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KENYA COMMERCIAL FINANCE COMPANY

IFI Loan Case Study

PRE Project Number 940-0002.3

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I. General Economic Environment

During the 1980's, Kenya's economy has been under considerable pressure and has displayed an erratic and disappointing performance. Inflation reached 22 percent in 1982 and economic activities were brought to a near standstill. In 1984, a severe drought reduced the rate of growth of the economy to a mere 0.5 percent, the lowest since independence, and in subsequent years real economic growth has struggled to keep up with Kenya's rapid population growth.

Since 1983, however, the government, in conjunction with an IMF economic stabilization program, has introduced a number of measures which have begun to realign the country's fiscal and monetary environment. Public sector current expenditure was reduced from 23.4 percent of GDP in 1981-82 to 20.7 percent in 1984-85, and 20.4 in 1985-86. The overall cash deficit was reduced from 8.1 percent of GDP in 1981-82 to 6.7 percent in 1984-85 (notwithstanding the drought of 1984 which led to additional imports and costs for distribution of food), and 6.2 percent in 1985-86. Interest rates were first increased in 1983 in order to reduce the private expenditures which proceeded from the "coffee boom" of the late 70s, and then were reduced in 1985-86 in order to promote private sector investments. The rate of inflation has dropped from 22 percent in 1982 to 13 percent in 1985, and to an estimated 8 percent in 1986.

The agriculture sector is the keystone of Kenya's economy, contributing nearly one third of total value added, providing a livelihood for over 70 percent of the population and employing approximately 22 percent of wage earners. Agriculture also accounts for

40 percent of total foreign exchange earnings, and provides a good portion of inputs for domestic industry.

The drought of 1984 caused extensive damage to agricultural production which displayed its worst performance in the past 20 years, declining by 3.7 percent. However, the rainfall during the last quarter of 1984 and the early onset of long rains in most parts of the country during 1985 led to a general recovery of the agriculture sector, and an increase of agricultural output by 4.2 percent (at constant prices) in 1985.

Kenya has the most advanced industrial economy in the region. Industry contributed 11.2 percent of GDP in 1985 and employed about 14 percent of total wage employment. Food processing is by far the most important industry, accounting for some 38 percent of the total value of the sector's output and employing about 15 percent of total manufacturing wage labor. The petroleum industry ranks second with 18 percent of total value and 5 percent of all employment in manufacturing. Other major industries include the metal industry, mainly for construction; transportation, involving assembly of passenger cars and trucks; and the beverage industry. Each of these accounts for 5 to 6 percent of total value of manufacturing production.

The Kenyan manufacturing sector has suffered in recent years from several factors which contributed to a slowdown in the rate of growth: the scarcity of foreign exchange, which has been a constraint on imported industrial inputs; rising costs, and shortages of domestic basic inputs (caused by drought); power failures; economic and political problems in neighboring countries which adversely affected the size of the existing and potential market for manufactured products; and, finally, the stagnation in the average per capita income which has been a constraint on the expansion of the domestic market. The aggregate quantity of industrial production nevertheless grew by 4.6 percent from 1984 to 1985.

The Kenya shilling (Ksh) is linked to Special Drawing Rights (SDR) and fluctuates against all other currencies. In December 1985 the shilling was depreciated against most major currencies: 27.5 percent against pound sterling; 28.8 percent against the Yen; 31.5 percent against the French Franc and Deutschmark; and 3.2 percent against the US Dollar.

II. Banking and Finance

A. Institutional Framework

Kenya has a relatively advanced financial system for a country of its size and present stage of development. The system consists of the Central Bank of Kenya, 24 commercial banks, 49 financial houses (non-bank financial institutions or NBFIs), 32 building societies (savings & loans), 64 hire purchase companies, 52 insurance companies, 8 parastatal development finance institutions (DFIs), the Kenya Post Office Savings Bank, National Social Security Fund, and National Hospital Insurance Fund.

1. Commercial Banks

Commercial banks dominate the financial system in terms of both deposits and lending. At the end of March 1986, total deposits at the commercial banks amounted to 27.4 billion Kshs., and total loans, credits and advances amounted to 26.6 billion Kshs.

Four commercial banks hold approximately 65 percent of the deposits: Kenya Commercial Bank (KCB) 22 percent; Barclays Bank of Kenya

19 percent; Standard Chartered Bank 15 percent; and National Bank of Kenya (NBK) 9 percent. KCB and NBK are government owned, but operate on a commercial basis. The remaining 20 commercial banks hold approximately 35 percent of the deposits.

Commercial banks are the primary providers of short term credit to the private sector. During the 12 months ending March 1986, commercial bank credit to the private sector increased by 18.4 to 20.6 billion Kshs. The central government and parastatal institutions are also major borrowers from the commercial banks. During the past two years, however, government institutions have tried to reduce their borrowings in order not to crowd out the private sector. At the end of March 1986, commercial banks' credit to the central government and parastatals amounted to 3.7 billion Kshs. and 2.3 billion Kshs. respectively.

At present the commercial banks hold 65 percent of the total deposits of the banking system as compared to 73 percent in 1983 and 83 percent in 1976. This decline in market share is due to unprecedented growth of the Non-Bank Financial Institutions (NBFIs) during the past decade. It should be noted, however, that twelve of the 49 NBFIs are majority owned subsidiaries of the commercial banks.

2. Non-Bank Financial Institutions

Non-Bank Financial Institutions (NBFIs) offer many of the same services as commercial banks, but are prohibited from offering checking accounts or engaging in foreign exchange transactions. Their main areas of activity include: property finance; lease hire/lease purchase; merchant banking; bills discounting; bridge financing; and term loans.

NBFIs' are more flexible than the commercial banks in the type and term of financing they offer, in part because they are allowed to charge higher interest rates. Currently the legal maximum rate for NBFIs is 19 percent, compared to 14 percent for commercial banks. The Central Bank sets the maximum lending rate for the commercial banks and NBFIs, and the minimum deposit rate for both the commercial banks and NBFIs'. The higher deposit rates paid by the latter has attracted a high level of funding, albeit with relatively short-term maturities, which has prompted a rapid growth in NBFI activities. Institutional depositors, such as parastatals, insurance companies and other financial institutions are particularly responsive to higher deposit rates and are now the major placers of NBFIs deposits. During the last five years ending March 1986, deposits with NBFIs more than tripled from 4.7 billion Kshs. to 14.7 billion Kshs. By comparison, deposits with commercial banks increased by 87.7 percent in the same period from 14.6 billion Kshs. to 27.4 billion Kshs.

As of September 1986, the following five NBFIs held 38 percent of the total NBFI deposits: Housing Finance Company of Kenya 11.3 percent, Diamond Trust 7.4 percent, Kenya Commercial Finance Company (KCFC) 7.0 percent, Investments and Mortgages Ltd. 6.5 percent, and National Industrial Credit Ltd. 5.8 percent. With approximately 1 billion Kshs. in deposits in March 1986, KCFC was the third largest NBFI in the country. It was a fully owned subsidiary of KCB, the largest commercial bank in the country with 6 billion Kshs. in deposits and one of the only two major commercial banks owned by the government. KCFC has one branch office in addition to its main headquarters in Nairobi, and KCB has an additional 60 branches throughout the country.

3. Development Financial Institutions (DFIs)

There are currently eight DFIs in the Kenyan financial system:

1. Industrial Development Bank (IDB)

2. Industrial and Commercial Development Corporation (ICDC)
3. Kenya Industrial Estates (KIE)
4. Development Finance Company of Kenya (DFCK)
5. Kenya Tourist Development Corporation (KTDC)
6. Small Enterprise Finance Company (SEFCO - a subsidiary of DFCK)
7. Agricultural Development Corporation (ADC)
8. Agricultural Finance Corporation (AFC)

DFIs were created by the government during the '60s and '70s with a mandate to fill gaps left by commercial banks and NBFIs in the areas of term lending, selective equity investments, and lending to small-scale enterprises in agriculture and industry. The government's main objective was to facilitate and expedite the development process by channeling public funds as well as loans and grants from international institutions and foreign governments to development projects. The main sources of finance for Kenyan DFIs have been official funds from the government and international financial institutions, both of which are no longer readily available. The government is making a substantial effort to reduce the budget deficit and in the process intends to divest parastatals wherever possible; and the international financial institutions are increasingly reluctant to lend to DFIs.

There is a widespread view in Kenya that parastatal DFIs have performed very badly, and virtually all of these institutions are experiencing significant problems with their existing portfolios in obtaining necessary reflows. File search and interviews with officials indicate numerous causes for these problems: political pressure to make unsound loans; insufficient spread to cover administrative expenses and provision for losses; difficulty in passing on the exchange rate risk of foreign loans; liquidity problems; duplicative programs and institutional structures; and management which is often inadequate and/or over-extended. Nevertheless, these institutions continue to be a major source of development finance in the Kenyan economy.

B. Interest Rate Structure Cost of Money & Liquidity

Within the floor and ceiling rates fixed by the Central Bank, interest rates are determined by the market. Currently, the minumum interest rate of 14 percent for commercial banks and 19 percent for NBFIs. Until recently, the government determined the interest rate on treasury bills, which was 12.5 percent for commercial banks and 15.5 percent for NBFIs. In September, the government began offering treasury bills at auctions and eliminated the preferential treatment for NBFIs. The combination of that action and the prevailing high liquidity concentrated in short-term funds in commercial banks resulted in yields on treasury bills dropping from a high of 15.5 percent to a low of 11 percent. This has precipitated a drop in interest rates across the board; call deposits (seven-day-notice deposits) from 10.5 percent to 8.5 percent and term deposits (6 month commercial bank deposits) from 11 percent to 9.5 percent.

In December of 1986, the cost of capital for commercial banks was estimated at 10.8 percent, based on the following considerations:

1. The current average interest rate on deposits was 10 percent.
2. Approximately 45 percent of deposits were in non-interest bearing demand deposits.
3. Starting December 15, the commercial banks were required to maintain a non-interest bearing cash balance equal to 6 percent of total deposits with the Central Bank.
4. Administrative expenses of commercial banks were estimated at 3 percent of their total loan and investment portfolio.
5. Provision for bad debt was estimated at 1.5 percent of the total portfolio.

Finally, in determining the spread and the lending rates, it must be taken into account that banks are required, in addition to their cash reserve requirements, to keep 18 percent of their total deposits in liquid assets (mainly treasury bills) currently yielding 11 to 11.5 percent.

During the years 1984 through 1985, total deposits of the banking system increased by 38.6 percent from 29,340 million Kshs. to 40,680 Kshs. million. Deposits at NBFIs increased by 59 percent to 19,940 million Kshs., while deposits at commercial banks increased by 23.4 percent to 20,740 Kshs. million. Liquid assets of the banking system, including both commercial banks and NBFIs, increased by 49.7 percent from 7,320 million Kshs. in 1983 to 10,960 million Kshs. in 1985. Since the statutory liquidity requirements during this period (84-85) was 20 percent of commercial bank deposits and 24 percent of NBFI deposits there was an excess liquidity of 12 percent at the end of 1983, increasing to 22 percent by the end of 1985.

Beginning from a relatively small base, NBFI lending to the private sector increased by 38.3 percent between 1983 and 1985. During the same period commercial bank lending to productive enterprises increased by 18.7 percent, while credit to the trade sector increased by 39.1 percent. NBFI lending to the private sector increased by 53.9 percent during that same period from 7,980 million Kshs. to 12,280 million Kshs.

III. The Loan Agreement Between KCB and USAID

The relationship between the Bureau for Private Enterprise, with its centrally funded inputs for private sector development on a worldwide basis, and the operations of the USAID/Kenya Mission, is an important element in the development and implementation of PRE-funded projects in Kenya.

The relationship appears to have been a symbiotic one. Preliminary planning efforts by USAID/Kenya for the $24 million Rural Private Enterprise Project (RPEP), presently programmed as part of mission activities, and the PRE decision to provide loan funding to the Kenya Commercial Bank took place at more or less the same time. In addition, USAID/Kenya had exhibited a committment to development through the private sector in previous exercises. Efforts at private sector oriented development activities in Kenya began (in terms of fiscal year funding) as early as 1981, with the Small Business Enterprise Project, implemented through an American PVO using the Operational Program Grant (OPG) mechanism. (A compromise project, if you will, between "New Directions" and "Private Sector Initiatives" policies.)

As Kenya had been designated one of the countries targeted as a priority for private enterprise activities, and USAID/Kenya had already tested the waters to a certain extent, the Mission was able to work with PRE in identifying possible targets of opportunity in the country. PRE, given its immediate access to funds (and more streamlined procedures), was able to seize on these opportunities quickly. Thus, the interests of both were well served.

PRE was able to identify investment opportunities based on previous Mission activities and information, and the Mission was subsequently able to take advantage of the PRE project to both fine tune project concepts already on the drawing boards and identify opportunities for future involvement. In addition to this mutually beneficial relationship, the fact that programs of the International Finance Corporation and the Organization of Petroleum Exporting Countries in providing loans to KCB were also in existence gave a certain <u>cachet</u> to the investments of PRE. The alacrity with which PRE's decision to undertake the investment in KCB was implemented was due in substantial measure to the prior experience that existed in the Mission itself and in the Kenyan banking sector.

The essential features of the loan agreement are:

1) Establishment of a Loan Fund by KCFC: KCFC will establish a loan fund with equivalent of $5,000,000 in local currency to small and medium-sized private enterprises (SMSE's) with priority in or related to agriculture development.

2) Eligible Enterprises: Access is limited to SMSE's whos total assets do not exceed $750,000 for small and $750,000 to $1,500,000 for medium scale enterprises. SMSE's shall also be located in rural districts, although some may be located in Nairobi or Mobasa if they are qualifying agribusiness or aquabusiness.

3) USAID Loan to KCFC: USAID lent KCFC $2,500,000 guaranteed by KCFC's parent firm, Kenya Commerical Bank, Ltd., to be matched by an equivalent amount of Kenya shillings.

4) Interest Rate: The rate paid by KCFC is the 10 year U.S. Treasury Note Rate less 2 percent, but not in excess of 10.5 percent per annum, payable quarterly on funds drawn.

5) Terms: KCFC was to repay quarterly at the end of each calander quarter beginning two years in forthy installments in U.S. dollars. A stand-by fee of 1 percent per annum will be changed on the undrawn balance. All payments of principal, interest and stand-by fees are to be made to the U.S. Treasury in U.S. dollars. There is no prepayment penalty.

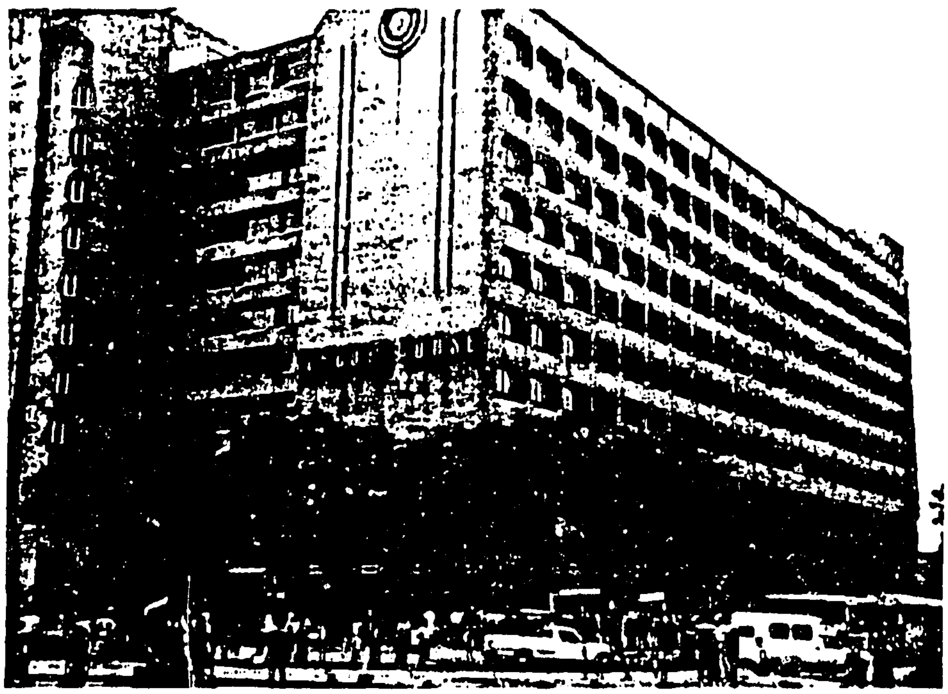
6) Grant Provisions: USAID made $250,000 available during the

two year drawdown period to expand and strengthen the Business Advisory Services ability to evaluate, monitor, and assist SSSE borrowers.

IV. IFI Organization and Operations

A wholly owned subsidiary of KCB, Kenya Commercial Finance Company (KCFC), was charged with managing the loan scheme. KCFC is a NBFI finance house, which enables it to pay higher rates for deposits and to charge higher rates on its loans than commercial banks. It cannot offer current (checking) accounts. As might be expected, KCFC tends to lend to higher risk SMSEs for longer terms than does its parent, KCB.

KCFC is divided into two departments, KCFC/Main and KCFC/Schemes. Main's portfolio is composed of real estate development and construction projects, vehicle leasing, and agricultural loans. Schemes was established in 1977 to manage loans made by the bank using funds from international development organizations and designated for small business.



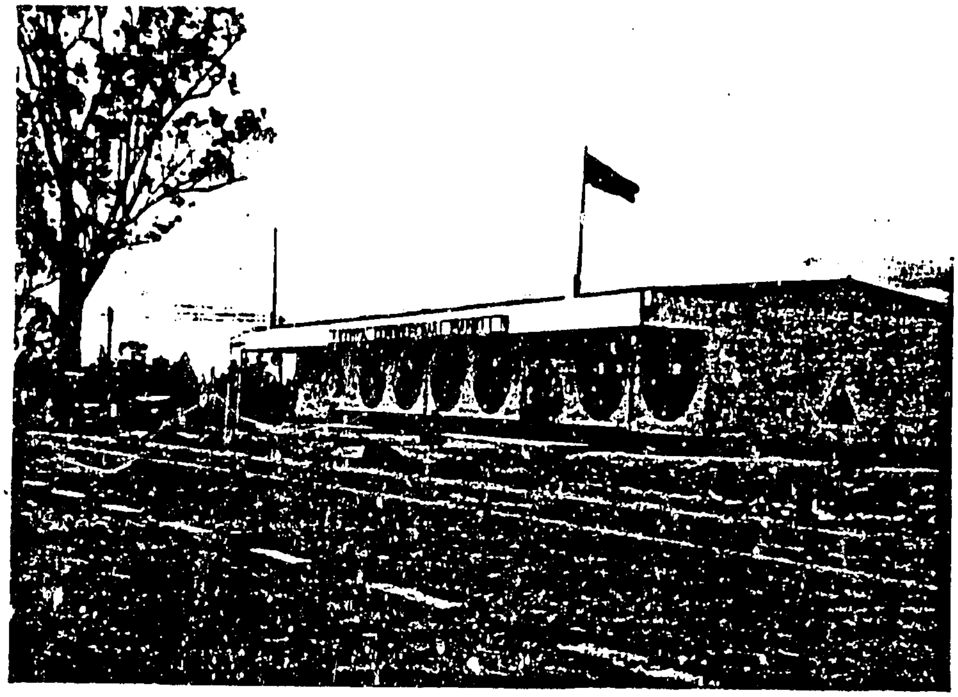
KCFC IS LOCATED IN THE KENCOM HOUSE, THE HEADQUARTERS OF KENYA COMMERCIAL BANK, IN DOWNTOWN NAIROBI.

To date, Schemes has administered 5 such programs, two each supported by the IFC and OPEC and one by USAID (PRE). All five projects have borrowing terms of 4 to 8 years longer than those supported by KCFC/Main or KCB. USAID's project is further distinquished by its emphasis on rural borrowers and agribusiness activities. Currently, each of the three donor organizations have one active credit line in KCFC's portfolio accounting for a total of approximately $17 million in loans. IFC's first scheme is concluded and OPEC's second is just beginning.

A KCFC account officer, Symon Ngangu, is in charge of the KCFC/PRE scheme. He also monitors Tranche II of the KCFC/IFC scheme which is fully lent. These loan schemes translate to a total of 137 loans totaling approximately $9 million (79 loans totaling $4.2 million under KCFC/PRE, and 58 loans totaling $5 million under KCFC/IFC).

All loans applied for under this program are approved by committee. Each requires the signature of three officers: the project appraisal officer (a KCB branch officer if the loan originates at a branch or Ngangu if the loan originates in Nairobi); a second KCFC account officer from the Nairobi office; and a senior account officer who is in charge of Schemes. Any loan above 5 million Kshs. must receive additional approval from a senior credit committee consisting of the chief manager of KCFC, and the credit manager, marketing manager and general manager of KCB. A loan above 10 million Kshs. must receive the approval of the KCB Chairman and Board. The approval process has taken from 3 months to occasionally over 1 year. In most cases the greatest delays were due to slow borrower response to requests for more information. The bank normally takes 3 weeks to process a loan once the borrower's file is complete.

ONE OF KENYA COMMERICAL BANK'S 60 BRANCH BANKS LOCATED IN MUMIAS, THE PRINCIPAL SUGAR PRODUCING AREA IN EASTERN KENYA.



The 60 branch banks of KCB play a role in the loan process, in the first instance serving as information centers for potential borrowers. While larger borrowers are generally referred directly to the KCFC main branch in Nairobi, and many other potential clients assume that direct contact with KCFC is necessary, KCB branches handled ten of the eighteen interviewed borrowers who were also their customers. KCB branches also assisted in preparation of loan applications, provided appraisal information when it was requested by KCFC, and engaged in occasional monitoring activities after the loans were made.

KCFC applies stringent criteria to applicants for funding under its various Schemes, comparable to the criteria it uses in assessing the credit worthiness of its own regular banking customers. KCFC generally extends credit only to fully collateralized projects. A minimum of 120 percent of the loan amount is normally guaranteed by a borrower's real estate or by a pledge from a third party. In addition, the bank looks at the management's experience level, and to a lesser degree, the borrower's credit records, education, past and projected business performance. The cost of this process, including fees for appraisers, attorneys, and feasibility studies, is borne by the borrower. For a sample of 22 businesses visited, these pre-loan documentation costs ranged from 3 percent to 10 percent of the amount borrowed.

The most common reason for loan denial is insufficient collateral pledged against the loan or a project that does not fit within the constraints established by the donor. Of the 287 applicants for loans under the KCFC/PRE program, 94 were approved. (See Appendix 1)

Once approved, a borrower must open a regular banking account with KCB. Of the 22 firms reviewed, 18 had previously banked at KCB. Loan disbursements are made directly to suppliers against pro forma invoices submitted to the bank.

KCFC has strict policies regarding arrears. Once a borrower misses a monthly payment, the bank begins sending reminder letters requesting payment. This process includes four letters over a period of approximately 3 months. The bank's attorneys are then notified. The attorneys send another letter threatening collateral liquidation if payment is not made within 10 days. Normally, the time between this notification and actual arrangement for liquidation is 3 months. The borrower then has approximately 2 more weeks to become current after an auction is scheduled and advertised. This entire process takes from 6 to 10 months. Only one of the 80 KCFC/PRE borrowers has actually had property liquidated, though in six cases an auction was scheduled before the borrower paid the bank the funds owed to it.

The Business Advisory Service (BAS) of the bank was established in 1977 as a condition for a line of credit that the International Finance Corporation made available to KCFC. At that time no specialists were assigned at the branch level to evaluate applications from the target group for that scheme, i.e. small and intermediate sized private enterprises. In addition to evaluating these borrowers, BAS was to advise existing borrowers experiencing loan servicing difficulties.

BAS has evolved into a 7 person staff (a manager, a senior consultant, and 5 junior consultants) plus support staff. They are located in the Marketing and Credit Department of KCB. The staff has a high educational level with 2 MBA's in finance, 2 Masters in agricultural economics, 2 Bachelors in business and 1 Bachelor in agriculture. Three of the staff moved to BAS after a one year bank training program. The current manager worked in the Ministry of Agriculture for 5 years and at the Kenyan Industrial Development Bank for another 5 years before coming to BAS one year ago.

BAS is charged with evaluating loans for KCB, KCFC/Main and KCFC/Schemes. In addition, they occasionally consult for private Kenyan businesses on a fee basis. At present, 40 percent of their workload is performed for KCB, while 54 percent is for KCFC/Schemes. KCB increasingly relies on BAS to evaluate and sign off on all large loans processed by the bank ($500,000 or more), which is a reflection of the growing credibility and prestige the department has earned within the KCB Group. Unfortunately, BAS is still not requested to assist the recipients of problem loans, a fact that chagrins the staff. They say that KCFC never calls on them with these cases, relying instead on the collateral liquidation threat to recover their funds.

In response, Mr. Ngangu agrees that the bank does not refer problem loans to BAS. The reason for this, he claims, is that BAS is understaffed. "Could you imagine the problems created by referring our delinquent borrowers to BAS? Of the three loan portfolios (USAID, OPEC, IFC), 40 percent of the 177 accounts are currently experiencing payment problems. Then you have KCFC/Main and KCB with approximately 2,000 arrears in their portfolios alone. Imagine the problems keeping up with that assignment"!

Bank management is studying whether to expand BAS to 14 members, and decentralize the department by placing 7 members in area branch offices upcountry to help with the appraisal and monitoring process. Assistance from USAID, as well as from IFC and OPEC, has been influential in the department's evolution.

V. Loan Disbursement and Impact on Sub-Borrowers

Since its inception, KCFC/PRE has received 283 applications. Of these, 80 different borrowers have been approved and funded. The first loans were made in 1983 and the fund was fully committed by July 1986. Approximately 74,000,000 Kshs. have been pledged to 95 borrowers. Actual drawdown was 62,000,000 Kshs. as of October 31, 1986, to 79 active borrower accounts. One borrower had already repaid his loan in full. The remaining balance is committed to borrowers awaiting final documentation or borrowers who have not yet tapped their funds.

Appendix 1 lists the key statistics of the KCFC/PRE scheme. Although beneficiaries of the scheme are titled small and medium size enterprises, a wide range of businesses fall in those categories. This is highlighted by the hundred fold difference between the smallest and largest loan under the program.

Consistent with the program's intention, 92.5 percent of the loans were made to rural businesses located outside Nairobi, Mombasa and Kisumu. Cereal millers (posho mills) accounted for 44 percent of all loans made, but only 8.6 percent of the funds. At the other end of the lending spectrum, manufacturers and distributors received only 7 loans or 9 percent of all loans made, but accounted for 39.2 percent of all loan funds committed.

A WORKMAN LOADS A BAG OF CORN INTO A MILL MACHINE, CALLED A POSHO MILL, IN SUBURBAN NAIROBI. THE USAID/KCFC LOAN PROJECT FUNDED SEVERAL OF THESE MILLS, WHICH PROCESS CORN INTO MEAL, A DIETARY STAPLE IN KENYA.

Seventy five percent (60 of 80) loans made were for start up or relatively new businesses. The average loan size was $51,800 (738,200 Kshs.) for the entire portfolio or $84,400 (12,666,700 Kshs.) if posho mills are excluded from the calculation. Virtually all loans were applied entirely or in part to the purchase of capital equipment.

The vast majority (92 percent) of loans were extended to businesses in Central and Western Kenya. This corresponds directly to the location of agriculture as well as the branch network of the Kenya Commercial Bank. Although the Kenyan coast is well developed, that area did not receive loans proportionate to either its industrial composition or population. This is due to the concentration of coastal activity in urban Mombasa and to the fact that many Kenyans living along the coast do not have title deeds to the property they inhabit. No title equals no collateral in KCFC's eyes and therefore no loan.

A review of the KCFC files did not suggest extensive involvement by women in the KCFC/PRE project. Casual observation indicated few women other than spouses were involved in the projects either as owners or employees. As involvement of women was not a specific goal of the project this should not necessarily be seen as an oversight or deficiency.

The Legal Difficulties and Auctions section of Appendix 1 documents the fact that most borrowers fall into arrears on their loan payments. Field investigation indicates, however, that arrearages do not necessarily indicate anything about the underlying financial health of the borrower. The borrower may be meeting his obligations at the same time his business is deteriorating. Conversely, a borrower with a very healthy business may service his loan inadequately.

Borrowers from the IFC, OPEC and USAID portfolios all have been contacted by KCFC's attorneys at a high rate. 44 percent of the KCFC/PRE borrowers have the notation "laws," indicating that they have been officially contacted by KCFC's lawyers at least once, while only 10 percent of those whose accounts originated in 1986 bear this notation. This ostensibly superior performance corresponds to that shown by other KCFC borrowers during their first year of loan repayment when they are expected to pay only the interest due on their debt. As initial principal repayments come due, experience suggests that many more fall into arrears.

The attached KCFC computer up-dates (Appendix 2) show a bank credit code next to the borrower's name. No code signifies a top credit rating by the bank. A "2" indicates that an account is in arrears and lawyers have been contacted. A "3" indicates recovery has become doubtful. Bad debts are indicated by a "4". On November 26, 1986, KCFC classified 61.33 percent of its accounts as up to date. Another 38 percent were in arrears or doubtful.

KCFC's experience indicates that most defaulters pay when the auctioneer's date draws near; and previous credit lines from IFC and OPEC enjoyed almost 100 percent repayment. The KCB branch bank plays an important role in the process as foreclosure becomes a possibility. The presence of branch personnel at the local level must be considered as one of the forces in promoting payment of delinquent accounts.

The auctions section of Appendix 1 shows that 7 auctions have been called. The threat of an auction or a newspaper advertisement announcing a bank auction has been sufficient to cause six of these borrowers to make significant payments on their debts to KCFC. It is not clear, however, whether the funds needed for payments were obtained from business operations, asset sales, personal savings or other sources, but in at least several cases, it appears that they were obtained by liquidation of business or other personal assets.

In order to gain additional insights concerning the operations and impact of the KCFC/PRE loan program, visits were made to a stratified random sample of sub-borrowers. The sample was stratified in terms of industry, size, experience, location, and loan performance (see Appendix 3). The 22 borrowers visited represented 23 percent of the active KCFC/PRE accounts, and 43 percent of the non-posho milling borrowers. Although the eventual 22 borrowers visited were slightly different from those originally targeted, the case studies can be considered generally representative of the overall portfolio.

Informal interviews with each of these sub-borrowers were guided by a standard questionnaire which team members used to record responses and increase the consistency of the data obtained. Those borrowers visited proved to be unexpectedly forthcoming and contributed a number of insights concerning the operations and effects of KCFC/PRE program. Each of these interviews is summarized in the individual client profiles which follow (Section VII below), and the data obtained is presented in tabular form in Appendix 4. Although generalization is difficult, several findings from these field visits were particularly noteworthy.

The loan fund does appear to have had a substantial impact on the operations of a number of the businesses surveyed. Many used the funds to get their businesses started and/or to purchase equipment they had been unable to purchase previously. While some of these businesses were faltering, failure rates did not appear to be any greater than among other businesses in Kenya, or for that matter, among small businesses in developed countries. It is also worth noting that no obvious correlation appeared to exist between the health of these enterprises and their loan repayment performance.

Many of those surveyed did not keep reliable books, and many were unable to answer questions concerning changes in their sales. It was thus not possible to compile summary statistics on sales, but only to report these changes anecdotally on a case by case basis. It is also clear that changes in sales performance reflect many factors other than simply availability of the KCFC/PRE loan. It is nevertheless relevant to note that a number of firms reported significant sales increases over the period of the loan.

Data was obtained from all businesses in the sample concerning employment levels before receipt of the loan compared to current employment levels (see Appendix 4C). The data obtained suggest that the 22 firms surveyed collectively experienced a net increase of 221 jobs over the period. A cursory review suggests little reason to believe that any significant portion of these jobs represented displacement of previous employment.

Few of those interviewed claimed to have made significant investments during that period other than those associated with their KCFC/PRE loan package, and hence the value of that package divided by net employment increase is perhaps a reasonable approximation of cost per job created. The estimates obtained in this way of $11,000/job for businesses other than posho mills and $3,600/job for posho mills are consistent with other estimates in Kenya and elsewhere, but are approximately double the estimates suggested in the loan applications of the individual firms involved. Put another way, none of the businesses surveyed created as much employment as had been projected and, on average, feasibility study documents predicted net employment increases more than twice those actually achieved. Nevertheless, observed employment increases were real and significant in a time of relatively slow growth in the overall Kenyan economy.

The recipients of the KCFC/PRE loans were indeed small businesses roughly parallel in nature and proportion to the composition of Kenya's small business sector. They ranged from extremely small rural enterprises to relatively sophisticated manufacturers. Several were involved in adding value to agricultural production by improving processing or transport efficiency, and several (e.g. the coffee processors) were enabled by the loan to compete effectively with cooperatives and parastatals. There were also several cases among those surveyed where loans were directly related to technological modernization. In no case, however, were these potential secondary benefits ostensibly used as bases for granting loans to the enterprises.

With the possible exception of posho mill operators, the line of credit made available under this project resulted in the provision of loans to individuals or firms with previous banking experience. Eighteen of the 22 borrowers surveyed had prior banking experience with KCB and all others were referred to KCB by other financial institutions. Many of these borrowers were accustomed to using over-draft facilities for what they regarded as "longer than term" financing; few had ever used or understood the need for medium term financing, even for capital expansion for their business. However, it was clear that loan proceeds were typically used to finance capital equipment, that the provision of term financing was perceived as a genuine service by a number of loan recipients and that the loan program resulted in an overall increase in credit availability for many borrowers.

Attitudes, business acumen, education, and experience differed among sub-borrowers. Team members noted that many borrowers, even those highly educated, did not fully understand the terms of their loans. Several did not understand that grace periods under the program covered only principal payments and that monthly interest payments would be required during this grace period. The implications of arrears caught several by surprise. The magnitude of payments and their impact on business cash flow, particularly once principal repayments began after the grace period, were other features poorly understood by borrowers.

The lack of business sophistication on the part of many borrowers, as well as prevailing market practicies, appear to have resulted in a lack of appreciation of the need for long term financing, project planning and cash flow analysis. The planned, intelligent use of borrowing as a means to pay for capital expenditures requires a certain level of business acument. Lenders in Kenya basically lend against collateral rather than cash flow, and do little to educate the small business borrower in the use of term credit. The absence of such analysis appears to be exacerbated by the extensive use of the "evergreen overdraft", a characteristic of the British banking system that may give the appearance of short-term credit but in actuality is used as term financing often without the benefit of careful project and cash flow planning. While the BAS could perhaps have been of considerable assistance to borrowers in understanindg such issues, there is no evidence that they were providing this service to the borrowers interviewed and a protion of the pre-grant funds allocated to strengthening BAS's technical assistance capability were never used and were eventually deobligated.

A 1984 evaluation of the KCFC/PRE loan suggested very high rates of participation by women in the ownership and operation of the small businesses financed under the program. The 22 businesses visited under this study provided no confirmation of this view. This seemingly contradictory finding may have been the result of the under-sampling of small posho mills in the current survey. In any event, the explicit promotion of ownership and employment by women was not a stated objective of the project nor is it regarded as such by those at KCFC implementing the project.

Finally, it is noteworthy that the individuals interviewed almost universally spoke positively about the project and the benefits they had received from it. Even those borrowers currently in difficulty generally spoke positively about the opportunity afforded by the project and most expressed the desire and intention to continue borrowing commercially as part of their effort to expand their businesses.

VI. Institutional Impact

A. KCFC

Because of the fact that the PRE loan to KCFC is but one of three such "schemes," it is not possible to attribute a direct connection between the PRE project as an entity and specific impacts on KCFC or the banking sector of Kenya as a whole. There is evidence to indicate that the willingness of the commercial banking sector to engage in programs for the provision of long term credit to medium and small-scale enterprises has increased significantly during the period that the PRE project has been in operation.

Although KCFC and other financing institutions have not appreciably reduced their substantial collateral requirements for such loans, there does appears to be a change in the perceptions of risk involved in term lending to these enterprises.

In negotiations concerning the new RPEP Project of USAID/Kenya, other private commercial banks have expressed a willingness to participate in what must be considered a follow-on project to the PRE/KCFC activity. This indicates a possible impact on attitudes concerning both long term credit and, perhaps more importantly for USAID's development objectives, the provision of such credit to small scale rural enterprises. It is not reasonable to expect, that the practice of providing long term credit to small and medium-scale enterprises has been institutionalized in the Kenyan commercial banking system as a result of two years of operation of the PRE loan program.

Although the PRE loan is not reported in KCFC's public Profit and Loss statements as a separate entity, but only as a component of KCFC/Schemes which also includes the IFC and OPEC Loans, a review of these statements for 1985 and 1986 (up to October) indicates that these programs have been profitable. In 1985, these three programs represented 5 percent of KCFC profit and slightly more than 10 percent of its total interest receivable from customers. KCFC administrative costs amounted to approximately 5 percent of the total interest receivable from the loans.

There were no conditions in the USAID loan agreement with KCB that required the funds to be recirculated within the context of the project or its designated target group for any specified length of time. Thus, funds received from borrowers have not been recycled and the small business term lending fund established in KCFC has not "revolved". As the funds had been fully committed as of November 1986, the lending portion of project activities had essentially been completed, and KCFC's role reduced to monitoring borrower performance and servicing repayments to USAID.

It should also be noted that in the KCB system, each branch bank is considered a profit center. In the KCFC loan program, however, profit is centralized. Consequently, participation by a branch in the KCFC program does not affect their performance indicators either positively or negatively. Given this lack of incentive, it is unlikely that the loan program has been institutionalized in KCB, KCFC's parent institution.

B. Government of Kenya

There is evidence of a firm committment to stimulation of the private sector in Kenya on the part of the government. Again, PRE efforts are but part of a larger effort to bring about certain structural changes in the Kenyan economy. The liquidity situation, for example, has changed substantially from what it was when the PRE loan was being planned; and liquidity scarcity had given way to what many feel may be a period of excess liquidity in the economy. Actions of the IMF and the government of Kenya are responsible for this phenomenon which impacts on the quantity and quality of credit available locally.

While liquidity has improved from what it was when the PRE loan was being planned, the crisis of confidence in the financial sector has directed the bulk of this liquidity to those financial entities, principally banks, perceived by the institutional and individual depositors as being the most trustworthy. Some observers feel that continued government budget deficits may be creating excess liquidity. However, it should be recognized that in terms of distribution the vast majority of these funds are concentrated in a limited number of financial institutions and are available on a relatively short-term basis.

C. USAID

Within the context of USAID operations in Kenya, the PRE/KCFC project has had substantial impact both in opening the door to the Kenyan private sector, and in establishing a precedent for further interventions by USAID in Kenyan capital markets.

PRE's efforts at the time, were welcomed and viewed favorably by the Mission, which felt that PRE brought to the Kenyan situation certain skills applicable to efforts in private sector development which were not readily available at USAID/Kenya. Because of the substantial growth in private sector development activities of the Mission, this situation has changed to a great extent.

As indicated earlier, the USAID/Kenya Mission had demonstrated a firm committment to the private sector from the beginning of USAID's private sector policy initiatives. Given the existence of this atmosphere at the Mission, the PRE investment proposal could be implemented very quickly, lending a substantial amount of credibility to the Mission's continued efforts to establish the RPEP and other programs. At the same time, however, conditions in the Kenyan banking sector were changing, and lessons were being learned from the PRE/KCFC experience.

Among the elements of the RPEP program that distinguish it from the PRE loan are the expansion of the program to a number of private commercial banks, an increase in the ratio of the USAID to participating bank contribution to the total loan fund, and the inclusion of more training and technical assistance funding as part of the package.

The effect of the changes in the Kenyan economy which have taken place since the PRE/KCFC project was started have also impacted on the design of RPEP, but the lessons learned through the PRE exercise have contributed significantly to the basic elements of the RPEP exercise.

USAID/Kenya is also cognizant of PRE's use of guarantees rather than direct loans in other countries. In response to the change in the liquidity situation in Kenya, the Mission is presently examining the possibility of using Kenya shilling funds in a loan guarantee program. Such a program would avoid the direct infusion of new capital into an already highly liquid banking system.

As experience in the PRE/KCFC project demonstrated, the availability of credit was limited for the most part to entrepreneurs who already had substantial collateral to back up their credit requirements. The availability of the PRE funds did not affect the basically risk averse loan procedures of KCFC. In order to stimulate the creation of new ventures involving potentially greater risk, USAID/Kenya is in the initial stages of designing a venture capital project which will in effect complement the activities of RPEP.

While the impact of the PRE/KCFC project on USAID activities in Kenya can be described in terms of Mission program planning, the greater importance may be in the opening that they created. While there is no question that the Mission had a strong private sector orientation before PRE came into the scene, the PRE project provided quick and concrete evidence to the Kenyan private sector of USAID's committment. There can be little doubt that PRE's intervention was a significant factor in establishing a base for further private sector development in Kenya.

VII. Borrower Profiles

The pages below provide brief descriptions of 22 sub-borrowers visited. They are intended to capture something of the flavor of the individuals involved, their businesses and their relationships to KCFC. Statistical information on these enterprises surveyed is presented in tabular form in Appendix 4.

THE POSHO MEAL

Nairobi

Loan Amount: 465,000 Kshs ($31,000)

Purpose: To purchase and install a corn milling machine.

Onesmus Njiru saw a niche soon after he and his wife moved to Nairobi. Many people consumed corn, but had to travel great distances in order to mill it into flour. Back in his hometown of Meru, he had started up a "posho mill" (a milling machine which grinds cereals into flour) with his family. It was apparent that the neighborhood in western Nairobi needed just such an operation.

Onesmus approached his banker at Kenya Commercial Bank (KCB) for a loan. Since he required a smaller, longer term loan, he was referred to the USAID sponsored KCFC program. "This program fit my needs exactly", says Mr. Njiru, "and since this was my first experience with a formal bank loan, my loan officer, Symon Ngonga, helped me with the application". "Although he lacks the credit experience" adds banker Nganga, "he makes this up with self initiative and past experience in the business".

A 425,000 Kshs. loan bought Mr. Njiru the two milling machines and their installation, and the "posho meal" was born. He rented the building from a local church and modified it with his own savings, which represented his 25 percent equity position required by the program. After a few weeks of advertising with posters and hand bills, the mill became well known. One and a half years later demand has not let up. "With the closest mill 5 Km away, we keep running 3-10 hours a day 6-7 days a week. I'm so busy I'm trying to talk Symon into giving me another loan for more machinery. Can you help me?", he asks. "We'll talk about that later", replies Symon. At present Mr. Njiru and his wife employ a cashier and a machine operator. He is beginning to integrate other related enterprises with the mill. Aside form milling his customer's corn and beans, he bags his own corn meal in 2Kg paper sacks and sells tham to local markets. He makes a baby porridge of powdered milk, corn meal, millet and sugar for sale through the same outlets. And he has begun to raise and sell chickens, using the chaff and waste from the milling process as food supplements.

KENYA MARBLE

Nairobi

Loan Amount: 7,743,000 Kshs ($516,200)

Purpose: Purchase stone cutting machinery and build a workhouse

In the outskirts of Nairobi a third generation Kenya/Indian family is opening the country's first marble cutting operation. The Lakhani family had been in the limestone quarrying business first in Tanzania and then in Kenya, since the early 1940's. Initially, they ground limestone rock for use in agriculture, construction, and home products. In the early 1980's the family operation whose expertise was now augmented by a son with an MBA from the London School of Economics and another with a degree in geology from the Royal School of Mines began planning to provide Kenya with finished marble products for building and decoration. Prior to Kenya Marble most of the country's needs for high quality building marble were met with expensive imports. Mr. Lakhani

A PIECE OF RAW MARBLE UNDERGOES ITS INITIAL CUTS AT KENYA MARBLE. A $600,000 USAID/KCFC LOAN ENABLED THEM TO PURCHASE THE EQUIPMENT NEEDED TO OPEN KENYA'S FIRST MARBLE FINISHING OPERATION.

investigated several funding avenues for the 2 million Kshs. needed to purchase machinery. Several schemes existed in Kenya at the time. He would be able to borrow at a reasonable rate and for a 10 year term from a local building society, but only for construction of the "go down" (factory building). Money was also available at a reasonable interest rate and at long term from various export finance companies in the countries (Italy and Germany) where he would purchase his machinery. He would have to bear the foreign exchange risk. He decided on the USAID sponsored KCFC financing "to have the entire package under one roof" and to benefit from the longer than normal payback term and 6 month grace period. "In the long run I may be paying a higher interest rate but my cash flows are more predictable" he explained.

At the time of the visit, the plant had been in full operation for one month. Mr. Lakhani is confident of achieving his projected 5 m Kshs/year sales figure by November 1987. "I anticipated breaking even on this year's operations because of all the start-up costs involved, although we may even achieve a 3-5 percent profit based on initial sales figures". This is good news for his employees at the quarry in Kajiado and at the factory in Nairobi. The operation has one shift working a 5 1/2 day week. A 70 man payroll (1 million Kshs annually) covers production carvers and sales staff at the soon to open Nairobi retail outlet. "I find that my sales projections have been very low", he said. "We can undercut the market price by 50 percent, and that means immediate market share". It also means a reduction in import bills for finished marble products. Mr. Lakhani has explored the ceramic tile market and thinks he can underprice marble tiles. "One has a terrible advantage when one mines and finishes a product locally".

In two to three years he anticipates Kenya Marble will export 50 percent of its output. "Ninety per cent of our first shift of production is destined for the domestic market. As we are able to develop business in the more competitive Middle Eastern, European, and American markets we will be adding a second shift to meet this demand".

An ambitious undertaking, but so was the development of Kenya Marble using locally provided financing.

MUIRINI TIMBER MERCHANTS

Thika

Loan Amount: 500,000 Kshs. ($33,300)

Purpose: Purchase carpentry equipment, build working capital, rollover old debt

"In the first place, I know I'm a defaulter," said Mr. Rugano. "At the current time, the business is not functioning all that well because people don't have money. Still, I'm endeavoring in all ways possible to repay this loan".

Mr. Rugano, a former mayor of Thika, applied for a KCFC loan in late 1984. He was a customer of Kenya Commercial Bank and heard about the new loan program from business connections. He intended to expand his product lines and capacity by purchasing new equipment with the loan. He had been in the timber and woodworking business 5 years.

Personal problems and the legacy of a politician have distracted Mr. Rugano from successfully expanding his business. Having fallen into arrears on his interest payments in August 1985, his case was referred to KCFC's attorneys in March 1986. A final deadline of November 24, 1986, was set after which time KCFC was to begin action to liquidate the property he placed as security. Mr. Rugano was instructed to pay 135,000 Kshs. by November 22 to avoid this action; he paid only 20,000 Kshs. On November 26, his arrears were 113,000 Kshs.

He has had difficulty lining up regular customers and contends that attracting the casual walk-in customer is difficult. There was little evidence of any orders being filled or inventory built up.

The equipment Mr. Rugano bought with KCFC financing is a small wood lathe and a table saw. The lathe was awkwardly placed in a corner and had turned no wood recently. The two new pieces could not account for the 260,000 Kshs. he had borrowed for equipment purchases.

Mr. Rugano characterized his competition as "stiff". Muirini Timber is located among several metal and wood working shops in Thika and Mr. Rugano's neighbors were active with stocks of doors, frames, desk, beds and timber evident. The hum of machinery dropped to an intermittent lull in the direction of Muirini Timber where three men were ripping round logs into planks during two visits on a Friday and Monday. The other 11 machines in his shops were idle. Fifteen 10 foot sections of 14 inch round logs awaited ripping.

The effect of the loan on Mr. Rugano's operations is hard to judge. His books are currently with his attorneys as they prepare to negotiate with the bank. Another defaulted loan from KCB has tied up other resources. Mr. Rugano claims to have already voluntarily liquidated some of his real estate to pay outstanding debts. Prior to receiving the loan Muirini Timber employed 15 people. He hoped to add 3 more. Now Mr. Rugano says his payroll is 6,231 Kshs/month for 11 employees. His wife is the sole woman.

Nevertheless, Mr. Rugano said, "I'm very grateful for the loan and happy to be in business, it's only that I've been having lots of ups and downs". The local KCB official said that given Mr. Rugano's previous business and personal history it was unlikely the business would ever find an up. He said Mr. Rugano has significant personal assets and could pay the loan if he chose. Meanwhile, a new series of letters has gone out from KCFC.

MUCHANGANYIKO BAKERY

Turbo

Loan Amount: 230,000 Kshs. ($15,300)

Purpose: Purchase and install dough mixing equipment.

In the midst of the rich maize and wheat zone of Western Nandi near Lake Victoria, Mr. Ndungu Kimani is cornering the bread market between Bungoma and Eldoret. Kimani, who has been in the hotel, restaurant, and saloon business since his late teens, has developed a thriving bakery business in Kenya's "Bread Basket".

Muchanganyiko Bakery's manager, Moses Gitonga, with the assistance of KCB banker turned translator Christopher Ajeri (neither Kimani nor Gitonga spoke much English) discussed the thriving bakery business which was assisted by a USAID/KCFC loan of 230,000 Kshs.

Mr. Gitonga, who kept extensive accounting records since taking the job in late 1984, is an ex-police investigator, local farmer, and manages the bakery as a side business. "I had to know some accounting in order to investigate bank and business fraud while with the police," he explains. The business, which produced 2,300 loaves of bread per day (approximately 4,000,000Kshs./year in sales) approached Kenya Commercial Bank to obtain a loan for dough mixing and loaf making equipment. The management of KCB, who knew Mr. Kimani as a regular and good customer, explained that the USAID/KCFC project would best suit his needs.

Since the machinery was obtained, production has more than doubled to 5,800 loaves/day (200 which are sold through his retail shop, the balance to area shops wholesale). And employment is up from 25 to 32 full-time bakers, (9 are women). "We run 24 hours a day 7 days a week, and sell every loaf produced," boasts Mr. Gitonga. "Merchants know that our bread is better, with a shelf life of 7 days," compared to 2-3 days for other breads whose cooking process is shorter than Muchanganyiko's. The bread is baked in large, wood fueled brick ovens. But they complain of capacity. The wood ovens, although inexpensive to run with scrap wood from local saw mills, can only bake 300 loaves every hour. Mr. Kimani has approached KCFC for another loan to purchase an electric oven which would bake 450 loaves in half the time. Despite his excellent payment record, KCFC's conservative loan policy will not allow another medium term loan until the first is paid off. He has raised the 380,000 Kshs. to buy the oven himself, but the dealer who imports the ovens from Denmark will not order the equipment without up front cash from the customer or a bank guarantee.

"I cannot afford to tie up my resources while an oven is shipped to Kenya". Mr. Kimani is still working on an acceptable solution to this problem.

WILLIAM SAINA

Voy

Loan Amount: 410,000 Kshs. ($27,300)

Purpose: Purchase tractor for local ploughing.

Forty kilometers west of Eldoret is some of the richest agricultural land in Kenya. Maize, beans and wheat are grown, and large herds of dairy and beef battle raised. The dry season had just begun and the local farmers were busy harvesting their grain and shipping it to the government-owned elevators.

Laban Saina, the 27 year old son of William Saina, was in the process of repairing the farm's water pump but readily agreed to discuss the family operation. The Saina's approached KCB in 1984 for a loan to purchase a new tractor, since their other one was too small and old for their 700 acre maize, wheat and cattle operation. KCB helped the family apply for a 410,000 Kshs. loan from the USAID/KCFC scheme. "We had a lot of problems with the initial application," recalls Laban. "Most of it had to do with obtaining the title for our farm from the Kenya Agriculture Finance Corporation, through whom we purchased our land 20 years ago". Once the question of collateral was straightened out, their loan was processed and approved and the family bought a new Massey Ferguson tractor, a trailer, and several other implements.

"We haven't received much advice from the bank since we obtained the loan, but their suggestions during the application process were invaluable to us," Mr. Saina stated. The principal suggestion was to rent the tractor's services to area farmers when it wasn't needed on the farm. Although demand varies greatly depending on the season, ploughing and seeding services have netted the Saina's 14,000 Kshs. over fuel, loan repayment, labor and depreciation. "The tractor is more than paying for itself, including doubling the acreage we can cultivate in the same amount of time". As for competition in the area for our services, it is apparently there, but Mr. Saina has worked out a successful formula. He offers farmers credit which no other tractor service does, and has been pleased with the paybacks. "Very rarely will a neighboring farmer renege on a debt". He also ploughs in exchange for acreage. "I'll offer to plough a 10 acre plot if the farmer allows me to use 2 or 3 for my own production. The farmer doesn't mind since he normally wouldn't plant his whole acreage due to a lack of inputs or manpower, and I increase my acreage".

The family is well suited for this business. Mr. Saina has been recognized as one of the top farmers in the region for several years running. His son Laban is following in his footsteps, integrating their tractor service with maize, wheat and cattle operations. Conveniently, another son is a certified mechanic. Their goal is to send their father to the United States where he can visit successful operations and improve even further their agricultural operations.

SUGAR CANE HAULING

Mumias

Loan Amount: IMA Haulers - 1,000,000 Kshs. ($66,600)

Musola Agriculture Ltd. - 3,000,000 Kshs. ($200,000)

Purpose: To purchase tractors and trailers to haul sugar cane.

IMA Haulers and Musola Agriculture Ltd. are very similar and very different. Both have a fleet of farm tractors, trailers and claw tractors for hauling sugar cane for Mumias Sugar Company of Western Kenya, the country's largest sugar refinery. One owner is of Asian decent, the other an African. But their approach and success at this newly privatized business contrast sharply.

DUE TO RECENT PRIVATIZATION OF THE CANE HAULING BUSINESS IN KENYA AND WITH THE ASSISTANCE OF AN USAID/KCFC LOAN, IMA HAULERS CARRY 18,000 TONS OF RAW SUGAR CANE TO BE PROCESSED AND EMPLOYS 80 PEOPLE.

In 1983 the Government of Kenya allowed Mumias Sugar Company, a parastatal, to contract as much as half of its cane hauling business to private companies. The company produces 186,000 tons of sugar annually, which requires over 200,000 acres of sugar cane. Sugar cane is normally ploughed, planted, fertilized, weeded and harvested by the company, which pays local farmers for the use of their land. To go outside to contract for haulers was a radical step, but a necessary one. Delays in delivery by company hauling had resulted in plant shutdowns and cane rotting in the fields. Private contractors greatly improved the delivery time of cut cane to the mill.

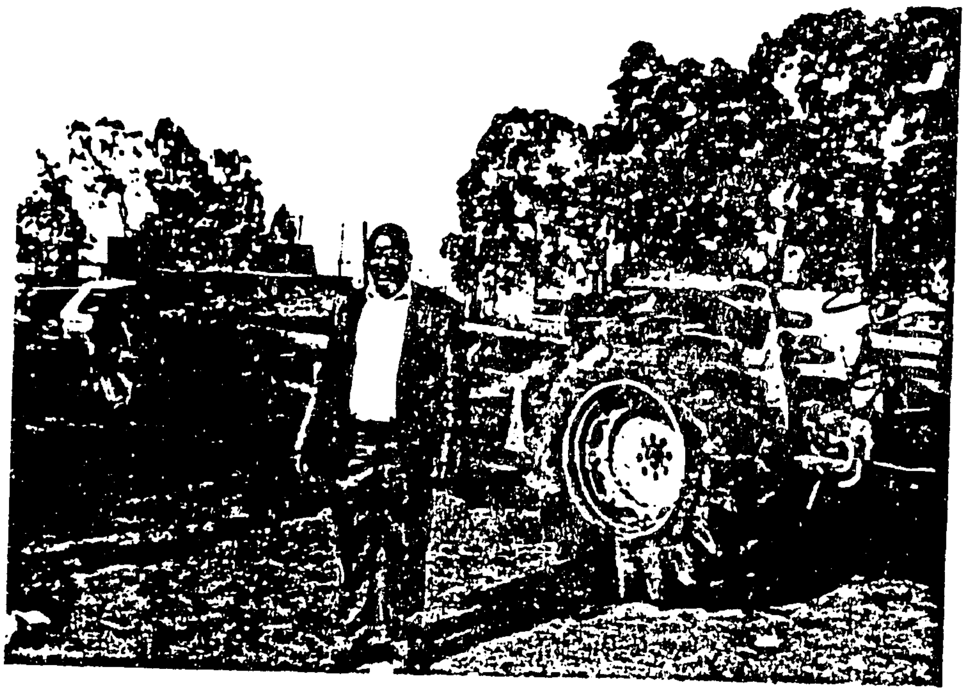
IMA Haulers was formed in 1982, when the Saini family sold its sugar cane plantation near Kisumu and went into the hauling business. The father had worked in farming and transportation his whole life, but his two sons were most interested in obtaining the transportation contract. They purchased IMA, a rundown transport operation in Mumias and used an USAID/KCFC loan to repair and replace old tractors, build a repair shop, and streamline operations. An additional loan from Diamond Trust Company helped purchase other equipment. The Diamond Trust Company loan operates much like an auto loan would in the U.S., with the owner putting down 40 percent of the purchase price and then financing the balance over 2 years at 20 percent interest.

Now they have nine John Deere tractors/trailers and three California-built claw tractors to lift cut cane from the field to the trailers. They earn 600-700,000 Kshs. per month and employ 80 men (an employment increase of 60 percent over the previous owner). Most staff are trained in either maintenance/repair or tractor operations. IMA's profit margin has increased from 15 percent in their first year of operation to 25 percent now, mainly due to "more efficient and reliable machinery as well as a competent staff to maintain and run it," explains Mr. Saini. "My only complaint is that the sugar company won't let us work up to our capacity, which could be 7 days per week". The mill is closed on Sundays, but only permits the contract haulers to work 4 of the remaining 6 days in order to ensure a steady supply and equal distribution of work between the 5 companies. "We each handle about 20 percent of the total acreage the company has allocated to the private sector to haul. There isn't really any competition, only with yourself to keep your costs as low as possible". He is grateful for the USAID/KCFC loan which has given him the ability to attain this goal.

IMA's assets have grown from 4 to 8 million Kshs. in a period of 4 years with a 50 percent leverage of equity. Their plan at this point is to remain as efficient as possible and to negotiate with the sugar company to access more of the hauling business to the private sector.

Musa Mosanik is the Director of Musola Agricultural Contractors, Ltd., the only indigenous African company under contract with the Mumias Sugar Company. He and his brothers Solomon and Lawi (Mu-Sol-La) pooled their resources and purchased some land and two old tractors to start up the business. Through a tip from a friend he approached his bank, KCB, to apply for a USAID/KCFC long-term loan to purchase additional equipment. They borrowed 3,000,000 Kshs. using family land as collateral. They then purchased 7 John Deere tractors, 14 trailers, 2 loaders and a pick-up truck. The balance of the loan was used to purchase spare parts and construct and equip a maintenance shanty.

Musa does well, averaging 800-900,000 Kshs. per month in business. But he has a large debt to repay, including one to Diamond Trust Company for 4 tractors. Despite the good, steady cash flows, his high leverage and loan repayments result in negative cash flows at the end of each month. He admits to being late with several interest and at least one principal payment. He points a finger at the sugar company. "They only allow us to haul 2,500 tons daily, 4 days per week. We have the capacity to haul 3,500 tons 7 days per week. If they increased our tonnage and added one more day, we could easily manage". Further questioning revealed that KCFC has only involved itself in the loan feasibility study and post loan delinquency letters. But Musa doesn't expect any more from them. "They just want their money back, wouldn't you?" He has attempted to economize by building his own trailers at a savings of 55,000 Kshs. for each one he builds. He has not considered laying off his work force or using the idle machinery for other purposes, such as ploughing cane fields. He expects things to work out



MR. KIPRUTO MOSONIK WAS ABLE TO FINANCE THE START-UP COSTS OF HIS AGRICULTURE HAULING COMPANY, MUSOLA AGRICULTURE CONTRACTORS LIMITED OF KENYA, WITH A USAID/KCFC LOAN.

but can offer no strategies to attain this end. Perhaps the best strategy has already been summed up by his "competitor," Mr. Saini at IMA, who said the main competition is with yourself to keep costs as low as possible in order to increase profit margins.

JOSEPH LUTA

Kakamega

Loan Amount: 500,000 Kshs. ($33,300)

Purpose: Purchase tractor and implements.

"I have worked for many years in the hardware and construction business, and for it I have made some money but have paid with a bad stomach and many headaches. I wanted to return to farming, what my father and his father had done. With the sugar company nearby, growing sugar cane can be very profitable. I had purchased a small amount of land but mainly I use other farmer's land in exchange for ploughing work I do for them.

"I purchased a Massey Ferguson 2900, ploughs, discs, and harrows with a 500,000 Kshs. loan from USAID/KCFC in late 1984. They gave me 5 years to pay back. I thought I would get a grace period but I was required to pay the bank from the first month. I was mad about that because when you are starting out you need several months to get your feet on the ground. I have paid off approximately 50 percent of this loan and am in the process of obtaining another loan from KCFC through their OPEC scheme. This one will be over 8 years with two years grace at 14 percent interest. I will use the loan to pay off my USAID balance since the 20 percent interest is too high.

"My sugar crop, which takes 18 months to mature, will be harvested shortly. I will harvest 100 acres which will earn me a lot of money. You get paid more money if you do all your work. Usually the sugar company uses your land and pays you a small percentage of the harvest. I will make 1,000,000 Kshs. per year beginning in 1987 from my crop. My business employs 17 people now, including laborers, a mechanic, drivers, and my wife, who manages everything.

"Fifty percent of my earnings will go towards expenses, plus my loan payback. You see, it's very profitable work. The Asians used to do it but they left this business to haul cut cane to the refinery. I am the only person doing this in the area - I can't lose.

"I dislike all banks and bankers. You only hear from them when its time to collect - they write you all sorts of letters when you are behind. Why is it you Americans who are visiting me (this was the second visit to discuss the USAID loan) and never the bank. They need to meet with their borrowers on a regular basis in order to understand the business we are in and help us deal with our problems. I'm happy with the program because they lent out money quickly. But I will be happier with the OPEC program since it will save me much interest".

KENBY CABLES

Kisumu

Loan Amount: 3,000,000 Kshs. ($200,000)

Purpose: Purchase equipment to expand product line.

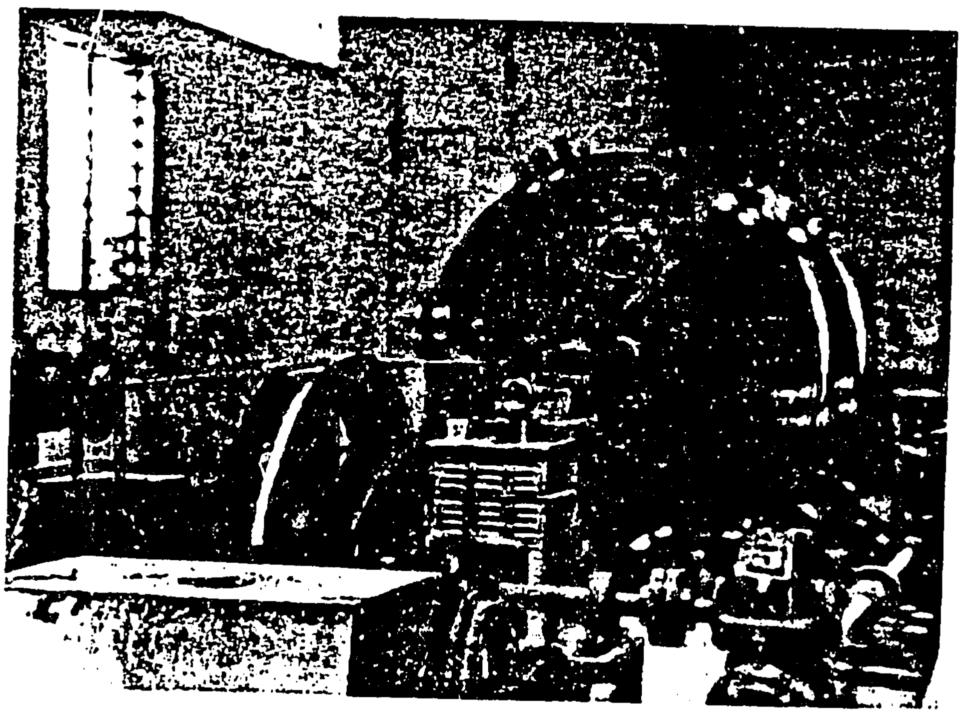
In mid 1983, East African Cable company began to slash their prices for single strand electrical wiring used to wire homes and businesses. This was the only product line of Kenby Cable and it became apparent to Mr. Patel and his son, the general manager of the factory, what East African was doing. To avoid being driven out of business they decided that they must expand their product line to include other types of electrical cable.

Mr. S. Patel was an acquaintance of the manager of Kenya Commercial Bank of Kisumu, Kenya, who alerted him to the new USAID/KCFC loan scheme for just such business needs. Kenby wanted a longer term loan, since the necessary machinery required a large capital investment. A 3,000,000 Kshs. loan was negotiatied at 19 percent interest over 8 years, including a two year grace period. This allowed Kenby to purchase machinery which coats 2 strands of wiring used in exterior work. It also allowed them to begin producing much larger, coated electrical cable used by electric companies for underground transmission lines.

The competition has been checked and Kenby has increased its sales and market share for domestically-produced electric wiring. "With the movement towards rural electrification by the Kenyan Government, demand has gone way up for our products. We have 2 months of backorders to catch up on," explains Patel.

Since purchasing the new equipment, he has doubled sales to 9.2

million Kshs. per month. His profit margin has also risen to 35 percent because of the more efficient processes the machines employ. Employment has risen from 10 to 18 workers, most of whom were unskilled before the Patels hired them. "We like to hire young, inexperienced workers and train them, so that they will not be bringing any bad habits they may have developed elsewhere with them". He intends to hire four more workers and add a second shift on one machine in the next two months.



CABLE IS STRETCHED AND COATED WITH POLYVINYL CHLORIDE IN THIS MACHINE, PURCHASED WITH AN USAID/KCFC LOAN. KENBY CABLES, LOCATED IN KISUMU IN EASTERN KENYA, IS ONE OF THE COUNTRY'S TWO MANUFACTURERS OF ELECTRIC CABLE.

Although the inputs (rolls of copper and polyvinyl chloride) are imported, he has had no supply problems. "The Government recognizes the importance of what we are doing here, so we have been able to assure our suppliers in Europe that they will receive the foreign exchange". He said he would like to use more African-produced inputs, such as copper from Zambia, but the quality is not up to standards and the supply-line is not dependable. "East African Cable has purchased a factory in Kenya which can recycle old copper into wiring, but they have not opened it for business. They just can't find adequate supplies of scrap copper to run the place".

Despite the dependence on imports, the significant value added (approximate 4 times) and the increased employment make this project a very successful example of what can be done with lending to the small industrial sector in Kenya.

HEZIKIA NGAITA

Nakuru

Loan Amount: 200,000 Kshs. ($13,300)

Purpose: Purchase posho mill.

Mr. Ngaita, an established businessman in Nakuru, had an idea. As an agent for Kenya's Maize and Produce Board, he had several years experience buying maize from local producers for the Government of Kenya. He had also been a transporter. His idea was to integrate his background in marketing and transport to buy raw grain, process it, and sell flour to shops, schools, hospitals and bakeries in the area around Nakuru.

In order to set up a posho mill (corn milling machine), Mr. Ngaita needed to refurbish an old warehouse he owned and purchase the machinery. "My friend at KCB told me about the USAID/KCFC loan program and it seemed right for my needs," he explained.

Although the application process took 11 months, and another 8 months was required for machine delivery, Mr. Ngaita is beginning to realize the benefits of his Kshs. .200,000 loan. "We have just begun milling in August, and our first deliveries were that month. I sell large sacks of #1 and #2 (referring to the coarseness of the flour) to businesses and institutions in the Nakuru area". Although his market share is still low (numerous mills already exist in the area, and he is only working at 1/2 capacity) he is confident his marketing plan will succeed. "I offer free delivery up to 30 Km from the shop, next day service, and the best quality milled maize in the area". Although the quality aspect may be subjective, he does offer advantages of quick and free delivery over his competitors in the area.

His business employs 3 people, plus his wife and 3 sons. "The family isn't paid yet. We realize that hard work is required in order to succeed, and then maybe we can begin to pay ourselves. It has been a good experience to start my own business. I didn't realize the risks I would have to take, and money I would need to spend to get started. It's a lot of headaches, but our success will make it all worthwhile".

RUIRU PACKERS LTD

Nairobi

Loan Amount: 1,000,000 Kshs. ($66,600)

Purpose: Purchase machinery, equipment and truck to manufacture and pack salt, groundnuts and crisps.

Mr. Karanja Kamua was hesitant to discuss his loan. "I'm worried about meeting with people from the bank. They are only interested in selling off my assets to recover the loan". The company, established in early 1985 to process raw salt, cook and package peanuts and potato chips, and bake bread, has been idle for several weeks due to raw material supply problems and licensing difficulties.

Mr. Kamau quit his job as a tax assesor for the Government of Kenya because he was fed up with it. "I wanted to strike out on my own, and packaging seemed to be the least complicated business to establish. Have I learned a thing or two since then!"

The business consists of a very large godown (warehouse) which he rents for 16,000 Kshs. per month, a few pieces of grinding and baking equipment, and two vehicles. When the business was fully operational they employed 25 persons, 4 of whom were women. All but three have been laid off. The principal problem as Mr. Kamau explains it is a lack of raw salt. "If I could get salt the company could be generating cash flows, but as it is now my bills are simply piling up". Salt, which is mined in northeast Kenya, has been in short supply due to the heavy rains this year. In addition, his supplier of salt has begun grinding and packaging the product. "He's monopolized the market" explains Karanja, "but several competitors are setting up to compete against this guy". He hopes to find salt supplies soon, but wonders where he will find the working capital to resume production.

An additional problem is with the food processing line. The Government requires him to license the operation, and in order to do so he must invest several thousand shillings in building improvements. He is reluctant to do this in a rented facility. He has countered by submitting a plan to the bank for a loan to construct his own facility, but the bank has refused to extend anything more to what it perceives as a failed enterprise.

Mr. Kamau admits that the process has taught him many valuable lessons. But the cost of these lessons may be his business and personal assets. The bank has done little to help him work out a recovery plan. Their principal interest seems to be recuperating the loan amount by liquidating his collateral.

GITORO BAKERY

Meru

Geoffrey Muthuri & Anita Kienda

Loan Amount: 350,000 Kshs. ($23,300)

Purpose: Purchase of bakery equipment

Prior to taking a loan from KCFC, Geoffrey Muthuti and his wife Anita Kienda had a small baking operation producing "queenscake," a small dense sweet roll, and "caterpillars," a medium sized sweet cake with a tread like outside. Due to competition from other bakers, their sales and profit had been dropping yearly.

Already customers of KCB, they requested a loan for new equipment from their local branch. The KCB branch manager helped them with their loan application. Weeks later the account officer for the KCFC/USAID program warned that this business was on the way down facing strong competition.

At the bakery, five young men mix dough, mold loaves and load the new electric oven. The new molder and oven were purchased with KCFC loan funds. A pile of brick and concrete rubble was the only remnant of the wood burning oven they had used before.

The new bread making operation had gotten off to a difficult start. Documentation fees for a lawyer, valuers, and feasibility study cost 11,700 Kshs. The machine took time to install, there were no bread tins, they had to learn to mix large amounts of dough by hand and could not get adequate flour supplies. They started making bread in August 1985. By March, 1986, Gitoro Bakery was in arrears 52,500 Kshs. Regent Auctioneers would auction collateral property on November 26, 1986.

During the week prior to the auction, Mr. Muthuri paid off all outstanding debt to KCFC. On November 26, the account was 2,500 Kshs. ahead of schedule.

Mr. Muthuri claims his waiting till the absolute last minute was all a miscommunication between him, his KCB branch and KCFC. Now he says paying interest and principal is "No problem". Bread making accounts for over 50 percent of his revenues which he estimates will exceed 2,000,000 Kshs. in 1986, up from 784,000 in 1983. His 16 employees work two shifts and can produce up to 5,000 loaves/day. In 1983 he had 3 employees. Mr. Muthuri and his wife personally market their products in 12 towns up to 30 km from the bakery. Gitoro Bakery products were available in shops throughout Meru.

The Mithuri's would now like to expand their bread making operations again. The Gitoro Bakery has another Kenyan made electric oven, but Mr. Muthuri says it is so inefficient he has nothing left after paying Kenya Power. It is unused and he hopes to sell it. Future plans include eliminating the bottleneck at the mixing stage by purchasing a power mixer. Though Mr. Muthuri was unsure what his profits would be, he felt certain he was doing very well.

KIMANI KARANJA

Miguta Town, Kiambu

Loan Amount: 400,000 Kshs. ($26,700)

Purpose: Construct coffee bean processor

Mr. Kimani's 12 acres of mature coffee are spread out over 3 different shambas (parcels). In 1983 he had begun construction of his own coffee factory. Through a Kikuyu translator Mr. Kimani said in 1983 his few acres produced 53 tons of coffee. Processing his volume through the local coop took too much time. He felt he wasn't really getting what his coffee was worth after deductions by his coffee society, district committee, and cooperative for handling and processing fees.

A long term KCB customer, he had enjoyed a 100,000 Kshs. overdraft facility with the bank. He heard about the OPEC financing scheme and went to apply, but all OPEC funds were committed. KCB referred him to the KCFC/PRE scheme.

Mr. Kimani estimates that his up-front costs for documentation totalled 33,000 Kshs. which he paid from the 400,000 he borrowed. In addition to seeing a lawyer, an accountant/business advisor, and a valuer, he also found himself dealing with KCB in Kiambu and KCFC in Nairobi. What he needed was one stop banking where his needs could be handled. Still, he never considered going elsewhere as KCB is his bank and where he is known.

The coffee factory consists of a berry hopper, pulper, grinder, sorter, a series of concrete tanks for fermenting and washing, and long chest-high tables for drying. He hasn't added any employees to his operations, but will train some of his 8 full time workers to operate the coffee factory. Even though the factory will operate only a few weeks a year, Mr. Kimani figures he will benefit immediately as this year the difference between processed and unprocessed grade 1 coffee is 6 Kshs/kilo. And Mr. Kimani will get the full price from the parastatal KPCU whereas before he got paid only a portion of the KPCU rate through his cooperative.

Mr. Kimani is doing so well he is paying off his loan ahead of schedule. On November 26, 1986, well before he had been fully paid for or even completed his fall harvest, he was 40,000 Kshs. ahead in his payments, the equivalent of 2 quarters. Although he wanted to borrow long term and was disappointed when his schedule was reduced from 7 to 6 years by KCFC, Mr. Kimani is in a hurry to pay up. He wants to reduce his future interest payments, which he considers high at 19 percent. And he is preparing for the poor harvest he knows will come sometime in the next 5 years. Then, he doesn't want to ask for rescheduling and wind up having interest and principal payments accrue at 19 percent.

Mr. Kimani has no plans to add to his coffee farm and will leave his 3 remaining acres in subsistence crops. He's making enough he says. His ambition is to pay off the loan as soon as possible. He will then take another loan to buy commercial property in Nairobi.

PAUL NDUNGU MWAURA

Embu

A to Z Sawmill

Loan Amount: 1,028,000 Kshs. ($68,500)

Purpose: New carpentry equipment

Mr. Mwaura surveyed his small timber yard and said, "All of this came from 4,000 shillings". That was the amount he received in his first KCB loan in 1978. Today he employs 25 people with a monthly payroll of 11,250 Kshs., runs two large four wheel drive vehicles on his forest concession, and hopes to purchase a 4 acre facility for his currently cramped half acre rental operation.

Mr. Mwaura recalled his experience in banking and the timber business. "In 1968, I bought land and managed to move to this rural area (from Nairobi). There were no people who could employ me as a carpenter, but I managed to buy a powersaw. I applied for a license and started making charcoal".

"From charcoal, I borrowed 4,000 shillings and started a merchant shop. Behind that shop I started making furnitures (sic). I managed to buy a small planer and from there I had in mind "How could I start my sawmill?" Loans from KCB went from 4 to 15 to 30,000 shillings. When he was recommended for a 40,000 shilling overdraft, he started his sawmill. Later his overdraft limit was raised to 150,000 Kshs.

Sales have gone from 837,000 Kshs. in 1984 to over 1,000,000 in 1986. In contrast to Muirini Timber, which is well equipped with a variety of woodworking machinery, A to Z Sawmill has only one ripping saw and a few finishing machines. The increase in sales achieved since 1984 has been without the benefit of the new parquet floor tile making equipment Mr. Mwaura intended to buy with the KCFC loan. The funds went to a supplier banking with Union Bank. Immediately after payment was made, Union Bank collapsed. Mr. Mwaura's loan is tied up and he has no idea when he might get either the money or the equipment.

Nevertheless he requested KCFC to accelerate his payments. Monthly interest payments during the grace period were 14-16,000 Kshs., which he termed "exploitation". Now he pays 23,499 Kshs/month on a restructured self-amortizing loan.

"My worry is the principal," he said, "because something happen (sic). So you see I've paid around 200,000 (in interest), but if something happen, they will still demand that money (the unpaid principal)".

Mr. Mwaura tried to find other money for expansion, but returned to KCB/KCFC when he saw an ad in the newspaper. "I chose to borrow at 19 percent because I had no other way. I want my business to grow. Besides, it's better to deal with the devil (KCB) you know," he said. Documentation costs totalled approximately 45,000 Kshs. before his loan was approved. He was critical of bank procedures saying, "They can even lend a lot of money to people they don't know. They don't visit. But KCFC people have visited me". He called business assistance services "the main weaknesses our banks have. Everyone cannot stand on his own. Everyone likes to be helped".

Even though loan funds have not yet been a plus for his business, Mr. Mwaura says he has no trouble making his payments. With the parquet machine running, he believes sales will quickly exceed 2,000,000 Kshs/yr.

KIMUHU NGANGA

Kiambu

Loan Amount: 100,000 Kshs. ($6,700)

Purpose: Purchase posho (maize) mill

Mr. Ngangu's home is a few minutes walk frod the ceftar of Kiambu, but that distance was enough to take away all his business when a new mill opened adjacent to the central marketplace. He and his son, Francis Kimando, had operated a diesel mill for one year before installing a new electric mill. Business had been so good they thought they could use both. Then the new mill went in the market place. When they had the only mill in town, milling fees often ran 1000 Kshs/day. They charged 7 Kshs. for a tin that holds between 8-12 kilos of maize. Now they've dropped their price to 6 Kshs/tin but rarely mill 10 tins a week. Mr. Kimando described the situation as "Bad, because we have no income". The mill is secured by family land valued at 500,000 Kshs. They have asked for a monthly payment schedule, because they will not be able to amass the quarterly payment of 6000 Kshs. from their own activities. They are depending on the matatu revenues to cover the loan. However, Mr. Nganga is an elderly man and the local KCB advances officer was uncertain how long he might be able to handle the taxing matatu business.

Rumors are that other mills may go into the marketplace, further shutting out the KCFC supported mill. He feels his options include selling the old diesel mill, selling or moving the new mill. Relocation will mean more installation and rental costs. The mill itself cost only 45,000 Kshs., meaning another 55,000 Kshs. are sunk in the old location in the building, electrical installation and equipment.

Meanwhile the mill in town charges 7 Kshs/tin and often has a line out the door. During Kiambu's two market days the two women operators average 150 tins/day. A slow non-market day is 60 tins. A week's operations is nearly equal to Mr. Nganga's quarterly payments to KCFC.

KIRENGE FARM

Miguta Town, Kiambu

James Mwega

Loan Amount: 300,000 Kshs. ($20,000)

Purpose: Coffee processing facility

After 30 years as a clinical officer for the government, Mr. Mwega retired in 1964 to his farm. He had started planting coffee in 1956 with his initial efforts limited to 100 trees by the colonial government. 105 trees were planted, but the illegal 5 were uprooted by the local agricultural officer. Now he and his wife tend their 14 acres of mature coffee with the help of 7 employees.

He bought his farm in 1940 and commented, "There were so many obstacles to those of us who had farms. The British government tried to limit us as much as they could". Now he hopes his 1986-87 harvest will yield 20 tons of coffee after processing in the nearly completed coffee processor. Last year's harvest of 15 tons was not so good he said and could hardly compare to that of his across the valley neighbor, Kimani Karanja, whose 12 acres have yielded as much as 54 tons.

Mr. Mwega was unfamiliar with the finances of his farm. Kirenge Farms is a limited liability company and as director he has transferred financial decisions to his five sons. He was not aware that the farm was behind on payments and was leaving it to his sons to see that the last installations on the factory were completed. Still he expects the farm to make better profits than in the the past, thanks to the factory.

Sons Kamawe and Joe Nugi were hesitant to discuss the KCFC loan. Kamawe, a Master in Architecture, described how they had gotten involved with the KCFC scheme. His father had learned of the OPEC scheme, but when he approached KCB as a long standing customer, he discovered that all funds allocated for Central Kenya were obligated. His inquiry, first made in 1982, was taken up again in 1984 when he was referred to KCFC/PRE. In 44 years on his farm, Mr. Mwega had never taken a loan before.

The project was on schedule until the contractor inexplicably halted construction in February 1986. Subsequently the loan went into default. The brothers claimed they didn't know what would happen. When they learned their farm would be announced in the paper as up for auction, they pooled their own resources to make good with the bank. In addition to the 246,000 shillings they received before being cut off from the bank, they have invested another 180,000 Kshs. of their own capital. Kamawe said, "Our father educated us with that coffee". They would not let it be taken from him. Joe, an associate editor with the Standard newspaper of Nairobi, added "You don't want to see the neighbors laughing at you".

Joe continued, "We knew there was a way they (the parents) could make more money (from the farm)". Kamawe described how without benefit of a factory, coffee farmers often found they had nothing left after paying all the intermediaries in the system. The Coffee Board pays the parastatal KPCU which pays the District Coffee Union which pays the Coffee Society, which deducts the advances given to the farmer for fertilizer and other inputs, and then the remaining balance goes to the farmer. With the factory, KPCU will pay the farmer directly.

Both Joe and Kamawe were surprised to know their loan was at 19 percent. Kamawe said he would have refused it had he known, but another brother handled the initial dealings. Through the default they have all become far more knowledgeable and are taking greater interest to insure payments and increased productivity at the farm. They would have preferred a shorter loan if it had been available. Joe said, "If we can, we will do it (pay off the loan) in 1 year. We don't like that kind of credit because it eats our profit".

Kamawe said, "The credit you offer is offered to people adverse to credit". They don't like the word debt and don't want to sense someone is watching over their activities. They took the longer term because it was what was offered.

Nevertheless, the five brothers, who also have among them a timber businessman, an accountant and an economist at Unilever, plan to profit from the loan and their investment. It will be a force in a series of improved agricultural practices including dry season irrigation. Joe said, "It's really the right idea (KCFC shemes). Whoever is criticizing USAID ought to look at the advantages. KCFC is dealing with people at the base. Their support is going deeper, right in to the rural sector".

WATHUKU NGURE

Nyeri

Loan Amount: 2,137,000 Kshs. ($142,470)

Purpose: Coffee processor, mixed farming

Mr. Ngure had been a KCB customer since 1962. In an untypical procedure, Mr. Ngure's loan was sent through the Nyeri KCB branch rather than to suppliers against pro forma invoices as is normally done.

Mr. Ngure's 120 acres of coffee were ill tended. The meager 10 tons of grade 3 and 4 coffee produced last season confirmed the lack of attention. This year he hopes to produce 20 to 25 tons. If sold at top prices that will just equal his interest and principal payments to KCFC. Grades 3 and 4 do not get top price. Nevertheless he has had no problems meeting his payments, although he wasn't certain what they were. His records were "in town".

The 210 acre farm is large by Kenyan standards. A substantial settler house is ringed by useless farm equipment; a tractor propped up on blocks, another overgrown with vegetation. A used front loader, purchased with KCFC funds for 380,000 Kshs., was idle and is inappropriate for coffee work. Mr. Ngure said he would use it for land preparation, but the 60 acres he plans to put in coffee over the next few years could be done more effectively by a contractor.

Mr. Ngure's loan application described his intention to refurbish an old coffee factory he has been using for 7-8 years. He would also develop a mixed farming business with 150 dairy and beef cattle. He showed a few small grinders and said the balance of the new equipment was "in town". He wasn't sure exactly what it was, but when it was noted that the loader, and the small equipment couldn't have cost more that 500,000 Kshs., he said the balance was "in town". No animals were to be seen. Few of the 40 people Mr. Ngure employs were around.

Mr. Ngure acquired his farm with the assistance of the AFC (Agricultural Finance Corporation). They gave him credit for 20 years, but he paid it off ahead of schedule so he could borrow form other sources. In addition to his farm, he operates spare parts stores in Nyeri and Nairobi. Although the subject wasn't touched, it might well be that's the "in town" where the rest of the loan was applied.

PATRICK MUNYINGI KIHUNGI

Mweiga

Loan Amount: 550,000 Kshs. ($36,670)

Purpose: Coffee processor

Although Mr. Munyingi was unavailable his farm manager, Peter Githinhi and Grace, the farm accountant, were able to describe many of the farm's activities. Located across a lush valley from the 214 acre farm of Wathuku Ngure, Mr. Munyingi's 40 acres of mature coffee outproduced Mr. Ngure's nearly 9 times per acre. 29 tons on 40 acres vs. 10 on 120.

Unlike Mr. Ngure's farm, the trees were well maintained. Mr. Githinhi is introducing new, more intensive pruning, fertilizing and spraying techniques but productivity is still far behind that on Kiman Karanja's farm. An additional 12 acres are in young coffee. The farm's remaining 60 acres will be gradually planted in coffee, though space will be kept for Mr. Munyingi's 24 dairy cattle.

Mr. Munyingi's 35 full time employees take home an average of 26 Kshs/day. Fifteen women are among his workers. The coffee factory will bring more income to his farm, but his current staff will be able to handle any new operations.

GUM INDUSTRIES

Thika

Loan Amount: 4,000,000 Kshs. ($266,700)

Purpose: Establish an adhesives plant

Thika is a quick 45 minutes from downtown Nairobi. Its convenient location has helped make it a major rural industrial location with Del Monte, British Leyland, Leather Industries of Kenya and other large firms located there. In the Kenya Industrial Estate, a large stone building houses Gum Industries.

Mr. Kabuyah Muito and his partner John Gakura Kamau planned to used their chemical engineering and marketing experience to meet the growing market demand for adhesives. They approached the Development Finance Corporation of Kenya and the Industrial Development Bank for assistance. Those organizations offered financing in foreign currency. Kamau and Muito would have to bear the exchange risk. They opted not to take that risk and were referred to KCFC by DFCK. At KCFC they would pay higher rates, but be immune for foreign exchange swings. Operations began in November 1984.

Aside from a secretary and the director, the expansive office space of Gum Industries is empty. One of the two substantial go-downs (warehouses) is used for storage by another company of which Mr. Muito is a director. The other is used for manufacturing of Gum Industries PVA (poly vinyl acetate) adhesives. The manufacturing godown was empty except for small stocks of raw materials that looked more like scrap in the vast unused space. The mixing vats were empty. Director Kaubyah Muito said his 10 to 16 laborers mix materials 10 days or so a month. The payroll, himself not included, was 26-28,000 Kshs/month. It was late, a Friday afternoon, and the other 5 staff members were not around.

Gum Industries has been plagued by managerial disputes since its began. This and growing underestimated competition from multi-nationals have kept Gum Industries from achieving its planned 17 percent market share. By July 1985 KCFC was deeply concerned about Gum's performance. In September 1985 KCFC's lawyers were brought in. Attempts to sell the property by management began in July 1986.

Mr. Muito hopes the property will sell for 3,000,000 Kshs. leaving Gum Industries 800,000 Kshs. in debt. Current arrears are 1,500,000 Kshs. Most of the loan went into structures leaving the company with little productive or marketing capacity through which it could earn its way out of debt.

Though Mr. Muito says sales will reach 7,000,000 Kshs. this year and net worth is 6,200,000 Kshs., inspection didn't support his assertions. Gum Industries' file at KCFC, with over 60 letters between the bank, lawyers, and the company, is more indicative of the company's recent production.

With the property up for sale, Mr. Muito commented, "Experience over which you lament at home does no good. As soon as I put it all straight with KCFC, I plan to start another business". For the 33 year old businessman, it's been a difficult time, though other business activities are said to be strong. Mr. Muito says what counts "More than anything else is the experience I've gained".

OCAF

Embu/Nairobi

Loan amount: 2,550,000 Kshs. ($170,000)
1,950,000 Kshs. ($130,000)

Purpose: Support sunflower seed production and marketing

OCAF was heralded as a classic example of a far reaching, high impact development project. The company was to purchase and distribute inputs to sunflower farmers who would subsequently sell their seed produce back to OCAF for resale to an oil processing firm. Mr. Daniel Gachukia had served on the board of East Africa Industries and as chairman of its Oil Crops group before starting OCAF. As head of OCAF, he planned to use his prior experience to insure a regular demand for OCAF products.

OCAF approached the African Development Foundation for support, but was turned down. OCAF was referred to KCFC and loan documents were signed on May 4, 1984.

The President's Task Force on Private Enterprise took special note of Mr. Gachukia's efforts, commenting in its report that OCAF would eventually assist 6,000 farm families. The project had such promise that the standard 3:1 debt equity ratio required in PRE/KCFC loans was waived for a balance sheet that initially showed a ratio of 20:1. Mr. Gachukia was given 7 year term credit for inputs that would largely revolve with each sunflower harvest.

Problems first began in August, 1985, Mr. Gachukia said over the telephone. (He missed an appointment scheduled at his convenience and then was unable to meet at any time during the week that remained.) His

157 employees generated monthly expenses of 136,800 Kshs. as of April 1985, but when OCAF sold 732 tons of seed in August the gross margin was only 732,000 Kshs. There were no funds to make the semi-annual principal payments of 274,346 Kshs. or to pay interest which was in arrears from April.

Over the phone, Mr. Gachukia reiterated the information already had been included in the OCAF file at KCFC. That East Africa Industries breached its contracts with OCAF and forced him out of business. Attorney's correspondence with Mr. Gachukia and KCFC supported his assertion and noted that legal action against EAI would take years to get through the Kenyan courts.

OCAF was wound up in June 1986 and is completely out of the sunflower seed business. Mr. Gachukia, who was not much interested in revealing details, saying he told the 1984 mid-term evaluation team everything, is in the process of voluntarily selling his collateral property to avoid legal action by KCFC. In retrospect, he said he borrowed from KCFC because as far as he knew it "was the only money available for that purpose".

MIU ELECTRIC

Maranga/Nairobi

Loan amount: 500,000 Kshs. ($33,300)

Purpose: Manufacturing of components for electrical products

Miu Electric owner, Mr. David Njuguna, had been in the electrical contracting business for 2 years when he decided manufacturing would be a logical extension of his business. He first approached the Industrial Development Bank, but had his request for 500,000 Kshs. turned down as being to small. He was referred to KCFC.

He had banked before at Standard Chartered, but commented "At Standard they give you money for 3 years. You have to go to somebody who is willing to lend to you" for the term required. "We like the time we are given to pay the loan". After spending 20-25,000 Kshs. on documentation cost, Mr. Njuguna's application was completed and the loan processing went ahead.

Although the loan was for 500,000 Kshs. Miu was able to draw only half as KCFC deemed Miu's security inadequate for the entire amount. Mr. Njunguna's office is in Nairobi, but the workshop is located an hour out of town in Maragua, adjacent to a large posho milling operation he also owns and runs. Mr. Njuguna thought to save on labor by putting the workshop in a rural location, but now must transport raw materials out of Nairobi and send his finished goods back.

The workshop itself hasn't yet taken off. Small batch orders generated 365,000 Kshs. through November 1986, a small fraction of Miu's 4-5,000,000 Kshs. in overall revenue. The workshop has 5 male employees and a payroll of 6,000 Kshs/month. The workers operate very large, sophisticated equipment better suited for a major manufacturing operation than a small business that currently bends sheet and pipe metal for simple street lamps and electric switch boxes. The equipment, brought in from Europe on supplier's credit, is unlikely to ever be used anywhere near full capacity in rural Maragua.

Mr. Njuguna is now looking for more credit but at lower rates. He commented of the KCFC loan, "The greatest advantage of that money is that the payment is spread over a longer period, which makes it somehow acceptable". At the present time, it's not clear that KCFC financing has played a major part in expanding Miu Electric. A clever manufacturer's representative, however, seems to have sold Miu a set of goods that will prevent Mr. Njuguna from making good his transition from contractor to manufacturer.

GEOFFRY GATHURA

Embu

Loan Amount: 265,000 Kshs. ($17,700)
200,000 Kshs. ($13,300)

Purpose: Construct coffee processor

In June, 1986, Mr. Gathura retired from the Ministry of Health after 30 years of service. Anticipating his retirement and his new found ability to dedicate himself fully to the management of his 17 acre farm, Mr. Gathura first drew down a 265,000 Kshs. loan in May 1984.

"When I came to think of construction of this coffee factory," Mr. Gathura said, "I applied to KCB where there was this OPEC loan. The interest was 12 percent. but it was finished. They told me there was another fund, so I said okay, because my bank was KCB".

After beginning construction, Mr. Gathura realized his loan was inadequate to construct the factory and also lay irrigation pipe throughout his 12 acres of planted coffee. He applied for another loan of 200,000 Kshs., which he was given in August 1985, to complete the work. Documentation costs totalled around 7,000 Kshs.

Construction is now complete and Mr. Gathura has brought on a new employee to watch over the mechanical aspects of his pump and factory. Mr. Gathura has fallen behind in his payments to KCFC as his coffee farm is not as productive as he hopes it will become and because his government pension has not yet begun. He was counting on using to it make up the deficit from his coffee farm, which in 1985-86 produced only 8-9 tons. He hopes the factory and irrigation system will increase production and profitability and more than cover his KCFC payments.

Mr. Gathura was proud of what he had done with his KCFC loan. "I could not have done anything without it (the loans)," he said. "We understand that it comes from the US and I would like those people to come and see that I put it to the proper use. I'm going to work hard and see it is paid off. Tell them some of the money went to Geoffrey Gathura and you've seen what I've done". As he attests, the money went into Mr. Gathura's 7 year old farm, which although not yet fully productive, is as neatly maintained and has much potential.

If the farm's productivity does increase, Mr. Gathura said, "within 3 years I will pay it (the loan) off".

APPENDIX 1

GENERAL STATISTICS

Number of inquiries/applications	283
Number of loans under KCFC/PRE scheme	80
Number of fully paid accounts	1
Number of active accounts	79
Number of applications in-process or awaiting action	15

Accounts opened

Year	Number
83	4
84	24
85	31
86	20

Largest $562,300

Smallest $5,072

Average $51,880 (738,200ksh)
based on 62,256,104ksh currently committed to loans
$1=15ksh

Locations primarily Western and Central Kenya
(refer to map to be included)

Size	78 small to 750,000 in total assets	2 medium 750,000 to 1,500,000ksh
History	60 start-ups 75% of loans 73% of funds	20 expansions 25% of loans 27% of funds
Location	74 or 92.5% are rural (Nairobi, Mombassa, Kisumu=urban)	6=7.5% urban

Business Type	#	%	% of $
Hauling and Tractors	18	23%	21.7%
Milling	35	44%	8.6%
Coffee Processing	8	10%	9.3%
Bakeries	5	6%	4.2%
Sawmills	3	4%	3.6%
Slaughterhouses, tannery	3	4%	12.4%
All others (manufacturing, distrbtg)	7	9%	39.2%

APPENDIX 1 (cont'd)

Legal difficulties		
Loans committed in 1983	2 of 4	50%
Loans committed in 1984	15 of 24	62%
Loans committed in 1985	16 of 31	52%
Loans committed in 1986	2 of 20	10%
Overall	35 of 79	44%

This is not reflective of the portfolio as other loans have been in distress but are working towards resolution without legal involvement (i.e. OCAF, see case studies).

Auctions

Actually completed	1 Fraud case
Action initiated	6 Two averted, 3 postponed, one injunction
Auction averted by borrower	2

APPENDIX 2 KCFC USAID Loan Portfolio

K. C. F. C. BRANCH NO 21 ACCOUNT OFFICER 7 AS AT 13 NOV 86 PAGE

DR.INTEREST	A/C NO.	GR.	NAME		LIMIT	BALANCE		ST.EX.TYP	CARE
21252.95	212116035		KINBY CABLES LIMITED		2250000	2250000.00	DR		
1989.86	212116041		IMA HAULIERS LIMITED		115383	115383.00	DR		
12662.67	212116053		MUSOLA AGRIC CONTRACTORS LTD		1125000	1359211.75	DR	LAWS	
35740.96	212116064	2	GUM INDUSTRIES LIMITED		2307000	3814462.60	DR	LAWS	
4601.30	212116070		JOSEPH M LUTTA		250000	264082.45	DR		
304.30	212116087		JOSEPH MAKORI		26250	38681.60	DR	LAWS	
1297.45	212116093	2	PAUL WAMBANI MAKUBA		110000	138471.20	DR	LAWS	
3409.06	212116109	4	PETER KARIUKI NJERU		100	303726.65	DR	BADD	
6146.43	212116115	2	ALBERT KABUI MUCHAI		500000	809429.60	DR	LAWS	
1195.38	212116121		NDUNGU KIMANI T/A MUCHANGANYIKO BAKERY TURBO	+1	126500	126500.00	DR		
273.49	212116144		BENJAMIN SERONEI NYEBET		55000	28916.50	DR	LAWS	
12936.01	212116150	2	SAROMI OLE SANE		708331	1264545.75	DR	LAWS	
1105.59	212116167		JOHN ABAI OCHOI		97500	117995.85	DR	LAWS	
928.93	212116173		KIROMO KINYARIRO		96800	/ 68466.85	DR	LAWS	
1007.49	212116196		JONAH MZEE PETER ORUMOY		96000	107525.70	DR		
4456.60	212116201		GORDON REUBEN ODONGO		281250	281250.00	DR		
1992.60	212116218	2	MRS MARGARET W MWATHI		90000	212061.25	DR	RSTR	
306.50	212116224		ONYANGO OKINDO		39000	39010.00	DR		
14717.26	212116230		OCAF LIMITED		1350000	1570702.85	DR		
21706.14	212116247		OCAF LIMITED		2550000	2316592.60	DR		
1091.76	212116253		HUDSON OBADIAH MBUNYA		114000	116465.65	DR	LAWS	
5712.12	212116276	2	ANTHONY MAINA MUHWANGA		240652	319692.50	DR	LAWS	
4511.82	212116282		GEOFFREY KAMANU GATHURA		387500	461525.55	DR	LAWS	
1461.31	212116299		WILLIAM BAROCHOK ARAP SAINA		154684	154684.00	DR		
306.92	212116304		FRANKLIN KIPNGETICH ARAP BETT		74100	89647.10	DR		
4232.16	212116327	2	PETER F M. IMBILU LUNGATSO		130000	236561.55	DR	LAWS	
4295.69	212116333	2	KIRENGE FARM LIMITED		225000	242786.50	DR	LAWS	
1305.93	212116356		DAVID BARASA BUYABO		126000	138476.50	DR		
302.43	212116362		DAVID G MOSE		46800	52900.65	DR	LAWS	
1304.53	212116379	2	GREGORY P MAKOKHA		91000	139227.50	DR	LAWS	
27926.03	212116385	3	JOSEPH KANGOGO LEMBUS KOSKEI		1957225	2980410.90	DR	LAWS	
4053.97	212116391	2	RICHARD AKWESERA ONDITI		141750	219211.60	DR	LAWS	
1362.40	212116407		SABINI LUBWA		101500	147537.85	DR	LAWS	
9975.92	212116413		RUIRU PACKERS LIMITED		850000	1008659.65	DR	LAWS	
7591.50	212116436	2	KIJOCHAN COMPANY LIMIED		660000	810215.25	DR	LAWS	
4265.56	212116459		JOSEPH NGARUIYA KARIUKI		154690	243927.50	DR	LAWS	
4150.93	212116465		JAMES TORGITICH KISA		210000	220670.65	DR	LAWS	
1933.32	212116471		ONESMUS JACTON NJIRU		128000	109000.00	DR		
4463.75	212116488	2	MR&MRS MUTHURI T/A GITORO BAKERY*		245000	249528.40	DR	LAWS	
6367.26	212116494		MUSA INDUSTRIES		720415	720509.80	DR		
4476.55	212116516	2	ALEXANDER MBURU KAMAU RUGANO T/A MUIRINI TIMBER MERCHANTS	1	403825	466094.70	DR	LAWS	
55744.15	212116522	3	GARISSA TANNERS LTD		4899998	6941847.45	DR		
1919.30	212116539		NIU ELECTRIC		187498	190797.40	DR		
1204.33	212116545	2	MR JOSEPH MAERO OYULA		127500	127500.00	DR		
743.33	212116551		MR JAMES T.MBOYA		78000	75733.10	DR		
6450.67	212116568		MOSES NGACHA KIBIRI ESQ		320126	369246.55	DR		
1792.82	212116574		JOHN MBURU NJUGUNA		78000	84000.00	DR		
1551.95	212116580		MR.JOSEPH KIPROTICH ARAP SANG'		142500	157422.20	DR	LAWS	
1302.17	212116597		MR.KIPKEMEI ARAP KERICH		137500	139368.05	DR		
941.56	212116602		ZEDEKIAH D OKWARA		97500	97500.00	DR		
771.03	212116619		GEOFFREY KIPTUI CHESIRE		96250	102000.00	DR		
4763.62	212116625		MARK KIMELI LAGOSO		270751	435825.15	DR	LAWS	
5743.43	212116631		MARK WAMBUGU KAIGWA		527000	634527.25	DR		
4430.26	212116654		KIBOR ARAP KETER		183000	259364.05	DR	LAWS	
5215.62	212116660		MARINA BAKER LTD		331500	343188.15	DR	LAWS	
4233.71	212116677		MR KIMANI KARANJA		340000	300000.00	DR		
1362.14	212116683		HEZEKIAH MWANGI NGAITA		200000	200000.00	DR		
14493.94	212116705		JULIUS KIPRONO DII		1092313	1333418.65	DR	LAWS	
967.73	212116711		JOHN KIPSEREM CHANGWONY		96250	96250.00	DR		
1967.92	212116723		MACLEAN SILVANUS SHINALI		97500	115534.30	DR	LAWS	
5530.73	212116734		FRANCIS BITOK SANG		341250	376829.15	DR	LAWS	
16176.71	212116740		WATHUKU NGURE FARM LIMITED		1638084	1712542.00	DR		
1967.39	212116757		HEZEKIAH M MUMA		169008	124590.90	DR		
2124.16	212116763		KIBOR ARAP TALAI		224874	224874.00	DR		
73392.31	212116786		KENYA MARBLE QUARRIES LIMITED		7743000	7743000.00	DR		
9798.57	212116792	42	PAUL TONKEI OLE LOLKINYEI		1707032	1036149.35	DR		
737.11	212116803		STANLEY MWANGI KIHIU		92857	38786.35	DR		
1227.74	212116814		JOHN K KABELLOW		130000	130000.00	DR		
1161.49	212116820		JOHN KIPLANGAT ROTICH		111428	123961.20	DR		
1606.46	212116837		HENRY NYAMAI KAMUTI ESQ		176428	176428.00	DR		
744.76	212116843		KIMUHU NGANGA ESQ		93750	100000.00	DR		
5195.14	212116866		PATRICK MUNYINGI KIHUNGI		495000	550000.00	DR		
5722.45	212116872		KIPROTICH ARAP NGERECH		382500	394130.65	DR		
9753.74	212116889		PAUL NGUNGU MWAURA		1735560	1944031.25	DR		
6162.79	212116895		DANIEL KIPCHIRCHIR SOIMO ESQ		369200	371741.10	DR	LAWS	
4179.95	212116900		JONATHAN KIRWA SINGOEI		230000	232035.35	DR		
4962.36	212116917		BENJAMIN M ROTICH		295000	304430.65	DR		
4543.18	212116923		FREDRICK KIPROP A TUEI		275000	282484.50	DR		
1197.73	212116946		JAMES KIARIE MOSES		205000	117800.00	DR		
6474.25	212116952		KIPIPIRI SAWMILLS		710000	712386.70	DR		

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Appendix 3
Composition of
Sub-borrowers

	NP		NT		EP		ET		TOTAL	
	Portfolio	Sample	Portfolio	Sample	Portfolio	Sample	Portfolio	Sample	Portfolio	Sample
POSHO MILLS	15	2	19	0	1	1	0	0	35	3
HAULING	8	1	6	1	2	2	2	0	18	3
BAKERIES	1	1	1	0	1	1	2	1	5	2
SAWMILLS	1	1	0	0	1	1	1	1	3	2
COFFEE	0	0	0	0	7	3	1	2	8	5
SLAUGHTER HOUSE	0	0	1	0	1	0	1	1	3	1
OTHER	1	1	3	3	2	2	1	0	7	6
TOTAL	26	4	30	4	15	10	8	5	79	23

NP = New Business, Loan Performing
NT = New Business, Loan Trouble
EP = Existing Business, Loan Performing
ET = Existing Business, Loan Trouble

APPENDIX 4.A
BASIC BORROWER PROFILE

BORROWER NAME	Years in Business	Prior Experience in Field	Prior KCB Customer	Purpose of Loan	Loan Amount (kshs)	Payment* History
Muirini Timber Mrchnts. (Alexander Rugano)	7	Yes (Mill Operator)	Yes	New Eqpmt Wrkg Cptl Old Debt	500,000	2
Geoffrey Muthuri (Gitoro Bakery)	17	Yes (Baker)	Yes	New Eqpmt	350,000	2
Kimani Karanja	10+	Yes (Farmer)	Yes	Coffee Fctry	400,000	1
Gum Industries	Start-up	Yes (Chemical Engineer	No	Establish Adhesives Factory	4,000,000	2
Paul Ndungu Mwaura	7	Yes (Mill Operator)	Yes	New Eqpmt	1,028,000	1
Geoffrey Gathura	7	Yes (Coffee Farmer)	Yes	Coffee Factory	465,000	1 (L)
Miu Electric	4	Yes (Electrical Engineer)	No	New Eqpmt	500,000	1
Wathuku Ngure	8	Yes (Coffee Farmer)	Yes	Coffee	2,137,000	1
Kimuhu Nganga	1	Yes (Posho Miller)	Yes	Replace Mill	100,000	1
Patrick Munyingi Kihungi	10+	Yes (Coffee Farmer)	Yes	Coffee Factory	550,000	1
Kirenge Farm	30	Yes (Coffee Farmer)	Yes	Coffee Factory	300,000	2

* Payment history. Ratings 1,2,3,&4 correspond to KCFC system.
1=okay, 2=arrears, 3=arrears greater than security in hand
4=bad debt, (L)=client has been referred to lawyers, but is now rated a 1.

APPENDIX 4.A
BASIC BORROWER PROFILE

BORROWER NAME	Years In Business	Prior Experience in Field	Prior KCB Customer	Purpose of Loan	Loan Amount (kshs)	Payment History
OCAF	start-up	Yes (Businessman)	No	Sunflower distribution & collection system	4,500,000	1
Kenya Marble	new	Yes (Quarry)	Yes	stone cutting machinery	9,143,000	1
Onesemus Njiru (The Posho Meal)	new	Yes (Posho Mill)	Yes	posho mill machinery	160,000	1
Ndungu Kimani (Muchanganyiko Bakery)	14	Yes (Baker)	Yes	dough mixing machinery	230,000	1
William Saina	40+	Yes (Farmer)	No	tractor	410,000	1
Musola Agriculture	new	No (Farmer)	Yes	sugar hauling equipment	4,417,000	1L
IMA Haulers	new	Yes (Transporter)	Yes	sugar hauling equipment	1,000,000	
Joseph Luta	new	Yes (Farmer)	Yes	tractor	500,000	1

* Payment history. Ratings 1,2,3,&4 correspond to KCFC system.
1=okay, 2=arrears, 3=arrears greater than security in hand
4=bad debt (L)=client has been referred to lawyers, but is now rated a 1.

APPENDIX 4.A
BASIC BORROWER PROFILE

BORROWER NAME	Years In Business	Prior Experience in Field	Prior KCB Customer	Purpose of Loan	Loan Amount (kshs)	Payment History
Kenby Cables Ltd	8	Yes (Wholesaler)	Yes	insulating wire machinery processing equipment	4,500,000	1
Hezekia Ngaita	new	Yes (Marketer)	Yes	posho mill machinery	200,000	1
Ruiru Packers	new	No	Yes	food	1,000,000	1L

* Payment history. Ratings 1,2,3,&4 correspond to KCFC system.
1=okay, 2=arrears, 3=arrears greater than security in hand
4=bad debt (L)=client has been referred to lawyers, but is now rated a 1.

APPENDIX 4.B
LOAN ADMINISTRATION DATA

BORROWER NAME	APPROVAL PERIOD Applied	Approved	MARKETS For/Dom	LOCATION Rural/Urban	RECORD KEEPING*
Muirini Timber Mrchts	11/27/84		Domestic	Rural with major industry	P
Geoffrey Muthuri	8/28/84	11/23/84	Domestic	Rural	P
Kimani Karanja	7/16/84	8/29/85	Domestic	Rural	G
Gum Industries	2/3/83	5/31/83	Domestic	Rural with major industry	P
Paul Ndungu Mwaura	5/31/84	3/24/86	Domestic	Rural	G
Geoffrey Gathura	8/15/85	8/27/85	Domestic	Rural	G
Miu Electric	11/5/84	11/23/84	Domestic	Rural	G
Wathuku Ngure	1/6/84	5/16/84	Domestic	Rural	G/P
Kimuhu Nganga	10/25/85	11/29/85	Domestic	Rural	P
Patrick Munyingi Kihungi	8/3/84	11/29/84	Domestic	Rural	G
Kirenge Farm	4/30/84	6/7/84	Domestic	Rural	n/a

* Record keeping refers to the team's observations. E signifies regular financial, production and bank statements. G signifies some of the above materials. P indicates no consistent system

APPENDIX 4.B
LOAN ADMINISTRATION DATA

BORROWER NAME	APPROVAL PERIOD Applied	Approved	MARKETS For/Dom	LOCATION Rural/Urban	RECORD* KEEPING
OCAF	2/2/84	5/4/84	Domestic	Rural	n/a
Kenya Marble		11/8/85	Dom/Export	Urban	E
Onesemus Njiru	11/7/84	2/7/85	Domestic	Urban	G
Ndugu Kimani	9/13/83	12/23/86	Domestic	Rural	E
William Saina		6/12/84	Domestic	Rural	G
Musola Agriculture	6/17/83	9/20/83	Domestic	Rural	G
IMA Haulers			Domestic	Rural	G
Joseph Lutta	11/9/83	1/14/84	Domestic	Rural	n/a
Kenby Cables	12/24/83	3/31/84	Domestic	Urban	E
Hezekia Ngaita	3/6/84	2/12/85	Domestic	Rural	P
Ruiru Packers Ltd			Domestic	Urban	G

* Record keeping refers to the team's observations. E signifies regular financial, production and bank statements. G signifies some of the above materials. P indicates no consistent system

APPENDIX 4.C
LOAN IMPACT DATA

BORROWER NAME	SALES 1986	SALES Pre-Loan	Change	PROFITS 1986	PROFITS P-L	%	EMPLOYMENT**** 1986	EMPLOYMENT**** P-L	%
Muirini Timber Mrchts	n/a	n/a	--	n/a	n/a	-	12(1)	16(1)	
Geoffrey Muthuri	2,000+	783	155%	n/a	n/a	-	18(1)	5(1)	
Kimani Karanja	---not applicable as prices and production influenced by weather and world market---								
Gum Industries	--	7,000*	n/a	--	1,200*	n/a	-	17(1	
Paul Ndungu Mwaura	--	1,000+	145	590%+	n/a	49	-	25(2	
Geoffrey Gathura	---coffee farmer---								
Miu Electric	--	7,000***	2,353	197%+	n/a	630	-	15	
Wathuku Ngure	---coffee farmer---								
Kimuhu Nganga		3						1	
Patrick Munyingi Kihungi	---coffee farmer---								
Kirenge Farm	---coffee farmer---								
OCAF	start-up business that has ceased operations---								

* These figures not reflected by visual inspection.
** Sales increase not due to loan as loan funds have not yet been applied to business.
*** Sales allocated to loan related business equals 365,000 or 5% of total sales.
**** Employment figures in parentheses () indicates number of women involved in the busin