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DELOITTE
HASKINS & SELLS

KENYA RURAL PRIVATE ENTERPRISE PROJECT

REPORT OF THE SIX MONTHS ENDED
31st OCTOBER 1986

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

NOVEMBER 1986

USAID KENYA RURAL PRIVATE ENTERPRISE PROJECT

REPORT FOR

THE SIX MONTHS ENDED 31ST OCTOBER 1986

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1. PROJECT STATUS

In the early part of the period, major negotiations were held between USAID, Treasury, the Central Bank of Kenya, and Deloitte Haskins & Sells, with the goal of re-drafting the project agreement and substituting project agreement amendments to satisfy all parties to the original contract. A major agreement was that the Central Bank of Kenya would act as RPE agent for the Ministry of Finance, and CBK would issue a circular which would serve as the mechanism for disbursing funds through commercial banks to sub-borrowers. CBK presented the draft circular to all parties present, which reviewed the document and agreed to its contents in principle.

The Ministry of Finance, the Central Bank of Kenya and USAID agreed to all terms and language of the revised RPE project description. In July 1986 the Ministry of Finance submitted to USAID a letter proposing the following;

- (a) the revised amplified project description;
- (b) revolving fund procedures;
- (c) that banks may participate in RPE through the Central Bank of Kenya circular.

The letter also stated that the documents were submitted in satisfaction of the remaining conditions precedent, and appointed the Central Bank of Kenya as RPE funds agent. (See exhibit C). In November, USAID issued its RPE implementation letter No.14 stating that all terms and conditions for RPE have been met and that the program would be operative once the Central Bank of Kenya has issued its circular. (See exhibit C).

The Board of Directors of the Central Bank has approved the RPE project and the circular, the issuance of which is now imminent. An important note is that the Minister of Finance is now directly involved in seeing the project to a successful beginning. The Ministry of Finance has required that the loans be offered to sub-borrowers at less than the maximum permissible interest rate to allow funds to have greater developmental impact and reach a broader spectrum of Kenyan entrepreneurs. The lending rate to RPE sub-borrowers has now been fixed at 12% p.a and the commercial bank borrowing rate at 7% p.a on a declining balance.

2. OTHER PROJECT ACTIVITIES

Several other tasks were undertaken during this six-month period, as follows:

- o Draft report on silos financing under RPE submitted to USAID.
- o Draft updated operations procedures manual for RPE submitted to USAID.
- o A report on the accounts of ten units of Jisaidie Cottage Industries, a client of World Education, were completed and submitted.
- o A review of World Education's new budget request was undertaken with USAID.
- o Completion of draft RPE press release as beginning of marketing materials effort.
- o Completion of feasibility study model to assist DH&S in sub-borrower project appraisal.
- o Work on creation of draft RPE loan rating system to discuss with commercial banks.
- o Completed list of sub-consultants to which RPE feasibility work and technical assistance may be given.
- o Reviewed disbursement and general operations procedures with Central Bank of Kenya and consulted with them on RPE operations.
- o Prepared commercial bank RPE reporting forms.
- o Completed draft monitoring report of World Education, Inc.

3. ADMINISTRATION

During the period under review, several new USAID project personnel arrived on-site and have quickly begun administering RPE. The new staff involved with RPE includes Mr. Peter Leifert, private enterprise project chief; and Mr. Mike McWherter, private sector specialist. The Mission's new director, Mr. Steven Sinding, assumed responsibilities during this six-month period as well. As RPE becomes more and more active, Mr. Justus Omolo will serve as daily RPE contact for regular and on-going matters. Mr. Gordon Bertolin who has actively managed RPE since its inception, will work on the project on an advisory basis.

In the latter part of the period, Mr. Omolo continued discussions with the Ministry of Finance officials on the release of the two RPE computers. Now that the computers are specifically written into the revised amplified project description, their release is now not viewed as a problem.

In addition, bi-weekly meetings with USAID continued on an as-needed basis during the period under review.

4. PROJECT WORKPLAN AND BUDGET

The workplan for the six months ending April 1987 is based on the assumption that the three banks which have already submitted applications will have accepted the terms of the CBK circular and start appraising projects for financing under the RPE by January 1987. 275 mandays are budgeted for the six months.

The main tasks envisaged during this period are:

- o Assistance to banks
- o Promotion
- o Bank monitoring
- o Feasibility studies
- o Procurement assistance

The detailed workplan is included in exhibit A.

Actual level of effort under the contract during the 2.5 years ending 31st October 1986 was 888 mandays compared with 3,941 budget mandays.

ADDENDUM

SIX MONTH WORKPLAN TO 30TH APRIL 1987

BACKGROUND

Tasks Completed During Previous Six Months Workplan

- Submitted a report on silos
- Completed draft of procedures manual
- Drafted format of feasibility studies
- Delivered report on Jisaidie Cottage Industries.

NEXT SIX MONTHS

Assumptions

1. Central Bank of Kenya issues the circular inviting Commercial Banks to participate in the RPE Project by end of November 1986.
2. The three banks which have already submitted applications (Kenya Commercial Bank, Barclays and Standard) confirm in writing the amount they desire to borrow and acceptance of the terms of the Central Bank Circular by end of December 1986.
3. AID issues an Implementation Letter approving the amount applied for by each bank and the drawdown schedules by mid January 1987.
4. Commercial banks start appraising the first set of applications in January 1987.

Activities during the next Six Months

1. DH&S meets with Central Bank of Kenya.
 - To review Reporting procedures.
 - Other issues such as internal training.

2. DHS Approaches the original participating banks (KCB, BBK, SCB) to discuss:
 - . New changes
 - . Role of DH&S
 - . Agree on promotion methods
 - . Permission to meet area managers and main branch manager
 - . Review banks' policies and procedures and develop RPE reporting systems
 - . Discuss with banks their technical assistance needs
 - . Draw up a program for grant assistance.
3. DH&S meets related institutions e.g. IPC, KNCC, KAM etc. to promote the RPE project.
4. Feasibility Studies
 - . preparing terms of reference
 - . carrying out studies
 - . allocating studies to other consultants
 - . supervising work of other consultants.
5. Monitoring WE to continue
6. Monitoring banks starts.
7. Procurement Assistance
 - . identifying procurement needs
 - . references to commodity information retrieval systems at CIP office
 - . monitoring procurement procedures and actual procurement

TASK DEFINITION WORKSHEET

(See Guidelines for Preparation on reverse side)

Task Title: Administration - General Project Management Time Budget: _____

Assigned Leader: R McPhail Sched: Start: 1 November 1984 End: 30th April, 1984

Assigned To: R McPhail, M Thiribi, P Shelton, P Toomey, on _____

TASK OBJECTIVE AND SCOPE

To provide resources to ensure that all major project tasks are coordinated, deadlines met and reports prepared on a timely basis. As deemed necessary, process modifications to existing task definitions.

APPROACH AND METHODS

1. Meet with AID project staff on regular basis to review progress.
2. Meet with task leaders on regular basis to review progress and agree modifications to task definitions.
3. Meet with external project related parties on as needed basis.
4. Prepare and discuss reports with AID.

TASK OUTPUT REQUIREMENTS

Periodic reports as required by Contract.
 Correspondence as needed
 Invoices
 Modified task definitions as required
 Workplan for next 6-12 month period.

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
1. Progress Meetings	Various	3. _____	_____
2. Next period workplan	30th April 1984	4. _____	_____

APPROVALS

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

TASK DEFINITION WORKSHEET
 (See Guidelines for Preparation on reverse side)

Task Title: Preliminary Project Planning with Banks Time Budget: _____
 Assigned Leader: Barry Clatt Sched: Start: 14th Feb 1986 End: 31st March 1986
 Assigned 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. Preliminary meetins w/b	28/2/86	3. _____	_____
2. Final documents	31/3/86	4. _____	_____

APPROVALS

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

TASK DEFINITION WORKSHEET
 (see Guidelines for Preparation on reverse side)

Task Title: Bank Assistance / Standard Bank PLC Time Budget: _____
 Assigned Leader: R. McPhail Sched: Start: 15th Jan. 1985 End: 15th Feb. 1985
 Assigned To: H. Thiribi Consultant, Bank representative, on _____

TASK OBJECTIVE AND SCOPE

to ensure that the demand for funds and technical assistance is not constrained by lack of knowledge about the project among the bank staff.

APPROACH AND METHODS

1. Review bank policies and procedures (see attached)
2. Review final agreement with management (see attached)
3. Establish the bank' requirement for technical assistance (see attached)
4. Establish TA implementation timetable
5. Agree reporting format
6. Determine internal promotional requirements.

TASK OUTPUT REQUIREMENTS

1. Prepare a brief procedure pamphlet
2. Summary of the agreement highlighting require conditions.
3. Technical assistance plan
4. Standard reporting format
5. Promotional Literature for staff

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
<u>Draft TA Plan</u>	<u>10th Feb. 1985</u>	3. _____	_____
<u>Agreed Final Plan</u>	<u>15th Feb. 1985</u>	4. _____	_____

APPROVALS

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

Approach and Methods

1. Review bank policies and procedures (in order to accommodate our future operations within the established framework and establish communication channels).
 - (a) credit policy
 - (b) application procedures
 - (c) approval procedures
2. Review final agreement with management.
 - (a) make sure there is understanding of all conditions
 - (b) summarise the agreement in general terms
 - (c) discuss the summarised agreement with credit officers.
3. Establish the banks requirement for T.A.
 - (a) meetings to explain available assistance
 - (b) assist the banks to identify their needs
 - (c) assist banks to prepare TA plan.
 - (d) agree draft plan with AID
 - (e) finalise plan

TASK DEFINITION WORKSHEET
 (See Guidelines for Preparation on reverse side)

Task Title: Promotion - Develop project Pipeline /Standard Time Budget: _____
 Assigned Leader: M. Thiribi Sched: Start: 15 Feb. 1985 End: 31 March, 1985
 Assigned To: Thiribi, Consultant, Bank Representative, on _____

TASK OBJECTIVE AND SCOPE

- o To ensure that potentially viable projects are not discouraged due to problems that can be solved under the project. And to develop preliminary list of potential projects.

APPROACH AND METHODS

- o Select sample bank branches
- o Review the branches procedures for documenting applications
- o Establish a system of identifying potentially viable projects and ensuring that all outstanding issues are exhaustively discussed before removing the project from the pipeline
- o With help of the branch managers, identify project ideas suited to the local environment
- o Establish a procedure of referring some projects to the contractor

TASK OUTPUT REQUIREMENTS

- o Prepare a project pipeline format to be discussed with head office.
- o Preliminary list of potential projects

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
<u>Pipeline format</u>	<u>15 March, 1985</u>	3. _____	_____
<u>Pipeline Project List</u>	<u>15 March, 1985</u>	4. _____	_____

APPROVALS

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

BBK 14th May
 31st May

TASK DEFINITION WORKSHEET
 (See Guidelines for Preparation on reverse side)

Task Title: Feasibility Studies Time Budget: _____
 Assigned Leader: R McPhail Sched: Start: 1st March 1985 End: 30th April, 1985
 Assigned To: Consultants (DH&S)/Technoserve/IESC, _____, _____, _____ on _____

TASK OBJECTIVE AND SCOPE

- To supplement banks' capacities to perform feasibility studies.
- To gain experience on carrying out feasibility studies under the Contract.

APPROACH AND METHODS

1. Identify project(s) requiring a feasibility study.
2. Discuss the project with the applicant to agree TOR and cost.
3. Identify suitable consultants for the study.
4. Carry out the study/studies.

TASK OUTPUT REQUIREMENTS

Feasibility Study report(s)

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
1. Feasibility reports	30th April 1985	3. _____	_____
2. _____	_____	4. _____	_____

APPROVALS

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

TASK DEFINITION WORKSHEET
 (See Guidelines for Preparation on reverse side)

Task Title: Develop Plan for Monitoring and Audit Time Budget: _____
 Assigned Leader: R. McPhail Sched: Start: 1 Sept. 1984 End: 30 Sept. 1984
 Assigned To: D. Ndonye, Audit Manager, on _____

TASK OBJECTIVE AND SCOPE

To develop an initial approach to managing and performing the monitoring function and determine resource requirements.

APPROACH AND METHODS

Review project requirements in detail and develop initial approaches to:

- . Review PVO activities
- . Obtain reports from banks

Determine preliminary timetable and level of effort required.

TASK OUTPUT REQUIREMENTS

Draft workplan and timetable.

TASK CHECKPOINTS

Description	Date Due	Description	Date Due
1. <u>Draft workplan</u>	<u>30 Sept. 1984</u>	3. _____	_____
2. _____	_____	4. _____	_____

APPROVALS

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

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KENYA RPE PROJECT
BUDGET REVIEW TO 30.10.86

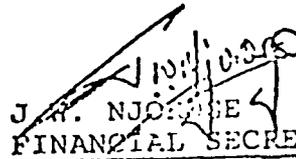
	<u>Actual To</u> <u>OCT. 1986</u>	<u>Total</u> <u>BUDGET</u>
	<u>US\$</u>	<u>US\$</u>
1. Direct Labour	88,843	146,174
2. Overheads	70,630	116,209
3. Travel	45,383	170,691
4. Consultants		
DH&SA	153,711	525,236
Technoserve	34,584	595,578
Others	8,386	181,944
5. Other Costs	25,553	30,000
6. G & A	35,302	141,267
7. Fixed Fees	<u>16,115</u>	<u>64,487</u>
	<u>487,507</u>	<u>1,973,586</u>

Of particular importance in ensuring the rapid and effective implementation of the project are the following provisions:

1. the Central Bank of Kenya is hereby designated an authorized agent for the Government of Kenya;
2. A.I.D., in consultation with the Ministry of Finance, will make available and administer grants to participating commercial banks in accordance with the guidance and criteria contained in the project Agreement;
3. Non-Bank Financial Intermediaries will be eligible to participate in the programme only through participating commercial banks.

Your early concurrence will enable this important project to make its appropriate contribution to the rural enterprise objectives enunciated by our Minister in his presentation of the Budget to Parliament on 12 June, 1986.

Yours *Sincerely,*


J.W. NJOROGE
FINANCIAL SECRETARY/TREASURY

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA
OFFICE OF THE DIRECTOR

POST OFFICE BOX 30261
NAIROBI, KENYA

10 NOV 1986

Mr. Harris Mule
Permanent Secretary
Ministry of Finance
P.O. Box 30007
Nairobi

Subject: A.I.D. Project No. 615-0220
Rural Private Enterprise Project
Implementation Letter No.14

Dear Mr. Mule:

This letter acknowledges receipt of the letter from the Financial Secretary (Reference No. CONF 235/54/03) of July 31, 1986 and its attachments concerning the revised implementation arrangements for the Rural Private Enterprise Project. It also responds to concerns raised by the Minister of Finance on October 27. A.I.D. has reviewed these documents and found them consistent with the Project Authorization and Project Agreement. We are therefore pleased to concur in these proposed revisions to the commercial bank component of the Agreement Amplified Project Description as described in Attachment 1 to the referenced letter. It is understood that the sections of the Amplified Project Description not specifically modified by these revisions remain unchanged.

In matters dealing exclusively with the loan program, A.I.D. will accept and act upon requests received from the Central Bank of Kenya and will respond directly to the Central Bank of Kenya as the authorized agent of the Ministry of Finance with all correspondence addressed to both the Permanent Secretary, Ministry of Finance and the Central Bank.

The Conditions Precedent specified in Section 5.2 of the Project Agreement will be met in the revised implementation arrangements as follows:

Section 5.2(a) will be met when the Central Bank of Kenya issues a circular to commercial banks which formally announces the program and the availability of the detailed program description contained in Attachment 2 to the referenced July 31 letter. In accordance with Section 6.1(c) of the Project Agreement, the following language should be incorporated into Attachment 2: "All projects financed by loans under this program must comply with Government of Kenya environmental laws and regulations."

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With respect to Section 5.2(b), the commercial bank's application, based on and accepting the terms of the detailed program description, and the Central Bank of Kenya allocation will constitute an "agreement" for the purpose of this condition precedent. Once the Central Bank of Kenya has received and reviewed a commercial bank's application to participate in the program, the Central Bank of Kenya will request A.I.D. concurrence in the loan amount, drawdown period and amounts for off-shore procurement. A.I.D. concurrence will then be transmitted through an Implementation Letter. This concurrence will satisfy Section 5.2(b) and will be required before funds are made available to a particular commercial bank and before any letter of commitment may be opened.

Section 5.2(c) has been met by Attachment 3 to the Ministry of Finance submission of July 31, 1986.

For the three banks which have already submitted applications (Kenya Commercial Bank, Barclays and Standard) we would agree that no new submission by these banks be required, provided that these banks confirm in writing the amount they desire to borrow and their acceptance of the terms of the Central Bank circular. In these cases the Central Bank of Kenya could immediately present the loan amount, drawdown period and off-shore procurement data to A.I.D. for concurrence as described above.

Further to our discussions of October 27 and 29, and in view of the current Treasury bill selling rate of below 11% and an inflation rate of approximately 7%, 12% per annum is considered a reasonable commercial lending rate for purposes of this project. A.I.D. also agrees that a reduction from the maximum interest rate is desirable as a promotional tool. Therefore, it is hereby agreed that project funds will be lent by participating banks to eligible enterprises at a commercial rate not to exceed 12% per annum. Funds will be lent to borrowers at 12% unless and until the commercial lending ceiling falls to below 12%, in which case the participating bank lending rate will fall with the ceiling. If the commercial lending ceiling is raised above the current 14%, the project lending rate will be maintained at 2% below the ceiling.

The interest rate spread allowed commercial banks will be 5%. If the lending rate to borrowers is raised, the lending rate to banks would also be raised in order to maintain a 5% spread. If the lending rate to borrowers is lowered to 12% or below, the lending rate to banks will be adjusted to maintain a 5% spread.

- 1/6

The Government of Kenya, A.I.D. and participating financial institutions will jointly review project status quarterly. These parties will also conduct an in depth assessment of the terms, conditions and procedures of the program one year from the date of this letter to assess its effectiveness in reaching target businesses. This review will consider the loan terms, the participating financial institutions, the rates of commitment and disbursement, and loan beneficiaries. Following this review the program will be amended as needed and agreed by all parties to increase its impact and effectiveness.

Interest payments by participating banks will now be distributed as follows: 5% to the Special Account Refinancing Mechanism and 2% directly to the Paymaster General Account. The Amplified Project Description of the Project Agreement and the announcement to participating banks have been modified to reflect the above-described modifications.

The disbursement of loan funds to the commercial banks will start with a request by the Central Bank of Kenya for an advance based on estimated disbursements to commercial banks over the next 90 days. The A.I.D. Regional Financial Management Centre (RFMC) will then disburse the funds to the Central Bank in 30 day tranches. The Central Bank of Kenya will then report to A.I.D. monthly on disbursements made and request any appropriate adjustment in funds needed for the upcoming 90 days. Copies of all reports received from commercial banks should be forwarded immediately to A.I.D. A.I.D. will advise participating banks directly with copies to the Ministry of Finance and the Central Bank of Kenya of the commodity procurement requirements and procedures.

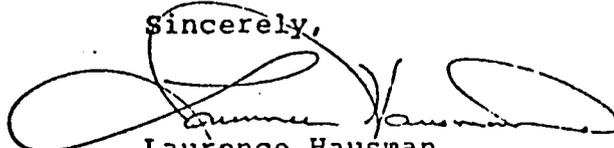
Deloitte Haskins and Sells, the Management and Technical Assistance Contractor for the Project, will directly contact each commercial bank participating in the program to develop a program to increase the business advisory service capacity of the commercial bank. Deloitte Haskins and Sells and the commercial bank will then draw up a program for grant assistance. A.I.D. will thereafter incorporate this program into a PIO/T for Ministry of Finance and Central Bank of Kenya signature. Following such government concurrence of the grant funds expenditure, A.I.D. will make and disburse the grant directly to the commercial bank (as per the revised Amplified Project Description and Ministry of Finance letter of July 31, 1986). To the extent that each bank's lending program justifies "incentive payments" for small loans, such payments will be disbursed directly and immediately by A.I.D. upon receipt of the relevant report through the Central Bank of Kenya from the commercial bank.

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A.I.D. understands that the way is now clear for the clearance from customs of the two computers, one of which will be used by the Central Bank of Kenya and the other by Deloitte Haskins and Sells during the life of the project.

A.I.D. would appreciate your concurrence with the content of this Implementation Letter. This Implementation Letter supersedes Implementation Letters Nos. 11, 12, and 13. We are of course available to respond to any problems or questions you may have concerning interpretation of this Letter or the Agreement.

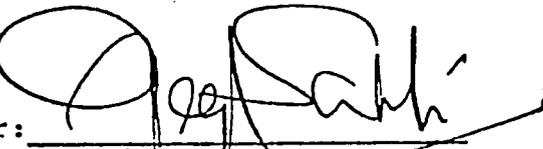
Sincerely,



Laurence Hausman
Acting Director

Attach: - Amplified Project Description
- Announcement to Participating Banks

Concur:



Authorized Representative
Ministry of Finance

Date:

11/11/86