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Food for the Hungry

**MATCHING GRANT
Annual Report
October 1994 - December 1995**

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FOOD FOR THE HUNGRY
MATCHING GRANT
Cooperative Agreement No. FAO-0158-A-00-5011-00

ANNUAL REPORT
FAULU AFRICA
REGIONAL MICROENTERPRISE LOAN PROGRAM
Year 1
October 1994 - December 1995

EXECUTIVE SUMMARY

This report covers the first year of Food for the Hungry (FH) implementing the expansion of the Faulu Africa regional microenterprise loan program, under terms of a five year Cooperative Agreement with the United States Agency for International Development (USAID) as part of its Matching Grant Program. Faulu will set up a regional office, and branch lending operations in Kenya, Uganda and Ethiopia. Lessons will be passed on to FH field offices around the world.

The Faulu Africa regional office was set up, equipped and staffed. The Faulu Kenya head office was similarly set up and equipped, as it shares the same facilities with the regional office. It too added the positions planned for the period in question.

Key systems such as accounting and loan tracking were addressed and upgraded or put into the process of upgrading.

Faulu Kenya expanded from one branch lending operation to two plus a group lending program, and a head office. The year ended with 3,645 members in the system, with 2,811 having loans with a face value of \$961,538 and outstanding loan balance (portfolio) of \$632,742. The on-time repayment rate ended at 103.96%, and no defaults to Faulu.

Beginning of operations in Uganda and Ethiopia will be phased in over several years. The Economic Development Advisor for Uganda was hired and trained. The Kampala Branch staff was hired and trained in Nairobi. Initial market research was undertaken. The branch office was leased and equipping it begun.

A survey trip was taken by the Director to Addis Ababa, and the process begun for hiring an Economic Development Advisor for Ethiopia.

The visit of over 20 representatives from FH fields and support offices around the world to Faulu operations in Nairobi was an important milestone in sharing lessons learned and providing the vision of sustainable micro-credit programs to other FH fields. This visit was in conjunction with the annual International Management Conference held in Kenya. At this conference, attended by all FH Country Directors and other senior staff, Sharon Schoenhals made a presentation on methodologies and principles for micro-credit programs. Workshops were also held in the Dominican Republic and Bolivia/Peru.

Per an understanding with USAID, the annual reports for this Matching Grant shall be produced covering calendar year periods. However, since the PVO matching funds began October 1994, this first annual report shall cover the five quarter period of October 1994 - December 1995.

1.0 BACKGROUND TO GRANT AND PROJECT OVERVIEW

USAID awarded Food for the Hungry (FH) a five year Cooperative Agreement under its Matching Grant Program. A major purpose of the grant is to create a regional microenterprise (ME) loan program, Faulu Africa, that will cover Kenya, Uganda and Ethiopia. Furthermore, it is to enhance FH's institutional ability to establish, professionally manage, evaluate, and monitor quality ME loan programs. It also will establish an inter-regional link to FH field offices in Latin America and Asia, so they can benefit from the methodologies, models, systems, lessons learned and staff expertise being developed in Africa.

FH began a pilot phase of ME lending in the urban Mathare slums of Nairobi, Kenya in 1991. As methodologies and systems were defined, it became the Faulu Loan Program in 1992. This effort was funded, in part, by a portion of FH's first USAID Matching Grant. By 1993, when the application for the current matching grant was being prepared, Faulu consisted of the Mathare Branch with a staff of 10, and a Faulu head office staff of one. The latter was located in the FH/Kenya offices. Grant accounting was done by the FH/Kenya head office, as part of accounting for all FH projects in Kenya.

For Faulu to become institutionally viable and operationally and financially self-sustaining, it was known that it would have to grow into a multi-branch lending operation with an appropriate-sized head office staff. At the same time, two other countries in which FH operates, Uganda and Ethiopia, desired to start ME lending activities. The decision was made by FH management to evolve Faulu into a regional loan program, with branch lending activities in the three countries mentioned.

As the number of branches expands over time within the countries in which Faulu operates, a head office will be set up in each to provide full support to the lending operations in that country. Each will have its own director and advisory board, and operate as a self-sufficient and institutionally viable micro-finance institution (MFI). The regional office will then function like a bank holding company in support of its subsidiary country institutions. It will ensure that high standards and proper procedures are adhered to throughout the system, provide technical support, give management oversight, access new sources of capital, and do system-wide reporting.

This report details the beginning of the process, from October 1994 through December 1995, of growing Faulu from a one-branch operation in just Kenya, to a regional program with a regional office, and branch lending operations and country head offices in Kenya, Uganda and Ethiopia.

References to quarters of the year will be based on calendar years (i.e. the first quarter of 1995 would be January - March, 1995).

2.0 FAULU AFRICA REGIONAL OFFICE (NAIROBI, KENYA)

2.1 Establishing Faulu Africa Regional Office

The physical office premises for the regional office were rented by October 1994 on a six year lease, and the process of buying and installing office equipment and furniture was underway. The office houses both the regional office professional staff of five, as well as the Faulu Kenya head office staff of 12. It can handle up to 25, as need arises over the years. By the second quarter of 1995, the office was fully equipped, including the basics of a computer LAN system and full electronic security system with motion detectors, to protect the investment in equipment.

The regional professional staff of five was fully recruited by the end of the third quarter 1995, with the last member starting in January 1996. Their function is to ensure the overall system integrity of Faulu Africa, oversee various functional areas across the system, and raise up proper national staff within each country office to fulfill those operations within that country operation. The Faulu Africa regional office positions are:

Director	Ted Vail, MBA	Responsible for overall operations of regional Faulu Africa, and reaching its targeted objectives.
Controller	Barbara Dykman-Thomas, CPA	Responsible for all accounting and finance functions.
MIS Manager	Rick Richter	Responsible for all information systems, paper and computerized, especially the loan client and loan product tracking system.
Communications, Research and Evaluation (CRE) Coordinator	Russ Mask, Ph.D.	Responsible for coordinating within the three countries, and overall, the functional areas of communications, research, monitoring, evaluation, reporting, and training.
Administration and Special Projects Coordinator	Mark McKoy, JD	Responsible for coordinating administrative and personnel functions, and handling special projects, such as exploring certain loan product innovations.

2.2 Preparation of DIP

Though the PVO matching funds began October 1994, the cooperative agreement was not signed until April 1995, during which month AID funding began. The Detailed Implementation Plan was then prepared and submitted in July 1995.

2.3 Faulu Africa's Vision, Mission and Strategic Objectives

As part of running Faulu Africa like a financial institution, it has prepared statements covering its vision and mission. Furthermore, it has a list of ten strategic objectives. (Note that these three elements are for Faulu Africa overall, versus being for the matching grant specifically. Because

some of the statements might be beyond the scope of the Matching Grant, for the MG evaluations the purposes stated in the DIP will serve as guide.)

Vision

Our vision is of nations where all people are able to work toward fulfilling their dreams and potential for the future, and have the dignity of being able to provide for their own needs and the needs of others.

Mission Statement

The mission of the Faulu Africa loan programme is to assist less advantaged urban and rural people to increase their income levels through participation in a micro-finance program that fosters good business ethics and values, and which encourages an attitude of self-reliance and democratic participation, so that they are capable of determining and meeting their development needs.

Strategic Objectives

1. For Faulu Africa to be developed into an effective, regional, financial intermediary able to provide financial services to micro and small enterprises (MSEs) on a cost covering and sustainable basis.
2. Within the three countries in which Faulu Africa will operate, (Ethiopia, Kenya and Uganda), for each country program itself to be developed into an effective, multi-branch, financial intermediary able to provide financial services to MSEs on a cost covering and sustainable basis.
3. To increase off farm employment and self-employment opportunities, especially for less advantaged people, through increased productive capacity.
4. To increase income for microenterprise operators and their employees.
5. To encourage microentrepreneurs to meet their self-determined development goals and dreams for the future for themselves and their families.
6. To provide increased access to credit services for the less advantaged in Ethiopia, Kenya and Uganda.
7. To foster an improvement in business ethics and values among loan clients.
8. To encourage an attitude of self-reliance and participation among loan clients, as individuals and groups, and foster their democratic involvement in, and influencing of, societal systems that affect them.
9. To encourage women to be involved in microenterprise through involvement as loan clients, within leadership of the client groups, and as Faulu Africa staff.
10. To endeavor to influence public and economic policy within the participating countries so as to provide a more enabling environment for microentrepreneurs and the poor.

2.4 Establishment of Faulu Kenya Head Office

At the same time that the regional office was established and staffed, the Faulu Kenya head office was also set-up and staffed. Details are in Section 3.0.

2.5 Establishment of Faulu Uganda Head Office

The Director recruited the Economic Development Advisor (EDA) for Uganda, Bruce Lawson, who started in December 1994. He received training for approximately seven months in Nairobi and assisted in implementing aspects of Faulu Kenya. The Director and EDA made an assessment trip to Kampala in February 1995. Details are in Section 4.0.

2.6 Establishment of Ethiopia Head Office

Recruitment for the EDA for Ethiopia began in early 1995. The Director made an assessment trip to Addis Ababa in July 1995. The right candidate has not yet been found, so the recruitment process is continuing. Details are in Section 5.0.

2.7 MIS (Management Information Systems) Development

2.7.1 Client and Loan Tracking System Upgrade

The regional MIS Manager, Rick Richter, began in June 1995, and did extensive analysis on how to move forward on the loan tracking system. As with many other ME loan programs, Faulu has been looking for some time to find the right system for our needs for the future, as the current system was becoming overloaded. The decision was made to implement the FAO Micro Banker system. By the end of 1995 the conversion process was approximately 30% completed. It is estimated that the conversion will be completed by mid-February 1996, with full use of the system occurring by late February.

The FAO Micro Banker system was chosen as we considered it the best option available at the time. However, it is not an ideal system for our needs, especially as it was designed for real-time teller window payments by individual clients in rural agricultural banks in Southeast Asia. We work in groups, and not real-time, as clients deposit repayments directly at the bank in our account, and not with us. Rick will be evaluating the situation during 1996. Unless Micro Banker is upgraded to better meet the needs of programs such as ours, and a Windows version added, we may choose to develop our own software system in conjunction with other microenterprise programs. Rick is a qualified computer programmer who will be able to lead us well in this endeavor.

2.7.2 Accounting Systems Upgrade

FH uses an excellent accounting system worldwide, SunSystems. The Faulu Africa Controller, Barbara Dykman-Thomas, in collaboration with the FH headquarters, spent quite a bit of time setting up a system whereby each cost center (each branch, each country head office and the regional office) have a separate data base, so that profit and loss statements and balance sheets can be produced for each. They can be consolidated so that the results of each country-wide system can be viewed like a financial institution. The three sets of county data plus the regional office records can be consolidated for overall financial statements for the entire Faulu Africa regional system. Faulu's accounting is now done within Faulu, independently of the Kenya or other country operations. However, all data can be and is consolidated into FH's overall accounting system and records.

The consolidated loan, client savings and operating income data for each cost center will come from the Micro Banker system and be entered into SunSystems. The branches do all of the lending-related accounting, including preparing loan checks. The grant accounting and preparation of payroll and payments will basically occur at the head office level within each country, directly on SunSystems. As soon as Micro Banker is fully operational, steps will be taken to be sure the two systems work smoothly and in a manner that allows us to operate like a MFI.

Besides continuing to strengthen the accounting for the lending operations, our next step in 1996 will be to start moving to a new level of using financial ratio analysis to assist in the management of our MFI. The Director, Uganda EDA and FH Microenterprise Coordinator from the International Office, attended a SEEP Network workshop in October 1995 based on SEEP's new publication entitled *Financial Ratio Analysis of Micro-Finance Institutions*. Furthermore, Faulu is now participating in a working group of finance managers from the various MFI's in Kenya, who are reviewing the SEEP publication and other ratios currently in use by the different programs, in order to help each institution grow in their use of ratios and to help determine the most relevant for the needs of the different institutions. These ratios will be used throughout the Faulu system.

2.7.3 Operations Manuals

Operations Manuals exist for the Shirika and Vikundi lending models in Kenya. However, as the new Kenya branches enter more peri-urban and rural areas in 1996, variations in the lending models will evolve. It is anticipated that a revision of the manuals will occur by mid-1996. The Uganda staff will be using the Kenya manuals as a starting point, but making variations to fit the Ugandan context. The same will occur in the future for Ethiopia.

2.7.4 Monitoring and Evaluation System

For all of 1995 and until Micro Banker is operational, the Research and Evaluation (R & E) Officer for Faulu Kenya has been spending most of his time gathering and compiling data manually from the loan officers for a monthly monitoring report. This data is entered and analyzed on a computer spreadsheet. It shows key data on the growth of the membership and portfolio, and the performance of the portfolio. Once Micro Banker is operational, it should be able to provide this monitoring report immediately, thus freeing up staff time.

With the arrival of Russ Mask, the Communications, Research and Evaluation (CRE) Coordinator, in mid-January 1996, he and the Faulu Kenya R & E Officer will do more work on impact evaluation systems. What sort of client information Micro Banker is and is not able to hold is going to be impacted by a limitation in the number of fields and variables it can hold. We will be evaluating what impact this will have on what we had planned and presented in the DIP. There also are plans by ODA (another donor to Faulu) to potentially set up an independent group to do impact evaluation on all of the loan programs ODA funds in Kenya on a regular basis. This has the potential to be an excellent opportunity and means to obtain the impact information we desire on a cost effective basis. We expect to have all this sorted out by mid-1996 and our revised monitoring and evaluation plans in place and operational.

2.8 Personnel Development

The development of personnel, including initial orientation and on-going training, is very important to making Faulu Africa a viable micro-finance program. In December 1994, eight new loan officers for Faulu Kenya, plus the EDA for Uganda, received two weeks of classroom training, several weeks of field training, and then on-the-job training. The trainers were mainly the two branch managers in Kenya. The Director plus the R & E Officer for Kenya attended a two day

conference in the UK on micro-finance lending, in March 1995. The Mathare Branch manager attended a two month training at the Cranfield School of Management in June and July, 1995. The Director, Uganda EDA and FH ME Coordinator spent five days in October at the SEEP Network annual meeting, which included various ME seminar segments.

In November 1995, a large training was held for 30 Faulu staff members who were either just starting, or who had not attended another previous training. It was for 12 staff from Faulu Uganda who came to Nairobi from Kampala by bus, three new regional staff members, and 15 Faulu Kenya staff members. With segments run by five Faulu staff over a two and a half week period, it followed a similar course as the training in December 1994. Staff members received training in policy, lending methodologies, and operational procedures of the Faulu loan program. Participants received both theoretical and practical field training exercises. Those from Uganda were attached to Faulu Kenya branch offices to be mentored by experienced Kenya counterparts for an additional two and a half weeks.

In November, six days of training and a retreat were held for 60 members of the entire Faulu Africa staff. All participated in a two day Corporate Identity Seminar to better understand FH's corporate philosophy including vision, purpose, values, organization style and vision of a community. In addition, participants learned about the vision statement, mission statement and strategic objectives of the Faulu Africa microenterprise loan program and how Faulu program staff fit into our parent organization Food for the Hungry.

Directly following was a four day retreat with the theme of Growing Faulu. Topics included managing Faulu's growing, time management and team building. The latter included each person taking a personality profile assessment, and each office grouping discussing what the assessments meant and how to work well with each other.

At the regional system, the Communication, Research and Evaluation (CRE) Coordinator, who started in January 1996, will oversee the personnel development function. An extensive search was held for a training officer for Faulu Kenya. The successful completion of this process will see the new training officer starting in February 1996, having been promoted from the position of Loan Officer.

2.9 Program Management

Regional staff will be making regular site visits to the three country operations. Because in 1995 lending operations were only in Kenya, such visits were basically with the Faulu Kenya component. In addition to the survey trip made by the Director and Uganda EDA to Uganda in February, and the trip by the Director to Ethiopia in July, the Director and FH Microenterprise Coordinator visited Kampala for several days in August to see the progress being made by the EDA.

2.10 Monitoring and Evaluation

Monitoring and evaluation occurred in a variety of ways to help Faulu in the management of the institution as an ongoing lending operation. There were weekly lending reports, monthly monitoring reports showing growth and portfolio performance, and quarterly balance sheets and profit and loss statements. As Micro Banker becomes fully operational in 1996, it is anticipated that an appropriate range of financial and performance reports will be able to be generated on a monthly, quarterly and yearly basis.

Having to rely on a semi-manual system in 1995 has taken quite a large amount of staff time, and it was difficult to be consistent on producing immediate reports. (e.g. it takes approximately 30 days to produce the monthly monitoring report summarizing statistics for over 3,500 members.) From a time management perspective, Micro Banker will help tremendously. Plus, computer-generated reports will be available very quickly.

The new CRE coordinator and Kenya Research and Evaluation officer will be working in 1996 to fully develop appropriate evaluation tools and techniques for assessing impact on loan clients and their families. The limitations of Micro Banker will have some impact. But, we desire to use a fair amount of PME (participatory monitoring and evaluation). See Section 2.7.4 for more details.

2.11 Resource Development

FH has been having success in obtaining pledges and funds required for setting up and capitalizing the Faulu Africa system. Following are what has been pledged and identified so far from several key sources:

USAID	\$3,400,000 over a five year period
ODA	\$2,250,000 approximately, over a three year period, for just Faulu Kenya portion
Kenya Children's Fund	\$ 220,000 over a four year period
FH Partner Entities and Faulu Operating Income and Other Sources	The balance required

Dialogue is being held with several other key donor organizations, which have high potential of joining the above list.

2.12 Institutional Registration

FH will be addressing over the first half of 1996 the issue of the merits of registering Faulu separately as a micro-finance institution or group in some manner.

2.13 Sharing ME Experiences and Lessons Learned

In September 1995, 20 representatives from FH field offices around the world, the FH international office, and FH support offices visited Faulu lending operations and participated in discussions on methodologies. Many found this sharing helpful, as they address the issue of microenterprise credit in their countries of operation. This was in conjunction with their travel to the FH International Management Conference held in Mombasa, Kenya.

In addition, Faulu Africa and Faulu Kenya hosted many other visitors, including Regina Coleman from USAID on behalf of Martin Hewitt, and representatives from the USAID/Kenya mission, Plan International, Compassion Canada, ODA, Tear Fund, UNDP, and the Government of Uganda.

2.14 Audit

The Nairobi office of Coopers & Lybrand was retained to do the 1995 audit for the Faulu Kenya portion of Faulu Africa. FH worldwide utilizes the audit services of Ernst and Young, which includes Faulu Africa. However, to start also viewing Faulu like a MFI, we are starting an additional audit for parts of Faulu as they become operational. Faulu Uganda will start lending operations in 1996, and will begin its own audit at that time.

3.0 COUNTRY: KENYA

3.1 Establishing Faulu Kenya Head Office

The physical premises were renting and outfitted during this period (see Section 2.2). They basically are for Faulu Kenya, and that is the entrance sign one sees. But, the five Faulu Africa staff members are housed there as well.

The Faulu Kenya head office staff positions filled now total 12 (one is currently joint with the regional staff). The professional staff positions filled include: Director (currently same as Faulu Africa Director), Operations Manager, Finance Manager, Accounts Assistant, Research and Evaluation Officer, Communications Officer, Training Officer (starts February 1996), Administrative Assistant, Secretary, and Secretary/Receptionist. Positions to be filled in 1996 include: MIS Officer, Administration and Personnel Officer, Volunteer Business Advisor Coordinator, and Internal Auditor, bringing the total to 16.

Depending on the staffing of the two new branches, there will be approximately 64 staff in the branch lending operations, bringing the total Faulu Kenya staff size to 80 by the end of 1996, at which point it will stabilize. Approximately 60% of the current Faulu Kenya staff are women.

3.2 Faulu Kenya Advisory Board

To help in providing vision and oversight of Faulu Kenya, a Faulu Kenya Advisory Board has been established. Currently it has three members, but will be expanded to seven by the second quarter of 1996. There were three Advisory Board meetings in 1995. If Faulu Africa is ever spun off from FH, this would become the Board of Directors for the Faulu Kenya portion.

3.3 Management Information Systems

MIS development is currently being handled by the regional MIS Manager, as it is required for the overall three-country system. See Section 2.7. However, in 1996 a MIS Officer for just Faulu Kenya will be hired. Power outages have been averaging 30% to 60% at the various three office locations. Therefore, large battery Power Backup Systems (PBS) were installed at the two branches during December 1995, capable of handling power outages of up to six hours. At the head office, due to the amount of electrical equipment, it was decided to add a 22 kv diesel backup generator. This was the most cost effective solution for that location. To be appropriate for sensitive electronic equipment, it must be a four stroke engine to not have power fluctuations. The backup generator will be fully installed in February, 1996.

3.4 Lending Operations

The Mathare Branch was already operational in October 1994, managed by Paul Gachie. A loan officer, Rose Wanjohi, was promoted to manage the new second branch, Embakasi. Both are in the urban areas of Nairobi. The Embakasi staff received training in December 1994, and started making loans in 1995. Another loan officer, Moses Ochieng, was promoted to develop and manage

our new Vikundi program, which is for making loans to pre-existing groups that then on-lend to their members. Vikundi became operational in mid-1995.

By December 31, 1995, per the accompanying chart at the back, there were 3,645 members in the system, in 96 groups, of which 50% were women. At that time there were 2,811 loans on the books, with a face amount of \$961,538 and outstanding loan balance of \$632,742. A total of 4,674 loans were made totaling \$1,408,830 in loans over the 15 month period. The last quarter ended with an on-time repayment rate of 103.96%. (Meaning that clients were overall prepaying loans.) There were no defaults to Faulu, due to the Loan Security Fund (basically client savings), used to cover defaults. To the clients, but covered by the LSF, there was approximately a 5% default rate. But, after clients recover funds from defaulters over time, it is estimated that the net default rate to the group members is less than 2%. This is considered by management to be a good rate.

3.5 Monitoring and Evaluation

A major part of M & E for 1995 was keeping up the monthly monitoring records by borrowing group, loan officer, branch and Faulu Kenya overall. This included the above data, and other useful information for internal management use concerning portfolio performance. The ratio of LSF to the Portfolio (outstanding loan balance) ended the year at over 60%. Our target was 30%. This shows that Faulu is well covered in the case of defaults. Clients apparently are using the LSF as a savings vehicle, as they receive interest, and there are barriers to their saving at banks.

A problem has been noted in that client groups are not receiving expected help from the legal and administrative systems of government in recovering bad debt (members in the groups cross-guarantee, and are responsible for debt collection). This has the potential to impact Faulu if clients become disillusioned. It is purported that payments under the table are thwarting justice. Management is concerned, and is exploring solutions.

For 1995, there was a 26% turnover in clients. While this might be normal in urban slum areas where people are quite transient, it basically means that for each 2.79 new clients, one left. This has an impact on overall growth of the program. Management is undertaking studies. The Grameen Bank in Bangladesh, after many years of operations, experiences a 15% annual turnover, but also operates in rural settings. Faulu's goal is to, if possible, drop the turnover rate to the 15% range.

It is hoped that the proposed new micro-finance network of NGO's doing ME lending in Kenya might actually come to be in 1996. This would provide the opportunity for various working groups to be formed, and would be a forum for such problems, since all the MFI's have them, to be discussed and tackled together.

As stated in Section 2.10, after Micro Banker is operational, in 1996 we will be able to spend more time on evaluating the impact of our loans on the lives of clients and their families.

3.6 Program Management

Besides on-going visits by Management to the field locations, there were weekly Management Team Meetings consisting of head office staff and branch and program managers. Reports on the lending activity were generated weekly, and the Monthly Monitoring Reports produced monthly. Profit and Loss statements were produced monthly and Balance Sheets, by cost center and consolidated, were generated quarterly.

4.0 COUNTRY: UGANDA

4.1 Economic Development Advisor (EDA) Recruitment

The Economic Development Advisor (EDA) for Uganda, Bruce Lawson, started in December 1994 and spent approximately seven months in Nairobi training and learning through involvement with the Kenya lending operations. He moved to Kampala from Nairobi in July 1995. From that time on, he was quite active in all the activities necessary to start up the Kampala Branch.

4.2 Kampala Branch Staff Recruitment and Training

The following staff positions were filled by November 1995:

8	Loan Officers
1	Branch Accountant
1	Data Input Operator
3	Guards

Branch staff members and the EDA attended a joint training workshop for all of Faulu Africa, held in Nairobi. Staff members received training in policy, lending methodologies, and operational procedures of the Faulu loan program. Participants received both theoretical and practical field training exercises. In addition to the two and a half week course, participants were attached to Faulu Kenya branch offices to be mentored by their more experienced Kenya counterparts for an additional two and half weeks. The training covered a period from 8 November to 20 December 1995.

Staff also attended the Faulu Africa-wide Corporate Identity Seminar to better understand FH's corporate philosophy including vision, purpose, values, organization style and vision of a community. In addition, participants learned about the vision statement, mission statement and strategic objectives of Faulu Africa.

Next followed a four day, joint retreat with their Faulu Africa regional office and Faulu Kenya colleagues. The primary objectives of the retreat were to participate in various team building, time management training and general management training exercises. In addition, the time together was intended to be a time of sharing lessons learned and develop organizational cohesiveness between experienced and newer staff. The retreat was considered a success by most attendees.

The EDA attended the annual SEEP Network microenterprise conference held in Washington, D.C. during the last week of October. The focus of the conference was a microenterprise finance training workshop. In addition, there were various smaller seminars on various microenterprise topics relevant to non-government organizations participating in this sector.

4.3 Procurement of Equipment and Supplies for Branch Office

Printers, fax, computer software and various other items and supplies were procured in the United States during the EDA's home visit. U.S. procurement of stated items and supplies saved the project budget over \$2,500.

4.4 Market Research

Market research was conducted during the month of October 1995 in the target market places. An informal interview methodology was employed. Three loan officers who were recruited early conducted the research. A research report was prepared and submitted in November to the EDA for review. Findings will be combined with other research conducted by the EDA in July and August.

4.5 Decision to Not Immediately Hire a Branch Manager

Seven candidates were interviewed for the post of branch manager. Candidates were reviewed for technical skills, experience, communication and relational skills, flexibility, and compatibility with organizational values. The EDA also looked for a candidate who could potentially fill the role as operations manager or as Faulu Uganda director in an expanded program a few years into the future. Such an individual would need skills in the areas of management, planning, banking, political and resource development. An alternative scenario was to develop and train leadership from within the new existing branch staff. Although we have a number of bright potential leaders and managers, they are currently all too young and with insufficient experience to fill the manager roles.

In addition to the EDA responsibilities, the EDA will act as the branch manager until a qualified candidate is recruited. Advertisements will be placed in the paper and the EDA will use his growing network of relationships to assist in finding a qualified candidate.

4.6 Continuation of Implementation

The year 1996 will see continued implementation, including: finishing setting up the Kampala Branch office, deploying loan officers to their sub-areas to do more complete Market Surveys, and beginning to in-take loan clients.

5.0 COUNTRY: ETHIOPIA

Faulu Africa Director, Ted Vail, went on an assessment trip to Addis Ababa in August. He spoke to FH staff in Ethiopia, the USAID mission, and several other organizations. It appears that there will be a positive environment in which to begin operations in Ethiopia in 1996/97. During 1995, the primary effort was to recruit the Economic Development Advisor. Several candidates were interviewed but no one suitable was located. The efforts will continue in early 1996.

6.0 FOOD FOR THE HUNGRY HEADQUARTERS (USA)

The Grant Manager and FH Microenterprise Coordinator, Sharon Schoenhals, participated in a two week training in Boulder, Colorado on microenterprise lending in March and April. USAID organized the training for their field staff responsible for ME lending programs and extended an invitation to ten PVO representatives. In June, she was able to share principles of ME lending with most of the staff in the Dominican Republic, as part of a two week workshop.

In July Sharon conducted a two day workshop on ME lending for FH staff in Bolivia and Peru, who are experimenting with ME credit. The biggest accomplishment of that workshop was broadening staff's vision of what these programs can accomplish and gaining acceptance from the staff for charging a "market" interest rate. She also was able to participate in a short workshop on agricultural credit, which was helpful as she seeks to give some guidance in the area of rural credit.

Sharon visited the Faulu work in Kenya and Uganda for two weeks in August, and participated in the "Faulu Day" prior to the International Management Conference, whereby 20 FH management staff from around the world visited Faulu. At the International Management Conference in September (which included all FH country directors), she presented a session on microenterprise lending. Sharon summarized what is happening in the field of ME and what the implications are for FH lending programs.

In October, Sharon (along with Ted Vail and Bruce Lawson) attended the SEEP annual meeting and the two trainings held prior to the meeting: one a training for trainers in Institutional Development and the second a workshop on using financial ratios. At that meeting, it was agreed that FH would host the next meeting of the training group in January 1996. The training group has agreed to organize a workshop for top management of multi-sectoral PVOs, in which principles, trends, and methodologies for ME lending will be explained and the participants can discuss what the implications of doing micro-credit programs are for their organizations as a whole. Sharon has a particular interest in this workshop as she feels that many in top management do not understand all the implications of running quality credit programs.

Dialogue continues with top FH management regarding the role and strategy of ME lending within FH. FH is keen on seeing how some of the methodologies and systems learned with the Faulu Africa loan program might be useful to other FH fields. We hope to explore new areas of expansion in the next year or two.

7.0 FINANCIAL NARRATIVE

The budget numbers used in Attachment 3, Budgeted Versus Actual Expenditures, are taken from the Matching Grant proposal. We debated using the budget numbers presented in the DIP but decided against it since these numbers have not been made official by an amendment yet. For management purposes, however, the DIP numbers are being used.

The budget numbers for AID presented in the table are 75% of the budget for Year 1. This is because AID money was not begun to be spent until April 1995, and year 5 will extend one quarter into the calendar year 2000. However, for PVO match budget, we decided to use the entire first year budget as the PVO period is actually 5 and a half years. Thus, Year 1 and Year 5 for PVO budget will each have 15 months in which to reach the target. Years 2, 3, and 4 will be the 12 calendar months.

The most significant variance can be seen in the Kenya branch operations, where most of the activity was concentrated in 1995. The AID expenditure is low for two reasons. 1) Due to delays in signing the agreement with AID, we committed to ODA to spend their money heavily through the end of June. Thus, AID money did not get spent much until the second half of the year. 2) FH decided to postpone putting any AID funds into the revolving loan fund until the MicroBanker MIS system is up and running. Our former MIS did not have the capability we desired for tracking

funds. As AID funding is more stringent in this regard than our other donors, we chose to use other sources for loan capital. It is expected that expenses to AID will increase rapidly in 1996 once MicroBanker becomes operational and we begin to make loans with AID funds.

The numbers for Ethiopia, Uganda, and Headquarters are closer to the DIP budget than to the proposal. For example, if the DIP budget for AID Uganda is used, we would have a budget of \$68,000 ($\$90,000 \times .75$) rather than the \$2,000 that Attachment 3 shows. The actual expenditure for AID Uganda is \$52,000. As mentioned above, the DIP budget is the one we are using for management purposes.

Attachment 1

QUARTERLY MONITORING REPORT

FAULU AFRICA
A PROGRAM OF FOOD FOR THE HUNGRY
QUARTERLY MONITORING REPORT
FOR USAID MATCHING GRANT - YEAR 1 (OCT 1994 - DEC 1995)

	Goals Through Quarter 5	10/94-12/94 Quarter 1	1/95-3/95 Quarter 2	4/95-6/95 Quarter 3	7/95-9/95 Quarter 4	10/95-12/95 Quarter 5
1 Number of Registered Members - EOQ *	3,400	1,201	2,058	2,634	3,381	3,645
2 Percent Female - of Registered Members - EOQ	>50%	50%	49%	50%	51%	50%
3 Cummulative Number of Members Served- YTD **	--	1,407	2,461	3,311	4,230	4,854
4 Number of Active Borrowing Groups - EOQ	85	33	55	69	87	96
5 Number of Outstanding Loans - EOQ	2,600	768	845	1,507	2,180	2,811
6 Cummulative Number of Loans Disbursed - YTD	4,000	488	1,006	2,141	3,365	4,674
7 Face Value of Outstanding Loan Portfolio - EOQ	\$725,000	\$262,900	\$306,600	\$453,900	\$694,000	\$961,538
8 Cummulative Face Value of Loans Disbursed - YTD	\$1,125,000	\$163,200	\$350,200	\$626,400	\$842,380	\$1,408,830
9 Total Portfolio (Outstanding Loan Balance) - EOQ	\$530,000	\$154,400	\$173,300	\$329,300	\$352,327	\$632,742
10 Loan Security Fund Balance- EOQ	\$180,000	\$119,800	\$156,700	\$193,900	\$264,655	\$338,731
11 Number of Clients Receiving Loan Orientation/Training - During QTR	--	160	1,054	887	806	906
12 Number of Clients Receiving Loan Orientation/Training - YTD	2,900	160	1,214	2,101	2,907	3,816
13 Repayment Rate (amt. paid/amt. due) *** - EOQ	>96%	N.A.	99.11%	111.04%	115.00%	103.96%
14 Default Rate to Faulu	<5%	0%	0%	0%	0%	0%

* EOQ - At End of Quarter

** YTD - Year to Date (from October 1, 1994)

Exchange rate: 55.93

*** This reflects the total amount paid, including prepayments and advanced payments, as a percent of the amount due.

Note: Some of the figures differ from those indicated in previous reports. This is as a result of a re-adjustment in our records through a

new loan tracking system.

2/7/96

Attachment 2

COUNTRY DATA SHEETS

**PVO PROJECT REPORTING INFORMATION
ON AID SUPPORT PVO PROJECTS**

OMB No. 041-0530
Expiration Date: 03/31/89

FOR OFFICIAL USE ONLY

PVO Type	Project Number	
Appropriation	Level	
Country Code	Fund Type	Technical Code
Project Officer	Key 1	Key 2

PROJECT INFORMATION (PRIMARY)

Name of Organization Food for the Hungry		Grant Contract Number Cooperative Agreement No. FAO-0158-A-00-5011-00	
Start Date (m/d/y) 04/01/95	End Date (m/d/y) 03/31/2000	AID Officer's Name Martin Hewitt	

AID OBLIGATION BY AID - FY(\$000)

FY	AMOUNT	FY	AMOUNT
4/95-3/96	3	4/98-3/99	103
4/96-3/97	213	4/99-3/2000	110
4/97-3/98	252		

LOP 681

Activity Description:

Faulu Africa will begin the establishment of a branch office in the capital city of Addis Ababa in Year 2 of the matching grant. Lending operations will begin in Year 3. The loan program will serve the microentrepreneurs in the most heavily populated area of the city, Mercato (pending outcomes of a market study). Utilizing the Faulu Kenya models of credit delivery, the training and credit services provided by the Addis Ababa branch will help sustain the microenterprises of the clients and sustain or increase their income, business assets, and employment levels. It will also improve the business ethics and values of the clients, encourage attitudes of self-reliance and participation in local organizations, and encourage the development of women's leadership in the borrower groups formed by the program. In Year 2 of the matching grant we will begin initial stages of the branch establishment, including hiring and training of the Economic Development Advisor to establish and initially manage the branch, the loan officers and support staff. In Year 3 of the matching grant we will conduct an initial community market survey that will identify the financial service needs of the community, collect information on other credit services being offered, and determine any modifications that may need to be made to the Faulu model in the Ethiopian context. Faulu will also identify an office site and do office setup. Following its establishment, the Ethiopia branch will begin delivering credit services in a sustainable manner that will eventually reach 2,400 loan clients at a time.

Status:

In spite of extensive recruiting, Faulu Africa was not able to identify and hire the Economic Development Advisor by the end of 1995 as per our original schedule. Recruiting has therefore been extended to the Internet, beyond Food for the Hungry's traditional recruiting circle. All other activities will follow after the Economic Development Advisor is hired.

COUNTRY INFORMATION (SECONDARY)

Country: Ethiopia	Location in Country (Region, District, Village) Addis Ababa - Ethiopia
PVO Representatives Name: Paul Erickson	Local Counterpart/Host Country Agency FHI-Ethiopia

COUNTRY FUNDING INFORMATION

YEAR	1	2	3	4	5
AID \$	3	213	252	103	110
PVO \$	38	71	179	408	58
INKIND					
LOCAL					
TOTAL \$	41	284	431	511	168

**PVO PROJECT REPORTING INFORMATION
ON AID SUPPORT PVO PROJECTS**

OMB No. 041-0530
Expiration Date: 03/31/89

FOR OFFICIAL USE ONLY

PVO Type	Project Number	
Appropriation	Level	
Country Code	Fund Type	Technical Code
Project Officer	Key 1	Key 2

PROJECT INFORMATION (PRIMARY)

Name of Organization Food for the Hungry		Grant Contract Number Cooperative Agreement No. FAO-0158-A-00-5011-00	
Start Date (m/d/y) 04/01/95	End Date (m/d/y) 03/31/2000	AID Officer's Name Martin Hewitt	

AID OBLIGATION BY AID - FY(\$000)

FY	AMOUNT	FY	AMOUNT
4/95-3/96	550	4/98-3/99	65
4/96-3/97	233	4/99-3/2000	47
4/97-3/98	74		

LOP 969

Activity Description:

The Faulu Kenya head office will complete its procurement of computer and office equipment and recruitment and training of staff. Faulu Kenya will expand its client base, begin adding more branches, and drive for sustainability at the branch level. It will also open a new credit window, the "Vikundi" program, that will provide credit to already-existing self-help groups that will then on-lend to their members. The primary lending methodology will remain the modified Grameen Bank model of credit delivery called "Shirika." The training and credit services provided by the Shirika and Vikundi programs will help sustain the microenterprises of the clients and sustain or increase their income, business assets, and employment levels. It will also improve the business ethics and values of the clients, encourage attitudes of self-reliance and participation in local organizations, and encourage the development of women's leadership in the borrower groups formed by the program. The Year 1 plan calls for the establishment of an additional branch in Embakasi, reaching 28 borrower groups (1,120 clients). The already existing Mathare branch will continue to expand towards its 2,800 client target (to be reached by 12/97). Both branches are scheduled to be covering their operational costs by 12/97. Expansion plans call for opening two additional branches in the first half of 1996. Loan officers will be recruited and trained to begin that expansion. Loan repayment rates will remain above 96%.

Status:

The present office of Faulu Kenya was leased. Faulu Africa and Kenya hosted a six week training seminar for Faulu Uganda staff and new Faulu Africa and Kenya staff. The new Embakasi branch far exceeded the targets set for it, reaching 43 borrower groups (1,588 clients). The Mathare branch grew from 1,022 members at the end of 1994 to 1,807 members by 12/95. Both branches are on track to reach their client target levels by 12/97. Eight loan officers were hired and attended the November training with the new Faulu Uganda and Faulu Africa staff. The repayment rate exceeded the target by ending at 103.96%.

COUNTRY INFORMATION (SECONDARY)

Country: Kenya	Location in Country (Region, District, Village) Nairobi-Kenya
PVO Representatives Name: Usha Khosla	Local Counterpart/Host Country Agency FHI-Kenya

COUNTRY FUNDING INFORMATION

YEAR	1	2	3	4	5
AID \$	550	233	74	65	47
PVO \$	349	397	474	145	165
INKIND					
LOCAL					
TOTAL \$	899	630	548	210	212

**PVO PROJECT REPORTING INFORMATION
ON AID SUPPORT PVO PROJECTS**

OMB No. 041-0530
Expiration Date: 03/31/89

FOR OFFICIAL USE ONLY

PVO Type	Project Number	
Appropriation	Level	
Country Code	Fund Type	Technical Code
Project Officer	Key 1	Key 2

PROJECT INFORMATION (PRIMARY)

Name of Organization Food for the Hungry	Grant Contract Number Cooperative Agreement No. FAO-0158-A-00-5011-00
Start Date (m/d/y) 04/01/95	End Date (m/d/y) 03/31/2000
AID Officer's Name Martin Hewitt	

AID OBLIGATION BY AID - FY(\$000)

FY	AMOUNT	FY	AMOUNT
4/95-3/96	3	4/98-3/99	389
4/96-3/97	213	4/99-3/2000	110
4/97-3/98	380		

LOP 1,095

Activity Description:

Faulu Africa will establish a branch office in the capital city of Kampala. The loan program will serve the 200,000 residents of the slum area of Kisenye, the largest slum in the city, as well as several others. Utilizing the Faulu Kenya models of credit delivery, the training and credit services provided by the Kampala branch will help sustain the microenterprises of the clients and sustain or increase their income, business assets, and employment levels. It will also improve the business ethics and values of the clients, encourage attitudes of self-reliance and participation in local organizations, and encourage the development of women's leadership in the borrower groups formed by the program. The Year 1 initial stages of the branch establishment include hiring and training of the Economic Development Advisor to establish and initially manage the branch, the loan officers and support staff. We will begin an initial market survey that will identify the financial service needs of the targeted communities, collect information on other credit services being offered, and begin to determine any modifications that may need to be made to the Faulu model in the Ugandan context. Faulu will also identify an office site and do office setup. Following the first year, the Kampala branch will begin delivering credit services in a sustainable manner, to 2,400 clients at a time, and potentially expand into a multi-branch financial services intermediary.

Status:

During the first year the Economic Development Advisor was hired and was trained in Nairobi at the Faulu Africa office. He hired a research assistant, an initial community survey of Kisenye was conducted, and the report prepared and disseminated to Faulu Africa staff. Meetings with high level government officials and other NGOs revealed that credit services in the area would be feasible with probable minimal initial modifications. The remaining branch staff were recruited and attended a six week training in Nairobi with Faulu Africa and Faulu Kenya staff. The office site was selected and leased and the client intake plan was prepared.

COUNTRY INFORMATION (SECONDARY)

Country: Uganda	Location in Country (Region, District, Village) Kampala - Uganda
PVO Representatives Name: Mick Madden	Local Counterpart/Host Country Agency FHI-Uganda

COUNTRY FUNDING INFORMATION

YEAR	1	2	3	4	5
AID \$	3	213	380	389	110
PVO \$	38	70	50	120	56
INKIND					
LOCAL					
TOTAL \$	41	283	430	509	166

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**PVO PROJECT REPORTING INFORMATION
ON AID SUPPORT PVO PROJECTS**

OMB No. 041-0530
Expiration Date: 03/31/89

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PVO Type	Project Number	
Appropriation	Level	
Country Code	Fund Type	Technical Code
Project Officer	Key 1	Key 2

PROJECT INFORMATION (PRIMARY)

Name of Organization Food for the Hungry	Grant Contract Number Cooperative Agreement No. FAO-0158-A-00-5011-00
Start Date (m/d/y) 04/01/95	End Date (m/d/y) 03/31/2000
AID Officer's Name Martin Hewitt	

AID OBLIGATION BY AID - FY(\$000)

FY	AMOUNT	FY	AMOUNT
4/95-3/96	112	4/98-3/99	123
4/96-3/97	112	4/99-3/2000	81
4/97-3/98	117		

LOP 545

Activity Description:

Faulu Africa is to be developed into an effective, regional, financial intermediary, able to provide financial services to micro and small enterprises on a cost covering basis. The regional office will act like a bank holding company, with complete multi-branch lending operations in Kenya, Uganda, and Ethiopia. Each, over time, will have their own head office and advisory board, becoming effective MFIs in their own right. The Matching Grant funds part of these master expansion plans

Status:

Expansion of Faulu beyond Kenya began with the establishment of the Faulu Uganda branch office in Kampala, Uganda. The Economic Development Advisor and most of the branch staff were hired and trained. Preliminary assessment in Ethiopia was conducted by the Faulu Africa director, but to this point Faulu has had difficulty filling the Economic Development Advisor position in Addis Ababa. We are currently expanding our recruiting efforts. The Faulu Africa office in Nairobi was leased and all Faulu Africa staff were recruited and trained, including Rick Richter as MIS Manager, Barbara Dykman-Thomas as Controller, Mark McKoy as Administration and Special Projects Coordinator, and Russ Mask as Communications, Research, and Evaluation Coordinator.. Operations manuals for both "Shirika" and "Vikundi" lending models were developed and conversion to MicroBanker software began and remains in progress.

COUNTRY INFORMATION (SECONDARY)

Country: Kenya	Location in Country (Region, District, Village) Nairobi-Kenya
PVO Representatives Name: Ted Vail	Local Counterpart/Host Country Agency FHI-Kenya

COUNTRY FUNDING INFORMATION

YEAR	1	2	3	4	5
AID \$	112	112	117	123	81
PVO \$	221	212	180	189	247
INKIND					
LOCAL					
TOTAL \$	333	324	297	312	328

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Attachment 3

BUDGETED U.S. ACTUAL EXPENDITURES

**Food for the Hungry Cooperative Agreement No. FAO-0158-A-00-5011-00:
Budgeted Versus Actual Expenditures (CASH in thousands)**

	A.I.D.		PVO	
	Budget Year 1 x .75	Expenditures 4/95-12/95	Budget Year 1	Expenditures 10/94-12/95
Country: Ethiopia				
I. Program	2	0	38	0
II. Procurement	0	0	0	0
III. Subtotal	2	0	38	0
Country: Kenya				
I. Program	407	142	317	855
II. Procurement	5	28	32	110
III. Subtotal	412	170	349	965
Country: Uganda				
I. Program	2	49	38	1
II. Procurement	0	3	0	0
III. Subtotal	2	52	38	1
Faulu Africa Regional Office				
I. Program	80	45	161	34
II. Procurement	4	0	59	2
III. Subtotal	84	45	221	36
Food for the Hungry Headquarters				
I. Program	0	4	9	0
II. Procurement	1	0	5	0
III. Subtotal	1	4	14	0
Total Direct Costs	501	271	660	1002
Indirect Costs @14.38%	68	39	90	144
TOTAL MG PROJECT	569	310	750	1146

Note: These numbers are tentative, as December 1995 is not closed yet.

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