A.I.D. EVALUATION SUMMARY - PART I

IDENTIFICATION DATA

A. Reporting A.I.D. Unit: Mission or AID/W Office: USAID/Kenya (ES#)

B. Was Evaluation Scheduled In Current FY Annual Evaluation Plan? Yes [ ] Slipped [ ] Ad Hoc [ ] Evaluation Plan Submission Date: FY Q

C. Evaluation Timing: Interim [X] Final [ ] Ex Post [ ] Other [ ]

D. Activity or Activities Evaluated

Project No.	Project/Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
	Evaluation of USAID/Kenya Private Sector Program Final Report: December, 1989 (More than four projects in the evaluation)				

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
1. Continue to strengthen Mission's internal procedures for identifying and dealing with private sector policy issues, perhaps by establishing a policy committee.	Stafford Baker Louise B.Wise	Oct, 1990
2. Develop in FY 91 a long range plan for rapid impact assessments of credit programs administered by IFIs.	Louise B.Wise Justus Ombo	Dec, 1990
3. Expand local competencies in conducting policy studies and dialogue with government, including encouraging the Kenya Association of Manufacturers to conduct, using local contractors, the follow-up studies recommended in initial USAID-funded policy studies by expatriate contractors.	Louise B.Wise Migwe Kimemia	May, 1990
4. Investigate options for strategic planning and self-sustainability for NGOs which are implementing organizations.	Louise B.Wise Sandra Severn	Dec, 1990
5. Revise and update monitoring and evaluation systems for documenting impact of the project activities, shifting administrative burden from USAID to implementing organizations.	Alfreda Brewer Sandra Severn	Sept, 1990

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) (Day) (Year)
Final review pending

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Louise B. Wise		Gary Moser	Eric Zallman D/DIR
Signature	Louise B. Wise		Gary Moser	Eric Zallman
Date	04/22/90		06/27/90	5/25/90

ABSTRACT

H. Evaluation Abstract (Do not exceed the space provided)

USAID/Kenya's private sector program, the most ambitious in Africa with 24 distinct activities and $154M USAID funding, includes significant efforts in three general program elements: finance and equity market development, entrepreneurship and management development, and policy dialogue activities. The program is implemented through established or newly created private sector organizations. This program level evaluation was undertaken in preparation for updating USAID/Kenya's private sector strategy for the 1990-1995 Country Program Strategic Plan (CPSP), to provide recommendations for improving the implementation of the current activities, and to document aggregate effects of the Mission's efforts in promoting private sector development. Obtained through a buy-in to PRE's PEDS project, a U.S. consultant headed the ten member evaluation team which included four members from a Kenyan sub-contractor and one Mission staff member. Descriptive and evaluative matrices of common indicators of project activities, outputs and expenditures were analyzed at the project activity level, program element level and overall program level from data extracted from project papers, previous project evaluations, trip reports and internal memoranda as well as interviews with key informants in USAID, the Government of Kenya, implementing organizations and a sample of businesses that had received one or more of the services provided with USAID support. Given the scope of the exercise, the evaluation team focused on secondary data sources rather than collecting primary data themselves. Based on findings and conclusions, the key lessons learned were to:

1) Provide more program resources for structural solutions and policy reform opportunities arising from projects, particularly capital markets and international trade and investment. The synergy between project activities and policy dialogue is one of the strengths of the program's comprehensive approach to private sector development.

2) Work with financial institutions that will lend to target markets with lower subsidies than are currently provided. Restrict size of credit projects for small and medium scale enterprises to amounts that allow commercial banks to experiment with changes in lending procedures without incurring unacceptable costs or risks.

3) Shift emphasis from institutional development to institutional performance, concentrating resources on institutions that demonstrate greatest effectiveness and prospects for sustainability. Make greater provision for sustainability of projects through targeting lower risk small and medium scale enterprises, providing loans not grants for PVO lending programs, and encouraging NGOs to charge fee for services.

4) Focus training and technical assistance activities that support program level objectives in policy reform and capital market development. Include training of trainers in the program.

5) Ensure that the impact data reporting requirements of implementing agencies are strictly enforced.

COSTS

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Lawrence S. Cooley	Management Systems International (MSI)	PDC-2028-Z-7186-00	$144,076	Project 615-0238
Barbara Brown	"			
Allen Eisendrath	"			
Kenneth Murrell	"			
Mahlon Barash	"			
Gregory Votaw	"			
Graham Shah	Alexander, MacLennan, Trundell			
Nimish Shah	"			
Mike Taylor	"			
Sandra Severn	USAID - Kenya			

2. Mission/Office Professional Staff Person-Days (Estimate) 14 (excluding 20 days for Mission member of team)

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 16

A.I.D. EVALUATION SUMMARY – PART II

SUMMARY

J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)
Address the following items:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report:
USAID/Kenya	5/25/90	Evaluation of USAID/Kenya's Private Sector Program

USAID/Kenya's private sector program, with 24 distinct activities and USAID funding of $154M, has as its objective the increase in the role and efficiency of the private sector. The challenges of Kenya's rapid population expansion and increasing constraints to growth in the other major economic sectors, agriculture and government, make the growth of private commerce and industry important for raising the standards of living in Kenya. Two sets of constraints exist for private sector growth in Kenya. One is related to the country's level of development, the other set of constraints is due to public policies. The former includes: limited size of domestic market; quality, cost and supply of indigenous inputs; relatively undeveloped capital market; and shortage of technical and entrepreneurial skills. Important public policies which influence the growth of private enterprise include: import policy, price and marketing controls, investment policy, exchange rate management, and financial market policies.

To address these constraints, USAID's private enterprise program activities are divided into three elements: finance and equity market development, entrepreneurship and management development, and policy dialogue activities. The finance and equity market element includes technical assistance to the newly formed Capital Markets Authority, funding for the nascent equity capital industry in Kenya and several credit programs designed to demonstrate the benefit of mobilization of capital from sources within Kenya. In entrepreneurship and management development, programs include the International Executive Service Corps, Entrepreneurs International, training of bank credit managers, training of loan recipients, and support to two local NGOs, both providing technical assistance and training to small business, with one extending credit programs to local PVOs for on lending to their clients. Policy dialogue activities include institutional development support to the Investment Promotion Centre (a parastatal) and funding of policy studies through the Kenya Association of Manufacturers to improve private sector dialogue with the GOK. The CIP program is considered in the policy dialogue element.

The evaluation was undertaken in March-April, 1989 in preparation for updating USAID/Kenya's private sector strategy for the 1990-1995 Country Program Strategic Plan (CPSP), to provide recommendations for improving implementation of current activities, to provide information on the relative effectiveness of the multiple inventions, and to document aggregate effectiveness of the Mission's efforts in promoting private sector development. It was complemented by the Manual for Action in the Private Sector (MAPS) activity, also conducted in 1989.

The evaluation of the program, a complex set of interventions in various stages of implementation, was designed to provide data at three levels: the overall program level, the element level (financial & equity markets, entrepreneurial & management development, policy dialogue), and the intervention level of the individual activities. The evaluators were also asked to review the monitoring and evaluation system, including a client data base. Data was extracted from project papers, previous project evaluations, trip reports and internal memoranda as well as interviews with key informants in USAID, the Government of Kenya, implementing organizations and a sample of businesses that received one or more of the services provided with USAID support. Descriptive and evaluative matrices of common indicators were developed. The former compared stage and pace of implementation, costs to date, services provided, and cost to recipient; the latter compared outputs, expenditures, sustainability, administrative burden and impact measured by employment created and increases in sales and investment in businesses served by the interventions.

7/

Program [illegible] ne eval tion ci ne complementar [illegible] the program as an important strength, noting : 1) some of the credit and equity programs are effectively supported by training and technical assistance activities, 2) credit and equity activities have highlighted the importance of policy dialogue, and 3) training and study tours and technical assistance activities can be designed to support policy dialogue and institution building. The complementarity could be further increased by using the Mission's technical offices (Agriculture, Population & Health, Human Resources, and Program) to put forth private sector policy issues related to their programs which could be pursued as part of the private enterprise division's agenda.

The findings and conclusions identified several constraints. Interest rates and equity markets constitute major constraints to USAID's capital mobilization efforts as are the scarcity of private sector policy analysis capabilities and sound business proposals from indigenous entrepreneurs. The recommendations focused on increasing the "bang for the buck" of credit programs, assisting in the self-sustainability efforts of the NGO implementing organizations, and improving the impact reporting systems.

The evaluators listed activities with further potential: encouragement of marginal changes in lending practices of IFIs, increased agribusiness lending, establishment of mechanisms to recycle USAID funds for lending to targeted business, and funding to promising pilot programs for SMSE lending on a selected basis to demonstrate replicability and cost efficiency. For both equity and efficiency reasons, it is important that microenterprise programs provide benefits to large numbers of businesses, particularly to address the need for employment generation for the rapidly increasing population. To accomplish this, programs must build the capacity of local institutions in SMSE lending and demonstrate to the IFIs a profitable model for sustainable microenterprise credit assistance.

For the CPSP process, the evaluation identified interventions not in the program but which have significant potential in Kenya: trade and investment promotion for its key role in providing employment opportunities and increasing economic activity in general, developing entrepreneurship skills training programs with training of Kenyan trainers, and strategic planning for NGOs implementing the activities to help these institutions become sustainable.

Financial and equity markets element: The findings and conclusions were based on review of interventions which had lent nearly $11M to 1700 recipients, accounted for 45% of the administrative burden and 28% of the program resources. USAID is paying substantial subsidies for credit programs in which funds are generally not recycled. This was not seen as justified unless the project's demonstration effect encourages replication. Otherwise, the impact is not sustainable. The single most important constraint in credit projects is the GOK's interest rate ceiling, making SMSE lending unprofitable for IFIs. Training of bank loan officers on project viability vs. collateralized lending has been beneficial however, and more term loans are being made. The lack of a viable stock market and transparency in businesses make equity investment difficult, although USAID's equity market activities have played an important catalytic role in Kenya's capital market development.

The recommendations for the development of financial and equity markets relate primarily to costs and efficiencies of the interventions. Subsidy rationalization and improved "pricing" is needed on the credit programs. Competition between IFIs on credit programs should be encouraged. The effective training of loan officers on project viability based lending should be continued. Until the credit ceiling and interest rates regulations are liberalized, the amount of funds in credit programs should be kept small enough so IFIs can experiment without diverting large amounts to "unprofitable" loan programs. More focus should be given to IFIs that raise and lend funds to SMSEs and rural markets. Rapid assessment audits to obtain impact data on credit programs should be funded by USAID since the IFIs consider impact unnecessary for their management purposes.

Management and entrepreneurship element: The findings and conclusions were based on review of interventions which had reached 5560 clients, accounted for 31% of the administrative burden and 9% of program resources. The findings and conclusions noted that good press coverage on these activities promotes interest in USAID's overall program. The majority of these interventions deal more with development of business management and accounting skills, not entrepreneurship training. The program evidences high demand for training and technical assistance activities even with cost-sharing by the clients, although the fees charged did not approximate the costs involved. Activities missing in the current portfolio that were recommended for inclusion were training of trainers (particularly at the IFIs) and strategic planning training with emphasis on self-sustainability for the NGO organizations implementing the program. Consideration of entrepreneurship training was suggested. Higher targets for female participation were recommended. The evaluators recommended that the fees-for-services by the implementing organizations be increased, both due to clients' evidenced willingness to pay for the services and for the organizations' self-sustainability. The major recommendation for this element of the private sector program was to focus support at the program level by strengthening key financial markets and policy relevant institutions and by promoting the image of the private sector more generally.

Policy and investment element: The findings and conclusions were based on review of interventions, excluding the Commodity Import Program, which accounted for 13% of the administrative burden and only 2.2% of program resources. The policy studies conducted have pointed out the scarcity of Kenyan professionals with experience in policy analysis, a constraint to both implementation and long-term sustainability. The evaluation cited the potential for USAID-supported policy studies to set the standard for improved policy research in Kenya and recommended additional resources to build the institutional capability of organizations to conduct studies. Institutional impacts realized are: the Nairobi Stock Exchange is showing signs of vitality and expansion, import licensing is being streamlined, the Kenya Association of Manufacturers has established itself as a major contributor to formal policy dialogue between the GOK and the private industrial sector. A major strength of USAID/Kenya's private enterprise program was identified as the synergy between project activities and policy dialogue. To strengthen its internal management procedures for identifying and dealing with policy issues, the formation of a policy committee within the Mission was recommended. It is vital to recognize that the policy agenda is set nationally and USAID's greatest usefulness now and in the next few years is likely to be in terms of "show how" in the management of policy change. To maximize the impact of new GOK policies as they are implemented, it was recommended that USAID provide specific training to assist private sector players in making the measures operationally successful.

Monitoring and evaluation system: The evaluation team found good reporting at the output level, including gender disaggregation of data, but only scattered information at the impact level. Shifting the administrative burden of collecting and analyzing impact data from USAID to the implementing organizations was recommended. With the number of NGOs implementing activities, this shift will also address the increase in institutional capabilities. Since IFIs administering credit programs see impact data as unnecessary for their management needs, USAID should consider funding rapid impact assessments on credit programs. Recommendations were made for streamlining the collection of client baseline information to capture only essential key contact and indicator data for each client. Project managers should monitor the implementing agencies reporting of output and impact data to assure regular and timely reporting.

Individual activity intervention level: The recommendations for mid-course implementation changes or follow-on activities for each of the 24 specific interventions were made.

Attachment III to this summary includes the evaluation's detailed recommendations and USAID's responses on all 24 interventions as well at the program level and at the element level (financial & equity market, management & entrepreneurial development, and policy dialogue).

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

ATTACHMENT I : Evaluation of USAID/Kenya Private Sector Program

ATTACHMENT II : Evaluation of USAID/Kenya Private Sector Program: Annexes

ATTACHMENT III : USAID/Kenya's Responses to Recommendations:
Program Level
Element Level
Intervention Level

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

The evaluation was timed to assist in the development of the 1990-1995 Country Program Strategic Plan (CPSP). The combination of the evaluation and the Manual for Action in the Private Sector (MAPS) activity proved extremely beneficial to the Mission in the development of the private enterprise strategy for this CPSP period. A new private enterprise development project, due for FY 1991, will rely heavily on the evaluation's recommendations in the areas of policy dialogue, training, and microenterprise activities.

Another purpose of the evaluation was also served well. Mid-course implementation changes recommended by the evaluation mesh well with the Development Fund for Africa's concern for focusing program activities, documenting impact of the interventions and the long-term benefits "for the next generation." Two examples follow. In the management and entrepreneurial area, technical assistance and training programs will be targeted to support policy issues, capital mobilization priorities and specific client groups, such as rural, indigenously-owned agribusinesses with high potential for reaching women-owned firms. Attention will be given to the strategic planning and self-sustainability of NGOs implementing program activities.

Due in part to the lack of primary impact data, one objective of the evaluation was not met. The Mission sought the evaluators' guidance on how to focus the program, reducing both number of interventions and the administrative burden associated with the large number of diverse activities. A lesson learned for the design of a private sector program level evaluation is that, in the absence of current impact data, a cost effective rapid impact assessment by a local contractor should be conducted before bringing in an expatriate evaluation team.

The findings and lessons learned generally concur with conclusions of USAID staff and host country representatives. The evaluation's recommendations for increased activities in the policy dialogue area, for demonstration models of sustainable credit programs reaching large numbers of borrowers, and for project components with high potential for employment generation were also confirmed by the MAPS activity.

USAID PRIVATE SECTOR PROGRAM EVALUATION

PROGRAM RECOMMENDATIONS

1. Program Objectives: Until now, USAID/Kenya has had a private sector strategy (i.e., experimentation, demonstration and institutional building), but no clear, unified set of program goals. The Mission is now in an excellent position to consider evolving towards a program based on a clearly specified set of national level program objectives. A suggested model for the private enterprise program to be considered during the Mission's strategy formulation exercise is: a program goal of increased private sector investment. The Program Sub-goals recommended are: (i) policy reform, (ii) export promotion, (iii) capital markets development, and (iv) entrepreneurship development. Whether or not this particular model is adopted, USAID's goals would be well served by selecting particular organizing objectives that direct resources toward a single national goal and a set of strategies designed to make a meaningful contribution to it.

USAID Response:

> The evaluation's recommendations for a private enterprise strategy were relied on very heavily during the development of the 1990-1995 Country Program Strategic Plan (CPSP). Following the evaluation's recommendations, policy reforms and export promotion sub-goals will assist the Mission in the identification of activities that will have large scale effects and complement each other in achieving a single private sector development goal. Export promotion and policy reform will be the main thrusts of the new project being designed for an FY 91 start. AID/W has, however, requested additional analytical data to support the focus on investment. Entrepreneurship development will not be a focus in the private enterprise strategy but is being reviewed for possible programming in the training activities of the Mission's Human Resource Development Division.

2. Focus on Institutional Outputs: In the future, USAID's focus should probably shift from institutional development to supporting increased output and outreach by the most successful of the institutions with which USAID has worked. Performance measures such as client base, cost recovery, efficiency (i.e., cost per unit of product or service), and possibly impact should become criteria for the renewal of institutional support.

USAID Response:

> Agree. As the expiration of existing grants and cooperative agreements approach, USAID decision for any follow-on activities will be based on performance.

3. Sustainability: Ensuring sustainability of private enterprise services should be a critical consideration in future USAID programming. Encouraging and assisting institutions to charge adequate prices for services and/or to obtain long-term government, donor or charitable support is critical to this effort. Any short or long-term USAID subsidies should be undertaken with the sustainability perspective in mind.

USAID Response:

> Agree. USAID is actively seeking sustainability options for the programs it supports. Examples of current activities are: negotiating with the GOK to reduce subsidies for the second phase of the Jua Kali loan program; designing technical assistance for the NGOs implementing the program in financial self-sustainability; encouraging NGOs to charge fees as close as possible to costs for training activities and other services; and establishing a revolving fund for the reflows on the Rural Private Enterprise project.

4. Technical Assistance and Training to Support Private Enterprise Program Sub-goals: Technical assistance and training (TAT) should be viewed as complementary and subordinate to the Mission's principal private sector development objectives, and should be designed and evaluated according. In general, there is a need for the program to focus TAT activities on more clearly defined program objectives.

USAID Response:

> Agree. Although the several existing TAT programs, such as IESC, REP and K-MAP, are funding PVO or firm-level assistance, the focus of other TAT activities funded under the Private Enterprise Development Project has shifted. It now supports primarily policy and investment activities. Additionally, the Private Enterprise Division has expressed its interest for HRDA funds to further support unique training opportunities in the U.S. for Kenyans from the private sector so they can respond quickly to policy changes in such areas as privatization, export promotion and capital markets.

5. Policy issues arising from projects and policy coordination: The Mission should continue to strengthen its internal procedures for identifying and dealing with policy issues, perhaps by establishing a Policy Committee, which would meet periodically. Additional training and consulting resources should be provided to support policy improvements by the Government of Kenya.

USAID Response:

The Statement of Work for the Private Sector Policy Advisor who joined the Private Enterprise Division in April, 1990 calls for quarterly reports to the Mission management on policy issues in general, as well as those arising from projects. Policy issues are a major focus of the new project being designed for an FY 91 start. A Statement of Work has already been drafted for a consultant to review the investment patterns in Kenya in an effort to determine how Kenya's current relatively high level of investment can be made more productive. Resources will be made available for training both public sector representatives to enhance the operationalization of the policy reforms and private sector representatives to be able to immediately respond to the changes in policy.

6. Commodity Assistance: The Commodity Import Program's resources, while obviously important to Kenya and to USAID's credibility, are relatively minor in terms of Kenya's needs and result in less obvious impact than do certain of the Mission's project activities. A gradual redirection of program funds to other areas is indicated, particularly if on-going economic restructuring enables Kenya's export earnings to grow at a more rapid rate than payment requirements for imported commodities and debt servicing.

USAID Response:

In the fall of 1989, USAID determined that the import liberalization support under the World Bank structural adjustment program had been so successful that USAID's private sector CIPs, with their cumbersome bureaucratic procedures and source/origin requirements, are no longer attractive or necessary. USAID is continuing only CIP assistance for DAP fertilizer since bulk ordering costs make it a competitive program.

7. Selecting the right institutions. Based on the recommendation for the gradual shift in the perspective from institutional strengthening to institutional performance, the following activities are possible recommendations for additional funding: a follow-on project with an additional $2-3 million to IPS, if the seven year program achieves its objectives; looking for discrete assistance opportunities for short-term, quick response assistance in the 1990s such as funds for computerization served in the 1980s; and exploring "second tier" commercial banks or NBFIs as possibilities for providing credit services at a lower rate of subsidy. Additionally, USAID should terminate agreements with NGOs, and likewise REP should terminate agreements with PVOs, that have not made significant progress toward covering their costs by the end of the current funding cycle.

USAID Response:

Agree. The evaluation and monitoring of both impact of the organizations being supported as well as their progress on financial self-sustainability will be key considerations for any follow-on activities. Selecting the modalities for any new credit program will be contingent on cost efficiency, programmatic effectiveness and outreach, and reflow design.

8. Attacking Financial Market Regulations: Little progress can be made to increase the availability of credit to smaller businesses unless there are significant changes in current interest rate regulations. It is important therefore to use directive lending projects (such as KCFC, PED, and REP) only under one of the following circumstances: (i) there is a strong possibility of the activity continuing because of pending or recently completed financial market deregulation; (ii) the activity encourages financial market reforms; and/or (iii) credit services can be provided to the target group through continuing subsidies, either from the GOK or from donors. It is important to continue to provide the government and the relevant financial institutions assistance in implementing financial market reforms. This assistance could be in the form of technical consulting, training, and demonstration projects. Continued emphasis on empirical studies and the formulation of policy options is recommended. To the extent possible, the Mission should strive to ensure that studies it finances are models that can be imitated by others in the future.

USAID Response:

Agree. The impact of policy on the existing credit projects in the portfolio indicates that resources to address the policy issues, including technical assistance for "show how" to government officials and analytical studies, will be primary to discrete credit activities in the design of the new project scheduled for start in FY 91.

9. Opportunities arising from other USAID Programs: It is important during the planning of USAID's future private sector strategy not to overlook the rich possibilities offered by the Mission's agriculture, health, housing and general training programs. It may be worthwhile to establish a mechanism, such as appointing one specific staff person as a trade and investment action officer, to act on U.S.-Kenyan trade and investment opportunities arising from projects.

USAID Response:

> The complementarity of aspects of the Mission's program was thoroughly reviewed during the development of the 1990-1995 CPSP. Projects from both the Private Enterprise Division and the Agriculture Division contribute to the Mission's strategic objective of increased private investment, exchange earnings, employment generation, and production. Members for the design teams for follow-on and new activities are now selected to insure representation by other technical divisions to enhance the overall complementarity of the Mission's program. Because Mission personnel routinely refer U.S. trade opportunities to the Commercial and Agricultural Attaches at the Embassy and refer domestic investment opportunities to the Investment Promotion Centre, the designation of a person as a trade and investment officer is redundant to current practice.

10. Microenterprise Program: For both equity and efficiency reasons it is important that microenterprise programs provide benefits to large numbers of businesses. To accomplish this, programs must build the capacity of local institutions to provide this assistance and must demonstrate a model for microenterprise assistance that is sustainable over the long run. Any future microenterprise project should begin by formulating a strategy to reach large numbers of microenterprises, identifying any long-term subsidies that may be required to serve Jua Kali borrowers, and be focused on developing means of making microenterprise credit profitable for private sector institutions.

USAID Response:

> Sustainability of microenterprise credit activities is dependent on a deregulated environment. Pending the expected deregulation by the GOK, the Mission is positioning its credit activities to respond to policy liberalizations by using these recommendations to modify existing programs and design future activities, such as the second tranche of the Jua Kali Loan Program. REP has responded to the recommendations by a new program piloting non-subsidized minimalist credit schemes that will reach large numbers of borrowers, many among the poorest of the poor. In May, 1990, REP's Board of Directors revised its policy on interest rates; new loans to end borrowers will be at commercial rates.

11. Program Impact Data: USAID should insist that all private sector projects and activities accept responsibility for documenting their effectiveness in terms of stated objectives of the program. This will require establishment of an adequate program data base and implementation of procedures to collect valid impact data on a periodic basis. Collecting impact data will require: (i) enforcing reporting requirement for collaborating institutions and (ii) some form of independent periodic impact audit to help assure the validity of the information obtained by the implementing agency. At the firm level, impact data should be collected by the implementing agency and reported to USAID on changes in sales, employment, and fixed investments. Institutional development objectives could be based on improvements in quantity and/or quality of outputs; increased demand for services; programmatic self-sufficiency and financial self-sustainability. Training could be evaluated against factors such as client satisfaction, demand for services, and willingness to pay fees.

USAID Response:

> At the close of the second quarter FY 90, the results of the component managers work with the implementing agencies to develop their capabilities in conducting and reporting impact assessment was demonstrated. Reports were submitted by the implementing organizations detailing the results of impact assessments they had conducted and providing quantified data on their programs' direct development impact in terms of sales, employment generated, investment and foreign exchange earnings. The Private Enterprise Division will, during the third quarter of FY 90, collaborate with the agencies to (i) re-enforce the importance of monitoring and evaluation planning in their annual work plan and its implementation, (ii) enhance their capabilities in conducting the evaluations/impact assessments, and (iii) design new report formats for output and impact indicators and institutional development activities. Consideration is also being given to requesting that the agencies develop and submit to USAID two or three mini case studies on clients served in each quarterly or semi-annual report.

12. Training USAID Staff in Private Enterprise Subjects: Because of the highly technical nature of many of the issues involved in financial and equity market reform activities, it would be worthwhile for the Mission to consider additional training to Private Sector staff in business and finance where appropriate 6-12 week courses can be identified.

USAID Response:

> Agree. Despite OE constraints on discretionary training, staff development opportunities which will directly contribute to the effective supervision, management, implementation and evaluation of the private sector program will be sought and supported.

FINANCIAL AND EQUITY MARKET ACTIVITIES

CONCLUSIONS AND RECOMMENDATIONS

1. The loan to training mix is very effective. Continue providing substantial training inputs to IFI personnel under credit programs.

USAID response: Agree.

2. More consideration should be given to the cost structure of local financial markets and to pricing USAID credit activities accordingly. Subsidies provided should be reduced over time, and competition among financial institutions for USAID's credit resources should be encouraged. Given the interest that banks have expressed in USAID-funded training for bank personnel, it is likely that USAID could decrease the subsidies for training by charging higher user fees.

USAID response:

> Agree. USAID has developed credibility within the financial sector for providing high quality training to IFI personnel; now that the value of the training is known, there should be little resistence to paying higher fees. Decreasing levels of subsidies and competition between IFIs are being addressed in project design and second phases of existing programs, such as in the Jua Kali loan program.

3. USAID credit, equity market and venture capital projects are demonstrating many important policy constraints and issues in capital market development. These policy issues should be (a) identified at the project level on a periodic basis (perhaps once a year), and (b) acted on using Mission policy dialogue resources, such as the Strategy Support component of PED.

It is essential that these policy issues be addressed independently from credit project activities. If policy issues are not isolated from project activities that give rise to them, then Kenyans may begin to view USAID credit projects as policy dialogue efforts that infringe on local sovereignty of policy matters.

USAID Response:

> Agree. In the scope of work for the Private Sector Policy Advisor who joined the Private Enterprise Division of the Office of Projects in April, 1990, a quarterly report on policy issues was included for presentation to Mission management.

4. Financial institutions generally view two benefits from USAID credit projects -- cheap funds on attractive terms and good public relations with GOK. In contrast, USAID seeks the demonstration effects of experimentation with new clients, lending procedures and standards. It is important that project designers and evaluators understand the lack of agreement on project objectives among USAID, the GOK and local banks. Banks have little incentive to change lending practices as long as current financial market conditions exist. Under these circumstances, program planners and evaluators should not expect significant institutional changes to result from credit projects involving commercial banks.

USAID Response:

> USAID will continue the ongoing policy dialogue with the GOK on the interest rate regulations which discourage lending to nontraditional borrowers. To complement that dialogue, USAID will continue discrete training activities with banks' loan officers to position them to react quickly to policy changes which may open up commercial bank lending to small and noncollateralized borrowers.

5. Until credit ceilings and interest rate regulations are liberalized, it will be difficult to make significant institutional impacts on local commercial banks and finance companies. Keep the amount of funds provided to any single IFI small enough so that the institution can experiment without diverting substantial resources to "unprofitable" lending activities.

USAID Response:

> This recommendation will be considered during the design phase of the new private enterprise development project scheduled for a FY 91 start.

6. Officers at both KCB and KCFC mentioned that they feel that they have lost money under USAID credit projects because AID has not upheld certain parts of their loan agreements. Whether correct or not, these statements reflect a need for USAID to carefully maintain its relationship with local financial institutions. Time spent in clearing up outstanding misunderstandings is essential to maintaining good working relationships with the banks and building credibility in the market place.

USAID Response:

Mission staff has spent considerable time building relationships within the financial community since the time of the evaluation. Open lines of communication have been established and are utilized freely by both USAID staff and representatives of the financial institutions.

7. More attention should be given to IFIs that both raise and lend funds within SMSE and rural markets.

USAID Response:

This recommendation will be considered during the design phase of the new private enterprise development project scheduled for a FY 91 start.

8. USAID should continue to investigate the feasibility of using alternative financial institutions as intermediaries for its credit projects. Specific suggestions include: 1) further experimentation with finance companies as credit intermediaries for rural SMSE credit; 2) continued investigation of the potential of credit societies, "second tier" banks, cooperatives and credit unions to operate USAID small and micro-enterprise lending programs on a cost effective basis; and 3) institutional building to improve the performance of credit unions and savings societies.

USAID Response:

This recommendation will be considered during the design phase of the new private enterprise development project scheduled for a FY 91 start.

9. Jua Kali lending programs are not profitable for commercial banks and are not sustainable without continuing subsidies exceeding 100% of the amount lent. USAID could (i) make a policy decision within the private sector program concerning the level of subsidy that is acceptable as a cost of providing loans to Jua Kali businesses, (ii) target future Jua Kali lending programs at specific sub-markets, and (iii) use alternatives to the normal commercial banking system, such as cooperative savings societies and credit unions.

USAID Response:

Discussions with government officials regarding the design for the second phase of the Jua Kali program indicate that only the first two of the three suggested options are acceptable to the GOK at present.

10. Banks are not collecting the business-level impact data that USAID needs to determine project impact. A program of periodic "impact audits" would help obtain valid and reliable impact data.

USAID Response:

> Agree. The contracting for the rapid assessment impact audits could be utilized to serve several purposes. A U.S. contractor accessed to perform the first of the periodic audits could sub-contract with a Kenyan firm to enhance local capability for subsequent audits and could also be contracted to conduct some impact assessment training for personnel from the NGOs implementing other components in the program.

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MANAGEMENT AND ENTREPRENEURSHIP DEVELOPMENT ACTIVITIES

CONCLUSIONS AND RECOMMENDATIONS

1. It will probably never be possible to attribute direct development impact to relatively modest training and consulting interventions. The rationale for these efforts should cease to be stated in terms of direct development results and should increasingly be seen and planned in terms of: (1) strengthening and enhancing the credibility of policy-relevant organizations; (2) promoting the image of the private sector more generally; and (3) strengthening the staff and systems of key financial market institutions.

USAID Response:

> Disagree. Preliminary results of impact assessments of modest training activities, such as KAM's technical seminars and K-MAP counselling activities, are encouraging enough to continue tracking employment, sales and investment increases as well as changes in knowledge, attitudes and practices.

2. Training and consulting should be subordinated to the two principal objectives of the private sector program, policy reform and financial market development. The two exceptions to this policy might be a serious initiative in the field of entrepreneurship development which, if undertaken, should be expressed to justify itself in terms of direct development impact, and TAT to support a trade and investment objective under a future private enterprise strategy.

USAID Response:

> The program includes specific activities, such as the training programs supported through KAM, REP and K-MAP, which address the institutional development of the implementing agencies. USAID notes that these training programs have the potential for revenue generation as well as provision of services to clients/members and believes that these existing programs should be maintained for their potential to assist in the both the programmatic and financial self-sustainability of the organizations. However, training under the Strategy Support line item of the Private Enterprise Development Project is being more closely monitored to provide priority support to training opportunities that complement the financial and policy areas.

3. Sustainability and self-sufficiency can and should be critical considerations in any continuation of assistance to intermediary organizations for training and consulting activities. USAID assistance should include help to these organizations, where appropriate, in identifying, long-term sources of financial support. USAID assistance should, in any event, be of fixed duration.

USAID Response:

> Agree. USAID is seeking an IESC consultant for technical assistance in NGO/PVO and trade association programmatic and financial self-sustainability. The volunteer executive will be tasked to visit the several of the agencies implementing the program to assist them in their current strategic planning activities. Major emphasis would be placed on the development of plans for financial self-reliance.

4. The RPE and REP project activities should increasingly focus on training of trainers activities and PVO sustainability.

USAID Response:

> Agree. REP has been proactive in examining its programmatic focus and sustainability issues. USAID will discuss the option of technical assistance, as described in the response to Recommendation 2 above, with REP.

5. Local demand for management and entrepreneurial development exceeds the supply of available resources and expertise. In addition, there is evidence of the ability and willingness of clients to pay higher fees for training and consulting services. Jua Kalis, PVOs, and small business owners should be charged training and consulting fees. USAID should encourage participating institutions to charge fees for services whenever feasible, and to identify alternative means of meeting the financial costs of service delivery.

USAID Response:

> Agree. Component managers are encouraging the participating agencies to utilize standard costing principles to determine the actual costs of the training programs conducted, including in the costing prorata of salary and other expenses currently funded by USAID. Once these costs are determined, the agencies are encouraged to charge fees which come as close to full cost recovery as possible given the ability-to-pay of the majority of their clientele.

6. The absence of targets for female participation has resulted in limited participation by women in many activities. USAID should reinforce agency guidelines in this area, and each project should design and conduct marketing campaigns to identify and attract more female clients.

USAID Response:

> Both through a buy-in to the Genesys project and a TDY by staff member of PPC/WID, the Mission plans to conduct training during FY 90 for both USAID and counterpart personnel. The objective of the training will be to develop greater awareness to WID issues (and reporting requirements) and to develop programs for extending services to a larger percentage of female clients.

7. Data being collected on service delivery and impacts of technical assistance and training are not adequate for routine performance evaluation purposes. USAID should request that intermediary agencies produce monitoring and evaluation plans and work plans for data collection and analysis. USAID should also assist projects in establishing evaluation indicators for measuring the impact of their activities on target populations.

USAID Response:

> Agree. In addition to providing USAID and AID/W with valuable information on the program, the development of monitoring, evaluation, and impact assessment capabilities within the implementing agencies strengthens these organizations and, with evaluation data to demonstrate high development impact, can be used for attracting additional financial resources such as endowment funds or higher membership fees.

POLICY DIALOGUE ACTIVITIES

RECOMMENDATIONS

1. Assistance in creating an increasingly favorable climate for both foreign and local investors, including continued support to the commodity import program, policy studies, and advisory services which focus on the implementation of the enabling environment, should be continued.

USAID Response:

> Agree. This pursuit of improvements in the investment climate and enabling environment will continue to be a prime activity area for private enterprise development strategy as detailed in the 1990-1995 Country Program Strategic Plan (CPSP) submitted in February, 1990.

2. The strengthening in policy capabilities of the Mission through staff appointments and internal management procedures as well as through the direct commission of selected policy studies should be continued.

USAID Response:

> The statement of work for the Private Sector Policy Advisor who joined the Private Enterprise Division in April, 1990 as well as the management of the design team working on the new project to start in FY 91 demonstrate the efforts to develop the recommended policy capabilities. Direct contracting for private sector studies is underway in connection with the new project design.

3. Policy studies which are empirical and present policy options, detailing implementation plans and the Kenyan Shilling impact of changes recommended, could be designed. To the extent possible, the Mission should strive to ensure that the studies it finances are models that can be imitated by others.

USAID Response:

> Agree. This recommendation meshes well with the GOK request for "show how" on the operationalization of the enabling environment strategy.

4. Keep agreements simple and focused on major goals. The proposed mechanisms for achieving goals are important pieces of back-up information but can be recognized from the start as likely to require mid-course adjustment in response to experience.

USAID response:

> Agree. Consensus building on goals prior to program or project agreements smooths the implementation process but realistic expectations for mid-course adjustments should be maintained.

5. All projects should be reviewed for policy implications. Mechanisms, both within the Mission and between GOK and USAID, could be strengthened for quarterly or semi-annual review of project experience in order to exploit fully the policy lessons learned.

USAID Response: Agree. Policy implications are increasing a focus for the Private Enterprise Division as well as in the Office of Program and Office of Director.

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Annex 4.1: RURAL PRIVATE ENTERPRISE
(Finance Component)
Project 615-0220

Annex 4.1: Recommendations:

1. Loans for retail activities should be given equal priority with production enterprises if they provide a distribution outlet for domestically produced items.

USAID Response:

While retail activities are productive, the project's design emphasizes manufacturing activities because a credit shortage was identified in this area. The designers addressed this area of need and specifically excluded from the project loans for traders, except for traders of agricultural products.

2. In order to give greater incentives to strive for sustainability, future support to well-established NGOs should be in the form of loans, which should be on-lent to borrowers at commercial rates.

USAID Response:

This was recognized in the design of the follow-on REP Cooperative Agreement under the Private Enterprise Development (PED) Project (615-0238). Since the two projects are concurrent from 1987 to 1991, those NGOs who are well-established receive loans under PED, not grants from RPE.

3. NGOs should be encouraged to become more business-like in their administration of credit programs.

USAID Response:

In response to this recommendation, a credit survey of all loans to NGOs and from NGOs to the end-borrowers was conducted in April, 1990. Rationalization of the credit terms is underway. In May, 1990, REP's Board revised its interest rates for new end borrowers; new loans will be at commercial rates. For NGOs receiving project support for credit programs, REP is currently providing technical assistance and training on credit administration and monitoring systems.

4. Relending of repayments should be maximized to the extent possible.

USAID Response:

A revolving load fund from repayment is under design.

5. REP should have better control of disbursement of funds advanced to NGOs. Funds that are not on-lent to borrowers within a reasonable time should be repaid to REP. One way to reduce idle funds is to require NGOs to have approved applications in hand before funds are disbursed. This and the new USAID reporting requirement will require an improvement in the information systems at NGOs. This is the line with the audit recommendation to "require that sub-grantees provide documentary evidence that they are ready to disburse loans before providing cash advances for the loans, and immediately liquidate any excessive advances still retained by sub-grantees."

USAID Response:

REP has instituted the audit recommendation and, therefore, has established an improved disbursements system.

6. REP should explore the possibility of developing other cost centers/sources of income in a move toward self-sufficiency.

USAID Response:

REP is highly conscious of the need to develop its own capital basis, independent of a single donor. REP's activities on the self-sustainability issue include setting up cost centers on its various strengths, such as training, and expanding its sources of donor assistance.

7. Although REP should continue to request monthly liquidation reports from NGOs, the NGOs should make quarterly estimates of the expected loan demand. The net capital needs after deducting estimated repayments (which can be relent) should be the amount of monthly disbursements . These disbursements would not be made until the liquidation reports are received by REP. However, knowing that these reports may not be possible every month USAID should make quarterly disbursements to REP based on the quarterly estimates from NGOs. This will reduce the administrative burden for USAID and provide needed liquidity to REP.

USAID Response:

This recommendation has been adopted.

Annex 4.2: KENYA EQUITY MANAGEMENT & KENYA EQUITY CAPITAL
(Finance Component)
Project 615-0238

Annex 4.2: Recommendations:

1. Continue support for the development of capital market institutions.

- Technical support in the GOK's efforts to reform capital market policies and to form new capital markets legislation.

- Assistance to both the GOK and the Nairobi Stock Exchange in establishing an independent capital market authority.

USAID Response:

USAID support to the Capital Markets Authority, established in January 1990, will continue during the start up of its operations.

2. Limit USAID involvement in selecting investments. It has been noted by several respondents that this project is first and foremost a capital markets development project, and only secondarily a mechanism for providing long term funds to new starts. Given that the company is under pressure to make some investment, it may be advisable for the company to give most priority to the financial viability of the first few projects business and only later elevate developmental criteria for screening projects in the project selection process. Making several first "deals" is essential to the viability of the venture capital experiment at this point in the project.

It is also important that the capital market development processes initiated by the KEM/KEC venture capital project are viewed as long term in their development. Given the constraining factors of finding viable projects associated with good entrepreneurs, and lack of well developed exit routes, it will probably take a long time to develop a local venture capital industry.

USAID Response:

USAID is not involved in KEC/KEM investment decisions. Due to intensive and extensive marketing activities, two projects have been approved as of December, 1989 and approximately a dozen viable projects are in the pipeline.

3. Encourage compliance with USAID reporting requirements. KEM is supposed to provide quarterly progress reports to USAID starting March 31, 1989. This requirement was not met as of April 17, 1989.

USAID Response:

KEM has been routinely supplying quarterly reports since the period ending June 30, 1989, and has demonstrated its commitment to make the report an internal management vehicle as well.

Annex 4.3: INDUSTRIAL PROMOTION SERVICES
(Finance Component)
Project 615-0238

Annex 4.3: Recommendations:

1. The project is doing well. Other than encouraging IPS to meet its investment projections under the USAID/IFC project, there are no pressing management issues that require USAID attention.

USAID Response:

This recommendation is a continiung activity

2. Advice from IPS staff on technical assistance and training requirements under various USAID/Kenya projects may be helpful in identifying specific skill deficiencies and technical requirements.

USAID Response:

USAID will look to IPS as a resource. IPS personnel participated in the MAPS activity conducted in 1989.

Annex 4.4: RURAL ENTERPRISE PROGRAM
(Finance Component)
Project 615-0238

Annex 4.4: Recommendations:

1. REP should continue to explore additional sources of income. One possibility is starting to publish information on some of the lessons learned and selling these to other institutions with similar interests both within Kenya and in other countries. Training materials developed for REP use could also be sold to outside organizations.

USAID Response:

REP is proactive on self-sustainability issues. They now are a vendor of training programs, training literature and look to other East African countries, not solely Kenya, in their marketing activities.

2. REP should investigate the possibility of working with credit unions. Credit unions tend to have a wide outreach and many of their members are micro-enterprises. The natural link-up would be KUSCCO, the national federation of credit unions.

USAID Response:

REP is very committed to a controlled growth of its organization with a high level of concern for self-sustaininability. Because the government has recently relaxed some regulations for credit unions, the inclusion of credit unions as targets for REP assistance may be a more viable option now than at the time of project design. In REP's current strategic planning activities, they are investigating all such options for expanding the programmatic outreach to greater numbers of borrowers.

Annex 4.5: KENYA COMMERCIAL FINANCE COMPANY (KCFC)
(Finance Component)

Annex:4.5: Recommendations:

1. Clear up any existing misunderstandings between KCFC and A.I.D. concerning responsibility for payment of compensation for foreign exchange losses under the KCFC/PRE project. This action is important for maintaining a sound relationship with KCFC, a major local financial institution.

USAID Response:

Resolution of the foreign exchange loss issue has been accomplished and open productive relationship established between KCFC and A.I.D.

2. If a credit project's objective is to establish a sustainable lending program for small businesses, select a target market that is profitable for the IFI under unsubsidized conditions. If A.I.D.'s target market will be unprofitable for the IFI under current financial market conditions, the IFI will continue lending to the target market only if it receives a continuing subsidy. Therefore, if A.I.D. decides to target a SMSE market that is not profitable, then a continuing source of subsidy needs to be identified and developed.

USAID Response

In future programming of the second tranche, this recommendation will be followed.

3. According to KCFC staff, there is a wide variation among small borrowers in their profitability and ability to service loans properly. Bank staff reports that the cost of operating a SMSE loan program are heavily influenced by the types of businesses targeted.

It would be valuable for the Mission to collect information from KCFC on the profitability of various sub-markets among the target businesses of the KCFC/PRE project. This information will help to determine which businesses will need continuing subsidies if they are to receive credit from local lenders, and which can receive unsubsidized loans.

USAID Response:

This differentiation between sub-markets will be pursued in future programming.

Annex 4.6: LEATHER INDUSTRIES OF KENYA (LIK)
(Finance Component)

Annex 4.6: Recommendations:

1. There are no pressing management issues on which USAID needs to take immediate action.

USAID Response:

No issue.

2. There are private sector development opportunities for USAID arising out of the project in the areas listed in IV.4. above. (IV.4. "The project has raised important private sector development issues in the following areas:

a. export incentives and licensing;
b. import regulations;
c. environmental protection standards;
d. animal husbandry and livestock extension deficiences and opportunities.")

USAID Response:

USAID, since the evaluation was conducted has funded a GOK-sponsored study on export processing zones and a KAM-sponsored study on export incentives. USAID Agricutural Division is more appropriate to follow-on the latter issue.

3. Given the success of the LIK project, it would be worthwhile for USAID/Kenya to identify and develop more agribusiness projects in the future. Long term, direct loans are an effective means of supporting this kind of project. When direct loans are not possible, it may be feasible to use financial intermediaries to lend to promising agribusiness projects.

USAID Response:

Disagree. The Mission has neither the management time nor the expertise in loan management to administer direct long term loans. However, agribusinesses are receiving increasing USAID support through IESC consultancies and the PED-funded start-up assistance to Agri-Energy Roundtable (Kenya). Closer coordination between USAID's Private Enterprise Division and Agricultural Division has proved useful in identifying linkages between the projects, and finding appropriate project assistance in this sector.

Annex 4.7: JUA KALI LOAN PROGRAM
(Finance Component)
Program Grant 615-0227

Annex 4.7: Recommendations:

1.a. Collect valid and cost effective impact information. USAID is currently not receiving adequate information on the impacts of Jua Kali loans. On the other hand, collecting information for USAID is considered a substantial burden by KCB.

b. A cost-effective system for monitoring impacts of Jua Kali loans should be set up. Because it is costly for KCB to collect impact data, USAID should consider paying a consulting, training or audit firm to collect impact and compliance data on a periodic basis. A once-a-year impact audit of a small sample (or panel) of borrowers would be sufficient to collect impact data. This is discussed further in Chapter 4, Recommendation 10.

USAID Rerponse:

Avenues to perform cost efficient rapid impact assessments of this project are being explored by USAID.

2. Reduce costs by reducing paperwork. Loan application and approval procedures need to be simplified to reduce administrative costs and delays. To the extent that USAID can reduce the procedures that it requires of KCB, USAID can also reduce its subsidies under the program.

USAID Response:

This recommendation to reduce administrative procedure and costs will be a negotiation point with KCB in the design of the second phase of the loan program.

3. Rationalize Jua Kali Program subsidies. The administrative subsidy provided to the bank under the program should be rationalized. The subsidy now seems high, and the bank may be willing to accept considerably less incentive to carry out Jua Kali lending. It may also be worthwhile to offer the program to other banks, to encourage competition among commercial banks for the earnings available under the program.

USAID Response:

Both portions of this recommendation, rationalization of administrative subsidy and the extension of the program to other commercial banks, will be considered in the design of Phase II of the program. Because the program is implemented with GOK-owned local currency, the ultimate determination of the financial intermediaries is the GOK's prerogative. The sustainability of the program, even with the suggested modifications, will be contingent on deregulation of the financial sector.

4. Target specific Jua Kali sub-markets. The subsidy provided to the bank should also depend upon the particular Jua Kali market segments targeted under the program. According to KCB officers, there are Jua Kali markets that require minimal subsidy, while others will require subsidies similar to that provided under this Phase I effort. Follow-on Jua Kali lending programs should be more specific about the sub-markets that the program will serve.

USAID Response:

In the design of the second tranche of the loan, this recommendation will be pursued.

5. Make loan terms more flexible. The loan repayment period need not be uniform for all borrowers. Loan terms should depend on ability to pay. Some borrowers can pay larger payments and can use shorter term loans.

USAID Response:

The program allows acceleration of loan payment. No issue exists on this recommendation.

6. Renew loans to good borrowers. As long as they repay on schedule, it should be possible to renew loans on completion of repayment.

USAID Response:

The program allows second loan to borrowers. No issue exists on this recommendation.

7. Collect delinquent loans. It is essential to demonstrate resolve in collecting Jua Kali loans. If this is not done, then borrowers will treat loans as grants. In addition, the bank suggests that there be no public announcements that the GOK is involved in the program because this public knowledge encourages borrowers to view loans as grants.

USAID Response:

The collection of delinquent loans as responsibility of KCB, has been discussed with KCB officials. The second part of this recommendation will be relayed to the GOK for their consideration in the announcement on Phase II of the program.

8. Raise the "price" of loans to jua kali businesses. Given the excess demand for Jua Kali loans at current interest rate, we recommend that "prices" of loans be raised by (i) attaching fees to loans, (ii) making it possible for KCB to lend at 18% or (iii) obtaining an exemption on interest rate ceilings to allow KCB to lend at rates that cover its costs. USAID/GOK subsidies can then be reduced accordingly.

USAID Response:

(i) Fees are prohibited by Banking Act, but USAID understands that the GOK informally allows fees for front end services in anticipation of deregulation.

(ii) 18% is allowed on term lending over 4 years only.

(iii) The GOK has indicated to USAID its desire to continue subsidies for the client served by this loan program.

Annex 4.8: MONEY AND CAPITAL MARKET DEVELOPMENT
(Finance Component)
Project 615-0240 & 615-0238

Annex 4.8: Recommendations:

This is an area that has significant potential for mobilizing local resources and encouraging long term investment in productive assets. USAID's assistance to date has been relatively small in terms of dollars, but this help has resulted in noticeable progress in the capital markets. Several specific recommendations for further programming in the capital and money markets areas include:

1. Provide immediate assistance to the CMDAC in drafting issue papers. This assistance should be targeted directly toward the specific requirements of the CMDAC. If not properly targeted, the assistance will not be accepted or used. It is critical that the person providing the assistance have the requisite understanding of the technical issues involved in improving a relatively undeveloped equity market.

Use this technical assistance as an opportunity to carefully encourage the GOK to limit its involvement in securities markets, and to establish an independent CMDA.

USAID Response:

This assistance was provided. The Capital Markets Authority was established in January, 1990.

2. Continue training, technical assistance, study tours and other small-scale activities with the NSE. They have used the resources productively in the past, and are interested in continuing to formulate and implement a development program.

USAID Response:

The NSE Chairman was sent on a study tour in October and November, 1989. Other support activities will be pursued.

3. A long-term view of capital markets development is essential. Continued progress in capital and money markets depends upon several interrelated factors that change slowly:

i. Elimination of the price setting function of the CIC;
ii. Establishment of an effective CMDA;
iii. Development of a fair and orderly NSE;
iv. GOK provision of incentives for selling public equity;
v. Rationalization of taxation on earnings from stocks;
vi Building public confidence in the public equity markets.

It is likely that a program to encourage changes in these factors will take years or even decades to accomplish.

USAID Response:

Policy dialogue with GOK will be main focus of new project scheduled to start in FY 91. The new project will provide budget for technical assistance to GOK to operationalize policy changes.

Annex 4.9: CREDIT GUARANTEE SCHEME
(Finance Component)

Annex 4.9: Recommendations:

1. Reduce the maximum loan size (only 20% of the loans were for more than KSh 0.5 million) since KSh 1 million is really too much for working capital loans. If more is needed by a borrower a second loan could be made. This would allow more borrowers to be assisted with the funds available.

USAID Response:

USAID will recommend the reduction in maximum loan size to the GOK.

2. Make the program more attractive by increasing the spread to approximate the normal commercial spread.

USAID Response:

USAID will initiate discussions with GOK on increasing the spread on this program.

3. Open the program to more branches by training more managers.

USAID Response:

This type of lending, a modification of KCB's loans to larger firms, does not indicate additional training of branch credit managers is needed.

4. Simplify the application process.

USAID Response:

This recommendation will be pursued as simplification is a definite need.

Annex 4.10: RURAL PRIVATE ENTERPRISE
(Management & Entrepreneurship Component)
Project 615-0220

Annex 4.10: Recommendations:

1. Training should increasingly focus on future financial sustainability of the PVO institutions.
USAID Response:

REP is currently providing training to PVOs on self-sustainability and is encouraging PVOs to be innovative in fund raising activities.

2. USAID should assist REP, and by extension the PVOs, to develop a strategy for sustainability.

USAID Response:

REP is proactive in finding solutions to the self-sustainability issue. In December 1989, REP's Board of Directors approved setting up cost centers for REP's activities. REP is currently charging fees for training, training material and brochures.

3. Increased attention should be placed on training PVO trainers.

USAID Response:

REP has been doing training of trainers and also encourages NGO's to use USAID's PVO Co-Financing project for short-term skills development training, e.g. in training material development.

4. DHS should continue to expand its bank training, focusing on training bank trainers to integrate long-term lending training into ongoing bank courses. (Supported by Barclays and KCB.)

USAID Response:

Although training of bank's trainers will not be a major focus of DHS's contract through the Project Assistance Completion Date, DHS has provided this training in the past.

Annex 4.11: KENYAN ASSOCIATION OF MANUFACTURERS
(Management & Entrepreneurship Component)
Project 615-0238

Annex 4.11: Recommendations:

1. A survey of small businesses, crossing sector committee lines, may indicate one or more seminar topics of general interest to this size of business. The seminar on Industrial Maintenance, which also crossed sector committee lines, was by far the best attended seminar. This may be a worthwhile approach for at least a portion of the seminars.

USAID Response:

USAID will work with KAM to identify training needs across industrial sectors.

2. KAM should be encouraged to pursue its strategy of making personal contacts with non-member companies invited to seminars as a means of increasing membership.

USAID Response:

USAID will encourage KAM to pursue this strategy to increase non-members interest in the seminars and therefore, in KAM membership.

3. USAID and KAM can coordinate the design of a report from USAID's M & E system to be supplied to KAM.

USAID RESPONSE:

USAID and KAM will jointly design a form providing participant demographics for KAM's analysis and reference.

4. There is no target for women in the Cooperative Agreement with KAM. USAID may wish to initiate discussions with KAM to determine what level of information KAM has on women owners and women employees of its member firms. Based on those discussions, topics that have the potential to serve more women participants might be identified.

USAID Response:

Greater participation of women in KAM seminars will be pursued by following this recommendation.

5. It is recommended that no further seminars for Jua Kali workers be funded under the Cooperative Agreement. If self-funded seminars are to be conducted for KAM-members after the expiration of the USAID Cooperative Agreement, the demonstration effect of the seminars must be made during the period of the Agreement to KAM members.

USAID Response:

USAID and KAM agree with this recommendation.

6. When the USAID Cooperative Agreement expires, KAM wants to be in a position to demonstrate to its members what its seminars have yielded in the past. USAID can coordinate with KAM the development of both a post-training telephone survey form which collect training impact data and a report format for displaying the data. USAID could examine more closely the training needs assessment and delivery systems in order to help improve and bring to "state of the art" sophistication the training programs.

USAID Response:

Institutional development of KAM's expertise in needs assessment, design of training programs and evaluation vehicles will continue over the life of the grant.

7. USAID/Kenya should take advantage of the cooperative climate with KAM to see if technical assistance in institutional development would be desired. The timing on this action should be immediate given the level and number of staff changes in process. Funding of a computer and MIS assistance is a possibility.

USAID Response:

USAID will pursue this recommendation.

8. KAM should be aided to take advantage of E.I. funds to support a person from KAM to visit the U.S., NAM and other associations for educational purposes. An organizational twinning arrangement or association with other similar organizations in other countries should also be assisted.

USAID Response:

USAID will pursue this recommendation.

Annex 4.12: KENYA MANAGEMENT ASSISTANCE PROGRAM
(Management & Entrepreneurship Component)
Project 615-0238

Annex 4.12: Recommendations:

1. K-MAP counselors should be provided with training to improve their consulting skills. These actions are already included on the K-MAP 1989 workplan.

USAID Response: .

> K-MAP in 1989, published both a "Counsellor's Guide" and a "Counsellor's Handbook" which provide the volunteer counsellors theoretical background and practical advice. Counsellor training sessions are scheduled for in K-MAP's 1990 Work Plan.

2. The seminars should be refocused on specific rather than generic interests and targeted to smaller audiences so that more participative and skill focused training designs could be used. In addition, seminars focusing on sectoral interests could be organized to provide the opportunity for some businesses to meet their own technical assistance needs directly. These actions are included in the 1989 K-MAP workplan.

USAID Response:

> K-MAP initiated sectoral workshops in September, 1989. The K-MAP training committee supports both the generic and sectoral workshops although a size limitation will be placed on the generic workshops in 1990.

3. While media usage is helping to attract clients, publicity should be monitored carefully especially attribution claims or increased sales and employment generation. Validation of K-MAP's ongoing monitoring and evaluation needs to be conducted by USAID in this regard. Also, since K-MAP's financial resources currently limit its counseling services to Nairobi area clients, all press releases and media coverage should specifically mention this geographic restriction.

USAID Response:

> K-MAP has increased its own impact assessments which USAID will validate. USAID will encourage K-MAP to cite its geographic area in media communications.

4. USAID should take advantage of the potential impact of the K-MAP concept through replication in other African countries with developed private sectors. Coordination and information sharing with REDSO should be continued.

USAID Response:

This is an ongoing activity.

5. Once K-MAP resolves current programmatic and funding constraints, it should be able to focus on regional and sectoral diversification with a decentralized administrative system.

USAID Response:

USAID agrees with this recommendation but emphasizes that the resolution of current programmatic constraint in providing counseling services and K-MAP's development of a self-sustainability plan are necessary before branch offices are opened.

Annex 4.13: RURAL ENTERPRISE PROGRAM
(Management & Entrepreneurship Component)
Project 615-0238

Annex 4.13: Recommendations:

None to report so far.

Annex 4.14: INTERNATIONAL EXECUTIVE SERVICE CORPS
(Management & Entrepreneurship Component)
Project 615-0238

Annex 4.14: Recommendations:

1. IESC agreements with clients should include better needs assessment and state clearer work plans with measurable objectives. The new (8/88) Country director's efforts in this regard have made important strides in the right direction.

USAID Response:

USAID will encourage the newest (March, 1990) IESC Country Director and the IESC client to include more quantifiable data on the business's need for the technical assistance as well as impact expected from that assistance.

2. IESC should collect data on the impact on businesses served (planned for 1989).

USAID Response:

IESC conducted evaluations in December 1989 on 18 projects completed during the past year. IESC analyzed and tabulated the results and reported to USAID. This is an ongoing activity; IESC will report impact results to USAID on a quarterly basis.

3. IESC should provide technical assistance to groups of clients with similar needs, and consider combining technical assistance from IESC with other programs to make consultancies more effective and efficient.

USAID Response:

USAID is encouraging IESC to be proactive in arranging cluster projects for multiple clients. In 1989 one IESC volunteer worked with seven clients of K-MAP. Through associations and cooperatives, several IESC consultancies in 1990 will reach multiple beneficiaries.

4. IESC should focus marketing activities on projects that will last 2-3 months to qualify for USAID's highest contribution.

USAID Response:

In view of evaluations conducted by IESC an analysis can now be done on the correlation of the length of project and the impact. If impact from projects in 1-2 month's duration is high, USAID will encourage IESC to maximize the use of Volunteer Executives' time in country to reach a broader audience by developing training programs or clusters of short consultancies to multiple clients.

Annex 4.15: ENTREPRENEURS INTERNATIONAL
(Management & Entrepreneurship Component)
Project 615-0238

Annex 4.15: Recommendations:

1. Evaluation of the long range effect should be continued by USAID for at least 24 months after the participants return. Given the small numbers involved, maintaining a tracking system on these should not add any significant administrative burden to PRJ. Particularly when new equipment is purchased that will introduce a new product and/or increase employment, the long range effect that can be quantified has the potential to demonstrate greater cost effectiveness of the program.

USAID Response:

USAID concurs.

2. USAID should pursue the refinement of the pre-departure briefing, following up with AID/W to obtain the previously requested on-arrival briefing given in New York. Part of the pre-departure procedure could be a closer monitoring to help assure that the last minute cancellations are minimized.

USAID Response:

USAID concurs.

3. Continued correspondence and dialogue with AID/W regarding logistical arrangements and briefing requirements should be coordinated by PRJ and HRD to make the participant's travel portion of the program as problem-free as possible. HRD, which conducts the briefing, may as appropriate request an American from PRJ to sit in if the participant seems particularly interested or apprehensive about American cultural differences.

USAID Response:

This is continuously evolving function. Additionally, HRD is redesigning the pre-departure briefing.

4. HRD and PRJ, in accordance with Handbook 10, may wish to coordinate follow-up "alumni association" activities using KAM as an organizing vehicle. A by-product of such an "EI Alumni Group" would be the refreshing of "lessons learned" by the participants and an added motivation to implement any which were still lessons not translated into action.

USAID Response:

HRD established in the fall of 1989 a committee to determine follow-on activities with returned participants from all the Mission's U.S. training programs. PRJ is represented on that committee.

Annex 4.16: KENYA NATIONAL CHAMBER OF COMMERCE & INDUSTRY (Management & Entrepreneurship Component) Project 615-0238)

Annex 4.16: Recommendations:

1. USAID will want to have some feedback, either from PEDCO contract or Information Specialist or Mr. Gathirimu, on the level of responsibility transferred to long-term employees during the course of the contractors' work to be assured that the Chamber's internal capability for running the programs has been built.

USAID Response:

USAID is monitoring this transfer of skills.

2. When and if USAID procures computer equipment for other organizations, a brief survey of who is to be trained and their current keyboard skills would be beneficial in designing the level of instruction.

USAID Response:

USAID concurs.

3. For future evaluation purposes, USAID will want to obtain from KNCCI the following information immediately following information once existing membership records are entered:

a) total active members in each branch

b) genda disaggregation of membership

c) number of members in each category of membership

d) total number of inactive members

e) inactive members by membership category

USAID Response:

USAID can now obtain this information from KNCCI with exception of gender disagregation of membership. KNCCI is modifying the structure of its data base to include gender and that information will be available in 1990.

Annex 4.17: JUA KALI PROJECT
(Management & Entrepreneurship Component)
Program Grant 615-0227

Annex 4.17: Recommendations:

1. KCB should subcontract training services through the private sector, avoiding the problem of further politicizing what is already an overly politicized activity.

USAID Response:

USAID has raised this issue in a letter to the Ministry of Finance as a discussion point for the design of Phase II of the loan program.

2. Follow-up and monitoring on a fee for service basis could also be subcontracted to the private sector.

USAID Response:

KCB's monitoring of the repayment rates will provide an indirect impact assessment of the training component of the Jua Kali loan program. Additionally, any impact assessment done on loan recipients will include survey questions regarding value of training.

3. USAID could assist KCB and its private sector training sub-contractors in providing guidance on evaluating training impact.

USAID Response:

USAID concurs.

Annex 4.18: INVESTMENT PROMOTION CENTRE
(Policy Component)
Project 615-0238

Annex 4.18: Recommendations:

1. Having financed this experiment, USAID needs to interact with IPC both at the project level and at the management level in ways that foster autonomy, accountability and constructive action. It would be premature to apply evaluation criteria in terms of macro-economic indicators such as employment, investment, production or exports, since IPC is only a small part of the system that produces those results. But it is and will continue to be worthwhile to expect and to facilitate specific instrumental, proxy or work-task outputs such as policy, sector and feasibility studies. Meanwhile, systems should be designed not only to track the progress of investment proposals registered with IPC but also to monitor the Centre's effect on the workload of lawyers, accountants and other Nairobi consultants on whom investors had come to rely to obtain clearances before the "one stop" approach was initiated.

USAID Response:

> USAID is tracking outputs and establishing indicators for longer term assessment of IPC's activities. A computerized tracking system for investment proposals has been in operation at IPC since September, 1989. USAID does not concur with recommendation to monitor workloads of lawyers, accountants and other Nairobi consultants.

2. It would seem wise for USAID internally to rely on one officer to coordinate all aspects of the IPC component, reporting frequently to a senior officer who will be in regular contact with IPC's Managing Director. Every effort should be made to relax the distinction between policy, sector and other categories of "studies" in order to provide a prompt, flexible and expert response to IPC's varied needs.

USAID Response:

> USAID's activities with IPC continue to be coordinated by an officer but the Chief, Private Enterprise Division, now meets regularly with IPC management. USAID concurs that a flexible approach to studies will enhance IPC's institutional development.

3. Both IPC and USAID as well as others concerned with sustainable and equitable development in Kenya will have to continue to look for ways both to enlarge the effectiveness of IPC (for instance, by giving it true interdepartmental stature and authority, possibly by converting it into a Presidential Commission) and to deregulate the economy in more radical ways that directly encourage initiative, risks, exports and growth.

USAID Response:

> While this recommendation is not specifically a USAID action, it is noted and will be the subject of continued dialogue with GOK.

4. Should IPC's Managing Director request a full-time, long-term resident advisor to assist with investment promotion and with policy studies, the Mission should give sympathetic consideration to that possibility.

USAID Response:

> A long term advisor was envisioned in the project agreement. IPC had acted on this recommendation and as of February, 1990, has short-listed candidates for the long-term advisor position.

5. Mission personnel (Economist as well as Project Officer) should aim to develop close working relations with IPC staff in defining Terms of Reference for studies they propose to commission. The list of twelve possible studies is very broad, and the numerous items under each of those headings suggest a shopping list or almanac approach. To obtain good value from studies it commissions, IPC will have to work to develop a theory of the case, a working hypothesis or two, and a sharp, even narrow, focus for the options it wants explored in preparing recommendations for government and/or investors.

USAID Response:

> USAID's Private Enterprise Division in the Office of Projects new Private Sector Policy Advisor will arrive in Spring, 1990. He, along with the other USAID personnel cited in this recommendation, will provide input for IPC's studies.

Annex 4.19: KENYA ASSOCIATION OF MANUFACTURERS
(Policy Component)
Project 615-0238

Annex 4.19: Recommendations:

1. Maintain this component at the current planned level. It gives good value (in terms of useful output) at low administrative and reasonable cash cost.

USAID Response: .

USAID concurs.

2. Expedite performance on requests from KAM for complementary support. For example a word processor would be very useful and is said to be on order. Also, the report on rural industrialization recommends that KAM play a catalytic role in initiating follow up studies and other collaborative work (pp.63-4); a cost sharing arrangement with USAID might expedite the proposed follow-up by university researchers, economists at the Kenya Industrial Research and Development Institute, private consulting firms, The Kenya Economic Association and the Institute of Certified Public Accountants.

USAID Response:

USAID will review KAM's work plan and perform a needs assessment on any requests received for complementary support such as a word processor. USAID in January 1990, pursued the recommendation on follow-up studies with KAM; discussions are continuing on avenues available within current grants or through grant amendments to build KAM's follow-up studies capabilities.

3. Given the fact that USAID itself has many spigots from which flow funds for policy studies (broadly defined), even within a single project like No.615-0238, and that there are several other indigenous and external sources for such funding, it may be necessary to encourage some coordinating mechanism and perhaps eventually a common Research Review Board, to facilitate complementarity and follow-up. Meanwhile, the KAM-sponsored studies are to be commended for their careful review and candid references to prior work on which they build.

USAID Response:

USAID heartily endorses this complementarity and follow-up between donors, NGOs and private enterprises. The World Bank has taken the initiative to establish a sectoral committee on private enterprise. The Private Sector Policy Advisor, once on board, will be the coordinator for USAID's participation.

4. It will be desirable for USAID and KAM to discuss the medium-term (3-5 year) trend in their relationship and to aim for a common vision of future studies. In the medium-term USAID should aim to remove the last vestiges of micro-management of studies (e.g., gradually substituting consent on proposed TOR and contracts for prior clearance or approval). In the longer term, local consultants should be expected to maintain and improve on the quality standard set by initial studies, which have so far been led by expatriate firms; moreover, a steadily increasing share of the cost of policy studies should be expected to be paid from local sources.

USAID Response:

> USAID and KAM concur with this recommendation. USAID is drafting Cooperative Agreement Amendment to provide recognition of KAM's institutional development in conducting policy studies through decreasing number of USAID approvals required in the procurement process. Self-sustainability issues are also being discussed.

5. Mission personnel would do well to make it a practice to consult with Mr. Ita from time to time about other policy issues USAID considers worth studying (e.g., raising interest charges on loans to small enterprise to make such lending attractive to participatory banks). He is likely to have good advice on the timeliness of such issues and the most effective tactics to use in presenting alternative options to the Government.

USAID Response:

> Mr. Ita is no longer with KAM. However, USAID routinely seeks counterparts' inputs on policy issues.

Annex 4.20: ACTIVITY SUMMARY
Commodity Import Program (CIP) --
Technical Assistance to Support Policy
Initiatives and Institutional Change
(Various Elements of Projects Nos.615-0213 and
-615-0240, which form part of the
Structural Adjustment Assistance Program (SAAP)

Annex 4.20: Recommendations:

1. Maintain this component at recent levels and with a similar mix of financing both imports and technical services.

USAID Response:

USAID shares the evaluation's general concern for facilitating private sector access to imported materials and equipment, and for continuing support for policy initiatives and institutional change. However, import liberalization support under the World Bank structural adjustment program has been so successful that USAID's private sector CIPs, with their cumbersome bureaucratic procedures and source/origin requirements, are no longer attractive or necessary. USAID only plans to continue CIP assistance for a single commodity, DAP fertilizer (where bulk ordering and U.S. costs make for a competitive program). Although structural adjustment and macro-economic policy reform are not a major strategic emphasis of USAID's program, limited technical assistance for tax liberalization, budgeting and resource management are planned to continue until 1993.

2. The Mission may find it useful to commission ad hoc studies to deal with specific implementation problems as they arise. The evaluation team is not clear how the authorities dealt with the finding two years ago that 50 percent of potential importers were having difficulties arranging credit; this would appear to be the type of problem that could be addressed expeditiously mainly by local consultants and academics. As similar problems arise in future, they can be researched, and if verified, practical alternatives for mitigating the problem can be laid out by consultants for consideration by government.

USAID Response:

USAID accepts this recommendation in principle and intends, for example, to hire a policy advisor to develop a USAID policy agenda, monitor policy implementation and recommend appropriate USAID interventions. To date, USAID has been able to accomodate ad hoc requirements within the framework of ongoing institutional relationships with IPC and KAM for undertaking policy studies. USAID also intends to encourage increased utilization of local consultants and academics, but questions whether they can or will be in a position to engage the government in a direct dialogue.

3. There is a real danger of policy-dialogue-overload in Kenya. Many agencies have ideas they wish the government to consider. It seems prudent to leave major macro-economic issues for negotiation between GOK and the World Bank/IMF; there is abundant opportunity for USAID to express its preferences to both GOK and multilateral agencies before they sit down to work out specific structural adjustment targets from year to year. Even when formal negotiations on mega-issues are left mainly to major development assistance agencies, there remains abundant scope for others to focus their assistance on implementation of particular programs within the general adjustment framework. In this regard USAID support of experimental projects to provide credit for smaller enterprises, its technical advisory services in support of capital markets development, its concern for private sector distribution of agro-chemicals, and similar project interventions are recognized and greatly appreciated by both GOK and the mega-agencies.

USAID Response:

USAID has and will continue to turn to the World Bank and IMF to take the lead role on macroeconomic policy dialogue with the GOK. In addition, USAID is actively promoting the establishment of an informal donors group to discuss and coordinate policy agendas.

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