

USAID

KENYA RURAL PRIVATE ENTERPRISE PROJECT

REPORT FOR THE SIX MONTHS ENDED 31ST MAY 1985

CONTRACT No: 615-0220-C-00-4004-00

USAID KENYA RURAL PRIVATE ENTERPRISE PROJECT  
REPORT FOR  
THE SIX MONTHS ENDED MAY 31ST 1985

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1. BANK NEGOTIATIONS

As of May 31, 1985 no agreements have been signed between the Government of Kenya and the three commercial banks with which negotiations have been taking place. This lack of progress has had a direct impact on our activities under the contract since most tasks are based on bank participation in the project.

At the time of writing, negotiations with Barclays Bank of Kenya Ltd. are understood to be almost complete. However, no further progress has been made in discussions with Standard Chartered Bank.

In the case of Kenya Commercial Bank Ltd., agreement has been reached with the Bureau of Private Enterprise (USAID) concerning the extension of the existing loan agreement and utilization of related grant funds for technical assistance. It is expected that this extension (through February 28, 1986) will clear the way for detailed negotiations to begin on KCB's involvement in the RPE project.

Given the delays in concluding GOK/Bank agreements the following options are currently being pursued by USAID.

- . Application has been made to the Government to expand the scope of the project to include, under certain conditions, non-bank financial institutions (see section on Special Studies).
- . Consideration is being given to modifying some of the conditions contained in the existing draft bank agreements.

USAID has been discussing with GOK the arrangements for the recycling of project funds as part of the conditions precedent to project initiation. Currently this envisages the establishment of a rediscounting facility at the Central Bank of Kenya. This concept was discussed in the Special Study report on Loan Guarantee Mechanisms prepared during this period.

2. SPECIAL STUDIES

As part of our contract, we were requested to perform three special studies designed to provide further research material from which to refine or expand USAID's rural private enterprise development programs. These studies have now been completed and, with the exception of the Co-operatives Study, the final reports have been delivered to USAID.

## Non-Bank Financial Institutions

The purpose of this special study was to identify alternatives through which USAID might facilitate the flow of medium and long term credit to private sector projects in Kenya. Specifically the expanding sector of non-bank financial institutions was examined to determine their capabilities and suitability to act as financial intermediaries for USAID on-lending.

We conducted a preliminary survey of the sector using a questionnaire. This was followed by detailed studies of six institutions selected on the basis of several parameters in conjunction with USAID.

Our findings indicated that the sample NBFI's appear to be well managed and viable institutions. Although they face management and operational strains from rapid growth, they appear to have the attributes to act as successful intermediaries.

Following completion of the study, USAID has held preliminary discussions with GOK with a view to expanding the RPE project to include NBFIs.

## Loan Guarantee Mechanisms

This special study investigated the potential for loan guarantees or other financial innovations to help increase the flow of medium and long term credit to the private sector in Kenya. It described and analyzed the constraints currently affecting the flow of such credit and discussed options for alleviating one or more of these constraints that could be introduced into the Kenyan system.

In the light of high security requirements in Kenya and the difficulty of many borrowers in meeting them, we concluded that a loan guarantee program aimed at reducing these requirements could help alleviate a barrier to project finance. However, another objective, lending to induce longer maturities, which has been the basis for using loan guarantees in some other countries, was found not to apply in Kenya.

Accordingly, we recommended that a loan guarantee mechanism to reduce security requirements be considered with several caveats.

Our study also examined several other innovations which might increase the volume of privately extended project finance and relieve the long term funds constraint. These included:

- . Mobilizing insurance company funds

- Establishing a rediscounting facility
- Deposit insurance
- Venture capital

### Co-operatives

This special study, which is in the final stage of completion, has examined the potential role of savings and credit co-operatives to further expand rural private enterprise in Kenya. In addition, the study included a review of the Co-operative Bank of Kenya to assess its capability of acting as an intermediate financial institution.

## 3. OTHER PROJECT ACTIVITIES

### Promotion

In February we requested permission to modify our workplan, pending the negotiation of any bank agreements with GOK. Our proposal to commence a preliminary project promotion plan, working with our subcontractors, IESC and Technoserve, was approved in March and activities began in April (See Exhibit B). The major objectives are to develop:

- A pipeline of potential "bankable" projects which might accelerate project disbursement once the banks sign.
- Experience in providing technical assistance for feasibility studies and management support using IESC and Technoserve resources.

Although progress has been slower than planned, the activity is providing worthwhile experience of the project identification process under RPE as well as an opportunity for the project team to establish sound working arrangements. This task will continue over the next two months before being reviewed with USAID.

### Non-Bank Financial Institutions

Following completion of the NBFI Special Study, we also recommended that consideration be given to experimenting with these institutions to further encourage longer term lending to the private sector (See Exhibit B).

Although the Mission has agreed to this proposal in principle, it is necessary that any request to expand the RPE project be initiated by the Ministry of Finance and Planning. Initial discussions between USAID and the Ministry have been positive in spite of recent problems faced by the NBFI sector in the wake of the collapse of Rural Urban Credit Finance Ltd. late last year.

Discussions have been held between USAID and Investment Promotion Services (Kenya) Ltd. (IPS) in which we have participated. Jointly with International Finance Corporation, IPS is expected to request participation in the RPE project on a modified basis. Specifically IPS and IFC would provide equity capital matched by loan funds under RPE. The exact ratios have not yet been established but this proposal would build on IPS experience as the principal source of venture capital funds in Kenya.

#### Liaison with World Education

Our project responsibilities to World Education are twofold:

- . Ensuring that our activities under the overall RPE project are coordinated so far as possible.
- . Monitoring their financial performance.

During this period agreement has been reached between USAID and World Education concerning our monitoring responsibilities and the first review visit is currently in process.

Over the past months, a variety of discussions have taken place concerning the co-ordination of our activities especially in regard to project areas which could be overlooked between the two programs.

We are currently assisting World Education evaluate a project by performing a financial feasibility study.

#### Procurement

Following the establishment of the Commodity Import Program and related support office under the direction of Steve Klaus, the procurement support arrangements in our contract were recently reconsidered. In particular, a detailed microfiche US supplier data base is now maintained at the USAID Mission to Kenya. Accordingly, in April, our contract was amended to remove the requirement to advertise in the Commerce Business Daily. Instead, we are now required to make maximum use of the IMI index/library when identifying sources for commodities to be imported.

#### 4. ADMINISTRATION

We have continued to participate in a broad range of meetings with project participants and other parties concerning the RPE project. Other administrative activities during the period include:

- . Co-ordinating the special studies.

- . Meeting with subcontractors and World Education.
- . Meeting the new GOK representative in the Office of External Aid.
- . Resolving computer shipment problems.

Installation and programming of the Wang project computer was completed in May. This was done on a hired computer. The original machine shipped in July 1984 from the USA has been held in customs since then pending resolution of duty payment. At USAID's request, we have applied to the shipper to reconsign the machine to the Ministry of Finance and Planning in place of DH&S. A replacement computer was shipped in May and is in the process of being cleared through customs by the Ministry of Finance and planning.

5. PROJECT WORKPLAN AND BUDGET

Workplan

The project workplan for the period through April 30, 1985 was based on the assumption that agreements would be signed with the three banks during the period. In the event this did not occur and the workplan for the six month period to October 31, 1985, has been based on revised, more conservative assumptions. The detailed workplan is included as Exhibit A.

There are only two new task areas, in addition to those previously identified, included in the next period's workplan.

- . Non-Bank Financial Institutions - Financial Review

It is anticipated that initial activities will be required in relation to involving one or more NBFIs in the project.

- . Bank Assistance - Develop Plan for IPS

It is also anticipated that assistance will be needed in identifying technical assistance plans for IPS.

Detailed task definitions will be prepared when these requirements become more specific.

Project Budget

Actual level of effort under the contract during the first year (year ended April 30, 1985) was significantly under both the original budget and the revised projections of November 30, 1984.

	<u>Original Budget</u>	<u>Revised Projections</u>	<u>Actual Mandays</u>
DH&S	900	582	408
Technoserve	400	130	76
IESC	65	-	-
<b>Total</b>	<b>1365</b>	<b>712</b>	<b>484</b>
	=====	=====	=====

A total of 330 mandays is projected for the six months to October 31, 1985 against 1660 budgeted for the year to April 30, 1986.

KENYA RPE PROJECT

WORKPLAN OVERVIEW

PERIOD 1st MAY - 31st OCTOBER 1985

Deloitte Haskins & Sells

Contract No: 615-0220-C-00-4004-00

23rd May 1985

1

## BACKGROUND

Prior Workplans through April 30, 1985

- Assumptions

That bank agreements would be reached during period

- Objectives

- . Maintain momentum of project
- . Conserve resources

Workplan modification

- . Approval of additional promotional tasks
- . Non-bank financial institutions

Current position

- . Most tasks still in process
- . Special studies substantially completed.

## NEXT SIX MONTHS

### Objectives

- Continue to plan on six monthly basis
- Maintain flexibility and seek new alternatives

### Assumptions

- Modification to bank agreements
- Expansion of project to include NBFI's
- Barclays agreement end June
- KCB/KCFC agreement (in principle) end September
- IPS agreement August
- First NBFI review September

### Major Tasks

- Coordinate project direction with USAID
- Complete cooperatives study
- Complete pre-signing promotion tasks with IESC and Technoserve
- Commence PVO monitoring
- On agreement, agree TA plans with banks
- Complete promotional material

### New Task Activity

- Expect to commence discussions with IPS
- Expect to assist in review of first NBFI







UNITED STATES POSTAL ADDRESS  
US AID/NAIROBI  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

INTERNATIONAL POSTAL ADDRESS  
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NAIROBI, KENYA

March 22, 1985

Mr. Paul Shelton  
Director  
Deloitte Haskins and Sells  
Management Consultants Ltd  
P.O. Box 40092  
Nairobi

Subject: Rural Private Enterprise Project

Dear Paul:

Regarding the three issues addressed in Robin McPhail's letter of February 18th, the following represents the Mission's position.

1. Your request to purchase another computer to supplement the one originally shipped, is approved. We recommend that it be consigned to the Ministry of Finance and Planning to the attention of Mr. W.A.J. Tuva, Under-Secretary. Concurrent with this it would be appreciated if you would arrange to have Airway Bill relating to the first computer amended to show a new consignee. It should also be addressed to the Ministry of Finance and Planning, to the attention of the same Mr. Tuva.
2. Your recommendation to begin a promotional program for the RPE utilizing the services of I.E.S.C. and Technoserve is a good one and the Mission concurs. The task definition worksheets are consistent with the approved detailed workplan and are approved, as are your suggestions for the monitoring and budget allocation.
3. Your suggestion that Deloitte Haskins and Sells undertake to review and analyze the institutional capacity of a second group of financial intermediaries is also reviewed as a proper course of action. It is felt that

a request to do this should be initiated by the Ministry of Finance and Planning. A letter suggesting this course of action was sent to Winston Tuva on the 6th of March. The Mission expects to be asked to concur in the addition of Continental Bank in the not too distant future. When this happens, A.I.D. concurrence will be conditioned on an outside financial review. Thus, you can expect this to be a feature of future approvals. A.I.D. will advise DH&S when additional financial reviews should be commenced.

Sincerely yours,

  
Raymond F. Rifenburg  
Office of Projects

Mr. Ray Rifenburg  
USAID Mission  
Union Towers  
Mama Ngina Street  
Nairobi.

18 February 1985

Dear Ray

RE : CURRENT STATUS OF RPE PROJECT

Following our discussions last week with Bill Wood and yourself and the shift in project responsibilities which you described, I thought it would be useful to summarise the current status of the Rural Private Enterprise project. A brief status report is attached.

You have indicated that good progress is being made with finalizing the bank agreements and that this activity represents your highest priority. At the same time we have been examining ways in which project activity might be accelerated independent of the bank agreements but within the overall project scope. We see two major possibilities.

Our recent special study, on the non-bank financial institutions, recommended that some experimentation be made in using such institutions to achieve the goal of longer term lending. Although we understand that no further institutions can be brought into the RPE project until at least one of the commercial banks has signed an agreement, we think that steps could be taken now to pre-select sample NBFIs for inclusion in RPE. This, we think, would increase the banks interest through increased competition for funds.

Before a NBFI is selected we recommend that a more substantive review and analysis be made of the selected institution's capacity for and capability of managing RPE funds. Also the opportunity might be taken of reviewing the project conditions, in particular, the charging full NBFI interest rates (currently 19%). We have already discussed this proposal in outline with you and Bill Wood and we await your comments.

The second area of activity we recommend is the implementation of a preliminary project promotion plan without the involvement of the banks. The major objectives would be to:

- Develop a pipeline of potential "bankable" projects which might accelerate project disbursement once the banks sign.
- Develop experience in providing technical assistance for feasibility studies and management support using IESC and Technoserve resources.

We attach copies of draft work plans (task definition worksheets) and request that you approve these activities. We propose a limited level of effort of about three man-months and will review progress with you both during the work and at the end of April. Although such an activity was not envisaged in our contact, we think that it falls within the project scope and will help to move the project forward. Both Technoserve and IESC are substantially under budget in hours spent in the year to April 30, 1985. (See attached table, showing actual and budget mandays). The hours for these tasks would be reallocated from these first year budgets.

One further action point we would like to bring to your attention is the release of the Wang Computer from customs. Because of the delays that have occurred, we seek your approval that, if the computer is not released by the end of February, you will ship another computer out as soon as possible.

Please let me know if you have any questions regarding these proposals. We look forward to moving forward aggressively with RPE in the next few months.

Sincerely yours,



Robin McPhail  
Project Manager

c.c. Bill Wood

Enclosures

RM/cmn

Kenya Rural Private Enterprise Project

Status Report at February 12, 1985

Agreement with banks

Discussions continue with three banks. Standard now appears close to signing; Barclays have prepared paper supporting project participation. KCB awaiting completion of USAID 1. Continental application not actioned by Treasury yet.

Wang Computer

No progress has been achieved in obtaining the release of the computer from customs. We have recommended that approval be given to us to ship another machine.

Agribusiness Sector

Draft definition of agribusiness for purposes of project lending completed. W. Wood requested to obtain copy of recent, similar World Bank study.

KCB/PRE Project (USAID 1)

Evaluation report completed and project extended to February 1986. Discussions held with C. Gormley to integrate technical assistance with RPE project. DH&S has presented proposals to KCB outlining an approach.

Procurement Plan

Following establishment of Nairobi CIP office and discussions with S. Klaus, letter of request to waive advertising requirement submitted to contracting officer. Streamlined procedures established for procurement assistance.

PVO Monitoring

World Education not satisfied with DHS terms of reference and preliminary monitoring visit cancelled in December at WE's request. W. Wood requested to clarify situation.

Special Studies

Draft reports on Non-Bank Financial Institutions and Loan Guarantee Mechanisms approved by USAID. Final copies to be supplied next week.  
Co-operative Study draft report expected at end of February.

## KENYA RPE PROJECT

LEVEL OF EFFORT - ACTUAL AND BUDGET MANDAYS - YEAR 1

1ST MAY 1984 - 30TH APRIL 1985

	Deloitte		Technoserve		IESC	
	Budget	Actual	Budget	Actual	Budget	Actual
Mobilization	50	63				
Promotion	100	5				
Assistance to banks	206					
Feasibility studies	54		112		65	-
Direct Mgt Asst	15		150			
Training	15		13			
Procurement	50					
Monitoring	240	1				
Special studies	50	145	25	69		
Administration	120	144				
	900	358	400	69	65	-
Agribusiness study	-	25		7		
Pre-Approval Meetings	-	25				
	900	408	400	76	65	-

Total : 484 actual v 1365 budget mandays

Notes

1. Special studies were originally budgeted over years 1 and 2 (total 225 mandays) Actual projected to complete is 219.
2. The Agribusiness study and Pre-approval meetings with the banks were not included in original budget.