AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT DATA SHEET

A A = ADD
C = CHANGE
D = DELETE

NUMBER

CODE 3

2. COUNTRY/ENTITY
KENYA

3. PROJECT NUMBER
[615-0263]

4 BUREAU/OFFICE
AFRICA [06]

5. PROJECT TITLE *(maximum 40 characters)*
MICRO-PRIVATE ENTERPRISE DEVELOPMENT

6 PROJECT ASSISTANCE COMPLETION DATE (PACD)
09/30/00

7. ESTIMATED DATE OF OBLIGATION
(Under 'B', below, enter 1, 2, 3, or 4)
A. Initial FY95 B. Quarter 4 C. Final FY00

8. COSTS ($000 OR EQUIVALENT $1 = X)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
) Appropriated Total						
(Grant)	(2,500)		(2,500)	(12,000)	-	(12,000)
(Loan)						
Other U.S. 1.						
2.						
Host Country					5,355	5,355
Other Donor(s)						
TOTAL	2,500	2,500			5,355	17,355

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE 1 Grant	C. PRIMARY TECH CODE 2 Loan	D. OBLIGATION TO DATE 1. Grant	D. OBLIGATION TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) DFA				-0-	-0-	2,500		12,000	
(2)									
(3)									
(4)									
TOTALS						2,500		12,000	

10. SECONDARY SPECIAL CODES *(maximum 6 codes of 3 positions each)*

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES *(maximum 7 codes of 4 positions each)*
A. Code
B. Amount

13. PROJECT PURPOSE *(maximum 480 characters)*

INCREASE MICRO ENTERPRISE EMPLOYMENT

14. SCHEDULED EVALUATIONS
Interim 05/98 · Final 01/00

15. SOURCE/ORIGIN OF GOODS AND SERVICES
☐ 000 ☐ 941 ☐ Local ☐ Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ___ page PP Amendment.)

I concur with the proposed methods of implementation and financing for this project as summarized in Section 6.0 of this document.

S P Klosky
21 Aug 95

Peter Klosky
Controllers Office

17. APPROVED BY

Signature GEORGE JONES
(for)

Title MISSION DIRECTOR

Date Signed 9/8/95

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

N.B. 9 are no used

ACTION MEMORANDUM FOR MISSION DIRECTOR, USAID/KENYA

FROM: Lee Ann Ross, Chief, Office of Projects

SUBJECT: Micro-Private Enterprise Project (615-0263) - Project Approval

DATE: August 8, 1995

Action: You are requested to sign the attached PP facesheet and Project Authorization thereby approving the 5-year, $12 million Micro-Private Enterprise Development (MICRO-PED) project, subject to the availability of USAID funds. It is planned that a total of $2.5 million will be obligated in FY 1995.

Background: Unemployment is a major problem facing Kenya, which has unemployment rates estimated at over 20%. In the next five years, there will be an additional 500,000 young people entering the labor force every year, a 4.5% annual growth rate. Without a concerted development effort, the unemployment problem in Kenya will worsen, increasing poverty, threatening economic growth, and causing social instability. Most of the new entrants to the labor force will be turning to micro-enterprises to make a living. In 1993, 17% of the labor force and 75% of private enterprise employment were in micro-enterprises. This year, these firms created 270,000 new jobs. Yet, the sector remains constrained by unsupportive operating environment, lacking competition and access to markets, poor delivery of inputs, and lack of finance. The MICRO-PED project will address these key constraints to micro-enterprise growth.

Project Description: Based on experience gained from the Private Enterprise Development (PED) project, MICRO-PED will build the capacity of Kenyan institutions to promote micro-enterprise development in three key areas. 1) MICRO-PED will improve the enabling environment through: a) researching and creating opportunities for public-private sector dialogue on key policy constraints facing micro-enterprises; and b) strengthening private sector associations to increase the voice of micro-enterprises in the policy making process. 2) MICRO-PED will provide cost-effective non-financial services to particular sub-sectors, for example agri-businesses. By targeting firms in particular sub-sectors, the project will identify and address the particular issues faced by firms that use common inputs and face similar market constraints. Potential interventions include product and technology development, marketing programs, association development for advocacy or joint input procurement, management training, etc. 3) MICRO-PED will contribute to the development of Kenyan financial systems that serve the poor by providing funds for micro-enterprise loans and technical assistance to lending institutions that show potential for becoming sustainable.

The total project cost is $17,355,000. USAID contribution will be $12,000,000 (69%)in Grant funds and will be complimented by $5,355,000 (31%) of counterpart funds to be provided by recipient organizations. The table below summarizes USAID and Counterpart contributions.

Budget Item/Amount ($000)

	AID			COUNTER	
	FX	LC	TOTAL	PART	TOTAL
1. POLICY COMPONENT	488	1,462	1,950	130	2,080
2. SUB-SECTOR COMPONENT	1,630	2,570	4,200	1,225	5,425
3. FINANCE COMPONENT	1,935	2,565	4,500	4,000	8,500
4. USAID SUPPORT	350	550	900	0	900
5. EVALUATIONS & AUDITS	300	150	450	0	450
GRAND TOTAL	4,703	7,297	12,000	5,355	17,355

Beneficiaries: The primary beneficiaries will be the men and women that will obtain jobs in growing micro-enterprises. The direct participants will be micro-enterprise owners, 46% of whom are women. The policy work will benefit all micro-enterprises, and indeed many larger businesses as well. The financial assistance will benefit more traders, who are mainly women, and the non-financial services will be focused on people working in high potential sub-sectors and trades.

Host Country and Other Donors: The Republic of Kenya recognizes the importance of the employment problem and the potential for very small firms to generate jobs. USAID has been the leading donor in private enterprise development in Kenya in the last decade, sharing lessons learned and coordinating with the increasing number of other donors in the field, who now include ODA, the Royal Netherlands and the Belgian Embassies, and the European Union.

Major Outputs: Increased employment in micro-enterprises from an annual growth rate of 13% to an annual growth rate of 18%; a more favorable policy environment for micro-enterprise investment and growth; increased employment in particular sub-sectors, by 275,000 jobs annually; 40,000 additional micro-enterprises with access to credit, and the emergence of 2 sustainable financial institutions serving micro-enterprises, and 2 institutions operating at break-even levels.

Executive Committee Project Review: The Executive Committee Project Review reviewed the Project Paper on May 10, 1995, and recommended approval of the Project subject to: 1) revision of budget costs to comply with HB 3 guidelines and, 2) incorporation of an explanation that the support provided under the project will assist the targeted organizations to transform from micro

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enterprises to small businesses. These revisions and changes have been incorporated into the PP. A copy of the issues raised and their resolution is attached.

The New Activity Description (NAD) was reviewed in the mission and approved on June 17, 1994. USAID/Kenya was delegated authority to approve this project in State 192183. The budget allowance has been received (State 72145) and the Congressional Notification requirement for an initial obligation of $ 2,500,000 has been sent to the Congress. The funds will be obligated when the CN expires on July 26, 1995.

Authority: Pursuant to DOA 551 Section 4A(1) you have authority to authorize this project.

Recommendation: That you sign the attached PP facesheet and Project Authorization, thereby approving and authorizing life of project funding of $ 12,000,000 in grant funds over a 5-year period for the MICRO-PED project, subject to the availability of USAID funds.

APPROVED: KToh

DISAPPROVED: ______

DATE: 9/8/95

Attachments:

(1) Project Paper and Facesheet
(2) Project Authorization
(3) Issues Paper dated 5/24/95
(4) STATE 192183, Delegation of Authority Cable
(5) State 72145, Budget Allowance Cable
(6) Congressional Notification

Clearances:
ABEO:ANganga ______ date 5/95
ABEO:DWeller (Draft) date 5/95
ABEO:THobgood (Draft) date 7/10/95
PRJ:SRagama/SMeyer ______ date 7/13/95
CONT:CAdams SJK date 8/21/95
RLA:TFillinger ______ date 7/13/95
PROG:CBwire/LARoss ______ date 7/21/95
D/DIR:KToh KT date 9/8/95

REDSO/ESA/PRO:FDonovan

Drafted:ABEO:MMcVay:05/19/95
DOC:P:\PUBLIC\USAID\DOCS\PEO\MICROPED.AM)

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memorandum

DATE May 24, 1995

REPLY TO ATTN OF Stephen Ragama, Office of Projects

SUBJECT Minutes of ECPR meeting for Micro-PED Project No. 615-0263

TO See Distribution

Ref: ECPR meeting of May 10, 1995

1. Project Purpose/Strategy:

Why is the purpose of the project simply to increase employment? What about the quality of the jobs being created? Why not include increasing incomes or real wages? Why not include increasing output and productivity, which would ensure that the project is creating productive jobs?

Outcome: The Project would in the long run hope contribute to the creation of productive employment. Ultimately, the project will increase real wages, productive jobs etc. however, we do not have good data on how micro-enterprises are contributing to GDP. The work in this area is still going on. GOK is very interested to have data on how micro-enterprise contribute to GDP. However, it is important at this stage to acknowledge that it is not within this project's manageable interest to try to show real wage and productivity increase. In the past, we had experience a situation where an economy was growing however, real wage continued to fall. In addition, creating jobs is a high priority need for the Kenyan economy, even poor quality jobs help people survive.

Outcome: Women are numerous in the micro enterprise sector, but they are also disadvantaged. What will the Project do to benefit women and improve their situation?

Outcome: Project will have some specific activities to target women. The gender analysis will try to identify additional issues affecting women, which will be incorporated in the project as implementation continue. In policy component, one section will specifically focus on women issues. Also the M&E activities will track women's representation progress in the micro-enterprise sector.

While there is mention of linkages with the other SOs of the Mission, what direct linkage is there between Micro-PED and D&G activities, i.e., policy research and civil society? Is there too much overlap?

Outcome: Micro-PED will create private-public sector dialogue, strengthen private sector associations and provide legal assistance. During implementation, USAID will be careful not to overlap into the D/G activities, but rather to compliment.

How can credit programs be targeted to small farmers especially seed production by small farmer?

Outcome: The issue of targeting small farmers will be addressed at a later date when we discuss the mission Strategy but not in the PP. Also this issue will be looked at during the project implementation stage.

Under constraints analysis, the PP have preselected only three constraints, which are clearly linked to the proposed interventions. There is no broad constraint analysis from which alternative interventions could be analyzed.

Outcome: The Project was designed to meet the main, sector-specific constraints as identified through surveys and research. This explains the parallel structure. Two broad constraints, macro-economic growth and infrastructure, were too broad for the Project to address. The meeting recommended the final draft of the PP should mention these broader constrains and point out that other donors and USAID projects are addressing those issues.

2. Policy Reform:

Does the PP identify specific policy, regulatory constraints that Micro-PED component will attempt to address?

Outcome: The PP contains a Policy Matrix on the sector, and other specific policy issues will arise at the subsector level. Rather than focus on specific policies, the Project will establish a process in which stakeholders come together and establish this policy change agenda. Implementation of this policies will then involve these stakeholders.

What is the likelihood of this component achieving the expected policy results?

Outcome: The component is a high-risk, high potential pay-off activity. The GOK has made many positive statements but achieved little implementation. However, no policy conditionalities are anticipated in this project. The PP has illustrated policies to be addressed. Success will depend, in part, on strong coordination within Mission and with other donors in the implementation of this section.

3. <u>Sub-sector Development:</u>

In the subsector component, the output "increase the cost-effective delivery of non-financial assistance" what exactly does this mean? How will cost effectiveness be measured/determined?

Outcome: The actual measure of cost effectiveness for this output will be developed as the implementation progress. An example is USAID investment per job created by beneficiary firm.

One of the constraints facing Micro-enterprise is poor functioning markets and the proposed intervention to alleviate these is through non financial assistance targeted at the subsectors. It is not clear in the PP how the intervention using a TA will strengthen markets.

Outcome: The non financial assistance intervention using a TA proposed will identify a market and analyze its problem/constraints then figure out how and where you can intervene and reach a lot of people. The role of the TA is to coordinate the process and award grants and contracts to deliver non-financial services.

4. <u>Financial Assistance:</u>

Why will K-REP be guaranteed funding under the Project, while other financial institutions under the Project will have to compete?

Outcome: The PP does not guarantee KREP automatic funding. It will have to meet the criteria before it can be funded. However, KREP is the leading credit NGO in the market. KREP now has reached a transitional stage in the micro-credit sector and that is why USAID is interested in supporting its transition to a sustainable organization.

In the finance component, KREP will be provided funds for TA, what is the rationale for this? Is this TA demand-driven of supply-imposed?

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Outcome: The TA is necessary for: (1) transition from NGO to Bank and (2) assist KREP develop new product in the micro credit program. KREP has identified the need for TA from their own assessment and it will be structured in such away that it responds to specific needs identified by KREP.

The project seems to focus on NGOs providing finance. What about trying to involve the formal Banking sector? Wouldn't that be more sustainable?

Outcome: Kenyan commercial banks are not interested in working in this sector. In fact, their new policies are moving away from micro-enterprise. However, the need to link this assistance to formal banking is being considered especially with larger NGOs working in the sector. Alternatively, we may consider using the S.Africa model where USAID puts all its money for NGO lending in the bank and NGOs working in the sector borrow from the Bank.

5. Project Financing:

Given the present OYB crunch, especially on new starts, can the obligation schedule be realistically met?

Outcome: Whereas the design team realized this as a real threat, we also realize that there would be a lot of negative impact on project implementation if the proposed activities are not funded as scheduled. We would not wish to scale down the Project activities at this time but rather deal with the problem as the situation evolves. There are options for incremental funding or scaled back activities.

6. PROAG:

It is mentioned in the PP that the ProAg with GOK will probably be signed sometime this month. We are almost in mid May, how feasible is this? What is our negotiation status with the GOK? Do we have a request for assistance from the GOK? Will obligation by an umbrella ProAg augur well with GOK when it is obvious that most of the project components (finance and subsector) have little, if any, GOK involvement?

Outcome: PEO has had close discussions with Ministry of National Planning and Development. Consultations with the Treasury also indicate that there would be no problem except the Treasury would not be willing to pay counterpart funds on behalf of NGO supported under the Project. The next step for the Office is how ~~to translate what is in the PP to the PROAG. Because of our past~~ experience working with private sector institutions, the GOK views this as moving closer to government.

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7. Project Management:

What is the rationale for managing some activities in-house rather than contracting out implementations of the entire Project under one contract?

Outcome: The methods selected for the implementation of this project is based on a lot of analysis. On the one hand, it is administratively simple to have one contractor. On the other hand, USAID is able to be more involved with activities when implementing in-house. We selected a mix that is $3 million cheaper than contracting out the entire project. [illegible]

8. Project Budget:

It appears that a bulk of funding will go towards the cost TA, management, evaluation and audit. Is this not more than 20% of total project costs?

Outcome: There is no fixed rule about this. The TA and value management amounts to 1/3 of the budget. However, TA is value added development activity - not administrative costs.

OE to support this project has been costed at around $2 million, how was the weight (%) on various offices assigned/derived?

Outcome: According to the method used in computing OE support under the PVO Co-finance project - see Annex J.

9. Clarifications:

Budgets-costs need review and counterpart budget must be defined. Budgets need to be done in compliance with HB3.

Outcome: Will do.

The figures do not total between the illustrative budget and the obligation schedule budget. Similar discrepancies also appear in some paragraphs of the text.

Outcome: Will fix.

NB: The following actions were also agreed to be incorporated into the PP;

1) Add some explanation that this support will assist the assisted organizations transform from Micro-enterprise to small businesses ~~(moving from informal to formal businesses)~~.

2) Check PP to ensure that funding commitment to KREP is clearly described in the PP.

3) Revise goal statement

Outcome: Any other goal statement would relate to increasing incomes. This raises the issues discussed in issue # 1. Many options were considered, but increased employment fits best into the likely USAID/Kenya strategies (broad based economic growth, food security) and is most measurable.

Distribution

DIR:GJonew
D/DIR:KToh
AGR:DMcCarthy
PEO:THobgood
CONT:CAdams
PROG:CBwire
PH:GNewton

PDC Members:
PEO:MMcVay
DWeller
ZRatemo
CONT:PRatego
PROG:CBwire
RCO:Halvosa
RLA:AVance
EXO:JGranados
REDSO/ANA:RBuckley
CBingham

U:USAID\USAID.PRJ\DOCS\PEO\MPED.MIN

PROJECT AUTHORIZATION

REPUBLIC OF KENYA:

MICRO-PRIVATE ENTERPRISE DEVELOPMENT [MICRO-PED]
PROJECT NO.615-0263

1. Pursuant to Section 496 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Micro-Private Enterprise Development (MICRO-PED) Project for the Republic of Kenya involving planned obligations not to exceed Twelve Million United States Dollars ($12,000,000) in grant funds over a 5-year period from the date of authorization, subject to the availability of funds in accordance with the USAID OYB/Allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned Project Activity Completion Date (PACD) is September 30, 2000.

2. The Project purpose is to increase micro-enterprise employment. The project consists of three components; namely, the policy component to support the improvement of the policy and regulatory environment of micro-enterprises; the sub-sector component to support increased sustainable delivery of financial services and; the finance component to support increased sustainable delivery of financial services.

3. The Project Agreement which may be negotiated and executed by the officers to whom such authority is delegated in accordance with USAID regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as USAID may deem appropriate.

3.1. <u>Conditions Precedent</u>:

Except as USAID may otherwise agree in writing, prior to any disbursement of USAID funds to support the GOK for assistance to the Trade and Industry Unit of the Kenya Institute of Public Policy, Research and Analysis (KIPPRA) under the Grant, or to the issuance by USAID of documentation pursuant to which such disbursement will be made, the Grantee shall furnish or have furnished to USAID, in form and substance satisfactory to USAID, written evidence that KIPPRA has been formed and Gazetted, a Director and key Economic Advisor are in place and office space for the Trade and Industry Unit has been allocated.

4. <u>Source and Origin of Commodities, Nationality of Services.</u>

Except as USAID may otherwise agree in writing:

(a) Commodities financed by USAID under the Project shall have their source and origin in countries included in USAID. Geographic Code 935. All reasonable efforts will be used to maximize U.S. procurement whenever practicable.

(b) Except for ocean shipping, the suppliers of commodities or services financed by USAID under the Project shall have countries included in USAID Geographic Code 935 as their place of nationality. Air travel and transportation to and from the U.S. shall be upon certified U.S. flag carriers.

(c) Ocean shipping financed by USAID under the Project shall be financed only on flag vessels of the countries included in USAID Geographic Code 935 and the Republic of Kenya subject to the 50/50 shipping requirements under the Cargo Preference Act and the regulations promulgated thereunder.

KToh

Acting Mission Director

Sept. 8, 1995

Date

Project No. 615-0263

CLEARANCES:

ABEO:ANganga	[signature]	Date 6/21/95	REDSO/ESA/PRO:FDonovan	[signature]
ABEO:DWeller	(Draft)	Date 5/95		
ABEO:THobgood	(Draft) [initials]	Date 6/21/95		
PRJ:SRagama/SMeyer	[signature]	Date 6/21/95		
CONT:CAdams	SAK	Date 8/5/95		
RLA:TFillinger	[signature] with changes	Date 7/12/95		
PROG:CBwire/LARoss	[signature]	Date 7/21/95		
D/DIR:KToh	KG	Date 9/8/95		

Drafted:ABEO:MMcvay/05/19/95
(Doc:P:\PUBLIC\USAID\DOCS\PEO\MICROPED.PA)

FISCAL DATE:

APP :
BPC :
RESCTLNO :
AMOUNT :

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USAID

PROGRAM DOCUMENT

for

MICRO-PRIVATE ENTERPRISE DEVELOPMENT [MICRO-PED]

JULY 10, 1995

MICRO-PRIVATE ENTERPRISE DEVELOPMENT PROJECT
TABLE OF CONTENTS

ANNEXES:

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0.0 EXECUTIVE SUMMARY

0.1 CONSTRAINTS, OPPORTUNITIES AND STRATEGIES

Employment creation is one of the most significant challenges facing Kenya today. The Kenyan labor force, currently numbering more than 11 million people, is growing rapidly and is expected to reach 14.6 by the year 2000. Providing jobs for these 3.6 million workers constitutes today's employment challenge in Kenya. Employment is a central issue in the alleviation of poverty in Kenya, and employment is a key indicator of broad-based economic growth. Private enterprises show good prospects for creating jobs in the medium term compared to small scale farms, which cannot continue to absorb substantial amounts of labor, and the public sector, which is contracting. In contrast, private enterprise employment has been growing at an average annual rate of 12% over the last ten years. Within the private enterprise sector, micro enterprises (firms with less than 10 employees) are the most likely group of firms to provide widespread employment, a fact the Government of Kenya acknowledges. In 1993, micro enterprises constituted 75% of private enterprise employment and created 270,000 new jobs, compared to only 24,000 jobs created by larger firms. Thus **the GOAL of the MICRO-PED Project is to increase private enterprise employment, and the PURPOSE is to increase micro-enterprise employment.**

The micro and small enterprise sector is large and diverse, and the challenge for agencies hoping to stimulate employment growth in the sector is how to identify where the potential growth is, what constrains that growth and how to facilitate it. In assessing problems and opportunities facing micro enterprises, USAID/Kenya with REDSO/ESA and USAID/W assistance, engaged in a rigorous, participatory planning process involving sample surveys, focus group discussion with micro entrepreneurs, evaluations, consulting with partners, bringing in international experts, and years of one-to-one discussions between USAID staff and Kenyan business people. Emerging from this analysis are three major issues that drive the MICRO-PED interventions. First, many micro-enterprises are constrained by policy, regulatory and infrastructure issues. Second, many firms are faced with diminishing market opportunities, increasing competition, and problems with the cost and availability of inputs. Third, micro-enterprises do not have adequate access to credit. The MICRO-PED Project will implement strategies to overcome these constraints.

0.2 PLAN OF ACTION

Based on the above constraints and opportunity analyses, the MICRO-PED Project will be organized in three components, each addressing key constraints to micro enterprise growth: Policy, Sub-Sector Development and Finance Components. The Project will be implemented through a bilateral Project Grant Agreement with the Government of Kenya, and a variety of instruments committing funds directly to Kenyan and US private sector institutions.

0.21 Policy Component

Despite positive GOK policies towards the informal sector, surveys of micro enterprises and analyses by policy experts reveal that policy, regulatory and infrastructure issues represent significant constraints to micro enterprise growth. There is an "implementation gap" between stated policies and GOK actions on this issue. Having accomplished many major macro-economic and agricultural reforms, however, the GOK and the donor community are now focusing more on sector-specific policies, including micro enterprise policy. This creates an opportunity for USAID to contribute to the policy change process.

The output of this component will be an improved policy and regulatory environment. To achieve this target, activities will be organized around the major inputs needed to accomplish significant policy change:

1) A Policy Forum that will facilitate public-private sector dialogue, conduct appropriate research and support the GOK policy process,

2) Association development, to bring micro enterprises into the policy making process.

In addition, under this component, USAID/Kenya will engage in small research and experimental activities that inform general strategies for assisting micro enterprise and employment growth.

0.22 Sub-Sector Development Component

One of the major constraints facing micro enterprises is poorly functioning markets. Market constraints vary across sectors and solutions involve a variety of non-financial interventions. In order to strengthen micro enterprise markets, **the output of this component will be to increase the cost-effective delivery of non-financial assistance to targeted sub-sectors.** USAID/Kenya will select an Institutional Contractor (IC) or a United States Private Voluntary Organization (USPVO) to implement the activity in partnership with Kenyan institutions. (The IC/USPVO will also provide TA for the finance component.) The IC/USPVO will combine two predominant approaches in sub-sector development: a broad analytical approach that assesses market weaknesses and identifies single interventions affecting large numbers of micro enterprises (e.g. technology or policy change); and an "incremental" approach that relies more on participation of targeted entrepreneurs and experienced NGOs to identify and address immediate felt needs of entrepreneurs. Success in strengthening markets will be evident in increased employment in the targeted sub-sectors.

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0.23 Finance Component

Access to credit continues to be a major handicap facing the growth of micro enterprises in Kenya where demand far exceeds supply. The formal banking institutions have not developed appropriate instruments for supporting the micro enterprise sector although its contribution to employment creation and economic development in general has been widely acknowledged. Although micro enterprise lending in Kenya is significantly more developed than in any other African country, Kenyan micro enterprise lenders, mostly NGOs, have yet to reach levels of outreach and sustainability achieved in Latin America and Asia. This component will focus on increasing sustainable delivery of credit to micro enterprises. It will build on experiences gained under the Private Enterprise Development (PED) Project, and is likely to involve most of the NGOs who participate or have participated in that Project. The MICRO-PED Project will engage in three major activities to support the sustainable delivery of financial services to micro enterprises in Kenya:

* Assisting in the conversion of a credit-providing NGO into a formal financial institution;

* Granting funds to lending institutions that serve micro enterprises <u>and</u> have a reasonable chance of attaining institutional and financial sustainability by eventually raising funds through the private sector; and

* Facilitating the availability of technical assistance to micro enterprise lending institutions and programs in Kenya.

USAID will be taking a financial systems approach, aiming at supporting sustainable delivery of credit and savings facilities to the poor.

0.24 Implementing Mechanism

The MICRO-PED Project will be obligated through a Project Agreement with the Government of Kenya. Activities will be implemented through a combination of mechanisms as follows:

1. Policy Component: Project Implementation Letter with the GOK, 3 Grants or contracts with US and Kenyan policy organizations, and miscellaneous small actions by USAID/Kenya.

2. Sub-Sector Component: 1 Institutional Contractor or United States Private Voluntary Organization (USPVO) who will issue grants and provide technical assistance and coordination for the activity. The IC/USPVO will also handle the Financial component Technical Assistance.

3. Finance Component: 3-5 Grants to Kenyan lending institutions and 1 Institutional Contract or Grant to a USPVO for technical assistance, who will also handle the sub-sector development work.

The implementing mechanisms were determined by an analysis of different options, which included a cost comparison, an assessment of the administrative burden to USAID/Kenya and REDSO/ESA, an examination of the opportunities for USAID/Kenya substantial involvement in activities, and an evaluation of the potential sustainability of interventions. Potential implementing partners were consulted and their input taken into account. This implementation arrangement will likely include three USAID personal services contractors (2 FSNs and 1 USPCS).

0.3 LINKAGES TO BROADER USAID STRATEGIES

MICRO-PED will directly contribute to the Agency's economic growth strategy and micro enterprise initiative through strengthening markets, and expanding access and opportunity. Throughout Project implementation, MICRO-PED will adhere to operating principles consistent with USAID strategies. Regarding the New Partnership Initiative, MICRO-PED will continue in the spirit of the former Private Enterprise Development Project, whose purpose was to "Build the capacity of Kenyan institutions to provide support services to private enterprises." In MICRO-PED, capacity building efforts are an integral part of the way the Project will do business.

Although the 1995-2000 USAID/Kenya Strategy document is in the draft stage, analyses to date indicate the MICRO-PED will contribute significantly to likely strategic objectives. First, increasing employment is a key element of broad-based economic growth, which has been the USAID/Kenya mission goal for the last five years. Second, the MICRO-PED Project is consistent with the evolving private sector strategy of increased assistance to micro enterprises and increased focus on high potential sectors, particularly the agricultural sector. Finally, MICRO-PED present opportunities for synergy and additional contribution to other USAID/Kenya strategic objectives and targets of opportunity, including: Increasing Agricultural Productivity and Farm Incomes, Increasing Food Security, Building Democracy, Decreasing National Fertility & Reducing HIV infection, and Strengthening PVO Institutional Capacity.

0.4 DEFINITION OF SUCCESS

Micro enterprise employment is expected to increase from an annual growth rate of 13% to one of 18%. Changes in the policy environment will be measured through a qualitative policy matrix. In the targeted sub-sectors, some 280,000 jobs will be generated each year. Through support to financial institutions, an addition 40,000 people will have access to loans and 2 institutions will become financially sustainable. Systems to monitor these indicators will be integrated into Project management by building the capacity of partner organizations.

0.5 FEASIBILITY, KEY ASSUMPTIONS, RELATED RISKS

Success in achieving Project objectives will depend on the following:

* Economic growth,
* Political and physical security,
* Commitment of the Government of Kenya to implementing policy change,
* A better understanding of gender issues and how to address them,
* Cooperation of the formal banking sector,
* Strong commitment of implementors to institutional development, and
* A better understanding of how to address concerns of rural businesses.

0.6 BUDGET

The Project has a five year life of Project and USAID funding of US $12 Million, subject to the availability of funds. Counterpart contribution will amount to 31% of total Project funds, which amount to $17.355 million. The allocation of USAID funds among components is as follows:

1. Policy:	$ 1.95 million
2. Sub-sector:	$ 4.20 million
3. Finance:	$ 4.50 million
4. USAID Support	$ 0.90 million
5. Evaluations/Audits	$ 0.45 million

0.7 Procurement Plan

1. Project Agreement with the Government of Kenya (June, 1995).

2. USAID/Kenya Personal Services Contracts (September, 1995).

3. Agreements with Financial NGOs (Starting August, 1995).

4. Agreements with Policy institutions (December, 1995).

5. Institutional Contract or Cooperative Agreement with a USPVO for the Sub-sector Component and the Finance Technical Assistance (RFP: June, 1995; Award: January, 1996).

6. Miscellaneous small actions for Evaluation, Audit and Strategy Support (Miscellaneous Dates).

1.0 SECTION ONE: CONSTRAINTS, OPPORTUNITIES AND STRATEGIES

The following discussion explains the employment problem, the potential of micro enterprises, to create large numbers of jobs, and the constraints and opportunities facing micro enterprise growth that led to the development of the MICRO-PED strategy.

1.1 The Employment Problem and Micro Enterprises

"The creation of productive employment opportunities is the single most serious challenge facing Kenya today." (GOK, 1994-C)

The Kenyan labor force, currently numbering more than 11 million people, is growing rapidly and is expected to reach 14.6 million by the year 2000. Despite a recent downturn in the population growth rate, from 4% in 1984 to 3.5% in 1993, Kenya still has one of the highest population growth rates in the world. The labor force is currently absorbing entrants that were born when population growth was even higher. That growth will amount to 492,000 new job-seekers annually until the year 2000. Providing jobs for these 3.6 million workers constitutes today's employment challenge in Kenya. (World Bank, 1993-A)

Employment is a central issue in the alleviation of poverty in Kenya. In the '80s and '90s, a lack of productive employment opportunities resulted in a fall in real wages by approximately one third. As a result, in 1992 there were 9 million people living below the poverty line in rural areas, compared to 6 million a decade before. Kenya has achieved some improvements in social indicators such as a decline in child mortality rates, a longer life expectancy and an increase in primary school enrolment. However, without broad-based economic growth, these social gains are threatened and significant poverty levels will continue.

Employment is a key indicator of broad-based economic growth. Economic growth, without significant increases in employment, will not be well distributed and will not reduce poverty. In contrast, employment without significant economic growth distributes income across larger numbers of people. This situation has prevailed in Kenya in recent years with mixed impact. On the one hand, increased supply of laborers and competition among entrepreneurs has reduced real wages and per capita income. On the other hand, many people who previously had no source of income, or who recently became unemployed, found some source of livelihood. Particularly in difficult economic times, employment growth is an indicator of the economy's ability to provide some source of income.

Economic growth and employment growth are both key elements in sustained, broad-based economic growth. The MICRO-PED Project will endeavor to create jobs in a climate of economic growth, and will monitor economic growth and income indicators to further understand how scarce resources can be effective at influencing both aspects of broad-based

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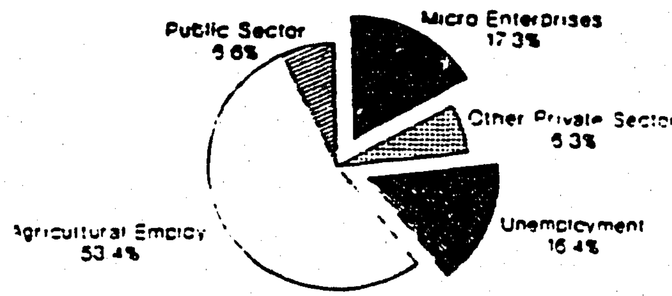
economic growth. Nevertheless, the immediate problem facing Kenya, and the more manageable issue for USAID to address in the medium term, is job creation. **Thus, the goal of the MICRO-PED Project is to increase private enterprise[1] employment.**

Where is this employment likely to come from?

EMPLOYMENT PICTURE
AFTER BASELINE SURVEY



Currently, about half of the labor force is employed in small scale agriculture, 24% in private enterprises and 7% in the public sector. This reflects the fact that Kenya's economy is fundamentally an agricultural economy. Agriculture will remain, in future, the primary source of income for most of Kenya's population. Nevertheless, the agriculture sector cannot continue to absorb substantial amounts of additional labor. Averaging landholding size has declined from 2.0 hectares in 1982 to 1.6 hectares in 1992, and average labor productivity has not kept up with population growth. Increasing population densities in high potential zones have pushed people into farming on increasingly marginal land, putting scarce natural resources there in jeopardy.
Agricultural production will continue to be the mainstay of the Kenyan economy for some time to come, but one of the important factors in relieving population pressure on land and increasing productivity will be drawing labor away from small scale production. With recent reform in the civil service and parastatal sector, the public sector will continue reducing employment over the next five years (World Bank, 1993-A).

In contrast, the private enterprise sector is recovering in the context of liberalization and significantly reduced government intervention in markets. Private enterprise employment has been increasing, on average, 12% per year over the last decade. In 1993, in a context of poor economic growth, private businesses generated almost 300,000 new jobs (See Annex E). Thus, private enterprises show good prospects for creating jobs in the medium term.

Within the private enterprise sector, micro enterprises (firms with less than 10 employees) are the most likely group of firms to provide widespread employment, a fact the Government of Kenya acknowledges. The Country Position Paper prepared for the World Summit for

[1] Throughout this document, the term "private enterprise" refers to non-farm economic activities.

BOX 1.1: GROWTH IN MICRO ENTERPRISE EMPLOYMENT:

* Micro enterprises provide 75% of private enterprise employment, amounting to almost 2 million people.

* In 1993, the 910,000 micro enterprises in Kenya generated around 270,000 new jobs. In contrast, firms with more than ten employees generated only 24,000 new jobs.

* 38% of micro enterprises are increasing employment.

* On average, micro-enterprises add .29 employees per year. That implies that between one in three and one in four firms add an employee every year.

* The average age of micro-enterprises is five years, older than the average age in other African countries.

Social Development states. "The most rapid increase in employment will have to occur in the small scale enterprise and informal sector." (GOK, 1994-C) A 1993 National Baseline Survey of small and micro enterprises provided strong data indicating that significant employment growth could occur in micro enterprises (See Box 1.1; Parker & Torres, 1994). The growth pattern of micro enterprises in Kenya is characterized by a minority of firms growing at a fast pace and, on aggregate, due to the large number of small firms, providing significant and increasing numbers of jobs.

One issue in this sector is the quality and sustainability of those jobs and their contribution to increasing incomes. Data is not available on wage rates in micro enterprises, but we know that a large proportion of workers in the micro enterprise sector are unpaid family workers and apprentices. In addition, the average age of a micro enterprise is only 5 years (Parker & Torres, 1994). Conclusive data is not currently available on the output of the sector, but the rest of the economy was clearly in recession while the employment growth in recent years took place. These factors indicate that micro enterprise employment does not represent very productive employment, and that wage rates in the sector are low and declining. Why invest in a sector that creates "poor quality" jobs?

There are two answers to this question. One reason to invest is that micro enterprises grow and graduate into larger, more sustainable firms with higher quality jobs. The majority of small and medium enterprises in Kenya started as micro enterprises. Micro enterprises, thus, represent the seedbed of larger, more productive businesses. In addition, the 270,000 jobs created in the micro enterprise sector in 1993 came from firms expanding, not from new firms entering the sector (Parker & Torres, 1994). These trends indicate that micro

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enterprise employment is not simply "residual." Rather there are pockets of growth and sustainable jobs. The project envisions trying to increase the graduation rate of micro enterprises and to expand employment in existing, sustainable firms.

The second reason is that micro enterprises represent a significant source of income for a large number of Kenyan families. One quarter of all Kenyans have a business, and of these families, 65% rely on that business for more than half of their income (Parker and Torres, 1994). Although the sector does represent a "last resort" source of livelihood for many people, in a country with no unemployment insurance, the micro enterprise sector is an important last resort.

Because there is not enough information on micro enterprise wage rates, contribution to GDP, and how to increase both, USAID/Kenya is planning on measuring income generated by micro enterprises. This data should inform the Project strategy of creating employment in a climate of economic growth, of increasing firm graduation, and targeting high potential firms. Until more information is available, this Project will focus on the major problem facing the Kenyan economy, the problem we understand more fully, that is: the large and increasing number of unemployed people in Kenya. **Thus, the purpose of the MICRO-PED Project is to increase micro enterprise employment.**

Who are the likely beneficiaries of this employment?

The best description comes from the 1993 Baseline Survey of those already employed in the sector (See Box 2.1). While these observations assist in describing the general trends in the sector, they also highlight the most important feature of micro enterprises in Kenya: their diversity. One's typical image of "informal sector" businesses in Kenya is of women selling vegetables on the side of the road, carpenters scraping together furniture at the edge of a city slum, or make-shift kiosks in residential estates. While these types of businesses do form part of the Kenyan small and micro enterprise sector, many other images fit as well. On the smaller end, there are rural rope makers, beer brewers, and basket weavers who operate out of their home, collect their own raw materials and combine their businesses with agricultural activities. On the larger end there are restaurant owners, metal fabricators, and electricians that rent buildings on commercial or industrial streets, hire 6-10 workers, and have electricity, water, and extensive fixed capital investments. In the middle are businesses located in markets and small town centers that have stalls or rent small, mud or concrete rooms, that run maize mills, offer repair services, or sell used clothes or hardware, that hire three to five workers, and have some substantial assets in the form of working capital or fixed assets. The micro and small enterprise sector is large and diverse, and the challenge for agencies hoping to stimulate employment growth in the sector is how to identify where the potential growth is, what constrains that growth and how to facilitate it.

BOX 1.2: Characteristics of firms, entrepreneurs and workers:

* 78% are located in rural areas;
* Women comprise 46% of the entrepreneurs and 40% of the employees;
* 80% have 5 or fewer workers; average firms size is 2.3 workers, including the entrepreneur;
* half of the workers are entrepreneurs, 24% paid workers, 6% apprentices and the remainder are unpaid (family) workers;
* 53% are traders, 30% manufacturers and 17% service firms;
* One third of firms operates in the home, and the largest number (46%) operate in traditional markets, rather than in rural trading centers or along rural roads or urban streets;
* The majority (78%) of the workforce has no technical training;
* Only a quarter of businesses operating outside the home have a permanent structure;
* Only one third use piped water or electricity;
* The majority (74%) have secure tenure;
* The majority (84%) use local inputs and sell to final consumers;
* The majority (82%) have never used business assistance;
* Only a small minority have ever used credit (12%) and even fewer have used formal credit (6%).

1.2 Constraints, Opportunities and Strategies for Micro Enterprise Employment Growth

In assessing problems and opportunities facing micro enterprises, USAID/Kenya with REDSO/ESA and USAID/W assistance, engaged in a rigorous participatory analysis which included:

* Collecting and analyzing new and existing data from firm-level surveys,

* Examining lessons learned and latest thinking in micro enterprise development in Kenya and around the world,

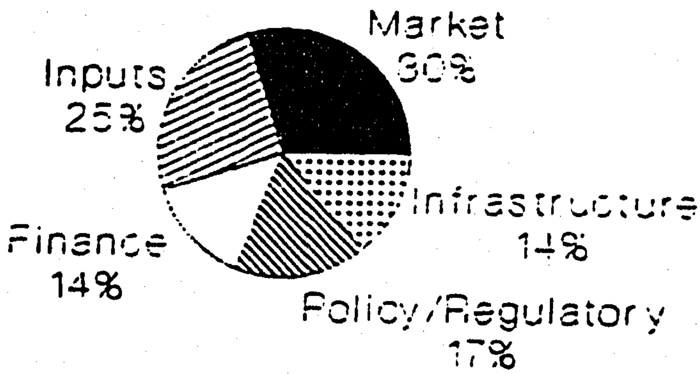
* Consulting world experts on specific micro enterprise issues to conduct particular analyses and suggest interventions (see Annexes F, G, H, and I),

- Consulting with business leaders, associations, non-governmental organizations and Government of Kenya officials, and

- Discussing with individual business people.

Emerging from this analysis are the major issues that drive the MICRO-PED interventions. The National Baseline Survey summarizes the major constraints micro enterprises themselves recognize:

KEY CONSTRAINTS TO GROWTH



First, many micro enterprises are constrained by policy, regulatory and infrastructure issues. Around 30% of micro enterprises cited these issues as the most significant problem for their business. In the following analysis, and in the Project, infrastructure issues are treated as a Policy issue. USAID/Kenya does not have the resources to directly finance additional infrastructure, and several other donors, such as the World Bank and the European Union, are engaged in infrastructure development. Second, many firms are faced with diminishing market opportunities, increasing competition, and problems with the cost and availability of inputs. Third, micro enterprises do not have adequate access to credit. The following discussion explains how MICRO-PED interventions emerge from these constraints.

1.21 Policy, Regulatory and Infrastructure Issues:

~~Despite the Government of Kenya's positive policy~~ framework regarding the small scale and "jua kali" sector, significant policy, regulatory and infrastructure constraints remain for micro enterprises. Since the GOK recognized the Informal or "Jua Kali" sector as an important part of the Kenyan Economy in 1992, the GOK has made progress in announcing positive policies towards the sector. These policies cover a wide spectrum of issues, from streamlining or reducing regulations, to providing infrastructure and business services (GOK, 1986, 1992, 1994-A/D). Some progress has been made in implementing these policies, for example:

* allowing informal sector associations to register,
* providing a limited number of sheds for businesses,
* promoting the informal sector through trade shows, and
* incorporating entrepreneurship training at all levels of technical training.

Yet, in the 1993 National Baseline Survey, 30% of micro enterprises cited policy, regulatory or infrastructure issues as the main problem facing their businesses. Common complaints were "lack of reliable transport", "poor premises", "inflation", "devaluation", and "harassment" (Parker & Torres, 1994). Policy experts also describe the operating environment for micro enterprises as less than ideal. In Kenya only 1% of micro enterprises grow into small enterprises. In a healthy operating environment, this figure should be closer to 10%. The major issues cited by experts include over-regulation, difficult licensing procedures, lack of infrastructure and secure land tenure, complex business law which is poorly understood and irregularly applied, and harassment (See Annex F and Bannock, 1994). In addition, women face particular constraints due to gender biases in public policy and its implementation, such as public sector resources focusing on metalworkers and carpenters, lower access to high return technical training, low access to information about technology dissemination, etc. Micro enterprises in Kenya are experiencing the costs of a wide "implementation gap" between GOK policy statements and the real operating environment.

What is the cause of this "implementation gap"? While there are no simple answers, experience in other policy arenas, such as agriculture and trade liberalization, indicates that implementing successful policy reform emerges from a combination of factors:

* Political will on the part of the GOK, and consensus among international donors and local players,
* Constructive policy dialogue between the public and private sector, based on objective research about the impact of policy change,
* Increased capacity of concerned Ministries to implement change,
* Representative associations bringing the voice of the private sector to the policy making arena, and
* Increased awareness of farmers and business people regarding laws, regulations and policies.

The presence of some of these factors has contributed significantly to implementing policy change in the agriculture and international trade sectors in Kenya.

Opportunities are arising for similar changes to occur in micro enterprise policy as well, but particular interventions will be necessary. First, there is evidence that the GOK is prepared

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for change. The GOK has implemented many major liberalization policies and is beginning to focus on more sector-specific policies. The Ministry of Planning and National Development (MPND) is initiating several new small enterprise policy reform programs (GOK, 1994-D). Second, donors, most notably the World Bank, British Overseas Development Agency (ODA), United Nations Development Program (UNDP) and The Royal Netherlands Embassy, are supporting the GOK initiatives. Third, the number of small enterprise support programs, mainly NGO programs, in Kenya has been increasing in recent years. There are some 80 such programs in Kenya today. Thus, with increased GOK, donor and private sector interest, opportunities for change have increased.

What additional interventions are needed? Based on USAID experience in other sectors, the MICRO-PED Project can play a role in the development of other necessary pieces of policy change through the following interventions:

1) Establishing a Policy Forum that will facilitate public-private sector dialogue, based on findings from appropriate research, and enhancing the GOK's ability to analyze, develop and implement policy change, and

2) Association development, to bring micro enterprises into the policy making process.

In the current climate, these activities will complement the efforts of the GOK, other donors, and NGOs in narrowing the "implementation gap" and contribute to the achievement of **Output # 1: an improved policy and regulatory environment for micro enterprises.**

1.22 Market and Input Issues

In the National Baseline Survey, over half of micro enterprises said that "markets" and "inputs" were the biggest problem facing their businesses. Commonly, firms said there were "too few customers", and "too much competition", and that inputs were "not available" or were "too expensive." It was also clear from the National Baseline Survey that women are concentrated in easy access, low return markets, both in terms of their location, which is largely in the home or in tradition markets, and the sectors they operate in, which are largely commerce and agri-businesses. Surprisingly, there are few programs in Kenya directly concerned with addressing these issues. On the one hand, such complaints are a reflection of the drought and severe economic recession in 1993 when the survey was carried out, a situation which impacts the supply of produce and the demand for micro enterprise goods and ~~services. Agricultural recovery and macro-economic growth will be important factors in~~ solving market and inputs constraints. These issues are broader than the purview of this Project. USAID/Kenya has been a major contributor to agricultural development in Kenya

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and that effort will be important for success in micro enterprise development. The World Bank and the IMF have been most active in supporting general economic growth through support for structural adjustment programs, and USAID/Kenya will continue its support of those efforts. At the same time, the recession highlighted well-known issues: that micro enterprises markets are weak and micro enterprises are ill equipped to function effectively within weak markets, and that women are particularly constrained in this regard. MICRO-PED will focus on addressing these issues.

When trying to understand the issues underlying the "market" constraints, two themes emerge. First, these constraints need to be understood and addressed by examining the particular market issues in particular sub-sectors. For example, metalworkers have trouble accessing good quality, affordable metal because there are only a few sources of metal in Kenya and these are large, oligopolistic companies. In contrast, vegetable sellers face scarcity of inputs due to drought, and experience high transaction costs in trying to access various sources of inputs and markets. Thus, market constraints vary across sub-sectors.

Second, there is no single intervention that will solve market problems for micro enterprises. On the demand side, there may be monopolistic or oligopolistic structures that inhibit micro enterprises from entering some business activities. For example, milk processing in Kenya has been the domain of a large-scale cooperative/parastatal until recent years (Kristjanson and Wangia, 1995). On the supply side, however, firms themselves may not be well equipped or well placed to operate in competitive markets. For example, small scale technology for yoghurt, cheese and ice cream processing may not be readily available in the Kenyan market, and, even if they were, many women may will not have funds, information, training or social support to adopt these new technologies. Thus, multiple types of non-financial interventions may be required to strengthen markets for micro enterprises.

The need for non-financial assistance presents certain challenges, but latest thinking in micro enterprise development does offer some solutions. Experience has shown that non-financial assistance generally reaches fewer people at a higher cost than financial assistance. Whereas sustainable methodologies have been developed for delivery of finance, such methodologies have not been identified in non-financial assistance. There are several strategies emerging from lessons learned and the literature, however, for achieving significant impacts in addressing non-financial constraints:

- First, as findings in Kenya illustrate, micro enterprises need to be considered and assisted in the sub-sectors, or markets, that they operate in. This approach will focus resources for greater impact and measurability.

- Second, "leveraged" interventions need to be identified that affect large numbers with single investments, for example changing policy or making technology widely available in the market.

- Third, firm-level assistance, such as training, needs to be demand driven. Firms need to pay for services and effective training should become sustainable to deliver, although up front development of training courses may need to be subsidized.

MICRO-PED's strategy for addressing market constraints, then, is **to increase delivery of cost-effective non-financial services to targeted sub-sectors, [Output # 2].**

1.23 Financial Issues

Micro enterprise lending is widely accepted as a sustainable, cost-effective tool for assisting the poor in developing countries, when appropriate methodologies are used. In Kenya, evaluations have shown that micro enterprise lending programs target slower growing firms and help them reach the average growth level of all firms. In the process, one in two borrowers creates a job, and entrepreneurs increase income, assets, and standards of living. Impacts from micro enterprise lending are significant. In addition, USAID has extensive experience and expertise in this field. These "supply-side" factors lead USAID/Kenya to a heavy focus on finance in this Project.

What, then, is the demand for micro enterprise finance in Kenya? The expectation when interviewing business people about their constraints is that entrepreneurs always see "money" as their biggest problem. Surprisingly, in the National Baseline Survey, only 15% of businesses cited finance as their most serious constraint. Still, this is a significant number of firms, some 135,000. Yet, only 6%, or some 50,000 have ever accessed formal credit (Parker & Torres, 1994). Thus, Kenyan financial institutions appear to be a long way from meeting the demand for credit among micro enterprises in Kenya.

This is somewhat surprising given the number of institutions in Kenya providing micro enterprise finance, and their significant progress in the last four years. Although the formal banking sector plays a very small role in meeting the financial needs of micro enterprises, and of women in particular, there are approximately ten active public and non-governmental organizations in Kenya loaning to the sector. In 1990, under the Private Enterprise Development (PED) Project, Kenya Rural Enterprise Program (K-REP) and its affiliated NGO lending programs adapted the Grameen Bank approach to Kenya.[2] Most organizations in Kenya have adapted it, many with K-REP assistance, and this methodology is largely responsible for the increased outreach in recent years. From 1990 to 1993, there was an estimated fourfold increase in the number of loans to micro enterprises in Kenya, and 60% of these went to women. In addition, there is an increasingly active community of donors,

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[2] The Grameen Bank in Bangladesh pioneered the "group lending" model of credit extension to the poor. In this model borrowers form groups and guarantee each others' loans, providing "human" collateral and avoiding the need for physical collateral while providing a cost effective mechanism for credit delivery.

most notably the ODA, the Belgium Embassy and the European Union, funding micro enterprise lending. Most players are firmly committed to developing sustainable financial systems to serve the poor in Kenya.

Despite this progress, Kenya is still far behind Latin America and Asia in developing sustainable lending programs. In other parts of the world, many micro enterprise lenders are increasing outreach by raising funds in the private sector. Why hasn't Kenya reached this level? There are several inter-related factors. Kenyan financial institutions, while achieving high repayment rates, are nonetheless facing problems with late payment and outreach to large number of borrowers, which in turn affects profitability. Until Kenyan micro enterprise lenders are profitable, they will not be registered by the Central Bank and will remain prohibited from mobilizing and lending out savings or accessing significant other private sector investments. In turn, without private sector funds, Kenyan institutions will not be able to meet the vast demand for credit, increase outreach, and become sustainable. In addition, there are many players in the market with different levels of performance, experience and institutional environments, some of which inhibit sustainable growth. The performance of all players affects the market and performance of others. Finally, the main product offered by Kenyan financial institutions is individual lending through group guarantees. This loan product has been in high demand among smaller micro enterprises in densely populated, mostly urban areas. Yet, there is also demand for finance, at one end, in even smaller, rural and home-based businesses and, at the other end, in higher capital firms making the transition from micro to small enterprises.

Thus, increasing outreach and achieving sustainability in micro enterprise finance will require:

* investing in a few potentially viable institutions, using standard performance criteria and objectives regarding repayment, financial ratios and outreach,

* facilitating the sourcing of private sector funds, through savings and through formal banks,

* developing the market supply of technical assistance to micro enterprise lenders to help increase performance standards across the sector, and

* developing new products to reach new clientele, notably rural businesses, women in home-based businesses, and higher capital businesses in transition from micro to small

With these strategies, USAID proposes to achieve **Output #3: an increase in the sustainable delivery of financial services to micro enterprises in Kenya.**

2.0 PLAN OF ACTION

Based on the above constraints and opportunities analyses, the MICRO-PED project will be organized in three components, each addressing key constraints to micro enterprise growth:

1) The Policy Component will improve the policy and regulatory environment of micro enterprises.

2) The Sub-Sector Component will increase cost-effective delivery of non-financial services to targeted sub-sectors.

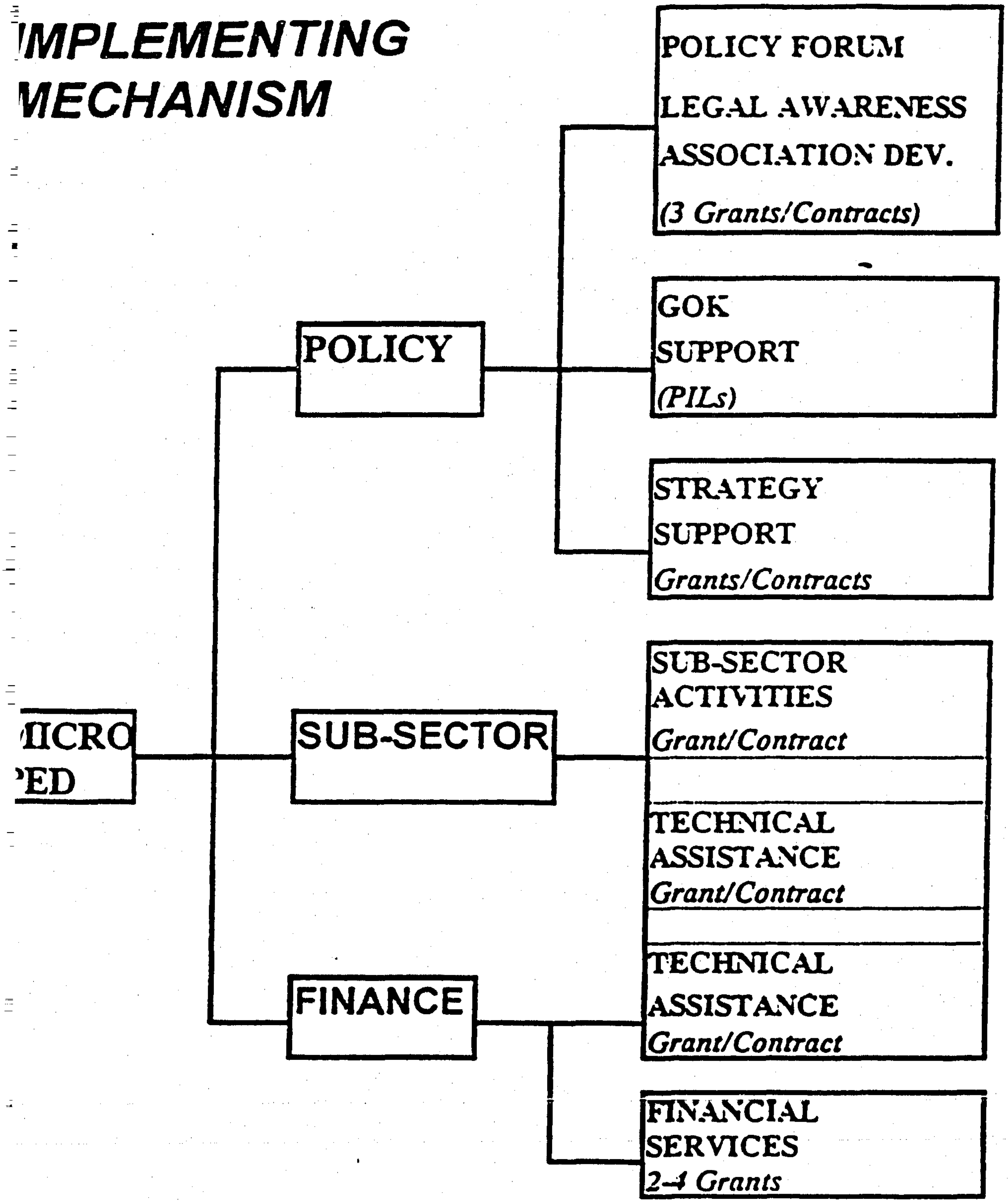
3) The Finance Component will increase sustainable delivery of financial services.

The Project will be implemented through a bilateral Project Grant Agreement with the Government of Kenya, and a variety of instruments as laid out below. The implementing mechanisms were determined by an analysis of different options, which included a cost comparison, an assessment of the administrative burden to USAID/Kenya and REDSO/ESA, an examination of the opportunities for USAID/Kenya substantial involvement in activities, and an evaluation of the potential sustainability of interventions. The option of contracting out the entire project in one Institutional contract would increase management costs. (See Annex J). The selected option will likely include three personal services contractors (2 FSN and 1 USPSC) to be located within USAID/Kenya to perform the following functions:

* Overall and component Project management,
* Administering some 7 major grants and contracts,
* Providing synergy among activities,
* Coordination with other USAID activities, GOK, donors and other partners,
* Financial and administrative tracking,
* Monitoring and evaluation,
* Contributing to strategic reporting and development.

Although the selected mechanism represents substantial management involvement of USAID, it was selected given the scarce resources of the Project, the strong capacity of Kenyan institutions to implement many activities, and the need for sustainability.

IMPLEMENTING MECHANISM



2.1 COMPONENT ONE: POLICY AND ENABLING ENVIRONMENT

Despite positive GOK policies towards the informal sector, surveys of micro enterprises and policy experts reveal that policy, regulatory and infrastructure issues represent significant constraints to micro enterprise growth. There is an "implementation gap" between stated policies and GOK actions on this issue. Having accomplished many major macro-economic and agricultural reforms, the GOK and the donor community are now focusing more on sector-specific policies, including micro enterprise policy. This creates an opportunity for USAID to contribute to the policy change process.

The output of this component will be an improved policy and regulatory environment. To achieve this target, activities will be organized around the major inputs needed to accomplish significant policy change:

1) Establishing a Policy Forum that will facilitate public-private sector dialogue, conduct appropriate research, and supporting the GOK policy process, and

2) Association development, to bring micro enterprises into the policy making process,

In addition, under this component, USAID/Kenya will engage in small research and experimental activities that inform general strategies for assisting micro enterprise and employment growth.

2.11 Policy Forum:

The Policy Forum will bring together stake holders from the public and private sector to work together towards implementing policy changes. Participants will direct the research agenda, contribute to the research, and meet in public forums several times per year to focus on particular policy issues. The goal is that participants will take responsibility for ensuring that policy change is implemented. These participants will include a cross-section of leaders from government, small and large business owners, micro enterprises association executives and board members, representatives from formal sector organizations and larger businesses, university researchers, business consultants, representatives of the NGO community, representatives of the donor community, and others. Every effort will be made to link this forum with other emerging cooperating groups in the sector. In selected instances when the GOK demonstrates a limited capacity to carry out agreed reforms, the policy forum may, if necessary, provide technical assistance and support to the relevant ministries of the GOK to support policy implementation.

The Forum will be housed in a research institution, based in Kenya and yet to be identified, which will receive a Grant or contract to manage the Policy Forum activities of the Policy

Component. Much of the research will be sub-contracted to a combination of Kenyan and international policy specialists. The institution housing the Forum and the research will be a neutral entity where both public and private sector stake holders can meet and work together on a common agenda for implementing policy reform. Specific criteria will used to select an institution that can provide an effective secretariat for the Policy Forum and manage its activities (See Annex F).

The policy research, most of which will be funded by the Project, will serve as the basis for policy dialogue. The general approach should include:

- Focusing on priority issues,
- Analyzing in greater detail the effects of particular existing laws and regulations on micro enterprises,
- Identifying barriers to the implementation of current policy,
- Suggesting alternative policies, and
- Developing clear and specific strategies for implementing policy change.

At least one study will focus on policy issues particular to women entrepreneurs. In addition, the Policy Forum will be responsive to policy issues affecting other activities in the Project, for example financial, technology and sector-specific policies.

The Government is a critical actor in implementing policy change. Although much of the policy research will be undertaken by independent organizations, the capacity of the GOK to analyze and implement policy change is a key element in reforms taking place. This component will support efforts to strengthen the GOK policy analysis and implementation capability. Support for increasing analytical capability will be targeted to the Trade and Industry Unit of the proposed Kenya Institute for Public Policy Research and Analysis (KIPPRA), housed within the Ministry of Planning and National Development. This assistance, in collaboration with the European Union and Africa Capacity Building Foundation, will include the financing of long-term technical assistance, training, and short-term consultants, and limited capital and operating expenses for a period of four years. The sustainability of this activity will develop from the GOK planning to finance future expenses through the GOK budget, and through planned consultancies and sale of publications. In addition to assistance to KIPPRA, short-term technical assistance may be allocated to various Ministries to assist in such activities as developing regulations or streamlining procedures, and other policy change activities, on an as-needed basis.

2.12 Association Strengthening:

To be effective. policy dialogue must include both the policy makers and the private sector players affected by policies, in this case, micro enterprises. In order to ensure that micro entrepreneurs themselves participate in policy dialogue, there is a need to strengthen representative micro enterprise associations. Kenyan micro enterprise associations are young and have yet to succeed in providing quality services to large memberships.

Associations will be strengthened primarily through training, although other activities may emerge as associations grow and develop proposals for other activities. Courses will be developed by a consultant or organization with extensive experience in micro or small business association development, working in collaboration with a Kenyan business training institution who will ultimately carry out the training. One of the courses will focus on management improvement for associations while the other will emphasize constructive skills for representing members and engaging in effective representation policy dialogue (See Annex F). Building capability in the small business membership organizations is a long-term program. Although training can be accomplished relatively quickly, it will take time for such organizations to develop additional strength and become effective representative of micro enterprises.

2.13 Strategy Support

In addition to these focused activities, USAID/Kenya will engage in several small research and experimental activities designed to develop and inform the development community about new approaches to employment creation. These activities will emerge during Project implementation, but potential areas to be explored include:

a) Data collection and analysis to explore micro enterprise contribution to economic growth and the quality of micro enterprise jobs,

b) Analysis of gender constraints in micro enterprise development examining the causes and exploring solutions to women's disadvantaged position in the sector,

c) Targeted or experimental assistance to stimulate demand for micro enterprise products through stimulating wider macro-economic growth (e.g. through assistance to the Capital Markets Authority), and through increasing effective linkages to the agricultural sector, and

d) Investments in developing better monitoring tools and linking latest techniques and data to the national data reporting systems.

These and other areas of Strategy Support will be managed directly by USAID/Kenya.

Beneficiaries: The beneficiaries of the policy component will be all micro entrepreneurs, their employees and the unemployed people that will find jobs as a result of a growing micro enterprise sector. Policy reform will benefit many small businesses as well. A focus on licensing and deregulation will benefit urban businesses more, since these problems are more significant in urban areas, and a focus on infrastructure would benefit rural businesses more. At least one policy activity will specifically benefit women. Finally, most micro enterprises are located in the southern portions of the country where most of the population resides rather than the Northern, semi-arid provinces where there is not much market activity

2.2 SUB-SECTOR COMPONENT

One of the major constraints facing micro enterprises is poorly functioning markets. Market constraints vary across sectors, and solutions involve a variety of non-financial interventions. In order to strengthen micro enterprise markets, **the output of this component will be to increase the cost-effective delivery of non-financial assistance to targeted sub-sectors.** Success will be evident in increased employment in the targeted sub-sectors.

The strategy of this intervention is to focus on high potential group of micro enterprises that operate in similar markets, or sub-sectors, such as the dairy sub-sector, identify particular constraints facing micro enterprises operating the sub-sector, and carry out cost-effective, non-financial interventions to alleviate these constraints. For example, micro enterprises may be constraints from trading in fresh milk because they lack refrigeration. An intervention might be to introduce large coolers adapted to the carts many micro entrepreneurs use to transport milk. Specific sub-sectors and interventions will be designed during Project implementation, but there are several operating principles that implementing organizations will subscribe to in carrying out sub-sector interventions (See Annex G). These principles reflect the combination of two approaches so far developed in the field of sub-sector development: a broad "analytical" approach that analyses markets weaknesses and identifies single interventions that affect large numbers of micro enterprises ("leveraged" interventions), such as technology or policy change; and an "incremental" approach that relies on NGOs to engage micro entrepreneurs in defining constraints and interventions, and focusses on the immediate felt needs of business people. This approach is still new, so strategies will evolve and lessons learned will be documented and shared.

USAID/Kenya has already identified two broad sectors that show high potential for employment creation: agri-businesses and metal-related firms. The agribusiness sector, made up largely of fruit and vegetable traders, restaurants, and food processors, was selected because of its large size, high participation of women, and linkages to agriculture. In contrast, the metals sector is small, but individual firms grow quickly, most employees are either paid employees or apprentices, and the sector is instrumental in the development of the transport and machine/tool markets in Kenya, which in turn facilitate growth in all sectors. These two different sectors were also selected, in part, to learn lessons about intervening in dramatically different types of markets. These sectors represent broad categories. However, in order to identify specific constraints and interventions, more specific "sub-sectors", such as dairy or non-motorized transport, will have to be selected during Project implementation. The implementors may also identify reasons why other sectors should be considered in addition to or instead of these, but information to date indicates that the agri-business and metals sectors have a strong potential for increasing micro enterprise employment (Kristjianson & Wangia, 1995; Masinde 1995).

USAID will select an Institutional Contractor (IC) or a US Private Voluntary Organization (PVO) to implement the sub-sector activities in partnership with Kenyan institutions. (The IC/USPVO will also provide the technical assistance under the Finance component.) The IC/USPVO will develop a specific process for implementing this component, and this process may evolve and change as lessons are learned during implementation. Based on consultation with experts and with potential Kenyan partners, the following process is suggested (See Annex G for details):

1. **Staffing:** The IC/USPVO should have one international and one Kenyan professional dealing with the sub-sector component.

2. **Seminars:** To launch the activity, and as a coordination and monitoring instrument throughout the Project, the IC/USPVO will hold seminars with players in the broad sectors already selected as high potential - agri-business and metals.

3. **Selecting Interventions and Implementing Organizations:** After the initial seminar, and throughout the Project as additional constraints emerge, Kenyan Implementing Organizations (IOs) will propose interventions to be funded by the Project. Proposals will be selected according to a set of criteria to be developed during implementation (See Annex G for draft criteria).

4. The IC/USPVO may also **solicit proposals** for additional activities.

5. **Institutional Development:** The IC/USPVO will conduct institutional analysis on likely IOs prior to awarding grants. This analysis will determine institutional capabilities and needs. Institutional development objectives will then be built into the expected outputs of the grant, and key activities (such as training, management consultants, MIS systems, and capital equipment) will be funded in the grant.

6. **Institutionalization:** By the end of year 1, the IC/USPVO will make a plan for institutionalizing the activities in which it is engaged.

This six step process is illustrative of an approach that incorporates the operating principles, but the process may be modified as experience suggests the most effective, sustainable approaches. In addition, there may be exceptional circumstances under which cross-sectoral program would be financed, for example if such a program would increase knowledge about constraints and opportunities in different sectors or if such interventions provide valuable lessons learned about sustainable delivery of non-financial services.

Beneficiaries: Sub-sector Development will mainly assist micro entrepreneurs and employees in the agri-business and metals sectors. The agribusiness sector has a high proportion of women and rural entrepreneurs, and many workers who are unskilled and unpaid and, thus, poorer than workers in many other sectors. In addition, development of the agri-business sector will benefit farmers. In contrast, the metals sub-sector is mainly urban, and predominantly comprised of skilled men, who are well paid and who receive significant training on the job. Employment created in the agribusiness sector is, thus, more likely to reach the poor in large numbers, but jobs created in the metals sector are more likely to be high quality jobs. Both sectors are geographically spread throughout southern Kenya where most of the population lives.

2.3 COMPONENT THREE: FINANCIAL ASSISTANCE

Access to credit continues to be a major handicap facing the growth of micro enterprises in Kenya where demand far exceeds supply. The formal banking institutions have not developed appropriate instruments for supporting the micro enterprise sector although its contribution to employment creation and economic development in general has been widely acknowledged. Micro enterprise lenders, mostly NGOs, have yet to reach levels of outreach and sustainability achieved in Latin America and Asia. This component will focus on increasing sustainable delivery of credit to micro enterprises. It will build on experiences gained under the Private Enterprise Development (PED) Project, and is likely to involve most of the NGOs who participate or have participated in that Project.

The MICRO-PED Project will engage in three major activities to support the sustainable delivery of financial services to micro enterprises in Kenya:

- Assisting in the conversion of a credit-providing NGO into a formal financial institution;

- Granting funds to lending institutions that serve micro enterprises <u>and</u> have a reasonable chance of attaining institutional and financial sustainability by eventually raising funds through the private sector; and

- Facilitating the availability of technical assistance to micro enterprise lending institutions and programs in Kenya.

Under this component there will be several other minor activities. First, USAID will facilitate dialogue between Banks and NGOs to encourage NGO borrowing from banks. USAID/W loan portfolio guarantee funds, which are administered through another Project, may be instrumental in developing these relationships. Second, USAID may fund small, experimental initiatives to develop additional loan products to serve clients who are not being served by current products. Third, USAID may fund the development of innovative training curricula in private sector organizations that offer training to micro enterprise lending institutions.

2.31 Conversion of an NGO into a Formal Financial Institution

MICRO-PED will assist the major credit NGO in Kenya, Kenya Rural Enterprise Program (K-REP) through the critical stage of transition from an NGO to a formal financial institution. This will include strengthening K-REP's capacity to extend and collect loans on a widespread basis, establish savings instruments attractive to depositors, attract domestic investors, explore the possibilities of attracting funds from the capital markets of Kenya, and provide quality training to its employees. K-REP, the major player under the PED Project, is a dominant player in micro enterprise finance in Kenya and has the most concrete plans for attaining sustainability, to convert to a commercial bank in 1997. K-REP has demonstrated the potential to expand its program and realize a sustainable credit program for micro enterprises. The transition to becoming a bank will require increasing profitability by consolidating current activities to reduce delinquency and then expanding existing credit delivery services to achieve economies of scale. This expansion, and the capital requirements of registering as a Bank, will require a significant injection of technical assistance to develop savings instruments and structures and to comply with Central Bank of Kenya regulations. When K-REP registers the Bank, K-REP will establish a Trust which will effectively own the K-REP equity and reinvest profits back into the bank, or into K-REP NGO activities. K-REP is following the model of USAID-supported BANKOSOL in Bolivia and has a working relationship with the institution to assist in the transition. In the past, K-REP offered significant technical and financial assistance to other micro enterprise lending schemes. However, with its expanded programs and plans to become a Bank, K-REP will no longer be in a position to play a key role, as it did under PED, in supporting the growth of other micro enterprise lenders, who are increasingly representing competition.

K-REP has already initiated this transition process. A key Project assumption is that K-REP is capable of completing the process with minimal direct involvement of USAID/Kenya. However, K-REP will require assistance in two key areas: technical assistance/training and capitalization. Funding for technical assistance and training will be provided to K-REP and K-REP will independently procure the necessary technical services to assist it in this conversion process. TA is likely to be needed in the following areas: chartering and compliance procedures; organizational expansion, including the expansion of the loan portfolio and establishment of savings instruments; and capital market linkages. It is envisaged that approximately $200,000 will be required for TA and training activity.

Although K-REP is developing plans for attracting new funds from sources as large as institutional investors and as small as depositors that have passbook savings of US$25, there will be a need for equity investment by USAID in the short term. Depending on the detailed lending projections submitted to USAID by K-REP, USAID will place funds for loan capital on an incremental basis in K-REP, either directly or through another investment mechanism. Preliminary indications are that $3.8 million may be required, although MICRO-PED will only partially-fund this need at an estimated level of $800,000. Additional funds are likely to come from the USAID/W PRIME fund and from other donors.

Prior to the provision of any funds to K-REP for it to carry out the listed activities, K-REP will be required to demonstrate to USAID/Kenya that it meets the selection criteria explained under Section 2.32. This requirement will be incorporated in the agreement instruments as condition precedent. Thereafter, USAID/Kenya will establish performance indicators that K-REP will meet as a requirement for receiving continued support under this Project. (See Annex H.)

2.32 Grants to Selected Micro Enterprise Lending Institutions

In addition to the provision of credit to micro and small enterprises by K-REP, the Project will also provide funds through other, carefully-selected and supervised lending institutions that serve micro enterprises. The type of institution and the loan product may vary, but the likely candidates are the NGOs currently involved in fairly extensive micro enterprise lending programs in Kenya using the group-lending methodology. Experience in Kenya and other countries indicates that only a few institutions will achieve sustainability and widespread outreach. The MICRO-PED Project will focus its resources on such institutions. NGOs desiring grant assistance from USAID/Kenya to continue and/or expand their credit programs will be required to compete for funds based on strict performance criteria. Funds, which will be directly administered by USAID, will be granted for:

1. Loan funds at existing branches that meet the performance criteria. USAID may fund new branches if all other branches perform as indicated below.

2. Recurrent and capital expenditure associated with branch operations. This may include "headquarters" costs as appropriately allocated to the funded branches.

3. Institutional development activities such as a monitoring information system for accounting and loan tracking, monitoring and evaluation plans, financial models, strategic plans, training and staff development systems, other forms of non-recurrent technical assistance, etc.

As indicated earlier, strict performance criteria will be applied to the NGO seeking USAID assistance. It is becoming increasingly important that micro finance services be provided to the poor through specialized institutions that emphasize the attainment of financial viability. Doing so is one of the most important preconditions to achieving exponential growth. MICRO-PED will build on its successful experience, while refining its lending strategies. One such refinement will be to introduce performance criteria and channel funding to successful branch operations. In doing so, USAID will assess past performance at the branch level--including on-time repayments of at least 95%, loan portfolio at risk of less than 15%, satisfactory branch sufficiency ratio, and acceptable cost per shilling lent. In order to target those NGOs that promise financial sustainability, criteria at the institutional level will also be applied. Such criteria may include an average repayment and cost per shilling lent rate for all branches at an acceptable level, an MIS system that is functional, a system of determining clearly-defined profit centers or branches, and a clear plan for achieving high outreach and financial sustainability. (For detailed illustrative criteria, see Annex H.)

It is envisioned that channelling funds to better performing NGOs will increase the impact of USAID investment and increase incentives for better performance throughout the micro enterprise lending sector. Based on USAID experience, there is not a large pool of micro enterprise lending NGOs with financial sustainability potential in Kenya. A few that are likely to satisfy the selection criteria have participated in the PED Project. These include five potential partners from which to select.

1. **Promotion of Rural Initiatives and Development Enterprises (PRIDE) Kenya** has received direct funding from USAID and through K-REP. The program has established an expansive branch network for credit delivery to micro enterprises in Kenya, has plans for expansion and show potential for becoming financially sustainable in the long run.

2. **Kenya Women Finance Trust (KWFT)** has been a beneficiary of USAID funding through K-REP. Its credit program although small in outreach has been performing well and has potential for growth.

3. **The National Council of the Churches of Kenya (NCCK)**, a membership church organization with both social and development objectives, implements a national credit scheme with funds from USAID/K-REP and EZE (a German affiliation of protestant churches). One branch is performing very well, but others have significant issues.

4. **Presbyterian Church of East Africa (PCEA) Chogoria Hospital** manages an Enterprise Development Project with funding from USAID/K-REP. Although PCEA Chogoria is a regional program, it has achieved impressive results and has potential to increase outreach within the hospital's catchment area.

5. **Tototo Home Industries**, based on the coast, focuses on income generation for low income people, particularly women. The credit program, funded by USAID/K-REP, has reached very poor people, but with lower repayment rates than other schemes.

All these organizations, and there are several others in Kenya that have not received USAID support, primarily use a group lending model based on the Grameen Bank and adopted to Kenya by K-REP. It is envisaged that a typical NGO grant would be about $500,000. MICRO-PED budget for this component is $2.0 million.

2.33 Technical Assistance

While the NGOs which are expected to participate in micro enterprise credit have demonstrated considerable skill in lending to micro enterprises, it is recognized that the illustrative selection criteria listed in Annex H will not be easy for NGOs to meet and maintain without some outside technical assistance. The Project will, therefore, provide funds for technical assistance (TA) in two ways.

The first will be providing TA funding under the grants to NGOs participating in the above component. Such funds, envisaged to average $50,000 under each grant, will be used for procuring TA of their choice from their preferred source. This demand-driven approach will enhance the ability of these NGOs to build links with other sources of technical assistance which will continue beyond the Project period, an important factor in sustaining such institutions.

Second, the Project technical assistance team, which is likely to include one international and one Kenyan professional dedicated to micro enterprise credit, will assist NGOs in identifying areas in which they need assistance. In the interest of increasing performance standards throughout the market, assessment services will be made available not only to NGOs who apply for and receive grants from USAID/Kenya but to other NGOs that are active in the micro enterprise finance sector. The main activities for the TA team will be to:

1) Refine the illustrative selection criteria to incorporate up-to-date information and data.
2) Conduct assessments of lending operations and institutional development issues. Such assessments will, determine areas where NGO programs need to be improved and where technical assistance may be required, and may determine eligibility for funding under the Project. The NGOs will be involved in drawing up the terms of reference for the assessments.
3) Organize workshops and seminars on such topics as managing delinquency, increasing outreach, developing new loan products, MIS system development, mobilizing savings, etc.
4) Compile a database of technical assistance sources that NGOs can access, and
5) Strengthen a network of NGOs involved in micro enterprise lending to perform the above functions, if such a network emerges. The micro enterprise lending NGOs will take responsibility for forming and supporting the network. If the network emerges, the TA team will assist. If it performs well, the TA team will turn over its functions to the network. If not, other strategies for achieving sustainability will be developed during implementation.

The IC/USPVO managing the Sub-sector component will also provide the above TA.

Beneficiaries: Borrowers in successful lending schemes tend to be entrepreneurs located in densely population and high potential areas due to the economies of scale in such areas. Women are over-represented as borrowers and an evaluation of K-REP implied that loans were reaching firms that were growing at below average rates, i.e. poorer firms, and assisting them to reach average growth rates, in terms of employment. Thus, the program is increasing employment in needy firms. In addition, the K-REP evaluation showed that household income of entrepreneurs was increasing, as were assets and standards of living. So, the families of entrepreneurs, and probably employees, benefit as well. Micro enterprise lending programs are geographically spread across southern Kenya wherever there is strong market activity.

3.0 LINKAGES TO BROADER USAID STRATEGIES

3.1 ECONOMIC GROWTH & THE MICRO ENTERPRISE INITIATIVE

MICRO-PED directly contributes to the Agency's economic growth strategy and micro enterprise initiative through strengthening markets, and expanding access and opportunity. Market constraints are the most significant problem facing micro enterprises in Kenya. The Project aims at strengthening markets through examining the sectoral markets that micro enterprises operate in, identifying constraints and engaging in interventions to alleviate these constraints. In addition, the Project will strengthen markets by reforming GOK regulations and administrative practices that inhibit functioning of competitive, unregulated markets for micro enterprises. By focusing assistance on micro enterprises, the Project will expand access and opportunities for the poorest business people in Kenya, many of whom are women. The Policy activities aim at increasing the participation of micro entrepreneurs in the policy making process. And, the Finance component aims at expanding outreach of credit and savings facilities to increasing numbers of micro entrepreneurs by supporting the development of sustainable financial systems.

Throughout project implementation, MICRO-PED will adhere to operating principles consistent with USAID strategies, which have proven to be effective in achieving sustainable, people level impact:

* Building the capacity of Kenyan institutions, including NGOs, associations and the GOK, to assist micro enterprises.

* Engaging the participation of micro enterprises, their associations and assistance organizations throughout the intervention process, paying particular attention to women's participation.

* Managing for results: monitoring people-level impacts, documenting lessons learned, and using monitoring information to influence project directions.

* Monitoring and assessing strategic issues: Assessing the impact of project interventions on gender relations, income and economic growth, and the environment, and developing more effective strategies for increasing positive impacts in these areas.

* Facilitating and engaging in effective coordination with partners. Engaging in experimental initiatives, disseminating USAID lessons learned to partners and encouraging additional partners to join USAID in successful interventions.

These approaches will assist MICRO-PED implementors to be more effective, increase sustainability, increase leverage, and maintain USAID/Kenya's leading role in micro enterprise development in Kenya.

3.2 THE NEW PARTNERSHIP INITIATIVE: BUILDING LOCAL CAPACITY

MICRO-PED will continue in the spirit of the former Private Enterprise Development project, whose purpose was to "Build the capacity of Kenyan institutions to provide support services to private enterprises." In MICRO-PED, capacity building efforts are an integral part of the way the Project will do business. The Policy component will strengthen representative associations of micro enterprises, improve a Kenyan research institution's ability to facilitate policy dialogue, and increase research capabilities of numerous institutions through partnerships with Northern researchers. The Sub-sector component will strengthen the NGO partners who will devise and implement sub-sector interventions. The finance component aims at strengthening the market for technical assistance so that Kenyan financial institutions will have access to technical expertise from organizations around the world through a Kenyan network of micro enterprise lenders. NGOs will be empowered through technical assistance and increased cooperation with Northern NGOs. Small business partnerships will be strengthened through technical assistance from similar US associations, and democratic local governance will be enhanced through association development and the creation of a forum for stakeholders to address policy issues. These types of link have already played an important role in the Project design process and will be a vital part of the Project success.

3.3 USAID/KENYA'S MISSION: INCREASING BROAD-BASED ECONOMIC GROWTH

The USAID/Kenya Mission Strategy is being developed as the 1990-1995 strategy drawn to close. Nevertheless, several directions are apparent at this stage, based on progress under the former strategy and analysis to date in preparation for the new strategy. The USAID/Kenya Mission is, currently, to increase broad-based economic growth. This is achieved by reducing population growth and increasing employment, productivity, income and foreign exchange earnings. The Private Sector Strategy of increasing private enterprise employment has contributed to the latter target.

The USAID/Kenya private sector strategy is evolving based on changing economic condition and lessons learned about successful development strategies. Until the late 1980s, Kenya had successfully balanced an inward looking economic strategy and a public-sector led employment program. In the early nineties, however, structural problems in the Kenyan economy emerged in the form of balance of payments problems, inefficiencies in the public sector, and resulting GOK budget constraints. In response, the GOK developed a private-sector, export-led growth and employment strategy. USAID/Kenya supported this initiative by promoting growth in two high-potential sectors: increasing non-traditional exports and increasing productivity of small and medium enterprises. The Private Enterprise Development (PED) Project supported the latter target, but lessons learned from these activities suggest that more jobs were created with fewer resources in micro enterprise development activities. In addition, a 1993 National Baseline Survey of Micro, Small and Medium enterprises documented the extent and importance of micro enterprises in employment creation. This, in addition to USAID/W's recent focus on micro enterprise, has led to the focus on the MICRO-PED Project on micro enterprises. Other inter-related lessons emerging from evaluations and analyses include the importance of taking a sectoral approach to business development, the importance of agriculture to Kenyan private enterprises, and the importance of fostering better links between businesses and farmers in order to strengthen agricultural markets. This strategy has influenced MICRO-PED's sectoral approach and the focus on the agri-business sector. Finally, successful strategies in building capacity in Kenyan institutions, facilitating constructive public-private sector dialogue, and strong coordination with donors and other partners, will continue to influence the operating principles of MICRO-PED.

3.4 LINKAGES TO OTHER USAID/KENYA STRATEGIC OBJECTIVES

The MICRO-PED Project interventions afford good opportunities for increasing program impact through linkages with other USAID/Kenya strategic objectives and targets of opportunity. For example:

3.41 Increasing Agricultural Productivity and Farm Incomes

Agricultural productivity and farm incomes are inextricably linked with micro enterprise development. First, many micro entrepreneurs are also farmers. When micro enterprises earn income or obtain finance, the increased capital can be invested in farms, and *vice versa*. Second, the majority (78%) of micro enterprises are located in rural areas. They provide inputs to farms - tools, fertilizers, pesticides - and they purchase agricultural produce from farms, providing vital links between farms and markets. In turn, farmers provide a market for micro enterprise products and supply necessary inputs to micro enterprises. Stagnation or growth in either sector immediately affects the other. Both farms and micro enterprises are, after all, small businesses. Thus, USAID/Kenya activities in micro enterprise development and agricultural development will enhance each other, but particular linkages may evolve as the Agricultural Strategy for the next five years emerges, for example:

- Small scale farmers are in need of credit, and micro enterprise finance programs have devised effective methodologies for credit delivery. The Project may experiment in applying micro enterprise lending techniques to agricultural credit.

- In the new de-regulated environment, input supply markets for farmers are not functioning well and shortages of seed, fertilizer and pesticides and appropriate farm tools constraint small scale agricultural production. Micro enterprises in the agri-business sector could be playing a more significant role in supplying these items. Activities in the sub-sector component may be able to address some of these concerns.

3.42 Increasing Food Security:

Achieving food security requires progress in increasing supply, access and use. By improving the functioning of markets in the agri-business sector, MICRO-PED will contribute to increasing the supply of food products. Increasing employment will increase income and, thus, contribute to increased access to food.

3.43 Building Democracy:

Functioning democracy is important for the growth of a broad-based, strong private sector. Without appropriate, transparent and correctly implemented property rights, contract law and business regulations, micro enterprises will consistently be in violation of laws and regulations and will be subject to perceives "harassment." Without strong representative associations, it is difficult for Government to know how policies are affecting micro enterprises and how the Government can act to enhance job creation in the sector. Without a positive relationship, characterized by open dialogue, the private and public sectors will be at odds with one another, instead of working toward common development goals. MICRO-PED aims to increase the participation of micro enterprises in the policy making arena by strengthening associations and creating opportunities for dialogue between the public and private sector.

3.44 Strengthening PVO (Private Voluntary Organization) Institutional Capacity:

Strong non-governmental organizations are key service providers to micro enterprises. MICRO-PED will strengthen the NGOs it works with using an institutional development matrix to identify needs and monitor progress. Expertise in institutional development will be required throughout the Project. Particular linkages between MICRO-PED and the new USAID/Kenya PVO Project may emerge as the latter design is formalized.

3.45 Decreasing National Fertility & Reducing HIV infection:

Micro enterprise development contributes to reducing fertility and HIV infection by increasing incomes, which, particularly among women, usually correlates with smaller family size and better health. Enhanced impact could be attained, however, through increasing particular linkages between MICRO-PED activities and those planned under USAID/Kenya's new APHIA Project. Possibilities include:

- Promoting the micro enterprise involvement in the sale and distribution of condoms through micro enterprise finance programs and business associations.

- Studying and strengthening the self-help initiatives that develop alongside credit groups and associations to encourage the growth of more structured and better functioning health insurance schemes.

- Educating micro entrepreneurs and their workers about family planning and AIDS issues by adopting techniques currently used in large private sector firms to be applied in finance programs and micro enterprise associations, where large numbers of micro enterprises meet.

- Using micro enterprise development institutions and associations as a method of identifying and strengthening very small private sector clinics and, where relevant, for delivering finance to private sector clinics participating in USAID health Projects.

Throughout the Project, effort will be made to obtain synergy among different activities of USAID and, indeed, with other partners striving to achieve similar strategic objectives.

SECTION FOUR: DEFINITION OF SUCCESS

4.1 MONITORING PRINCIPLES:

There are several principles that will guide the general approach to defining and measuring success of the MICRO-PED Project:

1. Establishing clearly defined and focused outputs to guide the Project.

2. At the implementation level, defining and monitoring success in partnership with implementing organizations. This means establishing clear targets early in the life of Project, with input from implementers, and developing simple, cost-effective monitoring systems, managed by implementing organizations. The system should provide information needed by Project managers and implementers to improve effectiveness, efficiency and impact.

3. Regular reporting, review and discussion of progress among Project managers and implementers. This will ordinarily occur through semi-annual Project Implementation Reports and annual Assessment of Program Impact reports.

4. Independent mid-term and final evaluations that assess Project performance, impact and relevance.

The specific targets and indicators of the MICRO-PED Project are defined in detail in the logframe. Some of the indicators have been developed, while others will be developed at the early stages of Project implementation. This section is a description of expected Project outcomes, methods for monitoring these outcomes, and a discussion of areas to explore to ensure that the Project achieves meaningful impact.

4.2 INTENDED RESULTS

4.21 Goal

<u>Goal:</u> The goal of the MICRO-PED Project is to increase private enterprise employment.

Indicator: Average Annual Private Enterprise Employment Growth Rate up from 12% to 17%; (percent women, 38%).

The average annual private enterprise employment growth rate was estimated at 12% (over a ten year period) for 1993. Given a significant increase in micro enterprise employment, the average annual private enterprise employment rate (over a ten year period) is expected to increase to 17%. Women comprise an estimated 35% of this employment. Due to the projected increase in micro enterprise employment, which has a high proportion of women, it is expected that the proportion of women in private enterprise employment as a whole will increase to 38%.

The employment growth rate was calculated using Central Bureau of Statistics (CBS) data for firms with over ten employees, combined with USAID surveys of employment in firms with fewer than ten employees, micro enterprises. To estimate employment in micro enterprises, USA'D/Kenya currently conducts National Baseline Surveys using the methodology developed by Michigan State University. It is expected that this type of survey will be repeated twice during the Project period. The study is currently conducted through the USAID/W funded GEMINI Project in partnership with a Kenyan NGO (K-REP), under the auspices of the CBS. Efforts were made and will continue to a) increase the capacity of K-REP to carry out the survey independently and b) integrate this type of survey into regularly reported Government Statistics.

4.22 Purpose

Purpose: The purpose of the MICRO-PED Project is to increase micro enterprise employment.

Indicator: Average Annual Micro Enterprise Employment Growth Rate up from 13% to 18%. (40% women)

Using the National Baseline data, the average annual growth rate (over ten years) is estimated at 13%. It is noteworthy that this rate is very close to the growth rate estimated by the CBS for the "informal sector." Given the trends in recent years, it is optimistic but realistic to assume that the average annual employment growth in micro enterprises can increase to 18%. Women currently comprise 40% of micro enterprise employment, and the MICRO-PED Project hopes to maintain this high representation. The Project is expected to significantly contribute to this increase. Micro enterprise employment will be measured through national surveys as described above.

4.23 Outputs

1. Output One: To improve the policy and regulatory environment affecting micro enterprises.

   Indicator: Improvements in specific policies defined in a Policy Matrix.

These changes will be reflected in a qualitative policy matrix that will be developed by the Policy Forum team and USAID at the beginning of the Project and will be reported on regularly throughout the life of Project. Because the Project focusses on implementing policies, many of which have already been announced, the matrix will need to reflect implementation, not simply policy pronouncements.

2. Output Two: To increase employment in targeted sub-sectors through expansion of cost-effective business services for micro enterprises.

Indicators:
-Increase in Employment in Targeted sub-sectors of 274,000 jobs annually.
-Number of micro enterprises receiving non-financial services, to be determined during Project implementation.
-Business contribution to the cost of services, 50%.
-Increase in Institutional Capacity of participating NGOs, as measured through an Institutional Development Matrix.

The first sectors that will be targeted are agribusinesses and metal related firms. The targeted 18% employment growth rate in micro enterprise employment implies that the agribusiness sector will have to generate 250,000 jobs annually and the metals sector will have to generate 24,000 jobs annually. This increase will be attained through identifying constraints and developing cost-effective interventions in the sectors. Women comprise 41% of employees in agri-businesses and 1% of employees in the metals sector. These ratios are expected to stay the same. Some interventions will involve provision of services, such as training, directly to firms. This firm-level assistance will go to women in representative proportions. Other activities will be "leveraged" interventions that will affect large numbers of firms in the sub-sector, for example changing health regulations affecting food processors. Until the constraints and interventions are fully developed, then, it is difficult to determine how many firms will receive direct assistance, and what the measures and targets for cost-effectiveness will be. Rather, these will be determined, agreed and monitored with implementing organizations when grant agreements are signed. However, it is expected that any value added services provided under the Project would recover 50% of the cost of deliver from the businesses. In the long run, the aim is to develop services that will be financially sustainable, like the credit services, but in the timeframe of the Project, and given the current levels of subsidies for non-financial services, a 50% cost-recovery target represents substantial progress toward sustainability. Finally, as in the finance component, sustainability will also be achieved by increasing the institutional strength of implementing organizations, which will be monitored using an institutional development matrix.

Employment in the targeted sectors will primarily be tracked through the National Baseline surveys (GEMINI). The technical assistance team will also carry out regular sector studies to assess changes in constraints and opportunities in the sector. Prior to awarding grants, the technical assistant team will work with implementing organizations to determine targets and measures for supported activities, and implementing organizations will track and reports against these indicators. The team will carry out an institutional assessment during the Project to establish targets and monitor changes in institutional strength. At the aggregate level, the National Baseline Surveys will report on the proportion of firms that are receiving non-financial assistance.

4. Output Three: To increase sustainable delivery of financial services to micro enterprises.

Indicators:

-40,000 new micro enterprise borrowers, 60% women.
-2 USAID funded institutions fully sustainable and 2 at break-even level.
-Increase in Institutional Capacity of participating NGOs, as measured through an Institutional Development Matrix.

With the level of investment programmed under the Project, including the counterpart funds invested by participating NGOs, and taking into account the re-lending of these funds over the five year period, it is expected that 40,000 new borrowers will be reached. The Project will also report on the number of current borrowers served. The cumulative number of borrowers reflects the overall impact of the Project; the current borrowers reflect sustained outreach. Under the Private Enterprise Development Project, 60% of borrowers were women, and we expect this high representation to continue. There will be two indicators of sustainability. One is the financial sustainability of institutions, as measured by the ability of organizations to cover their operational and capital costs. It is expected that two financial institutions will progress to achieving full financial sustainability (covering implicit capital costs) and in addition will access funds through the private sector in the form of savings mobilization and commercial bank loans. This will significantly expand outreach as well. Two other financial institutions are expected to break even (cover operational costs) during the period. The other indicator for sustainability is the institutional strength of financial institutions as reflected in an institutional development matrix which will assess such areas as strategy, mission and leadership; institutional design; personnel management; financial management; and management information systems.

The combination of measuring outreach, financial sustainability and institutional strength should reflect changes in the sustainable delivery of financial services. The outreach and financial sustainability data will be generated by the management information systems of the financial institutions. These systems are generally in place in most lending organizations, but usually require improvement as the organization grows and focuses more on sustainability. A fairly standard institutional development matrix will be developed by the technical assistance team, customized in conjunction with each institution. The financial institutions will then report progress regularly. The technical assistance staff will carry out a thorough assessment of financial institutions during the Project, establishing targets and monitoring progress in partnership with the financial institutions. At the aggregate level, the proportion of micro enterprises receiving finance will be reported in the National Baseline Surveys (GEMINI).

4.3 MONITORING PROJECT RELEVANCE:

The above discussion reflects results and systems for monitoring specific indicators that are currently in USAID/Kenya's manageable interest to affect. However, there are some key assumptions behind the use of these indicators that bear continued investigation, and some other indicators that deserve exploration, if USAID/Kenya is to ensure that Project activities contribute to USAID/Kenya's strategic objective of increasing broad-based economic growth.

The indicators of this Project focus on employment, which is a major problem facing the Kenyan economy and social system today. However, USAID/Kenya is conscious of the need to answer two sets of questions that could change the way we define success.

1. The first has to do with ensuring that the increases in employment that we measure are positive indicators of increasing economic growth and welfare in Kenya. It is important to monitor the implications and characteristics of employment growth by tracking wage levels, output levels, and productivity in micro enterprises. The more that is understood about the relationship between employment, output and productivity in micro enterprises, the more USAID can target the Project interventions towards increasing productive employment and raising income, for all groups, in addition to simply increasing employment. An examination of this issue will also help USAID identify high potential groups of firms, and assess the constraints to the profitability of women-owned enterprises. USAID will study this issue through including financial data in the national baseline surveys and through special studies during the Project.

2. The second has to do with capturing, monitoring and increasing the extensive benefits of increasing micro enterprise employment. Employment indicates that an individual is earning a livelihood, increasing income and improving their standard of living. At the same time, dynamics within the household can contribute to and take away from the performance of firms. It is important to understand how businesses and business income fit into the household economy in order to capture and improve household level benefits from interventions, and to capture and alleviate household patterns that constrain business, and therefore income, growth. USAID/Kenya plans to analyze these issues in Kenya through special studies and by cooperating with research in progress in the USAID/Washington's Micro enterprise Development Office on methodologies for assessing household level impact of micro enterprise development. An important aspect of this analysis will be understanding gender roles and constraints on women's participation in higher profit micro enterprise activities.

As the understanding of these two key issues increases, USAID/Kenya will modify Project activities and targets to improve and more fully reflect impact.

SECTION 5: FEASIBILITY, KEY ASSUMPTIONS, RELATED RISKS

5.1 **Economic Growth:** As described in Section One, employment growth in micro enterprises will have a greater impact on increasing income if it takes place in a climate of economic growth. Prospects for increased economic growth in Kenya depend on agricultural production, large-scale or "formal" sector growth, and macro-economic stability, for which there are slightly positive prospects at the moment. The MICRO-PED Project will monitor general economic growth and its impact on micro enterprise growth, and will more closely examine micro enterprise contribution to economic growth, and how this can be increased through interventions.

5.2 **Political and physical instability:** In the recent past, Kenya has experienced politically related violence in particular parts of the country. Such violence and political instability provides an uncertain environment for business operations. USAID/Kenya is embarking on a Democracy and Governance Project aimed at improving and stabilizing political relations in the country. At the same time, the MICRO-PED Project is creating opportunity for dialogue among a wide range of stake holders.

5.3 **Commitment of the Government of Kenya to implementing policy change:** Committed participation of the GOK will be necessary to accomplish major policy reform for micro enterprises. The MICRO-PED Project is proceeding under the assumption, based on numerous policy documents and recent policy implementation in other sectors, that the GOK is committed to implementing policy change that will enhance micro enterprise growth. Given the past record in this and other areas, however, policy work in Kenya has to be recognized as a high risk, high return, activity.

5.4 **Gender issues:** At present USAID/Kenya has a good understanding of the position of women in the micro enterprise sector. However, USAID/Kenya does not have a comprehensive understanding of the gender issues that keep women in these positions. The MICRO-PED Project will continue to examine the position of women in the micro enterprise sector, and to identify effective interventions.

5.5 **Banking Policies:** Despite the extensive use of non-governmental organizations to deliver credit, the MICRO-PED Project will rely on the formal banking sector for three major aspects of its financial activities. Prospect are good for this cooperation occurring, but past record of Bank dealings with micro enterprises provides evidence for caution.

5.6 **Urban/rural issues:** According to the National Baseline Survey, 78% of micro enterprises are located in rural areas, yet many micro enterprise development activities, particularly financial services, have tended to concentrate in densely populated urban areas because costs of service delivery are lower and businesses tend to perform better. To mitigate against the tendency to miss rural and home-based businesses, MICRO-PED will support the development of experimental financial products and non-financial interventions designed to reach rural populations.

6.0 FINANCIAL PLAN

6.1 SUMMARY OF COST ESTIMATE

The total USAID funding level for the Project is U.S. $12 million over a five year period. In addition, counterpart organization will contribute in cash or in-kind U.S. $5.355 million (this share represents over 26% percent counterpart contribution, which meets the regulatory requirement). The total estimated cost of the budget is therefore, U.S. $17.355 million. The proposed Project will be funded under the Development Fund for Africa (DFA). Presented in Table 1 below is a summarized illustrative Project budget.

TABLE 1: MICRO-PED (615-0263) ILLUSTRATIVE BUDGET, 000s USD

	USAID	COUNTER-PART	TOTAL
I. POLICY COMPONENT	1,950	130	2,080
II. SUB-SECTOR COMPONENT	4,200	1,225	5,425
III. FINANCE COMPONENT	4,500	4,000	8,500
IV. USAID SUPPORT	900	0	900
V. EVALUATIONS & AUDITS	450	0	450
GRAND TOTAL	12,000	5,355 (31%)	17,355

6.2 ESTIMATED PROJECT COST DETAILS (USAID CONTRIBUTION)

Table 2 contains detailed cost estimates for each Project component covering FY95 through FY 99. Below is a discussion of these costs.

6.21 Policy Component

U.S. $1.95 million has been allocated to the Policy Component over a five year period. $1.25 million will go toward the management of the Policy Forum and related assistance to the GOK ($404,000). Association Development activities will require $200,000 for curriculum development and training of association leaders. Finally, Strategy Support, consisting of special studies and grants for experimental initiatives, will require $500,000.

6.22 Sub-Sector Development

USAID will commit U.S. $ 4.2 million towards sub-sector development activities. The activities will be managed by a technical assistance team of one international and one Kenyan professional, who will coordinate activities, provide technical assistance and handle grants to NGOs, at a cost of approximately $1.7 million over a two year period. The cost of the Environmental Impact Review is contained in this component. The remaining $2.5 million will go to between six and ten grants to NGOs to carry out sub-sector interventions. Of these funds, $2.0 million will go towards non-financial assistance activities, $250,000 for management costs and $250,000 for institution building.

6.23 Finance Component

USAID will commit U.S. $4.5 million to micro enterprise finance activities. K-REP will receive $800,000 million in loan funds, $170,000 in funds for technical assistance, and $30,000 for audits. K-REP is able to finance its own management costs. The remaining $2.0 million will be divided among several NGOs, according to their ability to meet the specified performance criteria. Out of this, $250,000 will go towards technical assistance, $410,000 towards management costs, and $90,000 will go towards audits. In addition to these grants, USAID will contract an Institutional Contractor or a US Private Voluntary Organization to provide technical assistance for a two year period at a cost of $1.5 million, which will include sub-contracts primarily for workshops and training.

6.24 USAID Support

The Project budget of U.S. $900,000 provides for one U.S. (local hire PSC) and two Kenyan professionals (FSNPSCs) who will be the core staff to manage the various components.

6.25 Evaluations and Audits

A total of $400,000 of Project funds will be used to finance mid-term and final evaluations. Three mid-term and three final evaluations, one for each component, are planned. All audits under the Project will be recipient audits and will be funded under the grants. A contingency fund of $50,000 is set aside for possible special investigations or audits in case of poor quality recipient audits.

6.3 COUNTERPART CONTRIBUTION

Counterpart organizations are expected to contribute, in cash or in kind, the equivalent of US $5.355 million to MICRO-PED activities. Under the Policy component, the main contribution will come from the Government of Kenya suppling office space and supervisory staff for KIPPRA. This amounts to about 25% of the funds the GOK will be receiving directly. Under the Sub-sector component, USAID will be issuing grants to existing NGOs to deliver non-financial services. The NGOs will be receiving funds from other sources that will contribute to the project activities. In addition, businesses are expected to pay 50% of the cost of delivering value added services, such as training or marketing services. Although this figure is difficult to assess at this stage, the target of 25% of the total Sub-sector component funds has been established. In the Finance component, USAID will be funding NGOs with existing lending programs. USAID will require that NGOs have or raise capital equivalent to the amount invested by USAID. Based on the current loan portfolios of the NGO lending programs under consideration, this is feasible.

6.4 OBLIGATION SCHEDULE AND MECHANISM

Table 3 illustrates the Project obligation schedule for the different Project elements. It is expected that the Project will be incrementally funded in five tranches as follows: 1) $2.500 million in FY95, 2) $3.039 million in FY 96, 3) $2.664 million in FY 97, 4) $2.815 million in FY 98, and 5) $0.982 million in FY 99. This Project will operate under a Project Agreement with the Government of Kenya.

6.5 USAID MANAGEMENT COSTS

USAID Management costs not funded under the MICRO-PED Project will include:

a) USAID/Kenya staff to supervise Project Management,
b) USAID/Kenya staff time in negotiating the Project Agreement and Grants, approving PIOTs, supervising reporting and evaluations, and processing vouchers,
c) REDSO/ESA time in negotiating contracts, reviewing Grants, assisting in developing monitoring tools and conducting mid-term and final evaluations.

The total estimated operating expense costs of the MICRO-PED project, then, is just under $2 million. (See Annex 5).

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7.0 MANAGEMENT PROCEDURES

7.1 OBLIGATION MECHANISM

This Project will be obligated through a bilateral Project Grant Agreement with the Government of Kenya. The Project will be funded incrementally according to the above obligation schedule, depending on the availability of funds. Increased funds will be made available through amendments to the Project Grant Agreement. For activities carried out directly by the GOK, USAID will commit (authorize the use of) funds using Project Implementation Letters. For activities carried out by non-GOK entities, USAID will commit funds directly to implementors through grants and contracts. USAID will inform the GOK, via Project Implementation Letters, of the various commitments as and when they are made to keep the GOK aware of activities and expenditures under the Project.

7.2 ENSURING ADEQUATE INTERNAL CONTROLS AND PROCUREMENT PROCEDURES

The MICRO-PED Project will be implemented by USAID/Kenya, with assistance from REDSO/ESA. USAID/Kenya will be responsible for preparing and negotiating the Project Grant Agreement (the obligating document). MICRO-PED will involve both direct and indirect grants and contracts. For direct contracts and grants, USAID will be responsible for ensuring that implementing organizations have adequate internal controls and procurement procedures. In the case of contractors, this responsibility will fall on the negotiating contracting officer in REDSO/ESA. In the case of grants, USPVOs and Kenyan NGOs will have to be registered with USAID which requires an assessment of internal control and procurement systems. For indirect contracts and grants, the direct recipient (IC or USPVO) will be responsible for ensuring that grantees and contractors have adequate internal controls and procurement procedures. In some cases, there will be funds to assist organizations to develop these systems as a condition precedent for receiving funding. USAID will require recipients at all levels to conduct regular audits in the standard USAID format showing USAID fund accountability statements. Funds will be made available in grants and contracts for this activity.

7.3 PROCUREMENT PLAN

The main procurement actions by USAID/Kenya are:

1. Project Grant Agreement with the Government of Kenya (June, 1995).
2. USAID/Kenya Personal Services Contracts (September, 1995).
3. Agreements to Finance NGOs (Starting August, 1995).
4. Agreements with Policy institutions (December, 1995).
5. Agreement with an IC/USPVO for the Sub-sector Component and the Finance Technical Assistance (RFP: June, 1995; Award: January, 1996).
6. Miscellaneous small actions for Evaluation, Audit and Strategy Support

PROCUREMENT PLAN
MICRO PRIVATE ENTERPRISE DEVELOPMENT PROJECT

Project Component Project activity	Acquisition Method	Responsible Agency	Financing Method	Estimated Start date	Duration	Estimated Cost
POLICY						
2 Policy Grants /Contracts '(Policy Reform & Asst Dev)	AID Direct	AID	Direct Reimbursement / Advance	2 nd quarter /96	4 years	$1,046,000
Asst to GOK	Host Country Contract ***	GOK	Direct Reimbursement / Advance	1st quarter /96	4 years	$404,000
Strategy Support :						
Small Grants / Contracts	AID Direct	AID	Direct Reimbursement / Advance	2 nd quarter /96	4 years	$500,000
Sub-Sector						
Technical Asst	AID Direct Contract or Grant with PVO RFP	AID	Direct Payment	2 nd quarter /96	4 years	$1,700,000
Grants to NGO	Grant by IC/USPVO	IC/US PVO	Direct Payment	2nd quarter /96	4 years	$2,500,000
Finance						
Technical Asst	AID Direct Contract or Grant with PVO RFP	AID	Direct Payment	1st quarter /96	4 years	$1,500,000
2-4 Grants to NGO	AID Direct	AID	Direct Reimbursement / Advance	2nd quarter /96	5 years	$2,000,000
Grant to KREP	AID Direct	AID	Direct Reimbursement / Advance	2nd quarter /96	5years	$1,000,000
Mission Management						
One USPSC & 2 FSNs	AID Direct PSCs	AID	Direct Payment	1st quarter /95	5 years	$900,000
Evaluation and Audit	AID Direct Contracts	AID	Direct Payment	4 th quarter /97		$200,000
				4 th quarter /99		$250,000
Total						$12,000,000

N.B The same institutional Contractor or US PVO will be used to implement the entire Sub-Sector component including giving sub-grants to NGOs. and

implementing the TA sub-component under Finance.

*** The implementing Agency will be subject to Host Country Capability Assesment.

TABLE 2: MICRO-PED (615-0263) DETAILED ILLUSTRATIVE BUDGET in '000s US Dollars

I. POLICY COMPONENT				
A. Policy Reform:	Policy Forum:	846		
	GOK Assistance	404	1250	
B. Association Development	Curricula Development	114		
		86	200	
C. Strategy Support	2 National Surveys	133		
	4 Special Studies	133		
	2-5 Grants	234	500	
Sub-Total				1950
II SUBSECTOR COMPONENT				
A. Technical Assistance	1 International Advisor, for 2 yrs	585		
	1 Local Advisor, for 4 yrs	460		
	Direct costs	415		
	Sub-contract (EIR)	150		
	Fixed Fee	90	1700	
B. Grants to NGOs:	Non-Financial Assistance	2000		
	Management Costs	250		
	Institutional Development	250	2500	
Sub-Total				4200
III. FINANCE COMPONENT				
A. Technical Assistance	1 International Advisor, for 2 yr	585		
	1 Local Advisor, for 4 yrs	460		
	Direct costs	200		
	Sub-contract (Workshop)	200		
	Fixed Fee	55	1500	
B. Grant to KREP	Loan Funds	800		
	Technical Assistance	170		
	Audits	30	1000	
C. Grant to other NGOs	Loan Funds	1250		
	Administration costs	410		
	Technical Assistance	250		
	Audits	90	2000	
Sub-Total				4500
IVI. USAID SUPPORT	1 U.S. PSC, 5 YRS	350		
	2 FSN PSC,5YRS	550	900	900
V. EVALUATION AND AUDIT				
	6 Mid & Final Evaluations	400		
	Special Audits (NFAs)	50	450	450
GRAND TOTAL				12000

TABLE 3
MICRO-PED PROJECT (615-0263)
BUDGET BY OBLIGATION SCHEDULE IN $ '000

POLICY COMPONENT	FY 95	FY 96	FY 97	FY 98	FY 99	TOTAL
A. Policy Reform:	150	431	232	233	204	1250
B. Association Development	45	64	32	32	27	200
. Strategy Support	0	119	140	126	115	500
ub- Total	195	614	404	391	346	1950
SUBSECTOR COMPONENT						
. Technocal Assistance	431	429	226	429	185	1700
. Grants & Contracts	169	777	777	777	0	2500
ub-Total	600	1206	1003	1206	185	4200
I. FINANCE COMPONENT						
A. Technical Assistance	413	409	223	409	46	1500
. Grants	1112	630	629	629	0	3000
ub-Total	1525	1039	852	1038	46	4500
V. PROJECT MANAGEMENT.						
.S. & FSN PSCs	180	180	180	180	180	900
/. EVALUATION AND AUDITS						
Evaluations / Audits	0	0	225	0	225	450
RAND TOTAL	2500	3039	2664	2815	982	12000

ABLE 4: MICRO-PED (615-0263) ILLUSTRATIVE BUDGET
isbursement in US Dollars and in Local Currency.

	US DOLLARS '(000s USD)	Local Currency '(000s USD)	TOTAL
OLICY COMPONENT	488	1462	1950
UB-SECTOR COMPONENT	1630	2570	4200
INANCE COMPONENT	1935	2565	4500
JSAID SUPPORT	350	550	900
VALUATIONS AND AUDIT	300	150	450
RAND TOTAL	4703	7297	12000

UNITED STATES GOVERNMENT
memorandum

DATE: May 24, 1995

REPLY TO ATTN OF: Stephen Ragama, Office of Projects

SUBJECT: Minutes of ECPR meeting for Micro-PED
Project No. 615-0263

TO: See Distribution

Ref: ECPR meeting of May 10, 1995

1. Project Purpose/Strategy:

A. Why is the purpose of the project simply to increase employment? What about the quality of the jobs being created? Why not include increasing incomes or real wages? Why not include increasing output and productivity, which would ensure that the project is creating productive jobs?

Outcome: The Project would, in the long run, hope to contribute to the creation of productive employment. Ultimately, the project, it is suggested, will increase real wages, productive jobs etc. However, we do not have good data on how micro-enterprises are contributing to GDP. The work in this area is still going on. GOK is very interested to have data on how micro-enterprises contribute to GDP. However, it is important at this stage to acknowledge that it is not within this project's manageable interest to try to show real wage and productivity increases. In the past, we experienced a situation where as the economy was growing, yet real wages continued to fall. In addition, creating jobs is a high priority need for the Kenyan economy, even poor quality jobs help people survive.

B. Women are numerous in the micro enterprise sector, but they are also disadvantaged. What will the Project do to benefit women and improve their situation?

Outcome: The Project will have some specific activities to target women. The gender analysis will try to identify additional issues affecting women, which will be incorporated in the project at the implementation stage. In the policy component, one section will specifically focus on womens' issues. Also the M&E activities will track women's representation and progress in the micro-enterprise sector.

C. While there is mention of linkages with the other SOs of the Mission, what direct linkage is there between Micro-PED and D&G activities, i.e., policy research and civil society? Is there too much overlap?

Outcome: Micro-PED will create private-public sector dialogue and strengthen private sector associations. During implementation, USAID will be careful not to overlap into the D/G activities, but rather to compliment.

D. How can credit programs be targeted to small farmers especially seed production by small farmer?

Outcome: The issue of targeting small farmers will be addressed at a later date when we discuss the mission Strategy but not in the PP. Also this issue will be looked at during the project implementation stage. At this stage micro-enterprise credit methodologies are not geared for farm credit -- the clients are spread too far apart to make group lending work. We do plan, however, to experiment with other methods for cost-effective credit delivery.

E. Under constraints analysis, the PP has preselected only three constraints, which are clearly linked to the proposed interventions. There is no broad constraints analysis from which alternative interventions could be analyzed.

Outcome: The Project was designed to meet the main, sector-specific constraints as identified through surveys and research. This explains the parallel structure. Two broad constraints, macro-economic growth and infrastructure, were too broad for the Project to address. The meeting recommended the final draft of the PP should mention these broader constraints and point out that other donors and USAID projects are addressing those issues.

2. <u>Policy Reform:</u>

Does the PP identify specific policy, regulatory constraints that Micro-PED component will attempt to address?

Outcome: The PP contains a Policy Matrix on the sector, and other specific policy issues will arise at the subsector level. Rather than focus on specific policies, the Project will establish a process in which stakeholders come together and establish this policy change agenda. Implementation of this policies will then involve these stakeholders.

What is the likelihood of this component achieving the expected policy results?

Outcome: The component is a high-risk, high potential pay-off activity. The GOK has made many positive statements but achieved little progress through implementation. However, no policy conditionalities are anticipated in this project. The PP has illustrated policies to be addressed. Success will depend, in part, on strong coordination within Mission and with other donors in the implementation of this section.

3. Sub-sector Development:

In the subsector component, the output is "increase the cost-effective delivery of non-financial assistance." What exactly does this mean? How will cost effectiveness be measured/determined?

Outcome: The actual measure of cost effectiveness for this output will be developed as implementation progresses. An example is USAID investment per job created by beneficiary firm. Another is willingness to pay full incremental costs (excluding R&D) for technology, training, etc. by the firm.

One of the constraints facing Micro-enterprise is poor functioning markets and the proposed interventions to alleviate these is through non-financial assistance targeted at the subsectors. It is not clear in the PP how the intervention using a TA will strengthen markets.

Outcome: The non-financial assistance intervention using a TA proposed will identify a market and analyze its problem/constraints then figure out how and where you can intervene and reach a lot of people. The role of the TA is to coordinate the process and award grants and contracts to deliver non-financial services.

4. Financial Assistance:

Why will K-REP be guaranteed funding under the Project, while other financial institutions under the Project will have to compete?

Outcome: The PP does not guarantee KREP automatic funding. It will have to meet the criteria before it can be funded. However, KREP is the leading credit NGO in the market. KREP now has reached a transitional stage in the micro-credit sector and that is why USAID is interested in supporting its transition to a sustainable organization.

In the finance component, KREP will be provided funds for TA. What is the rationale for this? Is this TA demand-driven or supply-imposed?

Outcome: The TA is necessary for: (1) transition from NGO to Bank and (2) assist KREP develop new products in the micro credit program. KREP has identified the need for TA from their own assessment and it will be structured in such away that it responds to specific needs identified by KREP.

The project seems to focus on NGOs providing finance. What about trying to involve the formal Banking sector? Wouldn't that be more sustainable?

Outcome: Kenyan commercial banks are not interested in working in this sector. In fact, their new policies are moving away from micro-enterprise (e.g., requiring a higher minimum deposit, therby closing off many small savers). However, the need to link this assistance to formal banking is being considered, especially with larger NGOs working in the sector. Alternatively, we may consider using the S.Africa model where USAID puts all its money for NGO lending in a bank and NGOs borrow from the Bank at prevailing interest rate; in effect, borrowing their own money. This instills financial discipline in the NGO.

5. Project Financing:

Given the present OYB crunch, especially on new starts, can the obligation schedule be realistically met?

Outcome: Whereas the design team realized this as a real threat, we also realize that there would be a lot of negative impact on project implementation if the proposed activities are not funded as scheduled. We would not wish to scale down the Project activities at this time but rather deal with the problem as the situation evolves. There are options for incremental funding or scaled-back activities.

6. PROAG:

It is mentioned in the PP that the ProAg with GOK will probably be signed sometime this month. We are almost in mid-May, how feasible is this? What is our negotiation status with the GOK? Do we have a request for assistance from the GOK? Will obligation by an umbrella ProAg augur well with GOK when it is obvious that most of the project components (finance and subsector) have little, if any, GOK involvement?

Outcome: PEO has had close discussions with Ministry of National Planning and Development. Consultations with the Treasury also indicate that there would be no problem except the Treasury would not be willing to pay counterpart funds on behalf of NGO supported under the Project. The next step for the Office is how to translate what is in the PP to the PROAG. Because of our past experience working with private sector institutions, the GOK views this as moving closer to government.

7. Project Management:

What is the rationale for managing some activities in-house rather than contracting out implementations of the entire Project under one contract?

Outcome: The methods selected for the implementation of this project are based on substatial analyses. On the one hand, it is administratively simple to have one contractor. On the other hand, USAID is able to be more involved with activities when implementing in-house. We selected a mix that is $3 million cheaper than contracting out the entire project.

8. Project Budget:

It appears that a bulk of funding will go towards the cost TA, management, evaluation and audit. Is this not more than 20% of total project costs?

Outcome: There is no fixed rule about this. The TA and AID management amount to 1/3 of the budget. However, TA is value added development activity - not administrative costs.

OE to support this project has been costed at around $2 million, how was the weight (%) on various offices assigned/derived?

Outcome: According to the method used in computing OE support under the PVO Co-finance project - see Annex J.

9. Clarifications:

Budgets-costs need review and counterpart budget must be defined. Budgets need to be done in compliance with HB3.

Outcome: Will do.

The figures do not total between the illustrative budget and the obligation schedule budget. Similar discrepancies also appear in some paragraphs of the text.

Outcome: Will fix.

NB: The following actions were also agreed to be incorporated into the PP;

1) Add some explanation that this support will assist the assisted organizations transform from Micro-enterprise to small

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businesses (moving from informal to formal businesses).

2) Check PP to ensure that funding commitment to KREP is clearly described in the PP.

3) Revise goal statement

Outcome: Any other goal statement would relate to increasing incomes. This raises the issues discussed in issue # 1. Many options were considered, but increased employment fits best into the likely USAID/Kenya strategies (board based economic growth, food security) and is most measurable.

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TAGS:
SUBJECT: ECPR MEETING - PRIVATE ENTERPRISE DEVELOPMENT II (615-0263) - DELEGATION OF AUTHORITY

1. ON JUNE 27 THE ECPR MET AND APPROVED USAID/KENYA'S REQUEST TO EXERCISE ITS DOA 551 AUTHORITY TO APPROVE THE PID AND PP FOR THE SUBJECT PROJECT NOT TO EXCEED DOLS. 15 MILLION. THE ECPR WAS CHAIRED BY DAA/AFR GARY BOMBARDIER WHO PRAISED TOM HOBGOOD ON HIS EXCELLENT PRESENTATION OF THE COMPREHENSIVE AND WELL-CONCEIVED CONCEPT PAPER ON MICROENTERPRISE DEVELOPMENT. ISSUES AND/OR CONCERNS BELOW WERE DISCUSSED AT THE ECPR. TO THE EXTENT POSSIBLE, USAID/KENYA IS ENCOURAGED TO UTILIZE GLOBAL BUREAU TECHNICAL STAFF ON THE DESIGN TEAM.

2. SOME OF THOSE ATTENDING THE ECPR QUESTIONED WHETHER THE POLICY AGENDA FOR THE PROJECT WAS TOO LIMITED IN SCOPE AND TOO FOCUSSED ON THE IMMEDIATE CONCERNS OF MICROENTERPRISE (E.G. HARASSMENT, LICENSING, RIGHTS, ETC.) THESE ARE IMPORTANT CONCERNS, BUT THE DESIGN TEAM SHOULD NOT OVERLOOK THE IMPORTANCE OF BROADER POLICY CONSIDERATIONS RELATED TO MACROECONOMICS, AGRICULTURAL TRADE POLICIES, INDUSTRIAL POLICIES, AND FINANCIAL SECTOR POLICIES. HOWEVER, THE PROJECT SHOULD RETAIN A TIGHT

MICROENTERPRISE FOCUS.

3. WHILE THE MICROENTERPRISE SECTOR IS GROWING IN KENYA, ECPR QUESTIONED WHETHER IT IS GROWING FROM ITS OWN INTERNAL HEALTH, OR WHETHER IT IS BEING DRIVEN BY THE UNAVAILABILITY OF JOBS IN THE FORMAL SECTOR AND UNATTRACTIVE RURAL OPPORTUNITIES LEADING PEOPLE TO SEEK MODEST INCOMES THEY CAN EKE OUT IN THE INFORMAL URBAN SECTOR. ECPR BELIEVES THAT THE PROJECT'S OBJECTIVE SHOULD NOT BE EMPLOYMENT ONLY BUT THE FOCUS SHOULD INCLUDE INCOME GROWTH AS WELL.

4. DURING THE DESIGN PHASE, GENDER ISSUES SHOULD BE CAREFULLY MONITORED AND ADDRESSED WITH PARTICULAR ATTENTION FOCUSED ON THE KEY SUBSECTORS WHERE WOMEN ARE

HEAVILY CONCENTRATED. ECPR SUGGESTS THAT DESIGN TEAM EXPLORE THE FEASIBILITY OF INCREASING FEMALE PARTICIPATION IN THE NON-TRADITIONAL, HIGHER PAYING AREAS.

5. ONE ELEMENT OF THE PROJECT INVOLVES ADDRESSING LEGAL AND REGULATORY CHANGES. FAA SEC. 611(A) (2) PROVIDES THAT, IF LEGISLATIVE ACTION IS NECESSARY TO ACCOMPLISH PROJECT OBJECTIVES, WE MAY NOT OBLIGATE FUNDS UNLESS, PRIOR TO OBLIGATION IT IS REASONABLY ANTICIPATED THAT SUCH LEGISLATIVE ACTION WILL OCCUR IN TIME TO PERMIT ORDERLY ACCOMPLISHMENT OF PROJECT OBJECTIVES. THE PP SHOULD EXPLAIN HOW THIS REQUIREMENT WILL BE MET (E.G. LEGISLATIVE ACTION NOT NECESSARY, BASIS FOR CONCLUSION THAT IT WILL OCCUR, ETC.).

6. BECAUSE OF THE PROJECT'S FOCUS ON EXPORTS, THE PP SHOULD EXAMINE LAUTENBERG CONSIDERATIONS, ALTHOUGH THE MICROENTERPRISE EMPHASIS MAKES IT UNLIKELY THAT THERE WILL ULTIMATELY BE A LAUTENBERG PROBLEM. LAUTENBERG (SEC. 513 (C) OF THE FY 94 APPROPRIATIONS ACT) PROHIBITS ASSISTANCE TO DIRECTLY PROCURE FEASIBILITY STUDIES FOR POTENTIAL INVESTMENT IN THE MANUFACTURE FOR EXPORT OF IMPORT-SENSITIVE ARTICLES (TEXTILES, FOOTWEAR, ETC.) WHICH COMPETE WITH US EXPORTS, AND PROHIBITS DIRECT ASSISTANCE IN THE ESTABLISHMENT OF MANUFACTURING FACILITIES FOR SUCH EXPORTS. SIMILARLY, THE PP SHOULD EXPLAIN WHY THE PROJECT IS CONSISTENT WITH PD-20 (EXPORT OF US JOBS).
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SUBJECT: SS5 ALLOWANCE - KENYA

1. APPROPRIATION 725/61014, BUDGET PLAN CODE GSS5-95-21615-KG13 INCREASED BY DOLLARS 8,200,000. FUNDS FOR PROJECTS 615-0229, NATIONAL AGRICULTURE RESEARCH, DOLLARS 2,150,000; 615-0263, PRIVATE ENTERPRISE DEVELOPMENT II, DOLLARS 2,500,000; 615-0264, FAMILY PLANNING SERVICES & SUPPORT II, DOLLARS 2,450,000; AND 615-0267, PVO CO-FINANCING II, DOLLARS 1,100,000. TOTAL ALLOWED TO DATE UNDER THIS BPC IS DOLLARS 12,150,000.

2. FUNDS CANNOT BE OBLIGATED FOR PROJECTS 615-0263, 615-0264, AND 615-0267 UNTIL EXPIRATION OF CN WITHOUT OBJECTION. DESK WILL NOTIFY MISSION UPON EXPIRATION OF CN.

3. ADVICE OF BUDGET ALLOWANCE FOLLOWS.

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BJECT: CONGRESSIONAL NOTIFICATION EXPIRATION FOR MICRO-
IVATE ENTERPRISE DEVELOPMENT (615-0263)

THIS IS A RETRANSMISSION OF THE EXPIRATION CABLE
PROVED AUGUST 9, 1995.

CONGRESSIONAL NOTIFICATION FOR U.S. DOLS. 2,500,000
CRO-PRIVATE ENTERPRISE DEVELOPMENT (615-0263) EXPIRED
GUST 8, 1995 WITHOUT OBJECTION.

OBLIGATION MAY NOW BE INCURRED.
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ANNEX A:

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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NOTES ON INDICATORS:

1. **Private Enterprise and Micro Enterprise Employment Growth Rates:** USAID/Kenya projected employment to the year 2000 based on USAID's Baseline Survey of Micro and Small Enterprises (GEMINI), and World Bank and GOK estimates of growth in employment in small scale agriculture, the public sector, and private sector firms with more than 10 employees (see Background Analysis - Annex E). These estimates project a 12% average annual growth rate for private enterprise employment and a 13% average annual growth rate for micro enterprises, between 1993 and the year 2000. With the policy reform, sub-sector development and financial assistance provided under MICRO-PED, USAID hopes to increase the trend growth rate in micro enterprise employment to 18%, which would result in an average annual private enterprise employment growth rate of 17%, all other projections remaining the same. Eighteen percent is considered optimistic but realistic, given the extraordinary increase in micro enterprise employment by 20% in 1992 and 24% in 1993. The last two years are believed to be high levels that would naturally swing back. To get an 18% average annual rate, these high growth rates would need to be maintained, which would require a significant change in the operating environment, MICRO-PED will contribute to this changing environment.

In 1993, women represented 40% of micro enterprise employment and 23% of other private enterprise employment. Because of the projected shift towards more employment in micro enterprises, USAID/Kenya also projects that the portion of women in private enterprise employment as a whole will increase from 35% to 38%.

2. **Sub-sector Employment Growth Rates:** The National Baseline Survey of Small and Micro Enterprises (GEMINI) estimated the employment breakdown in different sub-sectors, and the distribution of new employment generated in different sectors. The agricultural sector provided 45% of micro enterprise employment in 1993, and 41% of all new jobs generated that year came from agri-businesses. The metals sector provided only 1% of employment in 1993, but generated 4% of new jobs in micro enterprises. Based on these proportions, USAID/Kenya estimated the amount of employment, that would be provided by these two sectors, if our targets will be met. The agribusiness sector should generate some 250,000 new jobs annually from 1993 to the year 2000. The metals sector, a much smaller sector, should add around 24,000 jobs per year. Women comprise 41% of employees in agri-businesses and 1% of employees in the metals sector. These ratios are expected to stay the same. MICRO-PED will contribute significantly to this employment change.

3. **Improving the Policy Environment: Policy Matrix:** USAID/Kenya has developed an effective qualitative policy matrix for the Kenya Export Development Support Project. To date, USAID/Kenya has not felt comfortable with quantitative indices for measuring policy

because they subjectively transform qualitative data into quantitative data. Rather, in addition to the use of a detailed qualitative matrix, USAID/Kenya has selected indicators that can be quantified (for example the percent of the budget spend on infrastructure) to represent some categories of policy change for specific purposes, like the Annual Program Impact report. The Policy Forum team will develop the specific measurement tool in year 1. The tool will reflect specific policy objectives, but may evolve as some objectives are reaches and other identified throughout the Life of Project.

4. **Increasing the cost-effectiveness of non-financial services:** This indicator will be developed more fully during project implementation when grant agreements and contracts are signed. Some interventions will be one-time, "leveraged" interventions such as association development, or the development of technology or training curricula. These funds are not expected to be recovered, but are expected to have very low cost/benefit ratios. Other interventions, however, will be for providing value-added services. These may have higher cost/benefit ratios, but in the long run, the aim is to develop financially sustainable service delivery. However, given the state of the art in delivery of non-financial services, the target for MICRO-PED is that firms pay 50% of the cost of value-added services during the life of project.

5. **Institutional Development:** In order to focus on and monitor institutional development, project implementors under the Finance and Sub-sector Development components will develop a qualitative Institution Development Matrix for assessing needs, setting targets, and monitoring progress. It will include such things as: Strategy, structure, operations, financial systems and sustainability, personnel policies, management information and impact monitoring systems, and leadership.

6. **Number of Borrowers:** With a USAID investment of $4 Million, matched by an NGO investment of $4 million, there will be some $8 Million available for additional lending activities. An average loan size of $400 is typical if there are a substantial number of second borrowers. This is roughly double the number of borrowers that received finance under the Private Enterprise Development Project. The project will also track the current number of borrowers, a figure that will be established when grants are agreed.

7. **Sustainability:** Financial sustainability of micro enterprise lenders will be measured by the ability of organizations to cover their operational and capital costs. It is expected that two financial institutions will progress to achieving full financial sustainability (covering implicit capital costs) and in addition will access funds through the private sector in the form of savings mobilization and commercial bank loans. This will significantly expand outreach as well. Two other financial institutions are

ANNEX B:

ECONOMIC ANALYSIS

1.0 INTRODUCTION

The purpose of the Kenya MICRO-PED Project is to increase the rate of growth of micro enterprise employment in Kenya.

The project aims to do this thorough three types of interventions:

> Finance and Credit. The Project will increase the sustainable delivery of financial services available to micro enterprises by grants to loan making institutions.
>
> Sub-Sector Business Services. The Project will provide non-financial business services to firms in two sub-sectors through grants and technical assistance.
>
> Policy Change. The Project will improve the policy and regulatory environment through grants and assistance to Kenyan NGOs which represent micro enterprise concerns.

This economic analysis examines the potential return from this strategy, and attempts to determine if it is the most cost effective way of achieving these results.

The following section estimates the quantity and value of the Project outputs, using stated assumptions about Project effectiveness. The next section discusses the economic return on the Project. Two more sections discuss the cost effectiveness of this Project approach and potential sustainability.

2.0 ECONOMIC VALUE OF Project ACTIVITIES

The Project paper sets an ambitious goal of increasing micro enterprise employment growth from 13% per year to 18% per year. Such a Project would be wildly successful, adding 150,000 jobs in the first year alone. This Project would have a phenomenal benefit cost ratio and be by far the most cost effective Project in USAID. Rather than taking this approach, however, the economic analysis proceeds by making moderate assumptions about Project performance and determining the minimum needs to justify the Project.

Because the goal of the Project is to increase micro enterprise employment, project impacts are measured by this outcome. Certainly other impacts are possible and probable, including improved health and life expectancy for micro enterprise workers, and possibly an improved economic climate for all Kenyan firms. Most of these are difficult or impossible to measure, however, and rather than adding additional poorly supported assumptions, the analysis was restricted to job creation.

The value of a micro enterprise job, then, is a fundamental assumption for this analysis. USAID/Kenya has a long experience with work in the micro enterprise sector, and previous evaluations allow an estimate of the value of job creation. Evaluations of USAID work with

with KREP and PRIDE indicated that firms receiving financial assistance grew from 2.15 persons to 2.71 persons, or by about one half worker each. Their sales per year increased by about $1,518, and profits by about $509. Therefore, if a .56 worker increases profits by $509, then each new worker is worth $908.

This number was selected for the value of the worker because it represents the net value added (firm outputs minus inputs) to the economy. Using workers wages would overstate the value of job creation, since the worker gives up other opportunities to take this job. If workers are completely unemployed, including subsistence agriculture, then the employment itself represents a gain to society because it puts to work unused resources. However, since we have no measure of the opportunity costs of the workers employed, the increase in firm profits is the clearest indicator of economic value created.

A further assumption used in the calculations include an average loan size of about $400. This is based on loan sizes from previous Kenya micro enterprise activities. In addition, project impacts were calculated during the life of the Project only. This is a very conservative assumption, since the Project is intended to make sustainable changes in the micro enterprise sector. By using only impacts expected from the direct interventions, the analysis can be much more confident that the impacts will occur. To the extent that these activities will continue after Project funding ends, the overall impacts could be greater.

2.1 THE FINANCE COMPONENT

USAID will devote $4.2 million to this segment of the Project, including $2.5 million for actual loan funds available. The remainder will be used for various forms of technical assistance. In addition, USAID will require that an additional $4 million be provided as counterpart funds. Together this will produce an $8 million loan fund.

Table 1 provides a scenario for this segment in which one fifth of the loan funds are made available each year of the Project. In the third and fourth years, repayments will double the funds available annually. In the fifth year, repayments will again double the funds available. In this scenario, loans are made for an average of $400. Over the course of five years, this scenario would create about 22,000 jobs. If each one were worth an extra $908 to the Kenyan economy, by the end of the Project, the loan operations would be adding more than $8 million annually to the economy.

Table 1.					
Impact of Credit Program During Life of Project					
	1996	1997	1998	1999	2000
No. of Loans	4,000	4,000	8,000	8,000	16,000
Employment	2,240	2,240	4,480	4,480	8,960
Value	2,033,920	2,033,920	4,067,840	4,067,840	8,135,680

2.2 THE SUB-SECTOR, NON-FINANCIAL SERVICES COMPONENT

The Project proposes to provide non-financial business services in two sub-sectors of the economy: agribusiness and metalworking. The agribusiness segment is very large, but slow growing. The metalworking segment is small, but rapidly growing. In addition, the metalworking micro enterprises are considered to be providing a key input into production in other sectors.

The nature of these business services are varied, and will be delivered through a number of institutions. Because the types of services provided will be demand driven, it is not possible at this point to specify what services will be provided in what quantities. Moreover, it is impossible to predict accurately the impact of these services. As a result, the economic analysis examines the potential impact of changing the growth rates in these sectors.

Table 2 provides an illustration of the possible impacts of the Project on employment. In the baseline scenario without the Project, agribusiness employment is growing at 13% per year, and metalworking is growing at 23% per year. The table assumes that the impact of the Project would be for each sector to accelerate its growth rate by 0.5%, so that agribusiness is growing at 13.065% and metalworking at 23.115%

Even this small 0.5% acceleration in the growth rates will add almost 20,000 new jobs in these sub-sectors during the life of the Project. In the absence of any other information, the value of each job created in the sub-sectors is assumed to be equal to the jobs created in the credit component of the Project: $908. By the end of the Project, this component would be generating an additional $7 million annually for the Kenyan economy.

Table 2.					
Potential Employment Impacts of the Project in Sub-sectors					
	1996	1997	1998	1999	2000
Agribusiness Employment					
Growth w/o Project	1,476,910	1,668,908	1,885,866	2,131,029	2,408,063
Growth wth Project	1,477,760	1,670,829	1,889,123	2,135,936	2,414,997
Proj. Impact	850	1.921	3,256	4,907	6,934
Economic Value	771,391	1,743,846	2,956,669	4,455,996	6,295,906
Metalworking Employment					
Growth w/o Project	77,490	95,313	117,235	144,199	177,364
Growth wth Project	77,562	95,491	117,564	144,739	178,195
Project Impact	72	178	329	540	831
Economic Value	65,785	161,906	298,856	490,353	754,270

2.3 THE POLICY REFORM COMPONENT

Policy reform has always been notoriously difficult to value, particularly before it occurs and when there is uncertainty about whether it will occur. In this case, the Project will expend funds on a number of endeavors intended to provide micro enterprises with a voice in policy formulation. Given the uncertainty about the type and extent of policy changes, the economic analysis adopts a conservative approach to this issue by assuming that that Project policy efforts will increase the rate of growth of employment by only 0.1%. For micro enterprises, this mean a change from a growth rate of 13% to 13.13.

Because policy reform affects the entire sector, and because micro and small enterprises employ such a large number of persons, even a small change can have big effects. Over the five year life of the Project, a one percent faster growth rate could create an extra 6,800 jobs. Table 3 shows the value of policy changes that allow employment to grow at one percent faster than it is currently.

Table 3.

Value of Potential Employment Growth from Policy Component					
	1996	1997	1998	1999	2000
Rural					
Micro enterprise	223,224	504,516	855,203	1,288,580	1,820,224
Small enterprise	2,097	4,278	6,546	8,903	11,351
Rural total	225,321	508,794	861,749	1,297,483	1,831,575
Urban					
Micro enterprise	64,360	145,461	246,571	371,522	524,805
Small enterprise	990	2,044	3,164	4,354	5,616
Medium enter.	2,872	5,939	9,211	12,699	16,414
Total urban empl.	68,222	153,444	258,946	388,574	546,835
Total SMM empl.	293,543	662,238	1,120,695	1,686,057	2,378,410

Table 4 presents a summary of the Project effects under the assumptions presented in this section. Assumptions include an average $400 loan size, a 0.5% impact on growth in the Project sub-sectors, and a 0.1% impact on overall growth. Using these assumptions, the Project is predicted to create about 49,000 jobs over the next five years. If these jobs are valued at $908, then the Project would be generating annual economic returns of more than $17 million by the last year of the Project. It may not be possible to predict whether Project efforts continue to accelerate growth beyond the life of the Project, but it is likely that some of the jobs created will survive longer than the life of Project. As such, this estimate of Project returns will be undervalued by the amount of future returns.

Table 4.					
Summary of Projected Micro-Ped Project Impacts					
Credit Component					
Annual employment Increase	2,240	2,240	4,480	4,480	8,960
Value of employment increase	2,033,920	2,033,920	4,067,840	4,067,840	8,135,680
Sub-sector Component					
Annual employment Increase	922	2,099	3,585	5,448	7,765
Value of employment increase	837,176	1,905,752	3,255,525	4,946,349	7,050,175
Policy Component					
Annual employment Increase	323	729	1,234	1,857	2,619
Value of employment increase	293,543	662,238	1,120,695	1,686,057	2,378,410
Total Annual Employment	3,485	5,068	9,300	11,784	19,344
Total Annual Value	3,164,639	4,601,909	8,444,060	10,700,246	17,564,265

3.0 Project BENEFIT COST RATIOS

The Project produces a flow of economic benefits that must be compared to costs in order to determine the net value of the Project. Table 5 presents calculations for this comparison. These figures were produced by discounting the flow of benefits by a 7% annual discount rate, and using the total cost of the Project, including the required counterpart funding.

Table 5.			
Economic Value over Life of Project			
	Net Present Value of Employment Created	Project Expenses, including counterparts	Benefit Cost Ratios
Credit Component	15,901,897	10,150,253	1.57
Sub-sector Component	13,904,667	6,494,747	2.14
Policy Component	4,749,642	3,394,000	1.40
Total Project	34,556,205	20,039,000	1.72

Under these assumptions, the Project would be worth about 72% more than the cost, with the sub-sector component being the most cost effective activity. The credit component would produce the largest increase in employment, but because of its high cost, would have a lower rate of return. It is worth noting as well, that because the sequence of Project spending was unknown, the entire undiscounted cost was used for comparisons. To the extent that Project spending is later than the first year, benefit cost ratios would rise.

Since these calculations were based on a number of assumptions, it is useful to ask the question of how large Project impacts must be for the Project to break even. These figures are shown in Table 6. In this scenario, the Project can be justified if it creates about 30,000 new jobs during the next five year period. It can do this if loans of an average of $600, create about one half person expansions by recipient firms, sub-sector growth is increased by about 0.25 percent, and policy reform provokes increased growth of only 0.075%.

Under these conditions, and using a 7% discount rate, the economic value of the Project would be about $100,000 more than the cost. At these levels, the Project has a 5% rate of return. This is sufficient to make the Project desirable, but not to justify the investment, since there would likely be alternative investments with a greater than 5% rate of return.

Table 6.

Breakeven Values for the Micro-Ped Project				
	Assumptions	Jobs Created over Life of Project	Net Present Value of Employment Created	Benefit Cost Ratios
Credit Component	Loan size: $600	14,933	10,601,264	1.04
Sub-sector Component	0.25% growth increase	9,905	6,949,397	1.07
Policy Component	0.075% growth increase	5,072	3,562,092	1.05
Total Project		29,910	21,112,754	1.05

4.0 COST EFFECTIVENESS

Assuming that the Project will create employment sufficient to meet the projections in the preceding section, the Project will have a substantial rate of return, and is economically justified. A second issue, however, is whether the Project achieves its stated goal in the most cost effective manner. Formal cost effectiveness analysis would require comparisons of several approaches to achieving the same impact, and designating the least expensive as the most cost effective measure.

Unfortunately, any other alternative would have the same problem of requiring a large number of assumptions to value. As a result, only a very qualitative analysis is possible.

The most likely alternatives to this Project would be large scale macroeconomic reform, or a Project that works with large firms. There are, however, a number of donors working on macroeconomic reform, with some success, and the value added of this Project is likely to be small. Large employers are an attractive alternative to working with micro enterprises. However, the bulk of employment in Kenya currently is in small firms. Until significant growth occurs in the country, this will continue to be the case. If the Project is to focus on employment (as opposed to total income, for example), micro and small enterprises appear to be the area of concentration.

Within this concentration, however, there is a question of whether this is the most appropriate set of interventions. There are a number of features of the Project approach that will contribute to a cost effective approach. These include:

- Use of loan funds at market rates. This will ensure that only those firms with productive uses for the funds will borrow.

- Fees for delivery of non-financial business services will encourage selective use of these services by those with the greatest benefit.

- Purchases of non-financial business services is likely to encourage the creation and growth of a local business service industry.

5.0 SUSTAINABILITY

USAID is dedicated to building sustainability into its Projects, including those in micro enterprises. This Project contains several aspects that will encourage greater sustainability of the impacts of the Project.

One of the most important features for sustainability is the effort to create loan funds that will earn market rates of return. These funds have the potential to extend the impact of the Project indefinitely.

Another strong feature that will encourage sustainability is the development of a market based method of allocating non-financial business services. Because recipients will be charged a portion of the cost of these services, only services for which there is sufficient demand will be produced. In the long run, this will encourage a market based organization of this service industry.

ANNEX C:

GENDER CONSIDERATIONS

1. INTRODUCTION

The purpose of this review is to enhance the incorporation of gender issues in the design of USAID/Kenya's MICRO-PED Project. In considering how gender issues are or should be addressed in MICRO-PED it is important to determine why gender should be considered at all in this project, and on deciding that, determine how planned activities can enhance positive impacts on women and gender relations.

The discussion here is based primarily on the gender review held in the Kenya Mission on March 9, 1995 in which a group of gender experts from FEMNET, a private sector consultant with REDSO/ESA, and the informal sector advisor from the Friedreich Ebert Stiftung together with staff from the USAID/Kenya Private sector Office and the REDSO WID Advisor raised issues that the design team may wish to consider.

2. WOMEN IN MICRO-ENTERPRISE DEVELOPMENT: AID APPROACHES

Traditionally, AID has emphasized increasing women's economic participation in order to achieve balanced economic growth.[1] This has often translated into a preference for measures that expand economic opportunities of women directly through income-generation and small-scale enterprise projects.[2] In recent years, AID has increased its commitment to small and micro-enterprise development (in 1988 Congress passed a Bill calling for $50 million for credit and other assistance for micro-enterprises in developing countries) "with special emphasis on businesses owned by women and those operated by the poorest 20% of the population." This has led to an increase in the visibility of businesses owned by women.

3. WOMEN, GENDER AND MICRO ENTERPRISES IN KENYA

The National Baseline Survey (Parker & Torres:1993) provides an essential overview of women in the micro enterprise sector in Kenya. It informs us that of the 2 million persons employed in micro enterprises, 40% are women, and of the 910,000 micro-enterprises in Kenya, 46% of enterprise owners are women. Given the prevailing high unemployment in Kenya, it is likely that more women will be impelled into self-employment and entrepreneurial activity will intensify.

The Survey also reports that, while very active, women are disadvantaged as micro-entrepreneurs and employees, in the following ways:

* Women are concentrated in commercial activities, and in the agri-business, forest-

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[1] the Percy Amendment, 1973 in which the US Congress passed a women i development amendment in the foreign aid bill.

[2] The World Bank. World Development Report 1987. New York: Oxford University Press, 1987.

based and textile sectors, all of which are low-paying, slow growth sectors.

* Women's firms start smaller, and grow slower with two-thirds remaining one person enterprises.

* Women's firms use less start-up capital, and tend to access credit through informal channels.

* Women employees are more likely to be unpaid.

* Women are less likely to locate businesses in commercial areas, concentrating instead in the home or in traditional markets, where growth rates are slower.

* Women are more likely to leave their businesses for personal reasons.

The report concludes that women entrepreneurs face particular constraints that should be taken into account in strategy development.

4. CAUSES OF WOMEN'S CONSTRAINTS IN BUSINESS

At the gender review, questions were raised to determine how to address gender issues in the micro-enterprise sector. Why are women in low profit, easy access (in terms of capital and training) sectors? How does business impact women's lives in terms of empowerment? How can MICRO-PED promote risk taking among women? How can MICRO-PED move women along the empowerment scale? How can we focus on changing characteristics of women's businesses?

Several factors contribute to women's concentration in the low profit, easy access areas most of them rooted in the socio-cultural environment that define women's and men's roles. Amongst them are:

1. Social roles:

♦ Attitudes still prevailing Kenya that there is "women's work" and "men's work". Women's work tend to be less financially rewarding.

♦ Discrimination against women in entering technical training programs, in receiving education, in obtaining permits and finance and other areas is still a major problem in Kenya.

♦ Women generally have a lower status and position in society, which inhibits self-confidence and society's perception of what a woman can achieve.

♦ Women have three major roles that often conflict and lead to poor performance in economic areas. Women are the primary farmers in Kenya, they are also responsible for managing the home - supplying and preparing food, rearing children, etc. And, particularly in rural areas, women are expected to play a role in community development through women's groups, the Church or schools. Balancing these responsibilities often leaves women with little time for business activities, despite their strong need for income.

◆ Women have restricted mobility, partly because of their triple roles and partly due to the stigma of women who travel or have mobile businesses as "immoral." This restricts many women to home-bases or rural businesses, and inhibits their ability to access markets and information.

2. Women's perceptions of themselves:

   ◆ Women's vision of themselves limits them to gender specific activities such as selecting "women's" businesses. These businesses tend to be in trade, textiles and low level services industries that require little investment capital.

3. Lack of resources:

   ◆ Women's lack of access to resources such as land and other property and loans means that few have the necessary capital to invest in their businesses. In Kenya, women are generally prohibited from inheriting family property.

4. Poverty:

   ◆ Pervasive poverty restrains many women from taking risks with their basic needs for food and shelter culminating in little or slow growth to their enterprises. Since women are responsible for supplying the basic needs of the family, there is little scope for amassing large amounts of capital and taking risks with it.

5. Lack of training:

   ◆ Many families will not invest in technical training or formal education for women leading women to seek low skilled jobs.

5. WOMEN'S EMPOWERMENT AND MICRO-ENTERPRISE DEVELOPMENT

There are a variety of reasons for expanding women's participation in micro-enterprise, including but not restricted to improving the welfare of women. Many development interventions emphasize the need to alleviate women's poverty or reduce inequities between men and women in society. In determining empowerment, it necessary to understand the difference between the condition and the position of women[3]. The condition is often used to refer to the material state in which women find themselves, that is their poverty, their lack of education and training, their excessive work burdens, their lack of access to modern technology, improved tools, work related skills, etc. Position is often used to refer to women's social and economic standing in relation to men. It is women's position that underlies her condition.

A focus on empowerment demands the acknowledgement of inequalities between men and women and emphasizes that women experience oppression differently according to their race, class, history and current position in the economic order. Empowerment therefore requires that

[3] The distinction between the condition and the position of women was first suggested by Shireen Huq in her work in

ANNEX D:

ENVIRONMENTAL ANALYSIS

1. BACKGROUND

The Initial Environmental Examination (IEE, see attachment) recommended a categorical exclusion and a negative determination for MICRO-PED Project activities, subject to several conditions. One condition was the environmental issues be address during project design, specifically with regard to the sub-sector component. During the design phase, two sectors were identified for intervention, Agri-businesses and Metal related firms. Another sector, forest-related products, was rejected primarily because of the acute shortage of wood in Kenya. For example, there is currently a ban on harvesting of hardwood, the preferred wood for furniture. On the one hand, this situation means that input problems may be insurmountable in the short run, and it means that interventions that increase the demand for wood would aggravate a negative environmental situation. The only feasible interventions would have been to develop agro-forestry, which is a long-term investment, or to increase efficiency of small-scale wood processing, which could still simply reduce cost of products and increase the overall demand for wood. Thus, although the examination was not very detailed, the project design took environmental factors into consideration in the sector selection.

2. ADDITIONAL ENVIRONMENTAL ANALYSES

In further fulfillment of the IEE conditions, an Environmental Impact Review (EIR) will be carried out at the early stages of project implementation. The purpose of the EIR is to determine baseline conditions, areas of environmental concern, appropriate mitigation measures, and an appropriate set of monitoring indicators and mechanisms to measure relevant positive or negative environmental impacts. Specific resources, approximately $100,000, have been set aside under the sub-sector grants/contracts line item for the Environmental Impact Review of key micro enterprise sectors and development of an Environmental Monitoring, Evaluation and Mitigation Plan (EMEMP). Additional funds will be allocated as the EMEMP emerges.

The EIR will cover all pertinent micro enterprises by analyzing environmental concerns in the major sectors in which micro enterprises are most active. The 1993 National Baseline Survey identified the following key micro enterprise sectors.

* Agri-businesses
* Metals & transport
* Forest-related products
* Textiles & Leather
* Construction

Because the interventions likely to have the most potentially adverse environmental impacts are the sub-sector interventions, the EIR will focus on the sub-sectors that are most likely to be targeted under MICRO-PED, that is agri-businesses and metal related firms.

EMPLOYMENT STRUCTURE IN KENYA: 1993

Urban Employment		1,740,000
Public Sector	731,000	
Private Sector		1,009,000
Microenterprises (< 10)		427,000
Small (11-50)		32,000
Medium (51-100)		87,000
Large (> 100)	463,000	
Rural Employment		7,471,000
Rural Agricultural		5,879,000
Rural Non-Farm		1,592,000
Microenterprises		1,481,000
Small (11-50)	111,000	
Total Employment		9,211,000
Unemployment		1,805,000
Total Labor Force		11,016,000

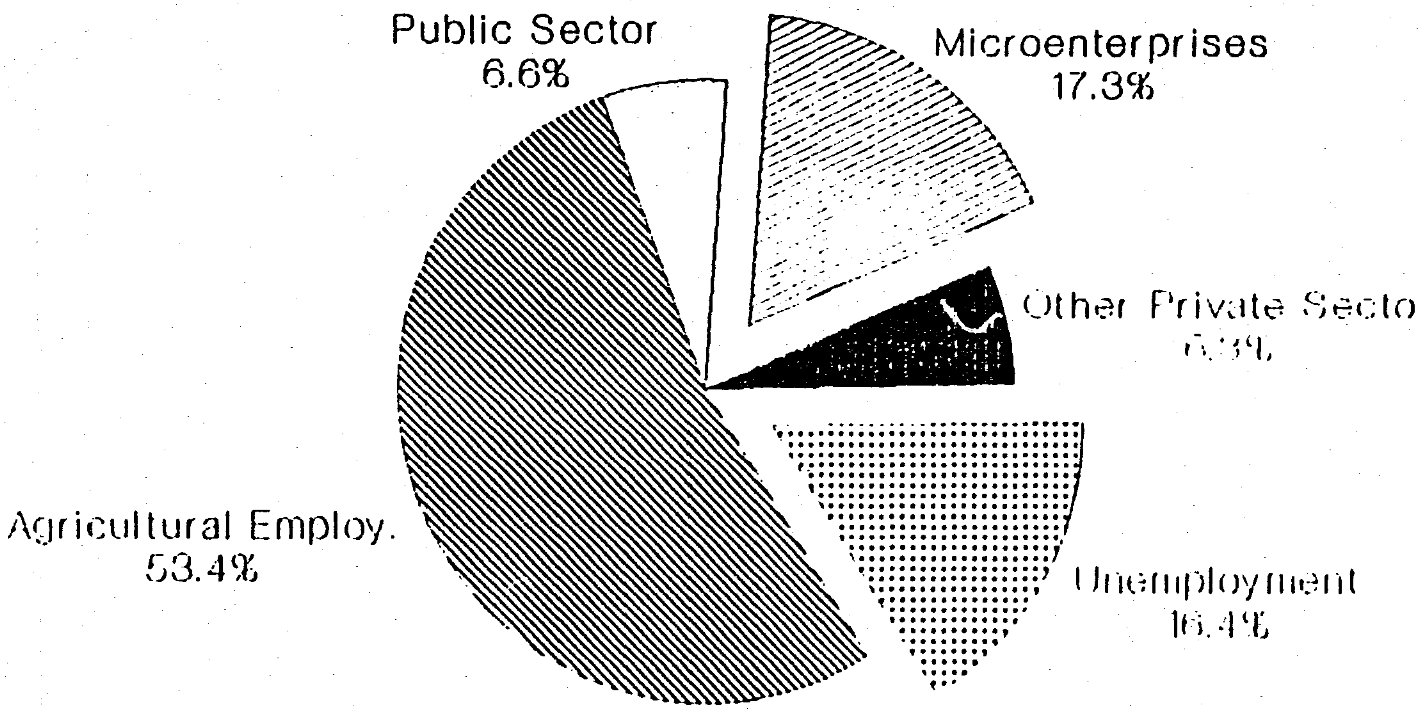
Sources: World Bank Kenya: Employment Growth for Poverty Alleviation, Report No. 11650-KE, Sept. 30, 1993. Tables 3.3, 3.12 and 3.13. Note: Some adjustments in the total employment and unemployment numbers have been made as they are not consistent in the WB document. Economic Survey & Statistical Abstracts, 1991. GEMINI, 1993.

The level of detail also permits aggregation at different levels (e.g., by size of private enterprise regardless of location). Putting these data into a pie chart, we were able to draw a simplified picture of the current employment structure of Kenya (Pie 1). **According to our best estimate, then, the majority of employment is in small scale agriculture (53%) and microenterprises (17%), and unemployment is conservatively estimated at 16%.**

What can we say, then about future prospects for employment ? Several different projections are currently in use in Kenya, depending on the assumptions made. Two possible scenarios are presented here.

The first is a composite of World Bank and Government of Kenya (GOK) projections. The World Bank relates growth in employment to GDP growth rates, making certain assumptions about the relationship between GDP and employment. Employment in different sectors was projected to the year 2000 using these assumptions, and the GOK targets of investment and GDP as outlined in the Policy Framework Paper (PFP). With investment reaching 24% of GDP by 1996 and GDP growth reaching 6% by the same year, unemployment would still increase to 26.7% by the year 2000. The proportion of the labor force employed in agriculture would decrease to 45%, and public sector employment would fall to 4.8% of the

EMPLOYMENT STRUCTURE: 1993
(Economic Survey, World Bank, GEMINI)



Pie1

This paper review's USAID/Kenya's efforts to come to grips with the employment situation and outlook in Kenya. In Section I, we review the available current data on categories and numbers of jobs and possible employment scenarios for the year 2000. In Section II, the findings from a 1993 nationwide survey of private enterprises in Kenya are reviewed. Section III discusses the availability and impact of both financial and non-financial services to private businesses in Kenya, especially those firms which employ fewer than 50 employees. Section V surveys the current policy and macroeconomic environment for private business and, finally, Section VI wraps up with a summary. This paper reports the key background analyses that were conducted in preparation for the New Activity Description.

I THE GROWING LABOR FORCE & THE EMPLOYMENT CHALLENGE

The Kenyan labor force, currently numbering about 11 million, is growing rapidly and is expected to reach 14.6 million by the year 2000. Despite a recent downturn in the population growth rate, from 4% in 1984 to 3.5% in 1993, Kenya still has one of the highest population growth rates in the world. The labor force is currently absorbing entrants that were born when population growth was even higher. That growth will amount to 492,000 new job-seekers annually for the next seven years. Providing jobs for these 3.6 million workers constitutes today's employment challenge in Kenya.

Where is this employment likely to come from? In order to answer that question, we need first to look at where jobs are now. No two sources of information about employment in Kenya agree: the basic numbers are different, the definitions vary and growth rates are often guesstimates. This ambiguity stems partly from inherent flaws in available data. For example, businesses located in homes are missed in official statistics, and labor surveys are not only infrequent, but often capture only part of the population. The difficulty in arriving at a complete picture also arises from the nature of employment in Kenya. Large numbers of people who have no other employment are absorbed into agriculture and self employment. These factors make it difficult to be certain about unemployment and the employment structure in Kenya.

Nonetheless, it is possible to present a basic estimate of the structure of employment in Kenya using the available data from several sources.

ANNEX E:

BACKGROUND ANALYSIS

1) When USAID/Kenya selects the IC/USPVO, ensure that the IC has adequate access to environmental experts and that the EIR and EMEMP are included in their scope of work.

2) Whenever further analyses are conducted, ensure that environment concerns are in the scope of work and that adequate experts are available. As needed, additional environmental studies may be conducted.

3) At seminars to select particular sub-sectors, identify problems and recommend interventions, hold sessions on environmental issues, and ensure that questions are raised when feasibility is considered.

4) Hold special workshops to educate implementing organizations in the selected sub-sectors, and as appropriate in all sectors, about environmental issues.

5) When selecting interventions, ensure that implementing institutions have an acceptable policy on the environmental and develop a selection criteria regarding unacceptable negative impacts and desired safeguards.

6) Ensure that overall monitoring and evaluation systems include EMEMP as a component.

Nevertheless, MICRO-PED's finance and policy interventions cut across many sectors, so the EIR will analyze the above-listed sectors to identify general and generic issues and potential mitigative mechanisms that will be communicated to those responsible for implementing Project activities. The EIR team will be made up of expert technical advisors in the various sectors to be studied. The methodology is likely to include a sample survey of firms in the various sectors. The EIR will provide information about resource use (inputs), production and processing characteristics, and waste streams or discharges and identify feasible and technologically and financially appropriate mitigation measures. This study will also recommend a set of indicators designed to measure cumulative environmental impacts, specifically trends and/or geographic concentrations of impacts, resulting from expanded micro-enterprise activity, whether assisted through the Policy, Sub-sector, or Finance components.

Monitoring, evaluation and mitigation measures will be carried out by project managers and implementors as part of an overall EMEMP which will be integrated into overall project monitoring. Mitigating actions may include some combination of training, sensitization, and pilot activities to develop and disseminate relevant pollution control activities and technologies. Environmental issues may be raised in all sectors. If this is the case, monitoring and mitigation measures will have to be integrated into all components. However, the key component where technical assistance will be provided is the sub-sector component. Therefore, the most intensive monitoring and mitigation activities are likely to occur there.

The USAID/REDSO Regional Environmental Officer or Advisor and the Monitoring and Evaluation Officer will review the scope of work for the EIR and EMEMP and the reports produced.

3. PRELIMINARY RECOMMENDED STRATEGIES

During the project implementation phase, environmental analysis, mitigation and monitoring will be integrated into further sub-sector selection, intervention and monitoring. The approach of the sub-sector development activity is to institutionalize the process of sub-sector selection, problem identification, intervention and monitoring so that it becomes sustainable in Kenyan institutions. It is important that environmental concerns be integrated into this process. If an outside organization takes responsibility for environmental monitoring in a contract separate from that of the implementing organization, then integration is not likely. Rather, it will be the responsibility of the IC/USPVO implementing the component to ensure that the EMEMP is integrated into sub-sector analyses, interventions and monitoring, and that adequate expertise is made available to accomplish this end. In addition, the IC/USPVO will need to build the capacity of implementing organizations to analyze environmental concerns particular to the sub-sectors in which they are intervening.

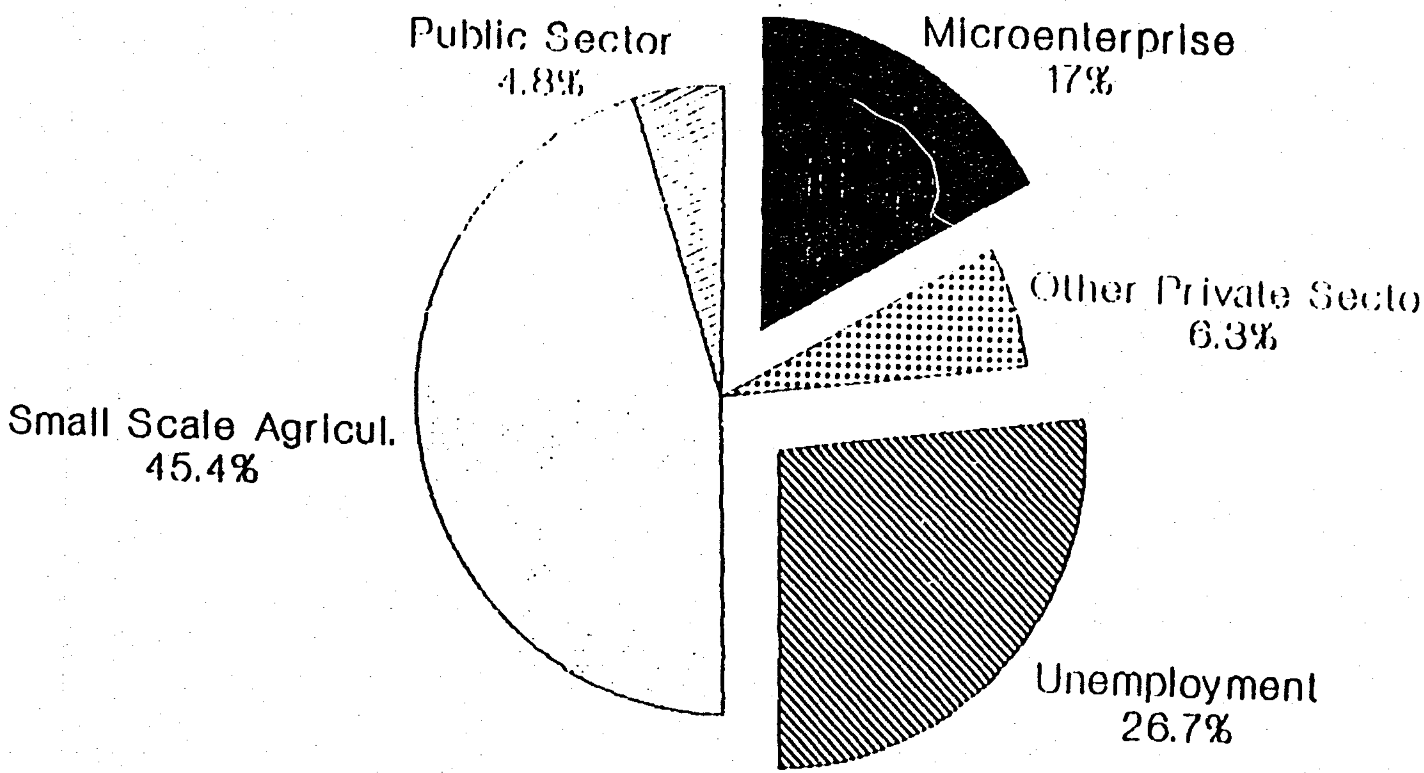
The following are suggested strategies for integrating environmental concerns into sub-sector activities:

labor force. These declines will be primarily due to decreasing land availability and reductions in the civil service, respectively. The proportion employed in the private sector, including microenterprises, would not change. This scenario is optimistic, on the one hand, because it assumes that GOK investment and GDP growth rates are achieved. It is pessimistic, on the other hand, because it assumes an employment growth rate in rural microenterprises that is lower than the trend rate for the last decade.

The second scenario presented here revises the projection for microenterprise employment by using recently gathered information from a USAID/GEMINI baseline survey of small and microenterprises in Kenya. Calculations based on this survey data estimated an average employment growth rate over the last ten years of 13.9%. This is close to the projected rate in the first scenario for URBAN microenterprises, and, indeed, to the GOK-reported growth rates in the urban informal sector. The GEMINI survey found, however, that employment in rural microenterprises was growing as fast as employment in urban areas. This second projection, then, contains all the assumptions of the first, but projects a significantly higher growth rate for microenterprises. The result would be a decrease in unemployment to 12.7% by the year 2000, and a massive increase in the proportion of people employed in microenterprises, to 30.8%. This scenario is a best case scenario because it assumes that GDP and investment targets are met, and that microenterprise employment will continue to grow at the past trend rate.

How likely is it that microenterprises will be able to supply the projected number of jobs? We can further analyze the prospects of micro enterprise growth continuing by looking at growth in recent years. Figures of microenterprise employment since 1983 indicate that employment has virtually exploded since 1989. This employment increase occurred around the same time as measurable GDP, which primarily captures large scale and cash crop production, began to decline. This apparent contradiction may be explained in two ways. First, the national GDP figures may not be capturing the contribution of microenterprises to GDP. Second, if microenterprise employment increases when GDP declines, this may reflect the often assumed residual nature of that employment, the people that start microenterprises because they have no other job. There are some indications, however, that the former explanation is more likely, and that microenterprise employment is not simply increasing because there are no other opportunities. GRAPH 1 depicts recent employment growth, and illustrates that much of that growth arises because of firm expansion, with only 20-25% coming from new firms. Further analysis of these points is crucial to understanding the full potential of the microenterprise sector to reduce unemployment in Kenya.

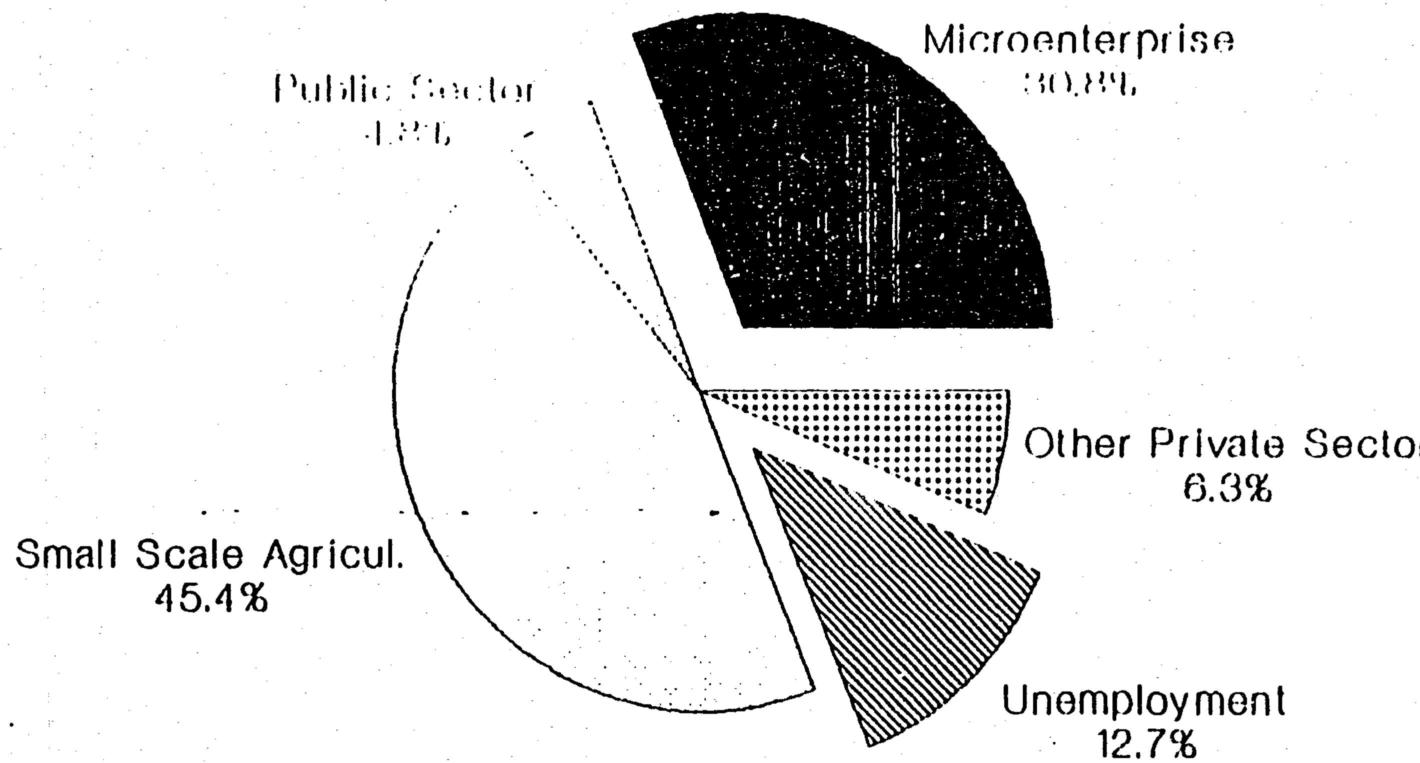
EMPLOYMENT STRUCTURE: 2000
(World Bank, PFP)



Pie2

EMPLOYMENT STRUCTURE: 2000

(World Bank, PFP, GEMINI)



Pie3

II: Micro-Enterprises in Kenya: Findings from the GEMINI Survey

In October 1993, USAID/Kenya conducted a nationwide survey of medium, small and micro-enterprises in Kenya, to better understand the size and characteristics of the sector[1]. The survey changed our view of the magnitude and importance of micro-enterprise employment, provided valuable information about the diversity of micro-enterprise firms, and revealed significant employment growth trends. This section summarizes the main findings of the GEMINI survey.

Methodology

The GEMINI (Growth and Equity through Micro-enterprise Investments and Institutions) methodology was developed at Michigan State University and has been used in over 15 countries worldwide to enumerate and describe micro-enterprises. In Kenya, the GEMINI survey attempted to gather data on firms with up to 100 employees. The method is based on a stratified, random sample of geographic clusters which each contained (based on census estimates) approximately 100 households. The four strata were:

1) Nairobi and Mombasa,
2) Large towns with over 10,000 people,
3) Small towns with between 2,000 and 10,000 people, and
4) Rural areas with fewer than 2,000 people.

Within each cluster, the survey team knocked on every door and visited every premises to enumerate and collect descriptive data on all businesses with up to 100 employees and all "closed" businesses. A "business" was defined as any income earning, non-agricultural activity. The survey enumerated 111 clusters, visited 18,280 households, identified 5,353 open businesses and 1,998 "closed" businesses. An estimate was made for the number of businesses run by people who were not home at the time of enumeration. 1989 population census data was used to estimate the total population of firms and employees in the sector.

In addition, a non-random sample was drawn from commercial and industrial areas in an effort to capture descriptive data from small and medium firms thought to be clustered in these non-residential areas. And, a smaller, non-random group of firm-owners was given the "supplemental" questionnaire that largely focused on constraints to growth. These two questionnaires augment the statistically valid data captured in the main questionnaire.

Characteristics:

The GEMINI survey provided estimates of the size of the micro-enterprise sector that were

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[1] USAID definitions of firms size categories:
Micro: up to 10 employees
Small: 11-50 employees
Medium: 51-100 employees
Large: more than 100 employees

three times previous estimates. The survey calculates that there are:

* 910,000 firms in Kenya with 50 or fewer employees
* 2 million people employed in these firms
* 25% of Kenya households with a business
* Of those, 65% relying on the business for more than half their income.

Although the survey enumerated firms with up to 100 employees, the vast majority identified were small and microenterprises, firms with 50 or fewer employees. Of those, 98.6% were firms with 10 or fewer employees. There were many more microenterprises than anyone expected primarily because the survey enumerated businesses in rural areas and in the home that were previously not counted in firm-based survey methods. Even in industrial and commercial areas, where the number of bigger firms is expected to be higher, 80% of the firms were micro-enterprises.

The survey also estimated more employment in the sector than had been seen previously. In the past, most analysts have conceived of "micro-enterprises" and urban "informal sector" enterprises as the same thing. Most development organizations have assumed there were 600,000 people employed in this sector, the GOK figure reported for the informal sector. The GEMINI data has, thus, documented more than three times the employment than was previously estimated. We are now estimating that 73% of people employed in the private sector work in micro-enterprises:

PRIVATE SECTOR EMPLOYMENT:

* Micro 73.4%
* Small 5.5%
* Medium 3.4%
* Large 17.8%

In addition to documenting the sheer size of the small and micro-enterprise sector, the GEMINI survey provided a profile of the firms. Significant descriptive data on microenterprises includes:

* AVERAGE FIRM SIZE: 2.3

* DISTRIBUTION OF EMPLOYMENT BY FIRM SIZE:

1 person	22%
2	25%
3-5	33%
6-10	13%
11-50	7%

* DISTRIBUTION OF EMPLOYMENT BY TYPE OF JOB:

Working Proprietor	50%
Paid Worker	24%
Unpaid Worker	20%
Apprentices	6%

* EMPLOYMENT DISTRIBUTION BY GEOGRAPHIC STRATA

Nairobi & Mombasa	8%
Urban, over 10,000	22%
Towns, 2,000-10,000	4%
Rural, below 2,000	78%

* EMPLOYMENT DISTRIBUTION BY SECTOR

Commerce	53%
Manufacturing	30%
Services	17%

There are several particularly interesting features documented here. The average firm size is higher than that found in Southern African countries, where the survey has also been conducted. The bulk of the employment can be found in firms with 3-5 employees. The majority of workers receive cash enumeration because half are working proprietors and another one fourth are paid workers. The vast majority of firms are located in the rural areas. And, over half are commercial businesses. Some other notable characteristics include:

* One third of firms operates out of the home, and the largest number (46%) operate in traditional markets, rather than in rural trading centers or along rural roads or urban streets.

* The majority (78%) of the workforce has no technical training.

* Only a quarter of businesses operating outside the home have a permanent structure.

* Only one third use piped water or electricity.

* The majority (74%) have secure tenure.

* The majority (84%) use local inputs and sell to final consumers.

* The majority (82%) have never used business assistance.

* Only a small minority have ever used credit (12%) and even fewer have used formal credit (6%).

While these observations assist in describing the general trends in the sector, they also highlight the most important feature of micro-enterprises in Kenya: their diversity. One's typical image of "informal sector" businesses in Kenya is of women selling vegetables on the side of the road, carpenters scraping together furniture at the edge of a city slum, or make-shift kiosks in residential estates. While these types of businesses do form part of the Kenya small and micro-enterprise sector, there are other images that fit as well. On the smaller end, there are rural rope makers, beer brewers, and basket weavers who operate out of their home, collect their own raw materials and combine their businesses with agricultural activities. On the larger end there are restaurant owners, metal fabricators, and computer firms that rent buildings on commercial or industrial streets, hire 6-10 workers, and have electricity, water, and extensive fixed capital investments. In the middle are businesses located in markets and small towns centers that have stalls or rent small, mud or concrete rooms, that run maize mills, offer repair services, or sell used clothes or hardware, that hire three to five workers, and have some substantial assets in the form of working capital or fixed assets. The micro and small enterprise sector is large and diverse, and the challenge for agencies hoping to stimulate employment growth in the sector is how to identify where the potential growth is, what constrains that growth and how to facilitate it.

Growth Patterns

The GEMINI survey measured employment growth in firms by asking the employment size when the firms started and at present. Not all firms grow, but those that do are adding a significant amount of employment every year. The following facts illustrate general growth trends in small and micro-enterprises:

* 38% of firms are growing
* On average, firms add .29 employees per year. That means between one in three and one in four firms add an employee every year.
* Overall, around 270,000 jobs are added annually.
* The average age of firms is 5 years.
* The majority of firms that closed, shut down in their first three years of operation.

This data gives an indication of the dynamics of the sector: a minority are growing, but at a fast pace, providing significant employment, in firms that do not necessarily last very long. Note that it is difficult to say what size firm is growing the most, but it is clear from the data that one-person firms are the "seed-bed" for bigger firms. Around 40% of growing firms within the 6-10 person category started as one person firms. More than 60% of the firms that grew into 3-5 worker firms started out as one person firms. The sector not only provides large quantities of employment, but also creates larger firms.

Which types of firms contribute most to this growth? The following is a list of characteristics of growing firms:

* Male or group owned
* Manufacturing
* Located outside the home.
* Owned by people formerly working in or managing a micro-enterprise
* Having trained workers
* Having a permanent structure
* Having access to Utilities
* Using imported inputs

Notably, there was no significant difference in growth rates in the different geographic strata - rural businesses were growing as fast as urban businesses.

In addition, the GEMINI survey analyzed growth patterns among different "subsectors".

Firms in the GEMINI data were divided into subsectors in two different ways: according to the raw materials or "INPUTS" they use, and according to their product lines or the "MARKETS" they serve. Using the "input" breakdown, the agriculture subsector showed up as the largest net employer, while the metals and forest subsector had high per firm growth rates. This means that there are more firms and employment in the agriculture subsector, but that the growth rate of individual firms is higher in the metals and forest subsectors.

INPUT Subsector	PERCENT TOTAL EMPLOYMENT ADDED/YEAR	PER FIRM EMPLOYMENT ADDED/YEAR
AGRICULTURE	41%	.25
TEXTILES	7%	.28
LEATHER	1%	.22
FOREST	17%	.32
METALS	4%	.42
CONSTRUCTION	4%	.15
OTHER	26%	
TOTAL/AVERAGE	100%	.25

"Agriculture" based firms are primarily made up of food sellers, both wholesale and retail, and a wide range of rural manufacturing activities such as fish smoking, maize milling, beer brewing, sugar and honey processing. The metals subsector is also primarily retailers (hardware sellers), but service industries such as vehicle and bicycle repair firms are the second largest group. Metal fabricators and tinsmiths also play a significant role. Forest based enterprises range from charcoal production and selling to basket and rope manufacturing, to saw-milling and furniture production and sale.

Using the "market" breakdown, the food/beverage subsector provides the most employment while the transport, furniture/household, and business supply subsectors have high per firm growth rates.

MARKET Subsector	PERCENT TOTAL EMPLOYMENT ADDED/YEAR	PER FIRM EMPLOYMENT ADDED/YEAR
FOOD/BEVERAGE	48%	.25
CLOTHING/SHOES	8%	.27
FURNITURE/HOUSEHOLD	10%	.40
BUILDING/REAL ESTATE	5%	.16
TRANSPORT	4%	.48
PERSONAL SUPPLIES	11%	.26
BUSINESS SUPPLIES	4%	.44
OTHER	10%	
TOTAL/AVERAGE	100%	.25

The food/beverage subsector contains almost the same firms as the "agriculture" subsector described above, with the addition of bars and charcoal production and sale. The furniture/household goods subsector is primarily carpenters, tinsmiths and basket makers, and has a lot of overlap with the "forest" subsector described above. The transport sector is mainly repair services and human transporters, and the "business supplies" subsector, oddly enough, is primarily made up of rope and twine producers.
Given the significant differences in growth patterns of the different subsectors, what other characteristics do these subsectors have? The larger subsectors of agriculture and food/beverage are characterized by:

* High proportion of female employment
* High proportion of unpaid workers
* Few apprentices
* High backward linkages to raw material suppliers and few forward linkages to other firms

The smaller subsectors with high per firm growth rates, on the contrary, have:

* Low proportion of women workers
* High proportion of paid workers and apprentices
* Mixed linkages

The subsector analysis paints a picture of a divided micro-enterprise sector. The growing firms are located in subsectors (metals, forest based products, furniture/household goods, transport, and business supplies) that have higher barriers to entry in the form of skill and capital requirements and gender roles. They are male dominated, less populated, require skilled labor and invest in that labor through wages and apprenticeships. In contrast, there are more populated subsectors (agriculture or food/beverages) that are easier to enter in terms of skills and capital requirementS and gender roles. In aggregate, they provide a much more significant amount of employment, but are low skill, low pay businesses.

Women's Role

This growth analysis illustrates women's disadvantaged position in the micro-enterprise sector, despite the high level of their participation. What other characteristics do women-owned firms exhibit?

* Women own 46% of the firms.
* Women comprise 40% of the workforce
* Majority of women-owned firms are commercial
* Majority of women-owned firms are agriculture related
* Women-owned firms are smaller than male-owned firms
* They are more likely to locate in the home or in traditional markets, and less on roads or in market centers
* They employ more women
* They employ more unpaid workers
* They use less skilled workers

These characteristics are not surprising and reveal the differential constraints of women entrepreneurs. For example, women have lower access to training and capital. These constraints combine with gender norms to prevent women from entering the more lucrative, growing businesses that men concentrate in: vehicle and bicycle repair, metalwork, carpentry, etc. In addition, women's role in agricultural production, food preparation and childcare restrict them more to home-based industries. Finally, even women who run businesses outside the home have lower access to prime business spots in market centers and along roads, which could be related to discrimination or to the sectors they operate in and the premises they can afford. The GEMINI data shows that women, as entrepreneurs and workers, are disadvantaged and face different sets of constraints that need to be addressed if they are to benefit fairly and contribute equally to employment growth in the sector.

Constraints to Growth

The GEMINI survey assessed firms' perceptions of their constraints by administering a more detailed questionnaire to a small sample of around 200 firms. These findings, combined with other indicative surveys of the sector, illustrate the major constraints facing micro-enterprises in Kenya. Markets and inputs are undoubtedly the highest priority problems for micro-enterprises at this time. Second priority concerns are finance, infrastructure and policy/regulatory issues. A small minority of firms recognized a need for training and technology.

1. MARKET (30% response in GEMINI survey)

   The biggest constraint facing firms at the moment is the market. The most common way of phrasing the problem is "too few customers" and "customers have little money", but some also say "too many competitors".

2. INPUTS (25% response in GEMINI survey)

   The second biggest problem firms recognize is also market related: inputs. Firms mentioned availability and access, with some people also mentioning the price of inputs.

3. INFRASTRUCTURE (17% response in GEMINI survey)

   The most common problems mentioned in this category were "lack of reliable transport" and "poor premises".

4. FINANCE (14% response in GEMINI survey)

   Assistance organizations usually assume firms' most commonly perceived problem is money. This response shows that finance is a major problem, but not the highest level concern.

5. POLICY/REGULATORY (14% response in GEMINI survey)

   The macro-economic environment (7%) is perceived as a problem, with inflation and devaluation being the particular issue mentioned most. Also, 5% of respondents cited harassment as a problem, with "regular cash payments" or bribes being the particular example mentioned most.

6. TRAINING & TECHNOLOGY: mentioned by a small minority of firms.

While this broad ranking is useful in illustrating the priority concerns for all firms, different types of firms were more affected by different constraints.

Firms that are more affected by MARKET constraints include:

* Young firms
* Female owned firms
* Slow growers
* Firms with less advantageous locations: homes, traditional markets
* Firms in large and small towns (Strata 2 & 3)
* Service firms

Firms that cited FINANCE as a constraint more often include:

* Older firms
* Male owned firms
* Fast growers
* Manufacturing firms
* Businesses that have closed

Firms that mentioned TRANSPORT as a problem were frequently:

* Rural
* Smaller
* Home based
* Commercial

HARASSMENT was a highly recognized problem for:

* Firms in markets, along roads, and in market centers
* Firms in temporary or open air structures
* Larger firms with 6-10 employees
* Commercial firms
* Urban firms

Firms in commercial districts experienced problems with INFRASTRUCTURE most.

In addition, it is interesting that growing firms prioritized constraints in a different order than slow growers. Firms that experienced significant growth (added more than 2 employees) were facing financial constraints most, and infrastructure and policy/regulatory constraints second. In contrast to the general population, these fast growers had overcome marketing and input constraints to a greater degree, and ranked them as lower level constraints.

Another important survey of constraints to growth, conducted in 1992 by the World Bank and GTZ survey, covered around 200 firms in large towns, with a sample heavily biased toward manufacturing and representing a substantial number of small and medium sized firms, in addition to micro-enterprises (GTZ & World Bank, 1992). This survey illustrated the differences in constraints faced by different sized firms. In this survey, micro-enterprises named finance, inflation, and policy/regulatory issues as the top three problems. (Note that "markets" was not a possible answer). Small sized firms (10-49 employees) named inflation, finance, and infrastructure, in that order, as their top concerns. Medium/Large firms named inflation, policy/regulatory issues, and access to foreign exchange as their top priority concerns. Within these broad areas of constraints, the different sized firms also named different types of problems. In finance, micro-enterprises listed lack of collateral as the main issue, while firms with more than 10 employees found high interest rates to be more problematic. In policy/regulatory issues, micro-enterprises saw the cost of licenses as the biggest problem, whereas medium/large firms were more concerned with the number of licenses, and getting import licenses. "Trade union" restrictions bothered small firms more than micros or medium/large firms. In the area of infrastructure, micro-enterprises faced problems of access to land and space, whereas firms with more than 10 employees were more concerned with the quality of roads. It is worth noting that some of the key problems facing the larger businesses, access to import licenses and access to foreign exchange, have been addressed in the structural reforms undertaken by the GOK since 1992, but few of the policies facing small and micro-enterprises have been dealt with.

The GEMINI survey also revealed some interesting information regarding government involvement in the sector. Firms were specifically asked whether they experienced particular types of interactions, and the responses follow:

* More than half of firms are licensed (53%)
* Almost one third make "miscellaneous cash payments" or pay bribes (29%)
* 14% have experienced eviction
* Only 11% adhere to minimum wage standards.

From the GEMINI survey, it would seem many firms are "regulated" in the sense of having to pay fees, and obtain licenses, but not in the sense of heeding government wage regulations. In addition, it would be important to try to estimate the employment affect, and the affect on business confidence, of a 14% eviction rate.

Another issue that is worth noting for its <u>lack</u> of appearance in both surveys is training and technology. Despite the large number of assistance organizations offering training, particularly management training, in Kenya, the demand seems rather low. It is interesting to note that firms do not rank training as a high priority, but there is other evidence that lack of skills and technology is an issue. The GEMINI data itself show that firms with trained workers grow faster. And, it is well documented that a trained work force increases productivity (World Bank, 1993A; Tomeco & Aleke-Dondo, 1992). In addition, in the GEMINI survey, entrepreneurs cite "prior training" as a key reason for going into the type of businesses they are in, and a key reason for staying in. Women, however, are less likely to choose a business because they have training, citing the affordability and ease of entry instead. Finally, the vast majority of entrepreneurs said they would rather continue in their current activity than start a different type of business, and prior training in that field was given as one of the main reasons for continuing in that business. Given that training is so important in business selection, that there are signs that people are entering saturated markets, and that entrepreneurs do not seem interested in training themselves, more attention may need to be paid to making formal, pre-business training responsive to the market, and in increasing women's access to training.

III Assistance to Micro, Small & Medium Enterprises in Kenya

This sections describes the extent and type of assistance channelled to small and micro-enterprises in Kenya. To what extent do firms receive assistance? Does that assistance promote growth? Who gets the assistance? What are assistance organizations doing to alleviate the constraints to the growth of small and micro-enterprises?

Extent of assistance

There are indications that, despite a trend of increasing assistance to micro and small enterprises in Kenya, the vast majority have never received assistance. The GEMINI survey indicated that only 18% of all firms had received assistance, and most of that was financial:

* No assistance: 82%
* Financial assistance: 12%
* Non-financial assistance: 4%
* Multiple forms of assistance: 1.2%

Of those that received financial assistance, slightly over half received informal credit and the other half received credit from banks or other "formal" sources. The low coverage by formal institution suggests that there is a large unmet demand for financial and other businesses services.

The GEMINI survey also suggests that firms receiving assistance grew at faster rates than unassisted firms:

* Assisted firms: .33 jobs added per firm per year
* Unassisted firms: .24 jobs added per firm per year

This suggests that business assistance makes a difference in firms' growth.

According to the GEMINI survey, firms with the following characteristics were more likely to receive assistance:

* Urban based
* With trained workers
* With multiple owners
* Located in permanent structures
* With secure tenure
* With access to electricity
* With more start-up capital
* Using imported inputs

These characteristics suggest that better off, urban firms tend to get more assistance than less

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secure, poorer firms, particularly in rural areas.

Despite the low numbers reached nationally, it appears that the supply of support services has been increasing. A USAID survey collected information on the number of beneficiaries of some 40 key assistance organizations (Aleke-Dondo, 1994). The study did not cover all organizations, and many organizations do not collect good quality data on the quantity of their services, but the study indicated a strong growth trend. Over the last two years, responding organizations tripled the number of enterprises they lent to and doubled the number of entrepreneurs they trained. Nevertheless, the numbers reached are still far below a significant portion of firms in Kenya.

Assistance Organizations

The number of organizations providing support services to small and microenterprises is large in Kenya, so large that it is difficult to assess exactly how many organizations there are. Based on USAID and other donor contacts, various studies and a database on small and micro-enterprise assistance organizations, however, it is possible to draw a picture of the SME assistance sector. There are, no doubt, active organizations that are not mentioned here and others will undoubtedly be identified at a later date. In particular there are probably many groups operating at the local level that are not known in Nairobi. What is presented here are the most active organizations.

First, Kenya Rural Enterprise Program (K-REP) keeps a national database of small and micro-enterprise assistance organizations which lists 82 institutions and twenty donors:

* Half of the assistance organizations are NGOs
* One Quarter are Government agencies
* One Quarter are private, for-profit institutions

Although the database is not comprehensive, it indicates that most business assistance organizations focus primarily on training and credit services:

* Training: almost all
* Credit: three quarters
* Technology support: less than ten
* Marketing services: less than ten
* Advocacy: less than ten
* Research: less than ten

Technology, marketing, advocacy, and research activities, on the other hand, show less activity.

In the credit arena, minimalist lending programs have taken off very strongly in the last three years or so. The USAID survey of assistance organizations indicated that most credit NGOs are now using a group-based, minimalist lending approach. The majority of NGOs in Kenya using this method have received financial or technical assistance from USAID, through K-REP. Other key players that provide larger loans to more "formal sector" businesses include two Government-supported programs: Small Enterprise Finance Corporation and Kenya Industrial Estates. In addition, several banks have lending schemes for small businesses, some of which are backed up by loan guaranty schemes such as the USAID sponsored Loan Portfolio Guaranty scheme.

Most of the training available to entrepreneurs in Kenya is management training, as opposed to trade-based, technical training. The leading management training institutions, in terms of the number of people they train, include:

* The ILO funded Improve Your Business Scheme,
* Adventist Development Relief Agency,
* Small Enterprise Finance Corporation,
* the Kenya National Chamber of Commerce,
* Undugu Society of Kenya, and
* ILO/UNDP Entrepreneurs Education Project.

In addition, the Kenya Institute of Management and the Federation of Kenya Employers are known for the quality of their management courses. USAID/K funded Kenya Management Assistance Program (K-MAP), Undugu Society of Kenya, and Improve Your Business provide the bulk of one-on-one counselling, which is primarily on management issues. The major providers of technical or vocational training include:

* the Government Directorate of Industrial Training,
* Volunteer Services Overseas, and
* the Ministry of Research Technical Training Technology (MRTTT).

In addition to these institutions that provide training to experienced entrepreneurs, there is a wide network of formal training institutions in Kenya, which include:

* 600 youth polytechnics,
* 17 Institutes of Technology,
* 3 National Polytechnics,
* 20 Technical Training Institutes and
* 4 Universities.

World Bank, GTZ and other assessments have concluded that these institutes are not demand driven and tend to prepare its graduates for employment rather than business management, which is, in any case, their preference immediately after graduation (GTZ & Price Waterhouse, 1993). MRTTT and the ILO have introduced Entrepreneurship Education courses into the curricula of these institutions, but they are not, as yet, major players in the supply of training services to existing entrepreneurs.

There are few institutions providing other types of support services. There are only a handful of organizations focusing on marketing assistance, and they specialize in exporting handicrafts. In the field of infrastructure, Kenya Industrial Estates and MRTTT provide a limited number of sheds to artisans, but this role belongs primarily to local government authorities. There are at least ten appropriate technology organizations in Kenya, but only one focuses fully on technology for the private sector, ApproTEC, while the others have traditionally focused on technology for environmental preservation (fuel efficient stoves, solar cookers) or community development (water, livestock, food storage). Some of these institutions are looking into mechanisms for responding to firms' need for technology, including:

* Volunteers in Technical Assistance (VITA),
* Regional Appropriate Technology Information Service
* Jomo Kenyatta University Center for Appropriate Technology (JKU-CAT), and
* the Ministry of Research Technical Training and Technology (MRTTT)
* Intermediate Technology Development Group (ITDG)

In addition, K-MAP is beginning to look into assisting entrepreneurs with technical counselling services. K-REP is the leading research institution on micro-enterprises in Kenya, and the universities, particularly the Institute for Development Studies at the University of Nairobi also play a major role.

Associations & Advocacy Groups

Given the changing political environment in Kenya, and the importance of policy/regulatory constraints voiced by firms, the development, opportunities and constraints of advocacy groups and business associations deserve special attention. There are no representative organizations playing a strong advocacy role for small and micro-enterprises in Kenya. Associations of business people fall into three categories in Kenya, and are not necessarily oriented towards advocacy work.

1. "SELF-HELP GROUPS": First, at the grass roots level, entrepreneurs form small groups of twenty to fifty members for the purposes of self-help and community development. The GEMINI survey indicated that some 20% of enterprise owners are members of such groups. Credit seems to be a major activity of the groups and there are a large number of women's groups:

* 30% are rotating savings & loan groups
* 29% are women's groups
* 47% provide some kind of credit

These groups are commonly thought of as social in orientation, and are known to provide financial assistance in emergencies such as funerals and illness.

2. NATIONAL, INFORMAL SECTOR GROUPS: A second tier of groups are representative of micro-enterprises and operate at a national level, but are not skilled in or necessarily oriented towards advocacy. There are two key associations in this category. The first is an umbrella association, the National Hawkers Associations, although not all member groups are hawkers. The member associations are mostly sector based and have regional branches. The most active, having received support from the Friedreich Naumann Foundation, is the Kenya Small Traders Association. The association started by providing credit to its members through a rotating credit scheme, but has moved on to play an advocacy role, albeit a weak one. This group lacks skills and has so far not emerged on its own as an outspoken force, but as one of the few national level associations of "informal sector" entrepreneurs, it has potential to expand its role.

The second group in this category is the National Jua Kali Association, made up of local branches of Jua Kali Associations. These were formed in response to the MRTTT's call for informal sector artisans to form associations in order to get assistance. These associations, having been formed by the Government, are widely viewed as aligned with government or KANU interests. In addition, their existence makes the formation of other associations a direct challenge to their legitimacy. Although the World Bank and a few other donors have elected to channel assistance through these associations, they are viewed by most donors in the field with skepticism. If they are to play an advocacy role at all, it is likely to be "pushing from the inside."

3. NATIONAL, FORMAL SECTOR ORGANIZATIONS: There are several national level organizations that represent more professional, sophisticated, or larger businesses. The oldest, most active is the USAID supported Kenya Association of Manufacturers. It carries out policy studies and dialogues with the Government to provide direction for policy change. Other less active or newer groups include:

* Federation of Kenya Employers
* Kenya Business and Professional Women's Association,
* National Association of Kenya - Women In Business (NAK-WIB)

These more elite groups may have the skills to provide structured advocacy support on behalf of the entire sector.

In addition to these representative associations, several development agencies are establishing advocacy concerns or are attempting to set up associations. Frederick Naumann Foundation, for example, has set up a think tank called Institute for Economic Affairs. A former employee of USAID/Kenya is establishing a Small Business Association. A US-PVO, VITA, is establishing sector-based associations. These institutions, although top-down in inception, may emerge as professional advocates for the sector.

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IV USAID/K EXPERIENCE WITH SME ASSISTANCE

The following section will describe prior USAID/K experience with private enterprise development in Kenya. The information presented comes primarily from evaluations of two previous projects, the Rural Private Enterprise Project (RPE) which was implemented from 1983 to 1991, and the Private Enterprise Development Project (PED) which started in 1987 and is ending next year. USAID also endeavors to increase employment and export earnings of Non-Traditional Exporters through the Kenya Export Development Support (KEDS) Project, which started in 1991 and will end in 1997. When these projects started, the Private Enterprise Office was assisting firms of any size, but in 1990 the new Private Enterprise Strategy determined that more employment opportunities were likely to be generated in small and medium sized firms. At that time, PED (and KEDS) began to focus more on firms with under 100 employees. The following is a description of the RPE and PED projects, a qualitative assessment of performance based on evaluations conducted to date, and a quantitative, comparative assessment across project components.

Rural Private Enterprise (RPE) Project

The purpose of the RPE project was to establish and expand rural private enterprises in Kenya. The RPE project had two components, a commercial bank component and an NGO component. The primary mechanism was the commercial bank component which lent money to 3 banks for on-lending to "rural private enterprises". The loans were medium-term loans (3-8 years), which were not available in the market at the time, and were to be targeted to smaller, rural firms that do not ordinarily have access to credit through the banks. The component included:

* Loan funds.
* Technical training for bank staff (to encourage cash-flow based lending rather than collateral based lending).
* Commodities for banks to develop business advisory units.
* Seminars and technical training for borrowers.

According to the evaluation, the results of the project were mixed:

> "The RPE commercial bank component did help establish and expand rural private enterprises ... but the project output targets were not fully met."

On the one hand, micro, small and medium sized firms benefitted and received "small" loans, by bank standards:

* 34% of loans went to micro-enterprises
* 73% went to firms with below 100 employees
* 43% of the loans were under $75,000

In addition, the banks extended medium term lending whereas they normally only lend short-term. On the other hand, most of the funds were not widely disbursed:

* 13 loans accounted for 68% percent of the loan funds.
* These loans were above $750,000, the highest level that could be lent without USAID approval.

Also, the Banks did not substantially change their client base, nor their practice of requiring collateral:

> "There is little compelling evidence that the project institutionalized medium-term lending on a pure cash flow basis to small and medium sized rural enterprises either within the participating banks or in non-RPE banks."

The evaluation recommended that USAID channel the loan reflows back through the same banks, with some modifications.

The NGO component of RPE was used to establish K-REP. Working as an umbrella organization, K-REP provided grants and technical assistance to other NGOs to provide credit and training, in turn, to "community based enterprises" and micro-enterprises. This component of RPE was not formally evaluated, but it was seen as a useful experiment that contributed significantly to the learning about micro-enterprise development in Kenya. It was in this phase of USAID/K's assistance to K-REP that K-REP started minimalist lending, adopting the Grameen Bank model to the Kenyan context. At the same time, K-REP began lending directly to firms, in addition to using other NGOs as intermediaries. Assistance was continued to K-REP under the PED project, described below.

Private Enterprise Development (PED) Project

The PED project purpose was to "strengthen institutions that can improve Kenya's business environment and to encourage growth of businesses directly through the financial and advisory services those institutions provide." The PED project extended firm-level assistance and support for policy analysis and advocacy primarily through other NGOs or private, for-profit institutions. The project had three components: finance, counselling, and policy.

1. FINANCE: K-REP AND THE TRUST

Under the PED project, K-REP expanded its minimalist lending activities by introducing minimalist lending in the NGOs it supports, and by extending its own direct lending program. An evaluation of K-REP activities under PED is currently underway, but K-REP is already widely recognized as a leading micro-enterprise lending institution in Africa. It was selected as a case study for an ONI sponsored workshop on "Best Practices" in micro and small enterprise lending in Africa, and has appeared in several books as a successful case study. K-REP and the other NGOs it supports have lent to some 15,000 firms, 61% of whom are owned by women. Despite its strong performance, it is still well behind similar schemes in Asia and Latin America in terms of numbers reached and cost sustainability. Despite K-REP's rapid expansion, there is still large unmet demand for micro-enterprise credit. The GEMINI survey suggests that 14% of firms consider finance to be their biggest constraint. As a rough estimate of demand for credit, that would indicate that around 135,000 micro-enterprises in Kenya are strongly in need of finance. While more demand analysis is needed, one issue for K-REP and USAID/K is how to expand minimalist credit in Kenya. A major question of concern is whether or not K-REP should continue to provide technical assistance to other NGOs and, if they don't, who will? The current evaluation should shed light on these and other issues and make appropriate recommendations for future assistance.

In addition to K-REP, PED had an Equity Finance Component, the Kenya Trust for Development. This activity channelled loans to firms through two "equity" or "venture capital" companies, Kenya Equity Management (partly owned by Equator Bank) and Industrial Promotion Services (owned by the Aga Khan Foundation). KEM and IPS would invest equity in firms, and USAID/K would match, on a certain ratio, the equity with loans. The evaluation gave the project mixed reviews. On the one hand, the employment, investment, sales, and foreign exchange targets were met. On the other hand, the evaluators did not feel the mechanism used was "venture capital". Rather, in the case of KEM it was merchant banking and in the case of IPS it was a "holding company". These mechanisms were seen as appropriate responses to the lack of effective demand for pure "venture capital" in Kenya. One option given in the evaluation was to continue assistance, with revisions to accommodate these different investment practices.

The main issue of relevance for PED II is the type of firms assisted by the TRUST component and the cost of the component. Assisted firms tended to be well capitalized firms owned by higher income people in Kenya. While the firms were often new businesses, or had fewer than 100 employees before USAID assistance, the majority grew into firms well outside the new PEO target group of firms with less than 100 employees. In addition, the component was expensive compared to other types of assistance, and the evaluators pointed out that it was, by international standards of venture capital endeavors, under-funded. Despite the overall positive impact, these factors put serious constraints on the potential for continued support for this form of equity investment under PED II. USAID/K is still considering providing equity financing to smaller enterprises, but a market study would have to be conducted to assess the feasibility of this endeavor.

3. COUNSELLING: K-MAP AND IESC

There were two programs supported under the counselling component of PED: K-MAP and International Executive Service Corps (IESC). Both these NGOs provide one-on-one counselling to firms by experienced professionals. K-MAP is a Kenyan NGO that provides volunteers from large firms in Kenya to counsel managers and owners of smaller firms. IESC is an American based NGO that brings retired executives to Kenya, and was primarily charged with providing technical support not available in Kenya.

The evaluation of K-MAP was quite favorable. K-MAP has established a niche in the training market in Kenya, being the only institution providing counselling by experienced Kenyan managers, as opposed to classroom training by full-time instructors or counselling by professional business advisors. K-MAP assists micro-enterprises with an average firm size of between three and five employee. The program is also quite inexpensive. The evaluation stated, "It is difficult to envision a project with as small a budget and secretariat that has achieved the same viability and outputs." The main problem identified by the evaluation was the lack of monitoring of K-MAP clients. The evaluation recommended K-MAP improve its information and monitoring function, which it is in the process of doing. K-MAP began its operations with USAID funding, and has since added training and a bank guarantee scheme to its activities and has solicited other major donor support, including the British Overseas Development Agency. K-MAP is now planning to open offices in Mombasa and Kisumu.

The evaluation of International Executive Service Corps (IESC) was less positive, particularly regarding the ability of IESC to assist PEO's 1990 target group of firms with less than 100 employees. According to the evaluation, IESC was:

> "... reasonably effective in delivering technical assistance, transferring technical skills and in helping firms to improve their operations, revenues, employment and investment."

IESC was not very effective in reaching micro-enterprises, even through their "group assistance" scheme in which small enterprises pool their resources to get one Volunteer Executive for several companies. In addition a significant portion of IESC assistance was management assistance, rather than technical assistance, which was supposed to be their focus. The evaluation recommended that IESC focus its assistance on export-oriented firms because the technical expertise of the volunteers is better oriented towards large firms catering to an international market. IESC is already supported by USAID's Kenya Export Development Support (KEDS) project and further assistance is likely to be under that project.

3. POLICY: IPC AND KAM

The third component under PED was the Policy component, which channelled assistance to two entities, the parastatal body Investment Promotion Center (IPC) and the private sector association, Kenya Association of Manufacturers (KAM). Assistance to IPC was intended to strengthen it to become a "one-stop-shop" for private investment licensir_ and procedures in

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Kenya. The assistance to IPC has not been evaluated, but it was suspended because of FY '94 547 legislation which restricts USAID support to organizations that could cause American firms to relocate overseas. There were, however, major problems with the activity. In particular, there was a high turn-over of key personnel that prevented continuity.

KAM, on the other hand, was evaluated and was seen as playing an important role in the policy reform process in Kenya. "KAM is unquestionably the most effective spokesman for the views and interests of the business community on a broad range of issues, and current political trends favor an expansion of its role". The evaluators felt that the policy studies conducted by KAM with USAID support provided valuable technical knowledge and policy options for policy makers. These policy studies, on such topics as price de-control and trade liberalization, were used by policy makers once they had been pressured to make change by larger players, such as the World Bank and the IMF. Because KAM had been using consultants up to that point, the evaluation recommended KAM strengthen its in-house capacity to research, advocate and track policy reforms. In addition, the changing political environment calls for new strategies, but KAM has yet to adapt to the new environment. The evaluation recommended that KAM study similar associations in democratic nations to re-visit their overall strategy, for both advocacy and institutional sustainability. In addition, KAM which traditionally represents older, well established industry, was not seen as effective in recruiting membership from the small enterprise sector. The evaluators also recommended KAM re-visit this membership issue. This process is underway, and its outcome should influence what type of support, if any, is given in future.

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Quantitative Impact of Firm-Level Assistance:

Since 1984, USAID/Kenya has engaged in a wide variety of activities, many pilot or somewhat experimental in nature. The qualitative analysis provided above summarizes the learning from these efforts, and indicates the general performance of each activity. The following analysis attempts to compare performance on a quantitative basis. It asks the basic question: which activities reached the most people for the least USAID investment? While a valid question, the following data must be examined in context. Each input was different in nature, ranging from a few hours of counselling to several million dollars investment. The types of firms were very different, ranging from modern golf courses to women selling vegetables in local markets. In addition, the employment increases measured in assisted firms are not directly attributable to USAID assistance, because so many factors influence firm growth. The firms were assisted at different times and were evaluated over different periods, so the influence of outside economic factors was not the same across the board. Finally, the costs of assistance are actually more than USAID's project investment. USAID itself invests more in the form of supervision, and USAID/W input, and other organizations, the counterparts and other donors, and the firms also invest resources. Thus, what follows is a very rough cost/benefit calculation to provide basic comparative data across the different activities.

The first statistics summarize the extent, type of firms and cost of firm-level assistance provided under RPE and PED [2]:

* Number of firms assisted: 16,000
* Average firm size: 3.75
* Total employment increase: 9,779
* USAID/K investment/job added: $4,815
* Percent owned by women: 54%
* Percent female employment: 29%

With the above caveats, these quantitative outputs and impact indicators can be used to compare the performance of the different components. As with the above data, these figures

[2] These estimates are based on surveys of assisted firms conducted during evaluations or by the implementing organizations themselves. In some cases, it was not possible to visit all the assisted firms, so data was collected from samples and confidence intervals estimated for the population of firms assisted by that implementing organization. The confidence intervals are very wide, indicating that many factors in addition to USAID assistance affect firms performance. But, the figures give a general picture of the scale of operations and impact of the project. Note that the employment growth estimates are not comparable with GEMINI data, which are annualized rates of growth since a firm's inception. The growth estimates presented here apply to periods that range from six months to several years after assistance, and are calculated from the point of assistance, usually some years after the firms started. As a result, it is not possible to compare their growth rates to unassisted firms. Important lessons have been learned about assessing the impact of firm-level assistance under PED and these will be importance for establishing impact monitoring systems at the start of this project.

are estimates with wide confidence intervals, so the data is best used for relative comparisons of the general scale of operations and impact of the different projects.

QUANTITATIVE INDICATORS OF PED & RPE PERFORMANCE					
	K-REP	K-MAP	TRUST	IESC	RPE
NUMBER OF FIRMS ASSISTED	15,050	411	12	186	102
SIZE OF FIRM ASSISTED	2.09	3.78	50.36	91	99
TOTAL EMPLOYMENT INCREASE IN ALL ASSISTED FIRMS	3,612	1,544	1,540	583	2,500
PROJECT COST/JOB INCREASED	PED: $1590 +RPE: $3,475	$387	$4,943	$2,229	$10,647
% FEMALE OWNERS	61%	16%	N/A	32%	56%
% FEMALE EMPLOYEES	39%	31%	29%	32%	20%

In general terms, these indicators support the findings of the evaluations and the general assessment of the components by USAID/K. The Trust, the banks and IESC tended to assist larger firms and are not well placed to assist micro-enterprises. Although firms assisted under theses components exhibited strong employment growth, the Trust and the Banks were relatively expensive forms of assistance. IESC was not as expensive, but IESC assisted firms did not increase employment substantially. In contrast, K-MAP was both an effective and efficient program, and K-REP reached the largest number of the smallest firms, and benefitted women most.

3.7 POLICY/MACRO-ECONOMIC ENVIRONMENT

So far this background material has presented the employment problem in Kenya, described the characteristics, growth patterns and constraints of small and microenterprises in Kenya, and analyzed the assistance provided to the sector by USAID and other parties. This section returns to the broader picture to examine the economic and policy context of all these firms, trends and activities. Given the importance of local consumers as customers of microenterprises, and given the fact that markets were the number one constraint to growth identified by firms, general growth in the Kenyan economy is of great significance for the growth of microenterprise employment in Kenya. An understanding of the growth patterns and policies affecting economic growth in Kenya is an essential part of understanding the opportunities and constraints to micro-enterprise development.

Historically, Kenya has outperformed its African neighbors in economic growth, but in the last few years, Kenya has begun to experience similar problems of economic decline, increasing poverty, high inflation and unmanageable external debt. Economic growth in Kenya has stagnated over the last five years, from an average 5% per year growth rate from 1986-1990, to a zero growth rate in 1993. This stagnation, coupled with one of the highest population growth rates in the world (3.4%) has led to a decline in Kenya's per capita income by 2.3% in 1991 and 3.6% in 1992. Inflation in recent years has been the highest in Kenya's history, averaging 27.5% in 1992 and 46% in 1993. For the first time in its history, in 1993, Kenya went into external debt arrears (World Bank 1993; ODA 1994; GOK Economic Surveys).

Kenya's economic decline during this period was a combination of economic and environmental factors affecting many African countries, and policy factors within the control of the Government of Kenya. On the economic side, Kenya continues to experience declining terms of trade and declining demand for exports due to recession in major markets in Europe. Environmentally, Kenya has experienced a major drought, the worst since the early eighties, which has affected rural incomes and export production. The reduction in exports, coupled with a high bill for food imports, dramatically affected Kenya's external debt (World Bank 1993, ODA 1994, Economic Surveys). On the policy side, the Government of Kenya did not fully implement key policy reforms agreed in the three year Enhanced Structural Adjustment Facility (ESAF). These reforms were intended to move Kenya from an import substitution economy to an export oriented economy with a vibrant small enterprise sector. While there was some progress made in instituting reforms, such as de-controlling interest rates and many other prices, overall performance did not adhere to the agreement.

Examples included:

* significant expansion of the money supply,
* reversals in foreign exchange liberalization,
* continued over-regulation of the private sector, including use of price and movement controls, particularly in major domestic agricultural markets,
* lack of good governance, including the blossoming of un-regulated banks owned by people politically connected to the current government,
* increases in the budget deficit from 5% to 7.7% of GDP,
* failure to implement privatization and parastatal reform,
* increasing in-efficiencies in the public sector, particularly parastatals.

The limited implementation of the ESAF agreement led key donors to stop new disbursements to the Kenyan Government in November, 1991 (ODA 1994). USAID/K continued with project assistance, but cut off non-project assistance to the Government.

This action was influential in pressuring the Government to carry on with its economic reform program. During the period when aid was on hold, the Kenya Government embarked on major economic reforms including:

* the control of the money supply through treasury bond issues,
* important foreign exchange liberalizations,
* the elimination of import licenses, and
* almost complete elimination of price controls.

In November 1993 the major donors, including the IMF and World Bank, reinstated quick disbursing funds to the government, with strict restrictions. Since then, the Government has continued with major macro-economic reforms, including further liberalization of foreign exchange and complete liberalization of the maize market.

According to the 1994-1996 Development Plan and Policy Framework Paper, the Government of Kenya is embarking on a strict structural adjustment program. Through severe control of the money supply, the GOK plans to bring inflation down to 10% by the end of the period. Indeed, it has been reduced from a high of 100% in June 1993 to below 50% in the first quarter this year. In the banking sector, the GOK will continue its reform of the "political" banks, a major governance issue, and use market instruments to encourage a positive interest rate. The Government plans to reduce the deficit through increasing the tax base, reducing subsidies to expensive parastatals such as the National Cereals Produce Board, and embarking on a major reduction of the civil service. Foreign exchange liberalization, which has made substantial progress in 1993, will continue. The government also plans to privatize 100 of the remaining 190 parastatals. Targeted companies range from cotton and sugar producers to banks to infrastructure providers such as Kenya Airways and Kenya Power & Lighting and Telecommunications. Finally, the GOK plan also calls for de-

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regulation in the form of reduced licenses and fees on new businesses, reduced restrictions on trade, and the break-up of monopolies in sugar and coffee, similar to reforms already underway in the dairy sector (IMF 1993, Development Plan 1994-1996). The plan thus calls for major reform that could indeed promote economic growth.

Despite these good prospects, there are reasons for caution (ODA 1993). Most donors are optimistic that the GOK will go forward with the planned reforms because they being closely monitored by the IMF. The private sector, however, is sending its own signs of pessimism. A recent survey of the export competitiveness of various African countries noted that investors are wary of Kenya, in part, because of the Government's poor track in consistent implementation of announced policies, and because of corruption and political instability (TSG, 1994). Some action has been taken in these areas. As described above, policy implementation has been more consistent in the last year. In addition, key players suspected of widespread corruption in recent financial scandals have been fired and some have been charged in court. The multi-party elections were widely accepted as broadly representing the will of the people, and the so-called "tribal clashes" have calmed somewhat and the Government is now allowing victims to be assisted. At the same time, the many examples of lack of commitment to economic and political reform by the Government serve to temper the optimism that the recent PFP and Development Plan otherwise engender in the Donor community.

The general economic and policy environment have a major influence on micro-enterprise development. Micro-enterprises in Kenya sell primarily to final consumers and, thus, depend on the vitality of the domestic consumer market. With domestic incomes falling, it is not surprising that micro-enterprises cited "markets" as their major constraint. **Economic growth, and the distribution of that growth among the rural and urban consumers of domestic products, are probably the single most important factors in micro-enterprise growth.** In fact the GEMINI study commented that one of the major reasons the micro-enterprise sector is historically so strong in Kenya, compared to Southern African countries, was Kenya's better economic performance over the last ten years (Parker 1994). Thus, the reversal of Kenya's present economic decline is of utmost importance in the development of Kenya's micro-enterprise sector. In particular, since 78% of all micro-enterprises in Kenya are rural, agricultural performance probably has more impact than that of other sectors. The agricultural sector has experienced a major decline in the last few years: agricultural GDP declined by 4.2% in 1992, although the Development Plan targets a much higher growth rate in coming years. While the increased rains this year certainly improve prospects, high agricultural growth also depends on the continued implementation of policy reforms, including increased de-regulation, improved access to credit, and reduced ethic tension in key agricultural areas (World Bank 1993). The prospects for these reforms are similar to those of broader, macro-economic reforms.

In addition to macro-economic and agricultural policies and conditions, there are also policy and regulatory issues that affect micro-enterprises in particular. On the policy side, the

Government of Kenya is well-known for its supportive policy position with regards to the informal sector, but, as in many policy areas, implementation has lagged behind. In 1992 the Government published Sessional Paper No. 2 on "Small Enterprise and Jua Kali Development in Kenya." Widely recognized as a model policy paper for the informal sector, it contains a thirty three point action plan (GOK 1992). The main focus areas for Government intervention are:

* providing a positive enabling environment, including Structural Adjustment, de-regulation and market liberalization,
* continuing to provide investment incentives, including duty-free imports of capital equipment and the provision of land and sheds,
* provision of infrastructure by providing land and services through local level associations,
* increasing the availability of technology through research, development and dissemination of improved technology and the production of machine tools,
* encouraging linkages with the formal sector through market information services, incentives for sub-contracting and export production, and organizing trade shows
* legal reform of Acts, licensing procedures, and building codes that adversely affect the informal sector.

The policy identifies the role of the Government as primarily establishing an enabling environment and providing infrastructure and information, while the provision of credit, training and other support services would be left to the private sector and non-governmental organizations. In addition, the Ministry of Planning and National Development set up a committee to coordinate and monitor policy implementation (GOK 1992).

Although progress has been made in a few key areas, implementation has been far below expectations at the time of its establishment (ODA 1994, Dolman 1994). The coordinating unit does exist, but it is not very active and consists primarily of Government, Donors, and assistance organizations. Businesses themselves are not represented. Although the Government has called for the registration of informal sector associations, these are widely viewed as politically allied with the Government. The Government has appropriated and allocated some land for "Jua Kali" artisans, but the quantity of land is still vastly inadequate, and other areas of infrastructure, such as roads, electricity, water and telephone services, have not been addressed. Although the Government has promoted the concept of self-employment and encouraged it through introducing entrepreneurship courses into the curricula of technical schools, the micro-enterprise or informal sector is not an integral part of Kenya's development strategy and is still widely viewed as a "second-rate" occupation and development path (ODA 1994, Dolman 1994).

Perhaps the area that has received least attention is deregulation. This area is particularly challenging due to the wide range of laws that affect small and micro-enterprises, the many institutions that apply these laws, and the structure of local authorities that enforce most regulations. According to a recent study on deregulation and micro-enterprises, there are some 17 Acts that affect small and micro-enterprises (Gichira 1991, Bancock 1994) . These include:

* The Vagrancy Act: originally used during the colonial era to prevent Africans from "loitering" in white residential areas, and now used by local police to remove, or solicit bribes from, hawkers and traders.

* Factories Act: Intended to provide for health, safety and welfare of employees, but sets standards that are not affordable to micro-enterprises. Again, local authorities can use the non-compliance with this acts as cause for removal or soliciting of bribes.

* Trade Licensing Act and Registration of Business Act: These act as revenue generators for local and central government and are intended to control the duplication of business names and the location of businesses. The processes are difficult for illiterate people to understand, cumbersome, too centralized in Nairobi and other large towns, and too expensive. Business people can be harassed whether they have the correct licenses or not, because the rules themselves are so unclear.

* A series of acts and zoning regulations affecting infrastructure, building and land. In general these set standards that are too high for micro-enterprises to afford, and establish unaffordable rates and taxes that prevent micro-enterprises from getting access to land and infrastructure.

* A series of location specific and trade specific laws such as shop hours restrictions or special tax collection times for hotels, that increase the cost of doing business without any appreciable benefits to the public. Many used to be part of local social norms, but have now become out-dated.

* The criminalization of many of the above offenses, so that the offense can take business people to jail, rather than simply levying a fine.

These laws and regulations span many ministries, including Ministry of Manpower and Labor, Ministry of Energy, Ministry of Lands, Ministry of Works, Ministry of Local Government, Ministry of Health, Office of the President, and uncountable local authorities (Gichira 1991, Bancock 1994). The situation is further complicated by the structure of local authorities, including Municipal Authorities, Town Councils, District Offices, and local chiefs. Most laws and regulations are enforced by such local authorities, but the local authorities have a limited capacity to respond to the needs of local business people because they are still, in large part, centrally controlled. Local Authorities in Kenya are largely un-elected bodies, appointed either through central sectoral Ministries, the Ministry of Local

Government and/or the Office of the President. This structure leaves limited scope for normal democratic processes of private sector pressure and government response. In addition, local authorities have little authority to raise taxes locally, and thus rely heavily on the informal sector to generate revenue in the form of regular operating fees as well as fines for non-compliance. Thus, the continued de-centralization of local authorities, begun under the District Focus for Rural Development and enhanced during the transition to a multi-party system, is central to the de-regulation process (World Bank, 1993). The de-regulations process is central to the provision of an enabling environment for micro-enterprise development, but it has not been tackled, in part, due to its complexity.

One group of donors, UNDP ODA and the Netherlands Embassy sponsored a major review of policy towards micro-enterprise development, and have recommended a three tiered approach to accomplishing de-regulation (ODA 1994, Bancock 1993):

1. A De-Regulation Unit identifying, pressing and tracking reform from within the government.

2. An independent "think tank" that can provide objective information about the sector and progress in implementing de-regulation.

3. Advocacy groups that represent micro-enterprises consulting entrepreneurs to identify priority agendas and ensure that the changes made are relevant to the intended beneficiaries.

Such a process would, no doubt, be relevant for identifying and addressing other policy action affecting the sector, in addition to "de-regulation", policies such as the provision of infrastructure or other services. If such a structure were established, it would be a major step forward in giving micro-entrepreneurs a voice in the policy making process in Kenya.

3.8 SUMMARY

This annex set the stage for the new activity description by examining the employment problem in Kenya, and identifying opportunities and constraints to alleviating it. The labor force in Kenya will be growing by 4.1 percent annually between now and the end of the century, adding 490,000 new people every year. Projections suggest that employment is likely to be provided by the agriculture and micro enterprise sectors. A recently conducted survey of small and micro-enterprises provides rich data on the characteristics and growth prospects of the micro-enterprise sector in Kenya, which is larger than expected, and diverse in character and growth patterns. This and other surveys also provide data on the constraints to growth identified by firms, which fall into five categories:

* Markets
* Inputs
* Infrastructure
* Finance
* Policy/Regulatory

There is evidence from the GEMINI survey that firm-level assistance is associated with growth, but there are still not enough services available to reach even a substantial percentage of firms. There is a plethora of institutions in Kenya providing assistance to the sector. Nevertheless, their services are only reaching some 18% of firms and are concentrated in the credit and training arena. There is a dearth of institutions in the marketing, policy research and advocacy, and technology roles. USAID/K has valuable experience from two past projects, RPE and PED, that have contributed to learning about the types of assistance that is most appropriate for micro-enterprises.

However, given that the "market" was the number one constraint recognized by firms, and given that the bulk of micro-enterprises sell to local consumers, stimulating economic growth in Kenya is a key to ensure a vibrant micro-enterprise sector. Recent economic performance does not bode well for the prospect of economic growth in Kenya, but recently announced policy reforms and the resumption of quick disbursing aid from the IMF and World Bank are reasons for cautious optimism. There are also opportunities for advocacy groups to play a role in keeping the Government reforms on track, and in addressing policy and regulatory constraints that affect microenterprises in particular. With appropriate Government policies and an extensive network of assistance agencies, the micro-enterprise sector has potential to play a leading role in job creation in the next decade, as it has in the last.

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ANNEX G:

SUB-SECTOR DEVELOPMENT

NOTE:This annex represents the recommendations of the technical design team. On the one hand, it is a more thorough explanation of the rational and approach to be taken. On the other hand, the PP and the annex may differ slightly because the PP represents a revised approach based on consultations with potential partners. Where there are differences, the PP itself will take precedence.

1. INTRODUCTION

This annex presents an overview of the "sector focused" (SF) orientation that is proposed for most of the non-financial aspects of the project. It begins by presenting the rationale of the approach, its principle beneficiaries under the new project, and some clarification of the terms that are used to describe it. The advantages of the approach are presented along with a description of various methodologies for pursuing it. This is followed by a description of Kenyan organizations who were visited during the design mission and who employ SF approaches. A description of the constraints and opportunities that they face is next. This is followed by a presentation of sub-sectors that the project will focus on initially - including the rationale for their choice. The outputs are then presented, followed by a strategy for implementing the program.

2. RATIONALE

In the National Baseline Survey, over half of micro enterprises said that "markets" and "inputs" were the biggest problem facing their businesses. Firms said:

*there were "too few customers", and "too much competition",

*inputs were "not available" or were "too expensive."

It was also clear from the National Baseline Survey that women are concentrated in easy access, low return markets, both in terms of their location, which is largely in the home or in tradition markets, and the sectors they operate in, which are largely commerce and agri-businesses. Surprisingly, there are few programs in Kenya directly concerned with addressing these issues. On the one hand, these complaints are a reflection of the drought and severe economic recession in Kenya, which impacts supply of produce and the demand for micro enterprise goods and services. Agricultural recovery and macro-economic growth will be important factors in solving market and inputs constraints. At the same time, the recession highlighted a well known issue: that micro enterprise markets are weak and micro enterprises ill equipped to function effectively within them, and that women are particularly constrained in this regard.

When trying to understand the issues underlying these "market" constraints, two themes emerge. First, these constraints need to be understood and addressed by examining the particular market issues in particular sub-sectors. For example, metalworkers have trouble accessing good quality, affordable metal because there are only a few sources of metal in Kenya and these are large, oligopolistic companies. In contrast, vegetable sellers faced scarcity of input due to drought, and experience high transaction costs in trying to access various sources of inputs and markets. Thus, market constraints vary across sub-sectors.

Second, there is not single intervention that will solve market problems for micro enterprises.

On the demand side, there may be monopolistic structures that inhibit micro enterprises from entering some business activities. For example, milk processing in Kenya has been the domain of a large-scale parastatal until recent years (Kristjianson and Wangia, 1995). On the supply side, however, firms themselves may not be well equipped or well placed to operate in competitive markets. For example, small scale technology for yoghurt, cheese and ice cream processing may not be readily available on the Kenyan market, and, even if they were, many women may not have funds, information, training or social support to adopt these new technologies. Thus, multiple types of non-financial interventions may be required to strengthen markets for micro enterprises.

The need for non-financial assistance presents certain challenges, but latest thinking in micro enterprise development does offer some solutions. Experience has shown that non-financial assistance generally reaches fewer people at higher cost than financial assistance. Whereas sustainable methodologies have been developed for delivery of finance, such methodologies have not been identified in non-financial assistance. There are several strategies emerging from lessons learned and the literature, however, for achieving significant impact in addressing non-financial constraints:

* First, as findings in Kenya illustrate, micro enterprises need to be considered and assisted in the sub-sectors, or markets, that they operate in. This approach will also focus resources for greater impact and higher measurability.

* Second, "leveraged" interventions need to be identified that affect large numbers with single investments, for example changing policy or making technology widely available in the market.

* Third, firm-level assistance, such as training, needs to be demand driven. Firms need to pay for services and effective training should become sustainable to deliver, although up front development of training courses may need to be subsidized.

MICRO-PED's strategy for addressing market constraints, then, is **to increase delivery of cost-effective non-financial services to targeted sub-sectors, which is output # 2.** These will include both "leveraged" and firm-level interventions. The sub-sector approach is being experimented with and adopted by ten to fifteen NGOs in Kenya, most notably with funding from the ILO and The Royal Netherlands Embassy. The MICRO-PED project will increase the knowledge of this approach by playing a strong coordinating role and widely disseminating lessons learned.

3.0 DESCRIPTION

3.1 What is the Sub-sector approach?

A sub-sector can be defined as a vertically integrated group of enterprises (both large and small) who deal with the same product group. A sub-sector includes those enterprises who produce or procure raw materials, those who process them, those who sell the finished products (both on a wholesale and retail basis), and any repair or other related service activities. The table on the following page provides a simplified illustration of agri-business sub-sectors.

One sees that the agribusiness sector can be broken into fruit, maize, dairy, and fish - and that it can be further broken down into individual product groups (such as fruit juices, dried fruit, and raw fruit). Each of these categories represents an economic sub-sector composed of firms who buy and sell from each other in the production chain from raw material to eventual retailing of finished products.

Within each sub-sector there are several trade sectors. A trade sector can be defined as a group of enterprises who share the same economic activity. Within the fruit juice sub-sector, for example, one can find distinct trade sectors in fruit juice production, processing, wholesaling, and retailing (these are represented by a "*" in the agribusiness table).

AGRIBUSINESS SUB-SECTORS

	FRUIT			MAIZE	FISH	DAIRY
	juice	dried	raw			
RETAILING	*					
WHOLESALING	*					
PROCESSING	*					
PRODUCTION (raw materials)	*					

3.2 Characteristics of Sub-sector Approaches

Based on the definitions presented above, a sub-sector approach can be characterized as follows:

1. It targets program interventions to groups of firms within the same trade sector so as to address their particular needs.

2. It identifies cost-effective, or "leveraged" interventions within sub-sectors which address constraints faced by large numbers of firms.

3. It focuses resources among a smaller number of micro enterprises so that impact, and measurability of impact, is greater.

The following sections will look more closely at the first two points.

3.21 Targeting Programs to Groups of Firms Within the Same Trade Sector

Many NGOs and assistance programs are learning to target their non-financial micro enterprise interventions to groups of firms within particular trade sectors. One sees programs which target tailors, carpenters, retail vegetable sellers, etc. Experience in many countries has shown that training/counseling, technology, association development, and even advocacy can be more effective when they are targeted in this way. This is because the issues and problems facing firms within a particular trade sector are fundamentally different from those facing firms in other sub-sectors. Poultry farms may need systems to track the profitability of chicken lots, monitor sales to institutional buyers, develop new varieties of feed, and lobby for reduced duty on veterinary medicines. Carpenters may need to develop costing systems for their furniture production, develop improved tools, find better sources of wood, and lobby against the importation of subsidized, duty free furniture. Given these differences, it is not surprising that generic interventions, which cut across a broad array of trades, are generally not effective.

The following presents some of the advantages of targeting groups of firms within the same trade sector.

Business skills training - allows for the development of management tools and "technologies" which respond to specific/unique situations, makes training more appropriate, easier to apply (does not necessitate adaptation), facilitates sharing of ideas among participants.

Marketing/Business Plan Development - can develop business plan and marketing models for specific activities - this facilitates the work of the enterprises in collecting and processing appropriate information.

Technology/Product Development - technologies and new product design can be tailored to specific needs.

Association development/advocacy - allows members to concentrate on common needs/problems; promotes linking of members for joint economic activities (i.e. procurement, production, distribution); can be used as a channel to share trade specific market information, improve standards, use common facilities, and lobby for common interests (they also facilitate the identification of policy constraints that are specific to the trade sector).

There are drawbacks, however, to targeting firms within specific trade sectors. It limits your assistance to firms who are operating within those trade sectors. It is also more expensive to tailor intervention programs to specific trade sectors. Thus, it sometimes becomes necessary to look at the sub-sector as a whole to identify "leverages" interventions, as described below.

3.22 Looking at the Sub-Sector as a Whole

In order to maximize the impact of MSE programs, it is important to look at constraints within sub-sectors as a whole. One method for doing this is called "sub-sector analysis". It is an analytical study that identifies:

- the linkages and market channels through which enterprises produce, procure, process, and distribute goods and services within a single product group, and

- the constraints within a sub-sector which, if alleviated, would help the enterprises to improve their operations.

By identifying constraints that affect a large number of enterprises, opportunities for "leveraged interventions" present themselves. Examples include: liberalizing the price of cooking oil, thereby creating a greater market for micro enterprises involved in oil pressing; alleviating supply constraints of metal thereby assisting hundreds of metal working enterprises; or introducing a new production or management technology which can improve the operations of a large number of micro enterprese's within a given trade sector. It should be mentioned, however, that sub-sector analysis is only a tool for identifying constraints and possible interventions. The more challenging task is then to develop and implement a program which is successful in alleviating the identified constraint (this is where the service delivery skills of Implementing Organizations and the ability to adapt interventions to the needs of firms within the same trade sector comes in).

Another method for identifying constraints and interventions within sub-sectors is the "incremental approach." The incremental approach to sub-sector development starts with an intervention at the level of a trade sector (business skills training, introduction of new technology, etc.). From that point, it builds upon the relationships with the entrepreneurs (and the information they provide) to gradually address constraints in the sub-sector as a whole. This approach works on several premises including:

- The set of issues and needs within sub-sectors is very complex and cannot be fully understood by an analytical study.

- The realities and constraints within sub-sectors are constantly changing - what is a true today may not be true tomorrow (new constraints and opportunities will emerge).

- Learning by getting involved is part of the development process - one has to learn to deal with problems as they arise.

- It is more likely that sub-sectors face a variety of constraints in different areas rather than just one or two major constraints.

- Micro enterprises should be the primary source for identifying constraining factors - and be the primary actors in alleviating them (the relationship that the implementing organization develops with the MSEs is crucial in developing programs to help them address their problems).

3.23 Example Case

A case study of a sector focused intervention can be taken from a USAID funded project in Senegal, West Africa (SRFMP, 1986-1991). One of the target groups of the project was the bread production sub-sector. This sub-sector included the milling of flours, the procurement and sale of ingredients such as yeast, the baking and sale of breads by bakeries, and the distribution of bread by a variety of other retailers. In this case, the following things happened:

- The project conducted a training needs assessment with the bakery trade sector and, based on that assessment, developed a program in improved financial management for the sector.

- Working with representatives from the sector, they developed a financial management system specific to their needs.

- A series of training workshops and follow-up visits was organized to help establish the system in the participating bakeries. Among other things, this resulted in the development of standardized financial ratios for the bakery sector which were used as decision making tools by the owners.

- Through the time spent with the bakers, the project learned that there was an interest in developing bread products that use locally produced millet, in addition to wheat flour. The constraint to doing this was technological. The project contacted a technology firm that worked with the bakers to develop the new product.

- The bakery owners developed close relationships through the time they spend together at the training activities. They decided to form an association.

- The project helped the association to develop its member services. Through meetings and discussions the members formed a buying block for wheat flour - allowing them to gain cheaper prices from the national mill.

- The bakers began lobbying to get a flour import license, which was an illegal activity in the country (the national flour mill was a monopoly with government interests). They also became interested in setting up their own flour mill. The project contracted out with a specialized firm to help them do a feasibility study.

- The bakers identified a second supply constraint - that of yeast - which was currently controlled by one or two importers. The association sent a representative to the U.S. (under USAID's Entrepreneurs International program) who contacted the Fleishman's corporation - this resulted in the direct importation of a container of yeast - which was designed specifically by Fleishman's for the local climatic conditions.

- The bakers identified an additional policy constraint specific to their sector - that of unregulated sales distribution points by the bakery's themselves. They began lobbying efforts to introduce a better policy.

In the above case, many of the sector constraints were identified incrementally, following the initial training activity. The project was able to serve as a broker - bringing in other organizations who were qualified to address specific constraints. Many of the interventions were possible due to the strong relationship of trust that was developed between the project and the bakers. In the end, a variety of constraints were alleviated, leading to improved operations.

3.24 Combining Sub-Sector Analysis and an Incremental Approach

It is recommended that the new project take a combined approach which uses both sub-sector analysis and an incremental approach in identifying constraints within given sub-sectors. Analysis is useful in getting a broad picture of the constraints and opportunities for micro enterprises that micro enterprises themselves may not be aware of, because of lack of information from their limited vantage point. On the other hand, analyses are sometimes far removed from firms and may not identify priority concerns to the firms themselves. By taking a participatory, incremental approach, working with firms to identify their perceived constraints, an organization can identify and begin working on issues that are high priority to the firms themselves. When those are addressed, firms can the identify the next priority issue for the organizations to deal with.

4.0 KENYAN ORGANIZATIONS CURRENTLY USING A SF APPROACH

The following provides a brief description of organizations that were visited during the design mission and who are using SF approaches for part or all of their activities. There may be other organizations who are using SF approaches who have not yet been identified.

Kenya Management Assistance Program (K-MAP) - K-MAP is management training organization best known for its innovative counseling program whereby large companies volunteer staff members to provide one on one technical assistance to smaller firms. K-MAP has begun orienting some of its programs along trade sector lines. To date, they have initiated programs for the bakery, fruit processing, dry cleaning, and tourism sectors. These programs include business skills training, counseling, and advocacy. This is in line with recommendations from their 1992 evaluation which called for K-MAP to "focus on specific target groups even within sectors... This will allow the facilitators to be more focused in approach and in dealing with specific questions from clients."

Federation of Kenyan Employers/Center of Excellence For Entrepreneurship Development (FKE/CEED) - The FKE/CEED has been conducting sector focused programs since 1992 with funding from the ILO. To date they have developed programs in the food processing, metal work, and building construction sectors. Before choosing these sectors they undertook an arduous selection process in which six potential sectors were rated against 11 basic criteria. Examples of their programs include: 1) appropriate technology and quality control tailored to the food processing sector, and; 2) building site management techniques for the construction sector. They are also engaged in sectoral association development, brokering sub-contracts, and business information dissemination. The ILO funding for these activities is due to end in March 1995.

Jua-Kali Women's Textile Project - This UNIDO funded project (with programs in Nyeri and Nairobi) has been working since 1991 to assist women in the textile business to improve their technical, design, marketing, and business management skills. They provide a six month program which trains thirty businesses. The program includes three days of training at the project site and two days of on-the-job training per week. They have also assisted their participants to form sectoral associations to engage in joint procurement activities. The project teams in both Nyeri and Nairobi are currently forming NGO's to carry on their programs beyond the project completion date of May 1995. They are interested in applying their same integrated package of assistance to MSE's in the basketry, food processing, carpentry, metal fabrication, and ceramics sector.

ApproTEC - Appropriate Technology for Enterprise Creation (ApproTEC) is a local NGO which specializes in researching, developing and promoting technologies appropriate for small scale enterprises. It has developed technologies for enterprises in the following sectors: building supplies (stabilized soil blocks, fibre concrete roofing tile machines), oil production (manual oil press), wood working (carpentry hand tools), transport (wheel rim bending machine, carts), water and sanitation (pumps and latrines), and others. It has also developed marketing programs specific to each sector. Most of the visited enterprises who were using the ApproTEC technologies (especially the oil press) seemed to be doing well.

Kisumu Innovation Center-Kenya (KICK) - KICK is a local NGO operating out of Kisumu which provides a variety of services to MSE's. These include business skills training/counseling, product design/development, and marketing assistance. KICK has focused its interventions on three sectors - wood working, metal working, and textiles. One of its most innovative programs involves serving as an intermediary between large buyers and the jua-kali artisans. By monitoring the production process for these large contracts, KICK is able to introduce production and quality control skills to the micro enterprises. The program also enables KICK to generate revenues which help cover costs. KICK has received some funding from the ODA and has three VSO volunteers working with it. It is in the process of hiring a Kenyan manager.

Food Processing Association (FPA) - A FPA, initiated with the support of the FKE/CEED, is seeking ways to increase services to its members. It is interested in areas such as market research, quality control, improved technology, and exchange programs. It is also interested in improving the leadership and association management skills of its officers. The FPA members are currently participating in training offered by FKE/CEED. The average size of its member enterprises is between ten and twenty employees.

Other Organizations - Other organizations who were not visited but who are using an SF approach for part or all of their programs include Intermediate Technology Development Group (ITDG), Technoserve, and the Farm Implements and Tools (FIT) Programme (the latter programme works with micro enterprises in the metalworking sector who are producing farm implements, tools, and food processing devices. It also targets MSE's involved in food processing. It objective is to improve the availability of appropriate tools and equipment to farmers, metalworkers and food processors.)

5.0 CONSTRAINTS/OPPORTUNITIES

Micro Enterprise Level

Micro enterprises in Kenya face constraints on many levels - depending on the sub-sector and trade sector they are in. These constraints include access to production inputs, technology/product development, the operating environment, business skills training, finance, market development, lack of networks/associations, and physical infrastructure. According to the Gemini base line study, "markets" and "input problems" were most frequently cited by micro enterprises - although this differed somewhat across sectors. Although training, technology, and lack of effective associations were not among the most frequently cited constraints, they could be the solution to alleviating some of the constraints that were mentioned. For example, lack of markets could be due to a lack of marketing or organizational skills. Input problems could be due to the lack of an appropriate technology among the raw material producers or the lack of an association which could facilitate joint procurement activities. The range of micro enterprise constraints are therefore very broad - the new project will need to provide wide range of interventions in order to address them. As mentioned earlier, this will best be done by focusing on the specific needs of groups of firms within the same trade sector.

5.2 Implementing Organization Level

The organizations described in section three face a variety of constraints and opportunities in promoting their sub-sector focused programs with micro enterprises. Most of the programs are in their early stages - having recently completed their research and development and/or first trials. Several have completed programs for one sector and are interested in branching out into others. Many will face funding constraints in the coming year.

There is an opportunity to promote increased coordination between the different organizations who are operating in the same sectors. This coordination could help accelerate the learning curve of those who are conducting similar activities. It would also allow the organizations who are providing different services to complement one another.

There are also constraints related to the organizations' institutional capacities. They need to improve: 1) their internal organization and management skills, and; 2) their service delivery skills. Internal skills that need to be addressed include proposal development, control systems, accounting/reporting systems, board development, and cost recovery strategies. Service delivery skills needing attention include use of participatory training/counseling methods, advocacy techniques, association management, customer driven product development, the identification of sub-sector constraints, and the development of management tools and technologies according to sector specific needs (more about these needs is presented in the section on "institutional strengthening"). The development of these skills is crucial to the success of the interventions that will take place under the project.

6.0 IDENTIFICATION OF SECTORS AND POSSIBLE INTERVENTIONS

Criteria and Methodology Used in Sub-sector Selection.

USAID/Kenya has selected the agri-business and the metals for initial intervention. The following steps were taken in selecting these 2 focus areas.

1) The National Baseline Survey locket at the following sectors:

- Agri-businesses
- Forest-based firms
- Metals
- Textiles
- Leather
- Construction
- Transport

2) USAID/Kenya analyzed these sectors according to the following criterias:

* size, in terms of employment and number of firms
* contribution to employment growth
* per firm growth rates
* participation of women
* percent of paid labor
* training opportunities
* forward and backward linkages

Based on this analysis, the following sectors were selected for further analysis: agriculture-related firms; forest products; and metals/transport.

3) USAID then commissioned studies of these broad sectors to select which ones to work in and to identify smaller sub-sectors that have a high potential for employment generation. In the studies, the following steps were followed:

- **Defining the whole sector** - Each team surveyed literature and drew from key informants to outline the range of activities under each broad sector.

- **Limiting the sector** - Based on review of the whole sector and considering the scope of intervention possible, the teams eliminated extraneous elements/ activities.

- **First cut** - Out of the total remaining activities, each team selected up to ten sub-sectors that have the most potential for employment. Tables were developed (see attachments to annex) which summarized information collected on each broad sector. In addition to the above criteria, the following issues were considered: export value, constraints & risks (including natural resource constraints and environmental risks), and potential for growth. This analyses led to the selection of sub-sectors (within each broad sector) for further analysis.

- **Second cut** - On further analysis, each team was able to identify three sub-sectors in each broad sector for detailed analysis, as follows:

*Forest: sawmilling and furniture, fibre-based baskets, and rope and twine.
*Agri-business: fruit and vegetables, maize, fish, dairy processing.
*Transport/Metals: metal grills and metal furniture, electrical and non-electrical machines, and transport.

Once the detailed sub-sector analysis was conducted, the consulting teams met to compare results. They came to the conclusion that two broad sectors with the most potential were those of agri-business and metals, largely due to the constraint of wood supply in the carpentry sub-sector, and the extensive work already underway in handicraft industries. Within Agri-business sector, the dairy and fruit and vegetable sub-sectors seemed most promising, and within Metals, a focus on machine and tools and transport repair services was selected. These studies represent a pilot approach to identifying priority intervention areas, and a preliminary indication of directions for project implementors. Potential implementing organizations need to be significantly more involved in final decisions regarding interventions areas, a process which will be completed during project implementation.

There are additional sources that support this general direction.

A study conducted by the FKE/CEED in 1991 compared six potential sub-sectors. Each sub-sector was rated against eleven basic criteria including: growth potential, employment generation, productivity, improved quality, sub-contracting potential, export potential, gender, local sourcing for inputs, unavailability of integrated development programme, value added, and rural/urban bias. The sectors which scored the highest were agribusiness (sub-sectors related to food processing), construction, and metal engineering. The clothing and textile sector had the same overall rating as the metal engineering sector but was not selected due to its low scores in "growth and expansion potential" and "employment generation."

Based on the results of these studies, as well as interviews conducted in the field, the design team concluded that the new project should focus on the broad sectors of agri-business and metals. Once the project is operational, it is suggested that the project team work together with the Implementing Organizations (IOs) to identify which sub-sectors within these broader sectors will be chosen for interventions. At this point the project will depend on the knowledge and experience of those who are already working in the field, and additional studies as necessary. It is also suggested however, that other sectors be considered for selective interventions including Textiles, Wood Products, Construction. The following provides the rationale for each choice:

Agri-business - this is a diverse sector which scores high in nearly all the selection criteria. There is a high level of women's participation and high potential for value-added and technological development. The backward linkages with the agricultural sector also argue in its favor. In addition, there are already five organizations who have begun work in the sector (KMAP, FKE/CEED, the FIT program, the Food Processing Association, and ApproTEC).

Metals - this sector was chosen given its high rankings in the studies undertaken, especially in the growth and employment generation categories. It also has high potential for forward and backward linkages. There are several organizations who are already intervening in this sector including FKE/CEED, the FIT program, KICK, and ApproTEC.

Textiles, Wood Products, Construction - These sectors have a lot of positive qualities and should be considered for selective interventions. The textile sector, although scoring low in growth and employment generation, employs many women and has good potential for linkages and product innovation. The Forest Products sector has a high potential for growth and employment but is fraught with potential political problems as the government controls nearly all of the forest plantations. The environmental impact could be both positive or negative depending on what was done. If agro-forestry were successfully promoted, there would be a positive effect. However, if wood consumption increased without an increase in planting, the effect could be negative. The construction sub-sector shows great potential for growth, employment, and linkages - but only if the economy continues to improve. There are currently organizations who are intervening in all of these sub-sectors.

6.2 Expansion into New Sectors

The project may not be limited to just two sectors. There are selective, cost effective interventions that could take place in other sectors that could contribute significantly to productivity and employment. There may be exceptional cases in which cross-sector programs may be assisted if they offer valuable information about micro enterprise performance in different sectors, or lessons learned about sustainable delivery of non-financial services. While the main focus should be in the agri-business and metals sectors, exceptions may be justified.

7. OUTPUTS

The major output of this component, to increase employment in targeted sub-sectors through expansion of cost-effective business services for micro enterprises.

Indicators: -Increase in Employment in Targeted sub-sectors of 294,000 jobs annually.
-Number of micro enterprises receiving non-financial services: to be determined during project implementation.
-Business contribution to the cost of services, 50%.
-Increase in Institutional Capacity of participating NGOs, as measured through an Institutional Development Matrix.

The first sectors that will be targeted are agribusinesses and metal related firms. In order to attain the 18% employment growth rate in micro enterprise employment, the agribusiness sector will have to generate 250,000 jobs annually and the metals sector will have to generate 24,000 jobs annually. This increase will be attained through identifying constraints and developing cost-effective interventions in the sectors. Women comprise 41% of employees in agri-businesses and 1% of employees in the metals sector. These ratios are expected to stay the same. Some interventions will involve provision of services, such as training, directly to firms. This firm level assistance will go to women in representative proportions. Other activities will be "leveraged" interventions that will affect large numbers of firms in the sub-sector, for example changing health regulations affecting food processors. Until the constraints and interventions are fully developed, then, it is difficult to determine how many firms will receive direct assistance, and what the measures and targets for cost-effectiveness will be. Rather, these will be determined, agreed and monitored with implementing organizations when grant agreements are signed. However, it is expected that any value added services provided under the project would recover 50% of the cost of delivery from the businesses. In the long run, it is hoped to develop services that will be financially sustainable, like the credit services, but in the timeframe of the project and given the current levels of subsidies for non-financial services, a 50% cost-recovery target represents substantial progress toward sustainability. Finally, as in the finance component, sustainability will also be achieved by increasing the institutional strength of implementing organizations, which will be monitored using an institutional development matrix.

Employment in the targeted sectors will primarily be tracked through the National Baseline Surveys. The technical assistance team will also carry out regular sector studies to assess changes in constraints and opportunities in the sector. Prior to awarding grants, the technical assistant team will work with implementing organizations to determine targets and measures for supported activities. The team will carry out an institutional assessment at the beginning, middle and end of the project to establish targets and monitor changes in institutional strength. At the aggregate level, the National Baseline Surveys will report on the proportion of firms that are receiving non-financial assistance.

Component-level indicators of progress toward outputs may include the following illustrative examples described below:

MSE LEVEL	IO LEVEL
- increasing "performance" (profits, sales, output, efficiency, assets) of micro enterprises in the targeted sectors	- development of institutionalized, sustainable, cost effective delivery of non-financial services
- increased: - innovative capacity - technical skills - management skills - sustainable, market delivery of technology	- increased: - supply - cost effectiveness - sustainability - effectiveness measured by salability of services
- improved access to organizational structures that represent their interests	- improved training and technical service delivery
- improved technical and innovation skills	- improved management technologies and systems
- newly created opportunities for economies of scale	- increased capacity to provide sector specific and participative training using adult learning methods
- newly created linkages among players in the sub-sectors	- increased capacity to advocate for policy change (includes associations)
- move from low potential, low profit activities to higher potential, higher profit ones	
- increased voice of micro enterprises in policy making and implementing processes	

8. STRATEGY FOR INTERVENTIONS

USAID/Kenya will select an Institutional Contractor (IC) or a United States Private Voluntary Organization (USPVO) to implement the activity in partnership with Kenyan institutions. The IC/USPVO will be supervised by USAID/Kenya staff. The following operating principles will guide implementation:

* Selecting high potential sub-sectors,
* Identifying constraints and opportunities to micro-enterprise development that focus on employment generation and ensure that all groups (including women and rural enterprises) benefit,
* Engaging in "leveraged" interventions: one-time activities that affect large numbers of people (Association development, policy change, technology development),
* Engaging in cost-effective delivery of non-financial services (Training, product development, marketing services, information services); ensuring that participants pay for these services; and developing financially sustainable delivery systems,
* The process of identifying viable sub-sectors, constraints, and interventions should be institutionally sustainable.
* The process should include 3 key tools:
  -sub-sector analysis
  -"incremental" intervention and learning by Kenya Implementing Organizations
  -participation/input from potential beneficiaries

These operating principles should ensure that activities are effective, equitable, and sustainable.

USAID/Kenya has already identified two broad sectors that show high potential for employment creation: agri-businesses and metal related firms.

* The agribusiness sector, made up largely of fruit and vegetable traders, restaurants, and food processors, was selected because of its large size, high participation of women, and linkages to agriculture.

* In contrast, the metals sector is small, but individual firms grow quickly, most employees are either paid employees or apprentices, and the sector is instrumental in the development of the transport and machine/tool markets in Kenya, which in turn facilitate growth in all sectors.

These two different sectors were also selected, in part, to learn lessons about intervening in dramatically different types of markets. These sectors represent broad categories, however. For intervention purposes, more specific "sub-sectors", such as dairy or non-motorized transport, will be selected during project implementation. The implementors may also identify reasons why other sectors should be considered in addition or instead of these, but information to date indicates that the agribusiness and metals sectors have a strong potential for increasing micro enterprise employment.

The IC/USPVO will develop a specific process for implementing this component, and this process may evolve and change as lessons are learned during implementation. Based on consultation with experts and with potential Kenyan partners, the follow process is suggested:

1. **Staffing:** IC/USPVO should have one international and two Kenyan professionals. The international staff should have experience in carrying out sub-sector interventions and be familiar with worldwide experience in this approach, and the Kenyan staff should be knowledgeable and skilled in a wide variety of micro enterprise development issues.

2. **Seminars:** To launch the activity, and as a coordination and monitoring instrument throughout the project, the IC/USPVO will hold seminars with players in the broad sectors already selected as high potential. These seminars will:

   * expose researchers and institutions to the sub-sector approach,

   * share existing analysis and experience in the sector,

   * share lessons learned about effective intervention techniques (best practices in training or technology dissemination, for example),

   * identify priority "sub-sectors", constraints, opportunities, and interventions, and

   * identify issues for annual analysis of sectors to:
     -monitor impact & developments
     -refine understanding of constraints & opportunities

3. **Selecting Interventions and Implementing Organizations:** After the initial seminar, and throughout the project as additional constraints emerge, Kenyan Implementing Organizations (IOs) will propose interventions to be funded by the project. Proposals will be selected according to a set of criteria to be developed during implementation. Grants will be awarded to successful IOs who will carry out interventions to meet objectives outlined in each grant agreement. The IC/USPVO will issue and monitor the Grants, which will number between 4 and 10.

4. In addition, the IC/USPVO may also put out requests for proposals for such activities as additional interventions, when Kenya IOs fail to propose relevant activities, and workshops for players in the field (how to design good training, technology dissemination techniques, measuring cost-effectiveness, latest approaches in sub-sector analysis, etc.)

5. **Institutional Development:** The IC/USPVO will conduct institutional analysis on likely IOs prior to awarding grants. This analysis will determine institutional capabilities and needs. Institutional development objectives will then be built into the expected outputs of the grant, and key activities (such as training, management consultants, MIS systems, and capital equipment) will be funded in the grant.

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6. **Institutionalization:** By the end of year 1, the IC/USPVO will make a plan for institutionalizing the activities it is engaged in. Options include:

   * Identifying a local research institution that will take the lead in holding seminars & conducting research on sub-sector approaches to micro enterprise development, assuming the IOs will be able to raise funds directly for interventions,

   * setting up an NGO to do exactly what the IC/USPVO is doing, or

   * focusing on a few NGOs that have become key players, strengthening their approaches & institutions so that they will carry on.

This six step process is illustrative of an approach that incorporates the operating principles, but the process may be modified as experience suggests the most effective, and sustainable, approaches.

ANNE G - ATTACHMENT 1

SUGGESTED INTERVENTION "PRINCIPLES" TO BE RESPECTED BY IMPLEMENTING ORGANIZATIONS

Training/Counseling

- Must include needs assessment
- Show how management tools will be adapted to the needs of the sector and how sector representatives have contributed to their development
- Training must use participative, adult learning methods (question/answer, skits, role plays, practical exercises, case studies - minimal use of lectures)
- Must result in concrete/verifiable applications
- An active follow-up program should be built in using methods which solicit the input of the micro enterprises in their own problem solving.
- Business plan development should be done using participatory methods whereby the micro enterprises owners develop the plan themselves (should not be done in their place)
- Must not duplicate already funded activities

Advocacy/Associations

- Association activities must stem from members
- Show how micro enterprises will identify the issues and drive the advocacy process
- Show how empowerment will take place

Technology/Product Development/Skills Training

- Show how technology will become market driven
- Show how market analysis will take place
- Show how customer feed-back/opinion will drive product improvement/innovations
- Show how technologies/product innovation from past and present institutions/projects will be identified and used - rather than re-creating

Market Development

- Show how marketing materials/programs will be adapted to sectorial needs and how sector representatives will be used in the process
- Show how parallel and horizontal linkages will be established among micro enterprises

ANNEX G - ATTACHMENT 2

SUGGESTED INSTITUTIONAL STRENGTHENING AND SERVICE DEVELOPMENT PROGRAM FOR IMPLEMENTING ORGANIZATIONS

Internal Organizational Skills (Illustrative List)

Internal Systems/MIS for Implementing Organizations (they would undergo an "institutional diagnosis" as a prerequisite to this)

- Development of internal controls (budgetary, physical, approval, accounting, personnel, and management controls)
- Development of accounting/reporting systems capable of distinguishing activities from different funding sources
- Board Development
- Cost recovery/sustainability strategies

Service Delivery Skills (Illustrative List)

Training and Consulting Methods to Micro Enterprises

- How to develop materials/programs ("management technologies") which are adapted to sectorial needs (using sector representatives in the process)
- Use of participative/adult learning methods which minimize lecturing in favor of methods which draw upon the experience of the micro enterprises
- Training workshop organization
- Design of structured follow-up programs which use facilitative methods to solicit the input of the micro enterprises in their own problem solving.
- Business plan development methods whereby the MSE owners develop the plan themselves

Policy/Advocacy Work

- Persuading government officials to take action
- Use of mass media (developing press materials, planning media events, interviews, etc.)
- Forging alliances and gaining community support

Association Development

- Promoting the empowerment of associations to conduct policy/advocacy work
- How to develop association membership
- How to develop association leadership
- Developing member services

- Fund-raising techniques
- Promotion of joint procurement/distribution activities among association members

Technology/Product Development

- How to design a market driven approach
- Promotion of quality control
- Methods of promoting product development/innovation using feedback from customers
- How to access existing technologies on the world market

Market Development

- How to develop marketing materials/programs which are adapted to sectorial needs (using sector representatives in the process)
- Organization/promotion of trade shows
- Promoting parallel and horizontal linkages among micro enterprises

ANNEX H:

FINANCE COMPONENT

NOTE: *This annex represents the recommendations of the technical design team. On the one hand, it is a more thorough explanation of the rational and approach to be taken. On the other hand, the PP and the annex may differ slightly because the PP represents a revised approach based on consultations with potential partners. Where there are differences, the PP itself shall take precedence.*

I. CURRENT SITUATION

USAID/Kenya has been supporting the growth of NGOs supplying credit and related services to the micro enterprise sector throughout the implementation of the Private Enterprise Development Project. Although many of the originally intended target organizations did not materialize as envisioned, other organizations have emerged and evolved what can clearly be utilized as vehicles or models for carrying out AID objectives of providing credit services to micro and small enterprises throughout Kenya in the longer term. All of the successful branches of NGOs in operation in 1995 have embraced both a minimalist approach of valuing character far above collateral, and are using group methodologies for borrower identification, loan extension, supervision, and collection.[1]

It is important to note that while USAID has provided broad-based institutional support to organizations supporting the growth of micro enterprises, other foreign donors have also made valuable contributions to the field. Foreign donors such as GTZ, ILO, ODA, UNDP, the Embassies of Belgium and the Netherlands, and Ford Foundation have provided funding, technical assistance, and training; most of these efforts have been coordinated to a certain degree, and it appears that this collegial effort will continue in the future. Other donors may have differing strategic objectives than USAID/Nairobi, but there is clearly a concerted effort to support the micro enterprise sector that has been supportive rather than competitive.

At the beginning of 1995, the major issue regarding financial support of micro enterprises and the institutions is how to build on the successes to date, and to learn from problems that have arisen during the course of implementation. The level of knowledge of key factors in improving the delivery of financial services to micro enterprises has grown greatly since the original PED project was designed, and this project will benefit not only from experience gained in Kenya, but from other international experiences as well.

From an original target universe of nearly twenty NGOs that appeared as possible candidates to carry out USAID objectives, two organizations emerged that were wholly dedicated to being effective micro enterprise lending organizations. Three or four other organizations have had success with a limited number of branch offices becoming effective. One organization that was

[1] While the minimalist approach is certainly important, successful programs must have an accurate and timely management information system, a management structure that can respond to problem loans or arrears quickly, and cannot relieve the loan officer granting the loan of the primary responsibility of collection.

originally conceived as an intermediate financial institution (but still a NGO) that would carry out funding, training, and supervision of other NGOs has evolved its own loan products and has achieved sufficient success to date to begin the process of converting itself into a formal financial institution Kenya Rural Enterprise Programme [K-REP]).

The challenge for the next phase of AID assistance is to provide financial services to the micro enterprise sector on a much broader scale, while assisting those organizations to refine their methodologies and policies for credit extension and collection, and to help move those organizations into seeking not just break-even as an objective, but to real self-sustainability.[2]

The total demand for micro enterprise finance is difficult to estimate and will be an increasing figure for several years to come. Based on recent and ongoing studies in Kenya, it appears that NGOs supported by USAID and others have reached over 20,000 borrowers with at least one loan; approximately 54% of the borrowers are women. This stress on lending to women-owned businesses (estimated at 44% of total micro enterprises) will continue.

The preponderance of borrowers are in the urban areas, although many of these urban areas are located in market towns in agricultural production areas. The credit-oriented NGOs that have been successful to date have lent primarily in urban areas, but this project will welcome experimentation in lending in rural areas.

This project will facilitate stable lending outlets that should be able to add at least 5,000 new borrowers per annum, and serve them on a continuing basis, thereby more than doubling the number that have had access thus far to a stable client base of approximately 40,000. At the time of this writing, there are approximately 910,000 businesses that could fit AID's definition of a micro enterprise (having less than ten employees); experience from similar economies indicate that a bare minimum of 25% of these businesses could benefit immediately from a stable

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[2] "Self-sustainability", the ability of an organization to continue and grow from its own resources, is sometimes confused with "break even", which is merely meeting costs with income. When a significant portion of an organization's funds are donor-sourced, rather than from commercial borrowings or savings instruments, the distinction becomes important. Even the best of the organizations and/or branch units of the NGOs in Kenya are only approaching break even, and will need to be enjoined and supported to become self-sustaining.

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source of finance. This project, if highly successful, should be able to reach approximately 20% of demand by its conclusion. There are an additional 400,000 plus new job entrants each year, with only a fraction of them that can be absorbed into the formal sector; the micro enterprise sector is the only really promising candidate to provide jobs now and in the future.

While this project will only provide assistance to a fraction of the market, it will expand and refine the experience gained to date, and leave models in place that can serve and grow on a sustainable basis into the future. The larger issue of widespread provision of credit through formal financial institutions is an issue for the future, and is dealt with at the end of this Annex.

2. RATIONALE:

The key rationale for the supply of financial services to micro entrepreneurs is that it will increase assisted businesses' security, income and asset growth, and job creation.[3]

3. APPROACH:

The approach of this project will be to provide credit services through sustainable organizations. This activity will be implemented through:

1) Assisting in the conversion of a credit-providing NGO into a formal financial institution;

2) Granting funds to lending institutions that serve micro enterprises and have a reasonable chance of attaining institutional and financial sustainability by eventually raising funds through the private sector; and

3) Facilitating the availability of technical assistance to micro enterprise lending institutions and programs in Kenya.

Institutional conversion will involve provision of funds to K-REP to assist the organization make a transition from an NGO to a formal financial institution. It is anticipated that there will be minimal involvement by USAID in this process. Grants to lending institutions, which will most likely be NGOs, will be handled directly by USAID. Technical assistance will be contracted out to an Institutional Contractor (IC) or a United

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[3] This has been demonstrated and documented worldwide. For an examination of one particular institution's results in Kenya, see The Kenya Rural Enterprise Programme...A Final Evaluation, GEMINI Technical Report No. 77, Neill, Davalos, Kiiru, Manundu, Sebstad, September 1994.

States Private Voluntary Organization (USPVO). Grants will be allocated based on strict performance criteria. Funds will be channelled to better performing branches, although new branches may be funded if an institution's entire portfolio is performing well and institutional development and some headquarters costs will be covered. Funded NGOs will have a budget for procuring technical assistance of their choice, from their preferred source. The technical assistance organization will provide initial assessments of institutional and program development needs, organize training and seminars, assist NGOs in identifying and procuring technical assistance through a wide range of sources, and build the capacity of a network of lenders to provide these services. This mechanism is designed to improve performance and increase the sustainable availability of both financial services and the technical assistance that micro enterprise lenders require.

3.I INSTITUTIONAL CONVERSION

The Kenya Rural Enterprise Programme, conventionally abbreviated "K-REP", has gone through an evolution throughout its nearly ten year history.[4] It began as an implementation mechanism to provide credit and training to a wide range of micro enterprise assistance organizations in 1984, became a registered NGO itself in 1987, and began developing and extending the first of its retail loan products in the early 1990s. Since 1990, it has continued to provide training in minimalist and group lending methodologies to both its own staff and the staff of other NGOs, but has grown increasingly focussed on refining and expanding its retail, rather than its wholesale, lending facilities.

This project will assist K-REP through a critical stage of transition from a NGO to a formal financial institution. This will include assistance to refine its capabilities to extend and collect loans on a widespread basis, establish savings instruments attractive to depositors, attract domestic investors, and explore the possibilities of attracting funds from the capital markets of Kenya. Under this new project, direct management of credit-providing NGOs will move from K-REP to USAID/Kenya, as described in Section 3.2.

3. II K-REP: Capital Investment

K-REP is developing plans for attracting funds from sources as large as institutional investors and as small as depositors that have passbook savings of US$25. However, there will be need for equity investment by AID in the short term. USAID should be in a

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[4] A detailed organizational history appears in the "Kenya Rural Enterprise Programme" Final Evaluation, ibid.

position to place funds for loan capital in K-REP, either directly or through another investment mechanism, depending on the detailed lending projections submitted to USAID by K-REP. This will allow K-REP to quickly expand its loan portfolio, particularly through newly-opened branches that have not yet had the time to attract savings accounts in a sufficient amount to meet the immediate loan demand.

USAID/Kenya is in a unique position to assist K-REP with their capitalization. Under the new cooperative grant agreement, following detailed negotiations and submission of detailed costs and projections from K-REP to USAID, USAID will agree to allow loan funds placed with K-REP in the past to be converted to equity. USAID/Kenya will also provide new equity capital to K-REP on an incremental basis, on the condition that K-REP obtain at least matching investment capital from private investors in order to obtain each new increment. An example of this approach would be three tranches; USAID would provide $500,000, and when K-REP had raised an equivalent amount from private sources, USAID would provide a second tranche of $500,000. This would continue until the USAID funds were fully invested in K-REP.

The amount of $1.0 million should be allocated for this activity, although K-REP's projections indicate that $3.8 million may be required. Another 1.5 million is potentially available through USAID/W PRIME Funds, and other donors are expected to contribute.

3. 12 K-REP: Technical Assistance

It is recommended that a broad range of technical assistance be available to K-REP as a part of a cooperative grant agreement to that organization. Funds will be provided for K-REP to identify and carry out the contracting necessary to obtain the assistance required. Previous to a release of the grant, K-REP will present for approval by USAID/Kenya an illustrative work plan indicating the description of expertise required and approximate time frame of the technical assistance it will utilize. The identification process will be done with cooperation and support of both USAID/Kenya and USAID/W, specifically the G/EG/MD bureau.

An illustrative list of possible assistance required is described below.

1. <u>Chartering and Compliance</u> K-REP has developed a plan for their conversion with the assistance of a Kenyan consultant that has extensive international and domestic banking experience. Within the context of that preliminary plan, various activities have already been identified such as ensuring that their charter and operational approach will have to comply with Central Bank of Kenya rules and regulations. "Compliance" issues would probably be best addressed by local technical assistance.

2. <u>Organizational Expansion</u> of the loan portfolio and establishment of the savings instruments by somewhat similar institutions have occurred within the last decade in countries such as Bolivia and Indonesia. A range of international expertise is available and should be provided within the context of international technical assistance. It should be stressed the K-REP must maintain a high quality portfolio even as it expands. Late repayments should not exceed 5%, and portfolio at risk should never exceed 15%. These criteria are further elaborated in Section 3.2 of this Annex, and should be applied to K-REP in the same fashion as any other grantee qualifying for initial or continuing assistance under this Project.

3. <u>Capital Market Linkages</u> Newly formed financial institutions must attract funds not only from domestic savers, but also from institutional investors through instruments such as direct investments and capital market short term facilities available on the "overnight" deposits. Assistance from both domestic Kenyan sources, as well as international expertise may need to be brought to bear for developing these relationships.

The amount of $170,000 is estimated for the technical assistance activity.

3.13 RATIONALE:

K-REP, the major player under the PED project, is a dominant player in micro enterprise finance in Kenya. The key rationale for USAID support to this organization is that it has the most concrete plans for attaining sustainability by converting to a commercial bank in 1997. K-REP is the only local NGO at the moment that has demonstrated the potential to expand its program and realize a sustainable credit program for micro enterprises, hence, directly conforming with USAID's micro enterprise initiative. USAID Kenya consider K-REP's plans as a significant step in the development of micro enterprise sector, particularly in increasing access to credit and savings services for the micro enterprises. This is an effort worthy USAID's investment. It is estimated that under MICRO-PED, K-REP will receive a total of $1.0 million ($800,000 thousand for loan fund capitalization and $170,000 for TA). Preliminary projections indicate that $5.0 million may be required for these activities implying that K-REP will have look to look for other sources of funding.

3.2 GRANTS FOR LOAN FUNDS

Under the original PED project, an approach was taken to allow a very broad range of NGOs to apply for and receive funds for institutional development, training, and loan funds. This highly experimental approach has yielded a wide range of experience, both positive and negative in terms of results. Not all branches of NGOs assisted previously have operated in a fiscally-sound manner, but there are clearly examples of NGOs such as K-REP, Promotion of Rural Initiatives and Development Enterprises (PRIDE/Kenya), Kenya Women Finance Trust (KWFT), and the Naticnal Council of Churches of Kenya (NCCK) that are carrying activities that could become self-sustaining within the LOP.

This project will concentrate on the successful results of the previous project by providing funds to a limited number of NGOs, based on the performance of the institution and of individual branch units of the NGOs. Some technical assistance will be provided under this project to a range of credit-providing NGOs, and will not be limited to NGOs that have already obtained a grant from USAID.

There are three major changes in the implementation of this sub-component from the previous project.

1. USAID/Kenya will directly manage the administration of the grants to NGOs, rather than passing funds through the K-REP organization.

2. The focus of this sub-component will shift from creation of new organizations (and the associated institutional investment costs) to supporting sustainable lending operations by NGOs.

3. Technical assistance, both expatriate and domestic, will be provided to assist both direct grantees and to other NGOs or organizations.

3.21. Grant Management

USAID/Kenya has gained considerable experience under the previous project, particularly with respect the performance capabilities of the range of credit-providing NGOs. Not only has USAID's domestic experience grown, but the body of documented knowledge available through international experience has increased dramatically over the past several years. NGOs desiring further assistance from USAID/Kenya will compete for funds based on criteria that is further described below. Shifting this management responsibility from K-REP to USAID will also allow K-REP to concentrate more completely on its conversion from a wholesaler and retailer of funds to being a financial institution.

3.22. Grantee Selection

The previous Private Enterprise Development Project encouraged and supported the creation of new NGOs to provide credit; AID and other donors were largely successful in this effort. There is presently a broad range of NGOs involved in credit operations; some organizations are almost exclusively dedicated to their credit operations, others have had success limited to only a single branch and have a primary focus of social relief. However, this combination of organizations, as a whole, are providing important and valuable services to a broad range of micro enterprises throughout the country. Most of the successful organizations are following a "minimalist" approach of credit operations, as noted above, and all are heavily dependent on the "group" methodologies of credit extension and collection. Under this approach, direct borrower supervision by the loan officer is almost non-existent and is highly dependent on the borrower attending regular meetings. The science of lending is always evolving, and having a range of organizations involved in credit is still bringing new information to bear for the good of the country as a whole.

This project will build on the successful experiences gained to date. NGOs will have to conform with the following criteria in order to receive a grant from this project. Each application for assistance will indicate a clear delineation of which branches, whether existing or planned, will utilize grant funds, and reporting will be delineated on a branch by branch basis. A potential grantee may elect to only utilize support for one branch, or to include several branches in its application.

Criteria at the <u>INSTITUTIONAL</u> level: Only institutions with a track record of successful lending to micro enterprises will be considered. NGOs with existing credit activities will have to demonstrate to the satisfaction of USAID that the institution has:

1. Achieved overall <u>on-time</u> repayments of at least 90%; e.g. 90% of the payments expected are paid on or before the due date and the portfolio at risk (balances outstanding on loans that have payments in arrears as a percentage of outstanding portfolio) is less than 20%.

   RATIONALE: There are several individual branches that are operating quite well, but with the heavy emphasis on the role and the responsibility of the "group", late payments are tolerated too greatly which causes deterioration of the quality of the portfolio, and consequently the income of the branch. Tracking of arrears is important, as described above, but analysis of the portfolio at risk is an acid test of the quality of the portfolio. Late payments have to be seen not only in terms of lost income, but if a payment is late, the issue is not just the late payment, but the risk of the entire loan going into default. Some of the better-managed credit providing NGOs in Kenya are already applying this measure to their portfolio analysis. There is a rather high tolerance for late repayments by NGOs in Kenya; this tolerance must be reduced for the financial viability of the organizations.

2. A management information system in place, or there are plans to develop a system, to report in an accurate and timely manner information critical to portfolio management and reporting, including performance of the branch and overall portfolio and financial sustainability at both levels.

   USAID will take a lead in insisting that the grantees closely monitor their own operations for the financial health of each of the grantees. The actual details and frequency of the reports will be developed in the specific grant agreements.

   RATIONALE: A good management information system, which does not necessarily mean "computerized", gives timely information for the organization to manage its operations. A number of well-intentioned operations have gone bankrupt because the loan officers were not aware of the repayment status of their own borrowers. In a worst case scenario, a borrower has missed a payment and the loan officer is not aware of it. The loan officer meets with the borrower, and, through her lack of timely information, does not enjoin the borrower to repay. The borrower then gets the impression that it is all right to miss a payment. At the branch or headquarters level, management must be able to see instantly if a loan officer's or branch's performance has deteriorated, and be able to take immediate and corrective action. Even the better managed NGO credit operations in Kenya have not given sufficient attention to ensuring that their branches have timely information.

3. A clear plan and budget for achieving financial sustainability through establishment and/or expansion of their loan portfolio, with particular respect to the number of borrowers and loan funds to be extended under the grant, along with an operational budget showing ratio of branch to headquarters costs.

   RATIONALE: Each of the applicant NGOs will have their own specific needs and targets, and USAID should remain flexible in its approach to assisting these organizations to meet their targets. The approach suggested above allows the applicant to set its own targets and objectives; USAID is then in a position not to dictate direction but rather to hold the NGO responsible for achieving its own stated objectives.

4. Satisfactory sufficiency and cost per Ksh lent ratios.

These levels will be determined at the project implementation stage, but the sufficiency levels are likely to be above 50% and the cost/Ksh lent below 30 cents.

RATIONALE: If an organization is going to achieve financial sustainability, it should be tracking current sufficiency and cost-efficiency rations, and should demonstrate capacity to achieve sustainability.

5. A system of determining clearly defined profit centers or "branches", allocating headquarter costs to the branches and lending from headquarters to the branches, or demonstrated the willingness of adopting such an approach.

   RATIONALE: "Branches" or cost centers are the building blocks of financially sound institutions. Cost allocation to these operating units enables an organization to quickly analyze which costs are adding significant burdens to lending operations. By "lending" to branches, institutions can hold branch managers responsible for attaining financial sustainability within each operating unit, which will eventually lead to financial sustainability at the institutional level.

6. If the lending program is part of a larger community development institution, then the lending operations should have financial and management independence from the "parent" institution, or a clear plan on how that independence will be achieved within a specified period of time.

   RATIONALE: Financial programs that are strongly influenced by non-financial programs do not have the necessary autonomy to become financially sustainable. Financial program that rely on non-financial program for administrative support are often hindered in efficient and speedy fund disbursement, an essential element of any financial services program.

7. If the lending institution engages in activities in addition to financial services, such as training, then the cost and income of the financial services should be clearly differentiated from costs and income from other services so that the financial viability of the different activities will be clearly defined.

   RATIONALE: To achieve financial sustainability, financial programs need to accurately delineate their actual costs and should not be burdened with subsidizing non-financial services.

Criteria at the BRANCH or cost-center level: NGOs will have to demonstrate to the satisfaction of USAID the branch has:

1. Achieved <u>on-time</u> repayments of at least 95%; e.g. 95% of the payments expected are paid on or before the due date and the amount of portfolio at risk (balances outstanding on loans that have payments in arrears as a percentage of total outstanding portfolio) is not higher than 15%.

   RATIONALE: There are several individual branches that are operating quite well, but with the heavy emphasis on the role and the responsibility of the "group", late payments are tolerated too greatly which causes deterioration of the quality of the portfolio, and consequently the income of the branch. Tracking of arrears is important, as described above, but analysis of the portfolio at risk is an acid test of the quality of the portfolio. Late payments have to be seen not only in terms of lost income, but if a payment is late, the issue is not just the late payment, but the risk of the entire loan going into default. Some of the better-managed credit providing NGOs in Kenya are already applying this measure to their portfolio analysis. There is a rather high tolerance for late repayments by NGOs in Kenya; this tolerance must be reduced for the financial viability of the organizations.

2. Satisfactory branch sufficiency ratio and the cost per Ksh lent. These levels will be determined at the project implementation stage, but sufficiency ratios for existing branches are likely to be above 75% and the cost per Ksh less than 15 cents.

3. Each NGO applying for a grant under this project will demonstrate to the satisfaction of USAID that the officers in the branches to be assisted have received, or will receive under the grant, quality training for their staff and an incentive system that rewards good performance.. Funds can be provided within the grant for the NGO to obtain this training from established organizations such as PRIDE or K-REP.

   RATIONALE: The loan officers (sometimes referred to as credit officers or credit assistants in Kenya) are the primary, and sometimes sole, interface with the borrowers. They must have a thorough knowledge of the theory and practice of successful micro enterprise lending, particularly under the "minimalist" approach so heartily embraced by the successful branches in Kenya. It is assumed that most grantees will be opening new branches or expanding existing operations; there will be new staff coming into the programs and they need to have this specialized training. There are at least two organizations in Kenya at present that can provide this specialized training.

It is envisioned that the channelling of funds to better performing programs will increase the impact of USAID investment and increase incentives for better performance throughout the micro enterprise lending sector.

3.23 Likely Participating Institutions

Based on USAID experience, there is not a large pool of micro enterprise lending NGOs with successful programs to choose from in Kenya. A few that are likely to satisfy the selection criteria have participated in the PED project.

There are at least five potential partners to select from. First, Promotion of Rural Initiatives and Development Enterprises (PRIDE) Kenya has received direct funding from USAID and through K-REP. The program has established an expansive branch network for credit delivery to micro enterprises in Kenya, has plans for expansion and shows potential for becoming financially sustainable in the long run. Second, Kenya Women Finance Trust (KWFT) has been a beneficiary of USAID funding through K-REP. Its credit program, although small in outreach, has been performing well and has potential for growth. Third, the National Council of the Churches of Kenya (NCCK), a membership church organization with both social and development objectives, implements a national credit scheme with funds from USAID/K-REP and EZE (a German affiliation of churches). One branch is performing very well, but others have significant issues. Fourth, PCEA Chogoria Hospital manages an Enterprise Development Project with funding from USAID/K-REP. Although PCEA Chogoria is a regional program, it has achieved impressive results and has potential to increase outreach within the hospital's catchment area. Finally, Tototo Home Industries, based on the coast, focuses on income generation for low income people, particularly women. The credit program, funded by USAID/K-REP, has reached very poor people, but with lower repayment rates than other schemes. All these organizations, and there are several others in Kenya that have not received USAID support, primarily use a group lending model based on the Grameen Bank and adopted to Kenya by K-REP. All will need technical assistance to increase performance and outreach, and all will copetete with any applicants for MICRO-PED funds.

3.3 TECHNICAL ASSISTANCE

The NGOs of Kenya have made great strides in the development of effective credit delivery and recovery over the past several years. Many have made use of international experience, drawing heavily but not exclusively from the models employed by the Grameen Bank in Bangladesh. However, there is still considerable progress to be achieved, and this project will provide technical assistance to both current and potential grantees in areas discussed below. The project will contract the services of an

IC/USPVO to provide assistance to NGOs in identifying areas in which they need assistance. In the interest of increasing performance standards throughout the market, assessment services will be made available not only to NGOs who apply for and receive grants from USAID/Kenya but to other NGOs that are active in the micro enterprise finance sector.

3.31 Technical Assistance Needs:

In order to achieve financial sustainability, many NGOs in Kenya need technical support in the following areas:

1. Delinquency Management - This is perhaps one of the most critical areas to be addressed by NGOs (and formal financial institutions) in Kenya. There are an array of instruments that can be employed in this field, including aging of past dues on a branch-wide basis, follow up procedures by loan officers and management, restructuring loans in cases of *force majeure*, invoking group pressure on late repayers, and establishing a philosophy of non-tolerance of late payments.

2. Financial Control and Information Systems - Although this is a more generalized category, nearly all NGOs are wrestling with the both assembling and analyzing the performance of both their loan portfolios and the financial performance of their organizations. It is particularly critical to have timely information as the portfolio of high rollover, short term loans grows. While critical at the branch level, it is also important on the organizational level, primarily for management information and control. A manual system may work well enough in a branch operation, but the use of computers at the organization level can be very useful. There is now at least one "off the shelf" application developed by the Food and Agriculture Organization, MicroBanker, that appears readily adaptable to the Kenyan situation.

3. Methodology - Nearly all of the successful NGO branches are drawing heavily on the basic model utilized by the Grameen Bank. However, there are several refinements of the current methodology, as well as models around individual lending which have worked well in other countries with an environment similar to Kenya. As the NGOs become more familiar with both their current and potential clients, there is still plenty of room for different or experimental models. Most successful micro enterprise lenders worldwide are always working out new loan products to suit their clients changing needs. Examples of new products would be tailored individual loans for micro entrepreneurs who have grown to large to be served through the group methodology,

or more efficient credit delivery methods to reach poorer, rural businesses.

4. Financial Linkages - A few of the NGOs in Kenya are already exploring direct linkages with formal financial institutions. A range of possibilities exist, and formal arrangements could be undertaken in select cases. These linkages can include a broadening of the USAID/W Loan Portfolio Guarantee Program to include bank loans to NGOs or other type of guarantees, leveraging of savings deposits by micro enterprise borrowers, or developing local mechanisms such as a collateral fund with right of offset (which generates a credit line to a NGO retail lender). Further discussion of the formal financial sector is in an attachment to this Annex, "A Note on the Financial Sector and Implications for Microfinance".

5. Fraud Prevention and Control - This is an area that needs to be dealt with across the financial spectrum of Kenya. There are various methods that can be employed to check the veracity of nearly any borrower's application, although it is somewhat complicated by the group methodology. A financially-responsible lender will work out alternative methods of ensuring that the borrower is truly the type of client with which one entrusts funds.

6. Horizon Broadening The regulatory and policy authorities of Kenya will be facing a NGO-bank conversion that does not have precedent in Kenya. Funds will be provided within the grant to both bring expertise to these authorities from other countries and through exposure visits for these authorities to programs abroad with similar experiences.

3.32 Approach

One focus of the technical assistance work is to provide USAID and NGOs with a source for conducting independent assessments of NGO programs in some cases to determine eligibility, but primarily to determine areas where programs need to be improves and where technical assistance may be required. Funds for these assessments will be provided to an IC/USPVO. In addition to these assessments, funds for TA will be incorporated into the grants to the NGOs, who will have discretion in what services they procure and from whom, as long as the institution has appropriate procurement procedures in place. A second focal area is to encourage the sustainable delivery of technical assistance to micro enterprise lenders. USAID will hire a US Private Voluntary Organization (USPVO) or local institutional contractor (IC) for a two year period (subject to renewal). The TA team will likely include one international and one Kenyan professional. The main activities for the technical assistance team will be to:

1) Provide assessments of lending operations and institutional development issues. The NGOs will be involved in drawing up the terms of reference for the assessments,

2) Organize workshops and seminars on such topics as managing delinquency, increasing outreach, developing new loan products, MIS system development, mobilizing savings, etc,

3) Compile a database of technical assistance sources that NGOs can access, and

4) Strengthen a network of NGOs involved in micro-enterprise lending to perform the above functions, if such a network emerges.

The micro-enterprise lending NGOs will take responsibility for forming and supporting the network. If the network emerges, the US PVO/IC will give TA. If it performs well, the US PVO/IC can turn-over its functions to the network. If not, other strategies may have to be developed during implementation.

4.0 Other Strategic Interventions

Under this component there will be several other minor activities. First, USAID will facilitate dialogue between Banks and NGOs to encourage NGO borrowing from banks. USAID/W loan portfolio guarantee funds may be instrumental in developing these relationships. Second, USAID may fund very small, experimental initiatives to develop additional loan products to serve clients who are not being served by current products. Third, USAID may fund the development of innovative training curricula in private sector organizations that offer training to micro enterprise lending institutions.

1. The Formal Financial Sector

The Kenyan financial sector is relatively well developed, with a significant number of banks and non-bank financial institutions (NBFIs). However, despite the number of institutions, only a few have the extensive branch network suitable for serving the small scale sector: Kenya Commercial Bank (KCB, government-owned), Barclay's Bank of Kenya (private) and Standard Chartered Bank (private). Of these three, KCB has historically been the most interested in working with small and micro enterprises, although it has done so primarily through subsidized schemes, using donor or government funds. Many of the loan programs that clearly wore a "donor stamp" had abysmal repayment rates; the borrowers perceived the loans as a grant.

Barclay's and Standard Chartered have been conservative in their approach to small scale businesses.[5] Standard Chartered Bank has recently gone through a restructuring and retraining of its staff focussed on "small business", and has approximately 16,000 loans to the sector through its 42 branch offices. Barclay's Bank of Kenya placed approximately Ksh. 4 billion (over US$ 95 million) from its 150 branches in the "small business" sector in 1994, which represents approximately 10% of its total portfolio. Approximately 40% of Barclay's small business borrowers are women.

Several of the NBFIs have been less conservative generally, but lacking branch networks, have had no effective way to serve the sector. Historically, the mainstream financial sector has shown little willingness to support the small and micro enterprise sector apart from direct subsidization. While there are several specific small loan programs, these have not gone on to become ongoing lines of business. One example is the USAID-funded Rural Private Enterprise Project. As different from a number of other countries (e.g. Colombia, South Africa, and many others), banks have not emerged as significant sources of funds for NGO credit operations.

The Kenyan banking system has been through a difficult period during 1993 and 1994, caused by the insolvency or near-insolvency of a number of institutions, both private and the public. GOK efforts to keep troubled banks afloat through loans from the Central Bank contributed to rapid expansion of the money supply which in turn sparked high inflation. While the financial crisis appears to be under control (or well on its way in that direction), its consequences will affect the development of microfinance institutions, at least in the short to medium run.

The first consequence is a shift of deposit funds into the few banks known to be financially strongest. These strong institutions are likely to be quite liquid in the near to mid term, such that they will have little interest in the mobilization of small deposits, although they may be somewhat more approachable on the lending side. These banks are likely to be less open than usual to changing lending behavior in return for lines of credit. On the other hand, they may be relatively more interested in making a loan to an NGO.

A second consequence is the likely preoccupation of the regulatory authorities with troubled financial institutions and

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[5] At the time of this writing, both Standard Chartered Bank and Barclay's Bank of Kenya define small businesses as those requiring loans from Ksh. 100,000 to Ksh. 5 million (US$2,400 to $120,000), well above the $400 average loan size of micro enterprise lenders.

with legislative changes needed to prevent the recurrence of the financial crisis. At one extreme, this could mean that supervision of financial institutions, at least those that are not in immediate difficulty, will be less intensive. It could also mean that supervisory authorities are less willing than usual to consider innovations that would broaden the spectrum of deposit-taking institutions. Such innovations had been discussed, but no longer appear to be on the agenda, at least for now. Moreover, the authorities will be wanting to limit the number of institutions, and will hesitate to approve applications for new licenses, even if they come from a source such as K-REP. And if they approve K-REP's application, their ability to supervise it effectively may be less than optimal.

Given the current situation, it is recommended that the USAID/Kenya consider: 1) being conservative in the selection of partner institutions; 2) having relatively low expectations about the willingness of mainstream institutions to innovate, with the possible exception of funding strong NGOs; and 3) recognizing the stress facing regulatory authorities in any dealings with them on microfinance innovations. However, in direct conversations during the preparation of this annex, the banks are still indicating their willingness to pursue negotiations with consideration being open to various methods of guarantee operations. USAID/Kenya Nairobi, along with AID/W/G/EG/EO will continue the dialogue under this project. USAID/W already has the Loan Portfolio Guarantee Program in place with both Barclay's Bank of Kenya and Standard Chartered Bank, and will seek to expand those facilities with a particular eye to the requirements of this Project.

2. Experimental Initiatives:

During PED evaluations, MICRO-PED review and many finance seminars in Kenya, it is being increasingly recognized that the "group-lending" product has so far reached a particular type of micro-enterprise. It fills a certain market niche, but there are other sorts of firms that are not being served that may represent a market for different loan products. The typical micro-enterprise client served by the group methodology is a) in urban and peri-urban areas where high population densities allow for economies of scale OR members of effectively managed rural women's groups in densely populated urban and rural areas; and b) primarily engaged in service or trade activities, or rapid turn-over manufacturing - loans are primarily used for working capital.

On the one hand, there may be market opportunities on the higher end. Many firms wish to invest larger sums in fixed capital assets. These are entrepreneurs who may have a difficult time operating in a group, agreeing to guarantee large sums, but are still too "informal" to go to the bank. There are currently few organizations serving this important market niche which we sometimes refer to as the "missing middle". Originally, many micro enterprise lenders envisioned "graduating" some of their borrowers to banks as they reach this level, but both banks and borrowers have resisted this initiative with sustainability as a major concern, more have decided to keep these "best customers" and begin serving them as individual borrowers. USAID will support innovative methodologies for reaching this high potential target group.

On the other hand, there is a strong need for additional finance on the lower end. The vast majority (78%) of micro enterprises operate in rural areas, but lending operations in Kenya are generally less sustainable in rural areas. This is partly due to the expense of travelling and liaising with clients, and partly due to the lower economic potential in rural areas. Yet, in other countries, methodologies have worked in rural areas. In addition, many businesses operate out of the home, and are not normally reached by lenders in Kenya, even in urban areas. USAID will support innovative approaches, such as village banking models with significantly smaller loan sizes, to lending to poorer, harder to reach business people.

3. Training

K-REP is one example of an institution that may merit support for a training program. K-REP has developed a training methodology to inculcate the general minimalist and group methodologies utilized by the Grameen Bank in Bangladesh, among others, and has delivered this training on a widespread basis to its own staff and the staff of other NGOs. This is not a generalized or generic training, but rather a highly focussed training on the methodologies of credit operations. The training provided by K--REP is primarily for loan officers to assist them in understanding the key issues in loan preparation. As a part of the conversion of K-REP to being a financial institution, research and training will be carried out under their "trust" or "foundation" side, rather than as a financially-linked part of the financial institution.

It appears that the training being delivered by K-REP has been highly effective, although certainly subject to further refinement based on continuing experience. The training effort of K-REP will need to be expanded, not only for the growing number of staff that they will require to continue for the own expansion, but for other micro enterprise credit oriented NGOs' staff. K-REP desires to establish a physical infrastructure to house their training facility, although USAID may prefer to confine its assistance to further development of course materials for training, and or to provide funds for further research to be carried out by this Foundation side of the operation.

This project may provide funds for the expansion and refinement of K-REPs' training, subject to a detailed workplan and budget developed by K-REP and submitted to USAID/Kenya.

PARTICIPANT LIST AND BACKGROUND MATERIALS

Finance Component Development

A very participative approach was taken in the development of the Finance component. USAID/Kenya had done considerable groundwork previous to the Credit Analyst's visit, USAID/KENYA was extremely helpful with both the field visits and participating in the meetings with the financial institutions. With some slight exceptions on follow up meetings, a member of the USAID staff joined in all consultations along with the Analyst.

The list below, which is representative, indicates key persons contacted. Each of them, along with uncited members of their respective staffs, contributed to the resulting plan for enhancement of micro enterprise development in Kenya. The interviews were carried out on a structured basis, but nearly all interviewees contributed freely in their presentations. In all cases during the provincial field trip, at least a small sample of borrowers were visited, and they also contributed enormously to the information base from which the Finance Component.

<u>Food for the Hungry International/Kenya</u>

Ted Vail, Business Development Consultant, Nairobi

<u>Promotion of Rural Initiatives and Development Enterprises/Africa</u>

Headquarters:
Jonathan Campaign, Managing Director, Nairobi
Janis Sabetta, Training Manager, Nairobi

<u>Promotion of Rural Initiatives and Development Enterprises/Kenya</u>

Headquarters:
Grace B. Aloo, General Manager, Nairobi
Field Offices:
Anne Mukira, Credit Officer, Eldama Ravine
Bernard Wamb[illegible]i, Credit Officer, Nyahururu

<u>National Council of Churches</u>

Field Offices:
Margaret Oketch, Credit Officer, Kisumu
Lucy, Kai, Liz, Credit Officers, Nakuru

Kenya Rural Enterprise Programme
Headquarters:
Kimanthi Mutua, Managing Director
Aleke Dondo, Deputy Managing Director
Field Offices:
Teresa Maru, Area Manager, Eldoret
F.F. Masingu, Area Manager, Mt. Kenya West (Nyeri)

Tototo Home Industries
Headquarters:
W.K. Gitau, Executive Director (Mombasa)

Kenya Women Finance Trust
Headquarters:
D.G. Muchungu, Finance and Administration Manager, Nairobi
Field Office:
Lucy W. Waweru, Branch Coordinator, Karatina

Barclay's Bank
Headquarters:
Mr. Murage, Manager in Charge, Small Business Unit

Standard Chartered Bank
Headquarters:
Zahid Rahim, Executive Director, Corporate and Institutional Banking
Evans Vitisia, Head, Business Financial Services, Corporate and Institutional Banking

Small Enterprise Credit Association
Victor Pratt, Chairman (Nairobi)

International Donors

David Ong'olo, Assistant Project Officer, Small Enterprise Development, Royal Netherlands Embassy

Joel Nielsen, Program Officer, United Nations Development Programme

Thomas Miller, Assistant Representative, The Ford Foundation

Hugh Scott, Coordinator, British Aid to Small Enterprises, Overseas Development Administration

Friedrich Weigel, Financial Management Advisor, Kenyan Industrial Estates/Informal Sector Programme (GTZ)

BACKGROUND MATERIALS

There is a large body of written materials now available for the development of a micro enterprise project. The following listing is by no means comprehensive, as most of the materials relating to micro enterprise credit have been previously reviewed by the Credit Analyst. The materials that were most relevant for the development of this annex are listed below.

"Micro and Small-Scale Enterprises in Kenya: Results of the 1993 Baseline Survey", GEMINI Technical Report No. 75. {Note that this study is being updated, the new research effort began in January 1995.}

Project Development Interim Directive, Dated November 28, 1995, Internal Memorandum, AID/W.

"Maximizing the Outreach of Micro enterprise Finance: The Emerging Lessons of Successful Programs", Christen, Rhyne, Vogel, McKeen, Draft Document dated September 1994.

New Activity Description, Project Number 615-0263, "Private Enterprise Development II".

"Report on the feasibility of the proposed Juhudi Financial Services, Ltd.", Kenya Rural Enterprise Programme, November 1994 {Uncirculated Document}.

"FY 1995 Matching Grant Application", PRIDE/Africa, Submitted to USAID, November 1994.

"The Kenya Rural Enterprise Programme under Cooperative Agreement No. AID-615-0238-A-00-7026-00: A Final Evaluation", GEMINI Technical Report No. 77, September 1994.

"Response: Final Evaluation Cooperative Agreement No. 615-0238-A-00-7026-00" K-REP response to above Evaluation

NOTE: Many internal reports of several NGOs were reviewed in the field during the course of the development of this Annex. The primary author also drew on twenty years of personal experience in worldwide development of micro enterprise finance.

ANNEX I:

TECHNOLOGY

EXECUTIVE SUMMARY

I Summary of Findings

Problem Analysis

Micro and Small enterprises have major constraints related directly to technology, or more indirectly through market constraints brought about by technological limitations. The GEMINI survey revealed that even while few operators mentioned technological constraints, it was clear that their main concern with inaccessibility of markets was brought about by poor quality products, or inadequate levels of output. Yet, few institutions exist which specifically address technology development and dissemination for the micro-enterprise sector. Even fewer donors have invested in this component, mainly owing to earlier, negative experiences with technology investments in Developing Countries. There is urgent need, therefore, for an innovative approach to technology intervention if there is going to be renewed interest by various players.

Specific technology issues in the micro enterprise sector include:

- Lack of a national policy to guide technology development and dissemination.
- Lack of relevant technical expertise among micro enterprise operators
- Lack of technology information to make the right choice of technologies
- Lack of technology assessment and evaluation capacities within micro enterprises, and within assistance agencies
- Lack of modern tools, equipment and techniques - efficiency and productivity issues
- Lack of good quality inputs
- Limited product range and markets served by micro enterprises

Other Players

There are few technology assistance providers to the micro enterprise sector. On the donor level, perhaps the most prominent is the World Bank Project which aims to develop technology within the training framework. The ODA/UNDP/Netherlands Embassy - Small Enterprise Implementation Programme proposes to address the technology issue from the point of view of creating the necessary environment for technology to be developed and disseminated by others. ODA also funds ApproTEC and some KIC-K activities. Other donors include the Dutch government which funds the ILO/FIT project, the Japanese Government who fund the JKUAT through a Technical Co-operation Agreement, and Federation of Kenyan Employers (FKE) SME Unit whose ILO funding has just run out. Clearly, the funding has not been coordinated and has depended, largely, on the agendas of the donors.

On the technology developers' level are those institutions involved in R&D and dissemination of equipment and techniques (eg. ApproTEC, ITDG, Technoserve, ILO/FIT project, JKUAT, University departments of Food Technology and Engineering, etc), and those involved at the product development and skills upgrading levels (eg ApproTEC, KICK, VITA-K-CITC collaboration, Women's Jua Kali Project, etc). In addition, there are a myriad of public and private institutions providing technical training from the artisan to technologist levels. Most of these have been assessed to be non-practical with limited relevance for commercial technological needs, particularly for micro enterprises. Consequently, there is need for technology interventions at various levels, the most urgent of which are, perhaps, the technology information and assessment service, and the product development and skills upgrading levels.

II Proposed Action

General approach for technology assistance

This following list highlights the general principles which might guide technology interventions for micro enterprises.

- Adopt a market driven approach to technology development
- Use of a 'packaged' approach in delivery of technology services - deliver both hard and soft technologies
- Private Sector dissemination approach - hence cost effective technologies first
- Stimulate dialogue and information sharing among key players in order to promote synergy and co-ordination
- Select partners who have the capacity and flexibility to take a sectoral focus depending on market needs for technology

Activity Organisation: Technology

Intervention should be organised on three distinct levels, but maintaining cohesion and sight of purpose:

I *Market and policy analyses, and technology needs assessment level*

Intervention mechanisms	- Support the strengthening of the emerging Technology Forum as well as other specific associations which can lobby government on specific technology issues - for example, KST&ES. - Support the formation of an Information Clearing House which should double as a Technology Assessment facility capable of market, policy and technology analyses. - Support a technology assessment facility
Possible institutions	- Technology Forum/Network and Clearing House: VITA-K; IDS - University of Nairobi

II *Technology development and dissemination level*

Intervention mechanisms	- Support selected NGOs with an orientation towards MSE technologies, and 'conscious' of sectoral technology needs.
Possible institutions	- ApproTEC; Technoserve; Jua Kali Women's Project; KIC-K; K-MAP within the framework of their existing, and perhaps expanded, strategies. Other institutions are likely to qualify with time.

III *Skills upgrading and product development level*

Intervention mechanisms	- Support selected NGOs in collaboration with Jua Kali Associations contracting out specific skills training and product development if necessary. - Strengthen jua kali associations which have objectives of addressing the technology needs of members.
Possible institutions	- Jua Kali Associations will identify micro enterprise skills, product development as well as advocacy needs, and may then contract actual training to relevant VETs; Support KIC-K, Jua Kali Women's Project (sectors other than textiles), and others.

This intervention is organised within the general framework for all Non-financial services.

TECHNOLOGY ISSUES

1. INTRODUCTION

This annex presents the "Technology" issues of the project. Initially, technology was included in the project description as a stand alone component. However, after some team deliberation, it was agreed that technology interventions can only be successful if they are undertaken within the framework of specific sectoral foci (see "Sector Focused" approach annex). Having said that, there's room for generic technology intervention.

The paper presents some design issues, presents an analysis of the problem, and finally suggests an intervention strategy within the framework of the existing Non-Financial Assistance component of the project.

1.1 The Design Process

The design process has endeavoured to involve various interested parties on various levels. First, possible implementing organisations as well as their beneficiaries were involved in the first week of field visits. Donors and other NGOs investing in technology interventions were then consulted and their inputs incorporated in the initial 'thinking. Finally, a "Sector Focused Approach" workshop organised by USAID, the Design Team in conjunction with KREP, provided a useful forum for sounding out some of the outstanding issues in the design of the project. Throughout the design period, there was a rich cross-fertilisation of ideas between the team and AID PEO officers, as well as among team members.

A second important strategy used to elicit participation was to attend one of the meetings of the informal gathering of organisations involved in technology interventions which took place on 1st December, 1994. This meeting highlighted the various concerns of organisations interested in technology interventions for micro enterprises.

1.2 Definition of "Technology"

It is important to define the term technology as it will be used in this paper.

"The term *technology* is often interpreted as meaning machinery, equipment, 'hardware'. Technology, however, is much more than pieces of equipment: it also encompasses 'software'. Technology is a combination of tools (the equipment required to produce goods and services); of techniques (the knowledge, skills and facilities required to operate those tools); of organisation (the process by which techniques are marshalled); and of products - the goods and services which result from this process." ITDG. Hence in this paper *technology* reefers to both hard and soft approaches to technological development.

Technology is one of the keys to increasing the productivity of micro enterprises in Kenya. Although firms in the GEMINI survey do not recognise or name "technology" as a constraint, both this survey and the Informal Sector Survey (CBS) have highlighted the market constraints facing micro-enterprises, particularly related to the quality of products and the limitations in the range of products offered. Recent sub-sector studies commissioned by USAID have also highlighted the specific technological needs of the relevant sectors relating to quality of inputs, production and packaging problems, and limitations in the skills and techniques necessary to place micro-enterprise products into more lucrative market niches. Yet, little effort has gone into providing this particular assistance. There is still a very limited number of players offering technological assistance to micro-enterprises in Kenya, and indeed, in other parts of the developing world. Questions of sustainability of technological projects have limited this assistance even further as funding agencies draw from their past negative experiences of technology projects in Developing Countries.

While this view is legitimate in the light of the short-term objectives of such agencies, it is somewhat myopic if genuine institutional building in the micro-enterprise sector, and indeed the whole economy, is to be achieved. ***All industrialised and Newly Industrialised Countries (NICS) have build their economies on the back of technology and not finance alone.*** Kenya is unlikely to be an exception. However, there is still need to assess which of the strategies used by others (or new ones) is the most appropriate path to take when making technology interventions. This is, perhaps, one of the most critical tasks ahead of any technology interventions.

It is, perhaps, the new thinking in technology intervention strategies which leads to this recommendation for technology intervention despite past failures. The literature indicates that technology promoters realise the importance of the delivery approach in making successful technological interventions. First, a sectoral approach to technology intervention is critical (GEMINI, 1990). Basically, this means that before intervention, a sector is analysed for the various factors constraining the growth of micro enterprises, and then interventions are specifically targeted at these constraints. Hence, technological interventions, for example, are aimed at the technological bottlenecks in the sector, particularly where an intervention will impact on the largest number of micro enterprises. Hence, technological interventions are provided when and as necessary to 'oil' the chain. Consequently, interventions must continually change to reflect the needs of a particular community, sub-sector or market. Assistance institutions must, therefore, be those which are flexible enough to offer a continuous flow of *technology*. Obviously the pertinent question is who will perform the market analysis needed to flag the sector's requirements?

Secondly, it is becoming apparent that technology users need a large array of services within the rubric of technology. Not only do they need the equipment and tools, but also market assessments regarding the feasibility of adopting a technology; the skills and techniques required to successfully use the technology; information about inputs; markets; etc. Consequently, the most promising intervention approach to technology delivery is the 'Package' approach, even if the various parts are not necessarily delivered by the same institution.

Thirdly, while a new approach to service delivery is emerging, little attention has been paid to how to support a technology development process within a local economy - i.e. to build technical skills, innovative skills, market analyses and response skills, product development, etc. to strengthen the micro enterprise technological capabilities which will lead, ultimately, to a market driven technology development process. The successful commercialisation strategy will be, therefore, that which fosters such institutionalisation of technology within the local economy.

As a step towards further justifying a re-examination of technology interventions in the development of micro enterprises, this paper also argues that sustainable technologies are those which build on the societies' existing capacities, resources and institutions. Completely alien technologies seldom take root in any society. Past technology initiatives rarely built on existing capacities within a local economy. Besides, external technology agents have contributed to the financial 'unsustainability' of projects promoted within such a framework. Having said that, it must be acknowledged that local technology development and dissemination agents (such as national research institutions) have had resource, programmatic and managerial limitations, and for this reason, they have not been very successful in reaching large groups of users. Consequently, a time-bound use of external agents is still imperative, particularly in providing access to information about alternative technologies, access to resources, and training in particular skills and techniques, as well as various types of technical assistance.

2. PROBLEM ANALYSIS

The technology issue in Kenya is complex. On one level, there is lack of a technology policies for enterprise development. Those that implicitly exist in various development agendas tend to favour the larger, formal sector, capital intensive enterprises. The sector also lacks information regarding technology alternatives, and when this is available, micro enterprises and their helpers do not have the capacity, or facility to make technology choices. Part of the problem is the general inadequacy of the technical skills training strategy currently in place in Kenya. A second level of issues relates to the development and dissemination of technology, which are more specific either to enterprises, or to the organisations which assist them. Micro enterprises do not have the resource capacity to innovate, hence they rely on assistance organisations. Yet, the delivery of such services is still problematic. On a third level, the issues are related to skills upgrading and product and market development skills needed by practising entrepreneurs. These three levels are further discussed in the following paragraphs highlighting the current status of technology development and dissemination in Kenya; the current USAID involvement in technology interventions; and the other players operating on various levels of intervention.

2.1 Status of Technology Development and Dissemination in Kenya

2.1.1 Level I

This level constitutes the more general technology issues - i.e. technology policy analysis and technology monitoring and evaluation.

(a) *National Technology Policy - the framework*

The policy framework for technology development in Kenya is weak, and has tended to favour large, formal, capital-intensive enterprises, while labour intensive technologies are heavily taxed and over-regulated. The re-direction of a national policy towards labour intensive and small scale technologies seems to be a natural evolution of the structural adjustment policies currently being implemented.

The Ministry of Research, Science and Technology was set up to develop, co-ordinate and disseminate technology research. Part of its agenda was to develop a national research policy, facilitate application and transfer of appropriate technology, as well as to co-ordinate the activities of research institutes. It is widely believed that the apart from its mandate being too wide and unfocused, the ministry has capacity, programmatic and financial problems which inhibit the successful development of technology policies, particularly those which would favour micro enterprises. To date, Kenya does not have a coherent technology policy let alone one that favours micro-enterprises. The ministry's merger with the Ministry of Technical Training and Applied Technology (MTTAT) in 1993, rather than help focus on the jua kali sector, has complicated the situation even further by introducing an element of ambiguity in the roles of the officers concerned with science and technology development and those dealing with applied technology.

This weak policy framework means that implementing organisations operate in an ambiguous environment. Taking the situation as it is , however, there's still need for initiatives which will allow a national debate and development of a *research and technology policy* without which technology development for micro enterprises will not be achieved fully.

This lack of guidance has affected the availability of appropriate technologies for micro enterprises. Support agencies follow their own patterns and philosophies of technology development and dissemination, possibly directed by their funding partners and others outside Kenya, who may or may not have the express objective of developing technologies for enterprise creation. A recent development highlights the felt need of the various parties interested in technology interventions - they have come together in an informal forum to discuss the current situation and to deliberate on possible intervention strategies.

Two meetings have already been held. The first meeting was held in 1993, organised by The Netherlands Embassy and USAID. In this initial meeting, participants from various donor organisations and NGOs articulated constraints facing their intervention efforts. In the follow-up meeting held in Nairobi in Dec. 1994, organised by the Netherlands Embassy in collaboration with Volunteers in Technical Assistance (VITA), the issues raised in the first meeting were reiterated, but this time, a Task Force was set up comprising of representatives of donors, technology developers, and research institutions. The main thrust of its mandate is to recommend a technology strategy for micro enterprises in Kenya. This meeting formed one of the initial steps in eliciting, for purposes of problem identification and project design, the participation of others interested in technology interventions for micro enterprises.

There is need, therefore, to assist in developing this framework within which technology assistance to micro enterprises can take place. This could take the form of organising research and technology forums and study groups within which these debates can take place. It is also at this level that intervention can facilitate local access to lessons learnt by other countries which have already developed technology policies, particularly for micro- and small enterprises.

The **institutional capacity** for this coordinative role is limited. The MRTT&T has serious staffing problems owing to the low wages paid by the government. In addition, the ministry lacks monitoring and evaluation capacity to maintain a responsive training system (World Bank Project Paper). It lacks the relevant machinery and linkages to access information about enterprise needs, available technologies and techniques, and new approaches to enterprise development.

(b) Current technical training capacity

The basis for technology development and dissemination is technical and vocational training. Yet, Kenya's technical training capacity is weak and/or inappropriate for enterprise needs.

Two major routes to technological training exist in Kenya. The formal channel is the Vocational Education and Training (VET) which is executed through private and public institutions for artisan, craftsman, technician, technologist, and masters of technology certificates. The informal route is executed through apprenticeship in *Jua Kali* workshops all over Kenya. The latter is still unstructured, not time-bound, and dependent on social networks in particular localities, and hence significantly contributes to overcrowding in particular trades and localities. On the other hand, the formal route is not specifically geared towards technology for enterprise creation and support.

Public Institutions:- The Directorate of Applied Technology (DAT) of the Ministry of Research, Technical Training and Technology (MRTT&T) is charged with the development of Jua Kali Programs including technical skills training. However, other directorates in the ministry deal with technical and vocational education (DDT); industrial training - formal apprenticeship (DIT); research, science and technology development (DRD); industrial property regulation (KIPO); the National Council for Science and Technology (NCST).

The following are the categories of public institutions engaged in some form of vocational education and training.

- Youth Polytechnics (330 government and 260 community supported)

- Technical Training Institutes (18)
- Institutes of Technology (17)
- Industrial Training Centres - ITCs (13)
- Kenya Textile Training Institute
- National Polytechnics (3)
- Kenya Technical Teachers Training College
- National Universities
- Jomo Kenyatta University of Agriculture and Technology
- Moi University
- National Youth Service Training Centres (16)

Private Institutions:- This category of institutions are few and generally relatively expensive, except, perhaps for the CITCs.

- Community supported Industrial Training Centres (CITCs)
- Private Universities
- Private Computer and Secretarial Colleges
- WAKATE Institute (Athi River)
- *Jua Kali* sector through the apprenticeship system

Despite this wide variety of formal training institutions, most of the training for micro-enterprises comes from the jua Kali sector. Skills of a trade are acquired in a *Jua Kali* workshop. The World Bank Project estimates that each enterprise trains 2 people at any one time. However, this training is neither formal, standardised nor does it have time limits. There's limited formal apprenticeship training by industry, estimated at 50% of capacity.

Quite frankly, although it is important to develop the skills base for the country, and it is important to address the issue at national level, the formal route is unlikely to have a widespread impact on technology transfer to micro enterprises. The institutions named are generally more theoretical and academic than practical. Besides, their environment is too formal and too focused on youth training to allow practising entrepreneurs to benefit. It was clear from various entrepreneurs in the field that general skills upgrading is important, but it is only so if it addresses immediate problems - in other words, product and techniques development are more important. Therefore, there are opportunities for leverage in Product Development methodologies executed through the apprenticeship system. Once a few micro entrepreneurs have upgraded their skills or acquired new skills, these are likely to be passed on through informal contacts (competition) and the existing apprenticeship system. Hence, while the formal system provides fundamental theoretical foundations to micro enterprises, practical methods of technology transfer are likely to have a greater leverage. This could also be achieved through product development interventions using existing NGOs.

(c) Monitoring and evaluation capacity

Currently, Kenya lacks the capacity to assess the technological needs of the micro-enterprise sector which includes: assessing production technology needs and requirements; market analyses: assessing training capacity and quality of existing programs: assessing skills upgrading needs: and technology policy research.

One of the issues highlighted in the meeting on technology for micro enterprises in December, 1994 was the need for a periodic analysis of technology needs in the sector, technologies in use, as well as those technologies which have been successful in Kenya and elsewhere. The MRTT&T, which is charged with the task of technology development as well as technology training in Kenya, is inadequately or inappropriately equipped for this task. The private sector is even less focused on this activity. Although particular technology choices are, ultimately, the job of the entrepreneur or the associations to which they belong, national technology choices are important in the development process, and should be of national concern. The challenge is to develop, therefore, the capacity of firms and associations to make prudent technology choices, guided by general national technology choice principles.

2.1.2 Level II

This level encompasses technology development and dissemination issues.

(a) The status of Engineering Design Innovations in Kenya

In general some important issues prevail in the development and dissemination of technology in Kenya. There is a limited access to information on technologies, particularly by micro-enterprise operators. In addition, the technical expertise required to access and further develop such information is limited. Few entrepreneurs can develop technologies from scratch as they are limited in technical theory, etc. Most enterprises lack the resources to access information, and to take the risk of investing in new products as returns are uncertain, and there are high risks of copying. On a different level, the linkages between technological developers, manufacturers and users are limited. This means that technologies are often unsuited to the requirements of the users.

Mechanical, Electronic and Electrical Engineering:- The main capacity for engineering training comes from the universities and technical institutes. While the breadth of material is impressive, "the time devoted to them is too short, guidance from teachers is inadequate, and they are seldom based on practical production processes or economically viable ideas" (ApproTEC, 1993). Even where there are practical experiences by students, because they are attached to large enterprises which place them in specific departments, they hardly have the opportunity to work with the full breadth of engineering skills.

Government research institutes are also players in specific research initiatives. Unfortunately, due to resource and management problems, they have been even less productive. Kenya Bureau of Standards and KIRDI for example, have been continually underfunded (Mwamadzingo, 1993).

In industrialised countries, the private sector has played an important role in the development of technologies as well as their commercialisation. This is not the case in Kenya. The private sector, which has for a long time generally consisted of large multinational corporations established with import substitution objectives, has had little need for new technologies. On the other hand, enterprises on the lower end of the size spectrum have few resources to devote to innovation. Instead, they have either 'copied' from imported products, or relied on clients to provide prototypes of products they require.

Bio-technology:- The food technology branch of bio-technology is likely to have important implications for micro enterprises in Kenya, and with the growing importance of agri-business in Kenya, will quickly become a potential avenue for rapid industrialisation. Yet, it hardly ever enters the technology discussions as a specific item on the agenda. Few institutions specifically target this branch of technology. When they do (for example the Universities of Nairobi, Egerton, and Jomo Kenyatta), they are beset with resource, programmatic and management problems which make commercialisation of such technologies difficult. In fact, very often, these innovations do not leave the University laboratories for lack of linkages with relevant technological consumers. The few linkages which exist are with non-commercial institutions which neither have the relevant expertise for commercialisation, nor have the machinery to link with commercial users of the technologies (Mwamadzingo, 1993). When successful technologies have been developed, (the Dairy Processing Project at the University of Nairobi; the Coffee Hybrid Seed of the department of Agriculture; and the various CowPeas varieties from the same department), dissemination has been limited due to the strategies chosen - mainly the extension approach. On a different level, some linkages are achieved through collaboration with large enterprises who commission student projects in the training institutions, but few of these projects go through the full commercialisation process.

(b) Applied Technology Research

Like generic technology research in Kenya, the absence of a national technology policy has adversely affected applied technology research, which has also been uncoordinated and has been predicated on the objectives of the agencies involved in the sector. In addition, because of resource limitations of some of these agencies, they have been unable to keep in close touch with alternative technologies, or have been unable to adapt them adequately to the needs of local micro- and small entrepreneurs.

Clearly, because technology has been almost exclusively developed in Universities or research institutions, it has tended to be unresponsive to market needs, hence the lack of widespread adoption. Technology development must be undertaken within a market-driven framework. In other words, the market should guide technology development rather than technologies searching for markets. In addition, successful technologies in Kenya are those which have been initiated and championed by a dissemination institution which has collaborated with an R&D institution (eg KCJ). However, it must be noted that the identification and selection of the right technologies must be guided by national needs (articulated policy?), and be managed by the right, preferably, non-partisan people. Hence, there is a need for an independent market assessment facility which evaluate market as well as technological needs and capacities.

2.1.3 Level III

This level of issues relate to the product and market development constraints of micro enterprises. How can a practising entrepreneur access technical and managerial improvements which would lead to improved access to markets?

(a) Use of obsolete technologies and techniques

Many micro- and small enterprises use obsolete technology which is often inefficient. They rarely modify equipment and techniques as consumer tastes change. Consequently, modernisation is required for these enterprises to become competitive in the current liberalised markets. For example, product ranges are limited by such technology; quality is hampered by methods and techniques used; and exposure to alternative levels of finish is limited to the experiences offered by these obsolete technologies. By building on these available technologies, it should be possible to upgrade them to the levels demanded by the existing markets. However, there is also need to make the sector proactive by creating awareness regarding frequent market analyses and having organisational structures and technologies which allow responsiveness to new market requirements.

(b) Lack of Technology Information

As mentioned above, in Kenya, the lack of access to appropriate and new technology are key constraints to micro- and small enterprise sector development. Competition in the micro- enterprise sector is intense, yet operators do not have access to technologies which can allow them to diversify or modify their products for various market niches. *Jua Kali* operators tend to be unfamiliar with new technologies. They also lack the knowledge and exposure to evaluate the appropriateness of available technologies, and are often guided by cost and availability alone in making technology choices. Consequently, they are dependent on technology transferred through management contracts and/or technology embodied in imported machinery and equipment. Currently, there is no service which assists entrepreneurs to make technology choices and to conduct technology assessments.

2.2 USAID's involvement in Technology assistance

USAID has hitherto not had any specific technological interventions in the micro-enterprise sector. However, the KEDS and K-MAP projects have some elements of technology dissemination.

2.2.1 Kenya Export Development Support Programme (KEDS)

This is an export promotion initiative focusing on exploring export markets for Kenyan enterprises in general. Although there is no specific focus on micro-enterprises, or indeed on their technological needs, some technology transfer can take place through blue prints and buyer specifications. Because it is a new project, its impact is not yet clear. The IESC programme recently transferred is likely to increase the level of technology transfer through international technical counselling.

2.2.2 K-MAP business training programme

K-MAP is a USAID initiative which uses a one-on-one counselling approach to transfer management and technical skills from executives of larger firms to firms employing less than four people, which is well within the micro enterprise range. This way, there has been some focus on the technological constraints of the small firm. USAID has concluded that "K-MAP was both an effective and efficient project" (NAD, pg 28). Clearly, support of this activity needs to continue and possibly expanded to cover larger groups of their target group. For example, at present, they only serve a Nairobi clientele.

2.2.3 The IESC Project

This is the International Executive Service Corps which formed the main technology development activity in USAID. The IESC concept is essentially a Technical Assistance initiative targeting growth businesses utilising the one-on-one approach. It was found that international technology transfer was more relevant for medium and large firms. Since the only firms of that size that are growing in Kenya are exporters, IESC was transferred to the KEDS project. Needless to say, this model is very expensive, particularly on a stand alone basis. For example USAID statistics show that of all of its PED I initiatives, IESC project had one of the highest project costs per job created (see NAD paper, pg 28).

Obviously, the reach of these particular projects is limited to only a certain type of enterprise. The extent to which they can be vehicles for widespread technological development for small enterprises is limited both by their programmatic and client-base orientations. This highlights the need for specific technology transfer initiatives for micro enterprises.

3 PLAYERS AND POTENTIAL PARTNERS IN TECHNOLOGY INTERVENTION

3.1 Level I Players - Technology Assessment and Market Analysis

There are few players at this level, or if they exist, their focus is wider than technology or indeed, micro enterprises.

(a) *IDS, University of Nairobi* has conducted research in specific areas of micro enterprise development, particularly in the garments and metals sub-sectors. They are slowly building a capacity for rigorous academic research into issues affecting micro enterprises in Kenya. IDS has not specifically focused on technology issues, although these have been studied in the course of the sector studies.

(b) *Volunteers in Technical Assistance (VITA) Kenya* provides the information element of this level of interventions. It is an American NGO involved in communications for development in the fields of disaster relief, enterprise development services, agriculture and rural development services, energy and conservation services, as well as health and education. VITA operates through field offices all over the world, one of which is in Kenya. The Kenyan office has concentrated on communications, particularly the technology inquiry service for which VITA is so well known. Most importantly, the field office is linked to other VITA stations as well as major international information centres. This was, VITA is able to offer a comprehensive information and communications package to developing country users.

VITA also operates a computer based voluntary technical counselling scheme with over 5,000 technical experts located all over the world. In Kenya, VITA has also been involved in the revitalisation of the Christian Industrial Training Centres in Thika, Mombasa, Muriranja's, Pumwani, and Kapsabet. This was done mainly through development and introduction of a business management curriculum; provision of technical and management assistance to CITC graduates; enhanced internship/attachment programmes; establishment of a modest information centre; and targeted assistance to upgrade the CITC production units.

(c) NGOs using the sector approach to intervention (eg ApproTEC, Women's Jua Kali Project; and KIC-K). Obviously, the studies are limited in scope as they are usually conducted with specific sectors in mind. Having said that, they could form an important input into the general micro enterprise assessment activities.

3.2 Level II Players - Technology Development (R&D) and Dissemination and Technology Information

While this level is the more commonly encountered in development work, it has not been very successful. However, current thinking seems to indicate that the strategies being adopted by some NGOs - private sector based dissemination - are likely to offer better success records.

(a) *ApproTEC* is a local NGO which specialises in the development and dissemination of technologies which are appropriate for business creation. Its main strategy is the use of the sub-sector approach to highlight constraints in particular sectors, and then approaching these with a package of interventions including market analysis, R&D, and marketing of the technology. Commercialisation is done through the private sector by selecting a few entrepreneurs to produce and sell the products with ApproTEC quality control and marketing back-up. They have also been involved in advocacy work in the building materials sub-sector. Current sectors of interest include building materials, oil production, micro irrigation systems, carpentry hand tools, and metal working machinery. ApproTEC is also involved at level II with product development programme which. So far, ApproTEC's approach can be said to be breaking new ground in technology intervention in Kenya.

(b) *ITDG* is an international NGO with an extensive network of offices in Africa, Asia and Latin America. ITDG Kenya is currently involved in Rural Agriculture and Pastoralism, Building Materials and Shelter and Stoves and Household energy programmes at community level. The new Rural Transport Programme is already expanding in Ukambani and Kisumu. More recently, they have conducted a study as a precursor to further involvement with the jua kali in Migori area, focusing on metal working. Their new strategy, in the 1995 plan, intends to focus on "developing project work in new technology and geographical areas, increasing communication and policy work", as well as "strengthening ITDG's independent funding position". Clearly, ITDG is moving to shake its previous image of a community projects orientation and attempting to be more responsive to current trends in technology intervention. One of their most successful technologies - the ceramic lined stove, ironically, used the 'extension' approach which has seen the failure of so many other technologies. However, it can be argued that the ceramic stove as a concept succeeded because it was simultaneously commercialised by various donors and NGOs in conjunction with the government, who used private sector producers to make the actual liners and covers. Perhaps this model could be studied further.

(c) Technoserve is an American NGO which seeks to promote the social and economic well-being of low income people in Africa and Latin America through a process of rural community based enterprise development. Their primary focus is on agriculture since this is where the majority of the rural poor pursue their livelihood. Technoserve assists farming communities to establish small and medium scale enterprises which are economically viable and sustainable - higher value added, improved markets, etc. Technoserve is currently involved in agriculture and pastoralism, particularly in animal health and husbandry; as well as horticulture and food processing. They have proposals to go into coconut oil processing at the Coast, and a small holder maize storage programme (the inventory credit program $25,000).

(d) *The Jua Kali Women's Project* is a UNIDO funded project (Nairobi and Nyeri) which has operated since 1991 to assist women in the textile business to improve their technical skills in fabric production, design, as well as business skills and marketing. Their courses are organised for practising entrepreneurs who come to the central training point three times a week for six months. The project trainers have been involved in developing and design techniques and methods that would help the entrepreneurs overcome their constraints. They are also involved in bulk purchasing for their clients. Because the UNIDO funding is coming to an end, the project teams are forming NGOs (Nairobi and Nyeri) under the name of *Women Entrepreneurs for Industrial Growth*, to continue their activities and to be able to solicit funding from other sources. This also allows them to expand their portfolio to include basketry, leather work, food processing, carpentry, metal fabrication and ceramics.

3.3 Level III Players - Product Development and Skills Upgrading

(a) *Kisumu Innovation Centre (KICK)* is a Kenyan NGO operating in Kisumu. It was set up to provide product development, business management, and marketing services to members of the jua kali associations located in Kisumu. KICK focuses on the wood working, metal working , and textiles sectors. Currently, the product development service is provided by VSOs through training workshops and counselling. Through quality control by the technical assistants, the artisans have been able to receive vital technical training and skills upgrading. One of its most successful services to date is the marketing intermediary service. KICK has been able to obtain orders and to distribute these among artisans whom they have trained. On a different level, product development skills are also disseminated through peer association within the market areas, particularly through friendly competition. In a way, KICK is progressively introducing a product development and quality control system based in the local economy.

KICK was set up by a full Grant from ODA, in conjunction with VSO who have sent in technical assistants. They are under pressure, however, to diversify their funding and are in the process of presenting their proposal to The Netherlands Embassy and possibly others.

(b) *Federation of Kenyan Employers - Centre of Excellence for Entrepreneurship Development (FKE/CEED)* is a ILO funded project of the Federation of Kenyan Employers. They have used the sub-sector approach to select sub-sectors of focus (currently building construction, metal fabrication, and food processing), analysed their constraints and needs, and devised training materials to deal with what they call "the trainable needs". This important R&D investment in training approaches in various sectors is an innovative approach in the Kenyan context. It is clear that their focus is training, but they have made important contributions in developing training materials which are specific to the needs of the sectors of interest. They are also involved in sectoral association development - the Food Processors Association is just beginning to emerge. They have also been involved in brokering sub-contracts, an activity which they believe provides a firm basis for technology transfer, particularly from large to small firms. The ILO funding is ending in March and the project is in the process of talking to various donors.

(c) *Kenya Management Assistance Programme (K-MAP)* is a management training organisation which uses an innovative counselling programme where large enterprises volunteer the time of their executives to provide one-on-one counselling to small businesses. K-MAP has, since inception, focused on the transfer of management skills. However, there are plans to introduce technical counselling which they consider to be one of the most frequently demanded service by clients when they request assistance. On the other hand, the business and management skills imparted by the volunteer counsellors has been assessed by recipients to be invaluable. K-MAP has, since a 1992 evaluation, endeavoured to target specific programmes to specific subsectors as a strategy to be more relevant to participants.

(d) *The Jua Kali Women's* project described above. The most important part of their approach is the direct application of materials learnt during two days of the week in their own businesses, as well as the solution, in the classroom, of the real problems they have in the business. Emphasis is on product and market development.

(e) *The ApproTEC* 2 year product development programme which is in its inceptions stages. This programme intends to work with 140 *jua kalis* in various sectors to improve their technical skills and to assist them develop new products for new market niches.

3.4 Donors

(a) The World Bank *Micro- and Small Training and Technology Project* is the most prominent within the sector, mainly because of the magnitude of funding (project base cost of US$20.9million with physical and price contingencies bringing it to US$24.2 million - June 1993 prices), as well as their voucher approach to training. The technology development and pilot infrastructure component is estimated to cost US$5.6million, 27% of the total base cost. This project aims to provide basic skills training (50% to female entrepreneurs), skills upgrading, and management training. The focus is on training, technology and infrastructural development.

(b) *The Netherlands Embassy* in Kenya has been operating in the MSE field for a relatively short time. More recently, they have been interested in technology. For example, it was involved in the initiative to form a forum for NGOs, researchers and donors interested in technology intervention, and has continued to sponsor the meetings - 1993 and 1994. The embassy has recently funded ApproTEC for the inception phase of their five year plan. There are also plans to expand their support to micro enterprises in metal working and food processing, particularly in Western Kenya.

(c) *ILO/TOOL FIT* programme is a 2 year ILO project aimed to develop innovative approaches to the provision of non-financial services to small-scale metal working and food processing enterprises in two countries - Kenya and Ghana. The FIT programme objective is the promotion of local development, production and utilisation of appropriate implements, tools and devices for the benefit of farmers and small food processing and metal working enterprises, with special emphasis on women's technological needs. The current project comes to an end in July, 1995 but there are plans to make use of institutions and individuals who collaborated with the FIT programme (eg ApproTEC) to continue the intervention. This suggests that some institutionalisation of the technology development and dissemination has taken place and that the process can continue, albeit with some continued ILO input.

Currently the FIT programme activities in Kenya include: enhancement of trader networks servicing MSE metal workers; improvement in quality of FIT products; manufacturer of new products; marketing channel development; strengthening entrepreneurial networks; strengthening sectoral associations; and addressing issues of the government policy framework and deregulation. A study of MSE trader networks is in its final stages.

(d) *JAICA is the Japanese technical aid implementor.* To date, it has been involved in major technical training projects throughout Kenya. The most notable is the Jomo Kenyatta University of Agriculture and Technology through a Technical Co-operation Agreement. Under this project, the university has been able to invest in electrical, mechanical, and electronic engineering research. Programmes are also underway in the food technology areas, as well as crop variety and farming techniques research. As a way of making their programmes more relevant in the market place, The Centre for Entrepreneurship Development was established at the university. To date, several training courses and extension programmes for micro enterprises have been facilitated through this centre. The university is looking to expand and diversify their funding base.

The Japanese also fund the giant National Youth Service vocational training programme in various fields including various branches of engineering, garment production, and management skills.

(e) ODA set up, and continue to fund, KIC-K in Kisumu. It also funds the Meru Tools Project, as well as other small initiatives in product development, and training. They also sponsored, together with the Netherlands Embassy, an evaluation of the implementation process of the jua kali policy set out in the Sessional Paper no. 2 of 1992 - the SEPIP project. The ODA SEPIP Mission recommends makes several recommendations. One of the most pertinent to this discussion being setting up a Technology Fund modelled along the ATI lines, somewhat similar to venture capital - joint ownership and sharing of risks, active research to identify opportunities, active role in joint venture formation, move innovative technologies into the market. This report argues that with several financial institutions ready to lend to micro enterprises, they are likely to finance innovation and commercialisation under this fund.

4. POTENTIAL INTERVENTION FRAMEWORK

4.1 General Approach and Strategy

The problems of Kenya's micro enterprise sector are numerous, varied, and complicated, hence need to be addressed with some caution. The overall project design takes the sectoral focus as described in the accompanying SF annex. Care must be taken, however, not to subsume all intervention variations under the subsector.

Some technology activities will be undertaken under the Non Financial Services (NFA) component (in which case they will be sectoral) while others will be undertaken under the Policy and Enabling Environment component (P&EE). Level I activities (see problem analysis sections) including technology policy analysis, market analysis, and technology information facility, will be undertaken under the P&EE component of the project. The technology development and dissemination, as well as product development and skills upgrading activities (Levels II and III) will be carried out under the NFA component. This latter category will be very much market-driven in the sense that the needs of the sectors (or sub-sectors, or trade sectors) will determine the direction. In addition, the activities of the Technology Network will highlight the various consensuses on technology issues and will serve to guide deliberations on appropriate technologies for micro enterprises, whose memebrship might include trade associations which can then highlight technology policy issues. Actual analyses and studies can then be undertaken by the IDS, UON or a similar insitution.

4.2 Activity Organisation

General Non-financial Services Intervention Framework

Summary Strategy and Implementation Mechanism:- The NFA component of the project will be implemented through an Institutional Contractor. A core group of organisations will be identified upfront to work in all of the non-financial components.- see Attach. 2 for criteria. Workplans and budgets will then be developed together with these organisations - preferably in line with existing proposals made by themselves. This is to avoid donor driven agendas. In a way, the lists of potential implementors at each level indicate possible partners as per the team's analysis. Specific grants will be made to individual organisations (or consortia) for specific programmes. It will be important for the implementing organisation to ensure that this process is institutionalised. An important part of this process will be the formation of a network of organisations assisting small enterprises, with various Work Groups focusing on special areas of intervention such as technology, training, etc. (see SF Annex) The Technology Forum is, therefore, the technology worksgoup referred to here.

Technology Component

(a) Objectives

1. At firm level, technology assistance should increase firm 'performance' (i.e. profits, sales, increasing assets, employment, increased access to new or improved technology, and perhaps the production and sale of new/improved products and services) in the selected sectors by increasing their innovative capacity, as well as increase the technical skills of operators.

2. At institutional level, this component should increase the sustainable supply of service delivery of technology assistance organisations (meaning strong institutions with a reasonable level of cost recovery) by increasing the effectiveness of their

services.

3. Sustainable availability of technologies in the private sector. and/or the sustainable production and marketing of new/improved products and services in the private sector (i.e. without intermediaries).

(b) Strategy

A three level approach to addressing the technology issues under this framework are shown in Fig.1 below. It is clear that at Level I, the issues are broad and generic. At Levels II and III, the issues are more likely to be sector specific and are hence more amenable to an incremental sectoral approach.

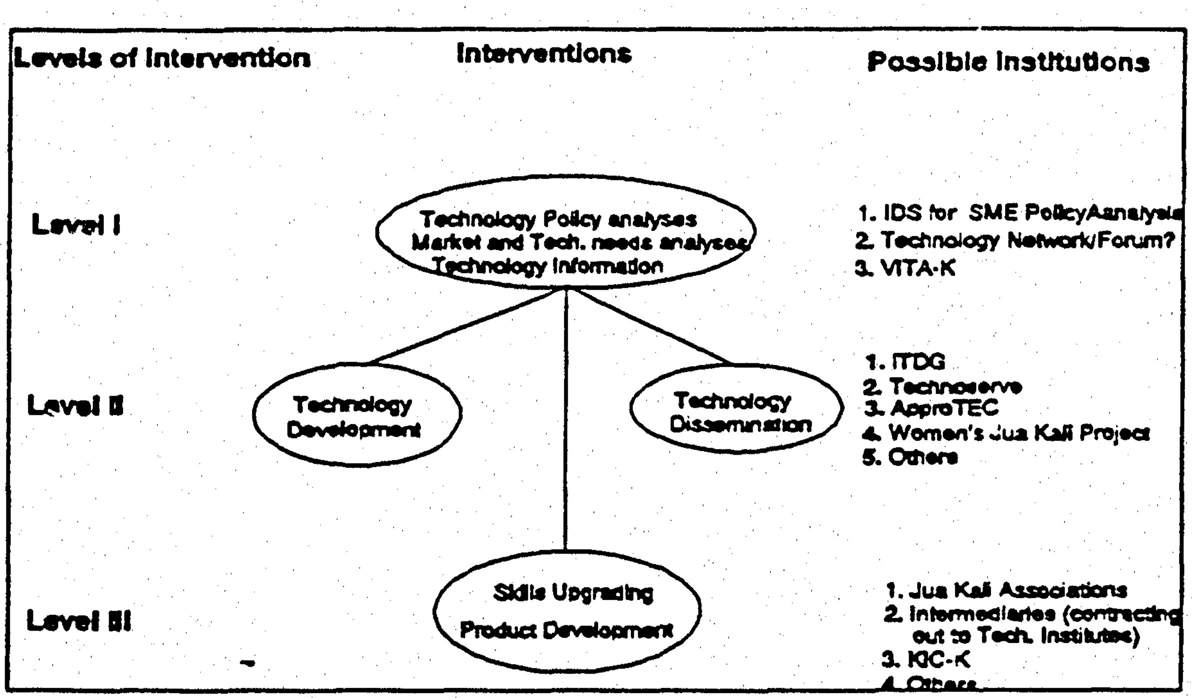

Fig. 1: Levels of Possible Technology Interventions for Micro-enterprises in Kenya

(i) Level I

As already stated in the problem analysis. Level I. focuses on the more generic issues of Technology. The objectives of this level of intervention are threefold:

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- to facilitate the deliberation of technology issues and interventions for micro enterprises
- to increase the availability of market information, as well as information on the technology needs of the micro enterprise sector; and
- to increase the availability of technology policy analyses.

The framework recommended by the team suggests a need for generic sector analyses and information provision. An MSE Forum/Network can bring various operators together. It will then liaise with associations to highlight various MSE needs, as well as policy issues. The question of who is to determine what sectors and technologies to focus on depending on the needs of these sectors, can then be addressed by such a co-ordinating body. It is within this framework that the Technology Forum will be supported. Together with sectoral jua kali associations, the Forum can then liaise with those organisations which have the capacity to monitor and evaluate the market, technological needs of micro-enterprises, and available capacities for micro-enterprise support. Such an institution should have a non-sectoral mandate, and must have the capacity to evaluate (with help from policy analysts) all the sectors where micro-enterprises are represented. This way, it can 'flag' any new potentials and pitfalls. This is likely to be the major resource base for the sectoral approach, and the various needs of the sectors.

The ODA SEPIP Mission recommends a similar facility (Technology Assessment Unit) endorsing the UNDP and World Bank strategy. However, they seem to suggest housing it within the SSE Unit within the government structure. Obviously, this approach is likely to have implementational drawbacks such as limited autonomy to independently handle the sector's affairs.

To increase the technology information base, it is important to encourage the creation of a Clearing House, which should have linkages with international organisations. A possible partner in this respect is VITA-K. It could also act, in these initial stages, as the Co-ordinator of the Technology Forum/Network.

To increase the availability of market information, policy analyses, as well as specific technology needs of sub-sectors, the IDS of the University of Nairobi or a similar insitution can be used. It has the research capacity to monitor the micro enterprise environment in general, and its technological needs in particular. Obviously, there will be need to coordinate the information generation, and dissemination functions of IDS and VITA-K, and indeed any other organisations generating information. The contractor should especially make sure that linkages are formed, perhaps via computer networking, and/or seminars and workshops. For this latter part, K-REP's existing seminar programme would be a useful forum. The approach outlined above has the disadvantage of being somewhat fragmented although it allows implementors to focus on what they do best.

An alternative framework is to set up an equivalent of USAID's Policy Analysis Matrix

(PAM) which operates in the agricultural sector (and is a part of the Egerton University) to provide routine, systematic information at firm and assistance institution level, as well as routine policy analysis at farm and/or firm levels. It disseminates this information once a year at a conference. The most important features of this model are its relative objectivity in information generation, and its ability to bring all major players together to chart out the next steps for particular sectoral issues, or general topical issues. This approach would enable AID to set up a new institution with a specific mandate to monitor the whole of the micro enterprise sector environment and hence would cover technology issues routinely. The main drawback is the pitfalls associated with creating completely new institutions. However, I can see this being implemented in collaboration with the IDS, which is already slotted for research work here.

It would appear that the more loosely organised approach - the former- would be the more effective for technology as it would allow responsiveness to the market. The PAM model is compact and neat, but it is likely to encourage top-down research.

(ii) Level II

Level II interventions are the most common in development work, although the R&D part of it not nearly as common as dissemination. The objective at this level is:

- to increase the availability (in numbers, accessibility and affordability) of appropriate technologies to micro enterprises within particular sectors through sustainable service delivery mechanisms.

It must be stressed that, while not focusing on particular sectors exclusively, interventions at this level must adopt a sectoral approach. Secondly, the number of technologies developed and/or disseminated is not the issue. Rather, the critical issue is the reach of any technological intervention. For example, if a simple irrigation pump can increase the productivity of a large number of farmers, then it is preferable to several types of specialised technologies intended for very small groups of, say furniture makers. It is important, that the implementor demonstrates, therefore, that the technologies will reach a large number of people, particularly women. An important part of the project will be the documentation of lessons learnt.

The general approach to the NFA component of the project will be used here to select a core group of implementors to work with, depending on the technology needs of the sectors of immediate interest. For example, we know that technology needs have been highlighted as priority in the food processing 'trade sector'. This provides a starting point for technology interventions while other mechanisms in Level I are put into place.

Implementing organisations will be those who demonstrate that they are interested in currently prioritised sectors/technologies. Possible implementors include ApproTEC; Technoserve; ITDG; the Jua Kali Women's Textile Project; FKE/CEED; K-MAP; and others who may demonstrate that they meet the following criteria:

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1. Focus on employment creation
2. Focus on technology for micro-enterprise
3. Pursue a policy of equal access to women
4. Have a goal of sustainable technology development and/or dissemination in the private sector - economic sustainability; environmental sustainability; distribution networks; repair services for hard technologies; available inputs and machinery; availability of good quality training; no displacement of indigenous technologies or labour.
5. Meet the following institutional criteria - clear mission statement; clearly stated and well developed plan/strategy; past experience (although there may be some room for experimentation); organisational chart and clear job descriptions; must show capacity - skilled staff; demonstrable learning, Monitoring and Evaluation capacity; acceptable (USAID criteria) audited accounts; must have an active Board of Directors
6. Relationships and networks with other MSE support institutions (credit, training, marketing)
7. Specific quantitative and qualitative impact objectives (quality employment, women employment; utility in local economy; etc)

It will be important for such partners to show that the technology they wish to promote has been stimulated by large sections of a particular market of micro enterprise intermediate users. Technologies which seek to bring more women into post-harvest processing of agricultural produce will be particularly important.

The major drawbacks to R&D for appropriate technologies are related to funding. Given the serious, negative experiences of technology intervention, it is unlikely that the subsidy model will continue. There's need, therefore, to consider various R&D financing models. In 1986, J A Green, a USAID consultant also recommended a similar fund (contract no. KEN 60035) but for some reason, this was not implemented. ATI has had some success with this approach in Latin America and elsewhere (see section 3.4 - "Donors") implying that it is feasible. However, groundwork has to be laid with financial institutions as well as enterprises where innovation is likely to take place. It is necessary, therefore, to prepare the ground through negotiations with other interested donors and possible partners such as K-REP. This approach may be the way forward for technology development in general given the current reluctance of donors to invest in it.

Technology delivery mechanisms will be important at this level. As already mentioned, the way technology assistance is packaged may have implications for its widespread adoption. Traditionally, technologies have been 'sold' as equipment alone without the attendant components such as feasibility studies, extension services and follow-up, and analyses of the viability of sources of inputs. In addition, technologies have rarely been institutionalised within the local commercial community such that if and when the promoter of the technology pulls out, the technology is at risk of dying. This 'packaging' problem also has implications for local innovation based on existing technologies. Without an in-built local technology capacity, it is unlikely that such a community will innovate.

This highlights the importance of the private sector in the commercialisation process. The Kenya Ceramic Jiko (KCJ) has drawn its major successes from the private sector dissemination approach used. In the earlier part of the century, the animal drawn plough and the *posho* mill benefited from similar approaches to dissemination in Kenya. What this means for AID is that it is only those institutions which have the capacity to link with the private sector which can provide the maximum leverage in technology development.

(iii) Level III

This level of interventions focuses on product development and skills upgrading as ways of alleviating product and production related constraints, as well as serve as a channel for technology transfer. In many of the existing models, business skills are included here as an important prerequisite to increased productivity of micro enterprises. Its main objective is:

- to improve, sustainably, the design and product development skills of practising *jua kali* operators, and to improve their market responsiveness as well as their marketing techniques.

This level may constitute, in these initial stages, the level with the highest immediate impact (see KIC-K profile) as many micro enterprise owners improve the quality of their output with minimal technical and business skills inputs. Note that the guiding principles developed in the "training" sub-component of the NFA component emphasise the need for the sustainable delivery of such services. As this service is usually directly related to 'tangible' improvements in performance, a 20-40% cost recovery is possible over the five year period.

Possible partners include KICK-K, which currently focuses on artisans in the Kisumu area; and the Jua Kali Women's Textile project in their other sectors of interest other than textiles (see Jua Kali Women's Project profile). ApproTEC has embarked on a similar approach to technology transfer and are currently funded by the Netherlands Embassy for this particular activity. The ILO/FIT project has successfully used a similar approach to improve the quality of jua kali products.

Having said that, it is important to highlight the need for a monitoring system which can identify the skills needs of artisans, assess the capacity of training institutions, and possibly match artisans and institutions by subcontracting training and technical advice services. The way things stand, the various business associations of which micro enterprises are members can play an important role in putting this system in place - stimulate demand-led service delivery. Its success is predicated, however, on the strength of the relevant associations. Hence, capacity building of these associations should take place concurrently within the P&EE component, with specific assistance given to develop this capacity. However, not all associations will be 'ready' for such support. It is important to build, systematically, the structures and attitudes necessary to make them strong monitoring and advocacy agents.

(c) *Co-ordination, Synergy and Institutionalisation*

One of the contributing factors to the disjointed and dismal performance of technology development and dissemination in Kenya is the lack of continuity in many projects. It is, therefore, important to build-in project continuity, at AID level, with regard to technology development and dissemination. One way to achieve this goal is to enhance the activities of the interventions set out in Level I. This includes analyses at the people, enterprise, assistance, and policy levels. Within this broad framework there should be specific service components such as technology, training, policy analysis, dissemination of lessons learnt, etc.

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World Bank/GOK "Micro and small enterprise training and Technology project", Summary of Project Document (restricted circulation).

PEOPLE AND INSTITUTIONS VISITED

Date	Institution	People contacted	Areas of Interest
4th Jan.	- ApproTEC	- Dr. Martin Fisher - Mr Nick Moon	- Tech. Dev. - Product dev. - Policy & advocacy
5th Jan.	- FKE and Food Processors Association	- Mr Nyang'ute - Mr P Maina (FPA Chairman) - Mr Ngonjo (FPA member)	- Sectoral focus (metal, construction, food processing) in training materials dev.
6th Jan.	- VITA-K	- Mr Harun Baiya	- Technology information; clearing house; on-line technical advice
9th Jan. (am)	- KIC-K, Kisumu	- Mr Dimba - Jua Kali artisans in Kibuye, Kisumu	- Technical advice - Resource centre - Marketing services - Business training - Sectoral focus
9th Jan. (pm)	- ApproTEC - field off.	- Mr Danny Towett - Henry Ndede (entrepreneur) - Akala market	- Tech. development & dissemination (Oil press - others) - Policy analysis/advocacy - product development, etc
10th Jan. (pm)	- Jua Kali Women's Textile Project ILO (soon splitting to form 2 NGOs) and expanding into other sectors such as basketry	- Ms Joyce Assanga - Coordinator - Mr J Muiruri	- Product development - Marketing - Skills upgrading in textile technology
11th Jan (am)	- CITC-VITA project, Thika - Wakai Industries - graduated from jua kali sheds - Mr Mathenge - recycled plastic pipes producer	- Mr Peter Karanja - Principal - Mr Karanja - Proprietor's son	- Skills training - Skills upgrading - Some product development
11th Jan (pm)	- KVM, Thika	- Mr Wabule - Company Secretary	- Links with CITC, Thika (student attachment; boardroom links for curriculum dev.)
12th am (am)	Technoserve	- Mr. Paul Warmka - Director	- Technology development in agriculture (ie dairy), horticulture and pastoral livestock husbandry. - Proposal to move into coconut oil and food processing

13th Jan (pm)	ITDG	- Mr John Young - Country Director	- Technology development in transport, pastoral livestock husbandry, energy
18th Jan	JKUAT	- Mr G Namusonge - Director, Centre for Enterprise Development - Prof. Thairu - Deputy Principal	- -Food technology research - Extension work - Farming techniques dissemination

Attach. 2

CRITERIA

For institutions offering both soft and hard technologies.

1. Focus on employment creation
2. Focus on technology for micro-enterprise
3. Policy of equal access to women
4. Goal of sustainable technology development and/or dissemination in the private sector
   - economic sustainability
   - environmental sustainability
   - distribution networks
   - repair services for hard technologies
   - available inputs and machinery
   - availability of good quality training
   - no displacement of indigenous technologies or labour
5. Institutional criteria

   Must have:
   - clear mission statement
   - clearly stated and well developed plan/strategy
   - past experience (although there may be some room for experimentation)
   - organisational chart and clear job descriptions
   - must show capacity - skilled staff
   - demonstrable learning, Monitoring and Evaluation capacity
   - acceptable (USAID criteria) audited accounts
   - must have an active Board of Directors
6. Relationships and networks with other MSE support institutions (credit, training, marketing)
7. Specific quantitative and qualitative impact objectives (quality employment, women employment; utility in local economy; etc)

ANNEX J:

DETAILED BUDGET & FINANCIAL ASSUMPTIONS

TABLE J-1 MICRO-PED (615-0263)
DETAILED POLICY COMPONENT BUDGET

Policy Component	
A. Policy Forum	
'2 Kenyan experts, 4 yrs	342
Director, 25 %	54
Int'l Experts 4 months	93
Studies ,13	156
Direct Costs	78
Seminar costs(13@ 1923)	25
Overheads, 20%	98
Sub-total	846
Assistance to the GOK	
KIPRA	
Sr Consultant	155
Jr Consultant	77
Equipment	16
Communication & travel	16
sub-total	264
Advisors to other GOK Ministries	
Int'l , 4 months	93
Kenyan, 9 months	47
sub-total	140
Sub-Total GOK Asst	404
Sub-Total P olicy Forum	**1250**
B. Association Development	
Curricolum Development	
Int'l TA, 4 months	80
Kenyan Institutional cost	33
sub-total	113
Training	87
Sub-Total Association Dev	**200**
C. Strategy Support	
'1 National Survey	133
'2 Special Studies	133
'2-5 Grants	234
Sub-total Srategy	**500**
TOTAL POLICY COMPONENT BUDGET	1950

TABLE J-2 : MICRO-PED (615-0253)

ECHNICAL ASSISTANCE BUDGET

COMPONENTS >		SUB-SECTOR	FINANCE	TOTAL
rnational TA				
ary @375 per day				
2yrs)		$201,518	$201,518	$403,036
t differential @6%		$10,748	$10,748	$21,496
ne Office cost		$10,748	$10,748	$21,496
lrect cost on sal @90%		$181,366	$181,366	$362,733
IN-DIRECT COSTS				
(These include)				
Housing		$59,709	$59,709	$119,418
Security		$8,210	$8,210	$16,420
Education		$26,869	$26,869	$53,738
Shipping		$11,196	$11,196	$22,391
Travel and Transportation.		$74,636	$74,636	$149,273
SUB-TOTAL INTERNATIONAL TA		$585,000	$585,000	$1,170,000
LOCAL TA				
Technical consultant				
@ $60,000 p.a per person for 4 yrs		$242,105	$242,105	$484,211
Indirect cost on sal @90%		$217,895	$217,895	$435,789
SUB-TOTAL LOCAL TA		$460,000	$460,000	$920,000
ffice costs				
istrative Accountant		$4,622	$2,228	$6,850
per day for 4yrs				
ry				
per day for 4yrs		$3,302	$1,591	$4,893
office clerk				
@150 shs per day for 4yrs		$1,981	$955	$2,936
Indirect cost @90% (on salaries)		$8,914	$4,296	$13,210
Other direct costs/Allowances		$396,181	$190,931	$587,112
SUB-TOTAL LOCAL OFFICE		$415,000	$200,000	$615,000
SUB-TOTAL TA & LOCAL OFFICE		$1,460,000	$1,245,000	$2,705,000
Sub-contracts (Workshops)		$150,000	$200,000	$350,000
Fixed fee		$90,000	$55,000	$145,000
Total IC cost		$1,700,000	$1,500,000	$3,200,000
USAID SUPPORT SERVICES COST				
ject Funded Component Managers				
$55,000 p.a. for 5 yrs				
$70,000 p.a for 5yrs				$900,000.00
er indirect costs				
PIOTs (15 Fin, 15 S/Sec & 10	Finance	$12,000.00		
~~@ $ 50 an hr. (16 hrs for each~~	~~Sub-Sec~~	~~$12,000.00~~		
	Policy	$8,000.00		
Amendments	Finance	$3,000.00		
	Sub-Sec	$3,000.00		
	Policy	$2,000.00		
Grants (10)		$5,000.00		
(16 hrs for each)				
Amendments		$2,000.00		$47,000.00
TOTAL COST COST UNDER THIS OPTION				$4,147,000.00

TABLE J-3 : MICRO-PED (615-0263) COMPARISON
(IMPLEMENTATION FULLY CONTRACTED OUT)

TECHNICAL ASSISTANCE BUDGET

COMPONENTS	SUB-SECTOR	FINANCE	POLICY	TOTAL
1 International TA				
Salary @375 per day				
(for 2yrs)	$201,518	$201,518	$201,518	$604,554
Post differential @5%	$10,748	$10,748	$10,748	$32,244
Home Office cost	$10,748	$10,748	$10,748	$32,244
Indirect cost on sal @90%	$181,366	$181,366	$181,366	$544,098
IN-DIRECT COSTS				
(These include)				
Housing	$59,709	$59,709	$59,709	$179,127
Security	$8,211	$8,211	$8,211	$24,633
Education	$26,869	$26,869	$26,869	$80,607
Shipping	$11,195	$11,195	$11,195	$33,585
Travel and Transportation.	$74,636	$74,636	$74,636	$223,908
SUB-TOTAL INTERNATIONAL TA	$585,000	$585,000	$585,000	$1,755,000
LOCAL TA				
Technical consultant				
@ $60,000 p.a per person for 4 yrs	$484,210	$242,105	$242,105	$968,420
Indirect cost on sal @90%	$435,790	$217,895	$217,895	$871,580
SUB-TOTAL LOCAL TA	$920,000	$460,000	$460,000	$1,840,000
Local office costs				
2 Administrative Accountant	$5,600	$4,200	4200	$14,000
@330 per day for 4yrs				
Secretary				
@220 per day for 4yrs	$4,000	$3,000	3000	$10,000
office clerk				
@150 shs per day for 4yrs	$1,200	$900	900	$3,000
Indirect cost @90% (on salaries)	$9,720	$7,290	7290	$24,300
Other direct costs/Allowances	$320,000	$240,000	240000	$800,000
SUB-TOTAL LOCAL OFFICE	$340,520	$255,390	$255,390	$851,300
SUB-TOTAL TA & LOCAL OFFICE	$1,845,520	$1,300,390	$1,300,390	$4,446,300
Sub-contracts (Workshops)	$200,000	$100,000	100000	$400,000
Fixed fee	$100,534	$75,401	$75,401	$251,336
Total IC cost	$2,146,054	$1,475,791	$1,475,791	$5,097,636

USAID SUPPORT SERVICES COST

Project Funded Component Managers
2 @$55,000 p.a. for 5 yrs $550,000.00

TOTAL COST UNDER THIS OPTION $5,647,636.00

TABLE T-4 MICRO-PED (615-0263)

Indirect Management		
	1,350,000	Proportion of time of following staff: Office Chief .20 Deputy Chief .30 Contracts .20 RLA .10 Controller .15 Misc .15 Total 1.35 @ $200K x 5 years
FSN	270,000	
		Project Committee .15 Secretarial .60 Controller's Office Support .40 Misc. .20 Total 1.35 @ 4$40,000/yr x 5 ye:
Office Equipment and Accom	324,000	20% of above 2 items
Total	1,944,000	

ANNEX K:

STATUTORY CHECKLIST

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5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? — Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Assistance will encourage b, c, d and e.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. based technical assistance will be used to implement finance and subsector components of the project.

3. **Congressional Notification**

a. **General requirement** (FY 1994 Appropriations Act Sec. 515; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly

N/A.

otified (unless the Appropriations
ct notification requirement has been
aived because of substantial risk to
uman health or welfare)?

b. **Special notification requirement**
FY 1994 Appropriations Act Sec. 520):
re all activities proposed for obligation
ubject to prior congressional notification?

Yes.

c. **Notice of account transfer**
FY 1994 Appropriations Act Sec. 509):
f funds are being obligated under an
ppropriation account to which they were
ot appropriated, has the President
onsulted with and provided a written
ustification to the House and Senate
ppropriations Committees and has such
bligation been subject to regular
otification procedures?

N/A.

d. **Cash transfers and nonproject**
ector assistance (FY 1994 Appropriations
ct Sec. 537(b)(3)): If funds are to be
ade available in the form of cash
ransfer or nonproject sector assistance,
as the Congressional notice included
detailed description of how the
unds will be used, with a discussion
f U.S. interests to be served and a
escription of any economic policy
eforms to be promoted?

N/A.

4. **Engineering and Financial Plans**
(FAA Sec. 611(a)): Prior to an obligation
in excess of $500,000, will there be:
(a) engineering, financial or other plans
necessary to carry out the assistance;
and (b) a reasonably firm estimate of
the cost to the U.S. of the assistance?

a) Yes.

b) Yes.

5. **Legislative Action** (FAA Sec.
611(a)(2)): If legislative action is
required within recipient country with
respect to an obligation in excess of
$500,000, what is the basis for a

N/A.

easonable expectation that such action
ill be completed in time to permit
rderly accomplishment of the purpose
f the assistance?

6. **Water Resources** (FAA Sec. 611(b)): f project is for water or water-related and resource construction, have benefits nd costs been computed to the extent racticable in accordance with the rinciples, standards, and procedures stablished pursuant to the Water esources Planning Act (42 U.S.C. 1962, t seq.)? (See A.I.D. Handbook 3 for uidelines.)

N/A.

7. **Cash Transfer/Nonproject Sector ssistance Requirements** (FY 1994 ppropriations Act Sec. 537). If ssistance is in the form of a cash ransfer or nonproject sector assistance:

a. **Separate account:** Are all uch cash payments to be maintained by he country in a separate account and ot commingled with any other funds (unless such requirements are waived y Congressional notice for nonproject ector assistance)?

N/A.

b. **Local currencies:** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(a) N/A.

(b) N/A.

(c) N/A.

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(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

N/A.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

N/A.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

N/A.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A.

9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The project aim to increase micro-enterprise employment which will broaden the economic growth thereby contributing to multiple country objectives (a-f).

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10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project is not designed to encourage U.S. trade and investment, per se but will increase incomes and strengthen markets for U.S. goods and services.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

Based on the illustrative project budget recipient organizations will contribute up to 27% of the total project cost.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

The U.S. owns no excess Kenya Shillings.

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1994 Appropriations Act Sec. 513(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No.

b. **Textiles (Lautenberg Amendment)** (FY 1994 Appropriations Act Sec. 513(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential

No.

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nvestment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

a) No.

b) No.

14. **PVO Assistance**

a. **Auditing and registration** (FY 1994 Appropriations Act Sec. 568): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

All the PVOs to be assisted under the project will be subjected to the A.I.D. PVO registration and audit requirement.

b. **Funding sources** (FY 1994 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A.

15. Project Agreement Documentation (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's

The Project funds will be obligated under a USAID Handbook 3 grant agreement. Notification of funds obligation will be sent to USAID/W. Via a cable and entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

a copy of the grant agreement will be sent to the relevant offices.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms?

Yes.

Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

Yes.

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

17. **Abortions** (FAA Sec. 104(f); FY 1994 Appropriations Act, Title II, under heading "Population, DA," and Sec. 518):

a. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

b. Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or

No.

provide any financial incentive to any person to undergo sterilizations?	
c. Are any of the funds to be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	No.
d. Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services? (As a legal matter, DA only.)	N/A.
e. In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning? (As a legal matter, DA only.)	N/A.
f. Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	N/A.
g. Are any of the funds to be made available to any organization if the President certifies that the use of these funds by such organization would violate any of the above provisions related to abortions and involuntary sterilization?	No.
18. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?	The Project will provide assistance to the micro-enterprise organizations, some of which are operating as co-operative.

19. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1994 Appropriations Act Secs. 503, 505): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

20. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

No. special arrangement made, but they will be given priority where appropriate.

b. **U.S. procurement** (FAA Sec. 604(a): Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

Yes.

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

Yes.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A.

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A.

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No.

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Technical assistance will be furnished by private enterprise on a competitive basis to the fullest extent practicable. Use of other federal agencies is not contemplated.

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

i. **Consulting services** (FY 1994 Appropriations Act Sec. 567): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A.

j. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms?

Yes.

Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?

Yes.

Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

Yes.

k. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes.

l. **Chemical Weapons** (FY 1994 Appropriations Act Sec. 569): Will the assistance be used to finance the procurement of chemicals that may be used for chemical weapons production? — No.

21. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A.

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A.

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? — N/A.

22. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A.

23. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — N/A.

24. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? — Yes.

25. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — N/A.

26. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

27. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? — N/A.

28. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes.

29. **Export of Nuclear Resources** (FY 1994 Appropriations Act Sec. 506): Will assistance preclude use of financing to finance--except for purposes of nuclear safety--the export of nuclear equipment, fuel, or technology?

N/A.

30. **Publicity or Propaganda** (FY 1994 Appropriations Act Sec. 557): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

N/A.

31. **Marine Insurance** (FY 1994 Appropriations Act Sec. 531): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes.

32. **Exchange for Prohibited Act** (FY 1994 Appropriations Act Sec. 533): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

N/A.

33. **Commitment of Funds** (FAA Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

No.

34. **Impact on U.S. Jobs** (FY 1994 Appropriations Act, Sec. 547):

a. Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business? — No.

b. Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.? — No.

c. Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, or will assistance be for the informal sector, micro or small-scale enterprise, or smallholder agriculture? — No.

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY

1. **Agricultural Exports (Bumpers Amendment)** (FY 1994 Appropriations Act Sec. 513(b), as interpreted by conference report for original enactment): If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities: (1) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports — N/A.

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of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (2) in support of research that is intended primarily to benefit U.S. producers?

2. **Tied Aid Credits** (FY 1994 Appropriations Act, Title II, under heading "Economic Support Fund"): Will DA funds be used for tied aid credits?

No.

3. **Appropriate Technology** (FAA Sec. 107): Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes.

4. **Indigenous Needs and Resources** (FAA Sec. 281(b)): Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project will address the unemployment problem which is the single most problem facing Kenyans today. Through the financial TA and advocacy programs, Kenyans will increasingly increase their understanding and participation in governmental, economic and political processes.

5. **Economic Development** (FAA Sec. 101(a)): Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

6. **Special Development Emphases** (FAA Secs. 102(b), 113, 281(a)): Describe extent to which activity will: (a) effectively involve the poor in development by extending access to

The project targets those involved in Micro-enterprise activities which is last economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

resort employer, with 78% of the recipients located in rural areas.

(b) and (c) will be encouraged through the policy advocacy component of the project.

(d) Through close monitoring of women participation in project and incorporation of their needs.
(e) N/A.

7. **Recipient Country Contribution** (FAA Secs. 110, 124(d)): Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes. Recipient will provide at least 25% of the total project cost.

8. **Benefit to Poor Majority** (FAA Sec.128(b)): If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?

Yes. Through clearly defined indicators and monitoring of success on all project components.

9. **Contract Awards** (FAA Sec. 601(e)): Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

10. **Disadvantaged Enterprises** FY 1994 Appropriations Act Sec. 558): hat portion of the funds will be vailable only for activities of conomically and socially isadvantaged enterprises, istorically black colleges nd universities, colleges and niversities having a student ody in which more than 40 ercent of the students are Iispanic Americans, and private nd voluntary organizations hich are controlled by ndividuals who are black mericans, Hispanic Americans, r Native Americans, or who re economically or socially isadvantaged (including women)?

No specific amount set, however, the project will try to reach at least 10% of such entities.

11. **Biological Diversity** (FAA Sec. 119(g): Will the assistance: (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

(a) N/A.

(b) N/A.

(c) N/A.

(d) No.

12. **Tropical Forests** (FAA Sec. 118; FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act):

a. **A.I.D. Regulation 16:** Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16?

Yes. IEE categorical exclusion pursuant to AID regulation 22 CFR 216 2(c) 2(1) because it consists of TA, and training programs.

b. **Conservation:** Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash -and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance

(1) N/A.

(2) Yes.

(3) N/A.

(4) N/A.

(5) N/A.

(6) N/A.

(7) N/A.

(8) N/A.

(9) N/A.

or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; (11) utilize the resources and abilities of all relevant U.S. government agencies; (12) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land; and (13) take full account of the environmental impacts of the proposed activities on biological diversity?

(10) N/A.

(11) N/A.

(12) N/A.

(13) N/A.

c. **Forest degradation:** Will assistance be used for: (1) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas; (3) activities which would result in the conversion of forest lands to the rearing of livestock; (4) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (5) the colonization of forest lands; or (6) the construction

(1) No.

(2) No.

(3) No.

(4) No.

(5) No.

f dams or other water control structures which flood relatively ndergraded forest lands, unless ith respect to each such ctivity an environmental ssessment indicates that he activity will contribute ignificantly and directly to mproving the livelihood of the ural poor and will be conducted n an environmentally sound ianner which supports sustainable levelopment?

(6) No.

d. **Sustainable forestry:** f assistance relates to tropical orests, will project assist ountries in developing a ystematic analysis of the ppropriate use of their total ropical forest resources, with he goal of developing a national rogram for sustainable forestry?

N/A.

e. **Environmental impact statements:** Will funds be made available in accordance with provisions of FAA Section 117(c) and applicable A.I.D. regulations requiring an environmental impact statement for activities significantly affecting the environment?

Yes.

13. **Energy** (FY 1991 Appropriations Act Sec. 533(c) as referenced in section 532(d) of the FY 1993 Appropriations Act): If assistance relates to energy, will such assistance focus on: (a) end-use energy efficiency, least-costenergy planning, and renewable energy resources, and (b) the key countries where assistance would have the greatest impact on reducing emissions from greenhouse gases?

(a) N/A.

(b) N/A.

14. **Debt-for-Nature Exchange** (FAA Sec. 463): If project will finance a debt-for-nature exchange, describe how the exchange will

N/A.

support protection of: (a) the world's oceans and atmosphere, (b) animal and plant species, and (c) parks and reserves; or describe how the exchange will promote: (d) natural resource management, (e) local conservation programs, (f) conservation training programs, (g) public commitment to conservation, (h) land and ecosystem management, and (i) regenerative approaches in farming, forestry, fishing, and watershed management.

15. **Deobligation/Reobligation** (FY 1994 Appropriations Act Sec. 510): If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same region as originally obligated, and have the House and Senate Appropriations Committees been properly notified? — N/A.

16. **Loans**

a. **Repayment capacity** (FAA Sec. 122(b)): Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. — N/A.

b. **Long-range plans** (FAA Sec. 122(b)): Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? — Yes.

c. **Interest rate** (FAA Sec. 122(b)): If development loan is repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — N/A.

d. **Exports to United States** FAA Sec. 620(d)): If assistance is or any productive enterprise which ill compete with U.S. enterprises, s there an agreement by the recipient ountry to prevent export to the U.S. f more than 20 percent of the nterprise's annual production uring the life of the loan, r has the requirement to enter nto such an agreement been waived y the President because of a ational security interest?

N/A.

17. **Development Objectives** (FAA Secs. 102(a), 111, 113, 281(a)): xtent to which activity will: (1) effectively involve the poor in development, by expanding access o economy at local level, increasing labor-intensive production and the se of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

(1) The project will to a large extent involve the poor focusing assistance to the micro-enterprise activities which provide employment mainly for the urban/rural poor.

(2) N/A.

(3) To a larger extent through support for local NGOs working in the micro-enterprise sector.

(4) To the extent that women comprise 46% of the project target.

(5) N/A.

18. Agriculture, Rural Development and Nutrition, and **Agricultural Research** (FAA Secs. 103 and 103A):

a. **Rural poor and small farmers:** If assistance is being made available for agriculture, rural development or nutrition, describe extent to which activity is specifically designed to increase productivity and income of rural poor; or if assistance is being made available for agricultural research, has account been taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made.	Through the provision of TA, credit and training. No.
b. **Nutrition:** Describe extent to which assistance is used in coordination with efforts carried out under FAA Section 104 (Population and Health) to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people.	N/A.
c. **Food security:** Describe extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures	N/A.

encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

19. **Population and Health** (FAA Secs. 104(b) and (c)): If assistance is being made available for population or health activities, describe extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A.

20. **Education and Human Resources Development** (FAA Sec. 105): If assistance is being made available for education, public administration, or human resource development, describe (a) extent to which activity strengthens non formal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are

(a) Training provided under the project will enhance the skills of entrepreneurs and staff of target micro-enterprise businesses.

(b) Opportunities for advanced training has not been provided for under the project.

required for planning and implementation of public and private development activities.

21. **Energy, Private Voluntary Organizations, and Selected Development Activities** (FAA Sec. 106): If assistance is being made available for energy, private voluntary organizations, and selected development problems, describe extent to which activity is:

a. concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;	N/A.
b. concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	N/A.
c. research into, and evaluation of, economic development processes and techniques;	Yes. Through support to forum, research component.
d. reconstruction after natural or manmade disaster and programs of disaster preparedness;	N/A.
e. for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;	Assistance to KREP under finance section and training under KMAP.

f. for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development. — N/A.

22. **Capital Projects** (Jobs Through Export Act of 1992, Secs. 303 and 306(d)): If assistance is being provided for a capital project, is the project developmentally sound and will the project measurably alleviate the worst manifestations of poverty or directly promote environmental safety and sustainability at the community level? — N/A.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes.

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? — No.

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).) — N/A.

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1994, this provision is superseded by the separate account requirements of FY 1994 Appropriations Act Sec. 537(a), see Sec. 537(a)(5).)

N/A.

5. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act. Note, as well, that although a comparable provision does not appear in the FY 94 Appropriations Act, the FY 93 provision applies to, among other things, 2-year ESF funds which could be obligated in FY 94.)

N/A.

ANNEX L:
LETTER OF REQUEST FROM THE GOVERNMENT OF KENYA

We look forward to continuing our longstanding co-operation in economic development .

Sincerely,

FARES M. KUINDWA
PERMANENT SECRETARY

ANNEX M:

REFERENCES

Overseas Development Administration in cooperation with The Netherlands Government and UNDP. "Small Enterprise Policy Implementation Program, Provisional Report." March, 1994.

Parker, Joan with Tanya Torres. "Micro and Small Enterprises in Kenya: Results of the 1993 National Baseline Survey." GEMINI, 1994.

The Services Group & Kenya Export Development Support Project. "Export Competitiveness Study." 1994.

Tomeco, Jim and C. Aleke-Dondo. "Improving the Growth Potential of the Small Scale and Informal Sector," 1992.

World Bank. Kenya Poverty Assessment, July 1994.

World Bank. Kenya: Employment Growth for Poverty Alleviation. September 30, 1993-A.

World Bank. "Private Sector Development Strategy" 1993-B.

World Bank. "Kenya's Development Challenge and the Reform Agenda Ahead." October 26, 1993-C.

Yambo, Mauri. "Training Needs Assessments of the Informal Sector."

ANNEX N:

LIST OF INDIVIDUALS AND INSTITUTIONS CONSULTED

ORGAN	LASTNAME	FIRSTNAME	ADDRESS P.O. BOX	CITY	TITLE	PHONE
Ministry of Financ	Kioko wa Luka	George	30007	Nairobi	USAID Desk Officer	218331
Nati. Assoc. of Kenya Wo. in Bus.	Mutura	Jesse	43460	Nairobi		334413
NCCK	Chege	M. M.	45009	Nairobi	Director, SSBEP	336510
Netherlands Emba y	Ong'olo	David	41537	Nairobi	Assistant Project Officer	227111
PCEA Chogoria H spital	Murungi K.	Edith	35	Chogoria		22017
Policy Analysis Ma ix	Nguyo	Wilson	20498	Nairobi	Team Leader	717818
PRIDE/Africa	Campaigne	Jonathan	39320	Nairobi	Managing Director	749511
PRIDE/Africa	Goldrick	Jackie	39320	Nairobi		749511
PRIDE/Kenya	Oluo	Grace	39320	Nairobi	General Manager	749504
Public Law Institut	Ooko Ombaka	O.	52011	Nairobi	Attorney	561437
Samburu AID in Af ica (SAIDIA)	Brewer	Nick	741		Nanyuki Project Director	22884
Small Enterprise Credit Assoc.	Pratt	Victor	59400	Nairobi		220590
Standard Chartere Bank	Vitisia	Evans		Nairobi		336333
Technoserve	Warnika	Paul		Nairobi		743628
The Ford Foundati n	Miller	Tom	41081	Nairobi	Program Officer	222298
The Ford Foundati n	Bailey	Charles	41081	Nairobi	Representative	338123
TOTOTO Home In ustries	Gitau	W. K.	1636	Mombasa	Executive Director	220490
United Nations De Program	Nielen	Bob	30218	Nairobi	Small Enterprise Advisor	228776
Univ. of NRB: Inst for Dev.Studies	McCormick	Dorothy	30197	Nairobi		334244
Volunteers in Tech ical Assistance	Baiya	Haroun	34336	Nairobi		718155
World Bank	Kamunge	J.	30577	Nairobi		714141

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ANNEX O:

LIST OF ACRONYMS

USAID	United States Agencies for International Development
USPVO	United States Private Voluntary Organization
VITA-CITC	Volunteer in Technical Assistance - Christian Industrial Training Centers

ANNEX P

INITIAL ENVIRONMENTAL EXAMINATION (IEE)
OR
CATEGORICAL EXCLUSION

PROJECT COUNTRY: Kenya

PROJECT TITLE/NUMBER: Private Enterprise Development II/615-0263

PROJECT FUNDING/TIMING: $15 million, over FYs 1995-00 (5-yr. LOP)

IEE PREPARED BY: Eric R. Loken, Regional Environmental Officer, REDSO/ESA/ANR

ENVIRONMENTAL ACTION RECOMMENDED:

Positive Determination: ______
Negative Determination: ______
Categorical Exclusion : XX
Deferral : ______

SUMMARY OF FINDINGS:

The planned project technical assistance and training activities are subject to a **Categorical Exclusion** pursuant to Sections 216.2(c)(1)(i) and 216.2(c)(2)(i) of 22 CFR Part 216 ("USAID's Environmental Procedures").

In response to potentially significant cumulative, longer-term environmental impacts resulting from planned project microenterprise development and policy reform activities, it is recommended that this activity receive a **Negative Determination**, pursuant to Section 216.3(a)(2)(iii) of said Procedures. This negative determination is made subject to the following conditions:

1. That copies of the relevant sections of the environmental design/implementation guidance documents listed herein be made available to project management, contractor and grantee staff for reference and use in the design, implementation and monitoring of individual USAID-assisted microenterprise development activities. Copies of these documents should also be made available to USAID-assisted sector support organizations for wider dissemination and application in the greater microenterprise development activities and operations occurring throughout Kenya.

2. That the Mission (and/or project) will complete **Environmental Impact Reviews (EIRs)** of the target subsectors selected for more focussed project treatment under the subsector assistance component as soon as those subsectors are adequately identified and defined. These EIRs will be designed to provide the following information for each of the selected priority subsectors: (a) accurate environmental baseline conditions regarding the nature, type and extent of subsector activity currently occurring throughout Kenya;

(b) areas of potential environmental concern for both existing subsector activities and/or planned new subsector developments; (c) appropriate mitigative actions or technologies which might be adopted to reduce or minimize any potential adverse impacts resulting from subsector development and operations; and (d) an appropriate set of monitoring indicators and mechanisms designed to measure any significant positive or negative environmental impacts resulting from expanded subsector activity in Kenya for timely remedial action. The results of this work will be used to finalize the design of the project EMEMP described in 3. below.

3. That the Mission (and/or project) undertake an **Environmental Monitoring, Evaluation and Mitigation Plan (EMEMP)** as an integral part of project and greater Mission monitoring and evaluation efforts designed to accomplish essentially the same objectives as the subsector EIRs described above for Kenyan microenterprise development and operations nation-wide. This latter EMEMP is required to properly monitor, assess and address any significant environmental effects resulting from the more general sector-wide support and policy reform project components, which will not necessarily become evident through the more focussed subsector-specific EIRs.

The Mission will need to ensure that adequate provisions are made within the final Assistance Proposal budget and institutional contract(s) and grant(s) to ensure that the technical assistance requirements for these environmental implementation requirements are met.

4. Should project assistance be contemplated for any "Strategic Support" component activity(s) which could result in potentially significant negative environmental impacts, ~~those~~ activities should undergo an appropriate environmental review by the REDSO/ESA Regional Environmental Officer (REO) prior to the commitment of any project funds in support of said activity(s).

MISSION CONCURRENCE: ____________________ Date: ______________
John R. Westley,
Mission Director

CLEARANCE: Tamara Fillinger, RLA: ______________________

CONCURRENCE: ~~John Gaudet, Bureau~~ Environmental Officer, AFR/ARTS/FARA
Approved: ✓
Disapproved: __________
Date: 6/20/94

CLEARANCE: GC/AFR: ______________ Date: ______________

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INITIAL ENVIRONMENTAL EXAMINATION (IEE)

Kenya Private Enterprise Development II (PED II) Project

I. Project Description

The goal of the PED II activity is to increase private sector employment in Kenya. The PED II purpose is to increase job creation in microenterprises, i.e., formal and informal firms with 10 employees or less. These objectives will be accomplished through assistance to selected target subsector firms, support to entities assisting microenterprises in Kenya, and policy and regulatory reform.

Although final definition the specific types and amounts of assistance to be provided under the project awaits more detailed study, the activity presently calls for assistance to relieve current marketing, financial, technological and regulatory constraints to microenterprise development in Kenya. This will be accomplished through technical assistance, training, policy dialogue and the provision of credit to selected firms or microentrepreneurs, as well as through the provision of assistance for the development and/or strengthening of selected associations and organizations providing assistance and services to Kenyan microenterprises. A modest amount of project funds will also be used to identify, analyze and (possibly) initiate limited support for strategic targets of potential opportunity for future USAID private sector support in Kenya, such as parastatal reform, privatization, capital market development and other similar subjects.

Project technical assistance and (most) training and (possibly some) credit assistance will be implemented through the services of an institutional contractor. However, the bulk of the credit and financial assistance will be provided through existing established lending activities being implemented through selected non-governmental organizations (NGOs), such as the Kenya Rural Enterprise Program (KREP) umbrella organization.

The result of these various microenterprise assistance activities will be the following project outputs:

1. Increased growth in those microenterprise subsectors with the highest employment growth potential;

2. Strengthened sustainable microenterprise service support organizations which will expand local financial, advisory and policy reform capabilities; and,

3. An improved policy environment for the private sector in Kenya, especially microenterprises, at both the national and local levels.

II. Discussion of Environmental Impacts

In general, areas where potential environmental impacts might occur as a result of small-scale enterprise development activities such as those under consideration here include:

- activity site selection, e.g., existing land use/plans, effluent treatment capacities, public service capacities (transportation, electricity, water and sanitation, etc.), labor force and other considerations;

- raw material inputs, e.g., local natural resources (clay, stone, or wood), agricultural products (raw produce, animal hides, and/or derivatives), fuel (wood, coal, petroleum products, etc.), and (often, substantial quantities of) water;

- activity processes/operations, e.g., facility construction impacts, gaseous and airborne emissions, solid waste generation, liquid discharges, noise, etc.

A detailed discussion of the potential environmental impacts associated with all possible such small-scale enterprise development activities is beyond the scope of this IEE. However, excellent additional discussion and guidance on this subject is available in the following publications:

- Environmental Design Considerations for Rural Development Projects (Section VI., "Small-Scale Industries", Harza Engineering Company/U.S.Agency for International Development (USAID), October 1980;

- Environmental Guidelines for PVO/NGO Field Use (Section IV., "Sector Implementation Guidelines - (for) Small industry Projects"), USAID/AFR/ARTS/FARA (Draft); and,

- Environmental Guidelines, Environment Department, The World Bank, 1988.

There are a great number of different types of microenterprises in Kenya that PED II might select to receive project assistance. Since the final selection of the target subsectors to receive the bulk of the project's more focussed, direct firm-level assistance will not be identified until the later stages of project design and/or early implementation, i.e., the subsector assistance component, it is not possible at this time to accurately discuss and assess the more specific environmental impacts which might result from these project assistance activities. It is generally accepted, however, that individual small-scale enterprise development activities such as those under consideration for assistance under this project will not result in significant environmental impacts. Rather, it is the **longer-term cumulative impacts of many such small-scale microenterprise activities within a given subsector or geographic area** that could result in significant environmental harm, if they are not planned, designed and implemented in a coordinated and environmentally sound manner.

In addition to these more direct potential impacts associated with project activities, potentially significant adverse environmental consequences could also result from the project's proposed **policy reform activities** (including the project's proposed "Strategy Support" activities). Section 496 of the Foreign Assistance Act, i.e., the Development Fund for Africa legislation, requires USAID to address the potential for significant, long-term, adverse environmental consequences resulting from policy reform programs. However, it is usually much more difficult to identify, establish cause and effect relationships for, and address such policy-related impacts because of their more indirect effects which become apparent only over a much longer-term timeframe.

For these reasons, it is believed that completion of direct "up-front" environmental reviews of individual microenterprise activities would not be an appropriate manner of addressing the environmental concerns associated with this project. Instead, a less direct approach will be required, in order to accurately monitor, assess and address the potentially significant longer-term, cumulative effects of the project's enterprise development and policy reform activities noted above.

III. Recommended Environmental Threshold Decision

The planned project technical assistance and training activities are subject to a **Categorical Exclusion** pursuant to Sections 216.2(c)(1)(i) and 216.2(c)(2)(i) of 22 CFR Part 216 ("USAID's Environmental Procedures").

In response to potentially significant cumulative, longer-term environmental impacts resulting from planned project microenterprise development and policy reform activities, it is recommended that this activity receive a **Negative Determination**, pursuant to Section 216.3(a)(2)(iii) of said Procedures. This negative determination is made subject to the following conditions:

1. That copies of the relevant sections of the environmental design/implementation guidance documents listed above be made available to project management, contractor and grantee staff for reference and use in the design, implementation and monitoring of individual USAID-assisted microenterprise development activities. Copies of these documents should also be made available to USAID-

assisted sector support organizations for wider dissemination and application in the greater microenterprise development activities and operations occurring throughout Kenya.

2. That the Mission (and/or project) will complete **Environmental Impact Reviews (EIRs)** of the target subsectors selected for more focussed project treatment under the subsector assistance component as soon as those subsectors are adequately identified and defined. These EIRs will be designed to provide the following information for each of the selected priority subsectors: (a) accurate environmental baseline conditions regarding the nature, type and extent of subsector activity currently occurring throughout Kenya; (b) areas of potential environmental concern for both existing subsector activities and/or planned new subsector developments; (c) appropriate mitigative actions or technologies which might be adopted to reduce or minimize any potential adverse impacts resulting from subsector development and operations; and (d) (based on the results of the above work) an appropriate set of monitoring indicators and mechanisms designed to measure any significant positive or negative environmental impacts resulting from expanded subsector activity in Kenya for timely remedial action. The results of this work will be used to finalize the design of the project EMEMP described in 3. below.

3. That the Mission (and/or project) undertake an **Environmental Monitoring, Evaluation and Mitigation Plan (EMEMP)** as an integral part of project and greater Mission monitoring and evaluation efforts designed to accomplish essentially the same objectives as the subsector EIRs described above for Kenyan microenterprise development and operations nation-wide. This latter EMEMP is required to properly monitor, assess and address any significant environmental effects resulting from the more general sector-wide support and policy reform project components, which will not necessarily become evident through the more focussed subsector-specific EIRs.

The Mission will need to ensure that adequate provisions are made within the final Assistance Proposal budget and institutional contract(s) and grant(s) to ensure that the technical assistance requirements for these environmental implementation requirements are met.

4. Should project assistance be contemplated for any "Strategic Support" component activity(s) which could result in potentially significant negative environmental impacts, those activities should undergo an appropriate environmental review by the REDSO/ESA Regional Environmental Officer (REO) prior to the commitment of any project funds in support of said activity(s).

Due to the similar private sector development focus and objectives of the Mission's ongoing Kenya Export Development Support (KEDS) and PED I Projects, it is suggested that with minor modifications, this PED II EMEMP could fulfill similar environmental monitoring objectives for these other activities as well, thereby addressing all of the Mission's environmental monitoring requirements for its private sector development portfolio in an efficient and cost-effective manner. Upon receipt of the Bureau Environmental Officer's concurrence with this integrated programmatic EMEMP approach, the Mission will begin to work with the REO, its various contractor and grantee implementors, and concerned Government of Kenya (GOK) officials in the development of a comprehensive private sector portfolio EMEMP for this purpose.]

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