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

POST OFFICE BOX 30261
NAIROBI, KENYA

AUG 22 1988

Mr. Nizar Meruani
Managing Director
Diamond Trust of Kenya Ltd.
P.O. Box 61711
Nairobi, Kenya

Subject: Grant No. AID-940-0002.73

Dear Mr. Meruani:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby grants to the Diamond Trust of Kenya Ltd. (hereinafter referred to as "Diamond Trust" or "Grantee") the sum of $50,000 to assist Diamond Trust to install and refine smaller-scale enterprise loan capabilities necessary for successful implementation of the Project Agreement (A.I.D. Loan No. 615-S-023) signed between Diamond Trust and the A.I.D. Bureau for Private Enterprise as described in Attachment 1, the Schedule of this Grant, and Attachment 2, entitled "Program Description."

This Grant is effective and obligation is made as of the date of this letter and shall apply to commitments made by the Grantee in furtherance of program objectives beginning with the effective date and ending on the estimated completion date of the Grant of December 31, 1992.

This Grant is made to Diamond Trust on condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, entitled "Schedule," Attachment 2, entitled "Program Description," and Attachment 3 entitled - "Standard Provisions," which are hereby agreed to by your organization.

Please sign the original and seven (7) copies of this letter to acknowledge your receipt of the grant and acceptance of its terms and conditions, and return the original and six (6) copies of the entire document to the Office of Projects, USAID/Kenya, P.O. Box 30261, Union Towers, Nairobi, Kenya.

Sincerely,

Steven W. Sinding
Director
Grant Officer

Attachments:

1. Schedule

2. Program Description

3. Standard Provisions

ACKNOWLEDGED:

Diamond Trust Company of Kenya Ltd.

By: ____________________

Title: Managing Director

Date: August 24, 88

Fiscal Data

Appropriation:	72-1181021.3
Budget Plan Code:	PDNA-88-29615-KG-11 (843-51-615-00-69-81)
Total Obligated Amount:	$50,000
Funding Source:	ARDN
RES. CTL. NO.:	K280078

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MMH
Drafted:PRJ:MPLeifert:pao 4/28/88
PRJ:DKline
CONT:HShropshire
PRE, Legal and Contracting approval per STATE 146243.

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FUNDS AVAILABLE
NFMC USAID/KENYA
DATE 05/23/88

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Diamond Trust Company of Kenya Ltd.
Grant No. 940-0002.73
Dated: ____________

ATTACHMENT 1

SCHEDULE

A. Purpose of the Grant

The purpose of the Grant is to provide support for a program of credit to smaller-sized enterprises in or entering into the private sector in Kenya, as more specifically described in Attachment 2 to this Grant entitled "Program Description."

B. Period of Grant

The effective date of this Grant is the date of signature of the Grant. The estimated expiration date of this Grant is December 31, 1992.

C. Amount of Grant and Payment

1. A.I.D. hereby obligates the amount of $50,000 for purposes of this Grant.

2. Payment shall be made to the Grantee in accordance with procedures set forth in Attachment 3 - Standard Provision 12, entitled "Payment - Cost Reimbursement."

D. Illustrative Financial Plan

The following is the estimated Financial Plan for this Grant. Revisions to this Plan shall be made in accordance with the Standard Provision of this Grant entitled "Revision of Grant Budget." However, notwithstanding the provisions of Standard Provision "Revision of Grant Budget," unlimited transfer of funds provided by A.I.D. among line items 1 through 4 in the Financial Plan is permitted after notification in writing to A.I.D. that such revisions to the distribution of the $50,000 obligated by A.I.D. are planned. Diamond Trust is fully responsible for financial management and accountable for utilization of Grant funds.

From Grant date to December 31, 1992

Estimate Total Cost in U.S. Dollars Equivalent

Cost Element	Obligated Amount A. I. D.	Diamond Trust	Total Estimated
1. Promotion[1]	10,000	3,000	13,000
2. Computers[2]	12,000	6,000	18,000
3. Vehicles[3]	13,000	13,000	26,000
4. Training[4]	15,000	6,000	21,000
5. Salaries and Other Direct Costs[5]	-	35,000	35,000
6. Overhead[6]	-	6,000	6,000
Total $ Equivalent	50,000	69,000	119,000

1. Promotion: Estimated cost of 4 quarter page newspaper advertisements, 3 business journal and magazine advertisements, 5 Television and 10 radio spots plus printing of 2000 leaflets per year times three years.

2. Computers: Estimated cost of local procurement of three micro computers plus software. Diamond Trust contribution to cover all duties and sales taxes.

3. Vehicles: Estimated cost of two least expensive, local purchase four wheel drive vehicles for Kisumu and Nakuru branch offices. Diamond Trust contribution to cover all duties and sales taxes.

4. Training: Estimated cost of international training of three Loan Guarantee Facility (AID Loan No. 615-S-023) involved employees plus cost of two international exposure trips to model small-scale credit programs.

5. Salaries and Other Direct Costs: Diamond Trust 5 year estimate.

6. Overhead: Diamond Trust 5 year estimate based on past small-scale enterprise loan transaction cost experiences.

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E. Reporting and Evaluation

1. Technical Reporting

During the life of the Grant, Diamond Trust will submit to A.I.D., Office of Projects, the following reports, all in three copies, and all to be submitted within thirty days of the end of the relevant reporting period:

a. A semi-annual report containing a narrative description of Loan Guarantee Facility activities during the past six months, including relevant disbursement and repayment statistics and identification of individual borrowers, amounts and purposes of loans extended, and the use and results of application of Grant funds. The report shall also provide recommendations or actions proposed to address Loan Guarantee Facility and Grant problems or constraints.

b. Copies of Diamond Trust audited financial statements completed in the normal course of operations.

c. A final report which will include a comprehensive review and discussion of Loan Guarantee Facility and Grant activities and achievements. This report will be due no later than January 31, 1993.

In addition, the Diamond Trust Managing Director will discuss the substantive progress of Loan Guarantee Facility and Grant activity implementation at least semi-annually with the A.I.D. Grant Officer or his designee.

2. Financial Reporting

The Grantee shall submit the financial reports required in Standard Provision 12, "Payment - Cost Reimbursement." These reports should be submitted to the Controller, USAID/Kenya, Fiscal Management Branch, P.O. Box 30261, Nairobi. If necessary, the Grantee may consult with A.I.D.'s RFMC concerning further details for submitting any required financial reports, including further reporting requirements, if any, which may be communicated to the Grantee by letter.

3. Evaluation

Except as A.I.D. and Diamond Trust may otherwise agree in writing, joint annual evaluations conducted during the life of the Grant will include: (a) evaluation of progress toward attainment of the purpose of the Grant and related Loan Guarantee Facility; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development and Grantee organizational impact of the Grant and related Loan Guarantee Facility. All annual evaluations will be jointly conducted by Diamond Trust and A.I.D. employees. A.I.D. also reserves the right, and Diamond Trust agrees, to include evaluation of the Grant and related Loan Guarantee Facility as part of any A.I.D. Bureau for Private Enterprise evaluation of its overall Revolving Fund program at no additional cost to Diamond Trust.

F. Standard Provisions

The Standard Provisions, contained in Attachment 2 are applicable to this Grant with the exception of the modifications made hereunder.

1. The Standard Provision entitled "Local Cost Financing with U.S. Dollars" is applicable to this Grant. Local cost financing is authorized for expenditures up to the total Grant amount of $50,000 during the period of the Grant without prior Grant Officer approval.

2. Section (b) (1) of the Standard Provision entitled "AID Eligibility Rules for Goods and Services" applies to procurement actions under this Grant.

G. Procurement of Vehicles

A waiver from the source and origin requirements stated in section F above has been approved by A.I.D. to allow the purchase of right-hand drive vehicles from countries included in A.I.D. Geographic Code 935.

H. Title to Property

Title to all property procured through financing by the Grant shall be vested in the Grantee, or such other agency as it may authorize.

Diamond Trust Company of Kenya Ltd.
Grant No. 940-0002.73
Dated: ____________

ATTACHMENT 2

PROGRAM DESCRIPTION

OVERVIEW

This grant assistance is being provided by the A.I.D. Bureau for Private Enterprise (AID/PRE) to support the start-up and implementation of a five-year loan guarantee facility for $1 million which covers a 50% risk sharing agreement with the Grantee, Diamond Trust of Kenya Ltd. (DTK). This loan guarantee facility, covered in a separate agreement between DTK and AID/PRE, is for $2 million in term loans extended by DTK to smaller-scale private enterprises from its own resources.

The objective of this Grant is to make the initiation of the AID/PRE facility financially acceptable to DTK which, without the Grant, would not find it financially attractive to increase its lending to smaller-scale businesses in Kenya.

BACKGROUND

Kenya has a relatively well developed banking system and financial sector. It consists primarily of the Central Bank, governmental and private commercial banks, private non-bank financial institutions (NBFIs) such as Diamond Trust, public sector financial institutions, a cooperative savings bank and cooperative savings and credit societies.

There are currently over forty NBFIs in Kenya. The proliferation and growth of NBFIs has been one of the most striking developments in the Kenyan financial system in recent years. NBFIs offer many of the same services as commercial banks, but they are prohibited from offering checking accounts or engaging in foreign exchange transactions. Initially, the lending activities of NBFIs were concentrated in the areas of housing finance, lease hire/lease purchase and some aspects of merchant banking. In recent years, however, other forms of financing have emerged, including bills discounting, bridging finance and term loans.

The soft spots in the Kenyan financial system are still, however, those common to many developing countries. Government owned and/or controlled financial institutions tend to dominate the credit markets, financing from private financial institutions tends to be rather short-term in nature, lending activities focus on borrowers in urban areas, and, in general, the smaller-scale enterprise finds it difficult to access financing.

In addition, in 1986 the financial sector in Kenya was subjected to a few financial institution failures, accompanied by alarmist newspaper coverage which caused a crisis of confidence in the financial system as a whole. The smaller financial institutions such as the NBFIs came under liquidity pressures and increasingly conservative term lending policies for higher risk small enterprise loans were adopted.

The AID/PRE loan guarantee facility and accompanying grant were developed to address this issue of insufficient term lending availability for smaller-scale enterprises. It was developed with the active participation of both AID/PRE and the USAID Mission in Kenya. The present program was to have been one of two AID/PRE Revolving Fund activities designed to stimulate smaller-scale enterprise term lending by NBFIs, but the other, an NBFI consortium program, was made infeasible by a Kenya Government decreed lowering of the NBFI lending rate late in AID fiscal year 1987.

Diamond Trust is a highly respected and well established Kenyan financial institution. The loan guarantee facility and accompanying grant will provide the incentives it needs to expand its operations in the smaller-scale enterprises term lending sector. The risk sharing and start-up cost support being provided will enable Diamond Trust, and perhaps other NBFIs to follow, to mobilize additional savings and direct new investments to the most productive uses and beneficiaries - smaller-scale private enterprise.

PROGRAM DESCRIPTION

The loan guarantee facility agreement for $1 million, entered into by Diamond Trust and AID/PRE, describes the criteria to be employed in approving loans to be made under that facility. This section will only describe the use to which Grant funds are to be put in support of the loan guarantee facility. These uses are intended to defray the significant costs involved in Diamond Trust's decision to increase its term lending to the smaller-scale enterprise sector. It should be noted that without the Grant assistance, Diamond Trust would not be in the financial position to increase such lending.

Under the grant program, Diamond Trust may obtain assistance to train its staff in smaller-scale enterprise lending, to publicize the availability of the term lending facility, to purchase the transport needed to reach target group borrowers and supervise and assist them during their loan repayment period, and to install automated systems to monitor and report on the program. Specifically, grant funds are currently planned to be used to:

1. Train three staff in smaller-scale enterprise lending in short courses conducted outside of Kenya;

2. Send two staff on short exposure trips to observe smaller-scale enterprise lending programs being successfully implemented by similar institutions in other countries;

3. Place notices in the Kenyan media and prepare leaflets informing the Kenyan target populace of the existence and availability of the term lending program;

4. Procure two non-luxury four-wheel drive passenger vehicles for use by Diamond Trust offices in Kisumu and Nakuru so that program staff may have access to rural locations where the most desirable borrowers may be found; and

5. Purchase both computer hardware and software needed by program staff to establish program monitoring and profit center accounting systems which will provide information on program performance, both to satisfy AID reporting requirements and to determine its suitability for future expansion.

These planned uses of funds are, however, only illustrative in nature. Other program support costs may be financed by the Grant in any of the six stages that the program will pass through:

1. Program promotion;

2. Loan application preparation, review, evaluation and refinement;

3. Loan approval;

4. Loan supervision, monitoring and collection;

5. Loan program evaluation and reporting; and

6. Loan program replication and expansion planning.

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Changes in funding categories, other than variations in quantities and costs of the accepted line items of the budget given in Grant Attachment 1 entitled "Schedule," will, however, only be acceptable if agreed to by AID in writing.

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Working File Copy

PROJECT AGREEMENT

between

DIAMOND TRUST OF KENYA LIMITED

and the

UNITED STATES OF AMERICA

acting through the

AGENCY FOR INTERNATIONAL DEVELOPMENT

Project No. 940-0002.73

Loan No. 615-S-023

Date: _______ __, 1988

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PROJECT AGREEMENT

This agreement ("Project Agreement") is entered into as of the ____ day of ________, 1988, by and between the Diamond Trust of Kenya, Limited ("Lending Bank"), a financial institution organized and existing under the laws of Kenya, and the United States of America, acting through the Agency for International Development ("A.I.D.")

Article 1. The Agreement

Section 1.1. Project Purpose. The purpose of the Project is to increase the amount of term credit available to small and medium-sized private enterprises located in Kenya.

Section 1.2. Project Description. To achieve the purposes of the project, the Lending Bank and A.I.D. ("Parties") agree to take (or have taken) the following steps:

(a) A.I.D. has entered into a Loan Agreement, dated September 30, 1987, with Mellon Bank N.A., a banking association with principal offices in Pittsburgh, Pennsylvania ("Issuing Bank") under which A.I.D. agreed to lend up to One Million U.S. Dollars ($1,000,000) to the Issuing Bank ("Loan").

(b) In return for the Loan, the Issuing Bank has agreed to open standby letters of credit ("Standby L/Cs") in favor of the Lending Bank in aggregate amount not to exceed the outstanding principal balance of the Loan.

(c) The Lending Bank will make local currency loans to qualifying borrowers (see Article 4 on "Qualifying Subloans") and may request the Issuing Bank to open Standby L/Cs in amounts equal to Fifty percent (50%) of the principal amount of such loans.

(d) Should the Lending Bank be unable to collect principal due under a Qualifying Subloan covered by a Standby L/C, the Lending Bank may, subject to the terms and conditions of this Project Agreement, draw under that Standby L/C an amount not to exceed Fifty percent (50%) of the uncollected principal.

(e) Under the terms of the Loan Agreement, A.I.D. will permit the Issuing Bank to deduct amounts paid to the Lending Bank under Standby L/Cs from amounts owed by the Issuing Bank to A.I.D.

Article 2: Definitions

The following terms, when capitalized, shall have the definitions stated below throughout this Project Agreement and its Annexes, unless the context clearly indicates otherwise:

Section 2.1. "Exchange Rate." The commercial transaction rate for conversions between Kenya Shillings and U.S. Dollars as established by the Central Bank of Kenya.

Section 2.2. "Governmental Authority." The government of the Host Country, or any other country, or any political subdivision of any such government, or any branch, department, agency, instrumentality, court, tribunal, or regulatory authority that constitutes a part or exercises any sovereign power of any such government.

Section 2.3. "Host Country." Republic of Kenya.

Section 2.4. "Host Country Taxes." Taxes imposed, assessed, levied or collected by the Host Country, as described in Section 8.5 below.

Section 2.5. "Local Currency." Kenya Shillings.

Section 2.6. "National of Host Country."

(a) An individual shall be deemed a National of the Host Country if, and only if, such individual is a citizen and legal resident of the Host Country.

(b) A corporation shall be deemed a National of the Host Country if the majority of its stock is owned by individuals or other corporations which are Nationals of the Host Country.

Section 2.7. "Standby Facility." The facility established by the Loan Agreement under which the Issuing Bank agrees to issue Standby L/Cs in favor of the Lending Bank.

Section 2.8. "Subborrower." A borrower under a Subloan.

Section 2.9. "Subloan." A loan made by the Lending Bank.

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Section 2.10. "Subloan Coverage." The amount of Subloan principal guarantied by one or more Standby L/Cs, equal to up to Fifty percent (50%) of the aggregate princ ~al amount of the Subloans relating to such Standby L/Cs.

Article 3: Resources for the Project

Section 3.1. A.I.D. Resources for Project. Pursuant to the Foreign Assistance Act of 1961, as amended, A.I.D. has agreed to lend the Issuing Bank up to One Million U.S. Dollars, in return for which the Issuing Bank will establish the Standby Facility.

Section 3.2. Lending Bank Resources for the Project. The Lending Bank agrees to devote sufficient resources to the Project to carry it out effectively, in a timely manrer, and consistent with the terms of this Project Agreement.

Article 4. Qualifying Subloans.

Section 4.1. Qualifying Subloan. To be eligible for coverage under the Standby Facility, a Subloan made by the Lending Bank must meet the following requirements:

(a) The Subloan must be entirely in Local Currency.

(b) The Subborrower must be a Qualified Subborrower as defined in Section 4.2 of this Project Agreement.

(c) The Subloan must finance only Qualifying Activities as defined in Section 4.3 of this Project Agreement.

(d) The term of the Subloan must be at least one (1) year.

(e) Unless A.I.D. agrees otherwise in writing, the total principal amount of all Subloans to the Subborrower guarantied under the Standby Facility must not be greater than the Local Currency equivalent of One Hundred Thousand U.S. Dollars ($100,000), calculated according to the Exchange Rate in effect on the date of the Subloan.

(f) The Subborrower must not be a borrowing customer of the Lending Bank, or if the Subborrower is a borrowing customer, the Subloan must be additional to

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the credit already being provided and must not be a renewal or extension of a pre-existing loan.

(g) The Standby L/C must expire at least One Hundred twenty (120) days after the final payment of the Subloan(s) covered thereunder.

(h) No portion of the risk of repayment of the Subloan may be borne at any time by any Governmental Authority or any entity owned or controlled by any Governmental Authority.

(i) No portion of the Subloan may be directly financed with subsidized funds obtained by the Lending Bank from a Governmental Authority or an aid donor.

Section 4.2. Qualifying Subborrower. A Qualifying Subborrower is an individual, partnership, association, cooperative or corporation that:

(a) is a National of the Host Country;

(b) is One Hundred percent (100%) privately owned, controlled and operated;

(c) has its principal place of business in the Host Country;

(d) owns a total of not more than the Local Currency equivalent of Two Hundred Fifty Thousand U.S. Dollars ($250,000) in assets at the time the Subloan is made (calculated in accordance with the Exchange Rate in effect on the date of the Subloan); and

(e) is not disqualified from receiving a guarantied Subloan under Section 4.5 of this Project Agreement.

Section 4.3. Qualifying Activity. Any private productive or commercial activity conducted principally in the Host Country, but excluding the following:

(a) the production, processing or marketing of sugar, palm oil, cotton, or citrus, in whole or in part, for export;

(b) the purchase, manufacture, importation, distribution or application of pesticides;

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(c) the production, processing or marketing luxury goods or gambling equipment;

(d) activities related to abortion or involuntary sterilization;

(e) police, other law enforcement, or military activities;

(f) the production, processing or marketing materials for explosives, surveillance equipment, or weather modification equipment;

(g) the purchase of goods or services which are shipped from or produced in the USSR, Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Poland, Vietnam, North Korea, People's Republic of China, Mongolia, Laos, Cambodia, or Cuba, or are produced by corporations or other entities that have more than fifty percent (50%) owned by citizens of those countries; and

(h) the purchase of motor vehicles not manufactured in the United States if more than fifty percent (50%) of the proceeds of the Subloan are used for such purchases.

For purposes of subsection (c), "luxury goods" shall be defined as recreational supplies or equipment, alcoholic beverages and equipment for their production or use, equipment or supplies for gambling facilities, jewelry, stamps, coins and the more expensive textiles.

Section 4.4. <u>Subloan Noncompliance</u>.

(a) <u>Covenant</u>. The Lending Bank covenants that Subloans shall comply with the prohibitions in Section 4.3(a) through (h).

(b) <u>Lending Bank's Duty to Cure</u> (1) In the event that the Lending Bank has reason to believe that a Subloan covered by the Standby Facility is not in compliance with Section 4.3, the Lending Bank shall promptly notify A.I.D. Upon receiving such notice, A.I.D. shall determine whether, under the circumstances, the prohibition at issue may be waived, and shall promptly notify the Lending Bank of its determination.

(2) If A.I.D. notifies the Lending Bank that the prohibition may not be waived, the Lending Bank shall either

(i) demonstrate to A.I.D.'s satisfaction that, in fact, the Subloan was always in compliance with Section 4.3; or

(ii) induce or compel the noncomplying Subborrower to cure such noncompliance.

(c) <u>Forfeit of Guaranty</u>. In the event that the Lending Bank does not, within sixty (60) days of the receipt of notice from A.I.D., present evidence satisfactory to A.I.D. that it has taken one of the actions mentioned in subsection (a) above, then the Lending Bank shall forfeit its right to obtain payment under the Guaranty Facility on the noncomplying Subloan and shall immediately remove the noncomplying Subloan from the Subloan Schedule.

(d) <u>Repayment</u>. If the Lending Bank obtains payment under the Standby L/C for the noncomplying Subloan, the Local Lending Bank shall be liable immediately to repay to A.I.D. the full amount of the payment obtained plus interest accruing from the date of payment at the rate of Twelve percent (12%) per annum until such amount is paid to A.I.D.

Section 4.5. <u>Loss of Eligibility</u>. Any previously Qualifying Subborrower that does not cure noncompliance with Section 4.3 promptly upon receiving notice of such noncompliance shall no longer be qualified to receive loans guarantied under the Standby Facility.

Article 5: <u>The Standby Facility</u>

Section 5.1. <u>Amount of Coverage Available</u>. The amount of guaranty coverage available under the Standby Facility shall be equal to the outstanding principal balance of the Loan. The Loan shall be disbursed to the Issuing Bank in increments of Five Hundred Thousand U.S. Dollars ($500,000). The amount disbursed becomes the principal balance due A.I.D. by the Issuing Bank under the Loan Agreement and that balance shall be reduced as follows:

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(a) as the Issuing Bank repays the principal balance within five (5) years of the date of the first disbursement thereof in seven (7) equal semi-annual installments the first of which is due on the date twenty-four (24) months after the date of the first disbursement;

(b) as amounts paid in claims under the Standby Facility are offset against principal payments due under the Loan Agreement;

(c) by A.I.D., at its option, at the conclusion of the twelve-month period immediately following the first disbursement of the Loan. At that time, A.I.D. may instruct the Issuing Bank to reduce the amount of the Standby Facility to equal the maximum amount of Subloan Coverage outstanding under the Standby Facility at any one time during the initial twelve-month period (as certified by A.I.D.), to reduce the amount of any outstanding Standby L/Cs accordingly, and to make a prepayment of the Loan, provided, however, that the Issuing Bank shall not be required to reduce the amount of any Standby L/C below the amount of Subloan Coverage thereunder.

Section 5.2. Conditions Precedent to Initial Utilization of Standby Facility. Unless A.I.D. agrees otherwise in writing, prior to the first disbursement of the Loan and the opening of the Standby Facility, the Lending Bank shall have furnished to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) an opinion of counsel acceptable to A.I.D. that all the Lending Bank's representations in Sections 8.1, 8.2, 8.3, 8.4, 8.5 and 8.6 are true and correct, and, in particular, that the Lending Bank has obtained any and all approvals, permits, licenses, authorizations, certificates and consents of any Governmental Authority required to carry out its obligations under this Project Agreement, including without limitation all payments of fees and remittances of amounts recovered in accordance with this Project Agreement and the Assignment and Certificate, or that no such approvals, permits, licenses, authorizations, certificates and consents are required;

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(b) a statement of the name of the persons holding or acting in the Office of the Lending Bank specified in Section 12.1 and of any additional representatives of the Lending Bank, together with a specimen signature of each person specified in such statement;

(c) a copy of the Certificate of Estimated Standby Utilization in an amount of Five Hundred Thousand U.S. Dollars ($500,000) or multiples thereof presented by the Lending Bank to the Issuing Bank under Section 5.4 below.

Section 5.3. Terminal Date for Satisfaction of Section 5.2 Conditions Precedent. If all of the conditions specified in Section 5.2 have not been met within thirty (30) days of the execution date of this Project Agreement, or such later date as A.I.D. may agree to in writing, A.I.D. may, at its option, terminate this Project Agreement by written notice to Lending Bank.

Section 5.4. First Disbursement. After the conditions precedent set forth in Sections 5.2(a), (b) and (c) of this Project Agreement are satisfied, the Lending Bank shall submit to the Issuing Bank and to A.I.D. a Certificate of Estimated Standby Utilization ("CESU") in the form of Annex B to this Project Agreement. The Issuing Bank will submit a copy of the CESU to A.I.D. along with a request for disbursement of the A.I.D. Loan in an amount equal to the anticipated utilization stated in the CESU. After A.I.D. makes the requested disbursement, the Issuing Bank will advise the Lending Bank that the Standby Facility has been opened in its favor in an amount equal to the amount of the A.I.D. disbursement.

Section 5.5. Conditions Precedent to Subsequent Disbursements. At any time after the first disbursement of the Loan, but (unless A.I.D. agrees otherwise in writing) not later than twelve (12) months after the execution date of the Loan Agreement, the Lending Bank may request an increase in the Standby Facility by submitting to A.I.D., in form and substance satisfactory to A.I.D., the following:

(a) a Certificate of Estimated Standby Utilization in an amount of Five Hundred Thousand U.S. Dollars ($500,000) and which, with the amounts previously disbursed, is not in excess of One Million U.S. Dollars ($1,000,000); and

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(b) such information as A.I.D. may reasonably request including, without limitation, information relating to the Lending Bank's performance under this Project Agreement.

Section 5.6. Opening the Standby L/Cs.

(a) Within thirty (30) days of a Loan disbursement, the Lending Bank shall

(1) submit to the Issuing Bank a Lending Bank Standby Certificate (Annex G) requesting issuance of one or more Standby L/Cs, and

(2) submit to A.I.D. the first Subloan Schedule relating to such Standby L/Cs.

(b) The Standby L/Cs requested may guaranty one or more Qualifying Subloans and, unless A.I.D. and the Issuing Bank agree otherwise in writing, must be in an initial amount of not less the One Hundred Thousand U.S. Dollars ($100,000).

(c) The Lending Bank shall request the issuance of a Standby L/C only if such issuance would not cause the aggregate amount of the Standby L/Cs outstanding to exceed the coverage available under the Standby Facility (in accordance with Section 4.1 of this Project Agreement) at any time during the life of the Standby L/C.

Section 5.7. Qualifying Subloan Reports. For each Qualifying Subloan financed under this Agreement, the Borrower shall submit a Qualifying Subloan Report, in the form of Annex H, within ten (10) days of the date on which the Subloan is made.

Section 5.8. Subloan Schedules. For each Standby L/C opened under the Standby Facility, the Lending Bank shall submit a Subloan Schedule, substantially in the form of Annex I to this Agreement, identifying the Qualifying Subloans guarantied thereunder. A Subloan Schedule shall be submitted at the time the Lending Bank requests issuance of the Standby L/C, and thereafter on March 31, June 30, September 30 and December 31 of each year.

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Section 5.9. Termination of Standby Facility.

(a) The last date upon which the Lending Bank may request the issuance of a Standby L/C is One Hundred Fifty (150) days prior to the last principal due date under the Loan Agreement.

(b) The final payment of the guarantied portion of each Subloan must be due no later than One Hundred Twenty (120) days prior to the expiration of the Standby L/C under which the Subloan is guarantied. The Lending Bank will thus have thirty (30) days after any Subloan payment is ninety (90) days past due to draw under the relevant Standby L/C.

Article 6. Claims Under the Standby Facility.

Section 6.1. Collection Period. The Lending Bank may submit a claim for payment under a Standby L/C only when principal or interest payments under one or more Qualifying Subloans are at least ninety (90) days past due. Before submitting a claim, the Lending Bank must pursue reasonable and diligent collection activities against the defaulting Subborrower as required by the Assignment and Certificate (Annex E), applying all recoveries as provided therein.

Section 6.2. Submission of Claim to the Issuing Bank. The Lending Bank may make a claim for payment under a Standby L/C only by submitting to the Issuing Bank, for each defaulted Qualifying Subloan,

(a) a Draft substantially in the form of Annex D to this Project Agreement;

(b) an executed Assignment and Certificate substantially in the form of Annex E to this Project Agreement; and

(c) a copy of the Subloan Schedule that was in effect on the date of the Subloan default, which must include the Subloan identified as the Defaulted Subloan in Section I(1) of the accompanying Assignment and Certificate.

The Lending Bank must simultaneously submit an executed copy of the Assignment and Certificate to A.I.D., and shall be obligated to A.I.D. in accordance with all the terms and conditions of such Assignment and Certificate.

Section 6.3. Limitation on Amount of Claim. The amount of any claim is limited to Fifty percent (50%) of the uncollected principal of the defaulted Subloan or the amount of coverage remaining under the Standby Letter of Credit under which the Subloan is covered, whichever is less.

Section 6.4. Pursuit of Recovery. The Lending Bank shall pursue recovery of all amounts due under the defaulted Subloan no less diligently than it pursues recovery of its loans that are not covered by the Standby Facility, and shall continue its collection efforts until A.I.D. agrees in writing that such efforts may be discontinued.

Article 7. Fees for Standby Facility.

Section 7.1. A.I.D. Facility Fee. Upon the execution of this Project Agreement, the Lending Bank shall pay to A.I.D. a one-time fee ("Facility Fee") of Three Thousand Seven Hundred Fifty U.S. Dollars ($3,750), or its equivalent in Kenya Shillings, calculated according to the Exchange Rate prevailing on the date of execution.

Section 7.2. A.I.D. Guaranty Fee. The Lending Bank shall pay to A.I.D. a fee ("Guaranty Fee") Five-eighths of One percent (.625%) per annum of the aggregate amount of Subloan Coverage outstanding under the Standby Facility. The Guaranty Fee shall begin to accrue on the date of issuance of the first Standby L/C and shall be payable in arrears on each March 31, June 30, September 30 and December 31, and at the termination of the Standby Facility. The Guaranty Fee may be paid in U.S. Dollars or in the Kenya Shilling equivalent of the U.S. Dollars due, calculated according to the Exchange Rate prevailing on the payment date.

Section 7.3. Late Payment Charge. In the event of late payment of any amounts due to A.I.D., a charge ("Late Payment Charge") shall be assessed on the unpaid amount at the rate of twelve percent (12%) per annum, accruing from the date the payment was due until the date payment is received by A.I.D.

Section 7.4. Application, Currency, and Place of Payment. All payments of amounts owing to A.I.D. under this Project Agreement shall be applied first to the payment of interest due under Section 7.3 above, and then to fees and any other amounts owing. Except as A.I.D. may otherwise specify in writing, payments shall be made at USAID/Kenya, Union Towers, Moi Avenue, Nairobi, Kenya, referencing A.I.D. Loan Number

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615-S-023. The Lending Bank shall notify A.I.D. of such payment by telex at the telex number set forth in Section 12.1 of this Project Agreement on the date such payments are made.

Article 8: Representations and Warranties

The Lending Bank hereby represents and warrants as follows:

Section 8.1. Organization, Existence, Etc. of Local Lending Bank. The Lending Bank is a corporation duly organized and validly existing under the laws of the Republic of Kenya. The Lending Bank is qualified to do business in each jurisdiction where the conduct of its business requires such qualification, and it has full power, authority and legal right to carry out its business as currently conducted, to execute, deliver and perform this Project Agreement and all other documents which this Project Agreement contemplates will be executed by the Lending Bank.

Section 8.2. Authorization. The execution, delivery and performance by the Lending Bank of this Project Agreement, and any utilization of the Standby Facility hereunder, have been duly authorized by all necessary action of the Lending Bank, do not require any additional approval, do not contravene any law, regulation, rule or order binding on the Lending Bank, and do not contravene the provisions of or constitute a default under any indenture, mortgage, contract or other agreement or instrument to which the Lending Bank is a party or by which the Lending Bank or any of its properties may be bound or affected.

Section 8.3. Governmental Approvals, Etc. No approval, permit, license, authorization, certificate, or consent of any Governmental Authority is required for the making by the Lending Bank of this Project Agreement, except such as have been heretofore obtained and are in full force and effect, or will be obtained in connection with the satisfaction of Section 5.2(c) of this Project Agreement.

Section 8.4. Binding Obligations, Etc. This Project Agreement has been duly executed and delivered by the Lending Bank and constitutes, and each Assignment and Certificate when executed and delivered will constitute, legal, valid and binding obligations of the Lending Bank enforceable against the Lending Bank in accordance with their respective terms.

Section 8.5. Litigation. There are no actions, proceedings, investigations or claims against or affecting the Lending Bank now pending before any court, arbitrator or

Governmental Authority (or to the knowledge of the Lending Bank has any thereof been threatened nor does any basis exist therefor) which would be likely to have a material adverse effect on the operations of the Lending Bank.

Section 8.6. Other Agreements. The Lending Bank is not in material breach of or in default under any agreement to which it is a party or which is binding on it or on its assets where such breach or default is likely to have a material adverse effect on the operations of the Lending Bank.

Section 8.7. Representations as a Whole. This Project Agreement and any of the documents referred to herein, including but not limited to any Certificate of Estimated Standby Utilization, Lending Bank Standby Certificate, or Assignment and Certificate, taken as a whole, do not, or will not when executed or delivered, contain any untrue statements of material fact or omit to state any material fact necessary in order to make the statements contained herein or therein not misleading. The facts and circumstances of which the Lending Bank has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Project Agreement, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of the Lending Bank's obligations under this Project Agreement. The Lending Bank will inform A.I.D. in a timely manner of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the Lending Bank's discharge of its obligations under this Project Agreement.

Article 9: General Covenants

Section 9.1. Project Evaluation. The Parties agree to cooperate on an A.I.D.-conducted evaluation program as part of the Project. The program may include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

A.I.D. shall bear its costs involved in such evaluation.

Section 9.2. Consultation. The Parties will cooperate to assure that the purpose of this Project Agreement will be accomplished. To this end, the Parties will exchange views in accordance with the consultations provisions contained in Annex A hereto and as otherwise requested by A.I.D.

Section 9.3. Execution of Project. The Lending Bank shall use its best efforts to:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

Section 9.4. Reports, Records, Inspections, Audit. The Lending Bank shall

(a) comply with the reporting requirements detailed in Annex A hereto and furnish A.I.D. such information and reports relating to the Project and to this Project Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Project Agreement, adequate to show the Lending Bank's compliance with this Project Agreement and particularly, without limiting the generality of the foregoing, the purpose for which the Subloans were made and the size and type of business of the Subborrowers. Such books and records will be audited regularly in accordance with generally accepted auditing standards, and must be maintained (except as A.I.D. may otherwise agree in writing) until three (3) years after the termination of the Standby Facility;

(c) afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect Lending Bank's books, records, and other documents relating to the Project and the Standby Facility to verify that Subloans are being made and recoveries pursued and applied in accordance with the terms and conditions of this Project Agreement; and

(d) provide such other information and reports as A.I.D. may reasonably request.

Section 9.5. Publicity. The Lending Bank will give appropriate publicity to the Standby Facility and the Project as a program to which the United States has contributed and identify the Project as supported partially by A.I.D., as may be requested in Project Implementation Letters, as described in Section 12.2 below.

Article 10: Special Covenants

Section 10.1. Implementation Schedule. The Lending Bank covenants that it will use its best efforts to comply with the implementation schedule set out in Annex A.

Section 10.2. Compliance with Project Description. The Lending Bank covenants that, in addition to complying with the terms contained in the body of this Project Agreement and with those portions of Annex A specifically made binding by one or more provisions in the body of this Project Agreement, the Lending Bank will carry out the Project substantially as described in Annex A and will deviate materially from that description only after obtaining A.I.D.'s written consent.

Section 10.3. Taxes.

(a) The Lending Bank will pay when due all present and future income, stamp and other taxes and levies, imposts, deductions, charges, compulsory loans and withholdings whatsoever imposed, assessed, levied or collected by the Host Country or any political subdivision or taxing authority thereof or therein, together with interest thereon and penalties with respect thereto, if any, on or in the respect of this Project Agreement or the registration, notarization or other formalization thereof. The foregoing amounts are hereinafter termed "Host Country Taxes." The Lending Bank shall promptly furnish to A.I.D. any tax receipts in respect of such Host Country Taxes and such other evidence as A.I.D. may from time to time reasonably require to establish to its satisfaction that full and timely payment has been made of all Host Country Taxes.

(b) The Lending Bank will indemnify A.I.D. against, and reimburse A.I.D. upon demand for, any Host Country Taxes and any loss, liability, claim or expense, including interest, penalties and legal fees, which A.I.D. may incur at any time arising out of or in connection with any failure of the Lending Bank to make any payment of Host Country Taxes when due.

(c) All amounts payable under this Project Agreement shall be made free and clear of and without reduction by reason of any Host Country Taxes.

Article 11: Rights and Remedies of A.I.D.

Section 11.1. Suspension of Standby Facility.

(a) If events have occurred that give A.I.D. reasonable grounds to believe that the Lending Bank may be unable to perform its obligations under this Project Agreement, A.I.D. may upon notice to the Lending Bank, suspend the Lending Bank's right

(1) to request issuance of new Standby L/Cs under the Standby Facility, and

(2) to add Qualifying Subloans to Standby L/Cs outstanding.

Such notice shall state the basis for the suspension. If the Lending Bank provides A.I.D. with adequate assurance of performance, A.I.D. shall, upon notice to the Lending Bank, lift the suspension. If no such adequate assurance is provided to A.I.D. within thirty (30) days of receipt by the Lending Bank of the notice of suspension, A.I.D. may thereafter declare the Lending Bank to be in default as provided in Section 11.2(e) of this Project Agreement.

(b) In the event that the suspension provided for in subsection (a) of this Section is lifted without default, the Lending Bank may add to its Subloan Schedules or place under a newly opened Standby L/C, any Qualifying Subloans, not in default, made by the Lending Bank during the suspension.

(c) Suspension of new Standby L/C availability under subsection (a) of this Section shall not affect the validity and enforceability of Standby L/Cs outstanding at the time of the suspension.

Section 11.2. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Project Agreement regardless of the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any Governmental Authority.

(a) Payment Default. The Lending Bank shall fail to pay when due any amount owing under this Project Agreement or any fees or other amounts due directly from the Lending Bank to the Issuing Bank in payment for the Standby Facility.

(b) Breach of Warranty. Any material representation, certification or warranty made by the Lending Bank under or in connection with this Project Agreement, including but not limited to representations made in Article 5 hereunder, shall prove to have been incorrect when made or deemed made in accordance with this Project Agreement.

(c) Breach of Covenant. The Lending Bank shall fail to comply with any covenant or other provision contained in this Project Agreement.

(d) Insolvency, Etc. The Lending Bank shall admit in writing its inability to pay its debts or shall voluntarily suspend all, or substantially all, of its business operations, or to make a general assignment for the benefit of creditors; or any proceeding shall be instituted by the Lending Bank in any jurisdiction seeking to adjudicate it a bankrupt or insolvent, seeking reorganization, arrangement, adjustment or composition of it or its debt under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking appointment of a receiver, trustee or other similar official for it or for such part of its property as in the reasonable opinion of A.I.D. is a substantial part; or any such proceeding is instituted against the Lending Bank which is not dismissed within reasonable time in the jurisdiction of or within whose venue the matter falls after the institution thereof; or the Lending Bank shall take action to authorize any of the actions set forth above in this subsection (d).

(e) Adverse Events. Any event shall have occurred which gives A.I.D. reasonable grounds to believe that the Lending Bank may be unable to perform its obligations under this Project Agreement, and within thirty (30) days after notice from A.I.D. as provided in Section 11.1(a), the Lending Bank fails to provide adequate assurance of due performance.

Section 11.3. Consequences of Default. Upon the occurrence of an Event of Default, A.I.D. may, in addition to any other remedies provided by governing law and any additional rights A.I.D. may have with respect to the Issuing Bank under the Loan Agreement,

(a) immediately terminate, or suspend and at any time thereafter terminate, any right the Lending Bank may have

(1) to request issuance of new Standby L/Cs under the Standby Facility, and

(2) to add Qualifying Subloans to Standby L/Cs outstanding,

provided, however, that a termination or suspension by A.I.D. shall have no effect on the validity and enforceability of the Standby L/Cs then outstanding, or on the Lending Bank's ongoing obligation to pay Guaranty Fees with respect to Standby L/Cs outstanding as they fall due; and

(b) with the written concurrence of the Lending Bank, require the Issuing Bank to reduce the amount of any Standby L/C to equal the amount of Subloan Coverage then outstanding thereunder, as indicated by the Lending Bank's most recent Subloan Schedule.

Section 11.4. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to A.I.D. in connection with this Project Agreement will be construed as a waiver of such right or remedy.

Section 11.5. Suspension of Disbursements. Notwithstanding any other provision of this Project Agreement, A.I.D. may decline to make any disbursements under the Loan Agreement which would cause A.I.D. to be in violation of any statute or regulation governing it, whether or not such statute or regulation is in existence as of the date of execution of this Project Agreement or is amended thereafter.

Article 12: Miscellaneous

Section 12.1. Communications. Except as otherwise specifically provided in this Project Agreement, any notice, request, document, or other communication submitted by either Party to the other under this Project Agreement will be in writing or by telegram, cable or telex, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Lending Bank:

Mail Address:
Diamond Trust of Kenya Limited
P.O. Box 61711
Nairobi, Kenya
Attn: Frances Okello, General Manager

Alternate address for telex:
23294 TRUST HO

To A.I.D.:

Mail Address:
Office of Investment
Bureau for Private Enterprise
Agency for International Development
Washington, D.C. 20523
Attn: Kathy Wilson

Alternate address for telex:
248379 AID UR

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Lending Bank's communications with the Issuing Bank shall be in accordance with their mutual agreement. The Assignment and Certificate delivered to A.I.D. simultaneously with its submission to the Issuing Bank may not be in the form of a telegram, telex or cable. The actual signed document must be presented to A.I.D.

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Section 12.2. Representatives. For all purposes relevant to this Project Agreement, the Lending Bank will be represented by the individuals who are duly authorized representatives of the Lending Bank empowered to commit the Lending Bank, and A.I.D. will be represented by the individual holding or acting in the Office of Assistant Administrator, Bureau for Private Enterprise, each of whom, by written notice, may designate additional representatives for all purposes. The names of the representatives of the Lending Bank, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Project Agreement, until receipt of written notice of revocation of their authority.

Section 12.3. Project Implementation Letters. To assist the Lending Bank in the implementation of the Project, A.I.D., from time to time, may issue Project Implementation Letters that will furnish additional information about matters stated in this Project Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Project Agreement.

Section 12.4. Governing Law. This Project Agreement shall be governed by the laws of the United States and the State of New York.

Section 12.5. Amendments. This Project Agreement may be amended only in writing signed by authorized representatives of both Parties.

Section 12.6. Jurisdiction. The Lending Bank consents to jurisdiction in the United States District Court for the District of Columbia and agrees that, unless waived by A.I.D., any action brought to resolve any breach, default, dispute or interpretation of this Loan Agreement shall be commenced in the United States District Court for the District of Columbia. Lending Bank agrees not to claim, in any such legal action, that the District of Columbia is an inconvenient place for trial. The foregoing shall not, however, limit the right of A.I.D. to serve legal process in any manner permitted by law or affect the right of A.I.D. to bring any action or proceeding against the Lending Bank or its property in the courts of the Host Country or in any other courts having jurisdiction.

Section 12.7. Headings. The headings of the various provisions of this Project Agreement are for convenience of reference only, do not constitute a part hereof, and shall not affect the meaning or construction of any provision hereof.

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Section 12.8. <u>A.I.D. Disclaimer</u>. This Project Agreement refers in various places to actions that the Issuing Bank will take in establishing and administering the Standby Facility. The only contractual obligations the Issuing Bank has to A.I.D. are those stated in the Loan Agreement. A.I.D. makes no warranty and undertakes no obligation to the Lending Bank with respect to the Issuing Bank's performance of its obligations under the Loan Agreement or of those actions or responsibilities that this Project Agreement describes as being undertaken by the Issuing Bank. A.I.D.'s only obligations with respect to the Lending Bank shall be those expressly imposed on A.I.D. under this Project Agreement.

IN WITNESS WHEREOF, the Lending Bank and the United States of America, each acting through its duly authorized representative, have caused this Project Agreement to be signed in their names and delivered as of the dates written below.

DIAMOND TRUST OF KENYA LTD.

By: Sultan E. Shariff

Title: CHAIRMAN.

Date: August 24, 1988.

UNITED STATES OF AMERICA

By: Alan Woods

Title: Assistant Administrator

Date: 4/21/88

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ANNEXES

Annex A - Project Description

Annex B - Certificate of Estimated Standby Utilization

Annex C - Form of Irrevocable Standby L/C

Annex D - Draft

Annex E - Assignment and Certificate

Annex F - Notice of Final Payment

Annex G - Lending Bank Standby Certificate

Annex H - Qualifying Subloan Report

Annex I - Subloan Schedule

ANNEX A
(to Project Agreement)

PROJECT DESCRIPTION

This Annex A is for descriptive purposes and does not impose any contractual obligation on the A.I.D. or the Lending Bank except as otherwise expressly provided in the main body of this Agreement, nor does it vary any obligations otherwise arising under the body of this Agreement.

I. Objectives

The A.I.D. Bureau for Private Enterprise will make available to the Lending Bank a five-year loan guarantee facility for $1,000,000 to cover up to 50 percent of the risk for the local currency equivalent of up to $2,000,000 in term lending to small- and medium-scale private enterprises. The Lending Bank, a non-bank financial institution that emphasizes merchant banking activities, will use its own resources for this lending.

The loan guaranty facility will operate as follows: A.I.D. will make a loan to the Issuing Bank. In return, the Issuing Bank will open standby letters of credit in favor of the Lending Bank to cover 50 percent of the principal of Qualifying Subloans made by the Lending Bank. In the event of subloan default, the Lending Bank is obligated to pursue collection procedures that are reasonable under prevailing Host Country banking practice and are at least as diligent as the procedures the Lending Bank would employ in recovering unguarantied loans. After the collection period, if the full amount due to the Lending Bank under the defaulted Subloan has not been recovered, the Lending Bank may draw 50 percent of the uncollected principal under the Issuing Bank's standby letter of credit.

The Lending Bank may draw under a standby letter of credit only by submitting to the Issuing Bank, a draft, a copy of the Subloan Schedule, as amended, in which the defaulted Subloan was first reported to A.I.D., and an Assignment and Certificate under which the Lending Bank

(1) certifies the default, the amount outstanding and the nature of its collection efforts;

(2) assigns to A.I.D. 50 percent of its rights against the defaulting Subborrower; and

(3) promises to remit to A.I.D. 50 percent of all future recoveries from the the defaulting Subborrower until the portion of the debt assigned to A.I.D. has been paid in full.

In consideration of the guaranty payment to the Lending Bank, the Issuing Bank is authorized to set off the amount of the payment against its principal repayment obligation under the A.I.D. Loan. By reducing the outstanding principal balance of the A.I.D. Loan, the setoff reduces the amount of subloan principal that may be covered with the A.I.D. guaranty at any one time.

II. Project Implementation

The Parties contemplate that the Project will be implemented according to the following schedule:

September 30, 1987	-	Loan Agreement signed
_________ ___, 1988	-	Project Agreement signed
_________ ___, 1988	-	Satisfaction of Section 5.2 Conditions Precedent
_________ ___, 1988	-	Disbursement of $500,000 of the A.I.D. Loan; opening of Standby Facility
_________ ___, 1989	-	Full utilization of first $500,000 in coverage; second Loan disbursement of $500,000
_________ ___, 1989	-	Full utilization of $1,000,000 in coverage

III. Reporting and Consultation Requirements

The Lending Bank shall furnish to A.I.D. copies of the Lending Bank's unaudited financial statements within thirty (30) days of the end of the first half of its fiscal year; and annual audited financial statements within sixty (60) days of the end of its fiscal year. The Lending Bank agrees to meet

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with A.I.D. personnel periodically to review the implementation of the Project.

ANNEX B
(to Project Agreement)

CERTIFICATE OF
ESTIMATED STANDBY UTILIZATION

This document is submitted with respect to the standby letter of credit facility ("Standby Facility") established pursuant to that loan agreement ("Loan Agreement") dated as of September 30, 1987, by and between Mellon Bank N.A. ("Issuing Bank") and the United States of America, acting through the Agency for International Development ("A.I.D.").

The Diamond Trust of Kenya, Ltd. ("Lending Bank") hereby submits its good faith estimate that during the six (6) months immediately following the date of this certificate, it will be able to use _____________ U.S. Dollars ($__________) of coverage under the Standby Facility.

DIAMOND TRUST OF KENYA, LTD.

By: ________________________

Title: ______________________

Date: ______________________

ANNEX C*/
(to Project Agreement)

[FORM OF IRREVOCABLE STANDBY
LETTER OF CREDIT]

Letter of Credit No. _______

Date: _______________

Location: ___________

Gentlemen:

1. By order of our client, the United States of America, acting through the Agency for International Development ("A.I.D."), Mellon Bank N.A. ("Issuing Bank") hereby opens an irrevocable Letter of Credit in favor of Diamond Trust of Kenya, Ltd. ("Beneficiary") for the initial amount of _____________ United States Dollars ($_______).

2. The initial amount shall be reduced from time to time as follows ("Scheduled Reductions"):

(1) U.S.$___________ on _______________;

(2) U.S.$___________ on _______________;

(3) U.S.$___________ on _______________.

The Scheduled Reductions provided in this Section are effective at the close of business, _________ time.

3. This letter of credit expires at the close of business, _________ time on _____________ or upon receipt by the Issuing Bank of a tested or otherwise duly authenticated telex containing a "Notice of Final Payment" in the form of Annex E to the Loan Agreement dated as of September 30, 1987, by and between the Issuing Bank and A.I.D. ("Loan Agreement"), whichever is earlier.

4. Drawings under this Letter of Credit shall be made by delivery of the following to the Letter of Credit Division at the Issuing Bank's _________ office:

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*/ Annex B to the Loan Agreement.

(i) an executed sight draft ("Draft") (specifying "Drawn under _______ Letter of Credit No ____________") in the form of Annex C to the Loan Agreement;

(ii) an executed Assignment and Certificate in the form of Annex D to the Loan Agreement, and

(iii) a copy of the Subloan Schedule (Annex I to the Loan Agreement) that was in effect on the date of the Subloan default, which must include the Subloan identified as the Defaulted Subloan in Section I(1) of the accompanying Assignment and Certificate.

PARTIAL DRAWINGS UNDER THIS LETTER OF CREDIT ARE PERMITTED.

5. Upon receipt by the Issuing Bank of documents as provided in Paragraph 4 above before the time this Letter of Credit expires, the Issuing Bank will unconditionally and promptly honor same.

6. Drawings paid under this Letter of Credit, and all unscheduled reductions in the amount of this Letter of Credit, shall be subtracted from the amount of the succeeding Scheduled Reductions in the order in which they occur.

7. This Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1983 Revision), International Chamber of Commerce, Publication No. 400, provided, however, that notwithstanding Article 45 thereof, if any installment is not drawn within the period, if any, allowed for that installment, this Letter of Credit shall not cease to be available for any subsequent installment.

8. All letter of credit fees shall be for the account of A.I.D.

9. All communications regarding this Letter of Credit shall be by an instrument in writing or by a tested or otherwise duly authenticated telex addressed to the Issuing Bank's _________ office, Telex No. _________, Attention: Letter of Credit Division, and shall refer to Mellon Bank Letter of Credit No. _________.

Yours very truly,
MELLON BANK N.A.

By:_____________________

Title:__________________

ANNEX D*/
(to Project Agreement)

DRAFT

No. ________________________________

________________________________ FOR [redacted]

At ________________ sight of this FIRST Bill of Exchange (Second of the same tenor and date being unpaid) pay to the **Mellon Bank N.A.** or order the sum of [redacted]

Value received ________________________________

____

To ________________________________

____

*/ Annex C to the Loan Agreement.

ANNEX D

SUBLOAN SCHEDULE

1. The Diamond Trust of Kenya, Ltd. ("Lending Bank") ivision ("Agent Bank") hereby states that the loans identified herein are covered by the A.I.D. guaranty in accordance with Article 4 of the Project Agreement ("Project Agreement"), dated _________ ___, 1988, by and between the Lending Bank and the United States of America, acting through the Agency for International Development ("A.I.D.") as of the execution date of this Subloan Schedule:

2. The Lending Bank hereby certifies that all the loans identified herein are Qualifying Subloans under Article 4, Section 4.1, of the Project Agreement.

3. In the event that A.I.D. certifies to the Issuing Bank that the aggregate amount of Subloan Coverage outstanding at any one time under the Standby Facility has not reached the full amount of the Standby Facility within twelve (12) months of the date on which the Standby Facility was opened, this Subloan Schedule shall constitute the Lending Bank's instruction to the Issuing Bank to reduce the amount of the above-referenced Standby L/C so that the total amount of Standby L/C's outstanding equals the maximum amount of Subloan Coverage outstanding under the Standby Facility at any one time during the initial twelve (12) month period, as certified by A.I.D.

4. In the event of a default by the Lending Bank under the Project Agreement, or an event that permits A.I.D. to terminate the Lending Bank's utilization of the Standby Facility, certified as such to the Issuing Bank by A.I.D., this Subloan Schedule shall constitute the Lending Bank's instruction to the Issuing Bank

(1) to reduce the amount of the above-referenced Standby L/C to the total amount of Subloan Coverage listed in Section 2 of the Subloan Schedule current on the date of default or termination, and

(2) to reduce further the amount of the Standby L/C as and when the listed Subloans in that Subloan Schedule are repaid.

DIAMOND TRUST OF KENYA, LTD.

By: ______________________

Title: ___________________

Date: ____________________

Project Title: Diamond Trust
Project Number: 940-0002.73
Date (as of): Mar. 31/June 30/Sept. 30
Dec. 31 (circle one) 19__

Name or Company Name of Subborrower	Subloan Amt. (in 000's)	Exchange Rate*	Balance Outstanding (in 000's)		Due date of Subloan	Credit Quality**
			Local cur. amt	US$ equivalent		

* Indicate US$ exchange rate on the date the subloan was made.

** Classify loan quality according to:

C = Current.
P = Past Due. Indicate amount. Past due equals _____ days in arrears.
D = Default. Indicate amount. Default equals _____ months in arrears.

ANNEX E*/
(to Project Agreement)

Letter of Credit No. ________

ASSIGNMENT AND CERTIFICATE

The Diamond Trust of Kenya, Ltd. ("Lending Bank") hereby submits this Assignment and Certificate in accordance with the terms of the Project Agreement, dated _______ __, 1988, by and between the Lending Bank and the United States of America, acting through the Agency for International Development ("A.I.D.").

I. Certifications and Warranties

The Lending Bank hereby certifies and warrants as follows:

(1) This Assignment and Certificate relates to a loan by the Lending Bank dated _____ __, 198_ ("Defaulted Subloan") to ___________ ("Defaulting Subborrower"). The Defaulted Subloan is identified as Subloan No. _____ in Lending Bank Subloan Schedule No. ___, dated _________, which was the Subloan Schedule in which the Defaulted Subloan was first reported to A.I.D. as a "New Subloan." As of the date of this Assignment and Certificate, the Defaulting Subborrower's payments under the Defaulted Subloan are at least ninety (90) days past due.

(2) Between the date that payments of principal or interest on the Defaulted Subloan most recently became past due ("Default Date") and the date of this Assignment and Certificate, the Lending Bank has made commercially reasonable efforts to induce or compel the Defaulting Subborrower, and any other person or entity that may be liable primarily or secondarily for the Defaulted Subloan, to cure the default or repay the entire amount of the Defaulted Subloan, including the following: _________________________________.

(3) The outstanding principal balance on the Defaulted Subloan on the Default Date was __________ Kenya Shillings. The accrued and unpaid interest and penalties on such date was __________ Kenya Shillings.

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*/ Annex D to the Loan Agreement.

(4) Between the Default Date and the date of this Assignment and Certificate, the Lending Bank has recovered a total of __________ Kenya Shillings that it was legally entitled to apply only to the Defaulted Subloan.

(5) Between the Default Date and the date of this Assignment and Certificate, the Lending Bank has recovered a total of __________ Kenya Shillings that it was legally entitled to apply to the Defaulted Subloan as well as to other obligations of the Defaulting Subborrower to the Lending Bank.

(6) For the purpose of calculating the outstanding principal balance stated in Section I(9) below, the entire amount stated in Section I(4) above has been applied as follows:

(a) __________ Kenya Shillings to reimburse the Lending Bank for all actual and reasonable collection expenses incurred by the Lending Bank in recovering such amount;

(b) __________ Kenya Shillings to pay interest and penalties accrued on the Defaulted Subloan prior to the date of this Assignment and Certificate; and

(c) __________ Kenya Shillings to reduce the principal balance on the Defaulted Subloan.

(7) For the purpose of calculating the outstanding principal balance stated in Section I(9) below, a pro rata portion of the amount stated in Section I(5) above has been applied in the following manner:

(a) __________ Kenya Shillings to reimburse the Lending Bank for a pro rata portion of the actual and reasonable collection expenses incurred by the Lending Bank in recovering the amount stated in Section I(5);

(b) __________ Kenya Shillings to pay interest and penalties accrued on the Defaulted Subloan prior to the date of this Assignment and Certificate; and

(c) __________ Kenya Shillings to reduce the outstanding principal balance of the Defaulted Subloan.

The "pro rata portion of the amount stated in Section I(5)" shall be calculated as follows:

$$\frac{\text{Amount Applied to Defaulted Subloan}}{\text{Amount Recovered}} = \frac{\text{Outstanding Principal on Defaulted Subloan}}{\text{Outstanding Principal on All Obligations (except loans extended after default)}}$$

The "pro rata portion of the actual and reasonable collection expenses" shall be calculated as follows:

$$\frac{\text{Collection Expenses Attributable to Defaulted Subloan}}{\text{All Collection Expenses}} = \frac{\text{Outstanding Principal of Defaulted Subloan}}{\text{Outstanding Principal on All Obligations of the Defaulting Subborrower (except loans extended after default)}}$$

(8) The Exchange Rate (as defined in Section 2.1 of the Project Agreement between the Lending Bank and A.I.D.) on the date of this Assignment and Certificate was ___________ Kenya Shillings per one U.S. Dollar.

(9) The outstanding principal balance of the Defaulted Subloan on the date of this Assignment and Certificate, calculated in accordance with the foregoing provisions, was _________ Kenya Shillings which, if converted according to the Exchange Rate stated in Section I(8) above, was __________ U.S. Dollars ($___________).

(10) On the date of the Assignment and Certificate, the amount outstanding of the Standby Letter of Credit under which this Assignment and Certificate is submitted was _____________ U.S. Dollars ($_________).

(11) The Lending Bank's claim under the Standby L/C is the smaller of

(a) fifty percent (50%) of the outstanding principal balance of the Defaulted Subloan as stated in Section I(9), and

(b) the amount of the Standby Letter of Credit as stated in Section I(9).

This amount is stated after the signature line in this Assignment and Certificate and is the amount of the draft being presented to the Issuing Bank along with this Assignment and Certificate.

II. <u>Assignment</u>

The Lending Bank acknowledges that the Issuing Bank will obtain reimbursement for its payment on the Standby Letter of Credit by offsetting amounts owed under a Loan Agreement between the Issuing Bank and the United States of America, acting through the Agency for International Development ("A.I.D."). The Lending Bank hereby assigns to A.I.D., in consideration for payment under the Standby Letter of Credit, fifty percent (50%) of the Lending Bank's right to receive payment of principal and interest under the Defaulted Subloan, including but not limited to the right to receive payment from any person or entity primarily or secondarily liable on the Defaulted Subloan or from the realization of any collateral securing the Defaulted Subloan. The Lending Bank makes this assignment without warranty as to the collectibility of the indebtedness assigned and without recourse against the Lending Bank except for breach of any warranty or other obligation under this Assignment and Certificate.

III. <u>Affirmative Undertakings</u>

(a) <u>Recoveries</u>. (1) The Lending Bank agrees to pursue recovery of all unpaid principal and interest under the Defaulted Subloan in a commercially reasonable manner, and in no event shall the Lending Bank discontinue its collection efforts when the amount the Lending Bank could reasonably expect to recover from all persons and entities primarily or secondarily liable for the Defaulted Subloan exceeds the amount of collection expenses the Lending Bank is likely to incur in making such recovery.

(2) The Lending Bank agrees to hold fifty percent (50%) of any amount recovered from any source after the date of this Assignment and Certificate, which may legally be applied only to the Defaulted Subloan, for the benefit of A.I.D. and promptly to remit such amount to A.I.D., provided, however, that if, at the time of such recoveries, there is any unpaid interest or collection expenses that accrued on or were incurred under the Defaulting Subloan between the Default Date and the date of this Assignment and Certificate, the amounts recovered may be applied to such interest or expenses before

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determining the amount that A.I.D. is entitled to receive. With respect to any amounts recovered after the date of this Assignment and Certificate that the Lending Bank may legally apply to the Defaulted Subloan as well as to other obligations of the Defaulting Subborrower, the Lending Bank agrees to hold for A.I.D.'s benefit, and promptly to remit to A.I.D., fifty percent (50%) of a pro rata portion of such recovered amounts, reduced by a pro rata portion of actual and reasonable collection expenses. (The pro rata portion of amounts recovered after the date of this Assignment and Certificate shall be calculated in the same manner as the pro rata portion of amount recovered before such date as set forth in Section I(7) above. The pro rata portion of collection expenses charged against the pro rata portion of amounts recovered after the date of this Assignment and Certificate shall be calculated in the same manner as the pro rata portion of the collection expenses charged against earlier recoveries as set forth in Section I(7)).

(3) Except as A.I.D. may otherwise specify in writing, payments shall be made at USAID/Kenya, Union Towers, Moi Avenue, Nairobi, Kenya, referencing A.I.D. Loan Number 615-S-023. The Lending Bank shall notify A.I.D. of such payment by telex at the telex number set forth in Section 12.1 of this Project Agreement on the date such payments are made. If payments are made in U.S. Dollars, the amounts to be remitted shall be converted into U.S. Dollars at the Exchange Rate in effect on the date the funds are recovered.

(4) The Lending Bank's obligations under this Assignment and Certificate to pursue reasonable and diligent collection efforts and to distribute recoveries as provided therein shall terminate only when the entire amount of the Defaulted Subloan herein assigned to A.I.D. has been satisfied.

(b) Records. (1) The Lending Bank agrees to maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, the Lending Bank's books and records relating to the Defaulted Subloan and to this Assignment and Certificate adequate to show, without limitation, the actions taken by the Lending Bank in collecting on the Defaulted Subloan, and the manner in which amounts collected were applied. Such books and records will be maintained, except as A.I.D. may otherwise agree in writing, for three (3) years after the date of this Assignment and Certificate. The Lending Bank further agrees to afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect such books, records, and other documents to verify that Defaulted Subloan recoveries have been and will continue being applied in accordance with the terms and conditions of this Assignment and Certificate.

(2) A.I.D. shall use its best efforts to assure that confidential information obtained under this section shall not be disclosed without the written permission of the Lending Bank, except to other agencies of the United States Government.

IV. Miscellaneous

(a) The Lending Bank understands that the Issuing Bank is paying pursuant to the Standby Letter of Credit in reliance on the certifications, warranties and promises made in this Assignment and Certificate, and that the Lending Bank's obligations and liabilities under this Assignment and Certificate are in favor of A.I.D. as well as the Issuing Bank.

(b) The terms of this Assignment and Certificate are governed by the laws of the United States and the District of Columbia. The Lending Bank consents to the jurisdiction of the United States District Court for the District of Columbia with respect to any action brought to resolve any breach, default, dispute or interpretation of this Assignment and Certificate and agrees that, unless waived by A.I.D., venue in such court for such action is proper. With respect to any action brought by A.I.D. for breach of this Assignment and Certificate, the Lending Bank shall pay to A.I.D. all costs, including reasonable attorneys' fees, incurred in connection with such action.

DIAMOND TRUST OF KENYA, LTD

By:______________________________

Title:____________________________

Date:_____________________________

Amount claimed under Mellon Bank Standby Letter of Credit No. _____: U.S. $___________________.

ANNEX F*/
(to Project Agreement)

NOTICE OF FINAL PAYMENT

Diamond Trust of Kenya Ltd. ("Lending Bank") hereby notifies Mellon Bank N.A. ("Issuing Bank") that on __________ the last outstanding Subloan covered by the Letter of Credit identified above was repaid in full. The Letter of Credit identified above is therefore discharged as of the date of the Issuing Bank's receipt of this Notice, if such discharge has not already occurred.

DIAMOND TRUST OF KENYA, LTD

By: ________________________

Title: ____________________

Date: _____________________

*/ Annex E to the Loan Agreement.

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ANNEX G*/
(to Project Agreement)

LENDING BANK STANDBY CERTIFICATE

1. Diamond Trust of Kenya, Ltd. ("Lending Bank") hereby requests that Mellon Bank N.A. ("Issuing Bank") issue a Standby Letter of Credit in its favor under the Standby Facility established pursuant to the Loan Agreement dated as of September 30, 1987 by and between the United States of America, acting through the Agency for International Development ("A.I.D."), and the Issuing Bank.

2. The Standby Letter of Credit requested hereby will be in the amount of ___________ U.S. Dollars ($_________) ("Initial Amount") and will amortize and/or expire as provided in Paragraph 4 below.

3. The Standby Letter of Credit will cover up to fifty percent (50%) of the aggregate principal amount of Qualifying Subloans made in accordance with the terms of the Project Agreement, dated _________ __, 1987, between A.I.D. and the Lending Bank ("Project Agreement"). Accordingly, the maximum aggregate principal amount of Subloans that may be covered under the Standby Letter of Credit at any one time is the local currency equivalent of twice the face amount of the Standby L/C, calculated in accordance with the Exchange Rate (as defined in the Project Agreement) in effect on the date of each Subloan, respectively.

4. The coverage reduction schedule of the requested Standby Letter of Credit will be as follows:

(i) the Initial Amount from the date of the issuance of the Standby Letter of Credit until ________;

(ii) ______________U.S. Dollars from ______________, until ___________________________;

(iii) ____________ U.S. Dollars from ______________, until ___________________________; and

(iv) ____________ U.S. Dollars from ______________, until ___________________________; at which time the Standby Letter of Credit will expire.

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*/ Annex F to the Loan Agreement.

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5. The submission of this Lending Bank Standby Certificate shall be deemed a representation and warranty by the Lending Bank that all the representations and warranties contained in Article 5 of the Project Agreement continue to be true as of the date of submission and that the Lending Bank has, since the Execution Date, carried out the Project in accordance with the terms of the Project Agreement.

6. The Lending Bank has simultaneously transmitted a copy of this Lending Bank Standby Certificate to A.I.D.

DIAMOND TRUST OF KENYA, LTD

By: ______________________________

Title: ____________________________

Date: _____________________________

ANNEX H

QUALIFYING SUBLOAN REPORT

Project Title: Diamond Trust
Project Number: 940-0002.73
Date: ____________________

Please answer the following questions. Check boxes where appropriate.

1. Name of Subborrower: ______________________________________
____

2. Contact person at the Subborrower: ________________________
____

3. Address of Subborrower: ___________________________________
____
____

4. Location of Subloan business activity: /_/ rural
/_/ urban

5. Nature/type of Subloan business activity: _________________
____
____

6. Subborrower's relationship to Diamond Trust:

/_/ New customer /_/ Former customer /_/ Existing customer

7. Subloan information:

(a) Initial amount of the Subloan: _______________
(b) Date extended: _______________
(c) Term of Subloan: _____________[indicate months or years]
(d) Interest rate: ___________%

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7. Subloan Information (cont'd):

(e) Fees and Commissions charged: ____________
(f) Purpose of the Subloan:

/_/ Working Capital /_/ Fixed Assets

/_/ New start-up /_/ Expansion /_/ Replacement

8. Size of business as of _____/_____/_____ (before financing):

(a) Total employees: Women: ________ Men: _________
(b) Total assets: __________________________
(c) Annual sales/revenues: _____________________
(d) Total equity: ______________________________

9. Estimated potential increase in employment as a result of the Subloan:

Total: ___________________
(a) Women: _____
(b) Men: __________

10. Estimated annual increase in sales/revenues anticipated as a result of the transaction (express as a percentage): ______%

11. Estimated potential economic impact anticipated as a result of the Subloan: ____
____.

/_/ If foreign exchange will be generated, estimate amount to be generated annually: _________________

/_/ If the import of U.S. technology, equipment and/or services is involved, describe what kind: ________________
____.

/_/ If foreign exchange will be saved, estimate amount to be saved annually: _______________________________