services

Ms. Holly Wise	USAID/Kenya
Mr. Michael McWherter	USAID/Kenya
Mr. S.H. Poonawala	IPS
Mr. Bal Raj Kapoor	IPS
Mr. James G. Nduati	IPS
Mr. Nizar Meruani	Diamond Trust
Mr. Richard Parry	Africa Project Development Facility

Rural Enterprise Program (Private Enterprise Development)

Mr. Fred O'Regan, Mr. Albert K. Mutua, Mr. Stephen Masero,
Mr. C. Alek-Dondo, REP
YWCA

Kenya Commercial Finance Company

Mr. Ayub Migwalla - KCFC
Mr. Justus Omolo - USAID
Mrs. Elbuzaidy - KCFC

Leather Industries of Kenya

Mr. Justus Omolo - USAID Project Officer
Mr. Lutafali Kassam - General Manager, LIK
Mr. Karim S. Peerbhoy - Financial Controller, LIK
Mr. Amin M. Kassam - Assistant General Manager, LIK

Jua Kali

Mr. Migwe Kimemia - USAID
Mr. Lawrence Masaviru - KCB(BAS)
Mrs. Lynette Dawa - KCB(BAS)

Money and Capital Market Development

Person	Organization
Mr. Steven Sinding	USAID/Kenya
Ms. Holly Wise	USAID/Kenya
Mr. Michael McWherter	USAID/Kenya
Mr. Peter Leifert	Formerly USAID/Kenya
Mr. W.K.B. Arap Chelashaw	Capital Markets Advisory Council
Mr. Ignatius Ngenye Kariuki	Nairobi Stock Exchange
Mr. Nizar Meruani	Diamond Trust
Mr. Dickson Gachuche	Kenya Finance Corporation

Credit Guarantee Scheme

Mr. Migwe Kimemia, USAID Project Officer
Mr. Lawrence Masaviru, Manager, Business Advisory Services, KCB
Mr. Shem Okongo, Project Officer, Business Advisory Services, KCB

MANAGEMEMT AND ENTREPRENEURESHIP

Rural Private Enterprise

Mr. Justus Omolo, USAID
Mr. Albert Mutua, Christopher Aleke-Dondo, Steven Mirero, Mr. Kabucho (REP)
Ms. Judith Beckwith, Mwende Thiribi, (DHS)
Mr. Ian Shipton, Manager Manpower Planning and Training, Barclays Bank
Mrs. Janis Mwosa, Principal KCB Training School
Mr. Maina, Standard Bank Training School.

Kenya Association of Manufacturers

Mr. Migwe Kimemia, USAID Component Manager
Ms. M.M. Muigai, KAM
Mr. John Kuria, KAM
Mr. Silas Ita, KAM

Kenya Management Assistance Program

Mr. Victor Pratt, K-MAP's founder and chairman of the Executive Committee
Ms. Sandi Severn, project advisor at USAID
Mr. Gohil, Mr. Ligongo and the secretarial support person

Rural Enterprise Program (Private Enterprise Development)

Justus Omolo, USAID
Albert Mutua, REP
Louisa Owiti, Director YWCA.

International Executive Service Corps

Mr. Lorne Olsen (also Regional Director for East Africa)
Ms. Sandi Severn, USAID PRJ

Entrepreneurs International (Strategic Support)

Ms. Sandi Severn, USAID/PRJ
Mr. Mark Renzi, USAID/PRJ
Mr. Steve Ragama, USAID/ARD

Kenya National Chambers of Commerce and Industry (Strategic Support)

Mr. Mark Renzi, Component Manager, USAID
Anthony Itebete, PEDCO Employee
Charles Gathirimu, KNCCI Acting Director
Ms. Doretha Khamisi, KNCCI Information Specialist

Jua Kali

Mr. Migwe Kimemia, USAID
Mr. Raj Bhatia, IPC
Mr. Ezra Mbogori, Director, the Undugu Society
Mr. Jeffrey Njagi, ILO Improve Your Business Program
Ms. Lynette Dawa, KCB Business Advisory Service Consultant.

POLICY COMPONENT

Investment Promotion Centre

Mr. J. N. Kimeria, Managing Director
Four members of his senior staff:
Messrs. Paul S. Muite, Senior Projects Officer
F. E. Oyugi, Finance and Administration Officer
Ben K. Nzioki, Projects Manager
Joshua Ogola, Projects Analyst
Mr. R. K. Bhatia, Advisor

Kenya Association of Manufacturers

Mr. Silas Ita (KAM Executive Director)
Mr. John W. Kuria
Ms. M. M. Muigai
3-5 other members of the KAM Executive Committee
Senior Officials, Ministry of Industries

MANAGEMENT & ENTREPRENEURSHIP GENERAL CONTACT LIST

Mr. J.K. Kanja	Director, Kenya Finance Corporation Ltd. Director, Eastern African Finance Consultants Ltd. Managing Director, Nairobi Homes Chair, Canadian/Kenyan Business Association
Mr. Dickson N. Gachuche	Chief Executive & Managing Director, Kenya Finance Corporation, Ltd.
Mr. Charles Muchene	Manager, Price Waterhouse Counselor, K-Map
Ms. Geraldine C. Dunford	Commercial Officer, Canadian High Commission
Mr. G.K. Gathirimu	Acting Director & Finance and Administration Officer, Kenya National Chamber of Commerce
Mr. John W. Kuria	Executive Officer, the Kenya Association of Manufacturers
Ms. M.M. Muigai	Executive Officer, the Kenya Association of Manufacturers (K.A.U.)
Mr. Munene Kabengi	Training Officer, Kenya Institute of Management
Mr. Geoffrey R. Rurua	Kenya Industrial Estates
Mr. Peter Nyangau	Projects Officer, I.E.S.C.
Mr. Jack Caminker	Volunteer Executive, I.E.S.C.
Mrs. Marimassor Seekircher	Volunteer Executive, I.E.S.C.
Mr. Richard Parry	Regional Manager, Africa Project Development Facility (APDF)
Mr. Robin M. Kimotho	A.P.D.F.
Mr. Roger B. Jantio	Senior Consultant, J.E. Austin Associates
Mr. Gichira	UNDP/ILO: Project Coordinator

Plus numerous private sector contacts and attendance at the Canadian-Kenyan Businessmen's Association luncheon at the Hilton on April 11, 1989.

ANNEX 4

ACTIVITY ASSESSMENTS

ACTIVITY ASSESSMENTS

— FINANCE

— MANAGEMENT & ENTREPRENEURSHIP

— POLICY

ACTIVITY ASSESSMENTS

Finance

1. RPE - Banks & PVOs
2. KEM/KEC
3. IPS
4. REP - PED
5. KCFC
6. LIK
7. Jua Kali
8. Money & Capital Market Development
9. Credit Guarantee Scheme

Management & Entrepreneurship

10. RPE - Banks & PVOs
11. KAM
12. K-MAP
13. REP - PED
14. IESC
15. EI
16. KNCCI
17. Jua Kali

Policy

18. IPC
19. KAM
20. CIP

FINANCE

RURAL PRIVATE ENTERPRISE
(Finance Component)

Project 615-0220

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The purpose of this project is to establish and expand rural private enterprises in Kenya. End of project conditions expected are a 30% increase in annual gross revenue for businesses assisted and a minimum of 5,500 direct jobs and 9,000 indirect jobs created. Magnitude of outputs are: a minimum of $36 million for 159 loans made to rural private enterprises by commercial banks and a minimum of $1.6 million ($898,000 USAID-funded) for 1,341 loans made to small enterprises by non-governmental organizations (NGOs) (through grants to 25 NGOs), with an average loan size of $1,200; bad debt losses less than 2% per year; arrears over six months less than 10% average. The project provides loan funds and technical assistance and training (TAT) to rural private enterprises. Formal sector enterprises receive credit through three commercial banks - Kenya Commercial Bank (KCB), Barclays Bank of Kenya (BBK) and Standard Chartered Bank (SCB). Eligible enterprises must be private and "be at least 50% owned by Kenyan citizens <u>or</u> by a firm which is an integral part of the Kenyan economy". Projects must be rural, off-farm, new capital investments and fulfill one or more of the following criteria: create new jobs (i.e., labor intensive); be export oriented (potential to generate net foreign exchange); and/or provide increased markets, inputs or services for agriculture or other rural production. TAT to the banks and project management assistance to USAID is provided through a contract with Deloitte, Haskins and Sells. Informal sector and very small-scale formal sector enterprises receive credit funded by grants to NGOs by a US-based Private Voluntary Organization (PVO), World Education, Inc. (WEI). These funds will be disbursed through the Rural Enterprise Program (REP), WEI's local affiliate. TAT to the NGOs and the enterprises is provided through a cooperative agreement with WEI and REP. The percent of project time elapsed is 85%. According to A.I.D., funding is 27% expended ($6.5 million) for the loan component ($24 million obligated). Of the committed grant component ($12 million committed, $11.704 million obligated) 54% ($6.4 million) is expended. This latter amount includes DHS funding ($2.8 million) and WEI funding ($7.1 million). Overall, 36% has been expended.[1] The WEI funding includes $0.9 million for grants to NGOs for lending to small businesses. See Attachment 1 for line item expenditures for the overall project to date.

II. AVAILABLE DATA

Time constraints on this evaluation restricted the data collected by the team to secondary sources. As a result, this evaluation cannot be construed as an audit and cannot be considered as a follow-up to the RIG audit report dated February 24, 1989 in either depth of investigation or purpose. The sources were: RPE Project Paper, USAID Implementation letters, Cooperative

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[1] These USAID amounts may vary somewhat from the data reported by DHS and REP due to variations in the exchange rate and currency of the data.

Agreements, Regional Inspector General audit of August 1988, DHS progress and annual reports, REP reports and evaluations and interviews with project personnel at the respective implementing institutions. Persons contacted for the commercial bank component were: Mr. Justus Omolo, Project Officer, USAID; Ms. Judy Beckwith and Mr. Mwenda Thiribi, DHS; Mr. Lawrence Masaviru, Mr. P.P. Muiruri, Mr. A.N Kebeya, Mr. Johnson Muguimi and Mr. William Odeny, Kenya Commercial Bank; Mr. S.K. Muumbi and Mr. J.D.W. Mburu, Standard Chartered Bank; Mr. Harjit Singh and Mr. Michael Bristow, Barclays Bank of Kenya; Mr. Birech Kuruna, Central Bank of Kenya. Persons contacted for the PVO component were: Mr. Fred O'Regan, Mr. Albert K. Mutua, Mr. C. Aleke-Dondo, Mr. Stephen Mirero, Rural Enterprise Program; Mr. George Donde, National Council of Churches of Kenya; Ms. Louisa Owiti, YWCA; Ms. Florence Munene, Kenya Women's Finance Trust, Kiambu Office. Unfortunately, it was not possible to interview a sample of borrowers in either component. Since this project consists of two complementary but separate sub-programs, commercial bank lending and PVO/NGO programs, they will be treated separately in the following discussion.

III. COMMERCIAL BANK LENDING

A. Major Findings

1. Costs

Not including bank project related administrative costs (since banks do not segregate project costs), the cost per dollar is $.40. This figure is arrived at by comparing the amount of grant funding expended to date ($2 million) with the amount disbursed ($5 million).

2. Actual Outputs

Attachment 2 presents various project statistics. The following results have been achieved as of January 31, 1989: A total of 42 loans for approximately $11.5 million have been approved (32% of the total loan facility) and a total of 29 loans for $ 5.1 million have been disbursed (14.2% of the loan facility), including offshore procurement. [2] Thus 44% of the approved amount has been disbursed. The ratio of A.I.D. funds (Central Bank of Kenya - CBK - reimbursements plus offshore procurement) to net bank disbursements of their own funds is 2.1:1. This figure is in line with the ratio of 2:1 stated in PIL #13. The number of loans approved is only 26% of the estimated 159 loans to be financed under this sub-program. This indicates that the loans are larger than were originally anticipated. In fact, the average loan size is $273,000, with the largest loan at $1.9 million and the smallest at $5,000. Most of the loan amounts approved and disbursed have gone to larger companies. Some 65% of the total amount approved and 57% of the amount disbursed to date has gone to 12% of the companies, whose average assets are $10.3 million and whose average annual sales are $8.5 million. The average annual sales of all the borrower enterprises are $1.3 million, with the highest being $21.5 million and the lowest being $10,000. The average cost per job created so far is $7,546. The

[2] In this discussion the exchange rate used is KSh 18.5 = US $1, the weighted average since loans were first approved, as calculated by DHS.

average total assets of all borrowers is $1.4 million, with the largest being $28.2 million and the smallest $6,000. In contrast to the large firms, twenty-three of the enterprises on which data is available hold equity of less than $231,000 and twenty-one of these qualify for incentive payments for loans to small businesses as established in the "Request for Applications from Commercial Banks".[3] On the other hand, the Project Paper (p.15) states that "to ensure that a reasonable portion of loans go to small- and medium-scale enterprises, banks will receive incentive payments for loans under $75,000". So far, nineteen loans (48% of the total) qualify for incentive payments under this criteria. Yet, requests for incentive payments have been processed on only six loans so far. The loans approved to date are divided between the following activity sectors: agribusiness - 62%, manufacturing - 17% and services - 21%. To date, RPE procurement offshore is approximately $2.4 million. This includes 10% of the USAID contribution of $24 million and 21% of total approved loans as of January 31, 1989. There is no information on repayment at this time as most loans are still in the grace period.

3. Compliance

All of the loans approved to date meet the eligibility requirement except one for $24,000. That loan involved only the purchase of an existing concern with no establishment or expansion. No new economic benefits were generated. One loan for $108,000 (not included in the above discussion) will not be exercised even though funds have been disbursed to the bank, but not to the borrower. These two transactions are being reversed. The CBK portion ($32,000) of another loan for $48,000 has been disbursed to the bank even though the bank has not disbursed to the borrower.

4. Constraints to Implementation

Project start-up was impeded by many factors, both external and internal. The Project Agreement with the GOK was signed in August 1983, but all the Conditions Precedent were not met until May 1987 and the first loan was not approved until August 1987. The main issues constraining bank participation were: previous negative experience with stringent conditions from PRE/W (PRE) for disbursement of funds; non-inclusion of project loans in the 17% agricultural sector loans requirement of CBK; requirement asking banks to provide matching funds at a 1:1 ratio; and the 1% standby fee for failure to meet the pre-agreed disbursement schedule. USAID proposed satisfactory amendments to the latter three conditions of the draft loan agreement with CBK in October 1985. In addition, the CBK and Treasury objected to having to establish a new discount account for banks at the CBK and to formal loan agreements with banks. Therefore, each bank was permitted to set up its own account in the CBK and a circular to commercial banks was issued instead of the proposed loan agreements. Also, the Treasury originally wanted the repayments from the banks to go to the GOK Development Fund rather than being relent to

[3] This "RfA" (no date, probably 1984, p.2) states that "AID will make an incentive payment to commercial banks for each subloan to businesses with less than KSh 3 million equity ..." (approximately $230,770 in 1984).

banks for the same purpose. Now the GOK has agreed to keep the revolving fund in existence for 25 years.

Two other constraints to implementation were: 1) the GOK determination in November 1986 that the interest rate for RPE lending would be 2% below the maximum commercial bank lending rate, and 2) the establishment of a lending ceiling on banks in October 1987. Both of these actions were part of the GOK macro-economic management that has slowed the rate of project lending. A.I.D. agreed that "a reduction from the maximum interest rate is desirable as a promotional tool" [4] and approved the project lending rate at 2% below the ceiling.

a. External

The government imposed lending ceiling has adversely affected the amount of funds that can be disbursed under the RPE program. In order to honor large commitments made before the ceiling was imposed in September 1987, SCB and BBK had to drastically reduce the rate of lending. As a result the banks' allocation of funds for RPE virtually ceased. Fortunately, BBK was able to adjust its portfolio to the ceiling and recommenced lending under RPE. SCB has not been able to do so and has approved only three RPE loans to date. KCB, being 70% owned by the GOK, was pressured to lend by the government and parastatals, and so exceeded the ceiling by nearly KSh 1 billion by the end of 1988. Although the limit was then raised from .8% to 1% credit expansion per month, KCB has suspended lending for loans above KSh 500,000 ($27,000). Based on the fact that RPE loans are for productive purposes and have developmental impact, it has been requested that the GOK exempt these loans from inclusion in the lending ceiling of banks, but to no avail so far. One possible option to help alleviate this problem is to have the banks lend through their non-bank financial subsidiaries (currently only KCB has such a subsidiary, although BBK has applied for a license to establish one), since they are not subject to the lending ceiling restrictions, but, on the other hand, cannot obtain funds directly from CBK. Thus the funds would still have to go through the banks. This possibility has already been approved by USAID, but not by the GOK. Another factor which affects liquidity is the 6% reserve requirement. In addition to reducing liquidity, this has the effect of raising the cost of capital due to income lost from not lending this portion of deposits.

Another constraint has been that the maximum interest rate permitted under RPE is 2% below the maximum commercial rate. This, in addition to a higher weighted cost for RPE funds, has meant that the spread on RPE loans is 3.3% lower (8.9 - 5.6%) than on regular loans (See table below). Recently the maximum commercial rate on loans with terms longer than four years was raised to 18%, which means that the RPE rate will rise to 16%. The margin will be .6% higher than before (6.2 -5.6%), but now 4.5% lower than the normal margin (10.7 - 6.2%). This difference (i.e., less margin/spread on RPE loans) has been another disincentive to RPE loans. DHS has proposed that the minimum term for

[4] Implementation Letter No. 14, Nov. 10, 1986. This lending rate was also reiterated in IL No. 24, Jan. 15, 1988.

RPE loans be four years, since only two loans to date have been for terms less than four years.

	RPE Loans Term			Normal Loans Term	
	<4 yrs	>4 yrs		<4 yrs	>4 yrs
Cost:					
Bank funds	6.1%	7.3%	Normal loan rate	15.0%	18.0%
RPE funds	8.0	11.0	Less:		
Weighted cost	7.4	9.8	Cost	6.1	7.3
			Margin	8.9	10.7
RPE loan rate	13.0	16.0			
Margin (spread)	5.6	6.2			

Another serious constraint has been the rather complicated procurement procedures, especially as concerns the letters of commitment and letters of credit. This has caused major delays in the arrival of equipment for some of the larger projects. The offset to this disadvantage for banks is the availability of foreign exchange without the exchange risk.

b. Internal

In addition to implementation delays caused by terms of the agreements, DHS indicates that "the time required to build the institutional infrastructure, initiate administrative change and motivate participants toward involvement... requires a longer time frame if the project is to realize its long term (institutional building) objectives." [5] The project which was designed for 5.5 years has really only been operational for two years, so this is another factor in the relatively low percentage of project funds disbursed to date.

To be eligible an investment must qualify under at least one of three criteria - be "labor-intensive", i.e., require no more than KSh 80,000 (currently approximately $4,200) for each new job created; be export-oriented or be for import substitution, i.e., have potential to increase net foreign exchange earnings; and/or provide more markets, inputs, processing or services for agricultural or other rural production based on locally available inputs. [6] In the opinion of DHS, "the operational definition of the job creation criteria is too narrowly defined. In effect, the requirement that $5,000 (now $4,200) should result in the creation of a new job acts as a barrier. Access to institutionalized credit for a large number of potential sub-borrowers in the private sector is denied (for the businesses that do not qualify under one of

[5] Draft of RPE Annual Report, DHS, 4/89, p. 3

[6] Brochure for RPE Project, p. 3. Also, the Project Paper stated (p.14) "A labor intensive investment for purposes of this project is one that requires no more than $5,000 for creation of each new job."

the other two criteria)." [7] The average cost per job created so far ($7,546) has been 80% higher than the required $4,200. DHS makes the observation that such labor intensive objectives may in fact reduce average level of worker output and limit investments which create an increase in productive employment. Therefore, increased employment may not necessarily have a positive macro-economic effect, only a positive micro effect.

The rate of lending has also been hampered by inability of potential borrowers to meet the collateral requirements. Banks do not keep records of applications rejected, but most of the applications rejected are due to insufficient collateral. All three banks require at least 125% coverage (sometimes more) by tangible assets that are given a forced-sale value. Related to this is that delays in disbursement are often caused by delays in getting proper (i.e., acceptable to bank) documentation for the collateral.

Another common reason for rejection is the lack of project viability, which would indicate that borrowers are perhaps not making adequate use of the funds available for feasibility studies. The use of these funds has been an issue because although the project brochure for borrowers says that project funds will finance between 50 and 90% of the cost, DHS mentioned that in actual practice "USAID has required that 50% of the study cost be absorbed by the client". [8] This has caused confusion and resentment among potential clients. On the other hand, USAID states that banks have financed up to 90% of such costs in a number of cases. This issue should be resolved.

5. Institutional Impact

The most evident impact on the banks is that they have partially institutionalized long term lending to varying degrees as a result of the RPE project. This is consistent with the GOK Five Year Development Plan to promote longer lending for investments. None had lent for as long as eight years before the project, but SCB had lent for the medium term (5 years).[9] There have been no changes in collateral requirements as a result of the project.

6. Direct Developmental Impacts (on borrowers)

It is estimated by DHS that a total of 1,520 jobs will be created (217, or 14.3% of this total, will be for women) or 30% of the total project target. As indicated above, the average cost per job created is $7,546, 80% higher than

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[7] Draft of RPE Annual Report, DHS, 4/89, p. 3.

[8] Draft of RPE Annual Report, DHS, 4/89, p. 15

[9] The main constraint to long term lending with normal funds is the lack of long term deposits. However, due to a rather constant level of deposits of shorter term (net effect of deposits less withdrawals), the banks can make some long term loans, although this is more risky than using longer term sources. Also, an undetermined amount of short term deposits tend to be renewed at maturity (rolled over). Depositors prefer finance companies (e.g., KCFC) for term deposits because they can get a higher return.

the target of $4,200 ($5,000 in the Project Paper). There is no information on change in asset size or sales for the loans disbursed so far.

7. Sustainability

SCB said that the project requires about 20% more staff time than normal loans due to the need to examine feasibility studies, etc. None of the banks had figured the actual administrative costs associated with the project, so they could not determine if the "weighted" spread was adequate. KCB expressed concern that USAID may not provide the 2% needed to cover some of the additional administrative costs. All banks indicated that they would probably continue lending to the best clients of this same target group after project termination using their own funds, but for terms closer to five years and at the normal maximum commercial interest rate. Also, reflows would be lent at the commercial rate, but not necessarily to the same target group. KCB stated that continuance of RPE-type lending would depend primarily on liquidity, government lending ceilings and the ability to lend through KCFC without affecting their ceiling. All banks have at least 25 rural branches (KCB has 155) to facilitate lending in these areas.

8. Unplanned Effects

One unplanned effect of the project is that the lending ceiling, at least at KCB, has caused the bank to make smaller loans which have less effect on the ceiling.

9. Administrative Burden on USAID

The number of USAID person days spent on this component per year was 131.8, which is 6.5% of the total available staff time.

10. Additional Observations

BBK expressed a need to set up a special unit to centralize functions and to develop a coordinated, structured approach to small business assistance since they have other programs in this area. This unit would monitor, solve administrative problems and provide training to branches when needed. They feel such a unit could minimize their per loan costs since it would avoid duplication of effort. In fact, USAID has been encouraging BBK to do just this and can provide funding under the Business Advisory Services (BAS) line item. KCB already has a BAS established.

B. Conclusions

In general, this project has shown that when banks must assume the entire risk of lending, they will not participate unless there are adequate incentives and the normal lending practice are affected as little as possible. Change in normal lending procedures will only take place if the banks see a new opportunity or market. In a sense there has been a changing balance between constraints and advantages which has partially accounted for delays in project implementation. It has also become evident that if there is to be institutional

development and true institutionalization of changes (i.e., sustainability) a longer start-up period is required.

C. Recommendations

1) The interest rate should be increased to the maximum commercial rate to make the program more attractive to banks and to allow them a greater spread with which to cover the administrative costs of program implementation.

2) Procurement regulations should be simplified so as to expedite delivery of equipment and disbursement of the local currency portion of loans.

3) All loans should be given for a minimum of four years to encourage longer term lending.

4) The 2% allocated to cover administrative costs should be maintained.

IV. PVO/NGO PROGRAMS

The Rural Enterprise Program (REP) is an organization established in Kenya by World Education,Inc. and funded by the RPE project. Its function is to upgrade and finance the enterprise development activities of non-governmental organizations (NGOs) that work with the informal and micro-enterprise sector.

A. Major Findings

To date ten of the 25 NGOs that received assistance have received grants for establishing revolving loan funds, in addition to grants to cover administrative and training costs. This discussion will be restricted to these ten NGOs.

1. Costs

As of March 31, 1989 the total operating costs for NGOs (including pro-rated one time fixed costs) are $946,000 or $889,000 if training costs are excluded,[10] which translates to a cost of $1.67 and $1.57, respectively, for every dollar disbursed. See Attachment 3. for a presentation of operating costs and loan disbursements by NGO. See Attachment 4 for a presentation of unit (per dollar lent) costs. In addition, The WEI home office and the REP office have incurred total costs of $2,847,000, which, added to the NGO costs, brings the cost per dollar lent to $6.70 and $6.60 respectively. These calculations indicate that this is a high cost approach to delivering credit to small businesses. If we include only the recurring costs to date, the NGO cost per dollar disbursed is $1.25, or $.73 without training. If the home office and REP recurring costs are added, the respective costs are $6.09 and $5.99. One of the NGOs, NCCK, estimates that it spends $7 for every $1 it lends. Another NGO, KWFT, estimates that the cost per loan is approximately 12.5%. However, REP has indicated that steps are being taken to reduce administrative costs. For example, there will soon be only one resident expatriate on the staff and

[10] This total includes only 85% of fixed costs since that is the percentage of project time elapsed.

expatriate consultants will be used only when needed for specific tasks. Future financial support to NGOs will be in the form of loans only and will be contingent upon demonstration of movement toward self-sustainability. This will entail reduction of administrative costs as well as sufficient income generation from interest and other sources.

2. Actual Outputs

A total of $496,000 has been advanced to NGOs for on-lending, which is 55% of the amount originally budgeted for revolving loan funds. Attachment 5 presents statistics on these loans. Overall these NGOs have disbursed $566,000 to small enterprises. Therefore the average fund has been turned over 1.14 times using reflows. The maximum turnover rate was 2.07, and the minimum 0.37. A total of 1,365 loans have been disbursed, which is 108% of the original target. Some $156,000 for 121 loans at an average of $1,290 has been disbursed to groups and $410,000 for 1,244 loans at an average of $330 has been disbursed to individual enterprises. The overall average of $415 is 65% below the target, which means that proportionately more enterprises are being assisted than originally planned. The average arrearage rate is 15%, with the highest at one NGO being 25%. Approximately 79% of the loans were for production, 17% for trade and 4% for services.

3. Compliance

The Cooperative Agreement with World Education states that the NGOs assisted must be: private, non-profit, U.S. or Kenyan, be administratively sound, be involved with rural poor and demonstrate prior experience with small enterprise assistance. The programs to be supported must be: targeted toward productive, income generating activities, directly assist the poor, cost effective, for off-farm activates, and financed at least 25% from non-A.I.D. sources. Regarding the likely loan beneficiaries, the PP states they will be: poor ($15-$190 monthly income), largely women (e.g., 85%), largely group members, and result in 1,000 new jobs. Approximately 21,500 beneficiaries were expected to be helped.

The August 1988 Inspector General audit was extremely critical of the PVO/NGO program and concluded that it was "not contributing much toward the goal of assisting rural private enterprise". The audit showed that as of June 30, 1988 most of the approved loans sampled supported on-farm activity (86%) or retail business (6%). It is not indicated whether any of these may have been part of a vertically integrated processing or manufacturing enterprise, which would make them eligible enterprises. Since the current report is not an audit, it was not possible to verify data supplied by REP. If the data in the above section is correct, however, the majority of the loans are now for productive purposes.

It was possible to visit only two of the ten NGOs. At the first, Kenya Women's Finance Trust (KWFT), 60% of the loans in a sample of borrowers (40%) received loans for trade, the rest for productive purposes. However, at the National Council of Churches of Kenya (NCCK), 48% of the borrowers were engaged in trade. Monthly income of 76% of borrowers is below $135. The average income per owner is $26.

4. Constraints to Implementation

a. External

NCCK cited the delay in purchase of the vehicles, the USAID change to monthly reporting, and the inefficiency of the previous coordinator as the most recent constraints.

b. Internal

The lack of an efficient information system is a constraint to disbursements from REP, since USAID is now requesting monthly reports instead of the previous quarterly reports before disbursement.

5. Institutional Impact

Both NGOs visited had been making these kinds of loans before the RPE program. However, the grant to NCCK was given specifically for the purpose of setting up a small business program within the organization with its own staff. At the time of the audit the following problems were identified: inappropriate use of funds, inappropriate handling of cash receipts, funds used after a previous grant period, funds not used in accordance with budget, funds used inappropriately for procurement and maintaining an excessive cash advance. At the time of the current evaluation a new National Coordinator of the Small Scale Business Enterprises (SSBE) had just been hired and was trying to address some of these and other problems left by his predecessor, not the least of which was trying to cover the cumulative deficit. One important change is that NCCK is now relending reflows from loan repayments. Previously it was thought that the entire commitment from REP had to be drawn down before the funds could be relent. The recent purchase of three vehicles with project funds means that with this outreach, NCCK can triple the number of borrowers and the rate of lending.

6. Direct Developmental Impacts (on borrowers)

So far these loans have generated 4,408 jobs (38% full-time, 43% for women) and have 65,294 beneficiaries (9% direct). Of the NCCK borrowers, 67% had an increase of more than 40% in profits during the past twelve months, 11% had a 20-40% increase, and 21% a 0-20% increase. Of the sample of KWFT borrowers, the average increase in sales six months after the loan is 142%. If these two groups of borrowers are representative, then one may assume that similar borrower impacts have occurred with all clients. The number of women borrowers is unknown for NCCK, but all 50 KWFT borrowers are women.

7. Sustainability

The NGOs charge borrowers 12-14% interest per annum for the loans. Although there is no cost of capital since the funds are disbursed as grants from REP, the administrative costs are high and appear to exceed this income. Up to now the NGOs have really not had any incentive to become self-sufficient. Donor

support from various sources seems to always be available. The objective of self-sufficiency will become more important when REP provides funds for on-lending as loans to the NGOs. One of the criteria for selection will be to demonstrate "movement toward making the program sustainable at least in the administration of the credit fund and disbursements from REP will be tied to achievement of their objectives".

In general, the NGOs seem to be relending the reflows. The average turnover rate of the funds is 1.14. However, three NGOs have very low turnover rates and have not even disbursed all the funds advanced by REP.

REP is not currently sustainable without donor support. It has charged token amounts for training and for some consultancies. However, with the advent of loans to NGOs an important source of income will be developed.

8. Administrative Burden on USAID

The number of USAID person days spent on this component (not including PED related activities), was 131.8, which was 6.5% of the total available staff time.

9. Additional Observations

The information system capabilities at REP are impressive and can provide a variety of management reports. The constraint is the timely receipt of information from NGOs. An NGO Aggregate Monitoring Form has been developed in an attempt to receive information in a consistent and comparable format.

B. Conclusions

1) The cost of providing credit to small businesses through NGOs is very high. Because self-sufficiency has traditionally not been an NGO objective, they have historically had almost continual support from donors who have neither required nor stressed self-sufficiency. Although USAID makes "no assumption that sustainability excludes ability to attract donor support", in real terms donor support is not necessarily reliable from one year to the next and is a poor foundation for doing long range forward planning. It also has less impact on institutional development than the ability to generate one's own sources of income.

2) The Cooperative Agreement statement that "the programs to be supported must be targeted toward productive, income-generating activities" gives the impression at least that priority should be given to production-oriented businesses in making loans. Although retail operations do not add value, they can provide a valuable outlet for locally produced items, especially if the producer does not have the ability, time, interest in or resources to market his/her own products.

3) The program appears to have substantial positive, direct, developmental impact on borrowers.

4) At present the program is not self-sustainable without external financial support.

5) REP is an effective intermediary between donors and NGOs and can provide institutional development support which donors do not have the personnel nor expertise to provide.

C. Recommendations

1) Loans for retail activities should be given equal priority with production enterprises if they provide a distribution outlet for domestically produced items.

2) In order to give greater incentives to strive for sustainability, future support to well-established NGOs should be in the form of loans, which should be on-lent to borrowers at commercial rates.

3) NGOs should be encouraged to become more business-like in their administration of credit programs

4) Relending of repayments should be maximized to the extent possible.

5) REP should have better control over disbursement of funds advanced to NGOs. Funds that are not on-lent to borrowers within a reasonable time should be repaid to REP. One way to reduce idle funds is to require NGOs to have approved applications in hand before funds are disbursed. This and the new USAID reporting requirement will require an improvement in the information systems at NGOs. This is in line with the audit recommendation to "require that sub-grantees provide documentary evidence that they are ready to disburse loans before providing cash advances for the loans, and immediately liquidate any excessive advances still retained by sub-grantees."

6) REP should explore the possibility of developing other sources of income in a move toward self-sufficiency.

7) Although REP should continue to request monthly liquidation reports from NGOs, the NGOs should make quarterly estimates of the expected loan demand. The net capital needs after deducting estimated repayments (which can be relent) should be the amount of monthly disbursements. These disbursements would not be made until the liquidation reports are received by REP. However, knowing that these reports may not be possible every month, USAID should make quarterly disbursements to REP based on the quarterly estimates from NGOs. This will reduce the administrative burden for USAID and provide needed liquidity to REP.

16-May-89

ATTACHMENT 1

RURAL PRIVATE ENTERPRISE
STATUS OF EXPENDITURES
As of 31 March 1989
(US $000's)

BUDGET LINE ITEMS	G/L	AMOUNT AUTHORIZED	AMOUNT OBLIGATED	CUMULATIVE EXPENDITURES TO DATE	% AMT AUTH EXPENDED TO DATE	% AMT OBLIG EXPENDED TO DATE	AMOUNT TO BE EXPENDED
Management & Technical Assistance	G	2.866.0	2.823.0	1.923.0	67.1%	68.1%	900.0
Small Enterprise Promotn (incentives)	G	0.0	480.0	5.2	NA	1.1%	474.8
Business Advisory Services (banks)	G	400.0	480.0	0.0	0.0%	0.0%	480.0
Business Advisory Services (IPS)	G	0.0	100.0	100.0	NA	100.0%	0.0
PVO Management & Loan Funds	G	6.468.0	7.076.7	4.399.6	68.0%	62.2%	2.677.1
Evaluation	G	1.150.0	250.0	0.0	0.0%	0.0%	250.0
Contingencies	G	1.116.0	494.3	0.0	0.0%	0.0%	494.3
Total Grant	G	12.000.0	11.704.0	6.427.8	53.6%	54.9%	5.276.2
Total Loans to Sub-Borrowers	L	24.000.0	24.000.0	6.495.1	27.1%	27.1%	17.504.9
Grand Totals		36.000.0	35.704.0	12.922.9	35.9%	36.2%	22.781.1

ATTACHMENT 2

RURAL PRIVATE ENTERPRISE (Loan component)
STATISTICS ON COMPANIES WITH APPROVED LOANS (as of 10 Feb 89)
Ordered By Loan Amount

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
PROJECT	BANK	LOAN AMT (US$000s)	ACTIVITY SECTOR	(1) ELIGI-BILITY	EMPLOY-MENT GENERATED	# OF WOMEN	TOTAL DISBURSED BY BANK (US$000s)	(2) NET DISBURSED BY BANK (US$000s)	DISBURSED BY CDC (US$000s)	OFFSHR PROCURE-MENT (US$000s)	(3) TOTAL DISBURSED (BOK+OFFS) (US$000s)	% APPV AMT DISB	(4) AID:BANK FUNDS RATIO (US$000s)	(5) COST/ JOB (US$000s)	ANNUAL SALES (US$000s)	TOTAL ASSETS (US$000s)	(6) DEBT/ EQUITY	(7) ESTIMATED EQUITY	LOAN TERM (months)	GRACE PERIOD (months)	INTEREST RATE(%)
United Millers	ECD	1,946	Agribus	C	89		757	757	0	0	757	38.9%	0.0	21,843	13,600	9,346	6.93	1,119	72	20	13
Bedi	BOK	1,784	Manuf	B	273	90	0	0	0	1,109	1,109	66.7%		6,486	4,029	5,638	1.19	2,374	96	20	13
Ravenna Woolen	BOK	1,459	Manuf	B+C	70	0	0	0	0	973	973	66.7%		20,847	21,494	28,197	1.17	12,902	60	0	13
Salona Cane	BOK	1,109	Agribus	C			0	0	0	0	0	0.0%		na	227	2,704	2.00	1,241	60	12	13
Kwale Cashewnuts	ECD	1,001	Agribus	A+B+C	334		0	0	0	0	0	0.0%		na	3,242	4,900	2.44	1,424	96	24	13
Ufuta	ECD	649	Agribus	C	47	15	649	0	649	0	649	100.0%		13,881	2,793	2,270	1.00	811	72	0	13
Kyarenge Tea	ECD	405	Agribus	B+C	30	0	244	244	0	0	244	60.1%		13,514	2,760	791	0.23	633	72	24	13
Malindi	ECD	324	Manuf	B+C	60	10	270	54	216	0	270	83.3%	0.0	5,405	0	0	1.86	0	84	12	13
Kenya Vineyard	ECD	227	Agribus	B+C	30		0	0	0	0	0	0.0%		7,568	216	486	na	486	60	24	13
Lavilla	ECD	221	Agribus	C	40	15	94	94	0	114	207	93.9%	1.2	5,514	0	0	na	0	24	6	13
Thika	ECD	216	Manuf	C		0	0	0	0	0	0	0.0%			189	254	3.00	64	72	24	
Borosa	BOK	189	Agribus	B+C			0	0	0	0	0	0.0%			351	851	1.00	409	96	24	13
Soobe	BOK	178	Service	B+C	44	6	81	27	54	0	81	45.6%	2.0	3,044	0	0	na	0	na	na	na
Kijabe Printing	ECD	162	Service	B+C	40	25	162	162	0	0	162	100.0%	0.0	4,054	243	244	2.00	61	72	0	13
Kakuenga Food	ECD	162	Agribus	C	30		11	2	9	0	11	6.7%		5,405	63	108	1.16	87	72	24	13
Bichoro	BOK	130	Service	A	48		0	0	0	0	0	0.0%		2,867	82	246	4.00	33	60	9	13
Kesa	ECD	126	Manuf	C	15	15	0	0	0	45	45	35.5%		8,270	0	0	na	0	na	na	na
Cottons Ltd.	BOK	100	Manuf	B	101		0	0	0	0	0	0.0%		1,070	2,043	776	na	776	36	0	13
Nebuve Sisal Mills	ECD	100	Agribus	A+C	45	15	32	32	0	0	32	30.0%	0.0	2,002	1,243	277	3.30	84	48	12	13
Kasse	ECD	84	Service	A+C	20	0	84	29	50	0	84	100.0%	2.0	4,324	324	250	na	250	60	24	13
Kilifi	BOK	81	Agribus	C	10		0	0	0	0	0	0.0%		8,108	459	114	0.85	61	60	0	13
Nyati Plough Contractors	ECD	76	Agribus	C			0	0	0	0	0	0.0%			0	0	na	0	na	na	na
Sasana Sawmills	ECD	70	Agribus	C	25	0	33	24	9	38	70	100.1%		2,813	139	135	1.27	60	96	18	13
Sasha Baraka Batary	ECD	68	Agribus	C	7	0	33	32	0	0	33	49.4%	0.0	9,653	926	154	na	154	60	20	13
Ventra Fishcoal	ECD	49	Agribus	A+C	10	0	30	30	0	0	30	70.1%	na	4,097	973	178	2.74	48	36	6	13
Salott Sawmills	BOK	49	Manuf	C	30		0	(33)	32	0	0	0.0%	na	1,622	30	26	0.33	19	75	4	13
Vision Dry Cleaners	ECD	44	Service	A	-16	2	44	44	0	0	40	100.0%	0.0	2,753	49	50		54	60	12	13
Mbiri	ECD	40	Agribus	A+C	0		0	0	0	0	0	0.0%		5,000	243	96	0.79	75	72	12	13
Nzomi	ECD	30	Agribus	A+C	23	13	30	12	25	0	30	100.0%	2.0	1,633	135	73	1.00	36	72	20	13
Muthangari	ECD	30	Agribus	A+C	7		0	0	0	0	0	0.0%		4,026	216	420	1.00	210	72	12	13
Esa Maid Services	ECD	32	Service	C	5	1	32	32	0	0	32	100.0%	na	na	84	85	2.00	28	48	20	13
Nesture Printers	ECD	24	Service	Ineligible			24	0	16	0	24	100.0%	2.0		49	48	0.85	26	72	24	13
Agrisfare	ECD	19	Agribus	A+B	9		0	0	0	0	0	0.0%	na	na	41	270	na	270	72	12	13
Nyeta Vanvets	ECD	16	Agribus	A+B+C	12	5	16	5	11	0	16	100.0%	3.0	1,351	75	42	0.38	31	96	24	13
Kuchero	ECD	16	Service	A+C	10	1	16	16	0	0	16	100.0%	0.0	1,622	0	0		0			
Nearanda	BOK	14	Agribus	A+C	12	0	10	4	9	0	10	100.0%	2.0	1,126	0	0	na	0	na	na	na
Kodeta	ECD	9	Agribus	A+C	2	0	9	4	6	0	9	100.0%	1.7	4,730	32	14	2.00	3	96	3	13
Kaoere Ligano	ECD	9	Agribus	A+C	2	0	9	9	0	0	9	100.0%	0.0	4,324	38	19		19	72	3	13
Udeto	ECD	7	Agribus	A+C	2	0	7	7	0	0	7	100.0%	0.0	na	14	21	3.00	5	72	3	13
Mitoma	ECD	6	Agribus	A+C	2	0	0	0	0	0	0	0.0%		2,243	0	0		0			
Lutonia	ECD	5	Agribus	A+C	2	0	5	5	0	0	5	100.0%	0.0	2,595	10	6		6	48	2	13
Mitoma	ECD	5	Service	A	6	2	5	2	3	0	5	100.0%	na	829	38	23	2.38	8	60	6	13
Totals		11,470			1,520	217	3,706	1,609	1,097	2,358	5,064	44.1%			33,772	60,309		20,230			
Overseas		273			41	0	64	38	26	56	121	53.3%	2.1	6,597	1,320	1,436	1.36	370	61	12	
Nestone		1,946			334	90	757	757	649	1,109	1,109	100.7%	0.0	21,843	21,494	28,197	6.93	12,902	96	20	
Glasnos		5			2	0	0	(32)	0	0	0	0.0%	0	0	0	0	0.00	0	0	0	

Statistics by Bank	No. Loans	Total Disbursed
Barclays Bank of Kenya-BOK	10	5,180
Kenya Commercial Bank-ECD	29	5,237
Standard Chartered Bank-SCB	3	1,043
Total	42	11,470

Approved

	Overseas
BOK	319
ECD	101
SCB	340

					572	96	95	(1)	96	2,162	2,257	43.5%	-2250.0	4,600	20,720	37,651					
					796	96	1,660	1,532	120	158	1,810	54.7%	0.2	6,609	24,210	18,232		COMPANIES			
					132	25	951	77	874	38	909	94.0%	11.8	7,340	2,842	2,406		WITH			
																		EQUITY			
					1520	217	3,706	1,608	1,090	2,358	5,064	37.7%	-100.7	5,343	33,772	60,309		<230,000			
																		32			

Footnotes:

(1) A=Job creation, B=Foreign exchange generation, C=Market development/Agribusiness
(2) Total disbursed by bank minus amount disbursed by CDC (H-J)
(3) Total disbursed by bank plus offshore procurement (H+K)
(4) Total disbursed by CDC plus offshore procurement (i.e., AID funds disbursed) divided by net disbursed by bank (I+K)/I
(5) Loan amount divided by employment generated (C/F)
(6) From DPE Forms filled out by borrowers
(7) 1 divided by debt/equity ratio plus 1 times total assets (1/(D+1)*O)
NA = Not Available

ATTACHMENT 3

RURAL ENTERPRISE PROGRAM
Grantees with Revolving Loan Funds
(US $)

		Operating Costs						Revolving Loan Fund						
	Grant Disbursed	Operating Costs	Fixed Assets	Equip & Tools	Working Capital	Tech Assist & Training	Total	Obligated	Advanced	Repayments (Reflows)	Cash Inflow	Loans Disbursed	Turnover Ratio	Relending Rate of Cash Inflow
Kenya Women Finance Trust	80,178	93,058	15,356	0	0	1,832	110,246	68,346	48,206	19,486	67,693	50,796	1.05	0.75
Pres Church East Africa	11,658	11,983	0	0	0	0	11,983	9,975	9,975	3,351	13,326	3,677	0.37	0.28
CPK Eldoret	65,589	50,470	21,503	0	0	8,221	80,193	99,142	99,142	22,027	121,169	96,505	0.97	0.80
Upweoni	228,818	93,854	0	119,733	0	9,088	222,675	97,155	34,383	3,261	37,644	32,015	0.93	0.85
HCCK	115,405	142,783	16,537	0	0	13,161	172,481	318,944	121,901	26,955	148,857	148,496	1.22	1.00
PfP	107,415	84,291	10,019	0	0	3,778	98,089	97,040	65,726	79,384	145,111	135,753	2.07	0.94
Marvknoll-Bura	10,004	4,079	0	0	5,941	0	10,020	35,821	36,082	36,082	72,165	36,082	1.00	0.50
PCER-Chogoria	130,277	75,388	20,745	0	0	8,049	104,182	155,530	24,021	0	24,021	14,816	0.62	0.62
Tototo	137,706	75,758	18,171	18,412	0	11,686	124,028	33,476	33,476	2,608	36,084	25,645	0.77	0.71
Isiolo	57,075	12,568	40,137	0	0	1,337	54,042	44,326	22,695	3,439	26,134	22,695	1.00	0.87
Totals	944,125	644,232	142,469	138,145	5,941	57,152	987,939	959,755	495,608	196,594	692,202	566,481	1.14	0.82
Prorated (85%) fixed costs			121,098	117,424			945,847							

RURAL PRIVATE ENTERPRISE - PVO/NGO PROGRAMS

Operating Costs

ATTACHMENT 4

Total Costs	Total ($)	Cost per $ lent	NGO Fixed costs	HO/Fld Fixed costs	Training costs	Amount to Disbursal PVOs
NGO operating costs	945,847	1.67	238,522	105,331	57,152	566.481
NGO costs w/o training	888,695	1.57				
Home office (WEI) & REP operating costs	2,846,727	5.03				
Home office (WEI) & REP costs w/o training	2,789,575	4.92				
Total operating costs	3,792,574	6.69				
Total operating costs w/o training	3,735,422	6.59				
Recurring Costs						
NGO operating costs	707.325	1.25				
NGO costs w/o training	411,651	0.73				
Home office (WEI) & REP operating costs	2.741,396	4.84				
Home office (WEI) & REP costs w/o training	2,578.913	4.55				
Total operating costs	3.448,721	6.09				
Total operating costs w/o training	3,391,569	5.99				

ATTACHMENT 5

KENYA RURAL ENTERPRISE PROGRAMME (KREP)
ONGOING IMPACT ANALYSIS - FOR NGO'S WITH REVOLVING LOAN FUNDS
AS AT MARCH 31ST, 1989

Project Title	Date	Exchange Rate	CLIENT: GROUPS: No. Received TA	CLIENT: GROUPS: No. Received Loans	CLIENT: GROUPS: Loan Amount	CLIENT: GROUPS: Average Loan size	CLIENT: INDIVIDUALS: No. Received TA	CLIENT: INDIVIDUALS: No. Received Loan	CLIENT: INDIVIDUALS: Loan Amount	CLIENT: INDIVIDUALS: Average Loan Size	ENTERPRISES: Received Credit: Number of Women Owned Enterprises	ENTERPRISES: Received Credit: Men	SECTORAL DISTRIBUTION: Production	SECTORAL DISTRIBUTION: Trade	SECTORAL DISTRIBUTION: Services	ASSISTED EMPLOYMENT: Women Full-time	ASSISTED EMPLOYMENT: Men Full-time	ASSISTED EMPLOYMENT: Women Part-time	ASSISTED EMPLOYMENT: Men Part-time	BENEFICIARIES: Direct	BENEFICIARIES: Indirect	BENEFICIARIES: Total
Kenya Women Finance Trust	Oct. '86	16.28	0	0	0	0			0	0												
Presbyterian Church of East Africa	March '87	16.04	5	5	2,204	441	136	47	50,603	1,6 01	47	0	15	27	5	65	10	10	4	204	1,020	1,224
CPK Diocese of Eldoret	May '87	16.81	8	7	41,700	5,950	75	38	54,827	1,4 43	31	5	36	0	0	87	5	0	0	367	1,035	2,302
Upward Community Dev. Project	Aug. '87	16.52	2	3	2,468	820	180	33	29,341	0 95	32	14	11	21	14	39	27	0	0	116	580	696
National Council of Churches of Kenya	July '87	16.52	9	9	26,471	2,941	430	105	122,008	1,162	4	32	31	3	2	3	65	25	32	200	1,000	1,200
Partnership for Productivity (Kenya)	April '87	16.18	12	12	6,060	672	947	923	127,715	1 36	61	53	50	51	13	152	180	84	18	794	3,770	4,524
Maryknoll Fathers - Guro	Oct. '87	17.02	60	60	96,503	992	1,202	2	900	2 94	520	405	924	5	0	520	405	450	500	1,097	9,485	11,582
PCEA - Chogoria Hospital	Oct. '87	17.02	10	10	14,010	1,402	100	0	0	0	2	60	0	62	0	2	0	0	1,200	1,202	8,414	9,616
Tatoto Home Industries	May '87	16.31	15	15	24,612	1,634	535	14	840	-40	Mixed Groups 30	Mixed Groups 3	7	3	0	0	14	0	2	220	20,000	20,220
Isiolo Bonnery	Oct. '87	17.02	0	0	0	0	170	49	22,695	463	0	49	23	10	0	18	6	417	15	935	2,275	3,210
													0	49	0	6	49	0	0	170	850	1,020
TOTALS			116	121	8156,061	81,290	3,980	1,244	6410,489	63 [illegible]	723	621	1,097	231	30	892	761	986	1,769	5,665	59,629	65,294

KENYA EQUITY MANAGEMENT & KENYA EQUITY CAPITAL
(Finance Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The basic objectives of the KEM/KEC project are to help establish a new equity capital company in Kenya in which local financial institutions can invest; to assist in the financing for 10 to 15 business start-ups or expansions; to increase the number of experienced project development personnel; and to contribute to the development of a mature equity capital market in Kenya.

Legal structures for KEC and KEM are complete. The KEM Managing Director has been appointed and has started work. The KEM board met three times and is considering final approval of three investments. The initial contract for KEM ($260,000) has ended and funding is now provided through a second contract with IRG/EASL.

The Trust for Equity is an integral component of this venture capital initiative. The Trust is established at Standard Chartered Bank, and a management agreement between the Trust and KEM has been signed. This agreement governs access by KEM to the line of credit for KEM investments. $1.6 million has been obligated to the Trust for Equity to provide debt financing for the upcoming KEM investments, but there have been no disbursements into the Equity Capital Trust account by USAID for KEC as of April 15, 1989.

II. AVAILABLE DATA

A. Primary Data

(i) Semi-annual Project Review, March 31, 1989. Office of Projects, USAID/Kenya.

(ii) Memorandum of Conversation, May 11, 1988, from Barry MacDonald to D. Kline, G. Bertolin, and M. Mcwherter.

B. Informed Opinion

Holly Wise, USAID/Kenya
Mike McWherter, USAID/Kenya
Bruce Bouchard, KEM
Godfrey Chamungwana, Standard Chartered Bank
Dickson Gachuche, Kenya Finance Company
William Wood, Thabiti Finance Company
Richard Parry, Africa Project Development Fund
Nizar Meruani, Diamond Trust of Kenya
Ngenye Kariuki, Nairobi Stock Exchange
Bal Raj Kapoor, Industrial Promotion Services
Lauren Olsen, IESC

III. MAJOR FINDINGS

A. Costs

Cost = (% of project time elapsed x total fixed/start up expenses) plus (recurrent to date) plus (program expenses) plus (% of project time elapsed x PSC total salary)

Fixed to Date	Recurrent	Program	PSC Salary to Date
0	260,000	0	$48,650 (194,602 as of 3/31/89 x 25% of time on KEM)
191,504			

Total cost as of March 31, 1989: $500,154

Other public money invested in the project: $0

Other investor funds (Actual): KSh. 16,275,000 @ 19.16 = $849,426
(Planned to date): $13,477,309 x .29 of elapsed time =$3,908,420.

(The $13,477,309 total includes $9,762,000 in equity from local financial institutions, and $3,715,000 in equity from local private entrepreneurs.)

Total Leverage to Date: (Other Funds/USAID Funds): 1.7
Total Planned Leverage to LOP: 13,477,309/6,982,698 = 1.93

USAID direct contribution:	$6,190,000
USAID trust contribution:	731,000
PSC Salary (.25 x 246,793)	61,698
Other sources:	13,477,000
Total component cost:	$20,459,698

If we classify the USAID trust contribution as an opportunity cost to USAID, then the USAID contribution is 34% of the component total.

KEM Ownership: Two U.S. companies own Kenya Equity Management: International Resources Group (IRG) and Equator Advisory Services Limited (EASL). Both have invested KSh. 137,500 for a total initial shareholders' equity of KSh. 275,000.

KEC Ownership: KEC is owned by several insurance and finance companies, including CODA, Kenindia Insurance, Apollo Insurance, and Kenya Finance Company.

Commitments as of March 31, 1989 were:

Company	Commitment in Kenyan Shillings
IRG/Equator Bank:	4,000,000
Kenindia Insurance:	6,000,000
Cannon Insurance:	4,000,000
Apollo Insurance:	2,000,000
Total as of 3/31/89	16,000,000

The targeted level for the fund was KSh. 48,000,000; a minimum of KSh. 16,000,000 is required to initiate operations of the Fund. This level has been reached. Investors must pay up KSh. 75,000 when the investment agreement is signed. Thus, a total of KSh. 300,000 has been paid up.

Other possible investors include:

Kenya Finance Corporation	KSh. 6,000,000
Alico Insurance	6,000,000
Thabiti Finance Company	1,000,000

B. Actual Outputs

Total Amount Lent: $0
Number of Loans: 0
Number of Investment Proposals Reviewed: 150
Number of Active Proposals: 75

There are three complete proposals that are going to be presented in April for approval by the KEM board. These include a bakery, a restaurant, and one other.

Reasons for rejection of previous proposals:

i) Project too large;
ii) Undeveloped proposal;
iii) Difficulties in the agricultural sector.

KEM's source of proposals:

KEM has taken a "low profile approach"[1] to creating a flow of proposals. Most proposals have come through personal referrals from the local business community. KEM is currently looking at four proposals developed by the Africa Project Development Fund, and has considered several proposals referred by Industrial Promotion Services. At this time, KEM has sufficient high quality proposals for its short-term investment requirements.

As of April 17, 1989, 25% of businesses referred are companies that need financial restructuring. A common problem with these referrals is that the companies need long term foreign exchange credit and have too much hard currency debt.

Characteristics of the 75 Proposals Considered:

Gender: Only two of the 75 proposals come from women entrepreneurs or investors.

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[1] Conversation with Bruce Bouchard, 4/5/89.

Sector: 20% Manufacturing, 60% Agribusiness, 20% Service

Urban/Rural: 70% are in the Nairobi metropolitan area.

Ethnicity: 25% Indigenous, 75% Asian or Neither

Business Size:

Target: SMSEs, according to USAID/Kenya definition, with gross assets of KSh. 100,000 to KSh. 50,000,000.

Actual: Gross assets of proposed projects range from a low of KSh. 3,000,000 to a high of 50,000,000.

Technical Assistance or Training: KEM has USAID grant funds available to provide up to $550,000 for preparing feasibility analyses, proposals, and technical assistance to businesses.

C. Constraints

1. KEM needs to demonstrate to local investors that venture capital investments can yield returns that are substantially above returns in real estate, T-Bills and interbank lending.

2. Success of the KEM project depends to a large degree on alterations in GOK regulations governing the issuance and sale of public securities before it has viable routes for exiting its investments, which requires continuing liberalization of the stock market.

   The state of the Nairobi Stock Exchange is a major constraint for the development of the venture capital industry in Kenya. Lack of well developed equity markets makes it difficult to establish fair market values of companies.

   In addition, one important mechanism for encouraging honest operation of a company by co-investors is the promise of future capital gains by selling a company on a stock exchange or Over-the-Counter market. If investors are offered the prospect of their capital gains being directly proportional to the publicly disclosed performance of their company, then they have a strong incentive to run their business on a transparent basis. Thus, a well developed stock and OTC market is an important part of the development of a venture capital industry.

3. The government is under pressure from international donors to reform its capital markets. To the extent that this is an externally imposed process, it may not be sustainable.

4. According to Richard Parry, Bruce Bouchard and Ayub Migwalla, project and feasibility analysis skills are a weak area in the venture capital industry. There are few local business people with sufficiently well developed skills in the feasibility analysis area.

D. Institutional Impacts

- Can KEM sustain this kind of investment program without USAID support?

  It depends upon KEM's ability to make successful investments within the near future. KEM has been approached by investors interested in establishing a fund for local MNCs. Other investors express concern that the company has taken a "long time" to make its first investments.

- Does the government help or hinder in developing this project?

  The GOK helped the creation of KEC by passing an executive order declaring KEC an "approved investment". Further GOK action on capital market issues is important to the long term success of this project.

- Would the institution have been established without USAID assistance?

  There is little doubt that there would have been no venture capital fund set up without USAID assistance. There were no other serious proposals to establish another venture capital firm.

- Is USAID's loan program cost covering?

  Local commercial banks and finance companies would not be willing to make loans of the size and terms to be provided under the USAID line of credit. Because of the significant credit risk involved in loans to new starts, it is probable that USAID's loan program is not cost covering.

- KEM's exit strategy:

  1. Provide the co-owners with first right of refusal and other means of buying back KEM's equity.

  2. The Over-the-Counter Market (OTC), if certain regulations are changed.

  3. Private placements.

  Because Kenya does not have a well developed equity market, it will be difficult to evaluate (and sell) the shares of companies owned by KEC. Therefore, KEM will try to arrange a means of divesting its shares when it makes each investment. Item 1 above is one mechanism that KEM hopes will work for divestiture.

- Who manages the Trust for Equity loans?

Trust for Equity loans are to be managed by the Trust Division of Standard Chartered Bank. After recent questions were raised about the role of the bank in selecting loan recipients, it was decided that the bank acts only as a custodian for the funds and manager of loans. According to Mr. Bouchard of KEM and Mr. Chamungwana of Standard Chartered Bank, now that this issue of the bank's fiduciary responsibility has been resolved the Trust is a functioning component of the project.

E. Direct Development Impacts

Change in Sales (Latest 1 Year): None
Change in Employment (Latest 1 Year): FT 0 PT 0
Amount Invested (Latest 1 Year): 0

F. Unplanned Effects

1. Backward Linkages to Agriculture. One of the projects (the TexMex Restaurant) proposes to buy types of produce that are not currently available in Kenya. If this project is undertaken, it promises to create backward linkages to agribusiness.

2. Policy Dialogue. The Insurance Act limits the kinds of investments in which insurance companies can invest. KEC was not included under this act as a "prescribed investment", and therefore the local insurance funds could not invest in KEC when the PED project began. After negotiations with the GOK, USAID offered to provide funds to establish the College of Insurance using local currencies. The GOK then gazetted a notice that included KEC among prescribed investments for insurance companies, thus allowing these companies to invest in KEC.

   This is an example of the ways in which policy issues arise out of project activities. The gazetted notice is a one-time only act by the government, but it indicates a willingness on the part of the GOK to experiment with policy changes. The same might be accomplished with interest rate ceilings for SMSEs.

3. Complementarity among USAID private sector activities. There is remarkable complementarity among USAID's IESC, KEM, RPE, IPS and capital markets development activities. KEM has referred 12 businesses to IESC, and has requested one IESC volunteer for a company in which KEM was considering an investment. IPS has also provided referrals and advice to KEM officers. There is hope that RPE loans may be provided to some of the projects undertaken by KEM, but so far the banks are not willing to take on the risks associated with loans to new starts.

4. Good timing of the project. The project has demonstrated that investors are now willing to consider venture capital investments in Kenya.

G. Administrative Burden on USAID

A total of 98.8 person days per year is the average administrative burden. This is 4.9% of the total person days available for project office personnel.

IV. ADDITIONAL OBSERVATIONS

1. KEM does not have monitoring and control systems developed for its investments. This is a concern of the MD, and is something that will need to be developed soon after the first investment is made. The company is hoping to hire a Kenyan to establish the monitoring system, and may obtain technical assistance from IESC.

V. CONCLUSIONS

1. KEM, KEC and the Equity Capital Trust have been established and are in operation.

2. KEM has taken a relatively long time to make its first investment. This has caused serious concern among KEM's investors. Several senior officers in Kenyan financial institutions stated that making some initial investments within the next few months is critical to keeping investors committed to the project.

3. KEM has found it difficult to find sound business proposals sponsored by indigenous entrepreneurs.

4. There is no indication that other firms intend to establish other venture capital firms based on the KEM/KEC model.

5. The lack of a well developed stock and OTC market in Kenya is causing problems for KEM in two ways. First, lack of sound public securities markets means that entrepreneurs cannot expect their returns on investment to come through capital gains. Because of this, good entrepreneurs have little incentive to operate their business in ways that will maximize publicly disclosed retained earnings and capital gains, and have little incentive to give KEM its fair share of corporate earnings. Second, it is difficult for KEM to obtain a fair market price for corporate shares when there is no efficient market for stocks. Unless an efficient share market develops in the near future, KEM will have to take a more active role in the management of the companies in which it invests.

VI. RECOMMENDATIONS

1. <u>Continue support for the development of capital market institutions</u>.
   - Technical support in the GOK's efforts to reform capital market policies and to form new capital markets legislation.
   - Assistance to both the GOK and the Nairobi Stock Exchange in establishing an independent capital market authority.

2. <u>Limit USAID involvement in selecting investments</u>. It has been noted by several respondents that <u>this project is first and foremost a capital markets development project</u>, and only secondarily a mechanism for providing long term funds to new starts. Given that the company is under pressure

to make some investments, it may be advisable for the company to give most priority to the financial viability of the first few projects business and only later elevate developmental criteria for screening projects in the project selection process. Making several first "deals" is essential to the viability of the venture capital experiment at this point in the project.

It is also important that the capital market development processes initiated by the KEM/KEC venture capital project are viewed as long term in their development. Given the constraining factors of finding viable projects associated with good entrepreneurs, and lack of well developed exit routes, it will probably take a long time to develop a local venture capital industry.

3. Encourage compliance with USAID reporting requirements. KEM is supposed to provide quarterly progress reports to USAID starting March 31, 1989. This requirement was not met as of April 17, 1989.

COMPONENT LOGFRAME

GOAL

Replication of venture capital funds by local private sector investors.

PURPOSE

Establishment of a new, self-sustained venture capital company in Kenya.

Creation of one to four more funds managed by KEM.

Investment by KEM in ten to fifteen businesses.

OUTPUT

Establishment of the three principal institutions: KEM, KEC and the Kenya Equity Trust.

Commitment of funds by local investors to KEC.

INPUT

A grant of $4.125 million to establish a line of term credit in Kenya shillings to be available to projects in which KEC invests and to pay a 3% annual management fee to KEM.

A $1,350,000 contract with KEM for core costs during the first few years of operation.

Up to $715,000 for business plan preparation for prospective KEC investments and post-investment business advisory services.

Foreign exchange inputs:	$2,065,000
Local currency inputs:	$4,125,500
Total inputs:	$6,190,000

INDUSTRIAL PROMOTION SERVICES (IPS)
(Finance Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

II. AVAILABLE DATA

Holly Wise	USAID/Kenya
Michael McWherter	USAID/Kenya
S.H. Poonawala	IPS
Bal Raj Kapoor	IPS
James G. Nduati	IPS
Nizar Meruani	Diamond Trust
Richard Parry	Africa Project Development Facility

III. MAJOR FINDINGS

A. Costs

Loans	$619,877
PSC Time	19,460
Personnel Grant	100,000
Management Support	0

B. Actual Outputs

Staff Improvements: IPS has hired and trained five new project officers. One of these officers left to join another company. The remaining four are currently engaged in reviewing projects.

Investments: IPS has made two investments using USAID loans. Both of these investments are industrial expansions of existing companies and involve rehabilitating companies undergoing financial difficulties.

1. Premier Foods Limited (Fruit and vegetable processing company)

USAID loan	Ksh. 5,000,000
Other loans	18,000,000
Equity (IPS,IFC,Others)	6,000,000
Bank overdraft facilities	5,000,000
Total Capital Investment	34,000,000

Permanent employees: 45
Male employees 21
Female employees 24
Employment increase due to investment: none yet
Sales 25,000,000 estimated latest year.

2. Premier Refrigeration and Engineering

USAID loan	Ksh. 6,000,000
Other loans	18,000,000
Equity	6,000,000
Bank overdraft facilities	5,000,000
Total Capital Investment	35,000,000

Permanent employees: 73
Male employees 71
Female employees 2
Part time employees 47
Employment increase due to investment: 40
Gross sales before investment: Ksh. 40,000,000
Gross sales 1 year after investment: 120,000,000

Proposals

As of April 15, 1989 there are thirteen proposals under serious consideration by IPS. These include:

7 manufacturing
5 agribusiness
1 primary (vermiculite mining)
0 services

Location: 8 rural/ 5 Nairobi or Mombasa

Size: Projects range in total investment size from Ksh. 10 million to 50 million.

Ethnicity of applicants:
8 indigenous
3 indigenous and Asian joint venture
1 Asian
1 European

Sources of Proposals: IFC, USAID, KCB Business Advisory Services, Investment Promotion Centre, Africa Project Development Facility, Diamond Trust, Jubilee Insurance, Embassies, GOK development banks.

C. Constraints to Implementation

1. The GOK's import policies make it difficult to accept many of the proposals that are submitted to IPS.

2. Obtaining permits for land is difficult.

3. Finding a sufficient supply of high quality proposals from indigenous entrepreneurs.

4. Underdevelopment of the stock market makes divestiture difficult.

5. Absence of protection for minority shareholders' rights under Kenyan corporate law makes it difficult to take passive equity positions in Kenyan firms.

D. Institutional Impact

1. IPS has not changed its project appraisal techniques as a result of the USAID project. It has, however, changed its presentation of proposals and its consideration of project externalities such as environmental impacts and waste treatment. IPS has also begun to examine raw material supply arrangements more carefully during project analysis. It has recognized that, in some projects, there must be investment made in developing raw material supplies.

2. IPS has not changed its investment selection criteria, particularly with respect to rate of return, cash flow, sales and other key business projections for a project. IPS has, however, changed the types of projects and co-investors it will consider. IPS will now consider agribusiness and food processing projects. It will also consider investing in projects with indigenous African investors.

3. Premier Foods was the first IPS investment in food processing. In part because of the USAID project, IPS is now willing to consider agribusiness and food processing projects.

4. IPS plans to use the USAID/IFC facilities to invest primarily in projects sponsored by indigenous investors. IPS is more open to considering investments in indigenous companies.

5. Because the USAID/IFC facilities offer long-term funds for IPS projects, IPS is willing to consider projects that take longer to develop than it was willing to consider previously.

E. Direct Developmental Impacts

As of April 15, 1989, two established companies are being rehabilitated through IPS investment programs. The result has been capital investments of Ksh. 69 million. It is difficult to estimate the number of jobs created, because the investment programs are not complete. Nevertheless, numerous jobs were saved because of the rehabilitation of the two companies, and more jobs are being created because of the new investments.

F. Opportunities Identified

IPS is aware of the technical skill deficiencies that constrain both preparation of sound project proposals and project management. IPS officers expressed a willingness to provide advice to USAID on the specific training and technical assistance that would help remedy these skill deficiencies in Kenya.

G. Administrative Burden on USAID

The IPS component requires 59.8 person days per year; this is 2.9% of the Mission's available staff resource.

H. Additional Observations

Many of the constraints that IPS has identified in its review of potential projects have important policy dimensions. Particular areas identified are import and export regulations, investment regulations, capital markets regulations, fiscal policies, and the preferential treatment for indigenous investors. Some of these policy issues may be appropriate targets for USAID policy dialogue efforts.

IV. CONCLUSIONS

IPS has been successful in its initial efforts under the USAID project to hire and train new staff, to change its investment policies, and to identify suitable investment opportunities. It has been remarkably cooperative with the terms and conditions of the USAID project, and has been willing to assume the credit risk for USAID loans to individual businesses.

Because IPS does not raise capital on public stock markets, this project has little impact on the development of capital markets through the mobilization of domestic resources. Achievement of the capital markets dimension of the PED project purpose will be difficult until there are significant changes in the operations and regulations governing Kenya's capital markets. Until these changes occur, it is highly likely that IPS will have to continue its policy of involving it staff heavily in the management of the companies in which it invests.

V. RECOMMENDATIONS

1. The project is doing well. Other than encouraging IPS to meet its investment projections under the USAID/IFC project, there are no pressing management issues that require USAID attention.

2. Advice from IPS staff on technical assistance and training requirements under various USAID/Kenya projects may be helpful in identifying specific skill deficiencies and technical requirements.

RURAL ENTERPRISE PROGRAM
(Finance Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The overall purpose of the Private Enterprise Development (PED) project is twofold. It seeks to strengthen institutions that can improve Kenya's business environment and directly encourage growth of businesses through the financial and advisory assistance those institutions provide. The objectives of the Rural Enterprise Program (REP) component of PED are to: strengthen finance organizations that work with very small businesses; promote small business growth in new ways; and assist the REP to become an independent Kenyan organization. PED could be considered the second phase of REP's loan programs. The main difference from Phase I is that the revolving funds to NGOs will now be in the form of loans rather than grants. Also, REP can make these loans directly to community based enterprises (CBEs). The objectives are to make 16 loans to NGOs for $704,000 and 20 loans to CBEs for $330,000. The USAID contribution to estimated costs is $5.8 million, the amount of the contract with WEREP. $493,000 has been budgeted for a sub-contract with World Education. The project time is 26% elapsed and the funding for this component is 5% expended. Loans to NGOs will be at an interest rate of 5% since they will be on-lending to small enterprises at the commercial rate of 15%. Loans to CBEs are at 15%.

II. AVAILABLE DATA AND METHODOLOGY

Data was obtained directly thorough interviews with REP staff and the YWCA. The YWCA is sponsoring the CBEs that have received loans so far.

III. MAJOR FINDINGS

A. Costs

To date $79,000 of the grant has been expended to cover REP administration and operating costs. If the fixed costs are prorated, this amount is reduced to approximately $54,000. This sum includes the salaries of two Kenyans who are working on previous programs, making it difficult to determine which costs are strictly related to the administration of these four loans.

B. Actual Outputs

Available statistics on the loans made so far are presented in Attachment 1. To date loans for $32,000 have been disbursed to four women's CBEs in Mombasa associated with the YWCA. The loan will be used as working capital to allow the CBEs to buy mangos from the producers for picking, grading, packing and selling to traders. Unfortunately, the Saudis, the main market for Kenyan mangos, cancelled all orders this year, causing many problems. Currently there are ten more applications pending from CBEs for approximately $38,000. Most of these are from women's CBEs wanting to set up posha (flour) mills. One is to produce roof tiles for sale to construction companies. REP has just concluded an agreement with the Council for International Development - Kenya for $209,000 to support Private Rural Industry and Development Enterprises (PRIDE). An additional $54,000 will be lent to micro-enterprises who are members of groups, mostly women. The loans (maximum $270) will be made to groups of five members who will cross guarantee each other. Another $54,000 will be contributed to the loan fund by Barclays Bank from its development fund. The initial activity for the introduction of new technology is honey production and marketing.

C. Constraints to Implementation

Delay in making the first loans under this phase was caused by the need to recruit new staff, the interviews for which lasted six months. Other problems were the need to promote the program throughout the country, the need to educate NGOs regarding contents of proposals, and the development of a loan policy and loan management system. Now that the proper infrastructure is in place, presumably the rate of loan approval and disbursement will accelerate. As mentioned, there are ten more applications pending from CBEs for approximately $38,000.

D. Institutional Impact

Although it is too early to tell, it is expected that the provision of credit, rather than grants, to NGOs for on-lending will make them more concerned with self-sufficiency and increase efficiency. The advantage of lending to CBEs is their involvement in revenue-generating production. REP will build on its institutional development efforts by lending only to current NGO recipients of REP assistance. REP has developed a set of criteria for lending to these organizations which include: past performance meeting established benchmarks; submission of satisfactory proposal linked with an on-going REP-funded project; proof of improved management performance and cost efficiency; demonstration of plan for and movement toward self-sufficiency; plan to make the credit fund cover its own costs; loan repayment rate from borrowers of at least 75%; loan portfolio turnover rate of at least 1.5. Disbursements will be tied to the NGO achievement of their targeted objectives.

The change from grants to credit will also make loan repayments available to WEREP for re-lending in order to assist a larger number of projects with a given amount of funds. Also, the interest paid to REP will provide an important source of income aiding self-sufficiency.

E. Direct Developmental Impacts on Borrowers

In addition to fulfilling the above institutional criteria, an NGO seeking funds must show that the loans made to date have had a significant developmental impact on borrowers in terms of jobs created, income increased, and business skills improved.

On the mango projects in Mombasa there will be 143 direct beneficiaries of these loans, all of them women. 715 indirect beneficiaries are projected. It is estimated that there will be an average of 1,251% increase in yearly income per woman and that the CBEs will earn an average profit of 23.4%.

F. Sustainability

The development of a credit program will provide an important source of income to REP. To achieve self-sufficiency, however, REP must target other sources of income such as: direct lending to individual enterprises; direct investments in projects; training; and consultancies. REP investments will be in companies which have backward and/or forward linkages to micro-enterprises. REP will take an equity position to participate in the management for the first few years, allowing other owners to buy them out later on. Charging full cost for training has already proven successful. In fact, in one case, REP was able to net a 40% profit. Other full cost training is planned. Business consultancies have been in other countries (e.g., Somalia) as well as in Kenya. REP estimates that by the end of this project (PACD=1994) they will be 70% self-sufficient. Some grants will still be needed to cover some activities (e.g., technical assistance to upgrade NGOs).

As mentioned above, the provision of credit will be a greater incentive for NGOs to become more self-sufficient. That donor support for administrative costs without requirements for planned self-sufficiency by the recipients always seems to be available works against the trend toward self-sufficiency. However, such funds generally change from year to year and do not allow for any forward planning.

G. Administrative Burden on USAID

The number of USAID person days spent on this component each year, not including Phase I, was 122.2. This sum is 6.0% of the total available staff time.

IV. CONCLUSIONS

This project can be seen as a logical succession to the RPE project because it focuses primarily on the institution building of NGOs. The extension of loans to the best of the NGOs assisted in that phase builds on that experience. The project now requires more concern for generating income to cover costs and more efficiency to reduce costs.

V. RECOMMENDATIONS

1. REP should continue to explore additional sources of income. One possibility is starting to publish information on some of the lessons learned and selling these to other institutions with similar interests both within Kenya and in other countries. Training materials developed for REP use could also be sold to outside organizations.

2. REP should investigate the possibility of working with credit unions. Credit unions tend to have a wide outreach and many of their members are micro-enterprises. The natural link-up would be KUSCCO, the national federation of credit unions.

16-May-89

ATTACHMENT 1

CBE LOANS - REP
PRIVATE ENTERPRISE DEVELOPMENT

	Kilel	Idsowe	Oda	Mazingo	Totals	Increase
Loan Amount	200	125	60	200	585	
Date Disb	11/88	11/88	11/88	11/88		
# Members	24	45	32	42	143	
Income/woman - prior	300	300	0	0	600	
Income/woman - post dis	3876	1211	855	2165	8107	1251.17%
Direct beneficiaries	24	45	32	42	143	
Indirect beneficiaries	120	225	160	210	715	
Projected profit	188268	108496	55287	185040	537091	
Projected sales	797820	471565	233295	788883	2291563	23.44%

KENYA COMMERCIAL FINANCE COMPANY (KCFC)
(Finance Component)

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The purpose of this project was to provide a package of financing and business advisory services to small- and medium-sized enterprises (SMSEs). Priority was to be given to agribusiness and businesses in rural areas.

The Bureau for Private Enterprise provided a loan to KCFC of US $2.5 million for 12 years and KCFC matched these funds with $2.5 million in local currency, making a total of $5.0 million available for KCFC lending to SMSEs. In addition, PRE provided a grant of $250,000 to KCFC to strengthen its Business Advisory Services (BAS) division. The interest rate paid by KCFC to PRE on the loan was 8.38% per annum on outstanding balances plus a stand-by fee of 1% per annum. The loan was provided in U.S. dollars, but the Government of Kenya agreed to cover all foreign exchange risk associated with the project.

The first loans were made in 1983 and funds were fully committed by July 1986.

II. AVAILABLE DATA

A. Primary Data

KCFC project proposal submitted to PRE
KCFC/PRE Loan Agreement and correspondence files
Review of a sample of KCFC's borrower files

B. Secondary Data

Kenya Commercial Finance Company evaluation report by Management Systems International

C. Informed Opinion

Mr. Ayub Migwalla - KCFC
Mr. Justus Omolo - USAID
Mrs. Elbuzaidy - KCFC

III. MAJOR FINDINGS

A. Costs

$250,000

B. Actual Outputs

The total amount lent under the project was $5.0 million (Kshs 77,214,566). The total number of loans was 86. The outstanding number of loans as of April 6, 1989 was 68 (Ksh. 43,100,795). The total number of applicants was 208, of which 122 were rejected. The main reason for rejection was that applicants requested loans to finance businesses (posho mills[1]) located too close to other similar firms. The average loan size was U.S. $58,588, at an average interest rate of 18.5% per annum. The average loan term was 5 years.

There were no conditions in the PRE loan agreement that required the funds to be recirculated to the target group. Funds repaid have not been relent to the target group.

At an average interest rate of 18.5% and with the cost of funds at 9.38%, KCFC's average spread under the PRE facility was 9.12%. This spread is considerably higher than the finance company's usual estimated average 3.5% spread on loans.

Loan recipients were concentrated in three sectors:

Manufacturing	4
Agribusiness	80
Service	2

Of these, 83 were indigenous Kenyans and 3 were Asians.

A total of Kshs 21 million of the loans are in arrears (36 recipients) as of March 31, 1989. There has been only one default; the amount in default is Ksh 10 million. Thus, the total default rate is 13% of the total amount lent. The defaulting client is a tannery that is now under receivership and has been restructured.

The major reasons for the arrears and default are:

1. Unavailability of spare parts for posho mills;
2. Transportation problems from farm to processing plant in the sugar cane industry;
3. Lack of raw materials (e.g., hides and skins in the tannery industry).

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[1] Posho mills are small-scale grain mills.

C. Constraints to Implementation

In implementing this project, there were three major constraints:

1. Lending deadlines established by PRE. PRE demanded that all funds must be utilized by a specific date. To meet the deadline, KCFC was forced to grant and disburse its loans very quickly. Many loans went to posho mills that often received loans without adequate feasibility studies. Many of these borrowers ended up with repayment problems.

2. Foreign exchange risks. The foreign exchange risks involved in the project were not appreciated by KCFC at the time of contracting. KCFC has sustained large foreign exchange losses, with the result that KCFC officers say that they feel that USAID has taken unfair advantage of the bank. IFI staff mentioned that they feel that they are "subsidizing PRE."

   In fact, the Ministry of Finance, in a letter dated November 12, 1982, agreed to undertake the foreign exchange risk associated with the PRE loan to KCFC. According to a memo dated April 26, 1989 commenting on this KCFC evaluation (which is part of the USAID Kenya PED Program Evaluation), in May 1988, the Treasury disbursed to KCB KSh. 20 million to cover KCFC's exchange losses associated with an AID/W foreign currency loan. The memo also reports that the Kenyan Treasury is currently disbursing KSh. 32 million for the same purpose. The April 26, 1989 memo referenced the KCB FX Risk Fund File and USAID Implementation Letter No. 8, dated July 21, 1988 under the Structural Adjustment Program.[2]

   KCFC's calculation of total foreign exchange loss sustained by KCFC under the PRE loan is KSh. 8 million. The head of the Business Advisory Unit of KCFC claims that as of March 15, 1989, they had been reimbursed for only KSh. 1.4 million of the 8 million that they claim they are owed. It is possible that this officer is not aware of the payments (referred to in the April 26th, 1989 USAID memorandum) made to compensate KCFC for its foreign exchange losses. This belief of KCFC management that USAID still is responsible for compensation should be corrected in order to maintain good relations between USAID and KCFC.

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[2] It would seem unlikely that the Treasury would reimburse KCFC with KSh. 52 million for foreign exchange losses under the PRE loan project. The entire PRE loan was equivalent to a total of only (approximately) KSh. 77 million, with foreign exchange losses estimated by L. Masaviru of KCFC totalling only KSh. 8 million.

3. High administrative costs. KCFC found administrative costs of lending to the target market and reporting to PRE to be much higher than its usual lending programs.

D. Institutional Impact

1. KCFC has changed its loan disbursement procedures under the PRE project. Instead of giving cash directly to borrowers, money was paid directly to suppliers of goods that the borrowers purchased, on presentation of pro forma invoices.

2. KCFC has learned that the target SMSE market is average in terms of profits (when KCFC has a lending spread of over 9%); however, when the project ends, the bank will not continue to lend to PRE-project clients.

3. The company has not made any significant changes in lending criteria, credit analysis and loan management procedures or collateral requirements.

E. Direct Developmental Impacts

No information is kept by the bank on borrowers' changes in sales, assets or employment. An interview with a KCFC loan officer revealed that as of March 31, 1989 the project had generated employment for 987 people on a permanent basis, and five times as many part time jobs. The MSI evaluation report indicated that, on the average, sales and assets increased for most of the borrowers during the loan period.

F. Sustainability

It is clear that given current interest rate and credit regulations in Kenya, the costs of this type of lending program are high and the net earnings are low. The bank does not intend to continue lending to this target market after the end of the project. Major costs associated with the project include:

(1) Administrative costs of lending and reporting to PRE;
(2) Loan losses under the project;
(3) Foreign exchange losses that have not been reimbursed by the GOK (reported to be KSh. 6.4 million outstanding);
(4) Transaction costs of obtaining foreign exchange loss reimbursement;
(5) The opportunity cost of using scarce staff resources to run a lending program for a low profit market. The officers that were assigned to make SMSE loans under the PRE project could have been making loans to "better accounts", i.e., customers whose accounts yield higher returns on KCFC funds.

IFI loan officers say that, because of these costs, they would prefer to lend to a market that is better organized and more familiar with banking

operations -"a group that sees the bank as a resource and not just as a source of funds".

G. Unplanned Effects

None

H. Opportunities Identified

None

I. Administration Burden on USAID

78 person days were expended per year during the first two years of the project; none were used after that. This is equivalent to 5% of one officer's time during the 12 year life of the project and an average of 13 person days per year over the life of the project, or 0.6% of available staff time.

J. Additional Observations

1. The USAID/Kenya officer concerned with the KCFC project reported that foreign exchange losses were to be covered by the GOK from the Foreign Exchange Risk Fund, a $3 million local currency fund established under USAID project no. 615-0213.

2. KCFC reports that it will not continue lending to the target market at the end of the project, but that this market is also about average in terms of profitability to the bank. The market is profitable because PRE provides cheap funds (9.38%) and what is in effect a $250,000 (or 5%) administrative subsidy on the total amount lent under the project. Without the subsidies of cheap funds and administrative grants, the finance company would have to lend 15% money to businesses at 18.5%. This unsubsidized spread of 3.5% would not be sufficient to induce KCFC to lend to PRE's target market.

IV. CONCLUSIONS

Although the project was generally well managed, it suffered from a number of shortfalls:

1. The foreign exchange risk was not given the attention by KCFC that it deserved.

2. Arrears and defaults were much higher than expected, perhaps reflecting poor screening of loan applicants by the IFI.

3. The project proved to be unprofitable for the IFI and resulted in no significant changes in lending practices by the bank. Even if there

had been no foreign exchange losses (and costs of obtaining reimbursement of losses), KCFC would have found the lending program profitable only because of PRE's cheap funds and administrative grant.

V. RECOMMENDATIONS

1. Clear up any existing misunderstandings between KCFC and A.I.D. concerning responsibility for payment of compensation for foreign exchange losses under the KCFC/PRE project. This action is important for maintaining a sound relationship with KCFC, a major local financial institution.

2. If a credit project's objective is to establish a sustainable lending program for small businesses, select a target market that is profitable for the IFI under unsubsidized conditions. If A.I.D.'s target market will be unprofitable for the IFI under current financial market conditions, the IFI will continue lending to the target market only if it receives a continuing subsidy. Therefore, if A.I.D. decides to target a SMSE market that is not profitable, then a continuing source of subsidy needs to be identified and developed.

3. According to KCFC staff, there is a wide variation among small borrowers in their profitability and ability to service loans properly. Bank staff reports that the cost of operating a SMSE loan program are heavily influenced by the types of businesses targeted.

   It would be valuable for the Mission to collect information from KCFC on the profitability of various sub-markets among the target businesses of the KCFC/PRE project. This information will help to determine which businesses will need continuing subsidies if they are to receive credit from local lenders, and which can receive unsubsidized loans.[3]

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[3] This evaluation did not permit detailed discussions with KCFC officers concerning the characteristics of small borrower sub-markets. Additional information could be obtained from interviews with bank loan officers and by analysis of KCFC's loan portfolio under the PRE-funded project.

LEATHER INDUSTRIES OF KENYA (LIK)
(Finance Component)

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The purpose of this project was to establish a tannery in Kenya that would export high quality, finished leather. The project was intended to create new employment, provide a market for quality Kenyan hides, stimulate rural agribusiness in Kenya and earn foreign exchange.

The A.I.D. Bureau for Private Enterprise provided a long-term loan of U.S. $1.6 million, with facilities for an additional $200,000 for cost overruns. Due to efficient construction and low start-up costs, total projects costs were less than budgeted and the total loan from USAID was reduced to $1.6 million. Total project cost was $7.2 million. PRE's loan was for 12 years at an interest rate of 12% per annum, plus a 0.5% annual commitment fee per annum on undrawn balances.

PRE was part of a consortium of international and local equity and loan investors in this project, including the International Finance Corporation, and Industrial Promotion Services (Kenya).

LIK began operating on a profitable basis during the first quarter of 1988 and declared its first dividend at the end of 1988, at 10% of equity.

The waste treatment plant that was built as a requirement under the PRE loan agreement is operating well, and (reportedly) no toxic tannery effluents are being discharged outside of the plant.

II. AVAILABLE DATA

A. Primary Data

USAID/Kenya LIK project files and Bureau for Private Enterprise Loan Agreement.

LIK Board Papers

B. Secondary Data

"Leather Industries of Kenya - Direct Loan Case Study". Management Systems International/Bureau for Private Enterprise.

C. Informed Opinion

Mr. Justus Omolo - USAID Project Officer
Mr. Lutafali Kassam - General Manager, LIK
Mr. Karim Peerbhoy - Financial Controller, LIK
Mr. Amin M. Kassam - Assistant General Manager, LIK

III. MAJOR FINDINGS

A. Costs

No costs to A.I.D.

B. Actual Outputs

The company started operations in October 1985 with 160 employees, producing at 30% capacity. The target was to operate at 33% capacity for the first four months, then at 66% for the next 8 months, and 100% after that. As of April 15, 1989, the factory is operating at 68% capacity on an average basis. Loan payments by LIK to PRE have been made on time.

Against the initial targeted employment of 400, LIK has created jobs for 280 people, with 70 women employees.

Though the initial intention was to produce only finished leather, currently only 65% of the output is finished leather. This is, according to the LIK officials, still a good achievement given the difficulties of obtaining sufficient high quality raw materials.

C. Constraints to Implementation

There have been no serious problems in the project. LIK has, however, encountered several minor operational problems. These include:

1. Obtaining import and export licenses. The major complaint is the time it takes to process these documents. The delays in obtaining import licenses has made it necessary to stock 6 to 8 months of imported tanning chemicals, resulting in high working capital requirements. Delays in obtaining export licenses has also required the company to use airfreight more often than was projected.

2. GOK export regulations do not give any incentives to finished leather. Therefore, LIK finds little economic advantage to producing and exporting the types of leather that provide the greatest net foreign exchange earnings to Kenya.

3. LIK has found it difficult to obtain a supply of high quality hides for tanning. There is an increasing awareness in the markets that supply hides that high quality brings a higher price. Nevertheless, the hide supply is still characterized by problems with branding and flay marks.

D. Institutional Impact

1. The LIK project has set an industrial standard for tanning waste treatment in Kenya. As of April 15, 1989, the GOK has taken no action to require improved toxic waste treatment by other Kenyan leather manufacturers.

2. The project has created significant demand for improved hides. This encourages cattle growers to use animal husbandry practices that produce higher quality hides.

3. LIK is the first Kenyan tannery that has been able to export superior grades of finished leather.

4. LIK has assisted its employees in setting up a workers cooperative society.

E. Direct Development Impacts

Sales increased from Ksh. 72,021,000 in 1987 to Ksh. 142,840,000 in 1988, and to Ksh. 191,761,000 in 1989 (estimated). Reliable estimates are that 86% of sales in 1989 will be exports.

The employment pattern over the three years of operation was:

1987 - 210
1988 - 245
1989 - 280

Total assets of LIK have not increased materially, but project sponsors plan an expansion beginning later in 1989. The expansion will enable LIK to produce high finish and patent leather. The main constraint to expansion currently is the availability of skilled workers.

There may have been an improvement in the health status of LIK's employees as a result of LIK retaining a resident medical doctor on the plant site.

F. Sustainability

LIK is a viable and profitable company.

G. Unplanned Effects

LIK has resulted in an increase in quality of raw materials and finished leather available in Kenya. This has been achieved by offering premiums for properly flayed hides.

H. Opportunities Identified

1. Policy dialogue with the GOK on formulation and enforcement of environmental protection laws.

2. Policy dialogue with the GOK on rationalizing export policies to provide incentives to products that offer higher net foreign exchange earnings or/and higher domestic value added.

3. Dialogue with the GOK on streamlining import regulations for raw materials and industrial inputs.

4. The expertise that LIK has gained in developing its waste treatment plant could be sold to other firms in industries that produce similar toxic effluents.

5. LIK is also considering setting up a chrome recovery plant; this facility would process chrome from LIK's effluents, and would purchase wastes from other tanneries to recover its chrome content. Chrome is reportedly the most toxic industrial waste produced by the tanning process.

6. There is a possible role for the GOK's agricultural agencies in improving animal husbandry practices to provide a better raw leather supply.

I. Administrative Burden on USAID

One FSN project officer spent 30% of his time on LIK during the first two years of the project, and no time in year three to the present. This equals 78 person days per year for the first two years, an average of 5% of one officer's time over the 12 year life of the PRE project, and an average of 13 person days per year over the life of project, or 0.6% of available staff time.

J. Additional Observations

1. Statistics attached to this report show that growth in LIK's sales has been almost exclusively from exports. LIK officers said there are three reasons for this:

   - sales in local markets have peaked;

   - sales margins in exports are larger;

   - to increase the sales in the local market, they would have to produce cheaper, lower quality leather, and they prefer not to produce for the lower end of the market.

2. There are disagreements between LIK and the technical and marketing partners - UTAMMO. LIK management feels that there were differences of marketing objectives between the two partners. Marketing is now being done by LIK staff, though some UTAMMO agents are still used because the contract is still in force.

3. Profit margins are high, but pressure for fast delivery to European markets means that leather has to be air freighted, thus reducing margins considerably.

4. Cash flow seems to be a problem (though not serious). This is because they have to buy raw hides on a cash basis while receipts for deliveries take up to four months, and because they must keep extra supplies of imported processing chemicals.

IV. CONCLUSIONS

1. The project has been quite successful to date. LIK has met most of its targets regarding repayments, production, sales and earnings, and waste treatment. This project demonstrates that it is feasible for A.I.D. to identify agribusiness opportunities and to collaborate successfully with competent local private sector institutions.

2. The project has enabled the first Kenyan tannery to break into the European market for high quality finished leather.

3. The success of LIK in establishing a new tannery using imported technologies was heavily dependent upon the project having sound and competent financial backers and technical support.

4. The project has raised important private sector development issues in the following areas:

   a. export incentives and licensing;
   b. import regulations;
   c. environmental protection standards;
   d. animal husbandry and livestock extension deficiencies and opportunities.

5. PRE's loan had low additionality because (according to reports by IPS officers) IPS would have gone ahead with LIK even if A.I.D. had not provided a loan.

V. RECOMMENDATIONS

1. There are no pressing management issues on which USAID needs to take immediate action.

2. There are private sector development opportunities for USAID arising out of the project in the areas listed in IV.4. above.

3. Given the success of the LIK project, it would be worthwhile for USAID/Kenya to identify and develop more agribusiness projects in the future. Long term, direct loans are an effective means of supporting this kind of project. When direct loans are not possible, it may be feasible to use financial intermediaries to lend to promising agribusiness projects.

JUA KALI LOAN PROGRAM
(Finance Component)

Program Grant 615-0227

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

This three-year program provided a local currency grant of KSh. 2.5 million to cover the administrative costs of lending by Kenya Commercial Bank (KCB) to Jua Kali businesses, and KShs 2.5 million to be used as a 98% guarantee for loans to these businesses. The Ksh. 2.5 million for the guarantee was deposited by the Central Bank in a collateral account at KCB. Under this arrangement, KCB agreed to cover 2% of portfolio losses under the project and to pay 8% interest on the outstanding balance in the guarantee account to the Central Bank. KCB then used their own funds for loans. The program's purpose was to:

- Assist the growth of informal sector enterprises;
- Train informal sector entrepreneurs in business skills;
- Test the feasibility of providing credit and training to Jua Kali entrepreneurs through the formal commercial banking sector.

The Program Grant (A.I.D. No. 615-0227) was signed in December 1986. Targeted program completion date was December 1989. The Jua Kali account was established in KCB in January 1987. The first loan disbursement was made in September 1987. Most figures in this report are as of December 1988, at which time two years had elapsed and all the project's funds had been lent or used for administrative costs.

II. AVAILABLE DATA

A. Primary Data

KCB/USAID correspondence and agreement files

B. Secondary Data

Evaluation of The KCB Informal Sector "Jua Kali" Loan Program, Feb/March 1988, Linda McGinnis (USAID/Kenya) & Raj Bhatia (Investment Promotion Centre).

C. Informed Opinion

Mr. Migwe Kimemia - USAID
Mr. Lawrence Masaviru - KCB(BAS)
Mrs. Lynette Dawa - KCB(BAS)

III. MAJOR FINDINGS

A. Costs KSh. 5,000,000 in local currency funds

KSh. 5,000,000/18.5 = US $270,270

B. Actual Outputs

It was initially intended that the program would benefit between 100 to 150 Jua Kali artisans over the three year period. After only two years, however, not only did the number of recipients exceed the target, but also the amount lent out exceeded the targeted amount. There was extremely high demand for loans under the program, with a total of 1163 applications received by KCB. Because of excessive demand, KCB confined loan sizes to KSh. 20,000 or less. The table below shows targets and actual results:

	TARGET	ACTUAL
Loan Applications	None	1163
Sub borrowers	100-150	164
Target amount	Kshs 2.5m	Kshs 2.83m

Loans Outstanding:

Date	9/87	1/88	4/88	1/89
Amount	1st Loan	862,000	1,075,000	2,830,000

Outstanding disbursed

Lending interest rate until 12/87: 14%; after 12/87: 15%
Number of recipients in arrears (3/31/89): 37 (23% of recipients)
Amounts in arrears: KSh. 188,989 (6.7% of total volume)
Expected defaults[1]: KSh. 500,000
Number of defaults to 4/89: 10 (6.2% of recipients)
Estimated total amount of defaults to 3/31/89: KSh. 175,616

Detailed statistics are attached as an appendix to this report.

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[1] From L. McGinnis & R. Bhatia, Jua Kali Evaluation Report, Feb.-March 1988. Appendix B-15.

Project Implementation

There were no serious implementation problems under the project. IFI officers stated that both USAID and the Treasury were flexible and accommodating as problems arose during implementation.

A common comment by loan recipients was that loans were too small. There was also a feeling that loan application and approval procedures were too long. Recipients felt that the small amounts lent did not justify such involved procedures.

KCB does not keep detailed records on administrative costs under the program, and it is difficult to determine actual administrative expenditures. Figures given below for administrative costs are estimates provided by KCB's Business Advisory Services Division.

Comparison of Budgeted vs. Estimated Actual Administrative Costs

	ITEM BUDGET TO DATE	ACTUAL TO 06/88	LOP BUDGET TOTAL
Direct Staff Expenses	1,097,500	753,200	1,557,500
Manpower o/heads	0	376,600	0
Vehicle expenses	300,000	93,200	420,000
Training Costs	460,000	485,000	575,000
General Expenses	0	75,000	0
Loan losses	501,400	?	500,000

Lending Spreads Under the Program:

Funds lent at	14% until Dec.'87	15% after Dec.'87
Funds borrowed at	8%	8%
Spread	6%	7%

Estimate of KCB's Usual Short-term Lending Margin[2]

KCB's Estimated Weighted Average Cost of Short-term Funds:	6.1%
KCB's Average Short-term Lending Rate:	15.0%
KCB's Estimated Average Margin on Short-Term Lending:	8.9%

Given an estimated 2 - 3% default provision in KCB's portfolio, a default risk-adjusted margin for KCB would be in the area of 5.9 to 6.9%, which is comparable to the spread under the Jua Kali program.

Negative effects of politicization of the program. KCB staff commented that government announcements that this is a GOK program and that the program serves

[2] KCB's margin under lending programs other than Jua Kali.

some political ends resulted in higher arrears and default rates. The higher defaults arose from the perception among borrowers that loans could be treated like grants.

C. Institutional Impact

None. It will be very difficult to convince KCB staff that Jua Kali lending can be profitable for the bank without USAID or GOK subsidies. This is because Jua Kali lending is much less profitable than KCB's alternative uses of its funds.

There are two institutional changes that USAID can expect over the longer term: (i) changes in lending procedures that reduce the administrative costs of running the program and cut loan loss rates; (ii) concentration of Jua Kali lending resources on more reliable borrowers and more profitable accounts.

D. Direct Developmental Impact

Though there was no attempt made by the IFI to track changes in the businesses as a result of loans, interviews with 12 recipients (in the same business activity) revealed that more than half had increased their sales during the period of their KCB loans, and 30% increased their workforce by 20% to 30%. There was generally no significant increase in assets or investment by loan recipients during the loan period because loans were primarily used for working capital.

E. Sustainability

Under the USAID program, KCB received an administrative subsidy equal to 88% of the funds lent, a 98% guarantee, and medium-term funds at 8%, for a lending spread of 7%. KCB estimates that the 88% grant covers its administrative costs under the program, and it sustains very little loan losses because of the guarantee. Therefore, most of the 7% spread is net earnings for the bank.

Even with this significant source of earnings, it is clear that the bank considers Jua Kali lending unprofitable because of the opportunity costs and lack of long-term promise of profitability for Jua Kali lending. The bank does not intend to lend to this market without the continuation of substantial subsidies and political pressures from the government. Bank officers suggested that it would be more effective to establish a Jua Kali lending program through financial institutions owned by Jua Kali businesses and designed specifically to operate this kind of loan program. These officers mentioned credit unions and savings cooperatives as alternatives.

F. Unplanned Effects

1. One side effect of this program on borrowers is the demonstration of the operations of formal sector banking institutions. The program exposed loan recipients to other services offered by commercial banks.

2. Although it was not the original intention that all recipients open bank accounts, all were required to do so under the program. This encouraged better cash management by businesses.

3. It is clear from the results of this program that providing credit at below market rates (15%, which is far below the rate charged to Jua Kali businesses by informal sector lenders) results in excessive demand for credit by Jua Kali businesses.

F. Opportunities Identified

1. Many borrowers are capable of properly repaying loans. It may be possible to provide significantly larger loans than those available in the current program.

2. Allow the bank to segment the Jua Kali market based on its experience under this program, and to lend to better Jua Kali customers with lower program subsidies.

G. Administration Burden on USAID

79.3 person days; 3.9% of available staff time.

H. Additional Observations

1. Suitability of Commercial Banks for Jua Kali Lending. The IFI is of the opinion that commercial banks are the wrong institutions to use in lending to Jua Kali businesses. Instead, the institutions should work with banks owned by the Jua Kali sector, for example, savings and credit societies.

   KCB is willing to continue Jua Kali lending only as long as it receives (i) funds, administrative and risk subsidies that compensate the bank for its out-of-pocket and opportunity costs of this kind of lending; and (ii) political pressure from the government to carry out Jua Kali lending.

   Thus, to the extent that USAID hopes to induce a local commercial bank to lend to Jua Kali businesses on an unsubsidized basis, KCB is the wrong institution. To the extent that a continuing source of subsidy for this kind of lending is available to compensate KCB for its costs, then KCB is an effective institution to carry out Jua Kali lending.

2. KCB has found that women are much more dependable borrowers than men.

3. Many borrowers claim they were capable of paying higher payments than were required.

4. Administrative subsidies. In the opinion of KCB staff, at the Kshs. 2.5m lending level, a 90% administrative grant is appropriate. At the Kshs. 50m level, a 20% grant would cover costs. KCB staff also stated that the amount provided by a donor for administrative costs has a direct impact on the number of defaults by borrowers. In general, the more that is spent on servicing Jua Kali accounts, the lower the default rate will be.

5. Politicization of the program causes higher default and arrears rates.

6. Who should screen and select Jua Kali borrowers? Several USAID staff have raised the issue of which institutions should select Jua Kali borrowers. There are at least three possible institutions that could carry out this critical function: (i) the bank; (ii) consultants; (iii) the GOK.

   The worst suggestion is that some agency within the government select borrowers. Involvement of government agencies would encourage political factors playing a prominent role in lending the scarce resources that are available for Jua Kali loans.

   If consultants can reduce the cost of selecting borrowers without reducing the quality of the Jua Kali portfolio, and if KCB finds this an acceptable arrangement, then it may be worthwhile to seriously consider using consultants for screening. Selecting clients, however, is usually considered one of the key comparative advantages that banks possess. Therefore it is advisable to maximize the involvement of the bank in client selection and loan management.

   One option is to encourage KCB to both economize on loan selection and to select the best possible clients within the target group. This could be done by (i) reducing the guarantee from 98% to 60% or 70%; and (ii) decreasing the interest rate paid by KCB on the guarantee funds to increase KCB's lending spread. This would give KCB a direct profit incentive to operate efficient and effective marketing and credit appraisal procedures.

IV. CONCLUSIONS

1. Overall, the Jua Kali Loan Program was well managed and achieved its output and purpose level objectives. As mentioned above, however, there are presently no means to accurately assess the impact of the program on borrowers.

2. One objective of the program was to help existing Jua Kali enterprises expand. It is clear that (at least in the tinsmith/blacksmith activities) this has not been achieved. This is perhaps due to the fact that loan sizes were so small that they could only be used for working capital.

3. It is clear that it is possible but not profitable for the formal banking system to provide credit to the informal sector. Large continuing subsidies are necessary if commercial banks are to undertake lending to Jua Kali businesses on a non-compulsory basis.

4. The bank has learned that you cannot satisfy demand for loans from Jua Kali customers when lending under current interest rate ceilings.

5. Bank staff still perceive that this target group is very risky and costly despite the relatively low default rate.

6. There is ample opportunity to reduce subsidies under the Jua Kali Program by (i) reducing paperwork involved in loan application; (ii) reducing the guarantee coverage and increasing KCB's lending spread to compensate for reduced risk coverage; (iii) increasing lending ceilings and charging fees; (iv) targeting more profitable sub-markets.

V. RECOMMENDATIONS

1. a. Collect valid and cost effective impact information. USAID is currently not receiving adequate information on the impacts of Jua Kali loans. On the other hand, collecting information for USAID is considered a substantial burden by KCB.

   b. A cost-effective system for monitoring impacts of Jua Kali loans should be set up. Because it is costly for KCB to collect impact data, USAID should consider paying a consulting, training or audit firm to collect impact and compliance data on a periodic basis. A once-a-year impact audit of a small sample (or panel) of borrowers would be sufficient to collect impact data. This is discussed further in Chapter 4, Recommendation 10.

2. Reduce costs by reducing paperwork. Loan application and approval procedures need to be simplified to reduce administrative costs and delays. To the extent that USAID can reduce the procedures that it requires of KCB, USAID can also reduce its subsidies under the program.

3. Rationalize Jua Kali Program subsidies. The administrative subsidy provided to the bank under the program should be rationalized. The subsidy now seems high, and the bank may be willing to accept considerably less incentive to carry out Jua Kali lending. It may also be worthwhile to offer the program to other banks, to encourage competition among commercial banks for the earnings available under the program.

4. Target specific Jua Kali sub-markets. The subsidy provided to the bank should also depend upon the particular Jua Kali market segments targeted under the program. According to KCB officers, there are Jua Kali markets that require minimal subsidy, while others require subsidies similar to those provided under the Phase I effort. Follow-on Jua Kali lending programs should be more specific about the sub-markets that the program will serve.[3]

5. Make loan terms more flexible. The loan repayment period need not be uniform for all borrowers. Loan terms should depend on ability to pay. Some borrowers can pay larger payments and can use shorter term loans.

6. Renew loans to good borrowers. As long as they repay on schedule, it should be possible to renew loans on completion of repayment.

7. Collect delinquent loans. It is essential to demonstrate resolve in collecting Jua Kali loans. If this is not done, then borrowers will treat loans as grants. In addition, the bank suggests that there be no public announcements that the GOK is involved in the program because this public knowledge encourages borrowers to view loans as grants.

8. Raise the "price" of loans to Jua Kali businesses. Given the excess demand for Jua Kali loans at the current interest rate, we recommend that the "prices" of loans be raised by (i) attaching fees to loans, (ii) making it possible for KCB to lend at 18%, or (iii) obtaining an exemption on interest rate ceilings to allow KCB to lend at rates that cover its costs. USAID/GOK subsidies can then be reduced accordingly.

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[3] This evaluation did not allow analysis of the characteristics of various sub-markets. Additional information on the performance of sub-markets can be obtained from KCB.

MONEY AND CAPITAL MARKET DEVELOPMENT
(Finance Component)

PROJECT 615-0240 & 615-0238

INTRODUCTION

This activity evaluation combines USAID/Kenya's money and capital market development activities occurring under two projects: The Structural Assistance Program (615-0240) and Private Enterprise Development Project (615-0238). These activities are combined because they are interrelated activates directed at closely related objectives.

Activity	Project	Cost to Date
Grant to CMDA	SAP 0240	0
Strategy Support	PED	
Privatization of KCB		12,450
Nairobi Stock Exchange		11,000
Capital Markets Devel. Authority		2,000
Financial Markets Specialist		6,322
Kariuki/Entrepreneurs Internatl.		
Private Sector Advisor	PED	58,381 [1]
Total		$190,153

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

Basic objectives of the projects were to assist in modernizing and expanding the Nairobi Stock Exchange; to assist in the creation of the Capital Markets Development Authority; to assist in the development of the money market in Kenya.

A condition for the World Bank's Industrial Sector Loan is that the GOK establish a Capital Markets Development Authority by June 30, 1989. USAID also agreed in October 1988 to provide assistance under USAID's Structural Assistance Adjustment Program. The agreement included three forms of assistance: one long term technical advisor, $92,000 to be used to fund short-term technical consultancies to assist the CMDAC, and $230,600 to fund administrative costs of the Capital Markets Development Committee during start up and the first year's operations. USAID's Capital Markets Advisor has been withdrawn from the CMDAC, and a replacement has been requested by the government.

USAID has also provided assistance to capital market development activities through the Strategy Support component of the Private Enterprise Development

[1] This figure is based on an estimate that the Private Sector Advisor spent 30% of his time on money and capital markets activities.

Project. As of March 31, 1989, 24% of the PED project's time has elapsed, with 13% of the PED Strategy Support component funding expended. The Strategy Support component has funded the following money and capital market development activities: two reports, one short-term technical assistance mission, and one study tour.

A Capital Markets Development Advisory Committee was established in January 1989, with a principal purpose of establishing the CMDA. As of March 21, 1989 the final legislation for the CMDA (originally specified an implementation action leading to establishment of the CMDA in PIL 25, Attachment 2) had not been prepared by the GOK. The target date for the CMDA has been changed to October 1989.

II. AVAILABLE DATA AND CONTACTS

The major sources of data were "Recommendations to The Nairobi Stock Exchange," R. Bishop, May 1988; USAID Project No. 615-0240, PIL No. 25; and Memorandum 6372G drafted by M. McWherter, March 12, 1987, concerning suggestions for money and capital market development.

B. Secondary Data

C. Informed Opinion

Person	Organization
Steven Sinding	USAID/Kenya
Holly Wise	USAID/Kenya
Michael McWherter	USAID/Kenya
Peter Leifert	Formerly USAID/Kenya
W.K.B. Arap Chelashaw	Capital Markets Advisory Council
Ignatius Ngenye Kariuki	Nairobi Stock Exchange
Nizar Meruani	Diamond Trust
Dickson Gachuche	Kenya Finance Corporation

III. MAJOR FINDINGS

A. Costs

$190,193 as of March 31, 1989

B. Outputs

Several influential studies of financial markets, equity markets and privatization issues have been completed. Advice and technical assistance has been provided to the Nairobi Stock Exchange in its modernization program and to the Treasury Department's Capital Market Development Advisory Committee in its program to establish a Capital Market Development Authority. A study tour for the chairman of the Nairobi Stock Exchange under the Entrepreneurs International Program to the New York Stock Exchange.

USAID has also supplied studies and information on stock exchanges outside of Kenya to members of the NSE.

Some advice and technical assistance has been provided to the GOK and the NSE in strengthening the money market. The ALICO/PRE/NBFI loan project is intended to encourage the development of markets for bankers' acceptances and other forms of bills of exchange. Progress in other areas of money markets development, for example establishing a secondary market for Treasury Bills, a rediscounting facility for qualified Treasury Bill dealers, offering Treasury Bills on a bid basis, and the creation of markets for commercial paper, have made little progress beyond the introduction of these ideas to the government and the financial community in Kenya.

C. Institutional Impact

1. USAID's capital market activities are associated with significant interest among stock brokers in improving the NSE and establishing an independent capital markets regulatory authority. There is demand for additional assistance in the form of (i) computerization of NSE trading; (ii) study tours of appropriate model markets such as Thailand and Korea.

2. The effort to establish a CMDA has resulted in a public debate over the appropriate nature of the authority responsible for reforming the capital markets. The GOK is now considering several issues, including (i) the particular arrangements for the CMDA; (ii) presentation of issue papers to the Council of Ministers on capital markets matters.

3. The USAID-financed study on privatization of KCB may have been helpful in supporting the recent public sale of 20% of KCB's equity. It is difficult to determine the role of this particular study in this public issue.

4. The Secretary of the CMDAC had not read "Recommendations to the Nairobi Stock Exchange" report. The Chairman of the NSE had read the "Recommendations" report, as well as the Ferris report on financial markets development.

5. The NSE has been engaging in policy discussions with the GOK on several subjects, including the role of the Capital Issues Committee, the future role of the CMDA, and the usefulness of the stock market for privatization of state owned enterprises. The Bishop and Ferris reports were useful to NSE members in formulating their positions in policy dialogue.

6. The Bishop report has helped the NSE to define issues in formulating its longer term development plan. This report, as well as other assistance provided by USAID, has helped to demonstrate the importance of developing a transparent, face to face market for securities.

D. Direct Developmental Impacts on Businesses

None yet.

C. Constraints to Implementation

1. Technical skills of USAID personnel to provide the assistance needed by the NSE and CMDA. Assisting the CMDAC, the GOK, and the NSE in using the outputs of studies and other outputs provided by USAID in the capital markets area requires specialized technical expertise. After the current Capital Markets Advisor leaves, continued progress in developing appropriate local solutions to complicated capital market problems requires assistance from individuals with specific expertise in stock and money market development.

2. There are indications that the GOK intends to establish a CMDA as a parastatal directly associated with the Treasury. The original objective of USAID was to encourage the establishment of an independent capital markets regulatory body. If the CMDA is established as a parastatal, then it is likely that there will be continuing over-involvement of the GOK in the stock and money markets. Direct involvement of the GOK in the market will inhibit the establishment of a competitive market for securities, and the evolution of mechanisms of self-regulation by the securities industry and public.

3. Lack of understanding among GOK officials and local bankers about the mechanics and possible results of establishing improved money market instruments.

4. The GOK has not provided any incentives to public listing by companies.

F. Sustainability

There is a clear, demonstrable interest in the office of the Secretary of the CMDAC in continuing the process of constituting a CMDA. The CMDAC appears to be proceeding with the establishment of the CMDA with or without assistance from USAID.

There is also a sustained interest among members of the NSE in continuing with the modernization program. The Chairman of the exchange is currently searching for feasible next steps to build a face to face, open market for stocks.

G. Unplanned Effects

The CMDAC appears to be considering establishing a CMDA as a parastatal corporation under the direction of the Treasury Department.

H. Opportunities Identified

1. There is demand for technical assistance to the CMDAC in drafting issues papers and other technical reports in support of the GOK's consideration of the regulatory and policy issues involved in capital markets improvement.

2. There exists both demand and absorptive capacity among members of the Stock Exchange for continuing assistance in drafting and carrying out the development plan. NSE members expressed interest in continued assistance in obtaining information about stock markets in other countries, financial and technical help in installing a computer network for stock transactions, and funding for a public capital markets educational program.

3. There is interest in receiving in-country and overseas training to concerned private sector and GOK individuals in stock and money market operations. Study tours to some of the Asian NIC stock markets would be appropriate now.

I. Administrative Burden on USAID

Money and capital market activities have constituted 33% of the accrued and disbursed expenditures under the Strategy Support component of PED. Strategy Support had an estimated total of 244.4 person days of time spent by Direct Hire, PSC and FSN staff to March 31, 1989. Thus, the administrative burden is 32 days, or 12% of total available person days.

There is also an administrative burden associated with the $100,000 grant to the CMDA; this burden has not been calculated.

J. Additional Observations

The assistance requested by the CMDAC Secretary was explicitly for issues papers drafted in close coordination with the CMDAC for use by the cabinet. Assistance in drafting legislation to liberalize the capital markets should perhaps follow the drafting of issue papers presenting options, prioritizing and describing the mechanics of financial markets liberalization actions to be taken by the government.

IV. CONCLUSIONS

The mix of policy studies, assistance by the capital markets advisor and grant support to the NSE and CMDA has been very effective in facilitating the development of both capital markets reform and development of key policy institutions. USAID has played an important supporting role in assisting the principal institutions involved in capital markets development. Significant progress has been made in terms of institutional development, and there is sustainable interest both within the government and in the financial community in continuing to develop "appropriate local solutions" to improve Kenya's capital markets.

V. RECOMMENDATIONS

This is an area that has significant potential for mobilizing local resources and encouraging long-term investment in productive assets. USAID's assistance to date has been relatively small in terms of dollars, but this help has resulted in noticeable progress in the capital markets. Several specific recommendations for further programming in the capital and money markets areas include:

1. Provide immediate assistance to the CMDAC in drafting issue papers. This assistance should be targeted directly toward the specific requirements of the CMDAC. If not properly targeted, the assistance will not be accepted or used. It is critical that the person providing the assistance have the requisite understanding of the technical issues involved in improving a relatively undeveloped equity market.

   Use this technical assistance as an opportunity to carefully encourage the GOK to limit its involvement in securities markets, and to establish an independent CMDA.

2. Continue training, technical assistance, study tours and other small-scale activities with the NSE. The have used the resources productively in the past, and are interested in continuing to formulate and implement a development program.

3. A long-term view of capital markets development is essential. Continued progress in capital and money markets depends upon several interrelated factors that change slowly:

   i. Elimination of the price setting function of the CIC;
   ii. Establishment of an effective CMDA;
   iii. Development of a fair and orderly NSE;
   iv. GOK provision of incentives for selling public equity;
   v. Rationalization of taxation on earnings from stocks;
   vi. Building public confidence in the public equity markets.

   It is likely that a program to encourage changes in these factors will take years or even decades to accomplish.

CREDIT GUARANTEE SCHEME
(Finance Component)

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The purpose of this project is "to allow the bank (Kenya Commercial Bank) the opportunity to assist and support clients whom they would normally not be able to serve".

The main objectives of this project are to: enhance the viability of SSEs through access to commercial bank credit; introduce SSEs to commercial credit sources; reduce the failure rate of SSEs; demonstrate the viability of lending secured by non-traditional, non-tangible, collateral (i.e., debtors, stocks, etc.) for cash flow-based lending; and to demonstrate the viability of loan guarantees to increase SSE lending. A guarantee account of KSh 25 million was established at KCB to cover 75% of the losses on working capital loans to SSEs. These accounts used grant local currency generated by the USAID Rehabilitation Program and remitted by the Treasury, using IPC as agent. Other project components were to be: improved procedures for discounting receivables and valuing stocks and improved procedures for coordination with other lenders, including term lenders. KSh 5 million of the fund is available to cover extra administrative costs. The treasury charges KCB an interest rate, currently at 9%, six points below the maximum commercial lending rate, currently at 15%. The maximum loan was to be KSh 1 million and the maximum asset size of borrower enterprises KSh 3 million. The maximum term is four months. The program does not have any quantifiable target objectives. This is an ongoing project and so does not have a PACD. The Grant Agreement was signed in 1986. Loans using KCB funds have been made since that time.

II. AVAILABLE DATA AND METHODOLOGY

The only sources for data on the program are KCB personnel at the main office and a report on borrower statistics generated at the team's request. The persons contacted were: Mr. Migwe Kimemia, USAID Project Officer; Mr. Lawrence Masaviru, Manager, Business Advisory Services, KCB; Mr. Shem Okongo, Project Officer, Business Advisory Services, KCB.

III. MAJOR FINDINGS

A. Costs

Although KSh 5 million has been allocated to cover administrative expenses incurred since December 1986, the account has not been debited because no expenses have been submitted to the Ministry of Finance or Treasury. The Treasury authorizes all vouchers prior to debiting the Guarantee Account. The voucher currently in preparation should give a fairly accurate picture of program costs. The program officer estimates that he spends 50% of his time on program administration.

B. Actual Outputs

Statistics on the loans approved and/or disbursed as of April 5, 1989 are presented in Attachment 1. To date 41 loans (of which 10 are second loans) for KSh 13.6 million have been approved, of which KSh 7 million have been disbursed to assist 31 enterprises. The average loan size is KSh 0.3 million. The current arrearage rate is rather high - of the KSh 3.3 million currently outstanding, 36% is in arrears, representing 50% of the 12 loans outstanding. However, the other 29 loans have been paid in full, which is an overall repayment rate of 85% to date. Only one borrower has defaulted. KCB will exhaust all efforts to collect before accessing the guarantee fund. Some 58% of the enterprises are in the manufacturing/industrial sector and another 10% in the service sector. The rest are in trade. There are approximately 100 applications pending for about KSh 10 million in loans.

C. Constraints to Implementation

1. External

The bank does not see this as a very profitable program. The normal commercial bank spread is nearly 9% (15% - 6.1%). In this program it is only 6%. This disparity has slowed the lending rate. The CBK lending ceiling is also a constraint, but less so since all of the loans are less than KSh 1 million. Indeed, 80% are for less than KSh 0.5 million, and so have less effect on the bank's ceiling than larger loans. In fact, the bank is still processing all loans below KSh 3 million, but may not be able to disburse the larger ones. In any case, KCB feels that this and all special programs for productive lending should be exempted from the ceiling. Management now has less incentive to train new people for the program since it cannot be aggressively promoted.

2. Internal

The long (100 pages) and cumbersome application designed by the Treasury without any collaboration from KCB has caused delays in processing applications and often takes a full week to complete. The normal KCB application for overdrafts, in contrast, is only one page. Further delays are encountered because all applications are sent to the main office. Branches do not have the staff to either assist applicants or to analyze the forms. Branch managers have been reluctant to make loans without traditional security. Since their promotions have been based solely on how many good loans they made, they consider these loans very risky and do not promote them. However, promotions for managers in the four branches making these loans have recently taken into account the number of loans made under special programs such as this one. One requirement asks that borrowers have an overdraft account established with KCB for at least six months before being considered. This requirement effectively excludes borrowers with no previous bank contact. Since overdrafts are secured by the normal tangible assets, this scheme merely extends the amount of credit beyond that covered by such assets.

D. Institutional Impact

KCB was doing this type of lending before but to much larger companies. Thus some procedures have been changed to allow for loans to smaller companies. For example, the rate of discounts for accounts receivable and inventories has been established. The technical assistance to borrowers through Business Advisory Services (BAS) was already being provided before the program, but to larger-sized companies.

E. Direct Developmental Impacts (on borrowers)

The direct impacts to date have been minimal. As a result of program loans both total employment and full time employment have increased 13%, from 289 to 329. Only 10% (three) of the enterprises assisted are owned by women. Average monthly sales have increased by 28% (from KSh 4.16 to 5.33 million) and assets by 3% (from KSh 17.95 to 18.49 million).

F. Sustainability

KCB will probably continue this type of lending after the program ends, but without the coverage of the guarantee. Somewhat larger, medium-size, businesses will be targeted. If the program were continued, KCB says it would greatly simplify the application process. Since administrative costs have not yet been calculated, it is not possible to tell whether the spread will cover them.

G. Administrative Burden on USAID

The number of USAID person days spent on this component each year was 13 or 0.6% of the total available staff time.

J. Additional Observations

KCB commented that guarantee programs tend to distort the market and should represent a small percentage of the portfolio of any institution.

IV. CONCLUSIONS

This program has established an innovative approach to collateral which allows cash flow-based lending. However, since all tangible assets must have been previously pledged for establishment of an overdraft account, it is really a collateral enhancement program rather than a true alternative to traditional collateral requirements.

V. RECOMMENDATIONS

1. Reduce the maximum loan size (only 20% of the loans were for more than KSh 0.5 million), since KSh 1 million is really too much for working capital loans. If more is needed by a borrower a second loan could be

made. This would allow more borrowers to be assisted with the funds available.

2. Make the program more attractive by increasing the spread to approximate the normal commercial spread.

3. Open the program to more branches by training more managers.

4. Simplify the application process.

ATTACHMENT 1

CREDIT GUARANTEE SCHEME
Borrower Statistics as of 5 April 1989

Borrower (Name of Company)	Loans Approved	Amount of CURRENT LOAN: Loans Disbursed	Previous Loans	Amount Approved	Amount Disbursed	Amount O/Standing	Amount in Arrears	Term of Loan Months	Gender (M/F)	Sector	EMPLOYMENT At application: Male FT	Male PT	Female FT	Female PT	% Present: Male FT	Male PT	Female FT	Female PT	Ave Sales per month At Applic	At Present	Total Assets At Applic	At Present	Location	Overdraft Amount
Furacon Limited	1,000,000	1,000,000	1,000,000	0	0	292,406	0	6	M	Manufacturing	13	2	4	0	13	0	4	0	200,000	300,000	2,500,000	2,500,000	Nairobi	100,000
Delta Zone Limited	92,000	89,000	89,000	0	0	97,673	90,000	3	M	Trade	1	0	0	0	1	0	0	0	30,000	10,000	50,000	50,000	Nairobi	0
Purex	200,000	160,000	100,000	60,000	60,000	50,000	0	2	M	Trade	3	0	0	0	3	0	1	0	50,000	100,000	150,000	150,000	Nairobi	35,000
Boltman Fashions	118,000	118,000	118,000	0	0	200,000	200,000	3	F	Manufacturing	9	0	1	0	0	0	1	0	200,000	0	20,000	0	Nairobi	0
Interior Fittings	300,000	150,000	150,000	150,000	0	0	0	3	M	Manufacturing	10	0	1	0	15	0	1	0	100,000	200,000	300,000	450,000	Nairobi	70,000
Hand Craft	360,000	360,000	360,000	0	0	0	0	2	M	Trade	1	0	2	0	1	0	2	0	150,000	80,000	60,000	70,000	Nairobi	400,000
Galas Limited	500,000	500,000	500,000	0	0	588,101	500,000	6	M	Manufacturing	15	0	5	0	15	0	5	0	200,000	500,000	2,800,000	2,800,000	Nairobi	0
Julie Family	80,000	80,000	80,000	0	0	93,273	85,038	3	F	Trade	1	0	2	0	1	0	3	0	20,000	10,000	80,000	80,000	Nairobi	0
Duncan Cafe Limited	1,000,000	0	0	1,000,000	0	0	0	3	M	Service	8	0	1	0	8	0	1	0	40,000	40,000	500,000	500,000	Nairobi	0
Belebon Agencies	70,000	70,000	70,000	0	0	0	0	2	M	Trade	1	0	0	0	1	0	0	0	120,000	135,000	20,000	20,000	Nairobi	0
Frimates Enterprises	50,000	50,000	50,000	0	0	0	0	3	M	Trade	2	0	0	0	2	0	6	0	20,000	30,000	28,000	28,000	Nairobi	0
Urima Enterprises	733,853	483,853	483,853	250,000	0	483,853	250,000	6	M	Manufacturing	7	0	3	0	7	0	3	0	40,000	60,000	250,000	300,000	Nairobi	0
Kiamaba Metal Works	200,000	200,000	200,000	0	0	0	0	3	M	Manufacturing	18	0	2	0	18	0	2	0	150,000	300,000	350,000	350,000	Nairobi	0
African Trading Centre	250,000	250,000	250,000	180,000	1,000,000	88,799	79,000	2	M	Trade	2	0	1	0	2	0	1	0	20,000	50,000	50,000	150,000	Nairobi	0
Morish Investment	400,000	400,000	150,000	250,000	250,000	0	0	4	F	Manufacturing	3	0	6	0	3	0	6	0	50,000	150,000	300,000	380,000	Nairobi	0
Dee Stationers	75,000	0	0	75,000	0	0	0	1	M	Trade	1	0	1	0	1	0	1	0	15,000	15,000	50,000	50,000	Nairobi	0
Francis Kanyi	350,000	0	0	350,000	0	0	0	2	M	Manufacturing	3	0	0	0	3	0	3	0	180,000	180,000	450,000	450,000	Nairobi	0
Bi-Tech	1,000,000	1,000,000	1,000,000	0	0	1,000,000	0	6	M	Manufacturing	12	0	4	0	12	0	4	0	150,000	200,000	180,000	250,000	Nairobi	0
Mafoss Merchants	884,000	484,000	484,000	400,000	400,000	0	0	3	M	Manufacturing	18	0	5	0	18	0	5	0	100,000	300,000	500,000	580,000	Nairobi	485,000
Business to Business	300,000	0	0	300,000	300,000	0	0	3	M	Manufacturing	4	0	4	0	4	0	4	0	245,000	245,000	400,000	400,000	Nairobi	50,000
Specialised Supplies	401,250	401,250	401,250	0	0	401,250	0	6	M	Trade	6	0	3	0	6	0	3	0	50,000	150,000	40,000	40,000	Nairobi	0
Silanga Quarry	150,000	0	0	0	0	0	0	3	M	Manufacturing	20	9	2	0	20	0	12	0	55,000	55,000	300,000	300,000	Nairobi	0
Skyline Limited	30,000	30,000	30,000	0	0	20,000	0	3	M	Service	3	0	1	0	3	0	1	0	20,000	30,000	60,000	60,000	Nairobi	0
Sandworth Printers	800,000	0	0	0	0	0	0	2	M	Manufacturing	7	0	2	0	7	0	2	0	644,000	644,000	200,000	200,000	Nairobi	0
Skilled Tailors	210,000	0	210,000	0	0	0	0	2	M	Manufacturing	5	0	1	0	5	0	1	0	150,000	150,000	70,000	70,000	Nairobi	0
Rodaq Enterprises	66,000	66,000	66,000	0	0	40,000	0	2	M	Manufacturing	6	0	2	0	6	0	2	0	50,000	80,000	30,000	50,000	Nairobi	0
Ezekiel Toroitich	216,255	66,255	216,255	0	0	0	0	2	M	Manufacturing	8	0	1	0	8	0	1	0	60,000	70,000	100,000	100,000	Nairobi	0
Kasuku Garments	1,000,000	0	1,000,000	0	0	0	0	3	M	Manufacturing	6	0	3	0	6	0	3	0	200,000	200,000	1,500,000	1,500,000	Nairobi	0
Simbi Enterprises	800,000	0	800,000	0	0	0	0	3	M	Trade	15	0	6	0	15	0	6	0	150,000	150,000	1,200,000	1,200,000	Nairobi	0
Pasmi Limited	1,000,000	1,000,000	1,000,000	0	0	0	0	4	M	Service	6	0	2	0	6	0	2	0	300,000	500,000	2,500,000	2,500,000	Nairobi	0
Nakoa Millers	1,000,000	0	1,000,000	0	0	0	0	3	M	Manufacturing	18	0	1	0	23	0	10	0	400,000	400,000	2,900,000	2,900,000	Nairobi	6
TOTAL	13,636,358	6,958,358	9,808,358	2,935,000	2,010,000	3,355,355	1,204,038	3			223	2	66	0	233	0	96	0	4,159,000	5,334,000	17,948,000	18,484,000		1,140,000
AVERAGE	439,883																		134,161	172,065	578,968	596,323		
PERCENT		51.0%					35.9%													28.3%		3.0%		

MANAGEMENT & ENTREPRENEURSHIP

01-V20

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RURAL PRIVATE ENTERPRISE
(Management & Entrepreneurship Component)

Project 615-0220

I. MAJOR OBJECTIVES AND STAGE OF IMPLEMENTATION

The purpose of the Rural Private Enterprise Project is to establish and expand rural private enterprises in Kenya. The principal project activity is the provision of credit and management assistance to rural private enterprises. Formal sector enterprises are assisted through a commercial bank loan program and a management and technical assistance contract. Informal sector and very small-scale formal sector firms receive assistance through PVOs supported by an intermediary, the Rural Enterprise Programme (REP). REP provides financial, managerial and technical support to PVOs and their clients. The project was signed in August 1983 and will end in April 1990.

Deloitte, Haskins, and Sells holds a management and technical assistance contract to provide training and technical assistance to commercial banks and to monitor long-term lending activities to rural enterprises using RPE credit. World Education was awarded a PVO management assistance contract to provide training and technical assistance to Kenyan PVOs to reinforce their abilities to administer rural enterprise credit provided under RPE. In 1986, A.I.D. approved a REP request to allow assistance to for-profit sub-grantees as well as non-profit institutions.

In 1984, RPE established REP with a mandate to promote small enterprise through institutional development of local organizations, credit and technical assistance. A.I.D. is providing additional support to REP under the Private Enterprise Development Project, expanding the life of REP through 1994. An additional report on these activities is found in the REP activity assessment.

Reasons for delayed implementation have been cited in USAID evaluations and audit reports. These factors also delayed scheduling of training and technical assistance activities designed to strengthen commercial banks and NGOs to extend credit to rural enterprises.

An audit completed by the Regional Inspector General in February 1989 concludes that the grant program has not made significant contributions toward the purpose of increasing rural production, employment and income at the small business level. The report found that progress made was neither cost effective nor sustainable because most of the project's funding was directed toward assistance to PVOs that did not appear to be sustainable, and because little of the $7.1 million of grant funds support qualifying Kenyan rural private enterprise.

II. DATA COLLECTION METHODS

Primary data was collected from random sample surveys of KCB, Barclays and Standard banking officers who have received training. Secondary data sources include "Rural Private Enterprise", AID Project Paper, August 1983; Audit of Kenya Rural Private Enterprise Project, February 1989; Evaluation of 18 long-term lending courses, October 1988; Mid-Term Evaluation of REP of RPE, June 1987; REP Program Report as of June 30, 1988; and other DHS, USAID and banking documents.

The following key informants were interviewed: Justus Omolo, USAID; Albert Mutua, Christopher Aleke-Dondo, Steven Mirero, Mr. Kabucho (REP); Judith Beckwith, Mwende Thiribi, (DHS); Ian Shipton, Manager Manpower Planning and Training, Barclays Bank; Mrs. Janis Mwosa, Principal KCB Training School; Mr. Maina, Standard Bank Training School.

III. MAJOR FINDINGS

A. Costs

REP: The audit report found that of the $7.1 million grant funding to REP, about $5.6 million will have been spent by March 31, 1989. Of this $5.6 million, $1.15 million represent loans to businesses and expenditures for setting up training facilities. About $4.44 million will have been spent for institution-building and administrative costs of both REP and the PVOs. Although the project agreement indicated that most assistance would be non-financial, and REP views institution-building as a major objective, the auditors found the 80% figure for institution-building, training and administration too high. It is not a cost-effective approach to assisting rural private enterprise.

A 1987 mid-term evaluation of REP under RPE indicates an average cost per trainee of 10,000 KSh (about $526 at current exchange rates), including staff time and related expenditures. The evaluation suggests that training will be reduced in the future as groups become more self-reliant. Training costs should be lowered by 60% by 1990. The need to develop a local training capability accounts for much of the high training costs. More costly expatriate consultants have been used since the demise of PfP/I. REP calculates 80% of this cost lies in materials development. REP now reports a cost of less than 4000 KSh per participant (Fred O'Reagan)

DHS: The value of the subcontract for management and technical assistance to commercial banks is $2.8 million. As of March 2, 1989, $69,588 had been spent extending technical assistance to the CBK in training and technical assistance in data processing, record keeping and the design and installation of a monitoring and evaluation system. An additional $31,668 had been spent extending technical assistance to the bank branches and reviewing CBK procedures. A cost efficiency calculation is difficult to perform as the number of individuals benefitting from technical assistance has not been approximated. The exact number of branch manager trainees is known, but cost per training

course is not known. However, level of effort is estimated at 3,071 hours, or 23 hours per participant.

B. Actual Outputs/Results

REP: Between October 1985 and November 1988, REP trained 304 Kenyan PVO Project Managers and Supervisors, extension workers and project field staff from 31 PVOs and direct beneficiaries. These PVOs have, in turn, trained and given technical assistance to 117 groups (average membership size is twenty individuals) and 4,099 individuals. If one can assume that approximately the same ratio of male to female borrowers exists for beneficiaries of technical assistance, then 53% of beneficiaries were female.

DHS: 132 bank officers (mostly branch managers) from Barclays (52), KCB (40) and Standard Chartered (40) Banks were trained in nine ten-day courses during the period November 1987 - April 1989. A total of 1,320 recipient days of bank training were given. Discussions have been held with the banks regarding sub-borrower training, but none has taken place at the present time.

C. Constraints to Implementation

Expanding the training curriculum is problematic given the heavy workload of the banking institutions' training staff.

D. Direct Development Impact

REP: By all reports from PVOs, REP staff, and others in the business training community, REP enjoys a solid training and technical assistance reputation and is the only organization providing this type of assistance to PVOs. The mid-term and various PVO evaluations support REP's accomplishments in the training area. It appears they have developed a unique capability and have talented training staff. PVO staff receive guidance in the areas of accounting, project design, group formation, skills training, management, cost effectiveness, marketing and feasibility studies, project evaluation, credit and credit administration, and training of trainers. One problem in measuring the practice of skills taught in the training programs has been the delay between training, proposal development, approval and disbursement (often nine months to a year). By the time this entire cycle is complete some of the training lessons have been lost. The ability of PVOs to evaluate training impact is not very sophisticated and hinders an accurate assessment of REP's training efforts as well as PVO training efforts. The 1987 evaluation indicates that following PVO staff training participants reported a high level of skill improvement.

Client satisfaction is high. Local support is only moderate as PVOs pay their transport and per diem costs when attending training. Non-REP-assisted PVOs pay the above plus a fee to lower REP's cost of 4,000 KSh.

DHS: Interviews with the training principals of the three commercial banks served by DHS training report high marks on the training received. Fifty-seven percent of branch managers trained report changes in loan procedures attributable to the training program. A relatively comprehensive training

evaluation conducted by a DHS training consultant also indicates successful training efforts and gave practical suggestions on improving the course work. No similar evaluation has been done of CBK staff receiving training and technical assistance from DHS.

E. Unplanned Effects

Somali PVOs have received training by REP with CIDA funding and KCB has purchased Advanced Credit training from DHS.

F. Administrative Burden - USAID

USAID/Kenya expends 46.8 person days each year managing the training activities under RPE. This represents 2.3% of the total staff time available. This has not been further broken down between the DHS and World Education training components.

IV. CONCLUSIONS

1. REP training is appreciated and appears appropriate as measured by PVO staff.

2. DHS training is also appreciated and banks are demanding more as evidenced through interviews and proposals submitted to USAID.

V. RECOMMENDATIONS

1. Training should increasingly focus on future financial sustainability of the PVO institutions.

2. USAID should assist REP, and by extension the PVOs, to develop a strategy for sustainability.

3. Increased attention should be placed on training PVO trainers.

4. DHS should continue to expand its bank training, focusing on training bank trainers to integrate long-term lending training into ongoing bank courses. (Supported by Barclays and KCB.)

KENYAN ASSOCIATION OF MANUFACTURERS
(Training Component)

I. OBJECTIVES AND STAGE OF IMPLEMENTATION

USAID's support to KAM for seminars was designed to increase the organization's capacity to conduct specialized training for participants from its member firms and to attract additional KAM member firms through marketing the seminars. Small businesses are targeted for both training and new KAM membership. KAM's Cooperative Agreement with USAID, signed in June 1987, includes a budget of $56,167 for two seminars per year over the five year period of the agreement; at the time of this evaluation, 37% of project time has elapsed. Subsidy for participation by informal sector and small businesses in the training sessions is provided by USAID funding. KAM, prior to each seminar, presents for USAID's approval, course objectives and outline, estimated budget and proposed level of USAID funding. Topics are to be selected by polling KAM's members. The seminars are conducted by training contracted from the US and local sources. A basic assumption of this component is that the GOK supports direct donor involvement with the Kenyan private sector.

II. AVAILABLE DATA

Primary data was collected through a random sample interview of 12 seminar participants. Secondary sources consulted consisted of Seminar Participant Forms in USAID files, and reports from KAM on Seminars in the USAID files. Informed opinion sources consisted of Migwe Kimemia, USAID Component Manager; Ms. M.M. Muigai, KAM; Mr. John Kuria, KAM; and Mr. Silas Ita, KAM, as well as interviews with a few randomly selected seminar participants.

III. FINDINGS

A. Costs

Total accrued expenditures billed to date amount to $13,432. Forty-five percent of these expenditures have been in USAID administrative time. The average cost per recipient day of assistance is $20.

Billed to To USAID	USD Cost	Title Of Course	# of Participant Days	Cost per Participant Days
Ksh. 53,000	$3,127	Quality Control in Food Processing	95	$33
Ksh. 14,300	$ 842	Metal Working	88	$10
Ksh. 31,000	$1,615	Industrial Maintenance	138	$12
Ksh. 35,000	$1,823	Food Product Development	42	$43
SUBTOTAL	$7,407		363	$20
	$1,924	Migwe, 10% of $19,424		
	$3,659	Vicki, 15% of $24,390		
	$ 424	Sandi, 2% of $21,206		
SUBTOTAL	$6,007			
TOTAL	$13,414		363	$37

Note: No fixed costs to be prorated over life of project.

B. Outputs/results

KAM has to date sponsored five workshops with assistance from the Cooperative Agreement with USAID. The fifth workshop, Jua Kali Metal Working, was conducted during the period of the evaluation and final costings are still being calculated. Consequently, its costs were not included in the evaluation.

Of the four KAM seminars conducted through February 1989, the first two seminars were held prior to the initiation of the M&E system at USAID. However, limited monitoring data is available from the participant lists and seminar planning doucments KAM supplied to USAID. The USAID Seminar Participant Questionnaire supplied to KAM was initiated in late CY 88. Where available, this data is displayed below:

Title Of Course	# Attend	Cost to Attendee (Kshs)	% Women	% Indig.	% Rural	% Sm/Med Planned	% Sm/Med Actual
Quality Control in Food Processing	19	4,100	21%	47%	n/a	60%	n/a
Metal Working	22	200/2500*	-0-	95%	n/a	100%	n/a
Food Product Dev.	14	2,000	-0-	75%	75%	50%	38%
Industrial Maint.	46	3,000	-0-	75%	25%	69%	31%

* Jua Kali Participants = Ksh. 200; KAM member participants = Ksh. 2500

The Quality Control in Food Processing seminar was planned to instill quality control awareness, expose the participants to local and international standards (e.g., preservation) and to introduce the latest technology and equipment. The target audience was product managers and quality control managers. Project Sustain provided some instructors but local support was given by the Kenya Bureau of Standards (KBS) and University of Nairobi's Food Technology and Nutrition Department. On-site visits to KBS and a factory were included. Although 30 participants were anticipated, only 19 attended. KAM explained the low attendance by the fact that a similar seminar was held by KBS on a similiar subject. (KBS had inform KAM they would postpone their seminar). Also, non-KAM members invited to the seminar felt the topic might be too advanced. The evaluation forms completed by the participants indicated the seminar was relevant and beneficial. Suggestions for improvement included more advance notice and more practical demonstrations.

The Metal Working Seminar was to demonstrate methods. skills, technologies and machines in metal working, specifically in welding, metal sheeting and founder. The seminar was to encourgage interaction between the Jua Kali artisans and technicians from the formal sector. All local resources were used for conducting the seminar -- the University of Nairobi, Christian Industrial Training Center and members from KAM. A factory visit to a local firm was included. KAM explained low attendance by the fact that member companies were reluctant to send participants because they felt the Jua Kali participants would lower the level of instruction.

The purpose of the Food Product Development Seminar, was to introduce objectives, strategies, consumer evaluation, equipment selection, labelling & packaging as well as skills and technology in the development of new food products. Project Sustain in conjunction with local resources from the University of Nairobi's Department of Food Science and Technology conducted

this KAM-sponsored seminar. Although the targeted audience was Product Development Managers, the 14 attendees also included production and marketing specialists. The attendance was low due to the holiday celebrating President Moi's tenth year in office.

The Industrial Maintenance seminar, attended by 44 individuals, was the most popular. Its training objectives included reliability engineering, fault diagnosis, efficient and reliable maintenance, and the teaching of skills to coordinate an in-plant maintenance program. KAM-member firm engineers, Kenya Polytechnic Insitute, and National Council of Science and Technology provided the instructors.

C. Compliance

KAM is in compliance with USAID targets in terms of small businesses served and number of seminars per year. There is no target for women in the Cooperative Agreement with KAM. In addition, KAM has provided reports to USAID on all seminars conducted.

D. Constraints to implementation

The most persistent implementation problem concerns locating the venue for the seminars and identifying sufficient numbers of participants -- both of these due to the need for pre-planning sufficiently ahead to give participants plenty of advance notice. KAM has found that most of its large member firms have specific training plans and budgets; if the KAM-sponsored seminar is not planned well enough in advance, some potential participants cannot attend due to training budget restrictions of member firms.

E. Institutional Impacts

KAM personnel report that their ability to organize the seminars has been developed significantly. KAM now feels very confident in its ability to recruit local instructors and to estimate the supplies and administrative support time needed to conduct the seminars.

KAM also demonstrates excellent knowledge of what training was being conducted by other organizations, such as Federation of Kenyan Employers and Kenyan Institute of Management. They have specifically identified for topics technical training specific to a production environment.

It is apparent that KAM is reviewing lessons learned from earlier seminars and applying them to the planning process for subsequent ones.

F. Direct Development Impact

No consistent effort has been made to collect data on changes in sales, employment and investment. In addition, KAM has no system to evaluate the long range effects of the seminars on their client firms. To gather data on direct development impact, 10 of the 46 attendees of the Industrial Maintenance seminar were interviewed, as were two participants of the Food Product Development

Seminar. Very little empirical data was provided by the telephone contacts on changes in sales, employment and investment. However, results of the survey of the participants of the Industrial Maintenance Seminar revealed the following information regarding client satisfaction and management changes following the seminar:

Client satisfaction	90%
Increased use of maintenance records	60%
Specific management changes	70%
Technical knowledge gained	60%

Planning for maintenance and control of spares for machinery were most frequently cited as the new management techniques learned in the seminar. Employee health and safety was also among the most mentioned "lessons learned" of the seminar.

Although only two of the 14 attendees of the Food Product Development seminar could be reached by phone, the comments were extremely positive. Both firms have increased investment by adding new equipment to introduce new food products. One said sales had increased by five percent while the other said sales had increased by five percent each month. In both instances, the new products were introduced without the discontinuance of existing products. One manufacturer converted almost all of its former casual labor force to its permanent, full-time staff. Both cited new approaches and the groundwork necessary to introduce new food products as the major benefits of the seminar.

G. Sustainability

KAM is confident that the seminars to date have provided a demonstration effect of the value of the seminars and that members will pay full cost of seminar expenses once the USAID funding expires. Regarding the level of local support, Project Sustain provided instructors for three of the four seminars. KAM also received local support from University of Nairobi, Bureau of Standards, Kenya Polytechnic, Ministry of Science and Technology, National Council of Science and Technology, and Christian Industrial Training Center for its courses.

H. Unplanned Effects

The fact that two of the five seminars conducted to date have targetted Jua Kali artisans was not orginally planned in the Cooperative Agreement. The focus on small, formal business was included in the Agreement design. In addition, 80% of those attending the Industrial Maintenance Seminar indicated that they had trained in-house staff following training, and 50% indicated they had improved inter-departmental communications as a result.

I. Administrative Burden

The administrative burden for USAID for this component is 71.5 person days per year, or 3.5% of the total administrative burden. This component has, since the agreement was signed, been assigned to PSC project advisors.

J. Additional Observations

KAM personnel could not provide a specific number of new KAM members that joined the association in order to attend a seminar. However, KAM recognizes that inviting non-members to the seminars by letter without a personal visit to the non-member's Managing Director/Industrial Relations Manager is not productive. However, KAM states that most new members join the association due to the recommendation of a satisfied association member who either attended a seminar or received a beneficial membership service from KAM.

KAM seminar topics are recommended by members in the various sector groups. The sector groups report to one of the four professionals on the KAM staff. The KAM secretariat member responsible for the sector group which recommends a specific topic is responsible for organizing the seminar. Although no one person has responsibility for handling all seminars, it is apparent that the "lessons learned" are shared. KAM is currently recruiting three new professional staff members to more adequately respond to the high workload of the association.

KAM has participants complete USAID's Seminar Participant Questionnaires for USAID's M & E data base but KAM has no computer facilities to tabulate the data; they currently tabulate by hand. KAM is considering approaching donors for assistance in computerizing their member records.

IV. CONCLUSIONS

1. KAM's success in reaching small businesses to sponsor participants for the seminars has been disappointing to date, when compared with the targeted number of participants from small businesses. This may be directly related to topic selection and cost of seminars.

2. KAM's seminars have not yet demonstrated their potential for marketing the association to non-members.

3. Although KAM now requires participants to complete USAID's Seminar Participant Questionnaires, KAM has no computer facilities to tabulate information on these forms.

4. The number of women participants trained in KAM seminars is low, but the available audience targeting technical managers, is almost non-existent.

5. Two of five seminars being directed to Jua Kali artisans, who are not eligible for KAM membership, does not appear to be the best use of KAM limited resources for serving its own membership.

6. Without a post-training evaluation system to gather information on long range benefits of the seminars, KAM is not currently able to provide its membership with information on the cost efficiency of its training program. Questions exist on how the seminars could be improved for more impact.

7. Awareness of other programs and particularly the experience of the U.S. National Association of Manufacturers is low.

V. RECOMMENDATIONS

1. A survey of small businesses, crossing sector committee lines, may indicate one or more seminar topics of general interest to this size of business. The seminar on Industrial Maintenance, which also crossed sector committee lines, was by far the best attended seminar. This may be a worthwhile approach for at least a portion of the seminars. The KAM membership fees are prorated for size of business; perhaps the membership would also consent to the concept of scaled seminar fees. This could possibly attract additional participants from small businesses.

2. KAM should be encouraged to pursue its strategy of making personal contacts with non-member companies invited to seminars as a means of increasing membership.

3. USAID and KAM can coordinate the design of a client data report from USAID's M&E system to be supplied to KAM.

4. There is no target for women in the Cooperative Agreement with KAM. USAID may wish to initiate discussions with KAM to determine what level of information KAM has on women owners and women employees of its member firms. Based on those discussions, topics that have the potential to serve more female participants might be identified.

5. It is recommended that no further seminars for Jua Kali workers be funded under the Cooperative Agreement. If self-funded seminars are to be conducted for KAM members after the expiration of the USAID Cooperative Agreement, the demonstration effect of the seminars must be made to KAM members during the period of the Agreement.

6. When the USAID Cooperative Agreement expires, KAM wants to be in a position to demonstrate to its members what its seminars have yielded in the past. USAID can coordinate with KAM to develop (i) a post-training telephone survey form to collect training impact data, and (ii) a report format for displaying the data. USAID could assess training needs assessment and delivery systems to help improve and bring "state of the art" sophistication the training programs.

7. USAID/Kenya should take advantage of the cooperative climate with KAM to see if technical assistance in institutional development would be desired. The timing on this action should be immediate, given the level and number of staff changes in process. Funding of a computer and MIS assistance is a possibility.

8. KAM should be helped to take advantage of E.I. funds for an educational visit by a KAM officer to the U.S., NAM and other associations. An association with other similar organizations in other countries might also be considered.

KENYA MANAGEMENT ASSISTANCE PROGRAM
(Management & Entrepreneurship Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The Kenya Management Assistance Programme (K-MAP) is a non-profit organization which provides seminars and consulting services to small businesses. K-MAP was launched in 1986 by a group of local Kenyan businesses (between 74 and 100 firms). The member companies agreed to give their highly qualified mid-level managers leave with pay if spent on counseling clients who registered with K-MAP. They resolved to set up an office to assist small businesses and those who wanted to enter business or expand existing ones.

K-MAP formed a secretariat to run its affairs. A board of directors was established, chaired by the chairman of East African Breweries. Other board members were and still are drawn from chairmen or managing directors of some of the most successful local companies in Kenya.

The Board meets quarterly to review activities and outline actions for the coming quarter. There is an Executive Committee, headed by the Chief Executive of Continental Consultants and founder of K-MAP, Mr. V. Pratt. This committee meets once a month and last met on April 11, 1989 with three members present.

Currently K-MAP is maintaining a skills bank of 97 counselors and 164 registered small business clients. During its two-year history, K-MAP has conducted five public seminars. An average of 100 individuals have attended these seminars which have been well received by participants. Of the 97 registered counselors, approximately two thirds are actively involved in business counseling. At the present time, these counselors have offered approximately 83 days of small business counselling to K-MAP clients. Implementation is slow given that the executive director post is vacant. This post is due to be filled immediately, following USAID concurrence on the individual chosen by the Executive Committee.

II. AVAILABLE DATA

No primary data was collected on the impact of business counseling or seminars. Secondary data sources included reports of the last two semi-annual cooperative agreement reports, the March 31, 1989 project review, several local newspaper articles, the original PED project paper, the December 1988 Progress Review report, a 1989 workplan, a K-MAP self-sustainability memo, public relations brochures, forms and file documentation. Informed opinion sources included interviews with Victor Pratt, and Sandi Severn, USAID project advisor interviews with Mr. Gohil, Mr. Ligongo and the secretarial support person, and interviews with counselors and local business leaders.

III. MAJOR FINDINGS

A. Costs

K-MAP project costs were to total $560,000 for USAID, and equivalent L.O.P. costs of $469,000 for local private sector support and other donor foreign currency inputs (Source: Project Paper April 8, 1987). Accrued expenditures to date, are shown below.

Counseling		Seminar	
Fixed Cost $38,977 x 85% (counseling time estimate) X 35% time elapsed =		Fixed Cost $38,977 X 15% (time estimate for seminars) X 35% time elapsed =	
	$11,596		$2,046
% OE/PROG Ex	90,667		$20,037
	$102,263		$22,083
PSC Costs:	19,909		$3,499
	$122,172		$25,582
TOTAL	$122,172	TOTAL	$25,582

At a total cost of $122,172 for 83 days of counseling, K-MAP offers these services at a cost of $1,471 per day. For seminars, K-MAP spends $54 per recipient day of assistance, having offered 473 participant days of assistance at $25,582.

B. Outputs

Seminars: As of February 1989, five one-day seminars have been conducted. The February session on "Pricing for Profit" had 100 individuals in attendance (76 of whom were registered K-MAP clients or potential clients). Of the 473 individuals attending K-MAP seminars, 71% were actual clients or potential clients. The other participants were invited guests or counselors. The Seminar Participant Questionnaire for USAID's M&E system have been routinely used since the fourth seminar and seminar evaluation forms are collected from the participants at each K-MAP seminar.

K-MAP clients indicate generally high satisfaction with both content and presentation. No post-seminar evaluation has been conducted by K-MAP.

Counseling: Targeted outputs were 120 clients and 380 hours over 6 months. K-MAP reports for first half of 1988 69 counseling sessions of 212 hours. During the second half of 1988 K-MAP reported 141 client sessions of 311 hours. For the first quarter of 1989, 138 hours of counseling were recorded. This brings the total number of counseling hours to 651, averaging 2.5 hours per session. K-MAP does not record the number of contacts a single client receives, but an estimate for number of counseling hours received per client would be from 2-13 hours. In a sample file review of 14 businesses, only one business exceeded 13 hours in contact time. Client demand for counseling is growing and exceeds the counseling resources currently available. K-MAP also has a Counselors Club whose purpose is to provide a support group for business counselors. In November 1988, 28 counselors attended a counselors club meeting.

C. Compliance

K-MAP target clients include the small formal sector including retail, wholesale, transport, construction, metalwork, repair, tailoring, bakery and other small manufacturing. K-MAP operates in the Nairobi metropolitan area exclusively, under the terms of the PED Project. K-MAP appears to be complying with the terms of the PED Project.

D. Constraints to Implementation

The growing client demands are exceeding the counseling resources and even using the secretariat as counselors has not alleviated the gap. The observed work pressures on staff do not seem excessive. Rudimentary systems are in place to support the project required workload, but it is questionable what the new director will be able to manage and lead in terms of expanded output.

K-MAP intends to demonstrate through their clients that small-scale businesses, if properly managed, are capable of generating higher employment and incomes for Kenya. But the Secretariat does not have adequate systems of monitoring and evaluating clients.

Recruitment of counselors is a problem. There are no strong and authoritative links with companies' Public Relations Officers to recruit prospective volunteers. The need for more counselors in record keeping and financial management is particularly high.

E. Institutional Impact

K-MAP is a new non-profit organization with which USAID has had no prior experience. In the eighteen months of start-up operations, USAID funding has had a significant impact on the operations of the organization, and USAID is well positioned to make suggestions to the organization to improve its performance standards and record keeping.

F. Direct Development Impact

Data indicating the impact value of the USAID funding of $500,000 over five years have been collected on a routine basis since October 1988. For clients who have received counseling, K-MAP does some tracking of changes in sales and employees but not assets. Gender disaggregation statistics of clients' employees has not been collected by K-MAP to date. The evaluation team did not sample K-MAPS clients to validate the direct development impact reported.

The most available impact indicators are found in the anecdotal reports and press clippings demonstrating high client satisfaction and a perception of positive impact.

G. Sustainability

Resources are available within the Kenyan national and international business community to sustain and institutionalize an expanded K-MAP concept. Donor and foundation endowments could also be used to insure sustainability.

To become self-sustaining, K-MAP can use at least two different strategies. First, seeking endowment funding where the operations are supported is one possibility. Second, K-MAP can increase its fee for services approach as well as expand into consulting areas where profit-making potential might exist. Mr. Pratt reports that Botswana, Uganda, Malawi and the Gambia have all shown an interest in the K-MAP model. At the present time, however, sustaining the current level of benefits is dependent on USAID funding.

H. Unplanned Effects

Several businesses outside Nairobi have registered this interest in being assisted by K-MAP.

I. Administrative Burden on USAID

K-MAP counseling has required 135.9 person-days or 6.7% of the total USAID administrative burden of the private sector activities under review. K-MAP seminars have required 40.9 person-days or 2% of the total available staff time.

IV. CONCLUSIONS

1. The high level of media coverage for a USAID-sponsored program has provided a very visible program useful for attracting the attention and involvement of present and future business people.

2. The demand for K-MAP counseling exceeds the supply of matched volunteer counselors and hours available.

3. The seminars are attracting significant interest.

4. If the current operation is managed well under the new director, potential exists for a gradual take off in expanding the breadth and depth of the program. However, recruitment of counselors, self-sustainability of current program level and new membership are issues that should be resolved prior to such expansion.

V. RECOMMENDATIONS

1. K-MAP counselors should be provided with training to improve their consulting skills. These actions are already included on the K-MAP 1989 workplan.

2. The seminars should be refocused on specific rather than generic interests and targeted to smaller audiences so that more participatory and skill-focused training designs could be used. In addition, seminars focusing on sectoral interests could be organized to provide the opportunity for some businesses to meet their own technical assistance needs directly. These actions are included in the 1989 K-MAP workplan.

3. While media usage is helping to attract clients, publicity should be monitored carefully, especially attribution claims of increased sales and employment generation. Validation of K-MAP's ongoing monitoring and evaluation needs to be conducted by USAID in this regard. Also, since K-MAP's financial resources currently limit its counseling services to Nairobi area clients, all press releases and media coverage should specifically mention this geographic restriction.

4. USAID should take advantage of the potential impact of the K-MAP concept through replication in other African countries with developed private sectors. Coordination and information sharing with REDSO should be continued.

5. Once K-MAP resolves current programmatic and funding constraints, it should be able to focus on regional and sectoral diversification with a decentralized administrative system.

RURAL ENTERPRISE PROGRAM (REP)
(Management & Entrepreneurship Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

With A.I.D. funding of $5.8 million, REP will continue its core function of providing technical and assistance and credit to PVOs; expand its services to new target groups (business associations and community-based enterprises); and finance research and related activities on small business development. Of the $5.8 million, $2.6 million will be in the form of grants to these groups, and a little more than $1 million will be in the form of loans.

The PED Project was signed in 1987, but as of March 31, 1989 only $272,719 had been expended, including four loans and three grants totalling $60,000. Implementation has been slow thus far and it is too early to assess training and entrepreneurial development activities under the PED financing. (See REP activity report under RPE.)

II. AVAILABLE DATA

No primary data was collected. Secondary data sources include the PED Project paper, Project financial status report as of March 31, 1989; REP Program Report of June 30, 1988 and various PVO files and reports. Informed opinion sources include Justus Omolo, USAID; Albert Mutua, REP; and Louisa Owiti, Director YWCA.

III. MAJOR FINDINGS

Constraints to implementation issues and opportunities are noted in the RPE activity report. No direct development impacts under this project are reported thus far. REP training thus far has taken 31.2 USAID person days of management effort. This accounts for 1.5% of the total person days of the USAID Projects Office, a medium level of effort compared to the administrative burdens of other private sector activities.

IV. CONCLUSIONS

None to report thus far.

V. RECOMMENDATIONS

None to report thus far.

INTERNATIONAL EXECUTIVE SERVICE CORPS (IESC)
(Management & Entrepreneurship Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The objective of the IESC program is to improve the capabilities of selected Kenyan companies in the areas of production, marketing and management through consultancies by experienced volunteer U.S. executives. IESC provides assistance to clients in two forms: technical or "shop-floor" assistance, and management assistance. In practice, the two may be difficult to distinguish. IESC has been in Kenya since 1973, with a break from 1980 to 1983. From 1973-1980, it averaged seven projects per year; from 1983-84 six consultancies were conducted, followed by seven in 1985 and another eleven during the first three quarters of 1986. By mid-1986 IESC had completed some 95 projects.

In June 1987, IESC received a seven-year, $1,728,000 grant from USAID/Kenya to provide short-term technical assistance to as many as 20 Kenyan firms per year. The target group includes small business, agribusiness, export and labor-intensive business. IESC's core grant was evaluated in June 1988. Informal USAID evaluations were conducted in March-April 1988 and again in February-March 1989. A 10-member board is now being recruited to assist in marketing and in business relations.

II. AVAILABLE DATA

Data for evaluating IESC's contribution to USAID's private sector initiatives was collected from informed opinion, secondary sources and primary data from program administrators, as well as files, clients served, and one volunteer executive. The Country Director (also Regional Director for East Africa) and the USAID project officer were interviewed and an interview was conducted with a volunteer executive and his business client currently receiving assistance under the IESC program. The project team also reviewed written materials, including A.I.D. documentation of IESC programs, correspondence and past project evaluations; quarterly status reports; IESC individual client files (a random sample of 20 were reviewed); existing independent evaluation reports on IESC activities; and USAID Mission evaluations.

III. MAJOR FINDINGS

A. Costs

Accrued expenditures as of March 31, 1989 include $172,783, or $6,400 per consultancy (27 had been billed). Client contributions averaged $5,350. The USAID/Nairobi contribution is paid to IESC on a per project basis estimated at $10,700 per project based on a two month or more project duration, and $178 per day on a one-to-two month basis. No reimbursement is given for consultancies lasting less than one month or more than 90 days. The average project duration has been 54 days, or slightly under two months. The resulting reimbursement has been considerably less than the $10,700 estimated cost. As a result, IESC headquarters contributions have exceeded the amount budgeted by the IESC core grant by $400,000. This cost overrun is higher than that in any other IESC country as reported by the CD. He is seeking a fixed cost reimbursement grant amendment with USAID to remedy the situation.

When one takes into account the annual $27,360 PSC supervisory costs of this activity, the cost per recipient day of assistance increases to $137 or $7400 per consultancy.

The subsidized cost to USAID/Nairobi has been $118 per recipient day of assistance. Total cost is estimated at $528 per recipient day of assistance (based on estimated $28,500 per project and 54 days average consultancy).

B. Actual Outputs

At the end of 1988, 26 projects were completed, 11 were scheduled and eight were under recruitment. Of these 45 projects, 26 were owned by indigenous Kenyans, 11 by Asian Kenyans, and eight other Kenyans. So far in 1989, nine projects have been completed, six are underway, ten are scheduled and 16 are being recruited. Since June 1987, 34 businesses have been or are currently being served, and 24 are scheduled to be assisted. With an average of 54 days of assistance has been received per client. USAID/Kenya has reimbursed IESC approximately $120 per day of assistance. The CD predicts that 40 businesses may be assisted in 1989 alone, the biggest year ever. However, IESC headquarters has only budgeted for 30 consultancies. The grant agreement calls for 20 consultancies per year over a 7 year period. IESC is currently meeting these targets, and will possibly exceed them by June 1989.

C. Compliance

IESC is generally in compliance with USAID regulations, except that the average length of consultancy is shorter than projected.

Of the 34 businesses assisted, 25% have at least one woman as a primary owner. Women represent 19% of full-time employees and 40% of total employees. Twenty-five percent of businesses assisted have been

agribusinesses, and 50% are agriculturally-related. No information is presently available regarding export or import substitution businesses. The businesses assisted employ an average of 54 employees. Seventy-nine percent of clients served are located in the greater Nairobi and Mombasa metropolitan areas. Median annual business sales in 1987 as reported by the client in a random sample of 14 clients are $450,000. The mean number of employees of 35 businesses served is 45. The median number is 35.

D. Constraints to Implementation

The inability of IESC headquarters to recruit appropriate volunteer executives and place them promptly (a 5 month delay is average) is one constraint to implementation. Others include the continued need to market services to small businesses capable of paying $5,000 per consultancy, and the necessity for IESC headquarters to continue to write off the deficit of the Kenya program.

E. Direct Developmental Impact

Objectively verifiable impact indicator data is not available. However, a random sample of self-reported data on 23 clients served reveal the following results.

- 74% report improvements in management and marketing procedures.
- 41% report the consultancy made a major impact on their business; 38% indicated a moderate impact.
- 85% indicated that the services provided were excellent or good.
- There is 33% more demand for services than the core grant can currently support. There are 24 projects under recruitment.
- Demand is evident in that clients are paying an average $5,350 per consultancy.

F. Unplanned Effects

In response to changing demands, IESC has begun new projects. for example, the American Business Linkage Enterprise (ABLE) provides U.S. business contacts to IESC clients. IESC/Nairobi is beginning to arrange these partnerships, and explore other "piggyback" arrangements, using a volunteer executive for two consecutive projects in a country. IESC is also exploring diagnostic projects, in which a client requests analysis by a volunteer executive to be completed before the actual project is undertaken. This system could result in more clearly defined work plans. Diagnostic projects may or may not be followed by the regular IESC project of 2-3 months duration. These would be good piggyback projects also.

G. Opportunities Identified

The current Country Director has made numerous connections with the local business community since his arrival in 1988 and is working actively to widen his contacts. He has made presentations about IESC to business organizations and has received some media coverage, even in local trade journals. He has successfully increased the number of consultancies since his arrival.

Opportunities exist to provide IESC consultancies to K-MAP clients who can not otherwise afford to pay the $5,000 fee. This assumes USAID would be willing to cover these costs. The first test case of this kind is due to start in April 1989. Extending the length of the IESC consultancy in this way would also enable IESC headquarters to recoup some of their costs and reduce their current deficit. Trying this measure in the short term might improve IESC's deficit problem and contribute to the K-MAP program. This solution could be tried before considering a fixed cost reimbursement grant agreement of $10,700 per consultancy, regardless of length of stay.

H. Administrative Burden on USAID

USAID spent 133.9 person days, or 6.6% of the total administrative burden, managing this activity. This is a medium level of burden in comparison to other activities in the portfolio.

IV. CONCLUSIONS

IESC is meeting targets. The perception of assistance is positive on the part of the GOK and clients, although lack of empirical impact data hinders evaluation.

V. RECOMMENDATIONS

1. IESC agreements with clients should include better needs assessment and state clearer work plans with measurable objectives. The new country director's efforts in this regard have made important strides in the right direction.

2. IESC should collect data on the impact on businesses served (planned for 1989).

3. IESC should continue to seek additional mechanisms to provide technical assistance to groups of clients with similar needs, and consider combining technical assistance from IESC with other programs to make consultancies more effective and efficient.

4. IESC should focus marketing activities on projects that will last two to three months to qualify for USAID's highest contribution.

ENTREPRENEURS INTERNATIONAL (EI)
(Management & Entrepreneurship Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

Through the Strategy Support component of the Private Enterprise Development Project (615-0238), USAID has sponsored overseas training for Kenyan entrepreneurs through the Entrepreneurs International (EI) program. There is no specific life-of-project budget for this activity; rather, it is seen as a vehicle to supplement and complement the other private enterprise activities of the program portfolio.

The Entrepreneurs International training program was announced by AID/W in 1987 with the objective of providing exposure to management and technological techniques used in the US to visitors from the developing world. The candidate must be in a position to affect change within his/her firm. Each program is specifically designed for the participant based on his/her stated training objectives which must be approved by USAID/Kenya. The individual programs include a combination of visits to similar firms in the US, seminars, trade shows and visits to business associations. The program is a combined effort of US firms which host the participants at no-cost, the participant's firm which pays his/her salary/benefits and international airfare, and USAID which pays per diem and US travel costs. In AID/W, the program is managed by the Office of International Training (OIT) but the actual training programs are arranged through a contract with Partners for International Education and Training. In USAID/Kenya, the responsibilities for the program are shared by the Office of Projects and the Training Office of HRD.

II. AVAILABLE DATA

No primary data was collected. Secondary data sources include OIT evaluations of EI participants from interviews conducted between September 26, and October 3, 1988 and USAID files and post-training interviews with candidates. Informed opinion sources included Sandi Severn, Mark Renzi, USAID/PRJ, and Steve Ragama, USAID/HRD-Training.

III. MAJOR FINDINGS

A. Costs

AID/W provided initial funding for the program but USAID/Kenya, through the PED project, has funded eleven participants in the project for an average 18 working days of assistance at a cost per recipient day of assistance of $351. When the staff time of the PSC Project Advisor (15% of $21,206/11) is taken into account the total cost per day per participant is $502. AID/W, USDH and

contractor costs are not included, nor are PSC costs from HRD for administrative support taken into account.

B. Actual Outputs

When the EI Program was announced by AID/W, USAID/PRJ solicited nominations to the program through the Kenya Association of Manufactures (KAM), The National Chamber of Commerce & Industry, and from USAID Office Chiefs. The majority of the participants identified for inclusion in the program were nominated through KAM.

Originally, 23 entrepreneurs were identified by USAID/Kenya for training, the largest response from a mission to AID/W's program announcement. AID/W provided funding for the majority of these first participants. To date, 21 participants have completed the program, two are currently in the US on training, and six are in the pipeline.

Initially, the nominations for the EI program were approved by the USAID project manager on the applicant's stated objectives for training -- how the program had the potential to improve the Kenyan participant's firm. From available file documentation, it appears the nominations were not systematically viewed in relation to USAID/Kenya's private enterprise program objectives.

However, in early FY 89, nomination procedures were revised by USAID/PRJ to include a greater degree of compatibility with reaching small businesses, indigenously-owned firms, women, labor intensive industries, export-oriented businesses and firms outside Mombasa and Nairobi. Participants are currently nominated by USAID Office Chiefs, implementing agencies/contractors of USAID projects (such as DH&S), and, rarely, after a direct inquiry on the program from an individual. PRJ staff personally visit the candidate at his/her business site to refine training objectives and gain additional background on the firm. Additionally, the nominees proposed by the project manager now require approval of the Chief, Office of Projects. Once USAID/PRJ approves the nomination of the participant, the HRD training office provides all the administrative support from PIO/P preparation to departure assistance. On the participant's return to Kenya, PRJ attempts to obtain a briefing from the candidate, normally combined with giving the participant the training certificate provided by AID/W four to six weeks after the participant's return to Kenya.

C. Compliance

Although a review of USAID files does not indicate an initial conscious effort to reach indigenous or rural or female participants, a review of the training case files on the individuals reveals relative success in two of the three areas. Of the 21 who have completed the EI program to date, 17 (81%) are indigenous Kenyans and five (24%) are from outside Mombasa or Nairobi. Further, six (29%) are engaged in agribusiness. Only one woman (5%) was among the 21 participants trained to date; however, one woman is currently in training. Therefore, only two of 29 participants trained to date are women, representing 7% of the total.

D. Constraints to Implementation

The majority (all but three) of the participants are the managing directors of businesses. The per diem does not allow them to travel "first class" in terms of hotel accommodations and other amenities to which they seem to be accustomed. This has caused some concern to the participants but only to the extent that "had I known this before departing Kenya I would have made arrangements to supplement the per diem myself."

The EI participants have stated that some improvements could be done on the planning of the individual training programs. For example, if a participant from a 100 employee firm sees a 5000 employee factory in the US, it's difficult to equate the practical application of the management and technology to the Kenyan firm. Others have suggested that better briefings on what to expect in the US during the training, on weather conditions, etc., would be beneficial. Note, USAID/Kenya is now trying to provide guidance to PIET on the maximum size of firm the Kenyan participants feels would be appropriate to visit. Also, USAID/Kenya has requested from OIT a copy of the arrival briefing given to the participants in the US, usually in New York, so that it can be supplemented locally.

At least three of the participants have, at the very last moment, had to postpone their training programs. The feedback from AID/W has been that the US firms who were to host the candidates are not always easy to recruit and that such last minute postponements can prove to be both embarrassing and counterproductive to the program as a whole.

E. Direct Developmental Impact

Of the participants who have completed the program to date, the evaluation team reviewed ten transcriptions of interviews taped by Aileen Kishaba, EI Program Manager, OIT/AID/W during a TDY to Kenya in September and October 1988, and one interview by USAID/Kenya of a return participant in February 1989. The interviews were conducted from six weeks to 13 months after the EI participants' return to Kenya.

Specific data was available on changes in employment in the businesses owned by EI participants. Of the eleven EI participants in the evaluation survey, two firms have added a total of nine employees, making a projected USAID $ spent per job created of $7,916 ($6,326 + $151 per participant cost X 11 = $71,247 / 9 jobs created = $ 7,916). One of these firms was in the process of recruiting an entire quality control department, and four other firms said they would hire additional employees when the equipment they've ordered as a result of the program arrives. An additional 47 jobs were projected pending receipt of equipment; if realized, these additional employees would bring the total cost per job created down to $1,272 ($71,247 / 56 jobs created).

Of the interviewed participants, four reported new equipment was being ordered and five stated that sales had increased. Two of the four who were procuring new equipment had ordered computers to improve management and administration.

Although the 17 EI case files with complete PIO/P records indicate that nine of the participants had been to the United States previously, all participants, regardless of their previous business exposure in the US and Europe, could cite specific new technology seen and/or management practices they had learned. Among changes in business management and practices that the participants learned were the implementation of improved inventory control, new designs for packaging, a retail store at the plant location to reduce distribution costs, specific use of computers in the participant's environment, methods for improved product quality and increased productivity with existing machinery and personnel. Overall, client satisfaction with the program is very high.

F. Unplanned Effects

The initial demand for the program was high, given the fact that the Kenyan participants nominated were the largest group received by AID/W when the program was announced. The fact that the participant's firm was originally required to pay one-half the international airfare and since the most recent nominees pay full international airfare, plus the participant's salary and benefits during the training period, it seems that there is a willingness to cost share. USAID estimates that the cost sharing requirement has little negative impact on demand for this program.

The "graduates" of the EI program have indicated an interest in an alumni association. Several participants have also suggested that such an association would be useful to help in briefing participants before they leave Kenya on cross-cultural aspects of the training in the US. As an example, one participant said he could draw up a whole list of US idioms, like the word "bread", meaning money!

One EI participant stated that he saw technology that would benefit a sister company, rather than his firm. He shared the information with that sister company, who purchased new equipment that has helped to minimize waste and to improve the quality as well as health standards of its food products. That same participant brought back food standards from the US which he has shared with the Kenya Bureau of Standards.

In September 1988, in conjunction with the evaluation conducted in Kenya by the AID/W EI Program Manager Aileen Kishaba, a reception was held to honor the fifteen returned participants. The reception, held at the Nairobi Safari Club, was attended by eleven participants plus members of the private sector such as Silas Ita of KAM, Mr. Macharia of KNCCI, Mr. Olsen of IESC, the AmEmbassy Econ Consular, the AmEmbassy Commercial Attache and the private sector staff of USAID's Office of Projects. USAID Director presented Certificates of Achievement the "graduates" of the EI program.

The Entrepreneurs International Program seems to be complementary to the International Executive Service Corps program. Two of the EI participants have, since their return, had IESC volunteers to help them implement some of the ideas they learned in the EI program. One EI participant in the pipeline has already had an IESC volunteer at her firm.

G. Administrative Burden on USAID

The administrative burden of the program is 54.6 person days per year. This represents 2.7% of the total available person days. However, the current component advisor is a PSC, as are the HRD support personnel, although the component manager when the program was first announced was a USDH. The AID/W USDH administrative burden is not known.

H. Additional Observations

The majority of the EI participants stated that they saw highly automated factories in the US that, if used in Kenya, would add to Kenya's unemployment rate. All EI participants were cognizant of the need to adapt the technologies seen in the US to be more labor intensive for use in Kenya. None of the participants were willing to let automation make workers redundant.

IV. CONCLUSIONS

1. The direct development impacts of the EI program are long term, not short term. The participants on return to Kenya have many ideas for possible implementation, but may not implement them pending solicitation and review of bids for new equipment, approval of Board of Directors, or the pressure of day-to-day activities on their return.

2. No monitoring and evaluation forms for baseline data are systematically obtained and entered into the Private Enterprise data base at present.

3. Participants and KAM have stated an interest in and support of an alumni association.

V. RECOMMENDATIONS

1. Evaluation of the long range effect should be continued by USAID for at least 24 months after the participants return. Given the small numbers involved, maintaining a tracking system on these should not add any significant administrative burden to PRJ. Particularly when new equipment is purchased that will introduce a new product and/or increase employment, the long range effect that can be quantified has the potential to demonstrate greater cost effectiveness of the program.

2. USAID should pursue the refinement of the pre-departure briefing, following up with AID/W to obtain the previously requested on-arrival briefing given in New York. Part of the pre-departure procedure could be closer monitoring to help assure that the last minute cancellations are minimized.

3. Continued correspondence and dialogue with AID/W regarding logistical arrangements and briefing requirements should be coordinated by PRJ and HRD to make the participant's travel portion of the program as

problem-free as possible. HRD, which conducts the briefing, may, as appropriate, request an American from PRJ to sit in if the participant seems particularly interested or apprehensive about American cultural differences.

4. HRD and PRJ, in accordance with Handbook 10, may wish to coordinate follow-up "alumni association" activities using KAM as an organizing vehicle. A by-product of such an "EI Alumni Group" would be the review of "lessons learned" by the participants and an added motivation to implement any which were never translated into action.

KENYA NATIONAL CHAMBER OF COMMERCE & INDUSTRY (KNCCI)
(Management & Entrepreneurship Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

In 1987, the Kenya National Chamber of Commerce and Industry (KNCCI), an indigenously-controlled organization with 5,300 members in 35 branches covering all sectors of the economy and all districts of the country, approached USAID for assistance in improving its services to its membership. A USAID-funded study and needs assessment was conducted in 1987. USAID's assistance to date has relied heavily on that study.

In March 1988, USAID provided a $60,000 grant to KNCCI for the procurement of computer equipment and computer training for Chamber personnel. This grant was funded from the Private Enterprise Development Project, Strategy Support Component. The purpose of the grant is to strengthen the Chamber, an institution that can strengthen Kenya's business environment. Under the grant, USAID procurement of a computer was intended to help (1) the Public Relations office in maintaining and expanding membership registers and mailing lists; (2) the Finance Office in managing budgeting information and streamlining the accounting system; and (3) the Trade Office in organizing, recording and maintaining reference materials.

In January 1989, USAID amended the grant to provide technical assistance for KNCCI in developing the computer systems for membership records, accounting systems, publications, trade information and promotion, general correspondence, seminar planning and records, library cataloging and management. This no-cost amendment used the balance of the original grant not used in the procurement of the computer hardware and software. It is important to note that the computer training purchased in the original grant provided only training on the software, not how to design the management information systems needed by the Chamber. The Chamber contracted with Private Enterprise Development Consultants (PEDCO) for these services.

At the present time, USAID is drafting a grant amendment to add $40,700 for the procurement of two calculators, a postal meter, two photocopiers and a 4 wheel drive vehicle. The vehicle will assist the Chamber in developing branch relations through visits by KNCCI personnel to the branch locations. The office equipment will increase the productivity of existing KNCCI employees.

Finally, through the IESC Component of the Private Enterprise Development Project, two IESC volunteers worked with the Chamber in 1988. The first volunteer was specifically asked to provide information to KNCCI branch members on financial and technical assistance available in Kenya from both donor and commercial sources. The volunteer developed and conducted training sessions for 20 branches; one of his handouts for these seminars was published in the

Chamber's magazine, "Business." The second volunteer was to review the administrative and management procedures of the Chamber to assist in increasing the organization's level of service to its membership.

II. AVAILABLE DATA

No primary data was collected. Secondary data sources included B. Bassam's 1987 Report, M. Renzi's 1989 Status Update, and IESC Reports in USAID Files. Informed opinion sources included Mark Renzi, USAID intern, PEDCO Employee: Anthony Itebete, KNCCI Acting Director: Charles Gathirimu, and KNCCI Information Specialist: Mrs. Dorothea Khamisi.

III. MAJOR FINDINGS

A. Costs

All activities with KNCCI are directed toward institutional development. At present, the most appropriate measure of USAID's level of commitment in working with the Chamber is demonstrated by the following total of funds committed for equipment procurement and technical assistance:

Computer Procurement	$28,402
Tech. Assist. on MIS Systems	$28,800
First IESWC Consultancy	$35,479
Second IESC Consultancy	$10,450
Procurement Amendment in Draft	$40,700
Subtotal	$143,831
PSC Advisors	$10,610
Total	$154,441

B. Outputs/Results

The computer system was received and installed in March 1989. The contracted USAID-procured training on the equipment is being conducted; all Chamber personnel are being trained but the set up of the membership records are being inputted by a Anthony Itebete, a PEDCO employee. Two PC computers were procured by USAID. While Anthony is inputting data on MIS system, a secretary is using the other for correspondence and word processing. These employees are currently working under the daily direction of Ms. Khamisi, who was contracted by the Chamber for one year, beginning in March 1989.

To date, approximately 6000 membership records have been entered in the MIS system. The records entered include every active (dues paid to date) and inactive (delinquent dues) member in KNCCI's manual records of membership.

Although the data input is still in progress, computer-produced lists of inactive members are already being used. Working on a commission basis, membership representatives will contact the former members to solicit the renewal of their membership; at the same time, a survey of membership service desired will be conducted. Mr. Gathirimu would also like to visit the branches himself, as time allows, while he is Acting Chief Executive Officer, and survey current members on what they view as the most useful membership services. Further, once the input of active and inactive members is completed, Mr. Gathirimu intends to compare the list of KNCCI's membership against other available lists of businesses (e.g., available from KAM, FKE, etc.) to recruit non-members. The input he has received from existing members on the services they find most beneficial from KNCCI will help provide input into his marketing strategy to non-members. The PEDCO contract also includes assistance on branch office development.

The membership list also contains financial data. This information is being supplied to the accounting branch to assist in the development of improved financial tracking.

KNCCI is currently seeking additional personnel. The recently hired Information Specialist is tasked with upgrading the Chamber's Library, in addition to the her work with the PEDCO contractors on the MIS system.

C. Compliance

KNCCI is in compliance with USAID requirements.

D. Constraints to Implementation

The lack of hands-on training and responsibility on the part of KNCCI staff will pose problems for the continued use of the computer system, once the PEDCO contract expires in March 1990.

E. Institutional Impacts

USAID has no formal reporting requirements for KNCCI to determine the institutional development that is gained from the equipment procurement and technical assistance. However, there is a perception of positive institutional impact on the pat of KNCCI staff regarding USAID assistance.

F. Direct Development Impact

The computer-based record system has the potential to significantly enhance the targeted services. KNCCI has demonstrated its interest in using the computer's MIS system to increase membership and services by the fact that they have entered over 80 percent of their records. The momentum and interest is there. Actual changes in membership, improvement of services and financial

management, and library development should be monitored to determine the level of impact.

However, the Chamber is very pleased with the level of USAID assistance. The first IESC consultancy by Mr. Lew Sleeper was seen as a positive step in improving branch relations. The Chamber, in early 1989, wanted to have another consultancy on branch relations through IESC, with Mr. Sleeper as the volunteer but he was unavailable. This repeat demand is indicative of the client's satisfaction with that intervention. The second consultancy by Mr. Thomas Stainback also produced a membership solicitation mailer form.

G. Sustainability

The primary sources of KNCCI revenue is membership dues and other donors. The organization has 5,300 members in 35 branches. Provided member service continues to be satisfactory, the prospect of sustainability for this institution is high.

H. Administrative Burden

Activities with the Chamber require 105.3 person-days per year or 5.2% of total available USAID projects office staff time. This is a relatively high administrative burden due to the procurement activities under the project.

I. Additional Observations

Mr. Gathirimu's interest in applying the computer KNCCI management problems is demonstrated by his hands-on efforts. Often, with installation of computer systems, a few people grasp the potential but are not in a position to translate that potential into action. With Mr. Gathirimu's personal level of interest and skills building, it does not appear that the potential will be lost to KNCCI.

At present, two of the three employees who are most familiar with the computer system are contractors with one year contracts.

According to the Information Specialist who was contracted by the Chamber after the start of the local computer training, many of the Chamber employees who received the training lacked the keyboard skills necessary to benefit to the fullest extent possible.

IV. CONCLUSIONS

1. KNCCI has the momentum to use the computer systems to its fullest capacity. However, that momentum may be lost when the PEDCO and Information Specialist contracts expire if more long term employees do not receive hands-on training and responsibilities.

2. Lack of basic keyboard skills for the majority of Chamber employees is a hindrance for the continued success of computer training.

3. USAID has no formal reporting requirements for KNCCI, however, the Chamber is willing to share information on membership, types of membership services, and financial status. USAID has no specific baseline data for these items on which to base future evaluations.

V. RECOMMENDATIONS

1. USAID will want to have some feedback, either from the PEDCO staff, the Information Specialist or Mr. Gathirimu, on the level of responsibility transferred to long-term employees during the course of the contractors' work. This will help USAID to monitor that the Chamber's internal management capabilities are being built. Review of the manual prepared by PEDCO on computer operation will be a good indicator of development impact of that contract.

2. When and if USAID procures computer equipment for other organizations, a brief survey of who is to be trained and their current keyboard skills would be beneficial in designing the level of instruction.

3. For future evaluation purposes, USAID will want to obtain from KNCCI the following information once existing membership records are entered:

   (a) total active members in each branch

   (b) gender disaggregation of membership;

   (c) number of members in each category of membership;

   (d) total number of inactive members;

   (e) inactive members by membership category.

JUA KALI PROJECT
(Management & Entrepreneurship Component)

Program Grant 615-0227

I. OBJECTIVES AND STAGE OF IMPLEMENTATION

The Jua Kali Project was designed to test the hypothesis that commercial banks can be used effectively to provide credit to informal sector entrepreneurs without collateral, provided there are some incentives in the form of loan guarantees and support of administrative costs to ensure a no-loss situation for the bank.

The project was signed in December 1986 and Phase I activities will end December 1989. The project was evaluated by the GOK and USAID in February 1988, and recommendations were made to extend the project to a Phase II with an additional $3 million. At the present time, funds have not been released for this extension.

As of February 1988, 170 individuals had been trained in two-week entrepreneurship courses by three institutions (Vintage, Undugu Society and ILO's Improve Your Business). Seventy-one percent of trainees were males, 24% were tailors, 21% were mechanics and 15% were tinsmiths. Thirty-eight percent of trainees were between the ages of 31 and 40; 26% in their twenties; and 15% in their forties. In August 1988, KCB evaluated the performance of loanees. As of April 1989, 208 have been trained, 164 received loans. Of the 44 individuals not receiving loans, some never applied after the training program, and some rejected KCB's loan offers.

II. AVAILABLE DATA

A sample of eight Jua Kali trainees were interviewed as primary data sources. Secondary data sources include the evaluation of the Kenya Commercial Bank Informal Sector "Jua Kali" Loan Program, Feb-March 1988, Linda McGinnis, USAID and Raj Bhatia, Investment Promotion Center, KCB and USAID memos, and the Jua Kali Grant Agreement. Informed opinion sources include Migwe Kimemia, USAID, Mr. Raj Bhatia, IPC, Mr. Ezra Mbogori, Director, the Undugu Society, Mr. Jeffrey Njagi, ILO Improve Your Business Program, and Ms. Lynette Dawa, KCB Business Advisory Service Consultant.

III. MAJOR FINDINGS

A. Costs

Total accrued expenditures as of February 1988 include 407,720 Ksh for training 170 Jua Kali business persons at a cost of 2398.35 Ksh per trainee. In reviewing the contracts with ILO, Vintage and Undugu Society with Ms. Dawa, the following training costs were indicated as of April 1988:

ILO: 36 people trained for five days at a cost to KCB of Ksh 12,256 (50% subsidized by ILO) or a cost per recipient day of training of Ksh 68.

Vintage: 92 participants trained at a total cost of Ksh 200,000 for ten days at a per recipient day of training cost of Ksh 217.

Undugu Society: 80 people trained at a total cost of Ksh 216,000 for ten days at a per recipient day of training cost of Ksh 270.

The average per recipient day of training is, therefore, Ksh 259 or $14/day at current exchange rates.

B. Actual Outputs

The project has produced an estimated 1900 recipient days of training assistance. KCB provides no technical assistance or monitoring.

Performance measures of the Undugu Society indicate a well-received (by KCB and participants) training program containing elements of entrepreneurship, banking, legal factors, finance, marketing, production planning, costing and personnel management. Undugu uses more Kiswahili in their training programs than ILO or Vintage, and were assigned by KCB those Jua Kalis with less formal education. Undugu characterizes their training programs as participatory, with a workbook guide focused on individual business planning. Since 1987, Undugu has had its own Jua Kali training and lending program (71 loans presently disbursed, no information yet on defaults), and offers training in basic education, skill training, entrepreneurship, project preparation, business advisory services, training start-up, and business management (has trained 206 to date).

A review of training evaluation forms indicate that 94% of trainees are entirely satisfied with the content of the training program; 81% of trainees found the methodology clear, understandable and useful.

The performance of Vintage as a subcontractor to KCB also indicates satisfaction with the course. One advantage Vintage had, according to KCB, was the screening function they played in assisting the bank to identify potential borrowers. This was done through a site visit during the training program to trainees' businesses.

Performance of the ILO Improve Your Business course was also positive, although KCB found the five-day course too short. Training materials are well adapted to the Kenyan environment, but ILO has its own training commitments and is unable to service KCB on a regular basis.

Reactions to the Undugu Society training was also positive, but no trainee evaluation forms were available for review.

C. Compliance

No gender disaggregation data is available on trainees, however, all trainees appear to be Jua Kali business persons.

D. Constraints to Implementation

At the present time, all loan applicants are trained, whether they are seriously interested or qualify for loans. This results in a costly screening process, and restricts the number of applicants that can be processed.

E. Direct Developmental Impacts

The survey of Jua Kali business persons did not reveal any empirical evidence which could support the contention that training has had an impact on sales, employment, investment or changes in business practices. However, all trainees indicated that they had had no previous encounter with the formal commercial sector, and that the training served a useful purpose in acquainting them with the credit system.

F. Administrative Burden on USAID

No time was reported by Migwe Kimenia on Jual Kali training.

IV. CONCLUSIONS

KCB, Undugu, and ILO maintain strongly that without training the Jua Kali program would have failed. ILO feels strongly that follow-up is needed. Undugu does not feel monitoring is needed.

It is difficult to judge the level of local support among recipients by measuring financial contribution since the training is offered free of charge. KCB rejected a proposal for trainees to pay Ksh 100 as prohibitive and a GOK responsibility. Undugu also gives free training, but will start charging a fee for its own clients. ILO Jua Kali clients pay Ksh 200-300 for a two-week course with no reported problems. The survey reveals, however, that the demand for training exceeds the resources available, and several trainees indicated that the training is what attracted them to the program in the first place - not the low level of loan financing offered.

1. The cost of training Jua Kali entrepreneurs is not prohibitive and is not responsible for KCB's high administrative costs. Further, demanding a token training fee would not be prohibitive and could defray about 10% of the training costs as currently charged.

2. Training without follow-up, especially for loans under Ksh 2,000 is probably a wasted expenditure. (Source: ILO and Undugu)

3. Training can be used to assist KCB in screening loan applicants.

4. Training provided by the private sector is adequate and reasonably priced.

V. RECOMMENDATIONS

1. KCB should subcontract training services through the private sector, avoiding the problem of further politicizing what is already an overly politicized activity. (KCB, Raj Bhatia)

2. Follow-up and monitoring on a fee for service basis could also be subcontracted to the private sector.

3. USAID could assist KCB and its private sector training sub-contractors in providing guidance on evaluating training impact.

POLICY

01-V26

INVESTMENT PROMOTION CENTRE (IPC)
(Policy Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

"To strengthen IPC's ability to improve government policy towards the private sector and to encourage new investment from local and foreign sources."[1]

To increase the capacity of IPC: (i) "to analyze the impact of proposed reforms, suggest additional reforms and work out implementation plans, and facilitate a reasoned and informed dialogue between the private sector and government institutions;" (ii) "to develop promotional materials, prepare promotional activities and promote both local and foreign investment;" (iii) to create and manage a resource center; (iv) to train investment promotion officers and others concerned with the investment approvals process; and (v) to manage and finance "a number of sector, regional and industry-specific feasibility studies."[2]

To complete an agenda of studies regarding proposed reforms including the following "illustrative topics:" (i) the development of financial markets, including both debt instruments (e.g., refinancing facility, loan guarantees) and equity (e.g., implementation of the Central Bank/IFC recommendations of 1984 on capital markets, including the development of investment trusts); (ii) constraints inherent in the investment climate, the approvals process, and the network of controls or regulations; (iii) the policy environment for smaller businesses; and (iv) methods of promoting export-oriented activities (e.g., manufacturing in bond, export processing zones (EPZ), export credit insurance and regulatory simplification).[3]

In 1988 IPC prequalified various consultants (mostly from the United States, some with local collaborators) for policy and other studies to be undertaken under the grant during the next several years. Early in April 1989, in response to invitations to a few pre-qualified firms, IPC received one proposal for the EPZ study and two for the installation of an investment proposal tracking system within IPC; these bids have been evaluated and IPC's

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[1] From paragraph I-B of Annex I "Amplified Project Description" of the Grant Agreement of June 1987.

[2] Adapted from paragraph I-A of Annex I "Amplified Project Description" of the Grant Agreement of June 1987; quoted phrases are found in that paragraph.

[3] This paragraph is adapted by the Evaluation Team from paragraph C-1 of Annex I "Amplified Project Description" of the Grant Agreement of June 1987.

recommendations for contract awards were to be forwarded for USAID concurrence during the week of April 17, 1989.

Although IPC was founded in 1982 in response to an initiative of the Kenya Association of Manufacturers, it is just now beginning to work energetically. It added to its professional staff in the middle of 1988, partly to satisfy one of the conditions of the USAID grant. It reports an adequate budget from government, which seems to have overcome some initial ambivalence in its support for the Centre.

A training tour for the Managing Director and one senior colleague in March 1989 included review of industrial promotion arrangements in Santo Domingo and Ireland as well as an international seminar on experience with export processing zones in New York. Contact with officials of many countries in various stages of developing their investment promotion activities has clarified top management's vision of what IPC could do in Kenya.

The expectation is that momentum will pick up with publication later this month of the Centre's Investor Guidebook (5,000 copies!), the commissioning of IPC's first policy study (to determine policies toward and initial locations for EPZs in Kenya), and the setting up of its investment proposal tracking system by midyear.

To date disbursements against the grant of $1,714,000 have been negligible - i.e., $13,084 to purchase a vehicle and $1,403 to advertise regarding policy studies. (Cost of the March training tour have apparently not yet shown up in the accounts seen by the Evaluation Team.)

II. AVAILABLE DATA

Our most valuable information has come from a two-hour meeting with the Managing Director, Mr. J. N. Kimeria, and four members of his senior staff (Messrs. Paul S. Muite, Senior Projects Officer, F. E. Oyugi, Finance and Administration Officer, Ben K. Nzioki, Projects Manager, and Joshua Ogola, Projects Analyst). Members of the Evaluation Team also met with Mr. R. K. Bhatia, Advisor, for a more general discussion of policy issues and evaluation concerns without much focus on IPC. The Centre's work program for 1989 and supporting documentation on particular sub-projects (e.g., scope of work for an Investment Seminar in Kisumu) were also instructive.

There have been several newspaper reports on IPC (e.g., The Nation, April 16, 1989, as well as earlier in the week), reflecting a conscious push by IPC to raise public awareness of its activities (possibly in the wake of an energizing trip to Santo Domingo, New York and Ireland last month, referenced above).

Conversations with our colleagues at AMT (Price Waterhouse), businessmen and other knowledgeable persons in Nairobi suggest that IPC has not yet lived up to its original mandate or intent and is therefore not taken very seriously as an effective instrument for attracting new investment or even a meaningful

"one-stop" administrative agency for obtaining all the necessary clearances to start a new business.

The Evaluation Team has also consulted USAID documents, such as the Private Enterprise Development (PED) Project Paper of April 3, 1987, the Project Grant Agreement relating to IPC (June 1987), the Semi Annual Project Review and Financial Status reports, and similar background sources.

III. MAJOR FINDINGS

a) IPC has not yet established itself as the dominant agency concerned with investment policy formulation or promotional administration; nevertheless, it appears to be moving steadily in the right direction, and there are signs of a recent shift toward a more proactive, assertive role.

b) The entire interaction between IPC and USAID can be considered part of the "policy dialogue". The documentation is superficially misleading on this point, since the Grant Agreement and projected budget include a component called "policy studies". In fact, there are several types of interrelated studies to be undertaken by IPC and financed by USAID during the seven-year project period: (i) "policy studies" (e.g., policies and plans to establish Export Processing Zones as an important new program of the Government of Kenya), (ii) "sector/regional studies" (presumably to consider investment constraints and opportunities in sectoral or regional "bundles", (iii) "feasibility studies" (in which costs are to be shared 50-50 with identified serious sponsors of particular investment proposals) and (iv) professional exchanges (which may have an exploratory or "research" intent as well as investment promotional purposes).

Other relatively small allocations of USAID's financing are for institution building (e.g., procurement of vehicles and computers, various provisions for on-the-job and outside training), but the institution itself is intended to be a principal instrument of implementation of policies to promote private investment. All elements of this PED "component" can therefore be considered a "pilot project" for testing certain policy hypotheses. Even "training" elements are training for "policy dialogue" broadly defined as contrasted with training in industrial management, factory maintenance procedures, or financial analysis skills.

c) There is uncertainty about what IPC is allowed to use its "studies" budgets for. For example, the Evaluation Team was told that an antibiotics investment proposal has been delayed because of uncertainty in Kenya regarding appropriate (i) product quality standards, (ii) effluent disposal requirements and (iii) methods of monitoring and enforcing both sets of standards after they are established. This would appear to be a fairly straightforward Technical Assistance assignment, but it may not be clear to IPC (or even USAID) that component funds can be tapped - and tapped expeditiously - to provide the Government with authoritative recommendations (policy options) on these points. In this case the general intent of the project is clear (to this observer, at least), even though the specific wording of the documents does not deal with this particular contingency. In another instance IPC was

told to defer a proposed study of Kenya's policy options for promoting textile and leather exports (i) because it would be contrary to a congressional mandate to use USAID financing for a study which would, inter alia, advise the Government of Kenya on trade prospects and regulations in potential markets such as the USA and Europe as well as worldwide where textiles and some leather goods are considered "surplus" and/or (ii) because USAID judged IPC to have insufficient absorptive capacity to undertake this proposed second policy study in the first months of 1989.

d) Although IPC is governed by a large Board, consisting of nine economic ministers and nine representatives of the private sector (six of whom also serve as elected members of the KAM Executive Committee, thus facilitating coordination and ensuring representativeness), it operates as a unit (department or branch?) of the Ministry of Finance and must approach other ministries and agencies of government through the Permanent Secretary and the rest of the normal Finance Ministry hierarchy. Clearly, these channels are filled with many other concerns of high priority, and it is not clear that IPC, positioned in this way, can operate with the autonomy and speed that its functions require.

e) IPC has spent very little of the USAID financing available to it. A quickening pace is foreseen in the next several months. A major acceleration in its method of operation is necessary this year and next if the funds allocated to IPC are to be used impactfully, expeditiously and/or wisely.

f) Although it is tempting to credit IPC with the 1,600 jobs in the eight "manufacturing under bond" schemes it reported tracking last October plus another 400 jobs in eight or ten regular manufacturing projects also going forward, we have no data to confirm these estimates nor any more recent report on projects being tracked. Of more serious concern is the possibility that all of these projects might well have gone forward without IPC intervention, since there is evidence that some of them gained approval more as a result of sponsors' own efforts (or their consultants') than because of IPC's intervention.

IV. CONCLUSIONS

1. It is too early in the implementation period to judge the performance of IPC, whose outputs to date are minimal.

2. Although one can describe IPC in terms of structural handicaps that seem insurmountable, it is also too early in the implementation cycle to second-guess project designers and cancel the experiment they fashioned to assist IPC in becoming a major instrument of Kenya's development administration.

3. IPC operates in an environment of controls which are deeply imbedded in government philosophy and in the system of remuneration for civil servants. It aims to isolate and streamline a small segment of that system in order to entice domestic and foreign investment into commitments that would expand employment, production and export

earnings. It remains to be seen whether or not IPC can develop the power to force an opening in the current system of controls and regulations and whether or not the government as a whole is willing not only to tolerate but to actively encourage so major an exception to its traditional ways of doing the business.

V. RECOMMENDATIONS

1. Having financed this experiment, USAID needs to interact with IPC both at the project level and at the management level in ways that foster autonomy, accountability and constructive action. It would be premature to apply evaluation criteria in terms of macro-economic indicators such as employment, investment, production or exports, since IPC is only a small part of the system that produces those results. But it is and will continue to be worthwhile to expect and to facilitate specific instrumental, proxy or work-task outputs such as policy, sector and feasibility studies. Meanwhile, systems should be designed not only to track the progress of investment proposals registered with IPC but also to monitor the Centre's effect on the work load of lawyers, accountants and other Nairobi consultants on whom investors had come to rely to obtain clearances before the "one stop" approach was initiated.

2. It would seem wise for USAID internally to rely on one officer to coordinate all aspects of the IPC component, reporting frequently to a senior officer who will be in regular contact with IPC's Managing Director. Every effort should be made to relax the distinction between policy, sector and other categories of "studies" in order to provide a prompt, flexible and expert response to IPC's varied needs.

3. Both IPC and USAID as well as others concerned with sustainable and equitable development in Kenya will have to continue to look for ways both to enlarge the effectiveness of IPC (for instance, by giving it true interdepartmental stature and authority, possibly by converting it into a Presidential Commission) and to deregulate the economy in more radical ways that directly encourage initiative, risks, exports and growth.

4. Should IPC's Managing Director request a full-time, long-term resident advisor to assist with investment promotion and with policy studies, the Mission should give sympathetic consideration to that possibility.

5. Mission personnel (Economist as well as Project Officer) should aim to develop close working relations with IPC staff in defining Terms of Reference for studies they propose to commission. The list of twelve possible studies is very broad, and the numerous items under each of those headings suggest a shopping list or almanac approach. To obtain good value from studies it commissions, IPC will have to work to develop a theory of the case, a working hypothesis or two, and a sharp, even narrow, focus for the options it wants explored in preparing recommendations for government and/or investors.

KENYA ASSOCIATION OF MANUFACTURERS (KAM)
(Policy Component)

PRIVATE ENTERPRISE DEVELOPMENT
Project 615-0238

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

"The general objective of this activity is to support the policy development process by strengthening the ability of the Kenya Association of Manufacturers to analyze the impact of government policies affecting private industry and of proposed policy changes, to suggest additional changes and to work out implementation plans. This will facilitate an informal dialogue between the private sector and the Government.

"A second objective is to increase understanding among Kenyan manufacturers on topics that affect a range of industries (such as packaging and quality control).

"These aims will be accomplished by funding a series of studies on the impact on manufacturing of government policies and policy reforms and a series of seminars on special topics."[1]

This activity is part of the Private Enterprise Development Project (PED), which aims "to strengthen the institutions that can improve Kenya's business environment and to encourage growth of businesses directly through the financial and advisory assistance those institutions provide."

KAM has completed two studies, which were prepared under contract by Pragma Corporation in association with African Development and Economic Consultants Limited. "Price Controls - Experience and Opportunities in Kenya's Manufacturing" and "Rural Industrialization in Kenya - Opportunities and Constraints in Providing Basic Infrastructure" were both printed in attractive booklet form (1,000 copies each) and distributed widely to government ministers, senior officials, members of parliament, businessmen and interested international agencies. They provide an agenda for discussion within the KAM membership and the wider business community of Kenya and between KAM (representing the private sector point of view) and government authorities (including President Moi himself, who has praised the reports as instructive and realistic, and the Minister of Industries, who has called for further in-depth discussions with KAM representatives).

Two more studies are being commissioned as the focus of the 1989 policy work program of KAM, even as persuasive discussion on the earlier studies continues and at least partial implementation is sought. "Export Incentives for Kenyan Industry" will be studied by the Stanford Research Institute and "Government Controls and their Impact on Kenya's Manufacturing Sector" by Pragma

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[1] Quoted from Article I-A of the Schedule to Cooperative Agreement No. AID-615-0238-A-00-7023-00, dated June 30, 1987.

Corporation (both in association with local firms). Interviews, analysis, report writing and other work was planned to begin at the end of April, to be performed in close consultation with the KAM Executive Director, Mr Silas Ita, and the Executive Committee of his Board, and to be largely completed (including review within KAM) before the end of July.

USAID's Semi-Annual Project Implementation Review of March 31, 1989, reports $147,700 in expenditures "through FY 88", out of a total obligated to KAM (for both "studies" and training seminars) of $713,600 to be disbursed by September 30,1994. USAID's Semi-Annual Review of September 30, 1988, reported $147,100 in expenditures in FY 88 and $700 prior to that; allowing for rounding, this appears to be the same $147,700 reported six months later. Page 55 of the "Project Financial Status Report" as of March 31, 1989, records $143,786 disbursed for KAM studies and $ 3,924 for seminars (Elements 3 and 4, respectively), apparently confirming the $147,000 noted earlier. (Pages 116-17 provide additional detail regarding these expenditures.)

The KAM plans to commission additional studies at the rate of two per year through the five year life of this component, for a total of ten such reports by the end date of the Cooperative Agreement, June 30, 1992 (or very soon thereafter, since the study cycle currently working fairly smoothly provides the completion and printing of studies in July/August, which could mean a final USAID disbursement before September 30, 1992, if all goes very smoothly). The KAM elements are scheduled for completion roughly two years before PED activities as a whole. The KAM feels that while they could manage more than two studies per year, discussion with government, aiming at implementation of major recommendations, is unlikely to proceed more rapidly, given the difficulty of accomplishing deregulation measures and the preoccupation of government personalities with many other urgent concerns. The Evaluation Team would concur in that judgement, based on experience to date, especially since KAM is not the only source of "policy studies" aimed at effecting significant changes in both the substance and the style of government interactions with private business organizations.

Mr. Ita has additional topics in mind but intends to make recommendations to his Executive Committee year-by-year in accordance with then current priorities. Given that very practical consultative procedure, we did not press for a list of candidate topics at this time, although it would probably be quite easy to obtain such a list, if needed.

II. AVAILABLE DATA

To date this portion of the evaluation has been based on the two studies already published, Terms of Reference for two additional studies which are about to be commissioned, the already referenced USAID financial reports and implementation review, and two long and very candid conversations with Mr. Silas Ita (KAM Executive Director, as noted above) and two of his executive officers, Mr. John W. Kuria and Ms. M. M. Muigai. If time had been available, it would have been useful to do additional research as follows: (i) interview three to five other members of the KAM Executive Committee; (ii) interview senior officials, especially in the Office of the President, Ministry of Industries,

and other ministries (e.g, Finance, Planning and Commerce); (iii) study newspaper files (January-March 1989 is said to be the period of most active coverage); (iv) survey a cross-section of less active KAM members and others in the business community; v) review responses to the RFP for new studies; (vi) search Mission files for formal review and evaluations of draft reports of 1988 studies; and (vii) talk at length with professionals at Pragma and African Development and Economic Consultants Ltd. (team members listed on page 3 of Price Controls and page V of Rural Industrialization) about their experience with the first studies in 1988.

The Evaluation Team found no information at odds with views of (or not already well-known to) USAID/Nairobi staff. Mr. Michael Taylor of AMT has reviewed the two 1988 studies carefully and has confirmed their (i) accuracy and (ii) relevance to overcoming some of the most urgent constraints to expanding industrial production and employment in Kenya.

III. MAJOR FINDINGS

1. The first two studies cost $70,000-75,000 each, after allowing for advertising the RFP and printing the final reports, which seems to be in line with estimates when the project was formulated. We have not seen bid-prices for two studies about to be commissioned. KAM says they would prefer to do fewer than ten studies but maintain high quality standards, if funds run out and cannot be replenished before all ten studies are commissioned.

2. The two initial reports seem to be of good quality in terms of both information/analysis presented and setting a practical agenda for discussion within government.

3. KAM is well established in the community, having logged 30 years of experience in representing the views of the business community to government and to the public at large. Its Executive Director consults closely with study teams and holds biweekly meetings with the consultants and members of the KAM Executive Committee to review the progress of work. Such a close and frequent exchange of views not only assists consultants in timely completion of their assignments but also provides for steady development of consensus around recommendations emerging from their research. Bid invitation and evaluation as well as study completion and dissemination appear to be kept to tight schedules as planned, despite USAID's requirement that each step in the process be referred to it for approval and such GOK requirements as the need to obtain prior consent of the President of Kenya before survey work can be undertaken by expatriates.

IV. CONCLUSIONS

1. Since the two studies are still being discussed with the Government, it is too early to judge their development impact. KAM is satisfied that some recommendations have been accepted and cites as evidence wording in the Development Plan 1989-1993, which closely resembles passages in these reports; first steps toward implementation are also expected to be included in the forthcoming budget (scheduled for presentation in June). Another evidence of follow-up is a preliminary offer from ODA (UK government) to finance a two or three person team in KAM to facilitate agreements between small-scale firms and large manufacturers along the lines recommended in Rural Industrialization (p.60).

2. This component appears to be making good use of a well-established and respected institution and to be providing it with tools to have a more practical impact on development policy than would otherwise be possible. Given the present able management of KAM, the component seems to have required minimal administrative attention from USAID staff.

V. RECOMMENDATIONS

1. Maintain this component at the current planned level. It gives good value (in terms of useful output) at low administrative and reasonable cash cost.

2. Expedite performance on requests from KAM for complementary support. For example, a word processor would be very useful and is said to be on order. Also, the report on rural industrialization recommends that KAM play a catalytic role in initiating follow-up studies and other collaborative work (pp. 63-4); a cost sharing arrangement with USAID might expedite the proposed follow-up by university researchers, economists at the Kenya Industrial Research and Development Institute, private consulting firms, The Kenya Economic Association and the Institute of Certified Public Accountants.

3. Given the fact that USAID itself has many spigots from which flow funds for policy studies (broadly defined), even within a single project like No. 615-0238, and that there are several other indigenous and external sources for such funding, it may be necessary to encourage some coordinating mechanism and perhaps eventually a common Research Review Board, to facilitate complementarity and follow-up. Meanwhile, the KAM-sponsored studies are to be commended for their careful review and candid references to prior work on which they build.

4. It will be desirable for USAID and KAM to discuss the medium-term (three to five year) trend in their relationship and to aim for a common vision of future studies. In the medium-term USAID should aim to remove the last vestiges of micro-management of studies (e.g., gradually substituting comment on proposed TOR and contracts for prior

clearance or approval). In the longer term, local consultants should be expected to maintain and improve on the quality standard set by initial studies, which have so far been led by expatriate firms; moreover, a steadily increasing share of the cost of policy studies should be expected to be paid from local sources.

5. Mission personnel would do well to make it a practice to consult with Mr. Ita from time to time about other policy issues USAID considers worth studying (e.g., raising interest charges on loans to small enterprise to make such lending attractive to participatory banks). He is likely to have good advice on the timeliness of such issues and the most effective tactics to use in presenting alternative options to the Government.

ACTIVITY SUMMARY

COMMODITY IMPORT PROGRAM (CIP) -- TECHNICAL ASSISTANCE TO SUPPORT POLICY INITIATIVES AND INSTITUTIONAL CHANGE (VARIOUS ELEMENTS OF PROJECTS NOS. 615-0213 AND -615-0240, WHICH FORM PART OF THE STRUCTURAL ADJUSTMENT ASSISTANCE PROGRAM (SAAP)

I. BASIC OBJECTIVES AND STAGE OF IMPLEMENTATION

The general objective of this program is to provide balance of payments and technical assistance support while the Government of Kenya (GOK) implements policy changes necessary to accelerate its structural adjustment of the economy. Balance of payments assistance to agriculture, industry and commerce is provided entirely through the private sector. Counterpart shilling generations are used for mutually agreed development purposes in the public sector, for private sector development activities, and for operating expenses of the USAID mission in Kenya.[1]

The initial project (0213) of SAAP obligated $76 million in the three years 1983-85 as follows: $31.5 million for general commodity imports, $8.5 million for fertilizer imports, $28 million for general budget support (in the wake of severe drought and other negative "shocks" to the economy) and $8 million for technical assistance studies and policy implementation support. A second project (0240) obligated $46.4 million in the years 1986-88: $14.5 million for general commodity imports, $25.7 million for fertilizer imports, and $6.2 million for technical assistance. A third project of approximately $45 million is proposed for the years 1989-91 to provide substantial additional support for fertilizer and other essential commodity imports and some additional technical assistance.

Virtually the full $76 million of Project No. 615-0213 is committed; allocations for technical assistance (including policy studies) and fertilizer imports are largely disbursed. Under Project No. 615-0240 the amounts obligated for studies and technical assistance have been allocated as follows: Element No. 2, Sectoral Policy Analysis and Planning, in an amount of $1.7 million, will support a continuation of the Harvard Institute of International Development (HIID) contract providing a variety of professional services, especially long-term resident support of GOK activities to activate development planning at the local district level; Element No. 3, in an amount of $1.5 million, will continue support for the micro computerization process of various information flows in the Ministry of Finance; and Element No. 4, for other technical assistance, has been split between continuation of Thunder Associates technical services in establishing a computerized information system in the Ministry of Finance ($975,000) and various technical services to strengthen and expand Kenya's capital market ($2.0 million). Some capital market studies have already

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[1] Paraphrased from the Semi-Annual Project Review of March 31, 1989, and other mission documents.

been completed and are discussed in Chapter IV and other relevant activity summaries; additional professional services have been requested by GOK to assist in formulating policy options in connection with final decisions to begin operations of the proposed Capital Markets Development Authority (CMDA).

A full evaluation of the administration and impact of Project No. 615-0240 foreseen in the Project Document is scheduled to begin toward the end of 1989. The present evaluation is concerned with these projects only insofar as they provide financial resources and technical support activities which are complementary to other projects in the Kenyan Private Enterprise Program.

II. AVAILABLE DATA

An excellent evaluation of the impact of the first two years of Project No. 615-0213 was prepared by Messrs. Elliot Berg, Walter Hecox and James Mudge toward the end of 1985 (Evaluation of the AID 1983-84 Structural Adjustment Program in Kenya, December 23, 1985). The Berg et al report contains a thorough discussion of the "policy dialogue" process, its strengths and its limitations. The present evaluation, although limited to very few person days, finds that judgments reached by the Berg team's much more thorough analysis remain relevant and accurate. We cannot improve on and do fully concur with what is stated so thoughtfully in the earlier document.

Another Evaluation of the Kenya Commodity Import Program (CIP), dated February 1987, "concentrates on implementation aspects of the program, particularly factors affecting importer participation and demand for the program within the Kenyan private sector." That report contains much useful information on the import licensing process, notes that 50 percent of importers interviewed cited difficulties in obtaining credit (a problem which affects smaller firms most severely), suggests that there is little incentive for banks to participate actively in the program, and recommends continuity of import financing at a level of over $1.3 million per month for the next several years.

Other information was obtained from USAID staff, project files, periodic status reports and conversations with businessmen and government officials.

III. MAJOR FINDINGS

Major findings can be summarized as follows:

1. The policy implications of the Commodity Import Project occur at several levels, as foreseen in project preparation documents and agreements. At the most general level these projects complement similar assistance from other development aid agencies and provide financial resources required to support more liberal import licensing and other measures, within the framework of macroeconomic policies agreed by GOK with the World Bank and IMF.

2. To achieve more specific sector objectives some of the financing is earmarked to support GOK measures to reactivate and to expand private distribution channels for fertilizers.

3. Conditions precedent to the disbursement of funds reflect agreements between GOK and USAID on what policy steps could be reasonably implemented, from time to time, given the overall resource position of the country and the structural changes to be achieved.

4. Technical assistance projects provide advisory services, equipment and other goods needed to implement specific programs of reform, modernization or adjustment (e.g., long-term advisors for the Central Bank or Ministry of Planning and Natural Development in some cases and short-term expert services to assist with specific aspects of proposed capital markets development in others).

IV. CONCLUSIONS

1. Both in terms of specific commodities imported and technical services financed, the CIP projects have been of substantial benefit to the Kenyan economy.

2. Technical services are particularly useful when provided to assist in the implementation of programs to which GOK is committed (e.g., the decentralization of planning and development administration to the District level; computerization of Ministry of Finance information systems). The GOK is primarily interested in "show how" assistance. Moreover, larger projects requiring long-term services allow advisers to become familiar with local needs and more effective in recommending practical actions in a Kenyan context.

3. There has been enough flexibility in the design and administration of technical assistance elements of commodity import projects to meet ad hoc needs for advisory services and training as they arise. Moreover, other projects provide financing for policy analysis and implementation services should need arise which cannot be accommodated in the CIP framework.

V. RECOMMENDATIONS

1. Maintain this component at recent levels and with a similar mix of financing for both imports and technical services.

2. The Mission may find it useful to commission ad hoc studies to deal with specific implementation problems as they arise. The evaluation team is not clear about how the authorities dealt with the finding two years ago that 50 percent of potential importers were having difficulties arranging credit; this would appear to be the type of problem that could be addressed expeditiously mainly by local consultants and academics. As similar problems arise in the future,

they can be researched, and if verified, practical alternatives for mitigating the problem can be laid out by consultants for consideration by government.

3. There is a real danger of policy-dialogue overload in Kenya. Many agencies have ideas they wish the government to consider. It seems prudent to leave major macro-economic issues for negotiation between GOK and the World Bank/IMF; there is abundant opportunity for USAID to express its preferences to both GOK and multilateral agencies before they sit down to work out specific structural adjustment targets from year to year. Even when formal negotiations on mega-issues are left mainly to major development assistance agencies, there remains abundant scope for others to focus their assistance on implementation of particular programs within the general adjustment framework. In this regard USAID support of experimental projects to provide credit for smaller enterprises, its technical advisory services in support of capital markets development, its concern for private sector distribution of agro-chemicals, and similar project interventions are recognized and greatly appreciated by both GOK and the mega-agencies.

ANNEX 5

CLIENT VIGNETTES

CLIENT VIGNETTES

KAM/IPS

In the year since its creation, Premier, a USAID-funded food industry, has made considerable impact on the market by selling one of the more popular brands of tomato sauce, "Peptang". The company also began producing canned sweet corn late last year. The entire production output was sold, indicating a large untapped demand in the local market which the company is now working to fill. Although the increase in employees following this expansion was small and the majority were hired on a seasonal basis, virtually all are now permanent.

Premier also plans to launch canned pears the middle of this year and ideas for mixed fruits and soups are also in the pipeline. In addition to continuing its entrepreneurial expansion, this client is concerned with upgrading the quality of its products.

Echoing the opinion of fellow participants in the KAM seminar on food product development, the Assistant General Manager was quick to rate new knowledge gained and contacts made with industrial colleagues, especially with PROJECT SUSTAIN, as the most beneficial aspects of this course. Having already established a relationship with PROJECT SUSTAIN, he earnestly requests follow-up courses that would explore the practical aspects of new product development, particularly for small business.

NCCK (SSBE)

Mary had only completed the Standard VIII level of her education when the Mau-Mau uprising necessitated the closure of schools. She later became a church social worker and decided to start a kiosk to help make ends meet. Mary now runs a kiosk selling groceries, vegetables, fruits and dry goods. Having undergone NCCK business courses, she remembers learning marketing, book-keeping and general management. Prior to attending these training programs, Mary had never considered her business as a source of income, but simply took money from her business as needed.

A market stall owner who sells clothes attended a one-week course which made her aware of profit and loss. However, she felt a bit cheated out of the knowledge she acquired from this training because it took nine months before she received a loan from NCCK. By this time she had already reverted back to her old ways, such as simply "knowing" the value of her stocks rather than having accurate records. A shrewd businesswoman, conscientious and sensitive to her loan management, this client now keeps good records and would like to learn even more about bookkeeping.

Lucas is semi-literate and owns a well-stocked retail shop in Nakuru. An NCCK consultant commented that since Lucas is a very sociable person in an ideal location and handles self-selling consumer items, he really needs no marketing "magic" to increase his sales. The client attended a one-week course organized by NCCK. Although he feels he learned everything presented during that course, he has not implemented many of these practices. He could only guess at the

amount of his inventory, was not sure which items had come in first and could produce neither control cards nor cash books. Nevertheless, Lucas was convinced he was making a profit. Although Lucas is anxious to attend further training, the NCCK consultant wonders whether Lucas would benefit from another course.

KCFC

In mid-1983 East African Cable Company began to slash their prices for single strand electrical wiring used in homes and businesses. This was the only product line of a Kisumu-based cable factory. It became apparent to Mr. Patel and his son, the general manager of the factory, that East Africa Cable was trying to drive them out of business. To avoid this, the Patels decided that they must expand their product line to include other types of electrical cable.

Mr. Patel was an acquaintance of the manager of a KCB branch in Kisumu, who alerted him to the new USAID/KCFC loan scheme for just such business needs. The necessary machinery required a large capital investment so Mr. Patel received a loan of KSh 3 million. The loan allowed him to purchase machinery which coats 2 strands of wiring used in exterior work. It also allowed him to begin producing much larger, coated cable used by electric companies for underground transmission lines.

The competition has been checked and Mr. Patel has increased sales and market share for domestically-produced wiring. "With the movement towards rural electrification by the Kenyan Government, demand has gone way up for our products. We have two months of back orders to catch up on", explained Patel.

Since purchasing the new equipment, Mr. Patel has doubled sales to KSh. 9 million per month. His profit margin rose to 35% because of the more efficient process the machines employ. Employment rose from ten to 18 workers, most of whom were unskilled before the client hired them. "We like to hire young, inexperienced workers and train them, so that they will not be bringing with them bad habits that they may have developed elsewhere ." In the near future he intends to hire four more workers in order to add a second shift on one machine.

Despite dependence on imports, the significant value added (four times) and the increased employment make this project a very successful example of what can be accomplished by lending to the industrial sector in Kenya.

Entrepreneurs International

Through the Entrepreneurs International program, the marketing manager of one of Kenya's leading oil production industries was able to attend a very comprehensive training program at the American International Marketing Institute. The Company reviewed its 1988-92 marketing plans, making some improvements as a result of what the participants learned. Using more thorough market analysis, this company has confirmed its potential for a much larger market, both local and export. The market segmentation approach also resulted in a new product image: "Premium product-premium price". Steps have also been

take to enhance brand loyalty. The company's new market strategy would entail a dramatic increase in production capacity.

The training resulted in new, improved marketing methods being used. The participant learned a new, more effective format in which to prepare and present his advertising programs both to his colleagues as well as to their advertising agency -- a crucial area of the marketing manager's task. Previously he would rely simply on "sitting around and talking over things". The company has introduced new T.V., radio, point of sale and mobile (painted vans) advertisements and undertaken other publicity stunts, such as sponsoring the Kenya Ladies Golf Open).

As a result of the participants' training a restructured distribution network now places more focus on the consumer and pays special attention to supermarkets in accordance with the current buying trends. Maximizing the number of wholesalers in a given area is expected to create competition which will prompt these units to intensify their distribution efforts in order to maintain their retail customers.

The training broadened the participants' perspective on items such as long-term contracts which are necessary to achieve cost efficiency. The participants introduced the idea of exporting whatever surplus is left over from domestic consumption -- broader, better thinking that will stimulate, not limit, the company's capacity.

Given the success of this training there are plans for AIMI to undertake an in-house training program for the marketing managers of all the other subsidiaries in the food processing group.

KAM

A processing manager of a textile industry who attended the KAM seminar on Industrial Maintenance Management reports that the seminar provided him an overall picture of industrial maintenance in Kenya. He particularly appreciated and has applied the "photography" concept of maintaining machinery, as well as the knowledge gained in the organization of maintenance schedules. He learned the impact that these have on the rest of the business process. As a result of the seminar this industry now maintains records and tracks the causes of machine down time, practices not used previously. "After the seminar, I have been able to see their (records) importance and now actually use them in relation to production," says the engineer. The processing manager estimates a resulting 5% increase in efficiency.

Applying principles learned in the seminar, this enterprise is no longer dependent on outside contractors for machinery maintenance, but performs all such functions in-house. A new awareness of preventive maintenance results from seminar handouts distributed to plant employees. The participant's supervisor now wants to attend this or a similar course and the participant recommended to management that two of the maintenance crew be sent to this training program the next time it is offered.

An assistant maintenance engineer who attended the Industrial Maintenance Management seminar reports that as a result of the training he has "gained a better understanding of the balance between engineering and production,...learned the need to plan together, not separately..." As a result of the new cooperation between the two departments changes have been made to improve the production environment.

K-MAP

Over the last six months, the sole proprietor and manager of a bar and restaurant in Igofi, Meru has commuted long distance to receive counseling from K-MAP. Describing his situation, Meru said: "I operate the business but lack control of cash, records, profits.... Separation of business and personal cash is not strict. The business lacks progress." K-MAP has been counseling this client on prudent management practices, record keeping, stock control methods and other basic management procedures.

This enterprise is representative of six others in Meru; rural-based clients who are pleading for K-MAP's services. Out of 371 letters to K-MAP requesting assistance in January and February this year, approximately 80% were from outside Nairobi. K-MAP has a total of 64 clients based outside Nairobi, excluding the city outskirts.

Three years ago two brothers left their jobs to form a company. By pooling their savings they raised KSh. 20,000 in equity capital and embarked on transforming a basement in Easthigh Section II into a chemical manufacturing industry. In November 1987 the two brothers attended their second K-MAP Seminar. Suitably impressed by this seminar and K-MAP's intentions, they joined in 1988. A counselor diagnosed their priority requirements to be the need for marketing analysis and assistance to prepare financial proposals for borrowing purposes.

The client received counseling on various marketing strategies, and on record and stock control systems. The result was an increase in sales revenue from KSh. 130,000 to KSh. 1,560,000 (as of September 1988). Still using manual methods of production, this industry has more than doubled its number of employees from five to 14.

Following counseling, the company prepared a business plan and financial evaluation to obtain unsecured loans or an overdraft facility. This application was turned down by the client's bankers due to lack of acceptable collateral.

The Director of USAID and K-MAP officials recently visited this enterprise. In a letter to the Director of USAID dated February 1989, the client writes,

> ..."Your visit Sir, gave us a lot of encouragement, strength, publicity and valuable advice. Sir, you should consider giving K-MAP financial support so that in turn K-MAP would be in a position to either finance or stand surety for their client... My position is now very delicate and unless I receive some financial aid I shall be forced to wind-up."

USAID responded,

> ..."Your problem in securing a loan points out a gap in the range of services supported by our private enterprise program which we may address in the future...."

The client had plans to open contracts worth over KSh. 3 million during 1989. However, the company also requires a credit facility or guarantee to the suppliers in order to purchase the required raw materials.

JUA-KALI

Since attending an ILO training program, one Jua Kali tinsmith has been able to manage his business more effectively and efficiently. Although the seminar taught him marketing techniques, the most important thing he learned was bookkeeping. He used to wait for customers to visit his stall, but he now goes to outside towns with samples and looks for orders. Sales have increased from 3-4 to 6-10 items per day. Like many other participants, this loan recipient feels that Jua Kalis should seek means to purchase their raw materials directly from the manufacturers to avoid exploitation by middlemen. All in all, this client stressed that the training was much more beneficial than the loan.

One Jua Kali blacksmith turned down the KCB loan because it was too small. Loan applicants could not receive more than KSh. 5,000 in cash. KCB preferred to grant loans in kind in the form of machinery. However, this client found it contradictory and ironic that KCB offers such capital equipment to clients who do not have access to electricity.

"Without electricity you are really not helping the Jua Kali, even if you give him a million shillings", the blacksmith declared. "There is a high demand for the products but manual production is very restrictive. We have the skills required but without electricity we are restricted. KCB should not just help the Jua Kali to make better jikos (metal stoves), they should help them make ovens...."

Since he received training, this client has observed a 20-30% increase in daily sales and now advertises using a sign board. He also learned how to improve and evaluate his business by keeping better records. To further his knowledge he requests more and longer seminars geared to a particular specialty in order to include technical education.

It is quite rare to find a female Jua Kali tinsmith. This client, a loan recipient, greatly appreciated the training she received in cash management. She is now "more organized and able to handle her money better". She stressed that training is beneficial only when you have money.

IESC

For almost two months now an IESC management expert has been working with a real estate agency which also does development work and provides maintenance, cleaning and guard services.

While here the volunteer shares ideas from his broad business experience on various available opportunities, new technology and business methods. He has helped the staff develop a more disciplined and professional approach, teaching them to think in different, wider parameters.

In addition to working on a one-on-one basis with the senior management, the volunteer ran two or three in-house management seminars every week, each lasting from two to four hours. These seminars were specific to the needs of this particular company and featured "problem sessions", during which employees could discuss problems faced on the job and explore alternative solutions.

The client has accomplished several goals as a result of this assistance. They have analyzed, reviewed and improved the various business activities which the client was pursuing. They have also identified new real estate opportunities in Kenya, primarily in Nairobi and Mombasa, and have set priorities to determine which ones to pursue.

The company is also taking over management of the largest residential, commercial and retail developments in Nairobi. The IESC expert has also been able to facilitate joint ventures between this client and some foreign investors.

As he prepares to leave Kenya the American volunteer comments, "I am no magician. I'm not bringing in any word from God. I probably only taught them to work smarter, not harder!"

K-MAP/IESC

The owner of a Nairobi hotel fell into various management and liquidity problems. He had obtained a loan but administered it poorly, buying a salon car and two plots in Conjai which were not needed for the business. When he approached K-MAP for assistance, the hotel was no longer able to purchase weekly stocks, was suffering from pilferage and had hygiene standards that were below the acceptable level.

K-MAP recommended the following: the hotel should re-invest the capital wasted on the car and Conjai plots and invest in better furniture and equipment; improve the menu; and reorganize the service system. The owner was further advised to obtain a more reliable manager, so he resigned from his job to work in the hotel, with his wife, on a full-time basis. K-MAP also suggested that a sign-board be posted to advertise the hotel.

Since then, with the assistance of a second loan, the client has made impressive strides with his enterprise. He expanded on the existing structure, raising the restaurant seating capacity to 42. There has been a tremendous increase in sales leading to the creation of new jobs. The number of hotel employees has increased from 5 to 16, excluding the owner/manager and his wife.

An IESC expert in hotel management has recently begun conducting on-site visits to this client. His is the only hotel in the Nairobi country bus station that serves about 60,000 commuters daily. Noting this advantageous position, innovative marketing ideas have been suggested, including the introduction of mobile cafeterias. In this way, he could sell to the hundreds of commuters unable to frequent the hotel because of heavy baggage and small children to attend to. The owner/manager estimates that the mobile cafeterias would earn even more income than the walk-in facility. The IESC executive is currently involved in training the hotel staff in this area.

Unfortunately, the client is currently faced with an unexpected notice from the City Commission. Eviction would have severe repercussions on both the enterprise and the owner. He has called upon the local and international agencies assisting him for support.

ANNEX 6

SAMPLE MENU STRUCTURE

SAMPLE MENU STRUCTURE

M&E Main Menu

1. Add/Edit Clients
2. Add/Edit Interventions
3. Standard Reports
4. Ad Hoc Reports
5. Maintenance
9. Exit System

Client Menu	Intervention Menu
1. Add Client 2. Edit Client 3. Delete Client 9. Return	1. Add Intervention 2. Edit Intervention 3. Delete Intervention 9. Return
Report Menu	**Maintenance Menu**
1. Client Lists 2. Intervention Lists 3. Statistical Report 9. Return	1. Reindex Files 2. Back-Up Data 3. Restore Data 9. Return

Sample Report 1

USAID/KENYA PRIVATE ENTERPRISE PROGRAM

LIST OF CLIENTS BY INTERVENTION

Client Name	Contact	Service Code	Implementing Agency
Intervention: Technical Assistance			
Ebrahim & Company	Mr. Kamau	A0011	IESC
Graham Showers Ltd.	Ms. Shaw	A0002	KMAP
Nova Chemicals	Mr. Ondongo	A0008	IESC
National Pencils	Mr. Shah	A0011	IESC
National Pencils	Mr. Shah	A0017	KMAP
Norkan Investments	Ms. Wanjui	A0008	IESC
Pajeta Ranches	Mr. Warui	A0004	IESC
Pork Products	Mr. Alamo	A0017	KMAP
Pork Products Limited	Mr. Alamoh	A0011	IESC
Yaya Towers	Mr. Yoyoba	A0008	IESC
Intervention: Loans			
Bruce Madete	Mr. Madete	L0018	JUAK
New Era Enterprises	Mr. Story	L0008	RPE
Ol dume Stores	Ms. Karani	L0018	JUAK
Patrick Story	Mr. Story	L0005	RPE
Renyan Fertilizer	Mr. Wachai	L0007	RPE
Towering Industries	Mr. Abid	L0012	REP
Thomas Kuria	Mr. Kuria	L0018	JUAK
Wiggins Teape	Mr. Harris	L0009	REP
Intervention: Seminars			
John Stevens	Mr. Stevens	S0002	KMAP
Lima Limited	Mr. Wanjui	S0009	KMAP
Lima Limited	Mr. Wanjui	S0013	KMAP
Nova Cars Dealers	Mr. Cobra	S0002	KMAP
Navin Shah	Mr. Shah	S0006	RPE

Sample Report 2

USAID/KENYA PRIVATE ENTERPRISE PROGRAM

CLIENT ANALYSIS BY LOCATION

Client Name	Address	Contact	Implementing Agency
Location: Malindi			
Gedi Hotel Development Ltd.	Box 3478 Malindi	Mr. Winster	RPE
Il Dueto Restaurant	Box 8754 Malindi	Mr. Caludio	KMAP
Malindi Coop Fisheries	Box 4356 Malindi	Mr. Ahmed	RPE
	No. of clients: 3		
Location: Mombasa			
Alpha Agencies	Box 23766 Mombasa	Mr. Ashadi	KMAP
Gariama Cottages Ltd.	Box 78663 Mombasa	Mr. Mahahu	RPE
Jamal Bakeries	Box 34887 Mombasa	Mr. Jamal	IPS
Peter Njoroge	Box 78821 Mombasa	Mr. Njoroge	KMAP
Spares & Spares Ltd.	Box 45367 Mombasa	Mr. Patel	RPE
Wines & Spirits	Box 25200 Mombasa	Ms. Abdalla	KMAP
Zero Distributors	Box 34522 Mombasa	Ms. Kamba	KMAP
	No. of clients: 7		
Location: Naivasha			
Naivasha Safari Camp	Box 35 Naivasha	Mr. Kotter	KMAP
	No. of clients: 1		
Location: Nyeri			
Kenya Trout Farms	Box 78 Karatina	Ms. Waters	RPE
Nyati Auto Spares	Box 875 Nyeri	Mr. Nyati	IESC
Outspan Hotel	Box 45 Nyeri	Mr. Holden	IESC
Timber Mart Limited	Box 345 Nyeri	Mr. Kamithi	KMAP
	No. of clients: 4		

Sample Report 3

USAID/KENYA PRIVATE ENTERPRISE PROGRAM

CLIENT ANALYSIS BY ETHNICITY

Client Name	District	Implementing Agency
Ethnicity: Asian		
Jamal Bakeries	Mombasa	IPS
New Era Enterprises	Thika	RPE
Roma Stores	Kisumu	KMAP
Spares & Spares	Mombasa	RPE
Wakulima Investments	Nairobi	IESC
Yaya Agencies	Nairobi	KMAP
Total Asian: 6		
Ethnicity: Indigeneous		
John Muhato	Nairobi	JUAK
Kenya Paper Mills	Thika	RPE
Kulia Investments	Nairobi	RPE
Lima Limited	Nairobi	IESC
Larry Ngala	Kiambu	JUAK
Mercy Ngacha	Nairobi	JUAK
Peter Njoroge	Mombasa	IESC
Safari Adventures	Nairobi	KMAP
Wazee Industries	Athi River	RPE
Winter Investments	Nairobi	KMAP
Total Indigenous: 10		

SCOPE OF WORK FOR MODIFICATIONS AND ENHANCEMENTS TO THE M&E SYSTEM

Requirements

The Contractor shall modify for USASID/Kenya, the Monitoring and Evaluation (M&E) database system presently used by the Private Enterprise Program. To accomplish this, the Contractor shall:

- Liaise closely with the Mission in order to clearly identify or clarify specific detailed requirements not mentioned below
- Modify the existing client and intervention file structures to smaller, streamlined subsets
- Set up data entry screens for adding, editing client and intervention data with built-in data validation checks
- Develop programs ot produce a series of lmanagement, statistical and query reports include, but not limited to:

  a) a list of client names, contacts and addresses sorted alphabetically by industry, size, region, intervention type, etc.

  b) a list of interventions by tupe showing all descriptive data (e.g. course title, speaker, number of attendees, etc.)

  c) a list of clients by intervention type showing trends in employment, sales, asset size, etc.

  d) a list of clients showing various compliance statistics (e.g. female employees, rural vs. urban, business size, etc.)
- Design a facility to enable users to generate their own ad hoc reports
- Set up security back-up and restore routines

Upon completion of the design and program development work, the Contractor shall install the system on a computer at USAID/Kenya and test the system to ensure that all the data entry, report printing and back-up routines function properly.

The Contractor shall develop user documentation consisting of easy-to-follow instructions on how to use the system. The instruction must be designed for non-technical personnel.

After installation and testing, the Contractor shall, with the aid of the documentation, train at least two PRJ staff members in the use of the system. Training shall include data entry and editing, report printing and housekeeping activities.

Estimated level of effort required is not more than 20 persondays.

PRIVATE ENTERPRISE PORTFOLIO
QUARTERLY REPORT

QUARTER ENDING _____

Clients Served	Total To date	Last Q Total	This Quarter	Last Quarter	Percent Change
# Total Client Served					
# Loans Disbursed					
# Training Days					
# Equity Investments					
% rural					
% 1 or more women owners					
% Indigenous owners					
% Women employees					
% Large Firms by sales					
% Small firms by sales					
% Microenterprise by sales					

Element Comparison Summaries

Loan programs:	# of Apps.	# Loans Disburs.	$ Ave. Loan Size	Ave. Term	Previous # Disbursements
RPE: Barclays					
RPE: Standard					
RPE: KCB					
REP					
Jua Kali					
Loan Guarantee					

Equity Programs:	# of Inv.	$ Ave. Inv.	Investment in revu	Investment reject	Previous # Trainees
IPS					
KEM					

Training:	# of Sessions	# of Trainees	# of Days	Total T/D	Previous # Trainees
Jua Kali					
K-MAP					
KAM					
REP					
RPE					
EI					

TechAsst:	# of Consultants	Total Days	Ave. Days	Previous # Consultants
K-MAP				
IESC				
REP				
RPE				

Policy Studies:	# Done	Topic	Total # Done
KAM			
IPC			

Date prepared: _____

1277-007.017

Heading on the form to be stylized for project/intervention

CLIENT BASELINE DATA FORM

1. Name: Mr./__/ Mrs. /__/ Miss /__/ _____
   LAST NAME, First Name, Middle
2. Title in Business: _____
3. Name of Business: _____
4. Location of Business: _____ / _____
   Town District
5. Postal Address: Box _____
   City _____
6. Business Phone Number: _____
7. Year Business Established _____
8. Describe business activity/type of products:
   _____
9. Name principal owners / their nationality:
   Mr../__/ Mrs./__/ Miss /__/ _____ / _____
   Mr../__/ Mrs./__/ Miss /__/ _____ / _____
   Mr../__/ Mrs./__/ Miss /__/ _____ / _____
10. Business Sector: Tick one

Agriculture	/__/	Mining & Quarry	/__/
Electricity & Water	/__/	Construction	/__/
Transportation	/__/	Food & Lodging	/__/
Retail or Wholesale	/__/	Crafts & Repair	/__/
Manufacturing	/__/	Financial Services	/__/

   Other (specify) _____
11. Size of Enterprise: Number of Employees

	MEN	WOMEN
Full time	_____	_____
Part time	_____	_____
Non-paid	_____	_____
TOTAL	_____	_____

12. Annual sales volume: Kshs. _____
13. Total assets: Ksh. _____
    (Net book value)
14. % of raw materials imported: _____
15. % of sales exported: _____

(Note: for Loans also include Loan Amount, Interest Rate and Term of loan in months)

1277-007.018

CLIENT/INTERVENTION DATA

ON

dBASE III+ PROGRAM

STEPS	RESPONSIBILITY
Collection	Implementing Agency
	Component Manager
Input	Mission Admin. Staff
Report Prouduction	Admin. Staff from Report Program
	Professional Staff for Ad Hoc Reports

DIRECT DEVELOPMENT IMPACT EVALUATIONS

Information Needed	Data Sources
Baseline Data	- M&E Database
Evaluation Activity Indicators - Change in Employment - Change in Female Employees - Change in Sales - Change in Investment	- Client interviews by 1) Augmented Audit (trains) 2) Implementing Agency (conducts evaluations) 3) Validity check of Implementing Agency Evaluations by USAID
Other Indicators - Secondary benefits (change in knowledge, attitude and practices) - Unplanned benefits	

QUARTERLY PRIVATE ENTERPRISE PROGRAM PORTFOLIO TO REPORT

STEPS	RESPONSIBILITIES
Collection of Inputs	- Component Managers from component specific reports - Admin. Staff from dBase file
Report Production	- Admin. Staff

ANNEX 7

SURVEY OF THE COST STRUCTURE OF LOCAL COMMERCIAL LENDERS

ANNEX 7

SECTION: FINANCIAL AND EQUITY MARKET DEVELOPMENTS

FINANCIAL INSTITUTIONS - SUMMARY OF BUSINESS PORTFOLIOS

1 **Objectives**

AMT were assigned to retrieve certain statistical information from financial institutions to assist in the evaluation of the cost efficiencies within the credit/financial markets of Kenya.

2 **Tasks**

To achieve this objective, AMT visited a number of institutions and posed four questions:

a) What is the institution's weighted average cost of funds (WACF) excluding, where applicable, USAID funded projects?

b) What is the average administration margin (AAM) on the institutions portfolio?

c) What is the average longevity of funds (ALF)?

d) What percentage of the institution portfolio is provided against default and non-repayment of income on lending?

3 **Financial institutions interviewed**

We interviewed five institutions:

- Kenya Commercial Bank Ltd
- Barclays Bank Kenya Ltd.
- Standard Chartered Bank Kenya Ltd.
- Grindlays Bank International Kenya Ltd.
- Middle East Bank Kenya Ltd.

Their assistance in releasing information was of great help to this report.

4 **Results**

	Range
Weighted average cost of funds	6.5% - 12.5%
Administration margin	1% - 5%
Lending rates (excluding inter-bank)	15% - 18%
Inter-bank lending rates	3% - 55% (on occasions 1% per day)
Default provisions	1% - 10%
Longevity of funds:	
Range	1 - 5 yrs
Main lending portfolio	1 - 2 yrs.

The information received could not always be given accurately and as a result certain information is presented based on an estimated range.

There are a number of reasons:

4.1 The WACF will vary from bank to bank according to the institution's direction of business. The 'high street' banks, such as KCB, Standard Chartered and Barclays benefit from free funds from current account deposits reducing the WACF. However, there is an increased cost of administrating the current accounts and establishing and maintaining a national banking network.

4.2 Over the last few years there has been squeeze on credit that the Central Bank of Kenya instigated under a Government policy to control inflation. As a result the WACF has, for a number of banks, increased with current account funds being invested elsewhere in high yield, low risk investments, such as Government Treasury Bonds.

4.3 Certain provisions on loan defaults have been made or adjusted as a result of improved management in banks. The range of between 1-10% is also dependent on the value of funds lent by each institution. Barclays Bank lend around Kshs 6 billion. The provision of say 1% as a percentage against this value is substantial.

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4.4 The longevity of funds is very much dependent on the liquidity of the institutions. Interest on monies lent is controlled by the Central Bank of Kenya and is currently between 15% - 18%. This is dependent on whether the lender is a banker (15%) or a finance house (18%). Monies lent for a period of 4 years or more will automatically attract 18% irrespective of the structure of the institution.

4.5 Inter-bank lending is currently an attractive investment for banks that are liquid. The attraction of inter-bank lending is the interest return on overnight lending. On the 10th, 20th and last working day of each month, every bank must report to the Central Bank showing that the institution is liquid to the amount of 20% of total deposits. Certain institutions will borrow funds overnight to achieve the required level of liquidity and will on occasions pay very high overnight rates.

5 Other topics

During discussions a number of points arose that should be considered in the preparation of the executive summary.

5.1 Certain financial institutions are loathe to put money into investments for a long term because of the concerns over financial instabilities, both within institutions and nationally.

5.2 The three main banks, KCB, Standard Chartered and Barclays all mentioned that the administration of USAID funded projects will be higher than for their normal business. Reasons included:

- the additional monitoring time
- higher levels of reporting
- expected increased bureaucracy.

On one issue there seemed to be conflict, between two banks. One bank believed that one advantage of administering USAID funded projects would be the reduction in time spent in controlling and adhering to the foreign exchange regulations that occur through the normal course of business. The bank in question believed that all USAID projects will be in local currency thus avoiding Central Bank procedures. The second bank believed that there would be no change in the procedures even though there would be dealings in local currency, because of the bureaucracy both at the Central Bank and USAID.

5.3 Long term lending is unpopular amongst the institutions unless there is full collateral. A number of local financial institutions have failed and have been put into receivership because they have lent long an short term funding.