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USAID

KENYA RURAL PRIVATE ENTERPRISE PROJECT

REPORT FOR

THE SIX MONTHS ENDING 30TH NOVEMBER 1985

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1. INTRODUCTION

No agreements have been signed between the Government of Kenya and the three commercial banks with which negotiations had started. The delay has been caused by the Government of Kenya having not fulfilled one of the conditions precedent that requires setting up a discount facility at the Central Bank. The mission has held several meetings to try and resolve this issue but by the time of writing this report, the negotiations were still proceeding.

2. BANK NEGOTIATIONS

Negotiations with the three commercial banks made substantial progress during the period. The draft agreement between the Ministry of Finance and the participating commercial banks has had the following changes incorporated into it:

- a) The restriction that loans made under the RPE project would not be counted as part of the Government of Kenya's requirements that 17% of bank loans be made to the agricultural sector has been waived.
- b) The requirement that the commercial banks should provide locally generated matching funds in Kenya shillings equal to the amount to be received from USAID has been eased from 1:1 to 1:2.
- c) The 1% standby fee for failure to meet a pre-agreed disbursement schedule has been waived.

The banks have received these changes positively.

Standard Chartered Bank (Africa) Ltd is ready to sign the agreement. Following what the bank now views as positive demand for RPE funds, it has decided to increase its application for funds from US\$ 0.5 million to US\$ 1.725.

The lawyers of Barclays Bank of Kenya Limited have approved the draft agreement. The bank is satisfied with the three changes as these were the main issues that they had raised in earlier negotiations.

Kenya Commercial Bank Ltd was also satisfied with the changes. KCFC is running out of lines of credit and is looking forward to utilizing the RPE line of credit by end of February 1986 when the USAID/PRE line expires.

3. REVOLVING FUND

Under the agreement dated 25th August, 1983, between the Government of Kenya (GOK) and the US Agency for International Development, one of the conditions precedent to disbursement of the loan is that:-

The GOK will produce evidence that a Special Account has been established at the Central Bank of Kenya into which payments from the commercial banks will be made. It was agreed further that:-

- a) The GOK would provide the necessary personnel to ensure the effective management of the Special Account.
- b) All repayments to the above account, less the payments necessary to service the USAID loan, would be re-lent to banks for on-lending to rural private enterprises.

A detailed description of the discount facility (now referred to as the revolving fund) was prepared by USAID in consultation with the Central Bank and the Treasury, and submitted by Project Implementation Letter to Treasury. Subsequent to this letter, the Treasury has expressed reservations on the appropriateness of such a fund to be maintained at the Central Bank. The Treasury has proposed verbally that each participating bank should set up its own revolving account. Representatives of the three banks have also expressed a preference of operating a revolving account at their own banks.

Negotiations are still proceeding between USAID and Treasury on this issue. The setting up of this facility is perceived as the only major issue delaying the start of the project.

4. SPECIAL STUDIES

Further to the two studies that were submitted to USAID during the last reporting period, we submitted the final draft of the third and final special study on co-operatives. This study was prepared by Technoserve Inc. under our supervision. The draft will be finalised on receipt of clearance by the Mission.

The purpose of this special study was to examine the potential role of co-operatives to further expand rural private enterprises in Kenya.

The study recommends technical assistance to individual members of co-operative, agricultural co-operative and savings and credit co-operative. Other recommendations include a pilot program where individual members of one or two selected co-operatives could be financed jointly by the co-operative and a USAID scheme, in order to enable financing larger enterprises than are currently possible under the existing co-operative credit schemes.

5. OTHER PROJECT ACTIVITIES

a) Agribusiness Sector Review

Under a special task agreed with the Mission, we carried out a preliminary review of the agribusiness sector in Kenya to discern the problems that smaller and larger-scale firms face when considering business expansion. As a first step to this review we developed a working definition of the term "agribusiness for the purpose of RPE project eligibility".

In July 1985, we presented a memorandum on the sector review. Some of our findings were:-

- . larger-scale agribusiness firms frequently have the capacity to finance their expansions through utilization of internally generated funds or through rolling over overdrafts. Their major constraints include inelastic supply of quality agricultural raw materials, lack of appropriate management and technical skills, GOK policies, inability to penetrate export markets (reflecting lack of export marketing skills, and inadequate marketing intelligence.
- . smaller-scale businesses have only very restricted access to project finance because banks perceive lending to such projects as more risky. In addition, the level of internal generation of finance is limited by the relatively low levels of technical and management skills.

Most of the weaknesses identified in this review have been addressed in the RPE project. However, the larger projects need some support to enable them to penetrate the export markets. Additionally, the smaller projects might have more access to long term credit if a loan guarantee or similar mechanism is set up.

b) Prior - RPE Experience

Under a second special task, we have completed a review of other programs similar to RPE : the purpose of this review was to identify pertinent lessons for RPE. We have prepared a discussion paper to be submitted to USAID.

We reviewed programs being operated by KCFC, IDB, DFCK and KIE. Some of the findings of this review are:

- . programs of development finance companies have suffered from lack of long term local currency, shortage of working capital, foreign exchange risk, lack of systematic follow-up.
- . programs of commercial banks have been affected by high demand for collateral, lack of long term loans, weak credit analysis, delays in project implementation, cost over-runs etc.
- . problems related to entrepreneurs include: lack of proper planning, diversion of project funds, reluctance to repay loans from Government related institutions, and lack of specialisation (diverse investments).
- . there are also problems which are related to the economy which include: price controls, devaluation, lack of infrastructure, limited local market, regular credit squeezes, and occasional lack of spare parts and imported raw materials.
- . the way some of the programs are structured also cause their own problem such as: cumbersome procurement regulations, lack of precise definitions of the lending areas, too many conditions, and existence of many foreign lines of credit.

The conclusion that can be drawn from this review is that; the development banks could resolve some of their problems if some kind of arrangement could be made to give them access to RPE funds, perhaps on condition that approval to finance any project must be approved by USAID or the contractor. Problems related to the commercial bank will take much longer to resolve but some are being addressed under the RPE. Most of the problems related to the economy can be resolved through structural adjustment programs. At the time of a credit squeeze a mechanism to provide foreign exchange to private enterprises for spare parts and raw materials should be set up.

c) Presigning Promotion Activities

The promotion exercise which was started in the last reporting period has now been completed. While undertaking this exercise, we interviewed a broad range of prospective entrepreneurs. Our conclusions in this exercise are that:

- . The demand for project finance appears to be strong and there is a broad variety of planned projects which have not been undertaken either due to lack of appropriate finance or the inability of sponsors to provide sufficient collateral.
- . Strong resistance to cost-sharing for technical assistance under RPE can be expected both for preparation of feasibility studies and other management assistance. In particular, it appears that entrepreneurs will be very reluctant to pay more than a minimum contribution. The RPE project requires cost-sharing but no precise guidelines for establishing appropriate sharing arrangements have been established.
- . Following the limited exercise that we carried out, we are now receiving numerous inquiries both from new entrepreneurs and as a follow up to the interviews that we carried out. This implies that as soon as the RPE project starts, there will be no shortage of project applications.

Since the banks appear to be ready to sign and there are some projects ready to put in their applications under the RPE scheme, the Mission may wish to consider allowing the banks to sign the agreements and start lending on a limited basis. This would enable the banks to streamline their lending in accordance with the RPE conditions, while the Mission continues negotiating with the GOK.

6. P V O MONITORING

The initial review of the co-operative agreement, related to US Federal Government requirements and World Education's procedures manual, was completed in July 1985. Background details and documentation have been compiled to form a permanent record of World Education's operational objectives, policies and systems for this project. The system of accounting and internal control was ascertained and recorded in flowcharts and supplementary notes. The system was tested to ensure that it operated as recorded and then was evaluated.

A detailed review program was compiled to streamline our approach to the review of each quarter's return to USAID, and the tests applied to the records and working papers supporting the returns for the quarters 30-6-84 to 30-9-85.

Our objectives in the near future are to complete:

- i) the testing of transactions through to 31/12/85;
- ii) the review of the return for the quarter to 31/12/85;
- iii) summarise our findings and conclusions in a report to USAID.

7. ADMINISTRATION

In anticipation of increased activities of the project, some changes in the project team were proposed to and approved by the Mission. Mr. Barry Clatt took over from Mr. Robin McPhail as the Project Manager and moved to our Nairobi office to provide on-site management. Mr. McPhail assumed the role of Project Director from Mr. Douglas Stevens. Mr. McPhail will be based in Washington and will have the overall responsibility for the implementation of the Contract.

Mr. Paul Shelton was transferred to our UK firm. His responsibilities as Field Director of the RPE project were taken over by Mr. Peter Ginnings who took over as the Chief Executive of our Management Consultancy firm in Kenya. In addition, Mr. Gregg Wiitala, the Technoserve Managing Director, took over from Mr. Mike O'Donnell as Technoserve's project manager on RPE.

AGENDA

1. Status of GOK/AID discussions
2. 6 - month Workplan draft
3. Draft Project Report
6-month to 30 November 1985
 - . Bank Negotiations
 - . Revolving Fund
 - . Co-op Study
 - . Agri-business Sector Review
 - . Prior RPE Experience
 - . Pre-signing Promotion Activities
 - . PVO Monitoring
4. KCB PRE Project Status
5. Project Computer
6. Permission to Approach Banks

II. Purpose of Consultancy:

1. Install the newly designed financial and accounting systems/procedures of our client, Jisaidie Cottage Industries, and train pertinent employees in bookkeeping and stores operations.
2. Participate in preparation of the 1986 JCI Business plan for those sections and portions related to Financial Management and Accounting and train Accountant Trainee Mr. Kariuki in the same.

III. Terms of reference for the Consultant:

1. Determine that all required books, forms and accounting records are available in each unit.
2. Organize a one-day seminar in Nairobi of all JCI accountants and bookkeepers to introduce the system and its operations, thereby, setting the stage for more efficient on-the-job-training.
3. Starting from the 1984 audit point, recreate 1985 financial statements on the new forms.
4. Train pertinent accountants, bookkeepers and stores keepers of each unit in the system using the results of their units as the medium of instruction.
5. Generate full set of financial statements, ie. income statements, balance sheet including ageing of receivables and payables for units separately and on a consolidated basis.
6. Training the key personnel Mr. S. Kariuki who is to accompany consultant throughout the exercise.
7. Where inadequacies or special additional needs are perceived in the systems, the consultant will supply forms and training.
8. To oversee opening of 1986 books of account for all units.
9. Carry out a monitoring of each unit's adherence to new systems for three months following the completion of above work.

10. Consultant will act as Financial Advisor and as a member of the Business Plan Preparation Committee, meeting weekly at the JCI GM's office.
11. Taking the Business plan outline as his base, the consultant will carry out all sections and particulars in the areas of finance and accounting and train Mr. S. Kariuki on the same.
12. Consultant will see through entire process of Business plan preparation. It is estimated that it will be finished and presented to the JCI Board mid-February.
13. Consultant may be called upon to answer JCI Board Members' question on pertinent parts of the plan.

IV. Duration and Co-ordination:

Up to 80 person days, starting immediately. Co-ordination with REP will be through F.O'Regan - Project Director, Mr. Joseph Burke - Marketing/General Management Consultant and Stephen Mirero - Lead Person on JCI project.

ADDENDUM

SIX-MONTH WORKPLAN TO 30TH APRIL 1986

BACKGROUND

Tasks Completed During Previous Six-Month Workplan

1. Completion of Prior RPE Experience Report
2. Completion of Project Identification Report
3. Agribusiness Review completed and submitted
4. Special study on Co-operatives completed and submitted
5. PVO monitoring - World Education: Preliminary Review completed

NEXT SIX MONTHS

Objectives

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

Assumptions

1. Revolving fund set up; agreement reached by 30th March 1986 between GOK and USAID.
2. GOK, USAID and banks finalize agreements as follows:
 - . Standard Chartered - 30th April 1986
 - . Barclays - 31st May 1986
 - . KCB - 30th June 1986

Major Tasks

No major task activity envisaged until end of period.

New Task Activity

- Proceed with technical assistance projects to World Education clients
- Engage in comprehensive, preliminary project planning with all three banks

Tasks	Time:	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	ESTIMATED MAN-DAYS PER TASK
Feasibility Studies								30
Technical Assistance to World Education Clients								45
Preliminary Project Planning with Banks								30
<u>Inactive Tasks</u>								
Procurement								N/A
Training								N/A
Monitoring								N/A
NBFI Financial Review								N/A
Direct Management								N/A
							TOTAL	336

KENYA RPE PROJECT

BUDGET REVIEW TO 30.10.85

		\$ ACTUAL	\$ TOTAL BUDGET	% TOTAL
1.	Direct Labour	43850	146174	30%
2.	Overheads	34861	116209	30%
3.	Travel	35469	170691	21%
4.	Consultants			
	DH+SA	81278	543705	15%
	Technoserve	34246	595578	6%
	Others	8386	181944	5%
5.	Other Costs	11531	11531	100%
	G + A	21242	141267	15%
	Fixed Fee	9697	64487	15%
<i>Time</i>	<i>Period elapsed.</i>	<i>1½</i>	<i>5</i>	<i>30%</i>

KENYA RPE PROJECTLEVEL OF EFFORT - ACTUAL AND BUDGET MANDAYS - 1½ YEARS1ST MAY 1984 - 31ST OCTOBER 1985 (CUMULATIVE)

	Deloitte		Technoserve		IESC	
	Budget	Actual	Budget	Actual	Budget	Actual
Mobilization	60	63	-	-	-	-
Promotion	100	38	-	18	-	4
Assistance to banks	340	-	-	-	-	-
Feasibility studies	116	14	238	-	98	-
Direct Mgt Asst	32	-	275	-	-	-
Training	35	-	22	-	-	-
Procurement	69	-	-	-	-	-
Monitoring	449	7	-	-	-	-
Special studies	160	145	80	76	-	-
Administration	225	222	-	-	-	-
	1,586	489	615	94	98	4
Agribusiness study	-	25	-	7	-	-
Pre-Approval Meetings	-	25	25	-	-	-
	1,586	514	615	101	98	4

Total : 619 actual v 2281 budget mandays

Note: The Agribusiness study and Pre-approval meetings with the banks were not included in original budget.

TASK DEFINITION WORKSHEET

(See Guidelines for Preparation on reverse side)

Task Title: Preliminary Project Planning with Banks Time Budget: 30 mandaysAssigned Leader: Barry Clatt Sched: Start: 14th Feb 1986 End: 31st March 1986Assigned To: Barry Clatt, M Thiribi, _____, _____, _____, on _____

TASK OBJECTIVE AND SCOPE

- Establish dialogue with the banks
- For each bank identify a liaison officer for project implementation
- Review bank lending procedures for the target group and match them with the lending and reporting procedures under the RPE

APPROACH AND METHODS

- Meet the bank top Credit Managers to discuss lending procedures and brief them on RPE program.
- Meet small number of rural Branch Managers to understand their attitudes to rural lending and the lending procedures between the branch and Head Office

TASK OUTPUT REQUIREMENTS

- A brief document describing the procedures and highlighting issues

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
1. <u>Preliminary meetins w/b</u>	<u>28/2/86</u>	3. _____	_____
2. <u>Final documents</u>	<u>31/3/86</u>	4. _____	_____

APPROVALS

	Init.	Date		Init.	Date
1. Task Definition	_____	_____	2. Task Completion	_____	_____

TASK DEFINITION WORKSHEET

(See Guidelines for Preparation on reverse side)

Task Title: Technical Assistance to World Education Clients Time Budget: 80 mandays

Assigned Leader: M Thiribi Sched: Start: _____ End: _____

Assigned To: Thiribi, McConville, _____, _____, _____, on _____

TASK OBJECTIVE AND SCOPE

Install newly designed financial and accounting procedures of Jisaidie Cottage Industries and train pertinent employees in bookkeeping and stores operations.

APPROACH AND METHODS

- Assist in preparing a business plan
- Organise a seminar for all accountants and bookkeepers to introduce the new accounting procedures
- Follow up the seminar with on the job training at each unit
- Monitor each units adherence to new systems

Detailed scope of work attached

TASK OUTPUT REQUIREMENTS

A brief handover report to World Education pinpointing areas to be monitored constantly.

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
1. <u>Business Plan</u>	<u>15/3/86</u>	3. <u>Training at units</u>	<u>30/4/86</u>
2. <u>Seminar</u>	<u>15/3/86</u>	4. <u>Handover report</u>	<u>31/7/86</u>

APPROVALS

	Init.	Date		Init.	Date
1. Task Definition	_____	_____	2. Task Completion	_____	_____