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RURAL PRIVATE ENTERPRISE PROJECT

5TH MONITORING REPORT

31.3.90

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# Kenya Rural Private Enterprise Project (RPE)

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Providing long-term loans and technical assistance to rural private enterprises in Kenya

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3rd April 1990

Stafford Baker  
U S Agency for International Development  
Office of Projects  
Union Towers  
Moi Avenue  
NAIROBI

Dear Stafford

Subject: Rural Private Enterprise  
5th Monitoring Report

Enclosed please find a copy of the 5th monitoring report for the period ending 31st March 1990. A total of 23 projects were reviewed between November 1989 and March 1990 by RPE management team.

The performance of the projects is encouraging. However, there are a few projects which need to be closely monitored by banks and which will require assistance as they lack adequate management or financial resources. Our comments are contained in the introduction to the report.

Copies of individual loan reports will be sent to the banks. We hope that the issues raised will be addressed by the banks promptly.

Please do not hesitate to contact our office if you have any comments or queries.

Yours sincerely



Kimani Njoroge  
Assistant Project Manager

Distribution: Justus Omolo  
Holly Wise

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Implemented by Deloitte & Touche, USA,  
with assistance from Deloitte Haskins & Sells, Nairobi, International Executive Service Corps and American Manufacturers Export Group, Inc.

RURAL PRIVATE ENTERPRISE PROJECT

Monitoring Report

for the period ending 31 March, 1990

Prepared and Submitted by the

RPE Management Team, under the  
direction of Mr K Njoroge

2 April, 1990

## APPROVED LOAN SCHEDULE (as of 31 March, 1990)

PROJECT	BANK	RPE LOAN (KSh 'a)	ACTIVITY SECTOR	ELIGIBILITY	GENERATED EMPLOYMENT	# OF WOMEN	CBK DRANDOWN
Agripfarm	KCB	350	Agribusiness	A + B	9	*	N
AIC Kijabe Printing Press	KCB	3,000	Service-Printing	B + C	40	25	Y
Athi River Mining	KCFE	26,490	Manufacturing	B + C	165	12	N
Bedi Investments	BBK	33,000	Manufacturing	B	275	90	N
Benjoh Amalgamated	KCB	7,200	Agribusiness	B + C	50	*	Y
Bernard G Ngunju	KCB	1500	Manufacturing	*	*	*	N
Bruce Madeta	KCB	165	Agribusiness	A + C	2	0	Y
C Dorman	BBK	7,200	Agribusiness	B + C	8	*	N
Cottona Ltd.	BBK	3,000	Manufacturing	B	101	*	N
Ena Heid Services	KCB	600	Service	C	5	1	Y
E. Ngondi	KCB	695	Agribusiness	A + C	23	15	Y
E.B. Udoto	KCB	136	Agribusiness	A + C	2	0	Y
E.C. Wjagi	KCB	500	Agribusiness	A + C	10	*	N
F.M. Lutomia	KCB	96	Agribusiness	A + C	2	0	Y
G.G. Gichoru	BBK	1,860	Service-Hotel	A	48	*	N
Hezekiah M Kibe	KCB	300	Manufacturing	*	*	*	N
IGI Marble	BBK	5,250	Manufacturing	C	39	*	N
Jokasa Industries	BBK	1,200	Manufacturing	A + C	30	*	N
J. Mbiriri	KCB	540	Agribusiness	A + C	0	*	Y
J.K. Kamau	KCB	1,600	Service-Transport	A + C	20	0	Y
J.K. Mucheru	KCB	300	Service	A + C	10	1	Y
Kadir's Bakery	KCB	477	Agribusiness	C	*	*	Y
Kakamega Food Industries	KCB	3,000	Agribusiness	C	30	*	N
Kega Industries	KCB	2,325	Manufacturing	C	15	15	N
Kenya Vineyard	KCB	4,200	Agribusiness	B + C	30	*	Y
Kibwari	KCB	4,000	Agribusiness	B + C	*	*	N
Kilifi Bakery	BBK	2,000	Agribusiness	C	10	*	N
Kimani Kiliyuru	KCB	145	Agribusiness	C	*	*	N
Kwale Cashew Nuts	KCB	20,000	Agribusiness	A + B + C	334	*	N
Levilla Limited	KCB	4,000	Agribusiness	C	40	15	Y
Lagore Ligano	KCB	160	Agribusiness	A + C	2	0	Y
Malindi General Engineering	SCB	8,217	Manufacturing	B + C	60	10	Y
Mansi Vegext Limited	KCB	1200	Manufacturing	*	*	*	N
Mirmar Investments	BBK	32,000	Service-Hotel	B	50	*	N
Mgaranda Gachuhi	BBK	250	Agribusiness	A + C	12	0	Y
Ngoneni Safaris	KCB	500	Service	B	*	*	Y
Ngorongo Tea Factory	KCB	7,500	Agribusiness	B + C	30	0	Y
Ngubia Wanyutu	KCB	300	Agribusiness	A + B + C	12	5	Y
Njeru Mvea	KCB	500	Agribusiness	A + C	14	*	Y
Nyati Plough Contractors	KCB	1,400	Agribusiness	C	*	*	Y
N. Ndigwa	KCB	120	Agribusiness	A + C	2	0	Y
P.G. Ndigwa	KCB	92	Service-Hotel	A	6	2	N
Raymond Woolen Mills	BBK	28,375	Manufacturing	B + C	70	0	Y
Saaba Baraka Bakery	KCB	1,250	Agribusiness	C	7	0	Y
Sambu & Son	BBK	3,200	Service-Hotel	B + C	46	6	Y
Sasuma Saw Mills	SCB	1,380	Agribusiness	C	25	0	Y
Shariff Hassan Alwi	KCB	1400	Service	*	*	*	N
Silver Holdings	BBK	29000	Service-Hotel	B	140	*	N
Someni Industries	BBK	400	Manufacturing	C	*	*	N
Stanley K Njau	KCB	315	Agribusiness	C	*	*	N
Sun & Sand	KCFE	4,100	Service-Hotel	B	*	*	N
Sunway Bakery	KCB	1,600	Agribusiness	A + C	41	*	Y
Thika General Workshop	KCB	4,000	Manufacturing	C	*	0	N
Thika Rubber	KCFE	7,428	Manufacturing	B	*	*	N
Ufuta	SCB	18,000	Agribusiness	C	47	15	Y
United Millers	KCB	36,000	Agribusiness	C	89	9	Y
Vesta Fishmeal	KCB	906	Agribusiness	A + C	10	0	N
Vision Dry Cleaners	KCB	815	Service	A	16	2	Y
Webuye Sisal Mills	KCB	2,000	Agribusiness	C + A	45	15	Y
W.W. Muthangani	KCB	625	Agribusiness	A + C	7	*	Y
TOTALS		328,242			2,037	238	

### Approved Loan Schedule - Notes

1. Abbreviations: BBK = Barclays Bank  
SCB = Standard Chartered Bank  
KCB = Kenya Commercial Bank  
KCFC = Kenya Commercial Finance Company
  
2. RPE Loan = total loan amount, USAID and Commercial Bank contribution.
  
3. Eligibility Codes:  
  
A = Job Creation  
B = Foreign Exchange  
C = Market Development/Agribusiness
  
4. The symbol '\*' indicates that estimates were not available.

## MONITORING REPORT

### INTRODUCTION

During the period under review 23 projects which were at various stages of implementation, were monitored. The majority of these projects have been fully implemented and are progressing well. It is gratifying to note that senior branch officers are assuming a greater role in assisting the subborrower in project implementation than has been the case previously. We were impressed by the level of involvement of bank managers, their awareness of the problems affecting project performance and their willingness to work out solutions with the subborrower. In addition to reviewing financing plans, branch managers are attempting to bring about changes in management structure in order to overcome identified weaknesses.

Overall, project performance is encouraging and we have not encountered investments which are commercially unviable. However, there are a few investments which have not performed as well as had been anticipated or which we feel may become problem loans unless timely remedial actions is undertaken.

The potential for non-performance arises from problems falling into three categories: poor management, inadequate financing and external constraints.

#### Poor Management:

The projects which fall into this category include:

- Vesta Fishmeal Limited (VFL)
- Webuye Sisal Mills Limited (WSML)
- Kakamega Food Industries (KFI)

These three projects have profit-making potential but the subborrowers have not demonstrated the capability to manage them effectively. VFL has not been paying interest on the RPE loan and proceeds from sales have been banked with other financial institutions. KCB has made it clear to the subborrower that unless a commitment is shown, the loan will be recalled.

Present WSML management lacks the capability to successfully carry out expanded operations. We believe future performance is likely to remain substandard unless steps are taken to reinforce management along the lines suggested by the branch. To date no action has been taken.

In the case of KFI, the increased size of the operation and the problems presented by the new technology are beyond the capacity of the present owner-manager to deal with. The bank has stopped disbursing funds and the project has come to a temporary standstill. We have recommended that outside direct management assistance be provided and await a formal request from the branch manager.

Inadequate Financing:

Two projects in particular, Turbo Spring Park Hotel and Thika General Workshop, are experiencing implementation problems arising from inadequate project financing. The banks are aware of the situation and have indicated that they will review the financing plans with the subborrowers.

External Constraints:

Two project investments are suffering from raw material shortages: United Millers Ltd. (UML) and Levilla Bakery.

At the time of our visit, UML's operation had come to a halt although the company was still servicing its loan. The bank is aware of the situation and is considering rescheduling of the principal repayments.

Levilla on the other hand is operating but below capacity. The subborrower is diversifying operations, moving from bread production into a wider range of confectionaries. This step has ameliorated the situation.

## EXECUTIVE SUMMARY

### A. Portfolio Profile

Total number of loans approved	60
Percentage increase from previous monitoring report	11%
Total (USAID + Bank) shilling value	328,242,436
Percentage increase from previous report	18%
Smallest loan	KShs 92,000
Largest loan	KShs 36,000,000
Total number of jobs created	2,037*

(\* excludes statistics from 12 loans)

Total number of loans by range:

<u>Range</u>	<u>No.</u>	<u>No. as % of Total</u>	<u>Amount</u>	<u>Amount as % of Total</u>
Under 350,000	10	16.7%	1,764,000	.5%
350,000 - 1 m	14	23.3%	7,523,000	2.3%
1 m - 3 m	14	23.3%	23,715,002	7.2%
3 m - 20 m	15	25.0%	90,375,000	27.5%
over 20 m	7	11.7%	204,865,434	62.4%
	--	-----	-----	-----
Total	60	100.0%	328,242,436	100.0%

Loans by Activity Sector:

<u>Activity Sector</u>	<u>Number of loans</u>	<u>% of total</u>
Agribusiness	33	55%
Manufacturing	14	23%
Services	13	22%
	--	----
Total	60	100%

Breakdown by Eligibility Criteria:

A.	Job Creation	24
B.	Forex	20
C.	Market Development/Agribusiness	46

Note: loans can qualify on basis of more than one criterion.

B. Verification of Sub-loan Activity

We have verified that the subborrower activity as reported by the banks has taken place and funds disbursed to date have been used for the intended purpose. However, in the case of Webuye Sisal Mills part of the working capital has been used to pay interest on the principal loan.

C. Eligibility Criteria

All the projects reviewed during the monitoring exercise meet the RPE criteria.

D. Loan Reversals

An agribusiness loan to Mr Julius Mwangi Njoroge was cancelled by KCB Webuye branch.

E. Incentive Payments

To date, incentive payments have been processed for the following qualifying projects:

<u>Project</u>	<u>Amount</u>
Magore Jamen Ligano	16,000
Bernet E O Udoto	13,000
Francis Mubatsi Lutomia	9,600
Bruce Madete	16,500
Ezekiel Ngondi	35,000
Visions Dry Cleaners	35,000
Ngaranda Gachuhi	25,000
Wambugu Mathangani	35,000

Requests for incentive payments should be made for the following qualifying projects:

<u>Project</u>	<u>Loan Amount</u>
Kimani Kiiyuri	145,000
James Kariuki Mucheru	300,000
Mrs Ngubia Wanyutu	300,000
Stanley Njau	315,000
Hezekiah Kibe	300,000
Josephat N Mbiriai	540,000
Njeru Mwea	500,000
Agrip Farm Ltd	350,000
Vesta Fishmeal	906,000
Ngomeni Beach Safaris Ltd	500,000
Kadirs Bakery	477,000
Ephrim Cornelius Njagi	500,000
Sharrif Hassan Alwi	1,400,000
Mansi Vegex Ltd	1,200,000

F. CBK Disbursement to Banks

The following disbursements have not been claimed or settled:

<u>Project</u>	<u>Amount</u>
Sharrif Hassan Alwi	1,400,000
Thika Rubber Industries	7,428,000
Athi River Mining	26,490,000
Kibwari Ltd	4,000,000
Kega Fashions Ltd	2,325,000
Sun and Sand Hotel	4,100,000
Mansi Vegext Ltd	1,200,000
Kimani Kiiyuru	145,000
Bernard Gatw Ngunju	1,500,000
Stanley Kariuki Njau	315,000
Thika General Workshop	4,000,000
Vesta Fishmeal Ltd	906,000
Kakamega Food Industries	3,000,000
Hezekiah M Kibe	300,000
Kwale Cashew Processors	20,000,000
Kadir's Bakery	477,000
Bedi Investments	33,000,000
C Dorman	7,200,000
Cottona Ltd	3,000,000
Ephrim C Njagi	500,000
G Gichoru	1,860,000
Igi Marble	5,250,000
Jokasa Industries	1,200,000
Kilifi Bakery	2,000,000
Mirmar Investments	32,000,000
Silver Holdings	29,000,000
Someni Industries	400,000

G. Commodity Procurement - Source and Origin

Since the last report, status of local and offshore procurement has changed as follows:

<u>Project/Item</u>	<u>Value</u> <u>KShs</u>	<u>Source</u>	<u>Origin</u>
Kakamega Food Industries Pick-up van	350,000	Kenya	Japan
Webuye Sisal Mill 3 tonne lorry	525,000	Kenya	Japan
Wambugu Mathangani Coffee pulping machine	245,000	Kenya	Kenya
Ngubia Wanyutu Pulping plant	250,000	Kenya	Kenya

Kenya Vineyards				
Tractors and irrigation equipment			Kenya	N/A
Kega Fashions				
Molding machine	270,000		Germany	Germany
Interlocking machine	171,000		Japan	Japan
Elastic Machine	613,983		Switzerland	

H. Feasibility Studies

The status of activities carried out in support of this project component during the period under review is as follows:

<u>Project</u>	<u>Status</u>
Limuru Blocks	Completed
Tradewise Ltd	Completed
Taifa Overseas Ltd	Completed
Nyange Saw Mills	Completed
East African Equipment	In progress
Nakuru Maize Mill	Proposal with client
Union Textiles	Completed
Autofine Seals & Filters	Proposal with client
Modern Food Industries	Completed
Kakamega Soap Manufacturing	Proposal with client
Langas Bakery	Proposal with client
Scorpio Fashions	Proposal with bank
J B Mwaura	DH&S preparing proposal
Vegair	Proposal with client

DETAILED PROJECTS REPORT

1. Athi River Mining Limited
2. Ena Meid Services
3. Ephrim Cornelius Njagi
4. James Kariuki Mucheru
5. John Karuga Kamau
6. Josephat N Mbiriai
7. Julius Mwangi Njoroge
8. Kakamega Food Industries
9. Kega Industries Limited
10. Kenya Vineyards Limited
11. Levilla Limited
12. Ngorongo Tea Factory
13. Ngubia Wanyutu
14. Njeru Mwea
15. Sabaah Baraka Bakery Limited
16. Sunways Bakery Limited
17. Thika General Workshop
18. Thika Rubber Industries
19. Turbo Spring Park Hotel
20. United Millers Limited
21. Vesta Fishmeal Limited
22. W Wambugu Muthangani
23. Webuye Sisal Mills Limited

PROJECT: Athi River Mining Limited  
LOCATION: Athi River  
SUB-BORROWER: Athi River Mining Limited  
BANK & BRANCH: KCFC DATE: 30/11/89  
BRANCH MANAGER: Mr J K A Cheruiyot VISIT NO: 1

PROJECT DESCRIPTION

The project is an expansion of a marble and industrial minerals processing plant. This will involve:

- . The expansion of the granite processing lines which, as a result, will increase the output of marble from 30 sq m to 150 sq m.
- . The upgrading of an activated bleaching earth (ABE) processing activity from a pilot project to a full fledged plant with a capacity of producing 5 tonnes of ABE per day.
- . The expansion of a mineral grinding operation to increase the processing of ultra fine mineral powder from 60 to 100 tonnes per day and to reduce the minimum particle size of the powder from 8 to 2 microns.

PROJECT COST AND FINANCING PLAN

<u>Cost</u>		<u>Financing</u>	
Building and site development	2,660,000	RPE - USAID	17,660,000
Electrical works	2,600,000	RPE - Bank	8,830,000
Machinery	25,000,000	Bank none RPE	8,000,000
Quarry equipment	2,400,000	Owners	6,170,000
Working capital	2,000,000		-----
Other	6,000,000		40,660,000
	-----		
	40,660,000		

PROCUREMENT

The items to be procured include:

<u>Cost</u>		<u>Origin</u>
Granite cutting equipment	7,400	Italy
Bleaching Earth Plant	9,500	UK
Grinding machinery	7,700	Italy
	-----	
	24,600	

### SUBBORROWER PROFILE

ARM operates as a limited liability company and is a family owned and managed business. The majority shareholder is Mr H J Paunrana who owns 51% of the shares. He is a Kenyan citizen. The other shares are owned as follows:

		<u>Citizenship</u>
J J Paunrana	30%	British
P A Paunrana	14%	Kenyan
Kerai Family	5%	British

Mr H J Paunrana has been in the mineral business for over 30 years and established ARM over 10 years ago.

### ELIGIBILITY CRITERIA

The project qualifies on the basis of foreign exchange savings criteria. The proposed expansion will result in the production of mineral products which are currently imported into the country. In addition, the raw materials that will be used will be mined in the country and the project also qualifies for RPE funding under the local material in development criteria.

### DEVELOPMENTAL IMPACT

The project will create 165 new jobs. Five to 7.5% of these jobs will be held by women. The mining camps will be set up in remote and rural locations and the labour will be recruited from these areas.

In the future, the company plans to diversify more and penetrate the export market. They export 20% of their production to the PTA countries and are making enquiries in the overseas market.

PROJECT: Ena Meid Services  
LOCATION: Webuye  
SUB-BORROWER: E P Nakitale  
BANK & BRANCH: KCB - Webuye DATE: 23/1/90  
BRANCH MANAGER: Mr S W Maina VISIT NO: 2

SITE VISIT

When we visited the site, we were accompanied by the Branch Manager. The subborrower, however, was not in Webuye and we therefore did not interview him.

The implementation of the project is complete. The construction of the building has been completed and machinery bought and installed. The equipment, a specialised machine for printing exercise books, is operating.

We were shown the operations of the machine by a supervisor. The supervisor felt that EMS was receiving more orders for exercise books than it could service effectively. However, he was unable to give us the actual number of orders which have either been delivered late or rejected due to machine time constraints.

COMMENTS, ISSUES AND ACTION POINTS

EMS currently operates one shift and employs only one operator for the exercise book printer. To increase the output of the printer, EMS should consider employing and training a second operator. The Bank Manager will follow this matter up with the subborrower.

PROJECT: Ephrim Cornelius Njagi  
LOCATION: Kirigi - Embu  
SUB-BORROWER: Ephrim C Njagi  
BANK & BRANCH: KCB - Embu DATE: 14/11/89  
BRANCH MANAGER: Mr F M Wanyoike VISIT NO: 2

PROJECT DESCRIPTION

The project involves the installation of a two disc coffee processing plant complete with a water pumping and recycling plant with a garbage thrower.

PROCUREMENT

The plant machinery and equipment have been purchased. These are locally assembled and have been selected on the basis of cost. The water pump and recycling plant machinery were bought locally but are of British origin. They were selected on the basis of cost and quality.

SITE VISIT

During our visit, we were accompanied by the Branch Manager. The factory building is nearly complete and is awaiting the installation of power. The subborrower has already paid Kenya Power and Lighting Company a deposit of Shs 5,200 towards the connection of a three phase power supply line from a nearby transformer.

The necessary machinery and pumps have been purchased. The processing plant has been delivered to the site and will be installed as soon as the power is connected. The water pump and the recycling plant have been paid for and were expected to be delivered to the site over the next few days.

The implementation of the project is satisfactory. The subborrower has only drawn Shs 353,000 from the RPE loan of Shs 500,000. He has also contributed about Shs 130,000 towards the construction of the plant.

COMMENTS, ISSUES AND ACTION POINTS

The subborrower is planning to buy another farm and to plant more coffee. His current coffee acreage is too small for the capacity of the factory. Unfortunately he has not been able to get land, although he is still searching. If he does not get the additional land, he will consider allowing other farmers to use his factory at a fee.

PROJECT: James Kariuki Mucheru  
LOCATION: Webuye  
SUB-BORROWER: J K Mucheru  
BANK & BRANCH: KCB - Webuye DATE: 23/1/90  
BRANCH MANAGER: Mr S W Maina VISIT NO: 2

PROJECT REVIEW

This project is progressing well. All equipment has been purchased. The subborrower has a good understanding of his business. His range of services to motorists has been widened to include panel beating.

Mr Mucheru's current operations are confined to servicing cars that are brought to his workshop. However, his future plans are to produce refaced plates and break pads in large quantities and distribute or sell wholesale to them through spare parts dealers.

COMMENTS, ISSUES AND ACTION POINTS

This project is doing well. The subborrower has started repaying the RPE loan at a rate of Shs 3,500 per month. It does not require further monitoring in the near future.

The branch has not received incentive payment on this loan.

PROJECT: John Karuga Kamau  
LOCATION: Bungoma  
SUB-BORROWER: J K Kamau  
BANK & BRANCH: KCB - Bungoma DATE: 23/1/90  
BRANCH MANAGER: Mr N P Mwangi VISIT NO: 3

PROJECT REVIEW

This project was not in our itinerary as it does not require further monitoring due to its good performance record. The Branch Manager confirmed that the project was progressing well. Mr Kamau has started to make loan repayments and by the time of our visit, he had repaid Shs 200,000 of the loan in advance.

PROJECT: Josephat N Mbiriai  
LOCATION: Kivuti - Embu  
SUB-BORROWER: Josephat N Mbiriai  
BANK & BRANCH: KCB - Embu DATE: 14/11/89  
BRANCH MANAGER: Mr F M Wanyoike VISIT NO: 2

PROJECT DESCRIPTION

The project is an expansion of an existing coffee factory. It involves the construction of two fermentation tanks, recycling and pulp ejecting plant and a coffee storage shed.

PROJECT COST AND FINANCING

The actual cost of the project stands as follows:

<u>Cost</u>		<u>Financing</u>	
Land	Existing	RPE loan	540,000
Building - store	180,000	Bank OD	200,000
- plant	213,000		-----
Pump machinery	214,000		740,000
Working capital	133,000		
	-----		
	740,000		

SITE VISIT

We were accompanied by the Branch Manager on our site visit. The factory expansion had been completed during our earlier visit and the plant is operating satisfactorily. The water recycling plant and the pulp thrower have also been completed.

Currently, Mr Mbiriai has 42 acres of land under coffee plantation. 10 of these acres have been newly planted in view of the increased capacity of his processing plant. The coffee is well cared for, producing about 25 tonnes of coffee per annum. Mr Mbiriai is assisted by one of his sons, John, in managing the farm. John previously worked for the Coffee Research Foundation and has some experience in coffee husbandry.

COMMENTS, ISSUES AND ACTION POINTS

This project is doing well. Mr Mbiriai will be expanding his coffee plantation in the near future which would improve the utilisation of the expanded plant.

Mr Mbiriai started repaying the loan from September 1989 at a rate of Shs 10,200 per month.

The subborrower intends to electrify the plant and has already paid a deposit of Shs 10,000 to Kenya Power and Lighting using his own funds.

PROJECT: Julius Mwangi Njoroge  
LOCATION: Webuye  
SUB-BORROWER: J M Njoroge  
BANK & BRANCH: KCB - Webuye DATE: 23/1/90  
BRANCH MANAGER: Mr S W Maina VISIT NO: 2

PROJECT REVIEW

KCB has cancelled the RPE loan. The subborrower had obtained an RPE loan to purchase a lorry for transporting agricultural produce. After purchasing the lorry he approached another financial institution which refinanced it and KCB cancelled the loan when they found out.

PROJECT: Kakamega Food Industries  
LOCATION: Kakamega  
SUB-BORROWER: Robert Makotsi  
BANK & BRANCH: KCB - Kakamega DATE: 22/1/90  
BRANCH MANAGER: Mr J K Milgo VISIT NO: 3

PROJECT DESCRIPTION

The project involves the modernisation of an old bakery located in Kakamega town. The existing bakery has a wood fired oven and a production capacity of 20,000 loaves of bread per day. Work includes the renovation of a part of the existing building which will be used to house the new equipment, the installation of modern bakery equipment and the purchasing of a delivery pick up van.

PROJECT COSTS AND FINANCING

<u>Cost</u>		<u>Financing</u>	
Equipment	2,022,000	RPE - USAID	2,000,000
Building-renovation	240,000	RPE - Bank	1,000,000
Vehicle	370,000	Bank OD	1,000,000
Contingencies	368,000		-----
Working capital	1,000,000		4,000,000
	-----		
	4,000,000		

The RPE loan has a duration of six years with a two year grace period. The loan was approved in February, 1989 and repayment start in February, 1991.

DISBURSEMENT STATUS

<u>Loan</u>	<u>Approved Amount</u>	<u>Disbursement to date</u>	<u>Balance</u>
RPE	3,000,000	1,090,000	1,910,000
Bank OD	1,000,000	1,000,000	-
	-----	-----	-----
	4,000,000	2,090,000	1,910,000

In addition to the RPE loan KFI had a previous loan with KCB. The outstanding amount on this loan is Shs 675,381. KFI therefore has an outstanding loan balance of Shs 2.6 million from KCB.

16

## SITE VISIT

When we visited the site, we were accompanied by the Branch Manager - KCB Kakamega. Since our last report (31 January, 1989) very little progress has taken place in the implementation of the project. However, the renovation of the building has been completed at a cost of Shs 150,000 and a vehicle acquired for Shs 350,000. Out of the total disbursements to date of Shs 2.1 million, Shs 672,000 has been used to buy or improve assets as follows:

<u>ITEM</u>	<u>KShs</u>
Vehicles	350,000
Building	150,000
Equipment	
- prover	110,000
- dough machine	12,000
- trolleys	50,000
	-----
	672,000

A substantial amount of the rest of the money has been used to pay interest charges. The bank has suspended further disbursements.

The main pieces of the proposed new equipment have not been purchased and the renovated part of the building is idle. The major pieces of equipment to be bought include a bread plant for KShs 1.6m and an electric oven costing Shs 471,000.

Mr Makotsi is experiencing problems with marketing of bread. Although his existing plant has a capacity of producing 20,000 loaves of bread per day, he can only manage to sell around 3,000 loaves. He claims that he encounters stiff competition from other suppliers as Kakamega town has three other bakeries. Some supplies are also brought from outside this area.

Mr Makotsi feels that KFI's bread is of an acceptable quality. However, our independent enquiries suggest that KFI does not produce bread of as high quality as that of the competitors.

## COMMENTS, ISSUES AND ACTION POINTS

It appears unlikely that Mr Makotsi will be able to complete the implementation of the project without outside assistance. He was initially being assisted by his son, Walter Makotsi in running of the existing bakery and in the implementation of the project. The son is however, currently involved in running Highway Nursing Home, an associated business, on a full time basis. This is likely to affect the progress of the implementation of the project.

Mr Makotsi would require expert advice if he were to proceed with the implementation of the project. He would also benefit from consultancy advice on bread production and marketing. We have discussed with him the possibility of engaging an IESC consultant to assist him.

The bank manager is confident that KFI will be able to repay the RPE loan. Mr Makotsi is considering servicing the loan from income generated by other businesses which he is involved in. In addition, to ease his burden, the bank manager will convert the overdraft facility to a term loan.

Without expert help, Mr Makotsi is unlikely to get any further in the implementation of the project. We suggest that the bank withhold the disbursement of additional funds until such a time when the required help is made available.

PROJECT: Kega Industries Limited  
LOCATION: Kikuyu  
SUB-BORROWER: Mr & Mrs Paul K Njoroge  
BANK & BRANCH: KCB - KICC DATE: 27/3/90  
BRANCH MANAGER: Mr J F C Koech VISIT NO: 2

PROJECT DESCRIPTION

The project is an expansion of a garment manufacturing operation at Kikuyu. It involves the construction of a new factory and the installation of additional machinery.

PROJECT COST AND FINANCING PLAN

<u>Cost</u>		<u>Financing</u>	
Land	95,000	RPE - USAID	1,550,000
Building	1,500,000	RPE - Bank	775,000
Machinery	825,000	Bank OD	542,000
Working Capital	542,000		-----
	-----		2,962,000
	2,962,000		

The actual cost of the machinery is Shs 1,055,000 excluding transport and duties, while that of the buildings was Shs 1,650,000. The subborrower has absorbed the cost of transport, duties, clearing as well as the overrun in the factory building. However, he will require an additional amount of KShs 230,000 to bridge the finance shortfall. He is negotiating with the bank for an additional loan or an upward review of his overdraft limit.

PROCUREMENT

Kega has already purchased three machines. Two of them have been installed while the third one is being cleared at the Mombasa Port. The costing is as follows:

<u>Item</u>	<u>Cost</u>	<u>Source</u>
*Molding machine	270,000	Germany
Interlocking machine	171,147	Japan
* Elastic/wrap machine	613,983	Switzerland

\* installed

The suppliers were selected on the basis of price, quality and compatibility.

### ELIGIBILITY CRITERIA

The project qualifies for RPE funding under the market development criteria (see previous monitoring report).

### SITE VISIT

The implementation of the project has progressed very well. The factory building is complete and operations were moved to the new site in February this year.

The factory currently employs 53 people and out of these, 49 are women. Since the factory moved to the new site, production has increased by about 70%. The level of activity will increase when all the machinery is installed.

### ISSUES, COMMENTS AND ACTION POINTS

This is a good project and the subborrowers are devoted to see it succeed. Although they have no real operational problems, they would like to improve their production efficiency. They have requested for IESC assistance to set up an efficient factory layout, to streamline the production process and to improve the design of garments. They have concluded discussions with the IESC Director and the assistance will be provided at around May or June this year.

In addition, Kega would greatly benefit from assistance in book keeping and in establishing a stock control system. A DH&S consultant will provide the service from the middle of April 1990 when the company is expected to fully settle in the new building.

PROJECT: Kenya Vineyards Limited  
LOCATION: Mitumbiri - Muranga  
SUB-BORROWER: Hon & Mrs Nduati Kariuki  
BANK & BRANCH: KCB - Thika DATE: 7/11/89  
BRANCH MANAGER: Mr B Mwangi Ibutiti VISIT NO: 2

PROJECT DESCRIPTION

The Project involves the construction of a coffee factory, the installation of an irrigation system, purchase of sprayers and two tractors in an integrated farming project.

In addition, Kenya Vineyard will increase the area under coffee from 70 to 100 acres.

SITE VISIT

During our visit to the farm, we were accompanied by the Branch Manager. Unfortunately we did not meet Hon Nduati Kariuki or the farm manager and we could not therefore verify some of the information which we received from one of the farm supervisors, who took us around the estate.

The coffee processing plant has already been completed and has started processing. In addition the two tractors have been brought. The irrigation system has been laid out in some parts of the plantation. However, the construction of staff housing had not been started by the time of our visit. The farm employs 30 full time people and during the peak picking season, it hires about 90 casuals.

COMMENTS, ISSUES AND ACTION POINTS

Out of the Shs 4.2 million, Shs 3.88 million has been disbursed leaving a balance of Shs 320,000. This should be adequate to complete the project. The implementation is progressing well and loan repayments are due to start in August 1990. The branch has not claimed reimbursement from the Head Office.

PROJECT: Levilla Limited  
LOCATION: Kikuyu  
SUB-BORROWER: Mr and Mrs Karanja  
BANK & BRANCH: KCB - Kikuyu DATE: 24/11/89  
BRANCH MANAGER: Mr Mwirichia VISIT NO: 4

PROJECT DESCRIPTION

The project is to establish a bakery with a production capacity of 26,000 loaves per day.

PROJECT REVIEW

The bakery was completed and started operating in February 1989. It initially performed very well despite the changes in the price structure of grain and bread which effectively eroded the margins of bread by about 40 cents.

In recent months, the performance of the bakery has also been affected by the poor supply of wheat in the country. At the time of our visit the bakery was getting only 200 bags of wheat per week instead of its requirement of 560 bags. In September, it produced an average of 12,000 loaves per day, but currently it can only produce 5,000 loaves. It breaks even at 8,000 loaves per day.

The subborrower has started to diversify into other products such as cakes and crisps. The demand for such products is low, but they are not price controlled and have good margins. He will be installing additional machinery to increase the capacity for the confectionary lines and has also bought a distribution van for the new products.

COMMENTS, ISSUES AND ACTION POINTS

The subborrower has implemented the project quite successfully despite the fact that the actual investment costs were higher than had been projected. He absorbed all the cost increases. He will also be injecting more capital to install additional equipment for the new product lines. The project should have performed well except for the poor availability of wheat.

The project sponsor had initially requested an overdraft facility of Shs 80,000. At that time, there was no need for a big facility as wheat was purchased from millers and NCPB on credit. As bakers have to pay cash for the wheat flour, he requires a larger overdraft and has requested a limit of Shs 600,000. This request should be considered favourably by the bank.

During our monitoring trip, we identified Levilla as one of the projects which would benefit from direct management assistance. This assistance has subsequently been provided. The work done included the establishment of a simple accounting system and training of clerks on maintaining the system. A cash book, petty cash book, nominal ledger and journal book were also set up and accounting records for 1988 up dated. It was recommended that Mr Karanja should employ a full time accountant who in addition to book keeping duties should perform most of the office routine work to allow the subborrower to spend more time in marketing and product development.

PROJECT: Ngorongo Tea Factory  
LOCATION: Cianda Sublocation, Githunguri, Kiambu  
SUB-BORROWER: Ngorongo Tea Factory  
BANK & BRANCH: KCB - Kiambu DATE: 30/1/90  
BRANCH MANAGER: Mr Michael Karanja VISIT NO: 3

PROJECT DESCRIPTION

Agribusiness: Processing of tea for export.

The project involves the expansion and rehabilitation of a privately owned tea factory in Kiambu.

SUBBORROWER PROFILE

Ngorongo Tea Factory operates on a limited liability basis. Major shareholders include Hon J N Karume, Mr J K Chege, Mr C K Koinange and Mr C K Karanja who is its managing director. These are Kenyan businessmen and among them they own 63.6% of the shares. The Managing Director has several years experience in the tea industry while the other three directors are prominent tea farmers.

DISBURSEMENT STATUS

The subborrower has drawn down the Shs 5 million USAID RPE portion of the loan and an additional Shs 1.6 million from the Bank, leaving an undrawn balance of Shs 0.8 million. The branch has already been reimbursed Shs 5 million from the head office.

SITE VISIT

The new machinery has been installed and it includes the following equipment:

- 2 boilers (made in UK and commissioned in January and May 1989 respectively)
- 1 Sirocco dryer (from India)
- 1 cutting/tearing machine (from India)
- 1 dosing pump for applying anti corrosion chemicals in the boilers
- 2 fluid bed dryers
- 8 elevated troughs

In addition one old dryer has been rehabilitated and converted to use steam.

Before the expansion, the factory processed about 500,000 kgs of green tea leaves per month, it also accepted green tea from 16 farmers and had a maximum processing capacity of about 1 million kgs per month. Since July 1989 it has been processing an average of 800,000 kgs per month with a peak of 1.4 million in October 1989.

The factory has increased the number of farmers that it services from 16 to 21 farmers. Some of the farmers have increased their tea acreage in anticipation of the added processing capacity of the factory. The company does not intend to increase the number of farmers that it serves beyond the current number as it will experience capacity problems when the newly planted tea by the existing outgrowers matures.

#### COMMENTS, ISSUES AND ACTION POINTS

The factory is operating well and has able management. It will therefore not be necessary to monitor this project in the near future.

PROJECT: Ngubia Wanyutu  
LOCATION: Komothai, Githunguri - Kiambu  
SUB-BORROWER: Mrs Ngubia Wanyutu  
BANK & BRANCH: KCB - Ruiru DATE: 30/10/89  
BRANCH MANAGER: Mr R M Njoroge VISIT NO: 2

PROJECT DESCRIPTION

The project is to set up a small scale coffee pulping plant, purchase spraying pumps and rehabilitate an eight hectare coffee plantation. The rehabilitation will include the installation of an irrigation system.

SUBBORROWER PROFILE

Mrs Wanyutu is an elderly lady but she manages the farm with the assistance of two of her sons. One of her sons is a University graduate and works as an agricultural consultant to small scale farmers around Kabete in Kiambu. The other son, who has a diploma in business administration is currently involved in the management of the farm, on a full time basis.

PROJECT COST AND FINANCING

<u>Cost</u>		<u>Financing</u>	
Land	existing	RPE - USAID	200,000
Site development	30,000	RPE - Bank	100,000
Building	40,000	Owner	30,000
Machinery	250,000		-----
Working capital	10,000		330,000
	-----		
	330,000		

SITE VISIT

During the visit we were accompanied by the Credit Officer from KCB Ruiru Branch. The pulping plant has already been installed and the electrification is complete. However, although a water pump has been bought it has not yet been installed and the irrigation system is therefore incomplete.

The coffee yield has increased over the last one year by about 1000 kgs. In the past, the farm delivered about 1000 kgs but according to a report prepared by KPCU, the total delivery this season should be in the region of 2100 kgs.

Although the coffee yield has been good, the plantation requires additional care. The application of chemicals and fertiliser has also been neglected and this could adversely affect future crop yield unless the situation is remedied. A provision for working capital of Shs 10,000 had been made in the costing of the project. However, due to the increases in the costs of fertilisers and agricultural chemicals and the depressed coffee prices, Mrs Wanyutu is experiencing financial problems. There is a possibility that the plantation's yield may decrease in future. The subborrower is aware of the problems and she intends to approach the bank for additional overdraft facilities.

#### COMMENTS, ISSUES AND ACTION POINTS

The subborrower should install the water pump. In addition she should negotiate for additional overdraft facilities with KCB Ruiru Branch to enable her to cultivate and take care of the coffee during the next season.

This is a good project, being run by a family that is working hard to succeed. However, the project will experience problems:

- (a) if the coffee prices continue to decline;
- (b) unless Mrs Wanyutu is able to inject new funds into the project; or
- (c) unless she gets an additional overdraft or loan facility from the bank.

PROJECT: Njeru Mwea  
LOCATION: Githimu - Embu  
SUB-BORROWER: Njeru Mwea  
BANK & BRANCH: KCB - Embu DATE: 14/11/89  
BRANCH MANAGER: Mr F M Wanyoike VISIT NO: 2

PROJECT DESCRIPTION

The project is a three disc coffee processing plant. Work involves the construction of the plant, installation of electricity and machinery, including a water pump, and water storage tanks.

SITE VISIT

The branch manager accompanied us to Mr Mwea's farm. The plant is operating well and during the June - November season, Mr Mwea delivered 30 tonnes of coffee to KPCU.

Mr Mwea has hired a manager who runs the factory. He also intends to employ a farm manager to manage the coffee plantation. The factory has a permanent staff of 12 and he engages between 50 and 100 casuals on his farms, depending on the season.

Mr Mwea has several coffee farms scattered around the area. He has a pick up van and a lorry which he uses to transport coffee from these farms to the factory.

COMMENTS, ISSUES AND ACTION POINTS

This project is doing well. However because it was initially underfinanced, additional overdraft facilities will be required. This is made more important by the poor trends in the present coffee market. The Bank Manager has agreed to assist and will consider converting the existing OD to a term loan and to provide a new OD facility.

PROJECT: Sabaah Baraka Bakery Ltd  
LOCATION: Bungoma  
SUB-BORROWER: Mohamed Ahamed  
BANK & BRANCH: KCB - Bungoma DATE: 23/1/90  
BRANCH MANAGER: Mr N P Mwangi VISIT NO: 3

SITE VISIT

When we visited the branch, we were informed by the Branch Manager that Mr Ahamed was away in Nairobi. However, the bakery was completed and started operations in April 1989. After only two months, Mr Ahamed left Bungoma to attend a court case Nairobi and he suspended the operations.

Mr Ahamed has been in touch with the Bank Manager and intends to restart operations in February. In the meantime, the Manager has put the company under receivership.

COMMENTS, ISSUES AND ACTION POINTS

It is not clear whether Mr Ahamed intends to continue with the bakery project. However, he has had a good account with the bank in the past and the Manager is confident that he will not default.

If Ahamed does not resume the operations, there is a good chance that the bakery could be sold to one of his competitors. Although we did not inspect the bakery, as it was closed, we were informed by the Branch Manager that both machinery and vehicles were intact and locked up in the premises.

PROJECT: Sunways Bakery Limited  
LOCATION: Webuye  
SUB-BORROWER: Sunways Bakery  
BANK & BRANCH: KCB - Webuye DATE: 23/1/90  
BRANCH MANAGER: Mr S W Maina VISIT NO: 2

PROJECT DESCRIPTION

The project is to establish a bakery in Webuye town.

PROJECT IMPLEMENTATION STATUS

The bakery equipment was purchased second hand from UK. The items were funded through the owners contribution. Equipment for one production line has already been rehabilitated and is in working condition. This line has a capacity of 15,000 loaves of bread per day. Machinery for a second production line has also been purchased and work to rehabilitate this equipment will start soon. It is scheduled to start operating by the middle of the year.

PERFORMANCE REVIEW

The bakery started operations in October 1989 and it is currently producing and selling approximately 4,000 loaves of bread per day.

The Managing Director of the bakery, Mr Vasant Patel, estimates that he could sell up to 20,000 loaves despite the severe competition from other bakeries. He has not been able to increase his volume of sales because he does not have adequate delivery vans. He transports bread using three old pick-up vans and a lorry.

COMMENTS, ISSUES AND ACTION POINTS

The implementation of the project is steady and progressing well. However, to improve the distribution of bread, the company should update its fleet of vans. Mr Patel plans to buy a new van before the end of March. He has been unable to buy the van earlier because he used the RPE loan to prepay wheat from NCPB and millers.

The second production line will be installed by the middle of the year. However given the current problems of wheat availability, the bakery may not be able to operate at full capacity and there is therefore no real urgency in completing the line. In the interim the available resources will be used to improve the delivery system. Provided that the availability of wheat improves, this project should continue to perform well. It has a capable management.

PROJECT: Thika General Workshop  
LOCATION: Thika  
SUB-BORROWER: W K Itume  
BANK & BRANCH: KCB - Thika DATE: 7/11/89  
BRANCH MANAGER: Mr B Mwangi Ibutiti VISIT NO: 3

PROJECT DESCRIPTION

The project involves the construction of a workshop shed at Thika Industrial area and the purchasing of machinery for fabricating domestic and agricultural implements for small scale farmers.

PROJECT COST AND FINANCING PLAN

The project costs are as follows:

<u>Cost</u>		<u>Financing</u>	
Land	279,747	RPE - USAID	2,666,000
Building	1,797,850	RPE - Bank	1,334,000
Machinery	2,202,150	Bank OD	1,000,000
Other costs	1,900,000	Owners	2,179,747
Working capital	1,000,000		-----
	-----		7,179,747
	7,179,747		

The owners contribution is in form of existing machinery and land. The RPE loan is supposed to finance the new machinery and the construction of the new workshop.

PROCUREMENT

The machinery to be purchased includes:

- . power cut off saw
- . milling machine
- . fly press

A quotation for the machinery was received from Lagutrop (K) Ltd in 1984. The machinery will be purchased after the completion of the workshop. However, Mr Itume has not made further enquiries from Lagutrop since he received the quotation five years ago and it is likely that prices have increased substantially since then.

DISBURSEMENT STATUS

The branch has released Shs 2.48 million to the subborrower.

SUBBORROWERS PROFILE

The subborrower, Mr Itume is about 60 years old. He has considerable experience in the workshop business and has been operating his current workshop for the last 27 years.

Currently Mr Itume is assisted by two of his sons in the running of the workshop. Although they have acquired some technical skills on-the-job, Mr Itume does not delegate the managerial responsibilities to them. As the project expands and Mr Itume advances in age, he may experience difficulties in managing the project unless he delegates.

SITE VISIT

During our visit we were accompanied by the Branch Manager. The construction of the workshop is still in progress. Its completion had been delayed by poor availability of cement in the country in 1989. In addition, some parts of the building had to be knocked down and rebuilt as a result of defects from poor workmanship.

The walls are nearly completed and windows have been fixed. However, a lot of work remains to be done. The roof has to be put up and the floor finished. In addition, electrical fittings and plumbing works are still to be done. Mr Itume has an undrawn loan balance of 1.52 million which will probably be just enough to complete the remaining part of the building.

The estimated cost of completing the building is Shs 1,324,000 to be used as follows:

floor	150,000
electrical work	756,000
plumbing	408,000
	-----
	1,324,000

This excludes the cost of putting up the roof. Mr Itume has already fabricated steel roof trusses at his workshop and has bought iron sheets for roofing.

According to Mr Itume, the original estimate of the cost of the building was Shs 3,613,000. However, the bank provided Shs 1,797,850, therefore the construction was under financed by Shs 1,815,150.

By the time he completes the construction of the building he will have drawn down his entire loan and will have no funds for purchasing the machinery.

The workshop presently sells goods worth about Shs 150,000 per month to their main client KGGCU. Mr Itume is quite confident that with adequate storage capacity, he could increase his output using the existing machinery.

COMMENTS, ISSUES AND ACTION POINTS

Given the status of disbursement and implementation, the subborrower will run out of funds before he completes the project. The subborrowers cost estimates were based on quotations which were out of date.

The Bank Manager will monitor the construction of the project very closely to ensure that unnecessary costs are not incurred.

This is a good project but may encounter difficulties because it is poorly financed. The Branch Manager has agreed to review the situation and will be willing to recommend that Mr Itume be provided with additional funds for replacing some of the old machinery. In addition, he will encourage Mr Itume to share management responsibility with his sons.

Mr Itume agreed to furnish the Branch Manager with updated quotations of machinery. DH&S will provide assistance in reworking the cost estimates of the projects, based on updated prices.

PROJECT: Thika Rubber Industries  
LOCATION: Thika  
SUB-BORROWER: Thika Rubber Industries  
BANK & BRANCH: KCFC - Nairobi DATE: 3/10/89  
BRANCH MANAGER: Mr J K A Cheruiyot VISIT NO: 1

PROJECT DESCRIPTION

The project involves the expansion of an existing tyre retreading factory in Thika. Work will involve the installation of a full capping moulding line with a capacity of retreading 80 tyres a day. The present equipment is designed for top capping only and has a capacity of 60 tyres per day.

PROJECT COST AND FINANCING

The original estimate cost of the project was Shs 8.18 million broken as follows:

<u>Cost</u>		<u>Financing</u>	
Building renovation	300,000	RPE - USAID	3,885,000
Machinery	6,880,000	RPE - Bank	1,943,000
Working capital	1,000,000	Bank OD	1,000,000
	-----	Owner	1,352,000
	8,180,000		-----
			8,180,000

Due to price increases, and changes in the exchange rates from 1988, the total cost of machinery including insurance, clearing and duty charges went up by Shs 1,612,000. As a result, in November 1989 KCFC approved an additional loan of Shs 1.6 million to bridge the shortfall.

PROCUREMENT

The equipment to be purchased includes a retreading press from Italy, a buffer balancing and alignment machine from Germany and a boiler from India. The selection has been made on the basis of cost and maintenance arrangements.

SUBBORROWER PROFILE

Thika Rubber Industries operates as a limited liability company. The main shareholder, Mr Julius Macharia Mwangi, holds 68.75% of the shares. The others are shared equally between Mr Hebron Irungu and Mr F J Munene.

Mr Mwangi is the Managing Director. He resigned from the civil service where he used to be a trade officer in the mid 70's to set up his own business. He has been in the tyre remolding business for the past 10 years.

#### PRESENT OPERATIONS

At present, Thika Rubber Industries retreads between 40 and 60 tyres per day. Only the tyre top is remolded using the existing equipment and therefore the quality of the retreaded tyres is not comparable to those done by advanced tyre retreaders such as Car and General. The expansion will allow Thika Rubber to compete effectively with them.

PROJECT: Turbo Spring Park Hotel  
LOCATION: Turbo - Eldoret  
SUB-BORROWER: Godfrey Gathuru Gichoru  
BANK & BRANCH: BBK - Eldoret      DATE: 24/1/90  
BRANCH MANAGER: Mr Muriithi      VISIT NO: 3

PROJECT DESCRIPTION

The project involves the construction of a multi-purpose, wayside hotel in Turbo, near Eldoret. Construction work includes a restaurant, kitchen and an administration block, guest rooms, bakery and butchery.

PROJECT COST AND FINANCING PLAN

The original cost of the project was estimated at Shs 3.11 million to be used as follows:

<u>Cost</u>		<u>Financing</u>	
Land	225,000	RPE	1,860,000
Building	2,485,000	Owner	1,250,000
Machinery	300,000		-----
Working capital	100,000		3,110,000
	-----		
	3,110,000		

The actual cost of the project to date, excluding the cost of the land is Shs 3.3 million financed as follows:

RPE	1,800,000
Owner	1,500,000
	-----
	3,300,000

SITE VISIT

During our previous monitoring report we had reported that the main buildings were about 90% complete. There has been little change in the implementation status.

Work on the restaurant and the administration block has virtually stopped. However, the unit with 14 guest rooms has been completed while the second unit with 16 rooms is progressing very slowly.

The project has run out of money and the subborrower will be unlikely to raise the additional amount to required to complete the project.

According to the IESC consultant who provided direct management assistance to the project, an additional Shs 1.5 million would be required to complete the project.

Mr Gichoru has been supervising the construction of the buildings. He has little or no experience in construction and some of the completed buildings are poorly done.

Mr Gichoru will require a lot of assistance in the construction of the remaining part of the buildings. We have suggested to him that he employs the services of a qualified building constructor. In addition, he could benefit from additional assistance from IESC consultants, preferably from a hotel management expert with some construction experience.

#### COMMENTS, ISSUES AND ACTION POINTS

This project is underfinanced. The Bank Manager has recommended that additional funds be provided to complete the construction work. The manager has forwarded the proposal to the Head Office which has in turn asked for a comprehensive report on the overruns.

We have strongly suggested to the bank manager's assistant, who accompanied us to the project, that the grace period for the loan be reviewed. Mr Gichoru has given a grace period of nine months which expired in June 1989. He has started to repay the loan at Shs 31,000 per month.

The Branch Manager will ensure that Mr Gichoru hires an experienced contractor or architect to supervise the completion of the rest of the project.

PROJECT: United Millers Limited  
LOCATION: Kisumu  
SUB-BORROWER: United Millers Limited  
BANK & BRANCH: KCB - Kisumu DATE: 22/1/90  
BRANCH MANAGER: Mr M A Rayi VISIT NO: 4

#### PROJECT REVIEW

The implementation of the project is now completed. The bakery, which is fully automated and with electronically controlled processes, has a capacity of 6,000 loaves per hour.

During the last monitoring visit, we had reported a project cost overrun of about 20%. Subsequently, KCFC advanced the company an additional Shs 10 million. The additional loan was however used by UML to purchase wheat from the National Cereals and Produce Board (NCPB).

#### PERFORMANCE

The bakery started operations in September 1989. During its initial test run, it produced 60,000 loaves per day and the company was able to sell the entire output. However, due to wheat shortages, the bakery operated on and off up to end of December. Since 1st January, the bakery has been closed. Before the closure, the UML had sold 600,000 loaves of bread.

The subborrowers are quite confident that they will resume operations soon. They consider the shortage of wheat to be of a short term nature.

To break even, UML should produce and sell 60,000 loaves per day. We made some enquiries on the quality of the bread produced by UML and it was rated to be of exceptionally high quality. The company intends to sell bread to the whole of Western Kenya and given the level of its quality, it can be able to capture a substantial share of the market. If the problem of availability of wheat is solved, UML should achieve the break even production level easily.

#### COMMENTS, ISSUES AND ACTION POINTS

The RPE loan to UML is Shs 36 million, This is a five year term loan with a one year grace period. The grace period ends in January 1990 and repayment starts in February.

So far, UML has been able to pay interest charges on the loan. However, with the current shortage of wheat, it will experience difficulties in making repayments on the principal sum.

UML has held a series of discussions with the bank with a view to extending the grace period by another six months. Under the present circumstances, an extension would be justifiable. The Branch Manager will be writing to KCB Head Office to request approval for an extension. He is quite confident that UML will be able to repay the RPE loan and to service other loans advanced by the bank, (close to Shs 150 million in all). The company's other milling operations are successful and it will be using the profits from them to service the RPE loan.

PROJECT: Vesta Fishmeal Limited  
LOCATION: Kisumu KIE Estate  
SUB-BORROWER: Mr Geopley Oyieng  
BANK & BRANCH: KCB - Kisumu DATE: 22/1/90  
BRANCH MANAGER: Mr M A Rayi VISIT NO: 3

PROJECT DESCRIPTION

The project involves the construction of four fishing boats with outboard motors. The boats will be used for catching omena, a species of small fish used as a supplement in the preparation of animal feeds. Vesta have bought two electric driven grinding machines for shredding fish. After grinding, omena is packed into 50 kg bags and sold to the manufacturers of animal feeds.

The RPE loan is only for financing the motor boats. The subborrower has already installed the grinding machines.

PROJECT COST AND FINANCING

<u>Cost</u>		<u>Financing</u>	
Existing machinery	250,000	Owners	250,000
4 outboard engines	482,000	RPE - USAID	482,000
4 units of boats	280,000	RPE - Bank	280,000
Working capital	144,000	Bank OD	144,000
	-----		-----
	1,158,000		1,158,000

DISBURSEMENT STATUS

Out of the RPE loan of Shs 762,000, the bank has disbursed Shs 669,500 leaving a balance of Shs 92,500. Vesta has also drawn down the OD facility of Shs 114,000. The RPE loan was approved on 26th October 1988 and the first draw down made in January 1989. Loan repayments are scheduled to begin in January 1990.

SITE VISIT

During our visit we were accompanied by an account officer of KCFC head office and an advances officer from KCB Kisumu. We were met by Mr Owino, the manager of Vesta.

Two boats have been completed to date. The first boat with a capacity of seven tonnes was completed in May 1989 and is already making fishing trips. The second boat, which has a capacity of 10 tonnes was tested in December 1989 and was expected to start operating from February 1990.

The company had no immediate plans of constructing the two remaining boats. The manager argues that the initial design of the boats with facility for only one engine was wrong and he has therefore modified the boats to take two engines. The four engines will therefore be used on two boats instead of four.

During our visit, we only saw two of the four engines. We were informed that the other two engines had been purchased and were lying in the managers hotel room. The branch manager KCB Kisumu, will check to ensure that they have actually been purchased.

Vesta have installed two fish grinding machines. Only one machine is being used while the other requires electricity which is to be installed. At the moment the machine in use is under utilised and Mr Ownio has not made any plans for installing electricity to power the second machine.

#### PERFORMANCE

The implementation of the project has progressed very slowly. The sponsor of the project does not appear to have devoted much of his time to the project while Mr Owino the manager is not well qualified for his position. This is the first time that he has been involved in fishing or boat building.

Towards the end of 1989, Vesta had delivered fish meal to a variety of customers who included ADC farm at Kitale, Rift Valley Hatcheries (RVH) and individual farmers and distributors in Nairobi and Eldoret. In December 1989, 5 tonnes of fishmeal were delivered at a price of Shs 10,000 per tonne.

Since January, Vesta has not made any catches or deliveries although they had outstanding orders of over 500 tonnes. The manager claims that the poor performance was partly due to the fact that January is full moon and omena catches tend to be poor and partly due to the fact that he was too busy with finishing the second boat and he did not therefore have enough time to fish. As a result of this poor performance, the company has lost big orders. Among the clients lost are ADC and RVH.

It is difficult to estimate the value of the total sales to date because proper records are not kept. In addition, some proceeds from the sales have not been banked with KCB. During our visit, we saw a banking receipt for Shs 20,000 from National Bank of Kenya. We were also made to understand that one of the directors, Mr Walter Ochieng did not remit KShs 50,000 to Vesta after he sold 5 tonnes of fish last year.

KCB had advanced Vesta a loan of Shs 100,000 before the RPE loan was granted. The loan is in arrears. In addition, interest on the loan has not been paid. KCB has instructed its lawyers to recover the loan.

The subborrower has not been paying interest on the RPE loan which has now accrued to over Shs 200,000. In addition, the loan repayments were due to start on 31st January 1990.

Mr Oyieng has promised to repay his old loan and the accrued interest on several occasions but he has not honoured his promise. It is very unlikely that he will start repaying the RPE loan on time, given his past performance. The situation will be made worse by the company's failure to collect fish and to service orders since end of December.

Mr Oyieng has not been banking some of his proceeds with KCB and there is a high probability that the two directors of the company are responsible for weakening its cash position.

The company's management is weak. The principal shareholder, Mr Oyieng has not put enough time to the project. Mr Walter Ochieng, the other director was supposed to be responsible for marketing but there is no evidence that he has made any positive contribution. Mr Owino, the manager has no commercial experience. His lack of experience is reflected by the number of orders which Vesta has lost recently.

This project could be profitable if properly managed. The demand for fishmeal appears high. The directors must devote time to the management of the company or employ a qualified manager, if they are committed to the success of the venture. In addition, they should retain the cash generated from the sales within the company otherwise the bank will be forced to foreclose the loan facility. From our discussions with the Bank it is clear that KCB will foreclose on the loan 'unless' the sponsors take steps to rectify the situation.

PROJECT: W Wambugu Muthangani  
LOCATION: Wambugu Farm, Nyeri  
SUB-BORROWER: W W Mathangani  
BANK & BRANCH: KCB - Nyeri DATE: 31/1/90  
BRANCH MANAGER: Mr W C W Kariuki VISIT NO: 2

#### PROJECT DESCRIPTION

The project involves the construction of a two-disc coffee processing factory.

#### SITE VISIT

The branch manager accompanied us to the site during our visit. Unfortunately, Mr Mathangani was unwell and he was unable to talk to us.

The factory is now complete and is operational. Electricity has been installed and the factory started processing in November last year. Although no records have been kept, we estimated that Mr Mathangani had produced about 3 to 5 tonnes of coffee from November 1989 when the factory started operating. However, no deliveries had been made to KPCU as the beans had not dried fully.

The pulping machine has a slight defect as some coffee beans are lost through water outlets. We were told that the supplier had been informed of this defect but had not come to reset the equipment.

Mr Mathangani has now hired a manager for the factory. However, although the manager has some experience of supervising coffee factories, it is doubtful whether he has the potential to manage the entire operations of the farm. Mr Mathangani has 160 acres of land and only 20 of these are under coffee. He would require a fairly experienced manager to develop the farm if he were to improve the utilisation of the coffee factory.

#### COMMENTS, ISSUES AND ACTION POINTS

Mr Mathangani is fairly old and will require the assistance of an able manager who will oversee all the operations of the farm. We talked to one of his daughters who felt that under pressure (maybe from the bank), Mr Mathangani could employ a qualified manager or encourage one of his sons to come to his help. Mr Mathangani has grown up children, and we were made to understand that at least one of them would be willing to learn the business, and to assist his father if asked to do so. The Branch Manager will follow this issue up, as proper management and continuity will be vital to the success of this project.

PROJECT: Webuye Sisal Mills Limited  
LOCATION: Webuye  
SUB-BORROWER: Webuye Sisal Mills Ltd  
BANK & BRANCH: KCB - Webuye DATE: 23/1/90  
BRANCH MANAGER: Mr S W Maina VISIT NO: 3

PROJECT DESCRIPTION

The project involves the installation of electricity, construction of a store in an existing sisal factory and purchase of two delivery vans.

DISBURSEMENT STATUS

The bank has authorised the release of the entire loan, KShs 2,000,000. So far WSML has drawn Shs 1.7 million which has been utilised as follows:

	<u>Actual costs</u>
Building	196,000
Electricity	130,000
Vehicle	525,000
Working capital	474,000
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	1,315,000

There is an unexplained variance of about Shs 385,000 between the actual expenses and the disbursement. A large portion of the working capital component of the loan has been used to pay interest charges on the loan.

SITE VISIT

We were accompanied by the bank manager during our visit to the site. Power has been installed and the factory is operating. The store building has not been completed but this will not affect the current operations of the mill because the existing factory building has adequate storage facilities.

The operations of the mill are quite simple. WSML buys sisal from the local area, cleans it by thrashing and then compresses it in 200 kg bales. The sisal is sold to contract buyers who export it to other countries.

## PERFORMANCE REVIEW

WSML currently packs about half a tonne of sisal per day and employs 15 people. The manager expects to produce at full capacity or 8 tonnes per day within the next 2 months.

## COMMENTS, ISSUES AND ACTION POINTS

WSML would appear to be a profitable project if well managed. The company buys sisal at Shs 3/50 per kg and sells to ready buyers at Shs 8/00. Because the operations are quite simple the firm should have good margins. However, we are concerned about:

- (a) the availability of sisal and
- (b) the management capability of the firm.

At present WSML relies on sisal which is collected from nearby homesteads. This sisal is not cultivated but it is planted casually along farm boundaries. It is unlikely that this source will be adequate to supply the factory operating at full capacity. One option would be to establish a nucleus farm where WSML would grow its own sisal. Unfortunately Mr Simiyu, the factory manager, does not consider sisal availability a serious issue and at the moment he is not willing to consider such options. The bank manager will press the company to look for viable supplies of sisal.

Mr Simuyu does not appear to have the management capabilities to enable him to expand the operations of the factory. This is an issue that the Branch Manager will point out to Hon Wamangoli, the main shareholder.

In addition, we point out that working capital of Shs 474,000 represents more than 50% of the total bank contribution to the loan (Shs 666,667). The branch is responsible for reallocating the disbursements to comply with RPE guidelines. Furthermore we are of the opinion that working capital is not intended to be used for payment of interest on the loan.

-5-