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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

REGIONAL ECONOMIC DEVELOPMENT SERVICES OFFICE
FOR EAST AND SOUTHERN AFRICA (REDSO /ESA)

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September 29, 1994

Mr. James K. Gitao
Chairman, Board of Directors
PRIDE/Kenya
P.O. Box 39320
Nairobi, Kenya

Subject: Cooperative Agreement No. 623-0238-A-00-4141-00

Dear Mr. Gitao:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, and the Federal Grant and Cooperative Agreement Act of 1977, the Agency for International Development (hereinafter referred to as "A.I.D.") hereby provides to the Promotion of Rural Initiatives and Development Enterprises, Kenya (hereinafter referred to as "PRIDE/Kenya" or "Recipient") the sum of Eight Hundred Thousand dollars (\$800,000) to provide support for a micro-enterprise credit program as described in the Schedule (Attachment I) of this Cooperative Agreement.

This Cooperative Agreement is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives for the indicated period set forth in Section B.2. of Attachment I of this Agreement. Commitments made by the Recipient should not exceed beyond the indicated period.

This Cooperative Agreement is made to the Recipient on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment I, entitled the "Schedule", Attachment II entitled "Program Description", Attachment III, entitled "Mandatory Standard Provisions", and Attachment IV, entitled "Optional Standard Provisions", which together constitute the complete Cooperative Agreement document and have been agreed to by your organization.

Please sign the original and five (5) copies of this letter to acknowledge your acceptance of this Cooperative Agreement and return the original and four (4) copies to the undersigned. Please ensure that any/all copies stamped: "Funds Available" are returned.

Sincerely,



Richard F. Webber
Agreement Officer
REDSO/ESA

ACKNOWLEDGED:

PRIDE/KENYA

BY: _____



TYPED NAME: _____

JAMES GITAO

TITLE: _____

CHAIRMAN - BOARD OF DIRECTORS

DATE: _____

5/10/94

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FISCAL DATA

Total Estimated Amount:	\$800,000
total Obligated:	\$800,000
Project No.	615-0238
AID Project Office:	Private Enterprise Office USAID/Kenya
PIO/T No.	615-0238-3-40085
App:	72-114/51021
BPC:	GDV4-94-21615-KG13
Dollar Amount:	\$800,000

ATTACHMENT I

SCHEDULE

A. PURPOSE

The purpose of this Cooperative Agreement is to provide support to PRIDE/Kenya to implement a micro-enterprise credit program which aims to increase employment and incomes of micro and small scale enterprises and increase the institutional sustainability of PRIDE/Kenya, as more fully described in Attachment II of this Agreement entitled "Program Description".

B. PERIOD

The effective date of this Cooperative Agreement is the date of the Cover Letter and the estimated completion date is September 30, 1995. Funds obligated hereunder are authorized for program expenditures and are anticipated to be sufficient for such period.

C. AMOUNT OF COOPERATIVE AGREEMENT AND PAYMENT

1. The total estimated amount of this Cooperative Agreement for its full period, as set forth in Section B. above, is \$800,000.
2. A.I.D. hereby obligates the amount of \$800,000 for the purposes of this Cooperative Agreement during the indicated period set forth in Section B. above and shown in the Financial Plan below, thereby fulfilling USAID's funding requirements. USAID shall not be liable for reimbursing the Recipient for any costs in excess of the obligated amount.
3. Payment shall be made to the Recipient in accordance with procedures set forth in the Standard Provision of this Cooperative Agreement entitled "Payment - Periodic Advance", as shown in Attachment IV.

D. BUDGET

1. The following is the Budget for this Cooperative Agreement. The Recipient may not exceed the total estimated amount or the obligated amount, whichever is less (see Section C. above). Except as specified in the Standard Provision of this Cooperative Agreement entitled "Revision of Grant Budget", as shown in Attachment III, the Recipient may adjust line item amounts as may be reasonably necessary for the attainment of program purpose.

Financial Plan (in U.S. Dollars)

Budget for Period October 1993 - September 1994

(This budget represents expenditures that have been incurred under the GOK matching funds and is included here for monitoring purposes as a pre-condition for receiving APPLE funds)

Cost Element	<u>GOK</u>	<u>Other/ Reflows</u>	<u>Total Estimated Budget</u>
1. Loans	560,000	264,100	824,100
2. Salaries and Benefits	144,200	0	144,200
3. Operating Expenses	57,500	900	58,400
4. Commodities and Equipment	1,600	0	1,600
5. Training	15,300	700	16,000
6. Consultants	21,400	0	21,400
7. Audit	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>800,000</u> =====	<u>265,700</u> =====	<u>1,065,700</u> =====

Budget for the Period October 1994 - September 1995

Cost Element	<u>USAID (This Obligation)</u>	<u>Other/ Reflows</u>	<u>Total Estimated Budget</u>
1. Loans	445,000	1,304,800	1,749,800
2. Salaries and Benefits	110,700	78,900	189,600
3. Operating Expenses	133,000	56,900	189,900
4. Commodities and Equipment	30,100	181,300	211,400
5. Training	17,500	0	17,500
6. Consultants	43,700	76,200	119,900
7. Audit	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total	<u>800,000</u> =====	<u>1,698,100</u> =====	<u>2,498,100</u> =====

2. Inclusion of any cost in the budget of this Cooperative Agreement does not obviate the requirement for prior approval by the Agreement Officer of cost items designated as requiring prior approval by the applicable cost principles (see the Standard Provision of this Cooperative Agreement set forth in Attachment III entitled ("Allowable Costs") and other terms and conditions of this Cooperative Agreement, unless specifically stated in section H. below.

E. REPORTS

1. Financial Reporting

a. Financial reporting requirements shall be in accordance with the Standard Provision of this cooperative Agreement entitled "Payment - Periodic Advance", as shown in Attachment IV.

b. All financial reports shall be submitted to the Office of the Controller, USAID/kenya, P.O. Box 30261, Nairobi. In addition, three copies of all financial reports shall be submitted to the USAID Private Enterprise Office.

c. In addition to the financial requirements of the Standard Provision applicable to the Cooperative Agreement with regard to payment, the Recipient will submit directly to the Office of the controller, USAID/Kenya, a copy of its "Financial Status Report" (SF-269) along with a copy of a comprehensive financial report on a monthly basis.

Also, in order to comply with USAID's "Buy America" policy and the reporting requirements with regard to the source and origin of procurement, the Recipient will also provide the Office of the Controller, USAID/Kenya with a breakdown by both source and origin of expenditures contained within each of their financial statements. Source and origin data will be expressed as one of the A.I.D. Geographic Codes.

d. An audit will be conducted at the end of the Cooperative Agreement in accordance with the standard provisions of OMB Circular A-133 for grants or cooperative agreements. Under new audit requirements all non-U.S. and non-governmental grantees and subgrantees/contractors receiving \$100,000 per year or more of A.I.D. funds in any one calendar year under a Grant, are required to have an independent audit performed of the Cooperative Agreement in order to determine whether the receipt and expenditure of the funds provided under the Cooperative Agreement are presented in accordance with generally accepted accounting principles and whether the grantee has complied with the terms of the Cooperative Agreement. The independent auditor must be selected in

accordance with the "guidelines for financial audits contracted by foreign recipients" issued by the A.I.D. Inspector General and the audit must be performed in accordance with the "guidelines." Copies of guidelines have been sent to local CPA firms and will be sent to all participating subgrantees/contractors. Local firms will be identified by USAID and certified by RIG/A in Nairobi. It is expected that the Recipient will conduct a single audit, encompassing subgrants/contractors funded, in compliance with this requirement. Office of the Controller, USAID/Kenya will coordinate the audit activities for USAID.

2. Technical Reporting

a. Quarterly Reports

The Recipient shall submit three copies of quarterly program performance reports, which coincide with the financial reporting periods described in section E.1 above, to the Private Enterprise Office, USAID/Kenya. These reports shall be submitted within 15 days following the end of the reporting period, and shall briefly present the following information: project progress and problems encountered to date in achievement of the Cooperative Agreement's purpose, a brief status report on each of the indicators of impact and outputs achieved to date; a brief summary of actions planned for the next period; and a description of all goods and services (including amount and source and origin) whose source and origin are not Kenya or the United States. These reports will contain both quantitative and qualitative information. The first such report will cover the period ending December 31, 1994. Specific indicators and reporting format will be determined between USAID and the Recipient based on the proposal submitted by the Recipient, the Private Enterprise Development project logframe, and other reporting requirements as they arise.

b. Final Report

The Recipient shall submit a final progress and financial report that shall include a comprehensive review and discussion of project activities and achievements. This report will be due 30 days after the estimated expiration date of the Cooperative Agreement.

3. Special Reports

Between the required program performance reporting dates, events may occur that have significant impact upon the program. In such instances, the Recipient shall inform USAID as soon as the following types of conditions become known:

1. Problems, delays, or adverse conditions that will materially affect the ability to attain program purpose, prevent the meeting of time schedules and goals, or preclude the attainment of work units by established time periods. This disclosure shall be accompanied by a statement of the action taken, or contemplated, and any USAID assistance needed to resolve the situation.

2. Favorable developments or events that enable time schedules to be met sooner than anticipated or more work units to be produced than originally projected.

3. If any performance review conducted by the Recipient discloses the need for change in the budget estimates in accordance with the criteria established in the Standard Provision of this Cooperative Agreement entitled "Revision of Grant Budget", the Recipient shall submit a request for budget revision to the Agreement Officer and the Private Enterprise Office, USAID/Kenya.

The Recipient agrees to consult with the Private Enterprise Office, USAID/Kenya concerning further details for submitting financial reports and estimates as well as progress reports.

F. TITLE TO PROPERTY

Title to property acquired hereunder shall vest in the Recipient. The Standard Provision of this Cooperative Agreement entitled "Title To and Use of Property (Grantee)" applies. Use, accountability, and disposition of property acquired hereunder shall be in accordance with the said Standard Provision.

G. AUTHORIZED GEOGRAPHIC CODE

Geographic code 935 will apply to this Cooperative Agreement except as A.I.D. might otherwise agree in writing.

H. SPECIAL PROVISIONS

1. Conditions Precedent to Disbursement
 - a. Completion of the enclosed statutory and regulatory requirements relating to 1. Suspension and Debarment, 2. Drug Free Workplace Requirements and 3. Restrictions on Lobbying. PRIDE/Kenya will return the said requirements, signed appropriately to the Agreement Officer.
 - b. Following the recommendation of a USAID management assessment team report, no funds shall be disbursed to PRIDE/Kenya until two accountants have been hired and are

in place. PRIDE/Kenya will advise USAID in writing once this condition has been met.

2. Evaluation

USAID may conduct an end-of-program evaluation which will mainly focus on the impact of the project and the institutional development of PRIDE/Kenya. The Recipient will contribute in the preparation of the scope of work for this evaluation.

I. SUBSTANTIAL INVOLVEMENT UNDERSTANDING

It is understood and agreed that there will be substantial involvement by USAID/Kenya. This involvement will be in the form of:

(1) Being informed about the procurement of a consultant to assess the programmatic and financial viability of PRIDE/Kenya's overall expansion plans and establish indicators for the achievement of project aims and objectives.

The scope of work for this study will be forwarded to USAID. The study is expected to be completed by December 31, 1994. It is anticipated that the study will provide information regarding PRIDE/Kenya's overall sustainability targets and indicators and establish an expansion plan for achieving them. It is recognized that this study may have significant implications for this Cooperative Agreement as well as for possible future USAID assistance to PRIDE/Kenya. Upon completion of the study, these implications will be discussed by the USAID Project Review Committee as well as by PRIDE/Kenya staff and Board members.

(2) PRIDE/Kenya is expected to hire consultants to carry out various activities during the period of this agreement. USAID will receive copies of the scopes of work for such activities before proposals are solicited from potential consultants. Prior to final commitment to hire the consultants, PRIDE/Kenya will present to USAID for informational purposes only a list of the best three consultants with a recommendation of the preferred one.

J. RESOLUTION OF CONFLICTS

Conflicts between any of the Attachments of this Cooperative Agreement shall be resolved by applying the following descending order of precedence:

- Attachment I - Schedule
- Attachment III & IV - Standard Provisions
- Attachment II - Program Description

ATTACHMENT II

PROGRAM DESCRIPTION

Introduction

The goal of the Promotion of Rural initiatives and Development Enterprises (PRIDE) - Kenya Credit Program is to increase employment and income in micro-enterprises in Kenya. To achieve this goal, the PRIDE/Kenya program has the following purposes:

- (1) to increase employment in the assisted firms;
- (2) increase incomes of the assisted firms; and
- (3) increase institutional sustainability of PRIDE/Kenya both central and branch offices.

PRIDE/Kenya is an indigenous non-governmental organization which was established in 1989 to promote sustained economic growth and employment generation by providing non-collateral loans and non-financial services to the informal sector in the rural areas. The target beneficiaries of the PRIDE/Kenya program are the small and micro-entrepreneurs who do not have easy access to commercial finance due to prohibitive lending and collateral policies.

PRIDE operations are guided by a 5-year plan and by the oversight of its Board of Directors. Technical Assistance for institutional capacity building has been provided by the Council for International Development and some further technical assistance will continue to be provided by PRIDE AFRICA as necessary, a new non-governmental organizations recently formed to provide umbrella technical support services to the current PRIDE network in Kenya, Guinea, Tanzania and other country PRIDEs to be launched over the next 5 years. The relationship between PRIDE Africa and PRIDE Kenya has been evolving towards a situation where PRIDE Kenya has increasing capacity to manage operations and expansion, and the relationship is expected to continue to evolve in that direction.

PRIDE/Kenya received the first USAID funding through KREP in 1989 to support a micro-enterprise lending program in its first branch at Baringo. In September 1991, through the Council for International Development, a US PVO, PRIDE/Kenya received a two-year grant from USAID under the PVO Co-Financing Project to support its institutional strengthening efforts and replication of Baringo branch at Nyahururu. To date, eight additional branches have been opened in various parts of Kenya.

To achieve financial sustainability, PRIDE/Kenya has a long-term plan to open up to 30 branches. In this regard, PRIDE/Kenya submitted a proposal requesting assistance from USAID under the Anti-Poverty Lending for Enterprises (APPLE) Project matching grant funds. (Anti-poverty lending is defined as loans reaching

the very poor, generally from programs with special emphasis on women as recipients. Therefore, APPLE provides funds to increase the outreach to the poor and the self-sustainability of financial institutions and non-governmental institutions). The proposal was approved and \$800,000 has been made available to support the program. Matching funds for this activity have been provided by the Government of Kenya from the Local Currency program jointly administered by the Mission and the Government of Kenya for this activity have been provided the same amount. The Local Currency funds have already been disbursed to PRIDE/Kenya under a separate agreement between the Government of Kenya and the recipient.

The Project

The PRIDE/Kenya credit scheme is based on group guarantees, a methodology that has been adapted from the Grameen Bank of Bangladesh model. It consists of a series of small, short term, mostly working capital loans, which supply borrowers with a constant cash flow to carry out small scale economic activities. The model focusses on the formation of Market Enterprise Committees (MECs) consisting each of 10 Enterprise Groups (EGs) of 5 members. Prior to loans application, the MEC members meet weekly for eight weeks, during which they each contribute to the Loan Insurance Fund and receive basic instruction on the credit program policies and regulations. The Loan Insurance Fund, to which all members contribute weekly throughout their membership with PRIDE/Kenya, is intended to a) cover any loan defaults and b) mobilize client savings.

PRIDE/Kenya services are delivered to borrowers through a branch network supported and monitored by a centrally located Head Office. A PRIDE/Kenya branch is projected to serve a maximum of 1,000 borrowers, maturing to full capacity within 2 years. The staffing of a mature branch includes one Branch Manager, two Credit Agents and a messenger.

Over an initial three year period, a branch is expected to deliver 1,000 first loans (average size US\$167), 1,000 second loans (average size US\$333) and 460 third loans (average size US\$500). The average loan size of the entire portfolio is expected to be less than \$300. PRIDE/Kenya currently charge an interest rate of 20% (flat rate) on its loans and are repayable over 50 weeks.

PRIDE/Kenya borrowers are those individuals who are self employed and/or operate micro enterprises in the informal sector. Based on PRIDE experience in Kenya to date, approximately 45-55% of the borrowers at any branch can be expected to be female. The percentage of female borrowers at PRIDE/Kenya's current branches ranges from 46% at the Baringo Branch to 55% at the Nyahururu Branch.

As at May, 1994 the total number of active borrowers was 3,949 (53% female; 47% male). The total number of loans disbursed by PRIDE/Kenya was 7,147, with 48% of the loans going to female borrowers and 52% to male borrowers. The total value of loans disbursed was Kshs.58,928,100 (\$1,683,660) with Kshs.27,853,000 (\$795,800) going to female borrowers and Kshs.31,075,100 (\$887,860) to male borrowers. The average loan size for female borrowers was \$213; \$248 for male borrowers. It is expected that through this cooperative agreement, PRIDE/Kenya will establish more branches and continue to provide loans to borrowers in pursuit of achieving the project purpose.

End of Project Status:

By the end of the project, success will be measured against the following targets:

Project Purpose:

- 2,013 increase in employment in assisted firms
- % increase in income in assisted firms (to be established)
- Institutional sustainability of PRIDE/Kenya
 - Cost coverage - 45%
 - Branch Performance ratings - 60% (average)
 - Loan Repayment rate - 95% (average for branches)
 - Loan Insurance Fund/Loans Outstanding - 45%
- Institutional development of PRIDE/Kenya. (PRIDE/Africa is likely to continue to provide technical assistance in achieving PRIDE/Kenya's institutional development.)
 - Maintaining and increasing PRIDE/Kenya's staff training capacity with particular regard to adequately training sufficient staff for program expansion
 - Maintaining and improving PRIDE/Kenya's personnel systems with particular regard to retention of high level staff
 - Ensure regular elections and proper functioning of the board.
 - Establishing and maintaining an adequate management information system
 - Establishing and maintaining an adequate monitoring, evaluation and reporting system
 - Developing the capacity to analyse and achieve financial sustainability.
 - Specifying the relationship between PRIDE/Kenya and PRIDE/Africa with regard to promoting institutional development of the former.

Project Outputs:

- Increase Credit availability to micro-enterprises
 - Reach 8,750 borrowers
 - Lend \$2.5 million
 - Average Loan size \$290
- Institutional Development of PRIDE/Kenya
 - 19 branches operational
 - 70 staff members hired
 - 54 staff members trained
- Increase the number of micro-enterprises served by banks
 - 6,500 borrowers with bank accounts
 - 87 borrowers graduate to borrowing from banks
- Increase skills of assisted entrepreneurs
 - 600 borrowers trained
 - 190 borrowers referred to other training programs

However, the indicators above will be revised and others established after carrying out an assessment of the program and financial viability of PRIDE/Kenya's plans during the first three months of the project. The study will include the following:

- targets for active members, borrowers and loan portfolio
- cost of lending and other efficiency targets
- financial self-sufficiency
- cumulative targets for measuring impact - number of borrowers
- impact indicators: employment and income