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Program for Investment in the Small Capital Enterprise Sector
(PISCES)

Report to
USAID/Kenya

Kenya Rural Private Enterprise Project: Social Soundness Analysis, NGO Assessment, and Recommendations on Project Design

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TABLE OF CONTENTS

Introduction..... i

Part I: Commercial Lending Component

Social Soundness Analysis..... 1
Recommendations..... 32

Part II: Non-Governmental Organization Component

Introduction..... 36
Partnership for Productivity..... 37
National Christian Council of Kenya: Small Business Scheme..... 64
Tototo Home Industries..... 80
Daraja Trust..(TTDT)..... 98
Technoserve..... 111
NGO Summary Assessment..... 124

Part III: Intermediary Assistance

Recommendations for Establishing an Intermediary Entity to Assist Small-Scale Rural Enterprises..... 131
Intermediate-Level Assistance..... 140

Part IV: Summaries

Social Soundness Analysis: Commercial Lending Component..... 143
Recommendations on Commercial Lending..... 146
NGO Programs..... 147
Intermediary Entity 149
Intermediate-Level Assistance 150

Appendices

INTRODUCTION

This report results from a consulting mission undertaken for USAID/Kenya on the Rural Private Enterprise Project (615-0220). The mission's purpose was to (i) carry out a social soundness analysis of the entire project; (ii) assess five NGO income-generation projects currently financed in part by USAID/Kenya and determine the absorptive capacity of these projects over five years; and (iii) make general recommendations on the design of an intermediary assistance structure which could assist Kenyan NGOs in the development, upgrading, and expansion of income- and employment-generation programs.

The work was carried out under AID's PISCES* Program, a project of the Bureau for Science and Technology, Office of Multisectoral Development which assists in the development and monitoring of income-generation programs for the self-employed poor. PISCES works mostly through indigenous NGOs in the Third World.

The consultant team was greatly assisted by Dr. P.A. Chitere, Mr. K. Macharia and Ms. V. Nyamodi, whose services on reasearch and project analysis on the NGOs were provided through the Ford Foundation. We would like to extend to them our sincere thanks.

This report, like our mission, reflects the difficulty inherent to analyzing a project of such scope and diversity. There is not a great deal of commonality in approach among the private and voluntary organizations, for example, and the differences in aims and operations between these groups and tha commercial banks are enormous. To do justice to this broad diversity, we have attempted to analyze and assess each

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* Program for Investment in the Small Capital Enterprise Sector

component of the project as much as possible on its own merits. Thus, in doing the social analysis of the design of the commercial lending scheme we have not applied a point-by-point process analysis straight out of Handbook III. Instead we have tried to assess the direction and potential socio-economic impact of the proposed lending scheme and offer design alternatives on that basis. We applied all social criteria called for in rendering this analysis, but kept the focus of the analysis on the project reality. Similarly, in assessing the NGO programs, we have focused as much upon the social aspects of the programs as upon the economic since social development is largely what these groups are seeking to achieve and what they have been funded to do. In tailoring our efforts to the situation at hand, we have attempted to produce a report that is both fair and practical.

The report is organized in the following manner. Part I contains the social soundness analysis of the commercial lending scheme and concludes with recommendations on changes in project design. Part II presents the assessment of NGO programs and culminates with an overall assessment of the programs examined. This leads to Part III, recommendations on the design of an intermediary assistance entity for NGO income- and employment-generation programs. Part IV contains summaries of the various sections of the report.

Lastly, we would note that due to the large body of information that we have had to gather and examine in a relatively short period of time, there are bound to be some omissions of fact and interpretation. Despite such drawbacks, however, we believe that the report does address the basic issues of the project in sufficient detail. We hope that we have contributed to improving the design of the project and to addressing in a practical manner the dichotomy between growth and efficiency on the one hand and equity and socio-economic development on the other -- an issue that this large project so forcefully brings into play.

Part I: COMMERCIAL LENDING COMPONENT

INTRODUCTION

The purpose of this section is to analyze the social soundness of the commercial lending scheme of the proposed Rural Private Enterprise Project. This analysis, which was completed before final design decisions were made, provides both an analysis of the projected impact of the project as stated in the Project Identification Document (PID) and recommendations on design to upgrade the project socially while assisting in the more effective attainment of the project goals.

The Rural Private Enterprise Project, as outlined in the PID, is meant to play a significant part in the implementation of USAID/Kenya's priority of "increased rural production, employment and income" (USAID, CDSS,1984, 1985). The central goal of the project is "to accelerate the establishment and expansion of sound rural private enterprise." The project has been designed to provide the following outcomes:

- Improved standard of living for rural people.
- Increased markets for agricultural production and investment in the export sector.
- Increased capital flows to rural private enterprises, increased capacity of financial intermediaries to make loans to rural private enterprise, and greater utilization of business advisory services by small entrepreneurs.

The PID also anticipates four other related but distinct outcomes:

- New jobs directly created in project assisted enterprises.
- Increased value of output of project assisted businesses.
- Increased net worth of project assisted businesses.
- Economic return on investments in project assisted businesses.

In this social analysis, we will attempt to determine the probable effects of this "annual injection of credit on the order of ten to fifteen million dollars"[1/] according to the lending criteria as outlined in the PID.

In order to trace the potential social consequences of the project we will first present a brief review of the socio/cultural context of the project. We will then examine the resources to be utilized in the attainment of project goals, that is the private enterprise system and the commercial banking system. This will be followed by an analysis of the social impact of that part of the project administered by the commercial banks. Similar analyses of NGOs will be undertaken as part of the evaluation section which follows.

THE SOCIO/CULTURAL CONTEXT OF THE PROJECT

Kenya is overwhelmingly rural with 88 percent of the people living in rural areas. Agriculture provides 65 percent of all employment and 33 percent of GDP. The small farm is the dominant mode of agricultural production accounting for more than 80 percent of agricultural employment.[2/] Smallholder farming is highly efficient in Kenya (USAID, CDSS, 1984).

There are disturbing signs of increasing social and economic pressure upon this rural setting. Population increase is conservatively estimated at 3.8 percent per annum, implying an annual increase of 575,000 persons (World Bank, 1980) placing an absorptive demand for increased employment in rural areas of some two to three million more people during the approximate life of this project (Livingstone, 1981).

At the present time the effects of population pressures, the lack of off-farm employment opportunities, and traditional landholding patterns have resulted in increasingly rapid subdivisions of smallholder

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[1/] This is based on the assumption, as stated in the PID, that banks will match U.S. loan funds on a 50/50 basis.

[2/] The "small farm" is defined as less than three hectares.

lands, especially in the Western provinces of the country.[3/] Despite smallholder productivity, off-farm income is an increasing necessity for the typical rural family. The average smallholder earns 43 percent of his income off-farm, and those who have very small holdings earn as much as 77 percent (Kenya, Rural Roads, 1981 and Livingstone, 1981). Smallholders, squatters on large farms and the rural landless comprise 80 percent of Kenya's poor. In addition, the rate of general agricultural growth has slowed and is now being outstripped by population growth.[4/]

Off-farm income is critical as a supplement to the income of the smallholder family. This income comes from a variety of sources such as remittances from relatives (10 percent), casual employment (6.8 percent), regular employment (17 percent), and non-farm operating surpluses (10.5 percent) (Kenya, IRS, 1974). These formal and non-formal earning opportunities are not keeping up with employment demand. Although the manufacturing sector has performed better than the economy as a whole, the sector is tiny, representing only 13 percent of GDP in 1980. Wage employment in manufacturing in 1981 involved only 173,000 persons (Kenya, Economic Survey, 1982). Manufacturing wage employment has grown at 5.7 percent since 1974, constantly below the growth rate of manufacturing output.[5/]

Overall wage employment is only growing at an average annual rate of 3.4 percent (1974-1980), while the labor force has increased its growth rate to 4.1 percent. It is estimated that employment in the modern sector of the economy may grow by the year 2000 to 3.9 million

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[3/] Over 50 percent of all smallholders are poverty households in the Western provcines. (USAID, CDSS, 1984.)

[4/] Agricultural growth was at an average yearly increase of 4.2 percent from 1974-1978.

[5/] 8.4 percent in the first decade since Independence, 5.2 percent since 1974.

and this will leave a remaining labor force of 11.8 million to find employment outside the modern sector, primarily in rural areas.[6/]

Women in the Rural Economy

Women in the Kenyan economy are primarily rural (90 percent) and engaged in farming. Seventy percent cannot read or write. Women have very low rates of participation in the modern sector (16 percent in 1976) and comprise only 10 percent of the total adult labor force engaged in permanent non-agricultural rural enterprises. About one-half of those so employed work in family-owned enterprises. The small number of women in rural enterprises is a result of several factors including lack of training and training opportunities, lack of capital for self-owned enterprises, and limited access to loan facilities (Kenya, Social Perspectives, 1978). In addition, "women appear to concentrate on household activities which can be carried on near the smallholding, while men search out opportunities for employment ... away from the farm in neighbouring rural centers or in the towns" (Livingstone, 6:45, 1981). It is estimated that the most socially and economically marginal of rural households are the 5-13 percent[7/] of smallholder households headed by women without husbands (USAID, SIP, 1982). The need for income supplementation and the lack of time and opportunity to earn off-farm income places these one-hundred thousand to two-hundred thousand in a most serious "at risk" category.

In these few pages we have attempted to provide a selection of project-related aspects of the social and economic culture of Kenya. In this context we have found ample testimony to the need for increased off-farm earning opportunities. As we will see in more detail in later sections of the paper, the small farm and the rural enterprises are in a close symbiotic relationship. In general we can assert that the farm

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[6/] The Kenya Commercial Bank has estimated that the country's labor force is expected to rise from 6 million (1979) to 16 million by the end of the century (KCB, Request, 1982).

[7/] Estimated as high as 25 percent by IRS, 1974, Table 6:1.

is not viable without the enterprise, nor the enterprise without the farm. It is the rural family that ties them together in their struggle to survive.

PRIVATE ENTERPRISE IN KENYA

The Formal and Informal Enterprise Systems

In Kenya, it is estimated that the formal and informal enterprise sectors each employ about a half a million workers out of a total labor force of six million (1978 statistics).

The formal private enterprise system employed 540,200 workers in 1981 (Kenya, Economic Survey, 1982). It is urban concentrated, (73 percent of all wage employees) with Nairobi and Mombasa-based manufacturing accounting for 42 percent of output. Four hundred and fifty large firms contribute over 85 percent of gross industrial output (1978) (Livingston, 1981) yet 79 percent of all manufacturing firms employ less than 50 employees. Formal wage employment is divided among agriculture and forestry (32 percent), manufacturing (21 percent), construction (6 percent), wholesale/retail trade, hotels and restaurants (13 percent), transportation and communication (4 percent, finance, real estate, insurance and business services (6 percent), community, personal and social services (18 percent).

The informal sector is the mirror image of the formal. Instead of being urban and dominated by large, capital intensive firms, it is rural, characterized by small, labor intensive enterprises (1-10 workers). While it employs about the same number of workers as the formal sector, only 157,300 are employed in urban areas.

Employment in the informal sector is very different from the formal. In the formal sector there is a dependence upon wages for the majority of household or personal income and the workers tend to stay for longer terms. In the informal sector the wage is for the most part a supplement to family or individual income and workers tend toward intermittent or part-time patterns of employment.

An enumeration of household involvement in rural informal enterprise shows the following pattern (Livingston, 1981). Resource extraction (12.1 percent), food and beverage (22.3 percent), fiber products and wearing apparel (12.4 percent), wood products (14 percent), pottery (1.7 percent), metal manufacturing (1.2 percent), construction (4.7 percent), wholesale/retail (9.3 percent), repairing (5.4 percent) and other services (17.8 percent).

One important aspect is the relative ease of entry into the informal sector. Livingstune lists some of the capital costs for some of the more typical enterprises of the sector:

- Wholesaling . . . . Kshs. 90,000
- Taxi Driver . . . . Kshs. 44,000
- Pombe Brewer . . . Kshs. 64,000
- Bakery . . . . . Kshs. 5,000
- Clothing Vendor . . Kshs. 5,800
- Food Kiosk . . . . Kshs. 5,800
- Barber . . . . . Kshs. 3,400
- Water Carrier . . . Kshs. 2,500

He sets the average value of assets in the informal sector at Kshs. 20,000.[8/]

The informal sector generally depends upon the locally available supply of labour and skills, local materials for processing and relatively simple tools and equipment.[9/] The organizational structures are simple, with little job differentiation. One of the major problems faced by the informal sector's entrepreneurs is lack of capital. In almost every case the capital requirement of the enterprise has come from the personal savings of the informal entrepreneurs since they do not have access to commercial banking resources for their capital needs.[10/]

8/ The KCB has estimated capital investment in informal enterprises at US$10,000 per worker, with an average number of 20 per unit. We find that estimate extremely high based upon our evaluation of informal enterprises assisted by NGOs in Kenya.

9/ One survey of informal entrepreneurs has shown that 36 percent (50 percent of manufacturers) mention lack of tools as their most important problem.

10/ The major reason for this is the commercial banking requirements for security. This will be discussed in more detail in the section below on commercial banks.

We have seen that the Kenyan private enterprise system is divided into two quite dissimilar groups. The Rural Private Enterprise Project has selected certain target enterprises for the project, that is rural enterprise in general, and agri-processing firms whether located in urban or rural areas. Deloitte, Haskins and Sells (Nairobi) has made a specific delineation of these target groups in the 20 employee and up range:

- Agri-processing (urban and rural)
  Approximately 76,000 employees in 465 establishments

- Rural private enterprises
  Approximately 60,000 employees in 1,000 firms[11/]

In addition to those listed by Deloitte, Haskins and Sells, there exist a number of target firms in the 20 employee and below range that are either small formal sector firms, or those of the informal sector. It is impossible to provide an accurate estimate of their numbers, but they could well exceed 200,000.

Regional Issues in Private Enterprise

We have noted above the extreme concentration of the firms and employment opportunities of the formal sector in the urban areas of the country.[12/] Despite concern by the government over this form of concentration and the consequent use of several inducement policies to remedy it, the maldistribution continues unchanged.[13/] It has been suggested (Westcott and Norris, 1981) that firms do not follow these inducements to the rural areas because of three facotrs: (1) limited infrastructure development; (2) the agglomeration advantages of Nairobi and Mombasa; and (3) no clear governmental policy preference for assisting the creation of new enterprises.[14/]

[11/] The reader is directed to the Deloitte, Haskins and Sells study for their disclaimers.

[12/] For example, a 1974 study showed in the manufacturing sector that informal firms of the rural areas employed 86,000 workers, while the formal rural manufacturing sector only employed 25,000 (Westcott and Norris, 1981).

[13/] The most common inducements have been duty remissions and investment credits for rural enterprises.

[14/] A spot check made of three Nairobi-based firms currently seeking loans for expansion confirmed these insights of Westcott and Norris.

If firms are to be able to expand outside of Nairobi and Mombasa they must have access to appropriate infrastructure. Because of this lack, as well as for some of the other reasons cited, there has not been the appearance of manufacturing growth poles in other cities and towns that the government has anticipated. The only evidence to date of real growth outside of Nairobi and Mombasa has been that of Thika which currently provides 10 percent of the national formal sector manufacturing employment. In 1978, the last year for which we have these statistics, Thika managed to capture a 16 percent share of the growth in the sector. In contrast, Kisumu, in the crowded and poor Western district of the country, represented only 3.5 percent of the base and 4 percent of the increase (Livingstone, 1981). Table 1 shows the regional distribution of manufacturing among six cities and towns by size of firms.

Table 1 is also important because it shows the very small manufacturing base in Kenya. Only 139,000 people are employed in manufacturing, with 27,000 of those in the rural areas, 71,235 in Nairobi and Mombasa, and 41,442 in the urban areas made up of the small cities and larger towns.

The need for rural enterprise development to provide additional employment varies from province to province. The greatest concentration of need seems to be in the Western districts of Kenya. This is consistent with USAID/Kenya's own priorities. Table 2 provides an overview of these needs from the perspectives of population density, carrying capacity of the land, percent of income spent on food, and small-farm households below the poverty line.

As column one shows there is a great variation of population density among the provinces with Central, Nyanza and Western provinces showing an average population density per square kilometer 12 times that of the less densely populated areas. Since this density is explained in part by the carrying capacity of the land due to its rainfall and fertility, it is important to look at province-by-province predictions of the capacity of the land to carry its population in the year 2000. Here we see that Central and Nyanza provinces will be burdened by a population

	Size of Establishment (Number of Employees)										
	0-19		20-49		50 and over		Total Urban		Rural Enterprises		Total
Town	Number Employed	%	Number Employed	%	Number Employed	%	Number Employed	%	Number Employed	%	Number Employed
Nairobi	4,698	32.1	6,093	56.0	43,437	49.8	54,228	48.1	-	-	-
Mombasa	3,209	21.9	1,655	15.2	12,143	13.9	17,007	15.1	-	-	-
Thika	2,876	19.6	217	2.0	3,587	4.1	6,680	5.9	-	-	-
Nakuru	952	6.5	616	5.7	2,547	2.9	4,115	3.7	-	-	-
Eldoret	108	0.7	181	1.7	2,318	2.7	2,607	2.3	-	-	-
Kisumu	1,366	9.3	327	3.0	796	0.9	2,489	2.2	-	-	-
Other Towns	1,430	9.8	1,790	16.5	22,322	25.6	25,542	22.7	-	-	-
Total	14,639	100.0	10,879	100.0	87,150	100.0	112,668	100.0	27,009	-	139,677
Percentage of total urban employed		13.0		9.7		77.4		100.0		24.0	24.0
Percentage of total employed urban and rural		-		-		-		80.7		19.3	100.0

Table 3.5 Persons Engaged in Manufacturing, By Main Towns and Size of Establishment, 1977.

Source: CBS

15/ Reprinted from Livingstone, 1981.

Table 2

Comparative Needs of Provinces

Provinces	Density Per /[/ KM 1/	Carrying Capacity (000s) 2/	Food Consumption as % of Minimum Expenditure 3/	% Small-farm Households Below Poverty Line 4/
CENTRAL	127	+2.9	80	18.2
COASTAL	11	- .58	NA	43.5
EASTERN	12	+1.9	76	28.5
N. EASTERN	2	+ .34	NA	NA
NYANZA	169	+2.9	53	55.5
RIFT VALLEY	13	-3.1	61	38.8
WESTERN	162	+2.0	49	51.1

1/ Source: Population Census, Kenya, 1969.

2/ Year 2000 Projection, GOK, Physical Planning Department, Ministry of Lands and Settlement, 1976.

3/ World Bank Country Study: Kenya, Population and Development, p. 51.

4/ ILO estimate II with consumption criteria at Kshs. 2,200 (1974).

estimated at 2.9 times the amount able to be supported by its land and industry, while the Western and Eastern provinces will be at almost double their capacity.

If we look at current indicators we see in column three that people in Central and Eastern provinces use a higher percentage of their income to buy food than the already high percentages (over 50 percent) of Nyanza, Rift Valley and Western Provinces.

It is when we examine the poverty index for smallholders that the immediate need for additional income for rural families becomes most clear on a regional basis. Here Nyanza and Western Provinces followed by the Coastal Province show the greatest percent of smallholders living below the poverty line. There is a significant demonstrable need for additional income in every district of Kenya, and the need will get greater as the population increases, but as USAID's priorities indicate, it is the Western provinces that are, and will continue to be, the most heavily impacted.

COMMERCIAL LENDING

We have examined the socio/cultural context of the Rural Private Enterprise Project and its target group of agri-processors and formal and informal enterprises. Now we turn to the instrumentality chosen to deliver project resources to the target firms. In this section we will look at the terms and conditions of commercial bank lending in Kenya, the short- and medium-term credit patterns in commercial lending, and from this make an analysis of where project funds are apt to flow.

The Commercial Banks of Kenya

There are nineteen commercial banks currently in operation in Kenya. Deloitte, Haskins and Sells provide an analysis of the interest and capacity of the members of the commercial and development banks in the Rural Enterprise Project's goals and objectives. In their opinion the Kenya Commercial Bank (KCB) and its wholely-owned subsidiary, the Kenya Commercial Finance Company (KCFC), together with Barclay's Bank

offer the strongest capacity for implementing the project.[16/] The study notes in particular the development orientation of both banks, their staff and branch banking resources, and asserts that both are "financially viable and strong as shown by their balance sheets and profitability."[17/]

Loan practices of the other commercial banks are similar. As in the case of most countries who are heirs of the British banking system, their practices focus almost entirely upon loans on an overdraft basis rather than those of a fixed repayment schedule. Such loans can be recalled at any time. They do not make loans on the basis of cashflow, but rather upon collateral (USAID, 1982). There is no real incentive for term transformation on the part of the banks.

Credit is concentrated on the larger, well-established, enterprises with little incentive to make smaller, less profitable loans. Fixed interest-rate ceilings allow for little or no margin adjustment according to credit risks, which reinforce concentrations upon the larger well-established clients (IFC, 1982). Collateral requirements range from 100-150 percent of loan size. Typical collateral assurances are land titles, equipment, or other physical assets as well as securities.

[16/] USAID was in the process of continuing discussions with the commercial banks during the preparation of this analysis. Our exposure has been limited to the activities of the KCB and the KCFC and our analysis made on that basis. However, nothing in our study of material on Kenyan commercial bank practices leads us to believe that the KCB is not representative of general banking practices.

[17/] The KCB is listed as having 47 main branches and 37 sub-branches and agencies, while Barclay's is listed as having 32 branches and 27 sub-branches. The KCFC has only its main office although it operates through all branches of KCB which may make loan recommendations to it.

While default rates are reported to be low, with foreclosure proceedings initiated for about 2 percent of all loans (Kilby, 1982), interviews with bank officials indicated a far higher problem rate, at least in terms of loan numbers if not loan capital. The use of such high and limiting collateral requirements allows the bank to screen its applicants at high speed and low cost (Kilby, 1982).

Deloitte, Haskins and Sells has noted that:

> Most of the finance provided by the banks is short term, although some medium term lending up to three years does take place. Most of the short-term credit is provided via overdraft and is technically payable on demand. In practice overdraft facilities can be renewed, and are often deployed not as working-capital finance solely but also as substitutes for unavailable longer term financing. Problems can and do arise in obtaining increased facilities, however, due to increased market liquidity from time to time. The lack of longer term lending by the banks is primarily a reflection of the short-term nature of their deposit base (Appendix 6, Sheet 7, #19).

Lending Patterns of the KCB

In order to be able to predict with some confidence the size and type of firm to which project money will flow, we have examined the lending patterns of the KCB for both its short-term and medium-term lending. David and Wyeth (1978) have provided us an analysis of the KCB's pattern of short-term lending to rural businesses in the years 1974-75. We have also examined a print-out of the KCB's current loan portfolio for all branches for all types of loans.

In order to get a better understanding of the kind of lending associated with the project we then examined two types of medium-term lending practices of the KCB. The first is the current loan portfolio of the KCFC of medium-term loans made for all purposes. The second is the lending made by the KCB for the just completed International Finance Corporation (IFC) project of 1976. We also visited four of the IFC loan recipients to get better first-hand knowledge of the effect of this lending upon these private sector enterprises. The results of this study of short- and medium-term lending follow.

Table 3

(i) Short-Term Lending

1975-1976 Rural Business Loans Only (David and Wyeth, 1978)

Type of Businesses Owned by Loan Recipients: */

Retail and wholesale trading	83%
Transportation services	11%
Manufacturing and repair	11%
Food processing	9%

Size of the Enterprise (Employees)

0-3	33%
3-4	23%
5-9	20%
Over 10	15%

Distribution of Total Outstanding Credit for Business[18/]

5,000 or less	27%
5,001- 10,000	17%
10,001- 20,000	19%
20,201- 30,000	11%
30,001- 50,000	14%
50,001- 70,000	4%
70,001-100,000	4%
100,001-200,000	3%
200,001-500,000	1%
Over 500,000	-
Not ascertained	1%

18/ It is suggested that the reader use the GDP deflator of 179.3 to bring the loan figures more nearly approximate those of 1982.

*/ These figures exceed 100% because some loan recipients own more than one business.

Table 4

Kenya Commercial Bank (KCB) Portfolio of Loans Made Through Branches Outside Nairobi and Mombasa For All Purposes As of April 21, 1983

Loan Size (Ksh.)	Number of Loans	Amount (000s)	Percent of Total Rural Lending	Average Loan Size (000s)
50,000 or less	9,659	140,372	47.0	14.5
50,001 to 100,000	756	51,140	17.2	67.6
100,001 to 200,000	198	27,705	9.3	139.9
200,001 to 500,000	83	24,597	8.3	296.3
500,001 to 1,000,000	22	14,527	4.8	660.3
over 1,000,000	9	40,208	13.4	4,467.6
TOTAL	10,727	298,549	100.0	27.8

These two examples of short-term commercial lending show a pattern of loans being made in greater frequency toward the smaller loan sizes.

(ii) Medium-Term Lending

The first of our medium-term lending patterns comes from an analysis of the current (April 21, 1983) lending portfolio of the KCFC. The KCFC is a wholly-owned subsidiary of the KCB and specializes in offering term loans for the purchase of machinery, for financial and property transactions, etcetera. The KCFC is the instrumentality that would be chosen by the KCB for the purposes of this project (Delloite, Haskins and Sells, 1982).

Medium-term lending is distributed in almost a completely opposite pattern of that for the short-term commercial lending, and tends to confirm the IFC's experience of concentration of credit in the larger, better established firms. If we compare short-term lending for all purposes by the KCB in branches outside Nairobi and Mombasa, we find that about one-half of funds in the lending portfolio are under Kshs. 50,000,

while medium-term lending of the KCFC has 86.9 percent of its portfolio in loans over one million shillings averaging five million shillings per loan.

Table 5

Kenya Commercial Finance Corporation (K.C.F.C.)
Loan Portfolio as of 4/21/83

Loan Size (Ksh.)	Number of loans	Amount (000s)	Percent of Total KCFC Lending	Average Loan and Size (000s)
50,000 or less	85	1,923	0.3	22.60
50,000 to 100,000	50	3,807	0.6	76.14
10,001 to 200,000	71	10,107	1.5	142.35
200,001 to 500,000	95	30,094	4.5	316.77
500,001 to 1,000,000	59	41,354	6.2	700.91
over 1,000,000	113	582,988	86.9	5,159.18
TOTAL	473	670,273	100.0	1,417.06

IFC Experience in Medium-
To Long-Term Credit

In 1976 the International Finance Corporation (IFC) received approval from the President and the Board of Directors of the World Bank for a US$2,000,000 line of credit to small- and medium-scale industrial enterprises in the Republic of Kenya. This money was to be administered by the KCB with the IFC's line of credit used for the finance of acquisition of fixed assets. Working capital requirements were met by credit facilities of the KCB. The IFC put a limit of US$15,000 to $150,000 on loan size for its credit. The maximum term of the loans were to be eight years and "The KCB will ensure that all loans and facilities are appropriately secured by fixed and floating charges over the assets of the borrowers, ranking over all other lenders" (IFC, 1976). The IFC also provided technical assistance to develop the Business Advisory Service for the KCB to provide better services to its clients in such areas as accounting, budgeting, cash management, marketing, purchasing, maintenance, organization and management.

At the conclusion of the first tranche Ksh. 35.0 million (US$4.7 million equivalent) had been extended to 19 borrowers. Term loans, overdrafts, and other facilities provided by the KCB amounts to Ksh. 20.1 million (US$2.7 million) as compared to the IFC share of Ksh. 15 million (US$2 million equivalent). The average loan size of this financial scheme was US$234,000. Fifteen of the clients were located in Nairobi, two in Nyeri, and one each in Kisumu and Mombasa. Approximately 340 new jobs were created at an average cost of US$13,823 in loans per job. Client assistance through the Business Advisory Service has been judged effective for the clients. There is, however, some indication that these services have not been accepted as general banking practice by the KCB, and are limited to special cases such as the IFC clients. A description of the 19 firms is attached in Appendix 1.

We now have a description of commercial bank lending practices for both short-term and medium-term loans. We have seen that there is a difference in the lending patterns, with the longer-term loans being typically loans in the Ksh. 5 million range, and the short-term lending

going much more frequently to the smaller borrower. Collateral requirements for both sets of borrowers are at 100 to 150 percent of the loan amount.

The next section will look at the social impact of the project by first analyzing the lending patterns to enterprises to show where the loan money can be expected to flow in a mix of urban and rural firms, how many jobs can be expected to be created in the urban and rural areas, and what social impact may result.

THE SOCIAL IMPACT OF COMMERCIAL BANK LENDING PRACTICES

Lending Pattern and Employment

We have shown two examples of longer-term lending patterns in the commercial banking sector. While neither example is an exact fit with the project's proposed lending criteria, they are useful approximations for the prediction of future commercial banking behavior.

If, for example, the project lending should conform to the patterns of current KCFC medium-term lending we could expect that 87 percent of project loans would average Ksh. 5 million and generate 113 loans at that level. We would expect another 17 loans at the Ksh. 1 million level or under.

If project lending should more nearly approximate the IFC pattern of an average loan size of Ksh. 1.8 million we could expect 361 loans to be made during the life of the project.

Table 6 contains estimates of the urban and rural distribution of jobs and loans under the KCFC and IFC lending patterns. For comparative purposes we have held the cost of job creation at US$13,823 (IFC experience). The $13,823 figure per job is a good working figure. For, as we will show below, the firms to which project money will flow are all in the 50 employee and above size, very close to the average IFC firm size of 64. It is only when you get to much smaller firms that you get to the more labor intensive applications (Kilby, 1982).

Table 6

Estimated Number of Loans and Employment
Under Two Possible Sets of Conditions

Loan Condition No. 1: KCFC Experience	Urban	Rural	Total
Jobs	2,894	723	3,617
Loans	100	25	125

Loan Condition No. 2: IFC Experience	Urban	Rural	Total
Jobs	1,002	2,615	3,617
Loans	100	261	361

In order to calculate the probable distribution of loans among urban and rural firms we used the Deloitte, Haskins and Sells estimates of target firms, calculating 150 agri-processing firms in Nairobi and Mombasa and 300 in rural areas. This brings the total number of potential target firms with 20 employees and over in rural areas to 1,300. Since urban firms tend to be larger, better organized, and a much more desirable credit risk, we have made the conservative assumption that under present loan criteria two-thirds or 100 agribusiness firms in the urban areas would get loans at some time during the life of the project.

As Table 6 shows there is a distinct correlation between loan size and the urban/rural mix. The higher loan sizes of current KCFC experience give an urban tilt to project lending. The smaller IFC loans give a more rural tilt.

We can also use Table 6 to help estimate the probable size of the firm that will receive loans. By using the Deloitte, Haskins and Sells descriptions of numbers of firms and the number of employees in the various sub-sectors of the target enterprises we can calculate that there are in the rural areas alone 630 firms in manufacturing alone with over 50 employees, and an average firm size of 42 for all the rest.[19/] As based on existing lending experience we can predict that loan money will go to the bigger and better organized firms.[20/] We can thus safely assume that the majority of the loans will be absorbed by the larger firms which will employ over 50.

In summary, we can predict that project funds under the lending criteria proposed in the PID will:

- Be absorbed by the larger (50 employees and up) firms.
- That a minimum of 100 urban firms will receive loans.

[19/] See Table 1 for manufacturing distribution by firm size and urban and small city locations.

[20/] See Deloitte, Haskins and Sells, p. 60, No. 112 for a more detailed discussion of capital availability for smaller versus larger firms.

- That job creation will be at a cost of US$13,823.
- That the distribution of urban/rural jobs and loans depends upon average loan size. The smaller the loan the greater the rural impact.

Probable Project Goal Attainment

Although project goals and objectives as they are stated in the PID are open to some latitude of interpretation, the overall conclusion that must be drawn is that stated project goals and desired outcomes will not be achieved by this project as now designed.

Table 7 shows project goals and objectives as stated in the PID and their probable attainment under conditions similar to the KCFC and the IFC lending patterns.

Table 7

Attainment of Project Objectives under Two Lending Patterns

Project Goals and Objectives	KCFC	IFC	Comments
Accelerate establishment and expansion of rural private enterprise	25 firms	261 firms	Only for firms employing 50+
Improve standard of living for rural people	Employ	Employ	Low No. of jobs per dollar invested
Increased markets for agricultural production; investment in export			Unknown
Increased capital flow to rural private enterprise	Small	Modest	Urban absorption High
Increased capacity to the banks to make loans to rural private enterprise	25 Loans	261 Loans	"Capacity" increase is $ capacity available to lend
Greater utilization of business services by small entrepreneur	None	None	No small firm lending
New jobs directly created outside Nairobi and Mombasa	723	2,615	Costly
Increased value of output for project assisted businesses	Yes	Yes	Machinery purchases will increase value of output
Increased net worth of project businesses	Yes	Yes	
Economic return on investment in project assisted businesses	High	High	Return of investment high for owners

The most important goal of the project, that of "accelerating establishment and expansion of rural private enterprise" cannot probably be reached without changes in the lending criteria. As Table 6 shows, if lending is left to the current pattern of KCFC lending only 25 rural (that is outside of Nairobi and Mombasa) firms would get loans. If loan criteria were made to approximate the IFC conditions, then past experience would indicate that some 261 firms outside of Nairobi and Mombasa would benefit. However, all loans, in any case, would most probably go to firms that employ over 50 people.

The most direct and important improvement of the standard of living for rural people would be in income generated by the new jobs created through the loan. However, with a new job cost of an estimated US$13,823, the creation of jobs would be very low compared to the USAID standard in the PID of US$5,000 per job.

As Table 6 illustrates the only real increased capacity of commercial banks to make loans to rural private enterprise would be in the few more rural loans made from the funds available (25 to rural enterprises under the KCFC condition and 261 under IFC conditions). There is no indication that the program would provide the increased staff capacity for rural branches, for there would not be the demand to justify additional staffing.

Beneficiaries

It is clear that USAID/Kenya's Priority Beneficiaries -- the rural poor, women, residents of the Western provinces, and the rural entrepreneur -- will receive little direct benefit from the project unless the conditions for lending are altered significantly.

Table 8 illustrates some of the benefits and the costs of lending to rural enterprise. As Table 8 illustrates, effective assistance in rural areas to target beneficiaries necessarily involves smaller firm size (in number of employees) and higher program costs. But as costs go up so do the opportunities to have a significant impact upon the target population of rural enterprises (formal and informal) and related potential beneficiaries, the rural poor smallholders and women.

Table 8

Relative Costs and Benefits of Assistance by Size and Type of Firm

Firm Size	Labor Intensive	Risk	Locus	TA[22/] Needs	Benefit To Women	Access to Credit of Owners
50 & up	Low	Mod.	Urban	Mod.	Low	High
20-49	Mixed	Mixed	Mixed	Mixed	Low	Mixed
1-19 Formal	High	High[21/]	Rural	High	Some	Low
1-19 Informal	Very High	High[21/]	Rural	High	High	Little to None

[21/] Seen by commercial banks as very high risk and very costly to lend to. Experience with NGO lending at this level confirms the high need for technical assistance and thus high cost but the risk appears to be highest where these smaller firms are attempting to take a much larger market share and thus expose themselves to better organized and financed urban enterprise competition.

[22/] By Technical Assistance we mean both managerial assistance and technological assistance with the former predominating at the lower-end of the enterprise-size ladder.

From the analysis above we can make the following general assessments regarding relative benefits to beneficiaries:

Large firms 50 employees and up	Direct benefits to owners who are almost without exception urban, wealthy entrepreneurs with many years of business experience. Other direct benefits, though far smaller, to new employees who will receive a rough average of Ksh. 1,500 per month. Indirectly, rural households will receive from Ksh. 50-100 per month where the employee has family in the rural areas.23/ For women receiving the cash transfers, much of the value is offset by additional work on the smallholding as well as lost opportunity for employment in local informal enterprises.
Medium-size firms 20-49 employees	Direct benefit to owners who will tend to be experienced urban entrepreneurs. Workers will receive approximately the same wage as in larger firms. Transfer payments to rural households will generally be low as majority of these firms will still be in urban or semi-urban areas (see Table 1). Women will have almost no opportunity for direct employment, and secondary benefits will be as low as in the larger firms.
Small size firms Formal 1-19 employees	Owner is much more likely to be a rural entrepreneur with the enterprise located in rural areas. His direct expenditure for the firm will have a heavy urban flow due to economic structure of the country, but some of his spending will be for local raw materials and labor. His personal income will be spent in rural areas (see below). His workers will usually receive a lower wage than urban counterparts, but rural spending will be far higher because worker may very well live in the area of the enterprise. Women will have higher possibility of direct employment. If spouse is employed she will have disbenefit of extra work and loss of opportunity for employment, but will have benefit of high proportion of spouse's wage flowing to household income.

23/ A Study by Partnership for Productivity of 24 women's groups in Western Province shows average transfer payments from urban employed spouses to be Ksh. 50-100 per month.

Small size firms Informal 1-19 employees	Owner is highly likely to be rural resident and will receive and spend profits in rural area. His expenditure for the firm will be for local product and labor.
	Employees will receive lesser wage and benefits than formal enterprise wage earners, but enterprise is much more likely to be close to employee's rural home, with less cost for worker subsistence, and more access for women.
	Women have highest potential for both ownership of enterprise or employment (Livingstone, Ch. 4, 1981).
	Probable closeness of enterprise to woman's household is a direct benefit to women for employment and increased proportion of spouse's wage.
	Employment for men and women far more likely to be part-time and/or intermittent. Supplementing on-farm activity's increased cash income associated with increased farm productivity.

Secondary Beneficiaries of Rural Employment

If this project is changed to develop rural enterprise, the secondary beneficiaries of additional wages provided should be found in the large part to be owners and operators of the food distribution sector.

Trying to trace the secondary benfits of rural employment is at the current level of available data approximate at best. There are some studies on household consumption in rural areas, but even such basic estimates such as household consumption for food as a proportion of cash income may vary as much as 20 percent. Therefore the following comments on secondary beneficiaries of rural wages must be taken as approximate and needing further studies for refinement. Table 8 shows household consumption patterns as derived from the IRS.

The best available information is in the food distribution sector and because of the data, and the importance of food expenditure as a proportion of cash expenditure, this area is selected to illustrate secondary benefits.

Table 9

Rural Smallholder Household Consumption[24/]

	Own Produce	Purchased Food	Purchased Non-Food	Miscell.	Total
Householder Consumption	36%	43%	15%	6%	100%
Cash Purchases	NA	67%	22%	11%	100%

It is important to note the high percentage of cash income of the smallholder that flows to food purchases off the farm. Reduction of cost of purchased food would have great benefit for the farm family. Table 9 then shows a further breakdown of those off-farm food purchases by type of food purchased and the nature of the establishments. The table is derived from Spliet, pp. 112-113, 1978.

Table 10

Rural Small Trading Center Food Purchasing
Percentage Distribution by Source of Purchase

	Retail Duka	Market Trader	Friend/Neighbor	Other
Non-processed Food	35%	42%	17%	6%
Processed Food	78%	7%	12%	3%

From Table 10 we can see the importance of the retail trader in rural small-trading centers. The average smallholder is spending 67 percent of his cash income for food. Of that expenditure for food, 35 percent of his non-processed food expenditure and 78 percent of his processed food

[24/] Although Table 9, derived from IRS data, shows percent of cash spent on food to be 67 percent for the smallholder, Spliet, p. 127 (1978) shows an aggregate cash expenditure per adult equivalent as spending 44 percent of cash income on food. Difference may be accounted for by IRS selection of the smallholder householder where percentage may be higher than all rural adult equivalents.

expenditures are passing through the retail trader's establishment. However, not much of the processed food expenditure stays in the rural areas because of Kenya's centrist urban monopoly on food processing. The retail trader has very low profitability and a great deal of competition. The average rural retail trader income from the store is Ksh. 6,240; double the wage of the day laborer, but not high enough for rural capital accumulation (Spliet, 1978).

Based on the above we can see the importance of reaching and assisting small production and distribution enterprises at local levels. Using food processing as an example we can see local enterprises would provide lower cost goods for rural consumers (through reduction of transportation costs) and, in many cases, better nutritional value (Spliet, 1978).

Rural Small Enterprise Employment

We have seen above the need that exists for the rural Kenyan smallholder to find ways to supplement his family's on-farm resources with off-farm income. We can reasonably expect the already high dependency of the smallholder upon off-farm income[1/] to increase as the rapidly growing population forces ever smaller subdivisions of family property among male heirs. Rural income provision is an important and necessary resource for the Kenyan economy.

What is the most effective way of providing additional rural incomes? One way is to assume the utilization of project loans for enterprises that have the likelihood of the highest possible employment generation. We have seen from the I.F.C. experience of granting loans to small- to medium-size firms which were expanding their businesses, that the average "cost" per job created (total loan per job) was US$13,823. We have compared this experience to the wider experience of the World Bank and have found that to be typical of loans meeting the expansion needs of successful and growing small- to medium-size enterprises.

From general World Bank experience we find that small enterprises show an average fixed asset/direct employment ratio between $1,000 and $3,000, and medium/large enterprises between $10,000 and $20,000. As the Bank points out:

> What is, therefore, important is the relative labor intensity, [which is] roughly four to 10 times higher for small firms. 2/

1/ Average off-farm income 43 percent, and as high as 77 percent for the very smallest holdings (Kenya, Rural Roads, 1981).

2/ "Employment and Development of Small Enterprises," Sector Policy Paper, World Bank, 1978, p. 63.

In addition the World Bank analysis shows that lending to firms for expansion carries a "cost"/direct employment ratio on average three times higher than fixed asset/direct employment ratios. This difference is due to the tendency of enterprises to upgrade their production technology and become more "modern" and capital intensive.

From a study made in 1977 of rural industries in Central Province[1/] we found that the average amount of depreciated fixed assets per employee was Ksh. 7,000 (roughly equivalent to US$1,000 per job). There is, as Table shows, a great variation from Ksh 9 for woodcutters to Ksh. 23,424 for employees in posho mills. However we can generalize that project loans made to this rural small enterprise sector will have a "cost"/direct employment ratio of approximately $2,000.[2/]

On the basis of the two Kenyan studies of employment generation/cost ratios and the worldwide study from the Wrold Bank we can make some generalizations which will be useful to the Rural Private Enterprise Project:

1. Small firms in rural areas are approximately seven times more labor intensive than larger, more urban firms.[3/]

2. Loans made to start-up enterprises have a greater likelihood of being more labor intensive than loans to improve existing firms.

[1/] Norcliffe and Freeman, "Rural Industrialization Policies and Programmes in Kenya," Norecliffe, Freeman and Miles, I.L.O.; 1980, pp. 35-40.

[2/] Estimate based upon 50 percent of the loans going to new businesses, and 50 percent to existing firms which will use the loans for more capital intensive machinery.

[3/] Estimated on a "cost"/direct employment ratio of US$2,000/each rural enterprise new job compared to US$13,823 experience of the IFC for loans to expanding small- and medium-size urban enterprises.

Table 11

Capital Inputs for Rural Industries
in Central Province, 1977

Industry	Depreciated Current Assets (Ksh) Average per enterprise	Average per employee
Woodcutters	9	9
Posho mills	48,312	23,424
Daily products	142,667	19,022
Pombe brewing	64,095	8,248
Bakeries	5,000	2,500
Other food industries N.C.S.	525	525
Sisal bags and mats	50	50
Weaving, spinning, knitting & dyeing	4,710	3,140
Clothing	10,010	7,044
Animal skin products (including shoes)	11,975	6,973
Cement and stone blocks	80	80
Other construction, n.e.s.	13,700	6,850
Sawmills	265,000	19,630
Furniture	38,501	16,001
Wooden handles	125	83
Metal farm implements	9,750	9,750
Household utensils (including jikos)	7,693	4,583
Other metal products	44,333	19,000
Car and truck repairs	12,144	2,626
Tool and machinery repairs	400	400
Clothing and footwear repairs	2,897	2,173
Bicycle repairs	10,166	7,469
Other repairs	5,345	4,157
Matatu operators	43,900	21,415
Water carriers	2,500	2,500
Animal-drawn vehicle operators	1,500	1,500
Other transport operators	80	80
		189,232

Source: "Rural Industrialization Policies and Programming in Kenya," Norcliffe, Freeman and Miles, ILO, 1980.

The Relative Value of Loans To Rural Small Enterprise

We have seen that rural small enterprises generate, on the average, seven times the number of jobs per investment than do their urban small- to medium-size counterparts. But, for this information to be useful, it must be set in context.

For example, we must ask: "How good are these rural jobs? Are they as valuable as urban employment in larger firms?" We estimate, although we have no extensive studies to confirm our impression, that rural wages are lower and have fewer benefits than urban wages. However, this disparity is almost completely balanced by:

1. The closeness of the rural job to the employee's smallholding.

2. The flexibility in many of the smaller enterprises which allow part-time and intermittent employment thus allowing the worker to farm as well.

3. The increased benefit to women that rural enterprises allow greater direct employment possibilities. Additionally, male employment in nearby firms increases the percent of the earnings that return to the household, and reduces the social and work burdens that an absent spouse puts upon the rural wife.

It is for this reason that we recommend in the following section:

That $5 million be made available specifically for the development of rural private enterprises which have assets below Ksh. 300,000 and/or employ between 0 and 20.

We further recommend that although loans should not be restricted to productive rather than service enterprises, to the maximum extent feasible loans should be given to rural productive enterprises, thus multiplying the economic benefit of the loans.

RECOMMENDATIONS ON THE COMMERCIAL LENDING SCHEME

As is clear from the preceding analysis, to address the critical socio-economic problems facing Kenya, the project must move toward increasing incomes and employment in the rural sector by assisting smaller income and employment generation efforts at the local level. This would best be accomplished through assistance to small rural firms, cooperatives, and other indigenous enterprises. However, it is questionable to what extent this can be attempted broadly through commercial banks. For this reason, we favor -- to the extent possible -- the expansion of NGO and other alternatives (as cited below and in the following sections). Still, the main lending component could be improved significantly from a socio-economic perspective by making some important alterations in the final design. In this regard, we make the following recommendations.

1. Specify as a policy to the banks the program's intention of reaching small enterprises, cooperatives, and other entities representing USAID/Kenya's target population and introduce incentives to the banks to carry out this policy.

This could be done in two major ways:

- First, a certain share of loan capital could be allotted on a bank-by-bank basis to be lent to this sector as a specific requirement of bank participation. Special lines of credit could be set aside for small-scale enterprises and limits could be placed on lending above specified asset levels.

- Second, the margins to the banks could be adjusted upward for lending to enterprises in this sector.

Based on available data, we recommend that $5.0 million[1/] be made available for commercial bank lending to small-scale rural enterprises; that is, enterprises below KShs.200,000 in assets and/or in the firm size from 0-20 employees.[2/] However, to be effective, this recommendation must be taken together with those cited below addressing loan security, types of loans and the geographical areas to be emphasized in lending.

2. Effect a lowering and liberalization of prevailing commercial bank collateral requirements. Kenyan commercial banks normally require clients to pledge physical assets in excess of 150 percent of loan size as collateral. As this policy excludes the vast majority of rural entrepreneurs -- in particular rural women who do not traditionally hold title to property -- from obtaining commercial credit, we recommend three possible courses of action.

   - First, as a condition of participation, banks could be required to make verificable efforts to lend on the basis of positive feasibility studies and cashflow analysis.

   - Second, banks could liberalize collateral requirements for clients who are receiving technical and managerial assistance from NGOs. These NGOs in turn could assist clients in preparing loan applications and in securing credit.

   - Third, a system of shared risk assumption could be established to lower the banks' risk exposure in lending to smaller, poorer enterprises which traditionally are considered high risk. The latter two considerations are dealt with in greater detail in the following sections.

3. Promote the extension of credit for working capital. The majority of African rural enterprises are retail or service as opposed to manufacturing enterprises. Their credit needs, as pointed out by the KCB, are largely for working capital. Consequently, term lending will not reach this target group to any significant extent. Working capital, therefore, should be made available either by altering current on-lending criteria or by specifying the use of matching credit capital on the part of the banks. As we understand that banks can match with short-term funds, this should not present major difficulties.

1/ See previous section on Rural Small Enterprise Employment.

2/ This does not include credit to cooperatives; credit recommendations for this sector are detailed later in the report.

We should note here that we do not disagree with an emphasis on rural manufacturing activities. However, at the small-scale level, the creation and growth of such enterprises would best be assisted by providing extension services and technical assistance, rather than by limiting the type of credit available. Thus, we believe it is important to promote manufacturing, but to do so through the extension of technical assistance for enterprise start-up, upgrading and expansion. To the extent possible, group enterprises should be favored in promoting production-oriented rural enterprises. For reasons of efficiency in service delivery, equity, and labor-intensity, group enterprises also provide a good way to promote employment of rural women.

4. Make efforts to move lending out of Nairobi and Mombasa, preferably to the highly populated, poorer districts in western Kenya. As stated previously, we find that under the present criteria a greater number of large firms in the primary cities will qualify for loans than originally anticipated. Most of the loans will go to firms with 50 and above employees. Firms of this size provide virtually no employment opportunities for women. Because of the relative absence of larger manufacturing firms in rural areas, moving loans to the rural areas will promote lending further down the enterprise scale with several positive associated implications. Moving loans out of Nairobi and Mombasa will:

   - effect lending to smaller-size firms;
   - create more rural-based job opportunities;
   - offer employment opportunities which are more accessible to women;
   - promote the use of more local resources;
   - increase goods available at the local level;
   - reduce transportation costs associated with distribution.

   Again, however, the African poor will not be reached unless this recommendation is adopted in conjunction with changes in the lending terms and policies stated above.

The question of how to implement such a recommendation through the commercial banking structure again arises. Two alternatives are possible: direct allotments on a regional basis; or adjustments to the margins (spread) as an incentive for banks to lend to rural-based firms. We would favor the former alternative of direct allotments as the latter alternative would be more complex to implement. This is because it is difficult to identify on a case-by-case basis which firms to target and to monitor banks' compliance unless there is a shared sign-off on risk with the intermediary.

A more direct approach of credit allotment on a regional basis would more adequately assure geographic equity. But again, regional allocations alone would not necessarily address the serious equity concerns raised by the commercial lending scheme.

5. Lastly, since the commercial banks themselves offer little institutional flexibility in terms of socio-economic development concerns and particularly with regard to involving women as clients, we recommend the NGO-type activities specified in the PID be financed to the maximum extent possible 1/ and that additional institutional mechanisms for the channeling and utilization of credit and for the delivery of non-financial assistance be investigated further. In the following sections we assess USAID-assisted NGO programs which involve income-generation assistance and further explore other alternative programs and institutions operating in this sector.

1/ By "maximum extent" we mean financing up to the legitimate absorptive capacities of such organizations. We are acutely aware, from past experience, with the dangers of over-funding NGOs.

Part II: NON-GOVERNMENTAL ORGANIZATION COMPONENT

INTRODUCTION

The following assessments of NGO programs were undertaken at the request of the Mission to: (i) gain a better understanding of the program operations and capacities of organizations receiving support for income- and employment-generation; (ii) detail, to the extent possible, the impact of these programs; and (iii) determine the absorptive capacity of these programs over the next five years.

We have carried out these assessments by interviewing program administrators and staff, examining relevant documents, records and reports, and visiting clients and their enterprises with NGO field staff. As stated previously, the consultants were greatly assisted in this aspect of our work by P.A. Chitere, K. Macharia, and V. Nyamodi. These professionals did preliminary research and documentation on the programs and drafted analyses and assessments for the Ford Foundation.

We have summarized collectively the points of assessment on the NGOs at the end of this part of the report. This was not an easy task given the very great diversity in goals, clientele, length of experience, and operating methodologies of the organizations examined. For this reason, we wish to stress that we have made no attempt to do a comparative assessment. Rather, the purpose is to assess the overall strengths and weaknesses of these programs for use in determining the appropriate structure and role of an intermediary assistance entity (the section which follows in Part III).

PARTNERSHIP FOR PRODUCTIVITY

I. Introduction

Partnership for Productivity (PfP) is a private voluntary organization which was started in the Western Province of Kenya in 1969 by the Quakers. PfP's primary goal is to assist in Kenya's economic development by allowing people to release their creative productive potential in an economic setting. The main objective is to improve the ability of small economic units to successfully manage their businesses. The strategy employed by PfP is process oriented through education in managing small businesses and other productive activities and promotion of other areas of community development which support enterprise growth.

II. Project Description

A. Brief History and Description

PfP's early programs of business education focused on individual entrepreneurs and business owners in the Western province. The clients were not among the very poorest, but benefited from the management assistance.

In the mid-1970s PfP initiated a loan program to support its other small business development programs. Unfortunately, due to serious repayment problems of clients the program ended in the late 1970s. At this time there also was a major shift in PfP management from control by American expatriates to local Kenyans. By 1979, the PfP staff was entirely Kenyan.

By 1980 several other changes ensued. PfP broadened its geographic coverage beyond the Western province into the surrounding Nyanza and Rift provinces. Kakamega became the western regional headquarters for PfP's operations here. In addition, a Central regional headquarters was opened in Nyeri in Kenya's central province. At this time PfP also broadened its functional emphasis by pursuing a more integrated approach to small enterprise development. This included emphasis on organizing women, legal education, agricultural development, and improved technologies.

B. Organizational Structure

PfP is run by a Board of Directors which meets regularly in Nairobi. Operations are overseen by a central office in Nairobi which is run by the General Manager, the Administrative Manager and a support staff of seven. The Western regional manager, and a field and support staff of 30 work out of the Western regional headquarters in Kakamega; the central regional manager and a field and support staff of 10 work out of the Central regional headquarters in Nyeri (see Chart I).

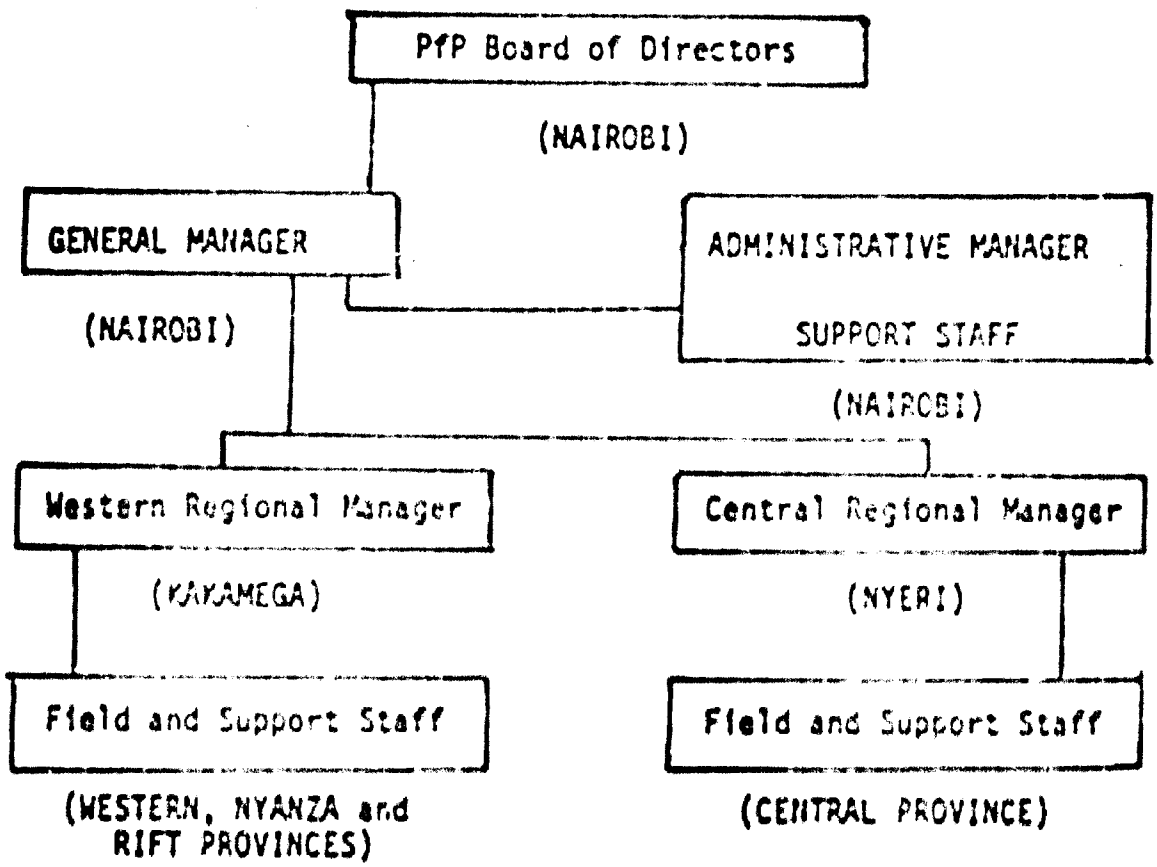
1. Staff education and experience.

PfP's management staff is highly qualified with training in such diverse fields as law, business management, accounting, engineering, social work, agriculture and education. Some are experienced in planning, managing and implementing development projects; while the younger staff are gaining on the job experience. Women are well represented in management in the Western region.

The field staff have major responsibility for actually delivering PfP's services to clients. They have training in accounting, agricultural extension, social work, and home economics. In addition, they have received in-house training on legal issues, women's issues, rural technology, agricultural extension, curriculum planning for business education, organizing groups, and other areas related to implementing PfP's programs. Many of the field extension agents have worked with PfP for several years and are experienced in delivering services to individual clients.

Chart I

PfP Organization



There has been a recent effort to recruit women field extension officers as part of PfP's Women in Development program. To date there are six women who work primarily with women's groups. The very unique skills required for this work are developed on-the-job.

2. Pay-scale.

For all levels of staff the pay scale is low. Relative to other NGOs, the pay scale is comparable at the management level, although lower at the field extension officer level. Nonetheless, the field officers for the most part demonstrate a high level of commitment to their work.

3. Staff turnover.

At the field level, staff turnover is not high. A majority of extension officers and support staff have been with PfP for five or more years. One secretary has been with PfP since it first began in 1969.

New managers were recruited in 1981 for PfP's Women in Development and Law in Development programs. Although both had little direct development experience prior to joining, they are highly trained and committed to the programs.

The top position in PfP is the General Manager. This position has turned over three times in the past five years. This has somewhat influenced PfP's programmatic consistency. The present General Manager, who assumed the position early in 1983, was previously the Western Regional Manager. His field level experience with PfP is a tremendous asset to his present position.

4. PfP's relationships with other programs and projects.

PfP has links to several governmental and non-governmental programs and projects. On the governmental side this includes the following:

(a) the Ministry of Culture and Social Affairs has asked PfP to provide technical assistance to 53 of its women's groups in the Western Province;

(b) nine Village Polytechnics in both the Central and Western regions have PfP field extension officers teach accounting, business management and improved technologies;

(c) the Ministry of Trade and Commerce has PfP field extension officers teach business education seminars;

(d) the District Commissioner of Siaya requested PfP assistance in implementing a pilot water project.

On the non-governmental side PfP has established relationships with many organizations including Bread for the World, UNICEF's NGO water project, Intermediate Technology Group and Technoserve. PfP's relationship with banks has been limited, although the staff recommend certain clients for bank loans. Business records kept by PfP clients help, in some cases, to secure loans.

5. Funding.

PfP funds its activities through a combination of bilateral, private, and non-governmental sources. In recent years a majority of funds have come from USAID and the Ford Foundation. They jointly fund the Women in Development Program; while USAID funds the Law in Development Program. The remainder of PfP's activities are funded by IBM, Bread for the World, United Methodist Churches, Dienste in Urbersee, ITIS, and client contributions (see Table 5.1).

Table 5.1

PfP Income by Source: 1981-1982

Total Income	Kshs. 2,953,778
Percent Breakdown by Source	
Ford Foundation (Women)	22.1%
USAID (Women)	19.4%
USAID (Law)	18.7%
IBM	18.6%
Bread for the World	12.0%
United Methodists	3.0%
Dienste In Urbersee	2.1%
NCCK	1.7%
ITIS	1.0%
Other Income	1.3%

Source: PfP records.

PfP's expenses break down as in Table 5.2. Overhead expenses are approximately 27 percent.

Table 5.2

PfP Expenses: 1981-1982

Total Expenses	Kshs. 2,459,995
Percent Breakdown by Category	
Personnel Costs	47.5%
Office Costs	7.0%
Administrative Costs	6.1%
Transport Costs	13.0%
Aid to Development Projects	15.7%
Vehicles, Furniture and Equipment	10.5%
Other	0.2%

6. Beneficiaries.

PfP clients are involved either in small business or in group income generating activities. A majority of clients are women who are group members (see Table 6.1).

Table 6.1

PfP Clients: 1983

	WOMEN	MEN	TOTAL
TOTAL FOR KENYA			
Groups	91	2	93
No. Members in Groups	3,391	164	3,455
Individual Clients	45	120	165
TOTAL	3,436	284	3,620
Western Region			
Groups	58	2	60
No. Members in Groups	2,401	164	2,465
Individual Clients	35	70	105
TOTAL	2,436	234	2,570
Central Region			
Groups	33	-0-	33
No. Members in Groups	990	-0-	990
Individual Clients	10	50	60
TOTAL	1,000	50	1,050

In addition to the above clients, over 700 trainees in nine Village Polytechnics receive training from PfP staff in bookkeeping.

(a) Definition of PfP's target group. PfP defines its target group as both poor and non-poor. Poor include men and women from 18 to 70 years old, living in rural areas and towns. They have limited education, skills, resources, and economic experience; they may or may not have family or other social support; and they must need and be capable of benefiting from PfP's services. The non-poor have influence at the local level, are engaged in economic activity, and can benefit from PfP services. Any assistance to the non-poor should ultimately contribute to the poor. $-level?

(b) Background of PfP's individual clients. PfP has a total of 165 individual clients. Approximately three-fourths are men and one-fourth women. No systematic information is available from PfP records. However, a 10 percent sample survey of individual clients in the Western Region (Chitere, 1983) shows that:

- A majority are aged 40 and above; one-third are less than 39, one-third between 40 and 50, and one-third over 50.
- Most clients have a primary education, but few (17 percent) have a secondary education.
- Economic status (based on an indicator which measures access to land, assets and other resources, and employment of other family members) is low for one-third and average for the rest.
- Half the male respondents had two wives, and half the female respondents shared their husband with another woman.
- One-third of the clients have four or less children; one-quarter have five to nine children; and a little less than half had ten or more children. Two-thirds have one or more children in secondary school and spend considerable sums on school fees.

With regard to enterprise characteristics, 75 percent of PfP clients are retailers and 25 percent are producers. Enterprises typically are located in small, rural market towns. Average gross monthly sales range from an estimated Kshs. 5,000 to Kshs. 10,000 per month (about $400 to

$800). Inventories generally range from Kshs. 3,000 to Kshs. 15,000 per month (about $250 to $1200). Most businesses have under five employees and many are operated by family members. A majority of PfP's individual clients use credit in their businesses. A few have small loans directly from PfP (Kshs. 500 to Kshs. 10,000 or about $40 to $800). Others have ICDC loans ranging in size from Kshs. 20,000 (about $1600) to Kshs. 50,000 (about $4800). Incomes of the clients interviewed are as follows:

Table 6.2

Gross and Net Monthly Incomes for Sample of PfP Individual Clients, 1983

Gross Income Per Month (Kshs.)	Percent Respondents (n=12)	Net Income Per Month (Kshs.)	Percent Respondents (n=12)
Up to 4,999/=	25%	Up to 999/=	25%
5,000- 9,999/=	17%	999-1,499/=	8%
10,000-14,999/=	17%	1,500-1,999/=	50%
15,000-19,999/=	17%	2,000/and over	8%
20,000/and over	25%	not sure	8%

(c) Background of PfP's group clients. A majority of PfP clients are group members (totaling 3,455), most of whom are women (98 percent). Summary data on all group clients in unavailable. However, based on a community survey which was administered to 24 groups in 1982[1/] and information on particular groups from PfP files, the following characteristics emerge:

- Average age of women group members is over 40. According to staff, older women participate more actively because of more time and freedom, greater need for school fees for children, and greater need, particularly among widows, for a social support group.
- Almost 25 percent of group members are widows, second wives or have absent or unemployed husbands. In some groups, this percent is higher.

[1/] May, Nicky, Community Survey Questionnaire: Report on Findings, PfP mimeo, 1982.

- Family income of group members varies widely, ranging from a reported Kshs. 20 to Kshs. 2,000 per month. Husbands variously control the income. If they work away from home, most send at least some remittances (usually from Kshs. 50 to Kshs. 100 per month, although some send more).

- Almost all group members depend in part on subsistence agriculture for survival. Women typically spend six to eight hours per day working on the land.

- Women's options for generating cash income are limited. Women surveyed report their options to be agricultural labor, picking cotton or tea, teaching, selling charcoal, or selling grains.

- With regard to time use, group members spend a disproportionate amount of time fetching water and gathering fuel wood (they travel from one-half to six kilometers to the sources).

D. Project Activities

PfP has an integrated approach to developing small enterprises in rural areas (see Chart D). According to the staff, both individual and group clients receive an integrated set of services which support development of enterprises and income generating activities including accounting and bookkeeping education; agricultural demonstrations; group organization; assistance in identifying and implementing income generation activities; legal assistance; and technical assistance in certain areas. These services are delivered through field extension officers (FEOs) based in 12 geographic sectors. Some sectors have both a man and woman FEO who cooperate in their day to day work. In sectors where there is only one FEO, he or she does all the extension work.

1. Rural Enterprise Extension Service (REES). This program was started in 1970 and is the core activity around which PfP's other activities are built. Through FEOs, REES provides training in accounting and bookkeeping and management assistance to small business operators and groups. This program also assists a few clients in securing bank loans.

Although successful in achieving its objectives, PfP realized several limitations in the program by the late 1970s.

- it is relatively expensive to reach clients on a one-to-one basis;

Chart D

PfP FUNCTIONS, APRIL 1983

Clients (Total for Kenya)

Individual clients (165)
Group clients (98 groups with approximately 3200 members)

Staff responsible for delivering inputs (all field staff trained to deliver all inputs)

22 Field Extension Officers
4 Assistant Field Supervisors
2 Project Consultants
4 Managers/Assistant Managers in Regional Headquarters
11 Support Staff in Regional Headquarters
9 Administrative/Management Staff (Nairobi)

PfP INPUTS

REES
Bookkeeping; Management Assistance; Linking clients to loans

WID
Organize groups; Assist in identifying on and off farm income generation projects; Provide technical assistance in implementation; Family life and home economic demonstrations.

LID
Legal education; Draw up loan agreements; Draft group constitutions.

IRT
Technical design assistance to a few individual clients; Implementation of Chekalini irrigation project.

- due to the required expense and intensity of staff input, only a small proportion of the target group can be reached in this manner;
- the clients tend not to be the very poor;
- few women are reached through this approach.

For these and other reasons, PfP consciously expanded its basic REES program to work with women's groups and to approach small business development in the context of an integrated approach to community development. The programs PfP have built around REES since 1980 reflect this shift.

2. Women in Development (WID). Ford & USAID

This project began in 1981 with the purpose of improving PfP's capacity to meet women's need for income by promoting group economic activities. PfP field extension officers work through 91 pre-formed women's groups registered with the government. The groups are at various stages of development, which influence the intensity of PfP's inputs. PfP FEOs work most closely with a core of about 20 groups.

The project is overseen by a woman director with a degree in business management and a woman agricultural specialist, both of whom were hired in 1981. In addition, seven women FEOs have been recruited under the WID program. The remaining male FEOs have been trained in women's issues and strategies of group organizing by the WID staff.

The FEOs carry out their WID functions in the context of their daily work. The seven women FEOs, a project consultant from Britain, the agriculturalist, and project director assist groups in identifying and implementing on- and off-farm income generation projects. A major emphasis in these first years has been on establishing agricultural demonstration projects and tree nurseries. PfP provides small loans to 17 groups for these and other income generating activities. The FEO's provide education in loan management, banking, organizing, and purchasing inputs. They also conduct seminars and train group leaders in accounts and bookkeeping. They further provide group training in family life, home economics, technologies, and agricultural techniques.

The WID program focused much of its energy during the first year on staffing up and training old FEOs in women's issues. It was not really until about a year ago that the actual work with groups and organizing income generating schemes got fully underway. The task at hand -- i.e., identifying new, viable income generating activities; working with women who previously have been involved primarily in subsistence agriculture; and working through groups -- is significantly new and challenging not to expect drastic results at this early stage. The current strength of the program is the basic staff infrastructure and outreach process PfP has developed. However, staff upgrading is needed in identifying feasible income generating projects (particularly non-agricultural activities) and marketing.

3. Law in Development (LID). AID

This project, which began in 1980, was conceived and designed by PfP's former General Manager, who is a lawyer. The purpose is to educate the rural poor about their legal rights and obligations. PfP staff educate the public at large through community meetings and individual clients through seminars and meetings. Legal topics covered include family law, inheritance law, business law, criminal law, and property law.

The LID project provides other services as well. The staff assist women's groups in drafting constitutions which establish the rights and responsibilities of members. They help to draw up loan agreements between PfP and clients. Moreover, they provide direct legal services to a limited number of clients. Most of these cases involve land disputes, accidents, or family disputes. The legal staff also are producing a handbook on legal issues relevant to the rural poor and small businesses.

The legal staff includes two lawyers (a woman who directs the project and a man who assists her) and two legal clerks. They provide training to the FEOs in relevant legal issues. The FEOs, thus, are able to identify clients' legal problems and refer them for help.

The LID program has been quite successful at raising the consciousness of community members in legal issues. However, a basic problem remains in that when clients do identify a legal problem, they still have

extremely limited access to affordable legal services. PfP is not set up to take cases to court, and the fees of other lawyers are prohibitive for most. Until this gap is filled, the rural poor will not fully realize their legal rights.

4. Improved Rural Technologies Project (IRT).

This was initiated in 1980 with the purposes of providing technical advice to individual clients and implementing a water irrigation project (Chekalini). A water engineer from NORAD and one assistant technical advisor oversee this work.

The Chakalini water project is designed to provide irrigation to a small community of farmers through a low-cost, simple system. It is integrated with a community development/income generation effort and is highly participatory. According to the staff, the project, which is now in its second year, will take another year to complete. Some technical snags have delayed implementation and increased project costs. This in turn has affected full community participation in contributing labor.

The IRT staff also provide technical advice to individual clients on an ad hoc basis. PfP has helped to design an energy efficient oven for several bakery owners, and has assisted a client who makes wheelchairs. Staff also teach rural technologies at Village Polytechnics.

5. Outreach and client selection.

PfP has organized individual clients since it started over ten years ago. Clients must fit into the defined target group of poor and non-poor and are identified in the following manner:

- PFP identifies geographic sectors and then calls for community meetings of business operators in small market towns. The staff explain PfPs services in these meetings.
- The staff then hold follow-up meetings with the business operators to decide if a demand exists for business management education.
- If so, PfP assigns an FEO to the area who visits business operators individually and identifies interested clients.

- The FEO then draws up a training curriculum for each client and provides on-site training in accounts, bookkeeping, costing, inventory control, etc., once a week at first, and once a month later on. Clients are supposed to graduate after two years, but most take longer.

Organizing group clients is a more recent effort of PfP. This requires somewhat unique skills that are developed by the staff through practice. Since most of the groups are comprised of women, the women FEOs have been most active in this area. The decision to work through groups was based on a conscious attempt to involve poorer clients than those served by the REES program, and greater numbers of people, particularly women. Groups are organized primarily in sectors where PfP already provides REES services to individuals.

Most of the groups that PfP works through are already organized and registered with the Ministry of Culture and Social Services. This is a result of a national effort to organize women's groups during the 1970s. Given this basic "infrastructure" there are thousands of groups for PfP to choose from. FEOs and WID staff visit groups in the PfP sectors and decide to work with them on the basis of their need, interest, and motivation to organize income generating projects.

The groups are at various stages of development -- from very active in community activities to very dormant. To a large extent this is influenced by the group leaders. Moreover, according to one staff member, the groups seems to have a natural life cycle of their own.

PfP is involved with the groups in several ways.

- A community survey of 24 groups identified community needs and possible group farm and off-farm income generating activities.

- FEOs, the agricultural specialist, and the WID staff work with the groups on a weekly basis to implement group projects (e.g., tree nurseries, agricultural demonstration projects, poultry raising, handicraft production, buying and selling maize, etc.).

- Group leaders (most of whom are established before PfP involvement) participate in PfP training seminars.

Because most of the groups are already organized, PfP plays primarily a catalytic role (through training and the provision of credit) in involving the group members in income generating activities.

6. Managerial assistance.

All 165 individual clients receive training in bookkeeping, accounting, balance sheets, profit and loss statements, pricing, licensing, and inventory control. A core of about 20 women's groups (with over 600 members) receive managerial assistance through training in bookkeeping and accounting and assistance in obtaining agricultural inputs for demonstration projects.

7. Credit assistance.

PfP has been involved in credit assistance to small businesses since 1974 when it established the Rural Market Loan Scheme. Through this program, market committees composed of local business operators set up revolving loan funds. The committee decided who received loans and was responsible for loan collection. During these early years PfP also advanced individual loans.

After several years, this program failed due to severe repayment problems. Some reasons for this include:

- Groups were not systematically organized. PfP did not draw up formal loan agreements with clients.
- Committees did not have bank accounts.
- Committee chairmen failed in carrying out their responsibilities.
- Loan recipients did not have a clear idea of their responsibilities and obligations to repay.
- There were no collateral requirements.

Today, PfP has re-established a small loan program which is based on the lessons learned from the earlier experience.

Table 6.1

PfP Loans, 1981-1983

Year	Loans to Groups			Loans to Individuals	
	No. of Groups	Aver. Loan Size	Loan Amounts (Kshs.)	No. of Individuals	Loan Amounts (Kshs.)
1981	4	9,426	37,703	1	7,000
1982	3	3,446	10,338	2	18,580
1983	13	1,523	19,803	-	-
TOTAL	20	3,392	67,844	3	25,580

1/

Source: Chitere, 1983.

Three PfP clients have individual loans averaging Kshs. 8,500 ($650). All men, their businesses include a tailor shop, a bakery, and a metal works shop (wheelchair producer). One client is experiencing some repayment problems. As a rule, PfP does not typically lend to individuals.

Women's groups have received 19 loans from PfP. Three larger size loans (averaging Kshs. 8,000) have been used for group income generation (a maize buying and selling scheme, a poultry scheme, and a fishing boat). The remaining loans are small and used for agricultural inputs, handicraft production, livestock, and cereals trading. Terms are worked out according to the type and purpose of the loan. Interest rates are from four percent to six percent (flat rate) and repayment is from one to 24 installments over one to two years. FEOs who are responsible to collections report no repayment problems to date.

One revolving fund through a market committee was started in 1981 with Kshs. 10,000. The fund is set up through a bank. The Committee meets once a month to decide who receives loans. Average loan size is Kshs. 2,000; terms are seven to nine months at a nine percent flat rate with a one month grace period. The collateral requirement is a small piece of

personal property which is pledged to the group, but kept in the possession of the loan recipient. To date, the committee has advanced 22 loans, with no repayment problems. The fund has now capitalized to Kshs. 12,000. According to staff, the success of this revolving loan fund is partially due to the fact that the chairperson (until earlier this year) is an ex-nun. 1/

7. Technical assistance.

The IRT program staff provide technical assistance in the design of bakery ovens, wheelchair design, and a water pump for the irrigation system. Along with WID staff they also assist in preparing business and income generation feasibility studies. Moreover, the WID staff and FEOs assist groups in agricultural techniques, raising livestock and poultry, and planting trees.

There is room for PfP to upgrade its technical assistance, particularly related to marketing and identifying new, viable income generation activities.

8. Training.

PfP field staff receive in-house training in women's issues, legal issues, business education curriculum development, and technology issues. FEOs also receive training in implementing revolving loan funds and writing business proposals and feasibility studies.

PfP clients receive training from the FEOs and the agricultural specialist in various technical subjects related to agriculture, accounting and bookkeeping, home economics, and family planning. Women's group leaders attend PfP training seminars; and students in Village Polytechnics receive training from PfP in business management and rural technologies.

E. Project Economics

1. Costs per client.

The average client load for PfP field extension offices is six individual clients and three groups. In addition, seven FEOs spend one day per week teaching business management at Village Polytechnics.

1/ PfP also oversees a UNHCR loan fund for refugees through Barclays Bank. The fund is run out of Nairobi and is not integrated with PfP's other services

According to the General Manager, staff time is further broken down in working with individual clients as follows:

- 65% time on management, bookkeeping, and credit education;
- 20% time on inventory;
- 15% time on marketing.

Moreover, FEOs spend roughly:

- 40% time working with individual clients;
- 55% time working with groups;
- 5% time teaching.

Assuming managerial and support staff and administrative costs are allocated in the same proportion to support these functions, then annual costs per client[1] are estimated to be Kshs. 457 overall; Kshs. 4,399 for individual clients; Kshs. 333 for group clients; and Kshs. 113 for students in Village Polytechnics (see Table E.1). $45± per beneficiary

F. Project Impacts

1. Economic impacts.

(a). On income. Systematic base-line or time series data on client income is unavailable. It appears, however, according to staff, that the businesses of individual clients are fairly stable and in some cases expanding. For example, case studies show that sales and profits for many clients are good. A sample survey of clients shows that about two-thirds of individual clients have incomes above Kshs. 1,500 per month. = fairly well-off

For group clients, staff estimate that incomes have increased about Kshs. 5 per day for those involved in income generating activities (approximately 400 women). Because group projects for the most part are new income generating schemes, it will take time to measure the sustainable income benefits.

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[1] Based on 1981-1982 expenses.

Table E.1

Annual Costs Per Client

Partnership for Productivity

FY 1981-1982

	Total Costs of PfP Services FY '81-'82 1/ (Kshs.)	No. of Clients	Annual Cost Per Client (Kshs.)	Services/ Benefits To Client	Services/ Benefits to Community
Individual clients	725,852	165	4,399	Weekly training in business management; ability to identify weaknesses in business; expansion of business and profits for some; access to bank loans for some	More efficiently run businesses; better local supply of goods and services
Group clients	998,045	3,000 (active in 87 groups)	333 (11,472 per group)	Access to PfP loans for on- and off-farm income generation for some; agricultural demonstrations; information on family planning, cooking, home economics; opportunity for social interaction	Spin-offs to families; development of local leadership
Students in Village Polytechnics	90,731	800	113	Instruction in bookkeeping and accounting	
TOTAL	1,814,628	3,965	457	See above	

1/ Includes personnel costs, office costs, stationery, telephone, postage, transport, miscellaneous costs. Does not include direct aid to development projects or costs of fixed assets, such as vehicles, furniture; in other words, minus direct transfers and capital costs.

(b). On enterprise management. PfP assistance in bookkeeping, profit and loss analysis, and inventory analysis contributes to better managed businesses. Some retail clients have expanded into manufacturing (e.g., one retailer opened up a tailoring business with profits, another a matress manufacturing business).

A sample survey of clients (Chitere, 1983) indicates that a portion of profits are being reinvested in businesses by a majority of clients. Other investments indirectly assist businesses. For example, one shopkeeper used profits to hire agricultural labor for his farm which enabled his wife to join him in town and work in the shop. Most clients also report using a portion of profits for school fees for their children.

(c). On credit utilization. Individual clients do not typically receive loans from PfP, although in some cases PfP helps them get bank loans. A sample survey suggests that about one-third of PfP's individual clients have loans from ICDC ranging from Kshs. 20,000 to Kshs. 60,000. Some clients are experiencing repayment problems on these loans.

Seventeen women's groups have received PfP loans ranging in size from Kshs. 400 to Kshs. 10,000. Staff report no repayment problems on these loans to date. The loans are used for agricultural inputs, poultry, a fishing boat, and working capital for trade.

Most women's groups, including those without loans, have their own fund which members pay regular dues to support. This fund is used on a revolving basis by members for group activities and projects, or by individual members in times of need on a loan basis. The regular contributions members make are a step in the direction of credit utilization.

All of the women's groups have opened bank accounts and make regular deposits and withdrawals. This also is a step towards credit utilization.

The Kshs. 10,000 revolving loan fund set up in one market town has been a source of loans for over 10 group members. No repayment problems exist which is largely due to strong local leadership.

To summarize, PfP clients have a demand for credit, but limited access. The previous and current credit programs have helped the staff to identify several elements of effective credit delivery programs which can be applied in the future.

(d). On marketing and raw material purchases. Impacts have been minimal in this area. FEOs give some advice on the purchase of raw materials and assist women's groups in purchasing agricultural inputs. Staff upgrading is needed, particularly in the area of marketing.

(e). On employment. No systematic data exists on the direct relationship between PfP inputs and employment generation. However, we do know that labor demand increases as individual clients' businesses expand. Retail businesses typically draw on family labor, while small manufacturing enterprises often hire labor on a piece rate basis (at quite a low rate). A sample survey (Chitere, 1983) shows that 12 individual businesses employ 26 permanent workers, in addition to family labor and casual workers when needed.

The employment impact of women's group income generating activities is more difficult to assess due to women's primary involvement in subsistence agriculture and the group nature of the activities. It is clear, however, that rural families have an increasing need for cash income. We also know that the responsibility for generating this income often falls on women due to male migration and polygamy. Unfortunately, there are limited options for generating income in rural areas and even fewer options for women.

PfP initiates activities for women with the purpose of supplementing subsistence production. This brings many women group members into the cash economy for the first time and provides them small amounts of cash income. An estimated 400 women benefit in this way. Because the groups are so large, the impacts are somewhat diffuse. Larger and more direct employment impacts could perhaps be realized by emphasizing group enterprise development among small sub-groups.

In sum, the most useful PfP inputs in relation to employment and income would seem to include:

- group organizing;
- technical education in business management;
- loans.

2. Social impacts.

PfP's work with women's groups has had perhaps the greatest social impacts. A majority of members are older women, 40 and above, many without husbands. Group membership offers them prestige and a sense of belonging and an opportunity to come together, socialize, share their common problems as women, ease off their frustrations and tensions, and benefit from a social support function. Groups also provide an institutional mechanism to mobilize and channel resources at the local level. Through participation in the groups, some members develop organizational and decision-making skills.

Community members where PfP is active generally are better informed of their legal rights and the availability of goods and services. Moreover, the better run businesses of individual clients increase the availability of goods and services at the local level.

3. Impacts on institutional development.

PfP has gone through a recent period of rapid growth, functionally and geographically, and is still in a period of consolidating and focusing its efforts. Building staff competency in new areas (such as organizing women's income generating activities and providing legal education) has taken time.

PfP has made an important shift in broadening its impacts by working through women's groups. It is a cost-effective way of reaching larger numbers of clients. However, staff upgarding is needed in technical business management areas (e.g., marketing) and in identifying and implementing viable income generating activities.

The broader focus of PfP in recent years has sensitized the field officers to social needs beyond technical advice. Social supports are important for small enterprise development; however, technical inputs

remain a core need. In some cases, particularly with women's groups, there has not been enough emphasis on technical inputs by PfP.

PfP has made a successful transition in management from all expatriates to all Kenyans. It also has made an admirable effort to recruit women staff both at the management and field officer level. It is difficult to find skilled women, but more are still needed to work with women clients.

Motivation of the field staff has markedly improved with the recent promotion of several men FEOs to assistant supervisory positions. A recent policy shift opened up these slots to people without university degrees. These are the first promotion opportunities field level staff have had.

There have been some communication problems between the headquarters in Nairobi and the regional offices. Most of the decisions regarding policies and allocation of resources are made in Nairobi without the full participation or understanding of the regional staff. Steps towards improvement in this area have been made in recent months.

Another problem is that over the years PfP has tended to shift the focus of some of its work in response to donor interests rather than to the most important needs in enterprise assistance. Greater donor flexibility is needed.

PfP institutionally has a strong system in delivering bookkeeping and business management assistance to individual clients. Upgrading is needed in the areas of marketing and delivering technical and management assistance to group income generating activities.

- what is the impact of this assistance

F. Absorptive Capacity

1. For non-financial assistance.

PfP's average annual operating budget is Kshs. 1,814,636 ($139,587). Assuming an annual inflation rate of 15 percent and an annual expansion rate of 10 percent, then PfP's non-financial assistance costs over five years total Kshs. 19,397,625 ($1,492,125).

At present, AID finances approximately 40 percent of PfP's operating expenses. Assuming that PfP expands its capacity to deliver credit and that AID supports this effort, AID's funding level should increase to about 50 percent. At this level of funding, AID's grant support over five years will total Kshs. 9,698, 812 ($746,062). (See Table 1.)

2. For financial assistance.

PfP at present does not have a major credit program. The annual lending level is approximately Kshs. 75,000. However, there is a demand for more credit among clients, and with some upgrading a basic infrastructure to support its delivery. PfP's capacity to deliver financial assistance is made on the following basis:

- PfP at present has 93 groups as clients and 165 individuals.
- Assume an average group loan size of Kshs. 25,000 and that PfP can deliver credit to 30 groups in year 1 (at present, 17 groups have loans). This would total Kshs. 750,000 ($57,692).
- Assume an average individual loan size of Kshs. 5,000 and that in year 1 PfP can deliver credit to 30 individual loan clients. This would total Kshs. 150,000 ($11,538).
- Assume that PfP can effectively lend a total of Kshs. 900,000 ($69,231) in year 1.
- Assume an annual inflation rate of 15 percent and an annual expansion rate of 10 percent.
- Assume an annual interest rate of 10 percent and an average amortization of 2 years.
- Then, PfP can absorb an estimated Kshs. 2,776,618 ($213,586) in new loan funds over 5 years. With turnover of funds, a total of Kshs. 7,605,221 ($585,017) will be lent to clients over this period. (See Table 1.)

Table 1

Estimated Absorptive Capacity for PfP to Deliver Small Enterprise Assistance (US$) a/

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Non-Financial	176,578	223,371	282,565	357,444	452,167	1,492,1
Financial						
New Capital Funds	69,231	49,500	24,541	31,044	39,270	213,5
Reflows						
$	0	0	38,077	48,167	60,932	371,4
$	0	38,077	48,167	60,932	77,079	
Total Capital Lent	69,231	87,577	110,785	140,143	177,281	585,0

a/Assume an annual inflation rate of 15 percent; an annual expansion rate of 10 percent; an annual interest rate of 10 percent; and an average amortization of two years.

b/This figure represents the reflows through year 5. Reflows would total $174,584 in year 6 and $97,505 in year 7.

G. Upgrading Needs

Based on this review of PfP's programs, upgrading in the following areas would strengthen PfP's capacity to carry out an effective credit program:

1. Organizational and management upgrading.

Senior management could focus more on planning and systematizing efforts; strengthening the delivery of a clearly defined set of economic services; and improving communication with regional field staff.

2. Staff upgrading.

Marketing assistance could be strengthened by hiring a marketing specialist at the supervisory level and training field staff in this area. A credit specialist at the supervisory level could systematize PfP's credit program and train field staff in implementing a larger credit program. Another possibility is to divide the functional responsibilities of some of the field staff so that some specialize in credit/lending, others in marketing, and so on. At present, the broad and diverse functions of the staff somewhat diffuse their efforts. PfP should continue to strengthen its institutional capacity to work with women's groups, particularly in identifying and implementing off-farm income generating projects. Recruiting and training more women FEOs could support this effort.

Table 2

Summary Information on PfP

1.	Number of clients	3,965
2.	Average annual operating budget	Kshs. 1,814,636 ($ 139,590)
3.	Annual level of lending	Kshs. 75,000 ($ 5,770)
4.	Average loan size	Kshs. 4,000 ($ 308)
5.	Cost per client	
	(a) Group clients	Kshs. 333 ($ 26)
	(b) Individual clients	Kshs. 4,399 ($ 338)
6.	Absorptive capacity over 5 years	
	(a) Non-financial	Kshs. 19,397,625 ($1,492,125)
	(b) Financial	Kshs. 2,776,618 ($ 213,586)
7.	Projected level of AID support for non-financial assistance a/	50%
8.	AID funding over 5 years	
	(a) Non-financial (50%)	Kshs. 9,698,812 ($ 746,062)
	(b) Financial (100%)	Kshs. 2,776,618 ($ 213,586)
	(c) TOTAL	Kshs. 12,475,430 ($ 959,648

a/ Current level of AID support is 40 percent.

SMALL BUSINESS SCHEME OF THE NATIONAL CHRISTIAN COUNCIL OF KENYA

I. Purpose and Goals

The general purpose of the National Christian Council of Kenya (NCCK) program is to enhance the social and economic life of the poorest of the self-employed. It seeks to upgrade the quality of life of those at the bottom-end of the informal sector through increasing incomes and stabilizing their enterprises and thereby their employment.

II. Brief Description and History

The project began as an adjunct to an existing network of social workers within NCCK's Urban Community Improvement Program (UCIP). UCIP started in the mid-1960s in Nairobi's Mathare Valley slum area and concentrates upon community organization, women's development (including women's group formation), nutrition, literacy and child education (through the provision of school fee to the very needy). The Small Business Scheme was first started in 1975 with a small loan fund and one small-business advisor. The program lapsed somewhat up through 1978 at which time NCCK decided to technically upgrade and expand the project. This was done in collaboration with consultants from USAID's PISCES program.

Like other PISCES programs, NCCK's Small Business Scheme (SBC) is an experimental program, designed to deliver assistance at the bottom-end of the informal sector and to attempt to learn what inputs, in what order, range and intensity, appear to have positive impact among such very poor clients. While nominally an urban project, the SBS now operates (through USAID

funds) in Kisumu, Kakamega, Eldoret, Nakuru, as well as in the Mombasa area and in Nairobi. The clientele thus ranges from traditional women in coastal villages to urban slum dwellers in Nairobi.

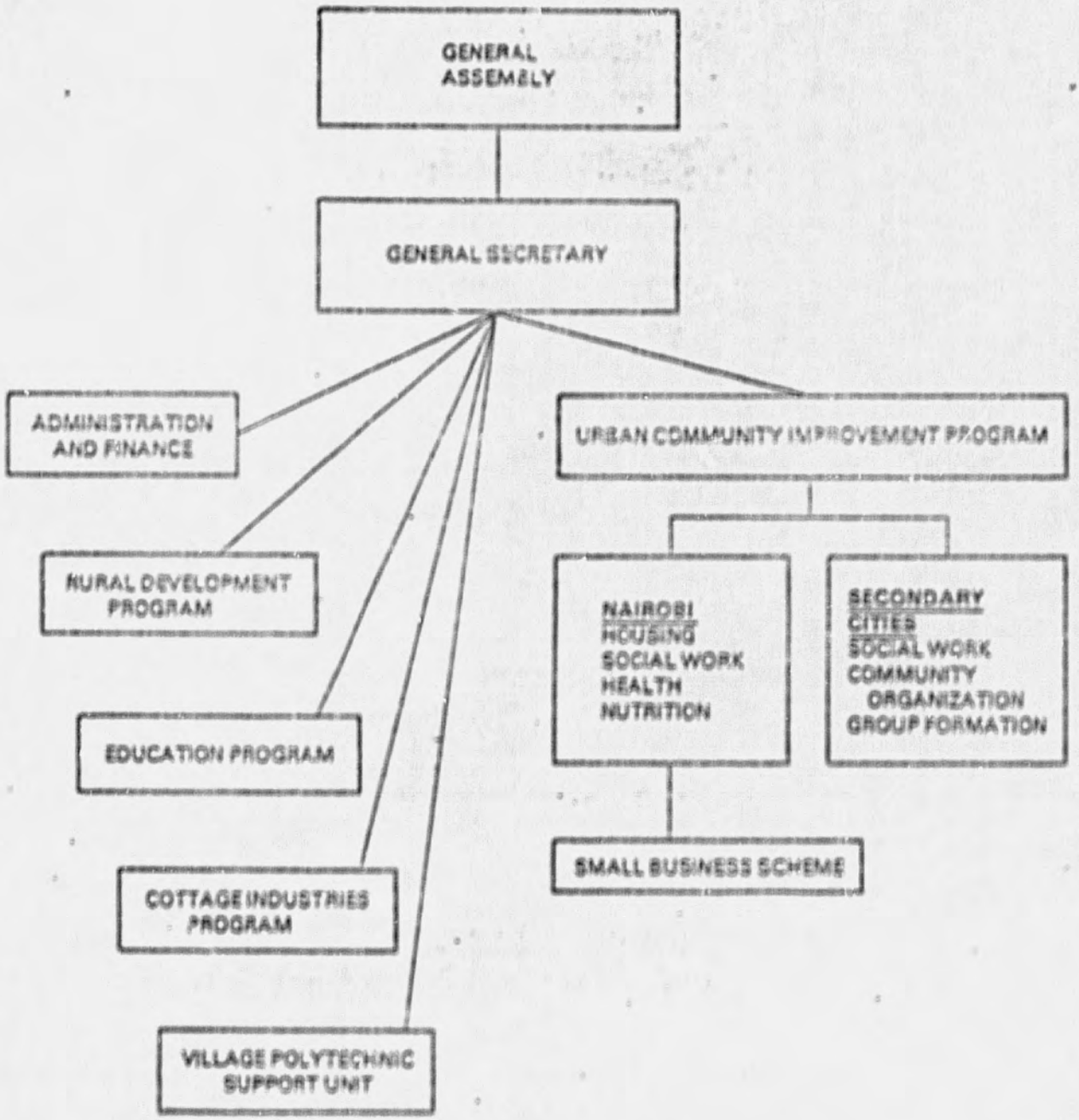
The basic idea of the program is to integrate social and economic assistance. Thus social workers perform outreach, social selection and group formation functions at local levels; small-business advisors assist clients in enterprise management, bookkeeping, management, etc., and administer a small loan fund. The program has continually strived, through relatively frequent staff meetings and training sessions, to more fully integrate social-work and business-related assistance.

III. General Structure and Function

NCCK is a large non-governmental organization, with over 300 employees and an annual operating budget of roughly Ksh. 22 million. Program areas include rural development, urban development, family planning, education, etc. Figure 1 represents the NCCK structure. UCIP is one of the larger programs, with a staff of approximately 40, and an operating budget of Ksh. 4.5 million. UCIP projects are promoted through social workers at local levels who select the types of service and financial inputs needed and coordinate their delivery. Through this network, NCCK-UCIP delivers assistance in the areas of self-help housing, literacy, preventive health and child nutrition, basic social work, counselling, and group formation and small-business assistance.

The Small-Business Scheme is overseen by a Task Force of nine people, with regional subcommittees corresponding to the placement of small-business advisors, who are in turn matched with social workers locally. There is one SSE advisor for Kisumu and Kakamega; one for Nakuru and Eldoret; one for Mombasa and one for Nairobi. There is an SBS coordinator in Nairobi and at least one social worker in each of the cities, with Nairobi having three full-time workers and Mombasa having the Tototo program to produce clients.

ORGANIZATIONAL DIAGRAM FOR THE
NATIONAL CHRISTIAN COUNCIL OF KENYA*



* THE PROGRAMS SHOWN ARE NOT INCLUSIVE OF ALL NCCK EFFORTS.

Staffing and Administration

The program is administered centrally through UCIP although it is geographically dispersed, with all reporting, financial activities, and management being centered in Nairobi. UCIP is directed by a social worker with a master's degree from the U.S., the SBS coordinator is a B.A.-level administrator who was transferred in January 1983 to the program from NCCK's rural-development program. The original SBS coordinator left in July 1983 and the SSE advisor for Mombasa was temporarily made program coordinator. He did not work out and the present coordinator, who has a sound background in program management, but little experience in business assistance, was appointed. The new coordinator has moved quickly to strengthen the management of the program and to restore closer supervision over the SBS. This is a necessary step since under the temporary coordinator management and supervision slipped visibly.

The SSE advisors have either "O" or "A" level educations certificates in business. They have an average five years prior experience in business and earn approximately Ksh. 3,900 in salary and benefits. The social workers earn roughly similar salaries. The experience and skills of the SSE advisor' vary considerably producing a somewhat diversified program. Some of the advisors have more background in management, others in marketing. All, however, have some background in accounting as this was thought to be the most crucial skill. None, however, had previous experience with assisting enterprises. (It is extremely difficult to locate people with such experience in Kenya, especially at their salary levels.) Training at the outset of the project sought to achieve both balance in delivering business-related assistance and an integration in the social and economic aspects of the program. This training focused on social process (eg., interviewing, group work) on the one hand, and more academically-oriented economics on the other.

Funding

.. UCIP is funded by a number of donors, mostly church-related. These include ICCO from Holland, EZE from Germany and United Methodist Church in the United States. The small business program is the only USAID-funded activity of NCCK, totalling $275,000 over three years.

Beneficiaries

. The clients of the program are mostly women (about 85 percent) located either in primary or secondary cities or in peri-urban or surrounding rural areas. They are poor with average net incomes of roughly Ksh. 750 per month for individual enterprises and about Ksh. 400 per month for group members according to available data. Many more clients are group members than individuals (bringing overall net incomes to roughly Ksh. 500 per month), although the latter are more numerous in terms of loans. Incomes range from a low of Ksh. 130 per month to Ksh. 2,000 per month.

IV. Project Activities

Client Selection

Clients are selected informally through initial contact with the social workers, or through an interview with the social workers after referral from the SSE advisors or an outside referral. After screening to determine that the clients are indeed poor, the SSE advisor visits the enterprise to determine the needs of the enterprise and its feasibility in terms of location, product or service offerred and skill level of the client(s). At this point, non-financial assistance is delivered as preparation for a loan application.

Most clients being assisted do not receive financial assistance, although most clients seek it. The selection process for loans is, again, informal, with loan applicationsgoing only to those seen as viable and needy clients. Given the limited amount of loan capital available, clients are in fairly tight competition for funds. Only about 25 percent of the total number of enterprises being assisted are referred to loan committees. It is important to note that the initial screening of clients being referred for loans is based as much upon social need as it is upon economic viability

since both the social worker and the SSE advisor must approve applications going to the loan committee. The SSE advisors spend approximately 50 percent of their time, or two hours per month per client on bookkeeping-related assistance.

Non-Financial Assistance

This assistance concentrates mainly upon bookkeeping, with the introduction and/or upgrading of the cash-book being the first priority. As most of the clients are low-literate-to-illiterate, this often involves the use of a child or acquaintance. While there is little information on the quality of bookkeeping practiced by clients, it is estimated that roughly 50 percent of clients keep books at a level adequate to be of assistance in understanding and improving the performance of the enterprise, especially in terms of credit utilization. For groups the percentage is roughly 80 percent. This is a sound performance given the fact that the incidence of those keeping adeuate books is roughly the same in programs dealing with much higher clientele.

Aside from bookkeeping assistance,and advice is given on marketing (mostly on product selection and display), stock- and raw-material purchase (including advice on inventory) and advocacy work for clients on gaining licenses and securing permanent premises free of police harassment. These non-bookkeeping forms of assistance consume roughly 20 percent of the SSE advisor's time. At the same time, the social workers continue contact with the clients carrying out counseling, advocacy and, most importantly, group work.

There are no statistics on the total number of clients receiving non-financial assistance as SBS written records are kept only on clients receiving financial assistance. However a valid estimate can be made. UCIP's total clientele, as reported by the social workers, is 1290 group members in 43 groups, with an average of 30 members per group. NCCK estimates that about two-thirds of the groups receive business management assistance. This would bring the total number of group clients receiving non-financial assistance to 960 people in 32 groups. In addition, roughly 300 individual clients reportedly receive such assistance, bringing the total number to roughly 1260.

Credit Assistance

As stated, loan applications are given to clients deemed qualified socially and economically. Applications below Ksh. 3,000 are approved by the local committees, which are composed of local government and private sector representatives (with at least one commercial banker); those above Ksh. 3,000 are approved by the National Committee. Such reviews take place quarterly, and both the social workers and SSE-advisors are present and can be called upon to defend their recommendations. To present an indication of volume, during the last quarter in Nairobi 65 applications were reviewed. Of these, 38 were approved (totalling Ksh. 90,000); nine were referred for national level review (due to their size); 38 were referred for additional information and eight were rejected.

This referral process is actually a deferral process since many of those referred could receive loans but each region is limited to an allocated amount of loan capital. The table below summarizes the loan capital collection for 1982:

Nairobi	Ksh. 169,125
Mombasa	121,268
Kisumu/Kakamega	86,620
Nakuru/Eldoret	86,620
Total	463,633

The loan process is initiated through the SBS-advisor giving out the loan applicaton to the applicant. If necessary, the advisor assists the client in completing the application form. (The form contains questions on (i) the social background of the client -- e.g., number of dependents, family income; (ii) the enterprise -- e.g., type of enterprise asset-level, gross sales; and (iii) the proposed use of the loan and its recommended size and amortization schedule.) The loan form has been altered over the last six months to include more specific information on the enterprise and the use of the loan as the national-level task-force was not satisfied with the level of detail provided.

As mentioned, local loan committees review and approve all loans up to Ksh. 3000 in size. All loan applications are presented in person by the SBS-advisor and the social worker who are called upon to explain and/or defend difficult proposals. After approval, all paperwork (approved application forms; repayment schedule, and letters of agreement) is submitted to the program coordinator in Nairobi who, in turn, arranges files and reporting mechanisms for each client and then requisitions loan funds from the central accounting office. Checks are then issued to the SBS-advisors who deliver them in person to clients. This cumbersome administrative process can take up to six months. The main bottleneck appears to be the SBS-coordinator having to collect all loan agreements and committee approvals and forward all paperwork to an extremely busy central accounting office which is not geared to credit administration. Loan repayments are collected by the small-business advisors who give numbered receipts and make regular repayments back to Nairobi through postal orders.

Table 1 below summarizes lending activity through 1982.

Table 1
LOANS

	Individuals	Group	Total Number	Total Persons	Total Ksh.	Average/ Person
1981	69	6 (77 members)	75	146	Ksh. 173,610	Ksh. 1,189.00
1982	81	2 (13 members)	83	94	" 263,000	630.50
Total	150	8 (90 members)	158	240	" 436,610	1,819.00

Due to the changes in management, there is a lag in the number of loans made through January as compared to loan capital on hand. At present, however, the program is picking up again under the new coordinator and loan demand is heavy (as can be seen from the Nairobi loan activity of this quarter) and it is anticipated that the program will be lending at full capacity by the end of the year.

Loans are given at five percent (5 percent) interest, charged on the declining balance of principal. Amortization periods vary from one-to-three years, with a two-year average. The interest rate was initially set at three and a half percent, with NCCK deciding to move up to five percent in response to concerns from PISCES consultants. Additional increases would have to be approved by the SBS-Task Force which reportedly would be hesitant to do so without evidence of clients' ability to repay at higher rates. In discussions with NCCK leadership on this issue, however, the door was left open for consideration.

Table 2 below gives a breakdown of the lending program by enterprise type. As can be seen, the program is heavily weighted toward retailing and service-type enterprises. This is not unexpected given the fact that most enterprises at the lower end of the informal sector -- especially those involving women -- are in trade areas which require the least capital and lowest level of economic skills to enter. The major problem with this is the drastic over-competition which exists among small retailing concerns (e.g., among marketwomen). Two ways of addressing this problem are to group people in more collective-type enterprises and to advise changes in trade areas. NCCK attempts to do both, grouping clients (especially women) and moving clients into trade areas with better marketing possibilities (e.g., urban agriculture which they intend to promote more directly in the future). Also, NCCK attempts to select the poorest clients on a case-by-case basis. Thus, the problem of dislocation downwards is minimized.

Consistent with the retail and service nature of the enterprises involved, most of NCCK's lending is for working capital purposes. Few loans (reportedly less than three percent) are given for capital improvement since most clients run small retailing concerns with little need for building improvement. In the service-related businesses, tools and raw materials predominate.

THE FOLLOWING IS A BREAKDOWN OF TRADES FOR THE LOANS APPROVED BETWEEN 1981 AND DECEMBER, 1982

r	Small Restaurants & Kiosks	Shoe repair-Tailoring Embroidery & Second-hand Clothes	Provision Stores Grocery Shops & Curio Kiosks	Handcraft & Carpentry	Fruits & Vegetables	Fish, meat & Other food Stuffs	Agriculture Poultry Keeping Pig feed	Charcoal & Paraffin Selling	Plastic Containers & Drums	Metal-work and Watch repairs	
robi	5	21	15		12	2	2	8	1	2	68
basa	5	3	5		3	2		1			19
uru		11	3	2	6			4	1		27
oret	2	2	2		5	1		3			15
umu	2	2	1	1	8	4		1			19
amega	1	5			4						10
AL	15	44	26	3	38	9	2	21	2	2	158

Impact and Assessment

Throughout the first year of the program, repayment rates were good (well over 85% on time repayments). Since August, 1982 more repayment problems have occurred. Currently, 59 loans are in arrears three months or more; this is roughly 37.5 percent of oustanding loans. Intermittent payments are made on many of these loans; few, therefore, are technically in default at this time.

While the current repayment problems are not catastrophic by any means, they are serious. The major reasons for the growth in arrearage appear to be twofold. First, there is the politico-economic situation in Kenya. Since August 1982 numerous small businesses in the cities have closed down due to either burnings in the slum areas (which continue to this date) or to the severe recession which has hit petty retailers in the informal sector extremely hard. At the same time, NCCK's management and supervision has slipped over the past year due to the aforementioned absence of an effective program coordinator. Some laxity in the intensity of service delivery and follow-up has doubtless occurred in this situation.

Over the first 18 months of the program gross incomes increased by roughly 30 percent per annum among enterprises receiving loans. (Enterprise performance figures are kept only on loan recipients thus little data is available on enterprises receiving non-financial assistance only.) This indicates that some significant progress on the part of clients has been achieved through the loan program, although income increases have levelled off since August 1982 at an aggregate level of roughly five percent per annum. This reflects, again, the severe continuing recession and inflation. It also raises the problem of sustaining growth among very poor clients. The problem is that clients at this level must necessarily consume close to 100 percent of net profits; thus little personal reinvestment in the enterprise can be expected and it would appear that gross sales and profits (among retailers) level off after initial increases related to a loan. This is, of course, hypothetical at present since current figures are based mostly on first-year loans. Examination of second year loanee progress will provide a good test-case of this phenomenon.

Even with current problems of repayment, NCCK has demonstrated through the first half of the project that the very poor self-employed can utilize credit effectively, tangibly increase incomes and stablize their employment. This is no small accomplishment given the fact that the program has received little external technical assistance and is serving clients with little-to-no business and/or credit experience. Judging the program on the basis of its own social and economic goals, it seems to have achieved a significant degree of success in reaching the very poor self-employed, in gaining their trust and participation, in promoting cohesive groups (especially among women) and in delivering an adequate degree of first-time managerial and financial assistance. The indicators are that incomes have risen as a result of financial and non-financial inputs and that the non-financial assistance delivered to groups, combined with the organizing inputs of the social workers, has served to enhance and solidify these groups.

Table 3 below summarizes the cost per client of financial and non-financial services in the program. As can be seen, the program appears to be very cost effective for non-financial services, although there are no figures intensity of non-financial assistance being delivered to these clients, most of whom are in groups. On a cost per loan basis, it is, of course, less so, but since the program is not designed to highlight lending per se, the importance of this costing is somewhat questionable. Also, the program has been lending at roughly 50 percent of its capacity (due to management turnover). With the new management, the program will be significantly increasing lending, thus lowering the cost/loan ratio accordingly.

Table 3

NON-FINANCIAL ASSISTANCE

Total Cost Per Year	Number of Clients	Cost Per Client
Ksh. 585,000	1,267	Ksh. 461

FINANCIAL ASSISTANCE

Total Cost	Number of Clients	Cost Per Client
Ksh. 585,000	240	Ksh. 2,437

Upgrading Needs

We believe the program is both innovative in its experimental attempt to reach the very poor and to integrate social and economic development processes, and quite cost effective, given the relatively large number of clients reached through the extension of non-financial services to groups. There are, however, a number of programmatic areas in need of upgrading. They are the following:

(i) Enhancement of Management, Supervision and Follow-up. As mentioned, the program has suffered the past nine months due to the resignation of the former coordinator and the fact that the Mombasa SBS-advisor did not manage the program well. In the interim, some laxity in supervision and, most importantly, in follow-up with clients has ensued at most sites. This is no doubt related at least to some degree to loan repayment problems. This problem is now being addressed with the hiring of a sound, experienced program manager and we would expect that program performance and staff motivation will improve significantly in the near future.

(ii) Administrative Upgrading. Together with better supervision, the program needs to be more integrally administered. At present, the program is spread too thin and all local personnel need to have better communication and enhanced administrative support from the NCCK leadership. To start with, core financial and administrative responsibilities -- especially regarding loan operations -- should be transferred downward. It would be best to transfer lending operations to a loan administration unit in UCIP or through local banks rather than to continue the unwieldy process of requisitioning through the central accounts department. In turn, greater responsibility for the management and accounting of loan funds should be channeled to local offices. Clerks would have to be hired to handle administrative matters but this would be well worth the investment since the advisors' time would be freed up to better concentrate on client assistance (they already spend about one day per week average on administration and reporting) and would decrease the isolation of the local level staff from the central administration.

(iii) Upgrading of Technical Assistance and Credit Review. One of the program's major needs is to upgrade (i) the level of management assistance extended locally and (ii) the overall level of credit analysis and review. At present, the SBS advisors do not have significant experience in assisting enterprises as there are few jobs or training opportunities of this nature in Kenya. This calls for more upgrading through continued, specialized workshops and training. This training should include work on loan analysis for both staff and committee members, as there is a need to improve the application and review process for loans. At present, it appears that too little attention has been paid to the use of loan capital within the enterprise and cash-flow analysis both in determining the feasibility of a loan and in advising loanees. Technical assistance should be sought in these areas.

(iv) Enhanced Group Activity. Lastly, the program should make a more concerted effort to group clients and to enhance its capability to do so. As we have seen, the rendering of assistance to groups is highly cost-effective in terms of reaching clients, but too few loans have been made to groups. There appears to be a need for more group promotion and managerial assistance in preparation for loans. More training in group work for existing staff together with staff additions in this note would be well worth the additional expense (for NCCK and its donors), given the large number of beneficiaries reached through the group mechanism.

Absorptive Capacity

(i) For Non-Financial Assistance. The NCCK SBS program's average annual operating budget is Ksh. 1,846,000 ($142,000). Assuming an annual inflation rate of 15 percent and an annual expansion rate of 10 percent, NCCK's non-financial assistance costs over five years would total Ksh. 19,732,895 ($1,517,915).

At present, AID finances approximately 65 percent of the SBS operating expences. At this level of funding, AID's grant support over five years will total Ksh. 12,836,381 ($986,645).

(ii) For Financial Assistance. Assuming the NCCK continues to lend at its present level of sh 715,000 ($55,000) per year:

- Assume a 15 percent annual rate of inflation and a 10 percent annual expansion rate.
- Assume an interest rate of 10 percent, and an average amortization of two years.
- Ther NCCK can absorb approximately Ksh. 2.790,411 ($214,647) in new capital funds over five years, with a turnover of funds totalling Ksh. 7,643,025 ($587,925) being lent to clients over this period. (See table below).

Table 4

Estimated Absorptive Capacity for NCCK to Deliver Small Enterprise Assistance (US$) a/

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Non-Financial	179,630	227,232	287,448	363,622	459,982	$1,517,915
Financial						
New Capital Funds	69,575	49,746	24,663	31,198	39,465	214,647
Reflows						
$	0	0	38,266	48,407	61,235	373,278 b/
$	0	38,266	48,407	61,235	77,462	
TOTAL CAPITAL LENT	69,575	88,012	111,336	140,840	178,162	587,925

a/ Assume an annual inflation rate of 15 percent; an annual expansion rate of 10 percent; an annual interest rate of 10 percent; and an average amortization of two years.

b/ This figure represents the reflows through year 5. Reflows would total $175,451 in year 6 and $97,989 in year 7.

TOTOTO HOME INDUSTRIES

I. Introduction

Tototo Home Industries is a non-profit private voluntary organization which was started in 1963 by the National Christian Council of Kenya (NCCK). In the late 1970s it became part of Jisaidie Cottage Industries which is affiliated with, but not a direct project of, the NCCK. Tototo's headquarters are in Mombasa, Kenya's second largest city which is located in the Coastal Province.

II. Project Description

Tototo's goal is to improve the standard of living of women and men in low income groups by addressing the problems of limited access to skills training and income generating opportunities. The objectives are to promote employment and income-generating activities for the poor and to train low income groups to become self-sufficient.

The strategy Tototo uses to work towards these objectives is to:

a. provide skills training in sewing, tailoring, and tie-dye. Forty young women school leavers from low-income groups and 20 working women are trained by teachers in two year courses. They also receive instruction in cooking, health, family planning, and bookkeeping;

b. operate a production workshop which produces high quality tie-dye goods including clothing, bedspreads, curtains, and pillow-covers. The workshop is run by a manager/designer and a clerk. It employs 30 women who work on a piece-rate basis. The workshop sells its products on a wholesale basis to exporters, hotels, and other groups placing special orders. It also sells on a retail basis through Tototo's shop in central Mombasa;

c. market handicrafts through Tototo's retail shop in Mombasa. These goods are produced by over 200 individuals throughout the Coastal Province and other regions of Kenya and by the Tototo workshop. Tototo also provides the producers technical assistance in product design, quality, and costing;

d. promote income-generating activities through 26 women's groups (with approximately 780 members in total) in rural areas of the Coastal Province. The groups typically begin with handicraft production and use the profits to finance other group income-generating projects such as poultry raising, bakeries, and retail shops. The groups also develop other village projects related to health, nutrition, and child care.

III. Brief History

Tototo Home Industries was started in 1963 by the NCCK as part of its Cottage Industries Program. The initial emphasis was on training needy urban women, considered "social cases," in handicraft production. These women included widows, single mothers, and women from extremely poor families. Women were trained on a one-to-one basis by social workers. In 1966 the NCCK opened a retail shop to market the goods produced by Tototo's clients.

In 1975 the program expanded its outreach beyond "social cases" to involve low-income women and men. At this time the program also began to expand beyond urban Mombasa to involve people in the surrounding rural areas. A Peace Corps Volunteer who was very skilled in handicraft design came to work with Tototo at this time and focused specifically on improving the clients' ability to produce salable items. Largely as a result of his efforts, Tototo began to provide systematic advice to producers on costing, design, and marketing. In addition, Tototo opened its workshop and training program during this period.

The next step of expansion for Tototo came in 1978 following an evaluation seminar sponsored by World Education. With their financial and methodological support in non-formal education techniques, Tototo began to work with rural-based women's groups to develop handicraft and other income-generating projects. The groups also are involved in health, nutrition, and other community development efforts.

In brief, Tototo's 20 year history is characterized by shifts from:

- promoting income-generation solely through handicraft production to promoting it through a broader range of activities;
- working only in urban areas to working also in rural areas;
- working with individuals to working with groups;
- providing training to subsequently expanding into product design and marketing, a workshop, and group income-generating activities;
- focusing on income generation for needy social cases to emphasizing broader community development efforts.

IV. Organizational Structure

Tototo Home Industries operates under the auspices of the National Christian Council of Kenya. It is governed by an advisory board and by Jisaidie Cottage Industries. All operations are supervised by the Executive Director, Mrs. Elvina Mutua.

Mrs. Mutua oversees a staff of 16, including 10 women and six men. The central support staff consists of a bookkeeper, record keeper, messenger, and driver. These people assist in the operation of all Tototo's programs. The retail shop is run by a cashier, two shop assistants and a store keeper. They market crafts produced by over 200 individuals and the Tototo workshop. The sewing and tailoring classes are taught by five teachers. They train a total of 60 students, or 12 each.

The production workshop is run by a manager who trains and supervises 30 piece rate workers, designs products, and keeps records on inventories, purchases, and production outputs.

The Rural Program staff includes one supervisor, two full-time assistant field supervisors and two part-time assistant field supervisors. They have organized 26 groups with approximately 30 members each whom they visit once a week. In addition, each group appoints a local coordinator who is paid a minimal stipend for the first two years.

Staff salaries are low, although competitive with other NGOs working in this area. The average monthly salary is Ksh. 3,750 per month for the management level staff and Ksh. 1,250 per month for the non-management level staff. Staff turnover also is relatively low, with six years as the average length of service. The full-time staff works nine hours per day, six days per week.

The various staff have been trained in a number of areas including:

- accounting;
- social work;
- secretarial work;
- fashion design;
- tailoring and sewing;
- marketing;
- management;
- non-formal education techniques.

Moreover, the 26 local group coordinators have received training in elementary bookkeeping, how to use a calculator, management, health, handicraft, survey techniques, and organizing groups.

V. Funding

Although in previous years Tototo's training, production workshop, and marketing programs have been heavily subsidized by donors, today they are approaching self-sufficiency. They are supported through:

- fees from trainees who can afford Ksh. 50 per month (or about Ksh. 2,500 for the entire training program);
- proceeds from production workshop sales;
- proceeds from retail sales;
- government contributions to sewing teacher salaries of Ksh. 28,000/year;
- fundraising for training (Ksh. 30,000 per year).

Tototo's rural Kilemba project is supported by grant funds from World Education totalling Ksh. 640,000 per year.

VI. Beneficiaries

The Coastal province is one of the poorest in Kenya. Given the limited resource base of the region, there is a high level of poverty among Tototo's participants. The majority of Tototo's clients are women from very poor families. There are approximately 100 from urban areas and 750 from rural areas.

Based on existing data, the number and general characteristics of participants broken down by program follow below:

A. Sixty Sewing and Tailoring Trainees

Among the women in this program, two-thirds are young women from low-income urban families who have left school. They typically are unskilled and inexperienced in generating income. Most of them are unmarried. The other one-third of the women are regularly employed as teachers or secretaries and are learning sewing as a sideline rather than as a primary means of earning income. Their fees help to cross subsidize the participation of very poor women.

B. Thirty Production Workshop Piece Rate Workers

Almost all of these women are among the poorest in Mombasa. Many are single mothers or divorced and are the primary income earners for their families. The remaining are secondary earners from poor families. Most started in the workshop following completion of Tototo's training course.

C. Seven Hundred Eighty Rural Group Members

For the most part, Tototo's rural members are from very poor families. Recent background data is not available from Tototo; however, a 1978 sample survey of rural group members (Clark, 1981) shows that:

- 84 percent have no education;
- slightly more than half are between the ages of 21 and 40 and one-third are over 40;
- 55 percent are Muslim, 21 percent Christian, and the remaining 24 percent other religions;
- 91 percent are married; of those married, over one-third are co-wives;

- a majority have between three and five children;
- at the time of joining the group, 28 percent had no individual source of generating cash income, 25 percent had one source, 45 percent had two or more sources and 73 percent had no group source of generating cash income;
- well over half the women are engaged in subsistence agricultural production;
- income levels are low and come from a very limited number of sources as indicated in Table C1 and C2 below.

Table C1

Monthly Income of Sample of Tototo Group Members, 1978

Ksh.	n=109 Percent
No income	20
Less than 50	16
50-100	16
101-200	21
201-300	6
301-500	10
over 500	11

Source: Clark, Noreen, 1981. Education for Development and the Rural Woman, Volume II, Part I and II. Appendix A, Table IV.

Table C2

Main Source of Income of a Sample of Tototo Group Members, 1978

	n=109 Percent
No income	24
My salary	4
Husband's salary	10
Cash crops	38
Makuti weaving	2
Petty trade	6
No response	16

Source: Clark, op. cit.

VII. Project Activities: General Approach and Methodology

A. Training Program

Tototo's training program began in the mid-1970s. Sixty students are trained over two years in sewing, tailoring, and tie-dye. They also receive instruction in family planning, cooking, Swahili, and simple bookkeeping. Although Tototo does not provide systematic follow-up in job placement, upon completing the training the women are qualified for jobs in factories, tailoring and dressmaking shops and Village Polytechnics, and for self-employment. Each year some trainees stay on to work in the Tototo production workshop. Tototo's record in preparing its students for the government proficiency exam has improved markedly over the years. In 1982, 35 out of 40 Tototo trainees passed the exam.

Tototo's training program is registered under the Village Polytechnic program and has received some financial support for teacher salaries from the sponsoring Ministry of Social Services. Some students are referred to Tototo by NCCK social workers, while others come on their own. The low fees of Ksh. 50 per month attract more students than Tototo can train. They are selected primarily on the basis of need by the Executive Director and the sewing teachers. Tototo subsidizes about 10 students per year who cannot afford the fees.

B. Production Workshop

The production workshop also was started in the mid-1970s. It is located in the same building in Mombasa as the training program. The workshop is efficiently managed jointly by a man trained as a professional designer and the executive director. It employs 30 very poor women on a piece-rate basis to sew and make tie-dyed cloth. Some work in the shop, while others, due to lack of space, work at home. The employees either come from the sewing training program or are referred by NCCK social workers. A core group of workers have remained as employees since the workshop began. Others have moved on to self-employment or to work in tailoring shops or other jobs.

Average sales from the workshop are about Ksh. 60,000 per month. A little over half the sales are wholesale at a 30 percnet mark-up; the rest are retail sales at a 150 percent mark-up.

The women are not always fully employed by the workshop. The amount of work, and therefore their earnings, depend on the number of orders the workshop gets. Average income in Ksh. 200 to Ksh. 250 per month. This is quite low, particularly for women who are primary income earners. With some improvement in identifying marketing channels, this income could be increased. However, it should be noted that at present wages the maximum amount a fully employed sewing piece-rate worker in Mombasa can earn is Ksh. 350 per month. This is below the national minimum wage for Kenya and brings to question the feasibility of promoting sewing as an income-generating activity for primary earners.

C. Retail Shop

The Tototo Home Industries retail shop is located in Central Mombasa. It operates with a staff of four and is open six days per week. The shop sells tie-dye articles produced by the Tototo production workshop and other handicrafts produced by over 200 individuals identified through the NCCK network around Kenya and by group members from the rural program. The handicraft producers who sell through the shop are advised on quality, design, and costing. Their income varies according to product and the season, but according to the staff ranges from Ksh. 100 to Ksh. 1,000 per month.

The shop is run on a highly professional basis. The products are high in quality and attractively displayed. Volume of sales is approximately Ksh. 100,000 per month.

D. Rural Income Generating Program
(The Kilemba Project)

This project began in 1978 as an attempt to organize group income generating activities for rural women. Tototo works with World Education on this project which promotes the use of a non-formal education methodology ("self-actualizing") for group decision-making. This methodology is designed to get groups to collectively identify problems and needs and plan income

generating activities, health projects, and other community development efforts.

Tototo began the project with six women's groups and now works with 26.[1] The original intent was for the groups to become independent of Tototo in two years; however, so far only four have become so. The Rural groups are identified by Tototo through the Ministry of Social Services which has promoted formation of women's groups since the mid-1970s. Tototo staff visit many of these groups and select which ones to work through on the basis of members' interest and motivation to participate.

Each group selects a coordinator who then receives training in a three week Tototo seminar with other group coordinators. The training covers group organizing methodology, project planning, and simple record keeping. The coordinator, who receives a small stipend for two years, is responsible for training other group members in these areas.

The groups meet once a week. Many start out with individual members producing and selling handicrafts and then donating their proceeds to the group to start other income generation and community development projects. Some of the projects started by the groups include:

- poultry raising;
- bee-keeping;
- bakeries;
- gardening;
- cooperative retail shops;
- goat ranching (planned);
- posho mill (planned);
- charcoal sales;
- rental houses;
- nursery schools;
- water projects;
- health clinics.

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[1] Most members are women, although some have men members.

According to the Executive Director, the bakeries, charcoal sales, and handicrafts are relatively successful in generating income. The poultry projects are uneven and the other projects are too new to judge. Income data on the projects are not available. However, we do know that income from the group projects is not a primary source of livelihood for the members. Most are involved in other subsistence or cash production.

Tototo's approach is highly participatory which has many advantages. Primary is the fact that members have a central role in decision-making and an understanding of the options and choices at hand. One disadvantage, however, is that it takes a long time to get things done. Another is that decisions, particularly with regard to income generation, are not always made on the basis of technical feasibility. One reason is because most group members have very limited experience in and knowledge of the cash economy and enterprise development. One current shortcoming of the project is the limited amount of technical inputs provided (e.g., market analysis, feasibility studies, managerial assistance).

To date, the groups have had limited experience in directly using credit. Several groups have received grant assistance from donors and the government for seed capital and the purchase of building and construction materials. Two groups currently have loan applications pending with Barclay's Bank (for Ksh. 10,000 and Ksh. 20,000 respectively). Moreover, group members contribute monthly dues to revolving funds which are used for group projects and loans to individual members in need. Their experience in paying regular dues and opening bank accounts can be seen as useful later on for assuming responsibility for repayment of loans and/or participation in group revolving loan funds.

VIII. Project Economics

A. Tototo's Production Workshop, skills training activities and retail shop, although subsidized by donors in previous years, today are basically self-supporting through sales of crafts and tie-dye products, as illustrated below.

Tototo Workshop Accounts

Total Assets as of December 1982

	Ksh.
Gross stock	66,176
Tools and equipment	55,350
TOTAL ASSETS	121,256

Balances for Month of December 1982

	Ksh.
Gross Sales	49,229
Costs:*	
Labor	7,500
Staff	7,500
Raw materials	23,046
Rent	1,800
Transport	1,200
TOTAL COSTS	41,146

Operating Surplus..... Ksh. 8,083

*Estimates based on available data.

The operating surplus of about Ksh. 8,000 from the production workshop theoretically is enough to cover the monthly costs of the training program with a small surplus still remaining. Training fees amount to Ksh. 2,500/month and government contributions to sewing teachers' salaries (about Ksh. 2,500/month) also help to support the training program.

Tototo's retail shop is basically self-sufficient. It sells its products at a 100 percent to 150 percent mark-up which covers the operating costs of the shop.

Employment generated through the operation of Tototo's production, training, and marketing activities includes:

(i) 200 individual craft producers earning from Ksh. 100 to 1000 per month.

(ii) 30 piece rate workers earning around Ksh. 250/month.

(iii) 12 staff members, earning an average of 1,300/month.

Moreover, this operation subsidizes the costs of providing skills training to 60 students each year.

B. Tototo's Rural Kilemba Project is grant-financed by World Education, Inc. with an annual budget of Ksh. 640,000. In addition, small grants are channeled to four groups through donors such as CEFPA, Match, and Appropriate Technology of Kenya Committee.

Using gross estimates, the cost of the rural program is approximately Ksh. 650 per client per year, or about Ksh. 19,000 per group. Data on income generated by these efforts is unavailable. However, at a minimum, 11 groups involving 333 members are engaged in group income generating activities as a result of Kilemba. These generally are secondary sources of family income and support subsistence production. All 780 group members also have been exposed to health education, project planning and management, group decision-making, and the benefits of social participation through the groups. Moreover, 26 group coordinators are provided a small monthly stipend and training in a three-week seminar; six staff are employed to facilitate group activities.

IX. Project Impacts

A. Economic Impacts

Tototo's projects have contributed to enhancing income and employment for members as described in the previous section. On the entreprise side, Tototo's Mombasa-based production workshop and retail shop have been most successful in developing into viable operations. The rural-based group income generating activities are still evolving; most have yet to reach the "take off" stage.

Nonetheless, project participants have developed technical skills in such areas as poultry keeping, firewood selling, bakery operation, and construction work. Coordinators have developed skills and experience in management, planning, organizing, and problem-solving. Participants also are developing skills related to effective credit utilization (opening bank accounts; mobilizing local resources through formation of group revolving funds, and contributions of time and labor to group activities).

B. Social Impacts

The social impacts of Tototo's projects include:

- strengthening the process of group formation which in turn improves access to financial and technical resources for income-generation;
- increasing confidence of women by providing an opportunity for interaction and sharing of problems among women and for realizing gains through collaborative group efforts. Confidence is positively related to the success of group efforts;
- improving cooperation between village chiefs and the groups;
- enhancing relations between husbands and wives;
- improving access of community as a whole to resources such as health and day-care services.

C. Impacts on Institutional Development

Since it began in 1963, Tototo has strengthened greatly its ability to organize production, provide training, and market handicraft products. It also has developed expertise in organizing rural women's groups. In particular, since this work began in the late 1970s, the staff, coordinators, and group members have increased their knowledge of the technical, financial, and managerial inputs required for successful group income generating projects. Tototo has learned to play a more effective role in linking its members to these inputs over the years.

Another element of Tototo's institutional development is the increasing commitment and expertise of the staff. As they see their inputs leading to improvements, their commitment is reinforced. Despite relatively low salaries, staff turnover is low which indicates a high level of commitment. The group coordinators also are a crucial and cost-effective means of involving more rural people in income-generating and community development activities.

The combined social and economic approaches of Tototo are mutually reinforcing, particularly for group work. An indication of the successes to date is that groups now approach Tototo with requests for organizational assistance.

D. Summary of Lessons

Several salient lessons emerge from Tototo's experience to date. First, working through groups is an effective way to "scale-up" efforts to promote income generation. Through this approach Tototo was able to expand its coverage from around 100 to 880 people with a staff increase of only five.

Second, building confidence among members is an important correlate of successful income generating and community development activities. The more successful the project, the more confidence among members; and more confidence leads to even greater success. A combined social and economic approach is important for this.

Other correlates of success include:

- resources available at the time they are needed;
- support from spouses, village leaders, and residents;
- a coordinator skilled in and committed to involving group members in decision-making processes.

X. Absorptive Capacity

A. Absorptive Capacity for Financial Assistance

Tototo's current average annual operating budget is Kshs. 850,000. Assuming an annual inflation rate of 15 percent and an annual expansion rate of 10 percent (starting now), then Tototo's non-financial assistance costs over five years are projected to be Kshs. 9,086,103 ($698,931). At present, AID finances approximately 75 percent of Tototo's operating expenses. At this level of funding, AID's grant support over five years will total Kshs. 6,814,577 ($524,198) (see Table 1).

B. Absorptive Capacity for Financial Assistance

Tototo does not currently have a credit program for its clients. However, there exists a demand for credit and, with some staff and administrative upgrading, a basic infrastructure for its delivery. Estimates of Tototo's capacity to deliver financial assistance is made on the following basis:

- Tototo now works with 26 groups and plans to organize 20 more in the near future. In addition, individual clients total 290.
- Assume an average group loan size of Kshs. 25,000 and that Tototo can deliver credit to 15 groups in year one, or a total of Kshs. 375,000 ($28,846).
- Assume an average individual loan size of Kshs. 5,000 and that Tototo can deliver credit to 30 individuals in year one, or a total of Kshs. 150,000 ($11,538).
- Then, in year one, Tototo can deliver loans to groups and individuals totalling Kshs. 525,000 ($40,384).

- Assume an annual inflation rate of 15 percent and an annual expansion rate of 10 percent.

- Assume an annual interest rate of 10 percent and an average amortization of two years.

- Then, Tototo can absorb an estimated Kshs. 1,619,670 ($124,590) in new loan funds over five years. With turnover of funds, a total of Kshs. 4,436,302 ($341,254) will be lent to clients (see Table 1).

C. Upgrading Needs for Tototo

Upgrading in the following areas would strengthen Tototo's capacity to carry out an effective credit program:

1. Training for field staff and group coordinators in enterprise management, marketing, bookkeeping, credit utilization, and legal responsibilities of signing loan agreements.

2. Expansion of staff to include an accountant and three or more assistant field supervisors.

3. Administrative upgrading in developing a simple credit delivery system.

Table 1

Estimated Absorptive Capacity of Tototo for Small Enterprise Assistance (US$) a/

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Non-Financial	82,712	104,630	132,357	167,432	211,801	$698,931
Financial						
New Capital Funds	40,384	28,875	14,315	18,109	22,907	124,590
Reflows						
$	0	0	22,211	28,097	35,543	216,664 b/
$	0	22,211	28,097	35,543	44,962	
TOTAL CAPITAL LENT	40,384	51,086	64,623	81,749	103,412	341,254

a/ Assume an annual inflation rate of 15 percent; an annual expansion rate of 10 percent; an annual interest rate of 10 percent; and an average amortization of two years.

b/ This figure represents total reflows through year 5. Reflows would total $101,839 in year 6 and $56,877 in year 7.

Table 2

Summary Information on Tototo

1. Number of clients 1,070

2. Average annual budget ..... Kshs. 845,000 ($ 65,000)

3. Cost per client ..... Kshs. 790 ($ 61)

4. Absorptive capacity over 5 years

   (a) Non-Financial ..... Kshs. 9,086,103 ($698,931)

   (b) Financial ..... Kshs. 1,619,670 ($124,590)

5. Current level of AID support for non-financial assistance 75%

6. AID funding over 5 years

   (a) Non-Financial (75%) ..... Kshs. 6,814,577 ($524,198)

   (b) Financial (100%) ..... Kshs. 1,619,670 ($124,590)

   (c) TOTAL Kshs. 8,434,247 ($648,788)

DARAJA TRUST

I. Introduction

The Daraja Trust was started in 1980 at the initiative of the International Institute for Development, Inc. (IIDI), a U.S.-based Christian organization. Daraja is registered with the Government of Kenya as a profit making entity and is licensed to grant loans to new and existing small-scale businesses.

II. Project Description

A. Goals and Objectives

The goal of Daraja is to contribute to improving the overall quality of life in Kenya by assisting people to develop their capacity to support themselves. The objectives are to create employment by providing loans and management training to develop small-scale businesses and to promote Christian principles. Daraja attempts to identify clients who have sound business project proposals that will generate employment, but have limited access to financial resources.

B. Brief Description and History

The IIDI is a Christian organization based in Vienna, Virginia. It supports the development of small businesses and the promotion of Christian principles in several countries throughout the world by establishing and supporting through grants and loans groups such as Daraja. The IIDI finds individual and institutional sponsors through U.S. churches to invest relatively small amounts of capital (US$500 to $2000) in Christian-run businesses in developing countries. The idea grew out of the Christian missionary movement.

The Kenyan program, Daraja, was established in 1980 by an American. It is run by a five member Kenyan Board of Directors and a staff of three. The office is located in Nakuru, a seondary town located about 100 miles northwest of Nairobi.

Daraja identifies potential clients through churches and other community organizations throughout Kenya. If the client has a reasonable sounding business proposal, a staff member writes up a feasibility report and loan application which are submitted to the board. If the board approves the proposal, it is then sent to the IIDI in the U.S. Following IIDI approval, the funds are sent to Daraja to transfer to the client.

The project is still quite small and new. To date, loans have been advanced to 26 clients. Daraja's basic structure and approach has remained the same since it started.

C. Organizational Structure

1. Staff.

Daraja's central function is to provide loans. However, some management assistance is provided through follow-up visits from the staff and occasional training seminars for clients.

The staff is quite small, which has limited the scope and size of the program. It includes:

- one project director (a local man trained in business administration who has had over 10 years of experience in business management with the prison industries system);
- one Peace Corps volunteer (an American man who holds a degree in business administration and has had 17 years of community organizing experience in Gary, Indiana);
- one secretary (a woman); and
- one part-time accountant (a man).

The pay scale for the staff is relatively low (the project director earns Kshs. 5,250/month or US$404/month; the secretary Kshs. 1000/month or US$77/month; the peace corps volunteer is not paid by Daraja). However, it is comparable to the salaries offered by other NGOs.

The project director and Peace Corps volunteer work together closely in screening clients, writing project proposals, drawing up loan agreements, collecting and processing loan repayments, and organizing seminars.

There has been a recent turnover in the staff. The current director joined Daraja in August of 1982 and the Peace Corps volunteer joined in November of 1982. This turnover has had an adverse effect on the program in one respect, i.e., repayment is a problem on some loans advanced by the previous director.

2. Relationship with other programs and projects.

Daraja's contact with other organizations working in the small enterprise sector is somewhat limited. Its closest contact is with churches, through which Daraja identifies clients. There is limited contact with banks except as a central depository of project funds.

3. Funding.

All of Daraja's funds to date have come through the IIDI. As of December 1982, IIDI had provided over Kshs. 2,000,000 in loans and grants for small business development. IIDI receives its funds from private investors, private donations, a matching grant from AID/Washington, and a loan from OPIC.

4. Beneficiaries.

Only 26!? 20 defaults

As of April 1982, Daraja had advanced loans totaling Kshs. 2,054,812 and management training to 26 clients. Beneficiaries include four women, 20 men, and two partnerships of men. For the most part clients are not the very poor. Average monthly income is Kshs. 2,500.

The types of businesses supported include:

- 15 agricultural businesses (cattle, poultry, dairy farming, sugar cane growing, tea, and pig raising);
- 11 non-agricultural businesses (tailoring, block making, bakeries, posho mill).

Some clients have other jobs and use the loans to develop businesses on the side. In some cases, business managers are hired by the loan recipients to run the businesses.

Clients and their businesses are located throughout Kenya. The largest number of clients (15) is located in Nairobi and Nakuru. The broad geographic spread of the loans makes follow-up visits time-consuming and costly. Consequently, given the small staff, follow-up on some clients is inconsistent.

Rather than lending on the basis of regional, sectoral, or income group targets, Daraja lends on the basis of the economic viability and employment potential of the project and adherence to Christian principles by the applicant.

D. Project Activities

1. Conditions and procedures for lending.

Loan applicants find out about Daraja loans through churches, community organizations and current clients throughout Kenya. According to the staff, there are more loan applicants than funds available (on average 10 people per week request loans). Each loan applicant visits the Nakuru office where he/she is screened by the project staff. If the business idea is judged sound, he/she is helped by the staff to write a project proposal. A fee of Kshs. 100 is charged to the client for writing the proposal.

Applicants are screened according to the following criteria:

(i) recommendations from three sources;
(ii) previous credit record;
(iii) no outstanding loans;
(iv) ability to repay loan;
(v) security in the form of title deeds, share certificates, a vehicle, or other assets worth twice the value of the loan;
(vi) indigenous Kenyan citizenship;
(vii) evidence that the proposed business will employ one worker for every Kshs. 10,000 borrowed.

The loan approval process generally takes about six months. Daraja staff forward the feasibility proposals to the Board of Directors which meets once a month in Nairobi. Those proposals approved by the Board are forwarded to the IIDI in the U.S. The IIDI considers the proposals

on a case by case basis, and if approved, sends funds to Kenya. Daraja then draws up a legal loan agreement with the client. Disbursal and collection of funds are carried out directly by the Daraja staff, rather than through banks.

Average loan size is Kshs. 80,000, with a range from Kshs. 10,000 to Kshs. 200,000. Loan terms are 12 percent interest repayed on a quarterly basis over three years. Repayments theoretically are to go into a revolving fund to be re-lent to new clients. However, due to repayment problems, the original loan fund has decapitalized. At the end of 1982 the total loan fund was Kshs. 1,977,995, with Kshs. 1,773,733 outstanding.

The project director and peace corps volunteer try to follow up by visiting clients once every month in Nairobi and Nakuru and once every three to four months outside. However, due to the geographic dispersal of clients, lack of transport, and shortage of support staff, follow-up has been inconsistent.

As a consequence of this and other factors, repayment problems exist. At present, Daraja is recovering only about 60 pertent of repayments due. Out of 26 loans, only four are not in arrears and four are in default.

Specific data on repayment by loan size, enterprise type and client background is unavailable. However, reasons put forth for repayment problems include:

(i) lack of client follow-up by staff;

(ii) loans not used for original purposes;

(iii) marketing problems;

(iv) lack of technical and management supports;

(v) misunderstanding on the part of clients concerning obligations for repayments;

(vi) inappropriate repayment terms which require large lump sums of capital on a quarterly basis, which is difficlut for some clients;

(vii) reticence on the part of the Board to have staff press for loan recovery; and

(viii) unwillingness of some clients receiving loans from previous director to repay.

Daraja's repayment problems, given the relatively small number of loans, suggests a need for revamping policies for client selction, lending terms, and follow-up work.

2. Technical assistance and training for small-businesses.

Daraja does not provide any systematic technical or marketing assistance to clients. During follow-up visits the staff discuss any problems the clients might be having, and basically work to establish personal relations with the clients. Staff expertise and assistance in this area could potentially contribute to more effective credit utilization.

Two training seminars on business management have been held since 1981. The purpose was to support effective use of the loans by the clients. The most recent seminar brought together 51 loan recipients and applicants. Local business professionals donated their time and, along with Daraja and IIDI staff, gave presentations on:

(i) basic bookkeeping and accounting;
(ii) business administration;
(iii) marketing;
(iv) banking and credit;
(v) loan repayment;
(vi) business insurance; and
(vii) devotional message.

loan recipients are found all over the country

According to the staff, there has been little follow-up specifically related to the training. In general, it is quite difficult to get clients from around the country to come to a central location, so ongoing group training is not practical. The evaluation form filled out by the participants indicated that they found it useful, but no information exists on further impacts of this training.

E. Project Economics

1. Staff use of time.

Given the small size of the staff and the amount of work required to carry out Daraja's program, the staff have a heavy workload. They work six days a week. A majority of time is spent in the office on

administrative tasks, writing up business proposals, screening and processing loan applicants, writing up loan agreements, collecting loan repayments, transferring funds from clients to banks, and following up on clients who are not repaying regularly. Given the limited staff size and transport, less time is spent on regular client follow-up, training, and technical assistance.

2. Client load.

At present, 26 clients are followed by two core staff, or 13 clients per staff member. Given the present structure and function of the organization, the small staff, and limited access to transportation, Daraja would be hard pressed to expand its client load beyond this level.

3. Project operating expenses.

To date, Daraja's operating expenses have been covered by grants from IIDI. They are quite low, as seen by the following figures.

Daraja Operating Expenses

Year	1982 (Kshs.)	1981 (Kshs.)
Salary and Allowances	68,700	115,790
Overhead	34,793	27,332
Travel and Accommodation	25,108	21,040
Other	24,011	22,581
TOTAL	152,612	186,743

The annual cost per loan in 1982 was Kshs. 5,870. The cost per Kshs. lent was Kshs. .09, or 9 percent. At present levels of support, if no loans were in arrears, Daraja's lending program could theoretically pay for itself (given 12 percent interest rate). In reality, however, given arreages and defaults, Daraja continues to depend on grants to cover costs. In 1982, income from interest receivable totalled Kshs. 78,475 or 51 percent of actual costs.

The IIDI plans to end its support at the end of 1983 (self-sufficiency within three years was the original concept of their support). The idea is that interest from the revolving loan fund will cover Daraja's costs. However, as can be seen by the above figures, Daraja will continue to depend on grant funding for operating expenses.

F. Project Impacts

Systematic data on the income, profit, asset, and employment impacts of Daraja's small business assistance program is unavailable. Existing information on the project indicates, however, that a relatively small portion of Daraja's potential target group has been reached by the 26 loans advanced to date. Moreover, clients are typically not the poorest entrepreneurs, but those who are better off.

1. Impact on employment.

Benefits to the poor are supposed to come through the requirement that businesses employ one person per Kshs. 10,000 borrowed. Unfortunately, data was unavailable on levels of employment generated by the loans, quality of employment, or who was benefiting. Nonetheless, one case study does show a positive employment benefit. A handbag manufacturing enterprise that started with a Kshs. 60,000 loan now employs nine permanent workers (on an average wage of Kshs. 630 per month) and several casual laborers.

2. Other impacts.

Several issues emerge in assessing the impacts of Daraja's programs:

(i) Daraja loans typically are used for starting new businesses, rather than expanding existing businesses. To a large extent this requires more systematic planning and careful provision of inputs which to date Daraja has not provided. These types of investments can be riskier.

(ii) According to the staff, the agricultural businesses tend to be riskier investments. These clients tend to have more problems in their businesses and with loan repayment.

(iii) The employment generation criteria is perhaps the most innovative aspect of Daraja's program. The potential employment benefits of lending at the mid-level of the small enterprise sector (0-20 employees) where labor absorption appears promising should be carefully assessed. Further follow-up on the results of this policy criteria for lending is warranted.

(iv) Repayment problems in the loan program suggest minimal business success and, consequently, employment and income generation. However, the central issue is to establish the reasons for arrearages: either the inability of clients to repay due to poor business performance, or problems from Daraja's side in administering the loan program.

3. Impact on credit utilization.

Interviews with Daraja staff suggest that clients have not significantly improved their ability to utilize credit effectively through the program. For example, Daraja does not provide clients systematic technical support in utilizing loans. Today's repayment problems indicate that this is an important missing link. Moreover, clients are not gaining experience in dealing directly with banks, despite the fact that many could probably qualify for bank loans on their own. Given that Daraja's primary (and for the most part singular) function is to advance loans, the repayment rates should be significantly higher. It appears that the cumbersome administrative procedures, geographic spread of clients, and small staff limit Daraja's ability to provide proper follow-up and technical assistance to clients.

G. Absorptive Capacity

Continuation of Daraja's lending program, even at present levels, requires institutional upgrading in several areas. Without some adjustments in the program, the revolving loan fund stands further risk of decapitalizing. The following estimates of Daraja's capacity to absorb funds to provide financial and non-financial assistance are predicated on the assumption of upgrading in the areas listed in the subsequent section.

1. Absorptive capacity for non-financial assistance.

Daraja's current average annual operating budget is Kshs. 169,677 (US$13,050). However, more effective delivery of credit requires the addition of one field-staff member at an estimated cost of Kshs. 36,000 per annum. With an extra staff person, Daraja's annual operating costs would increase to Kshs. 205,677 ($15,820). Assuming an annual inflation rate of 15 percent (starting now), Daraja's non-financial assistance costs over 5 years are projected to be Kshs. 1,594,765 (US$122,674). (See Table 1.) At present, AID finances approximately 50 percent of Daraja's operating expenses. At this level of funding, AID's grant support over five years will total Kshs. 797,382 (US$61,337).

2. Absorptive capacity for financial assistance.

- Assume Daraja continues to lend at the present level of 13 loans per year with an average loan size of Kshs. 80,000 (US$6,150), or a total of Kshs. 1,040,000 per year (US$80,000).
- Assume a 15 percent annual rate of inflation (starting now).
- Assume an interest rate of 10 percent and an average amortization of two years.
- Then Daraja can absorb approximately Kshs. 2,495,051 (US$191,927) in new capital funds over five years. With a turnover of funds, a total of Kshs. 8,063,887 (US$620,299) will be lent to clients over this period (see Table 1).

H. Upgrading Needs

Daraja currently has a serious problem of arrearages and defaults in its program. We therefore recommend that Daraja consider institutional upgrading in the following areas to improve its capacity to operate a viable enterprise assistance program:

(i) select a more delineated geographic region in which to lend to insure cost-effective client follow-up;

(ii) upgrade staff in provision of technical and management assistance to clients;

(iii) expand field staff by at least one and provide transportation to insure more consistent follow-up;

Table 1

Estimated Absorptive Capacity for Daraja Trust for Small Enterprise Assistance (US$) a/

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Non-Financial	18,194	20,924	24,062	27,672	31,822	122,674
Financial						
New Capital Funds	92,000	55,200	12,880	14,812	17,035	191,927
Reflows						
$	0	0	50,600	58,190	66,918	428,372 b/
$	0	50,600	58,190	66,918	76,956	
Total Capital Lent	92,000	105,800	121,670	139,920	160,909	620,299

a/ Assume an annual inflation rate of 15 percent; an annual interest rate of 10 percent; and an average amortization of two years.

b/ This figure represents reflows through year 5. Reflows would total $207,782 in year 6 and $130,826 in year 7.

(iv) stream-line administrative procedures. In particular, loan disbursal and collection could be handled more directly through banks. Clients are of a level that they could deal directly with banks;

(v) simplify the current business proposal format. At present it is overly time consuming given the small staff. A simple format that projects costs, returns, employment generation and markets could serve the purpose;

(vi) adjust the loan repayment period to accommodate enterprise cash flows. Current quarterly payments are a burden on certain enterprises;

(vii) coordinate efforts with other NGOs. For example, Daraja could advance larger size loans to clients who "graduate" from the smaller-scale loan programs of the NCCK or PfP. Or, Daraja could build on the experiences of other groups in group loans, which reach a larger number of people without the intensity of administrative support required for individual clients;

(viii) evaluate the effectiveness of the present employment generation policy criteria on the loans to test their success and/or potential applicability to other lending programs;

(ix) establish policies with regard to the sectoral allocation of loans (i.e., agricultural vs. off-farm enterprises -- past experience of Daraja suggests that agricultural enterprises are riskier);

(x) stress, through board policies and client education, the obligation to repay. Some clients confuse Daraja's loan assistance with grants.

Table 2

Summary Information on Daraja

1.	Number of Clients	26
2.	Average loan size	Kshs. 80,000 ($ 6,150)
3.	Annual new lending	Kshs. 1,000,000 ($ 76,000)
4.	Average annual operating	Kshs. 169,677 ($ 13,000)
5.	Annual cost/client	Kshs. 6,526 ($ 502)
6.	Cost/Kshs. lent (1982)	Kshs. -/.09 (9%)
7.	Absorptive Capacity Over 5 years	
	(a) Non-Financial	Kshs. 1,594,765 ($122,674)
	(b) Financial	Kshs. 2,495,051 ($191,927)
	(c) Total	Kshs. 4,089,813 ($314,601)
8.	Current level of AID support for non-financial assistance	50%
9.	AID funding over 5 years	
	(a) Non-Financial	Kshs. 797,382 ($ 61,337)
	(b) Financial	Kshs. 2,495,051 ($191,927)
	(c) Total	Kshs. 3,292,433 ($253,264)

TECHNOSERVE: KENYA

I. Introduction

Technoserve (TNS) differs significantly from the other NGOs examined in this report in that it is a U.S. private and voluntary organization -- not a Kenyan organization -- and specializes in organizational upgrading assistance rather than direct assistance to clients. Given the difference in TNS' operations and its expatriate direction and senior staffing, it is not appropriate to assess the organization according to the same guidelines applied to totally indigenous institutions which directly assist clients at local levels. Also, AID/Kenya has at its disposal numerous reports and evaluations on Technoserve over the years and does not therefore require at this time detailed methodological descriptions of TNS. The report will therefore examine TNS' current operations, with emphasis upon operations that are most relevant to the NGO-rural enterprise project as currently outlined.

II. Brief Description and History

TNS' goal is to assist low-income people through development of self-help organizations -- mainly enterprises (usually of a cooperative nature) which are both economically feasible and socially beneficial. TNS is a Connecticut-based U.S. PVO, begun in 1969, which operates a number of international programs with a total staff of about 80. The Kenya project began in 1973 in Kisumu and subsequently moved to Nairobi where it established its office in Westlands in 1979.

In the main TNS operates as a management assistance firm providing organizational, managerial and financial advisory services to a variety of organizations, most of which are in the cooperative sector. In addition,

TNS-Kenya (i) acts as country representative for Heifer Project International (ii) offers its managerial expertise to local PVOs; (iii) offers enterprise assistance to groups and individual programs requesting such assistance (through the BASIK program -- i.e., Business Advisory Service in Kenya) and (iv) carries out a variety of consultancies for agencies such as the World Bank, UNICEF and the Cooperative Bank of Kenya.

III. Organizational Background

TNS' current staff numbers 17 professionals plus six support workers. Five of the professionals are Americans, including the Managing Director, the rest are Kenyan. All the professional staff are highly qualified. The U.S. staff all have master's degrees or equivalent with a minimum of five years' experience. Many Kenyan staff are C.P.A. level, with backgrounds in business management and accounting. National staff are comparatively very well paid, with consolidated salaries and benefits of approximately $18,000; U.S. staff cost about $40,000 per person per year.

The organization is centrally managed in Nairobi but highly decentralized in operation since most staff are stationed in the field (see chart below). In this circumstance, the organization depends greatly on the self-motivation and general competency of the staff involved. In all cases examined, TNS were highly impressive in terms of both motivation and competency.

The yearly budget for 1983 is approximately $610,000.*/ Revenues are generated largely through program grants from private and public organizations including USAID ($250,000 or 40 percent of total yearly budget); NORAD; CABEMO and IBM World Trade. Consulting fees should total roughly $50,000 by the end of the year and project fees are estimated at $38,500. Personnel costs equal approximately 75% of the total operating budget.

IV. Project Activities

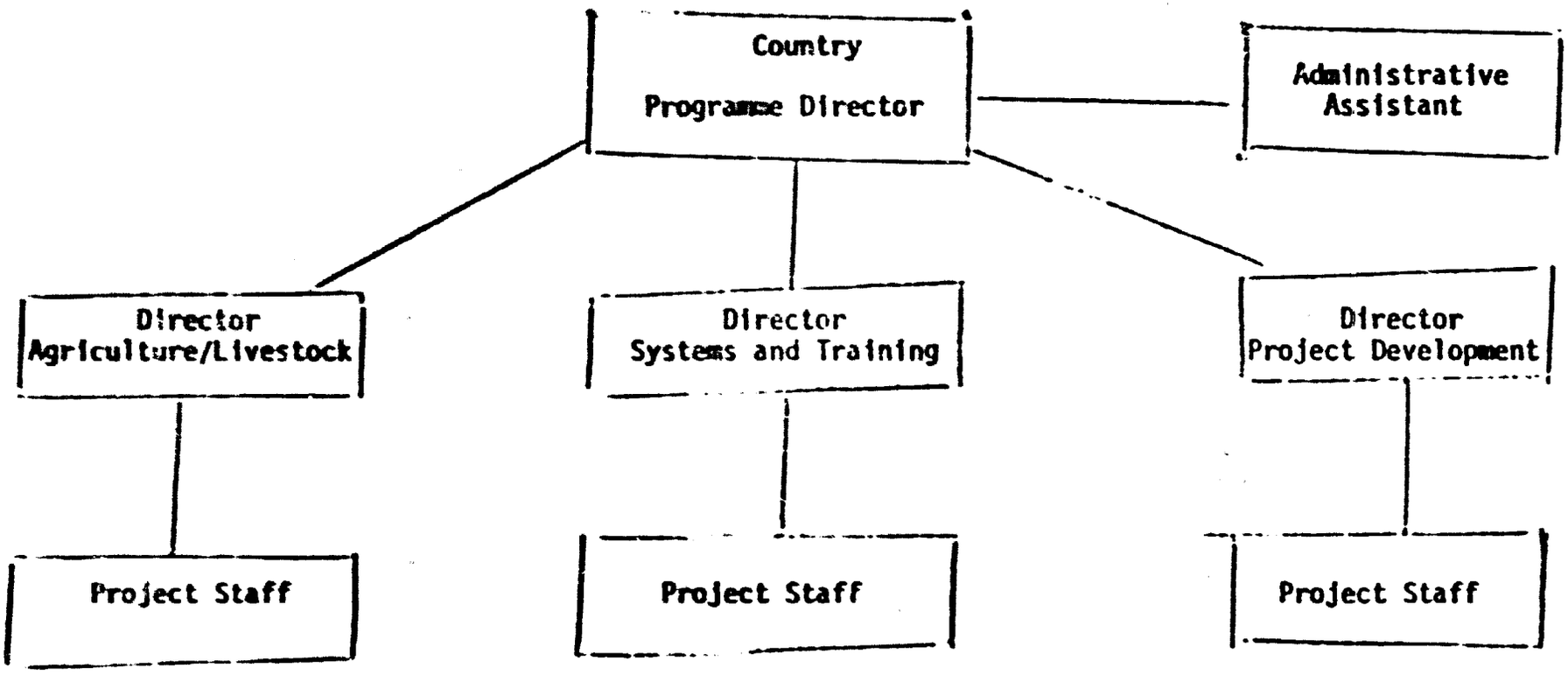
Outreach and Selection

TNS is a well-known assistance organization in Kenya, especially within the cooperative sector and as such is approached by organizations needing assistance. It also advertises its services in cooperative publications

*/ This does not include U.S.-based overhead costs for Technoserve which would

Organizational Chart

Technoserve



and other sources. Selection of groups to assist is made on the basis of two broad sets of criteria: potential enterprise feasibility and social impact. The latter criterion, social impact, is interpreted as meaning significant numbers of people who are low-income or who would not readily gain access to such services elsewhere. The following is a list of the organizations receiving intensive TNS assistance in 1983.

Projects in Kenya Receiving Technoserve Assistance -- 1983

1. Reli Cooperative Savings and Credit Society Ltd.: Monitoring Agreement. Share Capital Shs. 75,000,000. Membership 19,000. Location - Nairobi.

2. Turkana Fishermen's Cooperative Society Ltd.: Agreement to design accounting/financial control systems. Capitalization shs. 27,000,000, approximately. Membership 4,000. Location - All around the coast of Lake Turkana and at Kitale. Headquarters - Kalokol.

3. Turkana Fishermen's Cooperative Savings and Credit Society Ltd.: Agreement to design accounting/financial control systems. Capitalization shs. 800,000, approximately. Membership 260. Location - All around the coast of Lake Turkana and at Kitale. Headquarters - Kalokol.

4. Undugu Society of Kenya: Agreement to design and install accounting and financial control systems and train staff. Capitalization shs. 5,500,000, approximately. Clients served, approximately 1,000. Location - Nairobi, Mathare Valley, Machakos and Kitui.

5. Drumvale Farmers' Cooperative Society Ltd.: Management Service Contract (Commercial Livestock Production). Capitalization shs. 2,200,000. Membership 1,400. Location - Tala, Machakos District.

6. Nguu Ranching Cooperative Society Ltd.: Management Service Contract (commercial ranch). Capitalization shs. 2,700,000. Membership 1,600. Location - Makueni Division, Machakos District.

7. KUSCCO - Kenya Union of Savings and Credit Cooperative: Management Services contract. Capitalization of member societies (500) shs. 400,000,000 (estimated). Membership of 230 societies receiving bookkeeping services, 80,000. Location - Nairobi, with 15 bookkeeping centres spread throughout the Republic.

8. Ilkerin Integral Development Project: Accounting System design and installation. Financial Planning Assistance. Capitalization shs. 5,000,000. Clients served, 3,000. Location - Ilkerin Plateau, Loita Division of Narok.

9. Ilkerin Farm: Management Contract. Capitalization shs. 2,000,000. Clients served, 400. Location - Ilkerin Plateau, Loita Div. of Narok.

7. In addition, less intensive services were rendered to a number of smaller entities under TNS' flexible BASIK program. These include the following:

1. Taita Ranchers. Request to prepare paper for the Minister of Livestock Development analyzing present financial status of Taita ranchers. Paper prepared.

2. James Owinyo and Sons Co. Ltd. Request for feasibility study of proposed shoe factory.

3. Church World Services. Request to consider analysis of three projects which they may wish to support in Uganda.

4. Nakuru Laymen's Association. Request to provide assistance to accounting system design and financial planning. System designed and planning assistance provided.

5. St. Patrick's School Iten (School Farm). Request for assistance with preparation of a proposal for Heifer Project International. Initial assistance provided.

6. St. Patrick's School, Iten. Request for advice on how to properly equip borehole on school farm. Recommendation made and technical information supplied.

7. Undugu Society of Kenya. Request for assistance with marketing of handicrafts. Seminar/meeting arranged with handicrafts marketing expert.

8. Sundry Processors/Uganda. Request for information required to determine feasibility of proposed oil mill, grain processing and poultry projects. Feasibility studies for Kenya Program files provided.

9. Agro-Consulting Ltd. Request for livestock projection for farm in Laikipia District. Completed.

10. Institute of Certified Public Accountants/Kenya. Request to prepare a paper on recommended methods of conducting livestock valuation. Done.

11. Mau Investments Ltd. Request to assist with the identification of opportunities for purchase of agricultural land, proper constitution of their organization, design of a members register, and preparation of loan applications. In process. Members register designed.

12. Ministry of Livestock Development. Request for provision of farm operating data for inclusion in 1982 annual review of Kenya beef and milk prices. In process.

13. Mombasa Port Savings and Credit Society Ltd. Request for advice on improving the management of their society. Information from previous PPR sent. Visit scheduled.

14. Kaptel Farmers Cooperative Society Ltd. Request for advice on their proposed purchase of a pick-up truck to be utilized for the marketing of horticultural produce. Costing done and recommendation made.

15. Rombo Group Ranch. Request to prepare projections for the development of a five year ranch plan. Done.

Taken together, those organizations receiving intensive assistance (the first list above) represent combined membership of roughly 110,000 and total capitalization of ksh 520,400,000. In terms of social criteria for selection the total list of organizations represented demonstrates a tendency toward cooperatives, since these types of organizations have large membership, broad participation in ownership and a heavy emphasis on labor intensity in production. As for beneficiary income levels, there are few figures available. The assisted organizations present a diverse range of clientele. The Turkana Fishermen's Coop, for example, comprises quite poor fishermen who reportedly have had little assistance before a coop was formed, with Scandanavian assistance, and TNS brought in to upgrade management. Drumvale farm, on the other hand, is essentially an investment cooperative, with 1400 members who do not work the land in question, but rather own it collectively (a common practice in Kenya in regard to large, former white-owned farms). There is no telling exactly what the economic status of this membership is, although it is described generally as lower-middle to lower income. At the same time, KUSCCO comprises a very large and diverse beneficiary system, dispersed as it is through the approximately 500 member credit and savings coops. Reportedly, lower-income urban and town-based wage earners are the largest group of KUSCCO beneficiaries.

Generally speaking, it would appear that TNS' beneficiaries are mostly above the higher levels of clientele served by the indigenous NGOs, but are still within acceptable income limits for a PVO program -- especially given the range of clients identified for the rural enterprise project. In addition, TNS' promotion of sound organ-

izational structures, such as cooperatives, affords a means of furthering participation and self-help in a broad manner.

Management and Technical Assistance

Once contact with an organization is established, TNS makes a preliminary assessment of problems and prospects of the organization and begins general discussions to both begin to outline an assistance strategy and to assess the commitment of organizational leadership to straightening out problems. For the most part, those entities seeking TNS assistance have fairly serious problems, usually reflected in a negative financial position. Often, the leadership of the organization -- especially at the field staff level -- may be reticent to comply fully with a managerial and financial upgrading process -- especially in cases where financial corruption is involved. For these reasons, TNS proceeds carefully toward a written agreement which specifies the respective rules and responsibilities of each organization and the conditions under which assistance will be initiated and continued. After drafting an internal preliminary report, a letter of agreement is drafted, and then discussed and signed as an interim agreement leading to a service contract.

In negotiating the terms of reference for assistance relationships with troubled organizations, TNS is insistent on securing adequate authority to make necessary changes in systems and personnel as they are called for. The extent to which they seek latitude and authority varies with the extent and severity of technical and managerial problems encountered, but in many cases they assume almost total managerial control. In the case of KUSCCO, for example, very serious mismanagement occurred at the top which led the Ministry of Cooperatives to appoint an interim commission to replace the former Board which was dismissed. In turn, the commission brought in TNS to straighten out KUSCCO's operations. Technoserve agreed but only if virtually all top management functions - including general manager -- were put in their hands. This was agreed to.

After agreement is reached tentatively through the letter of agreement mechanism, TNS moves in to assist and initiate a study out of which a detailed assistance plan and a service contract result. Longer-term assistance is then pursued on this basis. Conditions regarding continued TNS participation are detailed in the service contract.

In each case, therefore, TNS outlines a distinct assistance strategy based on the specific problems at hand. The assistance rendered in virtually every case involves organizational and financial management but may also include technical assistance. The assistance to cooperative farms and ranches, for example, involves heavy technical advising on livestock and agricultural production as well as upon financial and organizational management. Also, while TNS does not engage in credit, they often assist in securing loans for the upgrading, rehabilitation and/or expansion of the entity in question. In the case of Drumvale Farm, for example, commercial loans totalling ksh 2 million were leveraged to upgrade buildings and equipment. With Nguu Ranch Cooperative, ksh 2.8million was secured. In both cases, TNS' management intervention played a significant role in securing the loans. In the Drumvale case (as in others), the loan was made contingent upon continued TNS management.

While each assistance plan is distinct, TNS' assistance approach often begins with the design and installation of an adequate financial bookkeeping system in order to gain control over income and income expenditure. Once this control is established, monthly cash statements are produced and financial problems identified on that basis. A longer-term financial control and reporting system is then drawn up and put in place, while staff changes are made where necessary. In all cases very heavy emphasis is given to the on-the-job training of personnel in the new management system. All assistance input are integrated through the training of staff; this is viewed as the institution-building aspect of the assistance effort.

The duration of intensive assistance varies from 18 to 24 months for credit and savings cooperatives, to up to four years for agricultural projects. After this time, TNS often continues in a monitoring role, utilizing the financial management and reporting systems installed as the follow-up format for monitoring and discussion. If necessary, intermittent technical assistance and training is delivered after the intensive assistance period is over. This is decided upon on a case-by-case basis.

Technoserve's inputs to BASIK clients are, of course, much less intense as they are focused on short-term technical assistance, usually for smaller entities. Under this program, clients can receive up up to five days per month of technical assistance without a fee being charged. Clients receive assistance in bookkeeping and financial planning, marketing, project analysis, analysis and procurement, and, most importantly, assistance in proposal preparation and credit procurement. One of the basic ideas of this program is to put clients in contact with credit facilities and assist them in leveraging capital.

V. Impact and Assessment

While time has not allowed a thorough assessment of all TNS field activities, a fairly concentrated review of in-house documents was undertaken, and field visits to three project sites were made to validate impressions gained from interviews and document reviews. As TNS does not deal directly at the beneficiary level, it would not be entirely accurate to assess impact on a quantitive, group membership basis. But TNS does work to upgrade the capabilities, services and organizational base of membership institutions, and the members clearly benefit from these efforts. In any analysis of membership numbers, TNS appears in a very favorable light. KUSCCO's combined membership, for example, approaches 80,000; Drumvale has 1,460 members; Nguu ranch, 1,500 members. The cost per member for such services is, of course, extremely low. Aside from organizational and service improvement, TNS can also justly point to increased capital leveraged through their managerial involvement with production cooperatives.

A similar case can be made for the BASIK program. Through 1982, 25 different entities received assistance through the service (examples of the program's clients were listed previously). A conservative estimate of the beneficiaries of these organizations would be about six thousand.* The total capital leveraged through Technoserve assistance totals roughly $800,000.

An additional means of assessing Technoserve's role is within the Kenyan institutional context. In this view, TNS can be said to play a key role both upgrading and salvaging important cooperative institutions in Kenya. As an outside organization, yet one with strong local ties, TNS is in a position to play the heavy role, so to speak, in cleaning up organizations riddled with mismanagement, and, in some cases, corruption. A Kenyan organization would have a much more difficult time assuming this role, as was pointed out by the Ministry official in charge of credit and savings cooperatives who expressed strong appreciation for Technoserve's work with cooperatives.

Probably the best means of assessing TNS' impact remains at the institutional level, where TNS focuses its assistance. Here it would appear that TNS' assistance is highly effective when the commitment to improve the beneficiary instution is present among the leadership, and appropriate working relationships ensue. In the case of the field sites examined personally -- KUSCCO and Drumvale Farm -- the results of TNS assistance were quite dramatic, especially in the case of KUSCCO, which had been a managerial disaster and is now operating in the black after significant personnel and systems changes. Similarly, the Drumvale cooperative is being restored to a fully operational well-managed farm which is currently breaking even, in terms of cash flow, while member investments continue. In both of these cases, TNS staffing

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*One water project, that of the Canadian Hunger Foundation, is planned to assist 60,000 people but is not yet implemented. When operational it will have foreign assistance financing up to $1.1 million.

was highly appropriate and the degree of success TNS has had in the difficult task of restoring ill-managed, technically complex organizations is highly impressive. The staffing of TNS-Kenya is no doubt the key to their well deserved reputation for organizational upgrading.

This assistance does not, of course, always work as smoothly as indicated by the above examples. With the Malaba - Malakisi Cooperative, for example, TNS could not dissuade the coop's leadership from moving significant amounts of cash into illegal coffee smuggling in Uganda in 1979. TNS pulled out of the assistance relationship. Some serious management problems with the leadership of the Turkana Fishermen's Cooperative have also arisen. What such experiences bring to the fore is the obvious question of what happens when TNS withdraws its assistance? Do the organizations relapse back into mismanagement?

TNS staff contend that follow-up efforts based on previous management work tend to produce continued results. The Harambee Savings and Credit Cooperative, for example, has not had direct TNS assistance for over one year and monthly monitoring sessions demonstrate continued sound management on the part of senior staff who were trained by Technoserve. What is helpful in follow-up is the extremely comprehensive financial management and bookkeeping systems installed by TNS. Since they design, install and train counterparts in their system, TNS staff can catch inconsistencies in income or expenditure with little difficulty. According to Technoserve, those organizations that do slip back into mismanagement do so because of leadership, and this can occur regardless of Technoserve's presence. This appears to be true given the fact that problems with Malaba-Malakisi ensued while Technoserve was assisting it, not afterwards.

Lastly is the issue of whether or not the organizations assisted by Technoserve could meet a significantly greater share of the costs of TNS' services. While the question is a valid one, given the size of the assisted organizations and the economic level of their clientele (ie, not the very poor), Technoserve maintains, not without some justification, that the organizations are financially troubled when they seek assistance and could not afford to pay the cost of TNS' input.

This is quite true in that most assisted organizations are operating in the red when assistance begins. The issue is further confused by the range and diversity of organizations and enterprises assisted. Rather than pushing to recover more costs directly from clients (a difficult and sensitive task for an international PVO), TNS would probably do better to make a more concerted effort to assure that its assistance reaches the poor. This could effectively remove the fee collection criteria.

Absorptive Capacity

Due to its extremely sound administrative system, its solid background in the Kenyan cooperative sector and its ability to attract and maintain sound personnel, TNS-Kenya's expansive capacity is, comparatively speaking, very large. By their own estimate, TNS could probably double in size within five years. However, to be consistent with the conservative approach adopted across the board in this report, we will limit TNS' growth rate to 10% per year for purposes of calculating absorptive capacity. We are calculating this for core program support, mindful of the fact that TNS will probably be heavily involved in intermediary assistance for other NGOs as provided for through the intermediary structure. Taking as a base full current program costs of $720,000 p.a. (including US-based overhead), the following table would result:

Year One	Year Two	Year Three	Year Four	Year Five
$910,800	$1,152,162	$1,457,485	$1,843,720	$2,332,300

Total for Five Years: $7,696,470

Currently, USAID finances roughly 40% of program costs. This would bring USAID's financing to a total of $3,078,580 over five years.

Again, because of Technoserve's unique background and capability in organizational assistance, we would expect that technical assistance to both cooperatives and other NGOs would be further promoted through direct grant funding and through a technical assistance relationship with the intermediary entity to be set up.

SUMMARY ASSESSMENT OF NGOs

I. Introduction

As stated previously, the NGO's examined as part of this report constitute a diverse array of organizations. The purpose, goals and assistance methods of these groups differ significantly; so much so that any "comparative" analysis, in the real sense, would lack the necessary consistency to render it valid.

In any case, a comparative assessment is not our purpose. Rather, we will in this section attempt to pull together what has been learned regarding the relative strength and weaknesses of the organizations visited. The purpose of this synthesis of findings is to define, as closely as possible, the assistance needs of these organizations as would be provided through a new intermediary. It is for this same reason that the effort is made to determine the absorptive capacity of those NGOs in Kenya engaged in income-and-employment-generation efforts. Inherent to this assessment is a social assessment of their activities; this social analysis is summarized in the summary section at the end of this report.

Goals and Objectives

Unlike the commercial lending sector, NGOs have as their general purpose the enhancement of the general quality of life of their clients. For this reason, their programs integrate social and economic inputs(e.g. groups work together with small business assistance) and the attempt is made to reach the poorer segments of the informal sector - including women who rarely benefit from conventional lending and technical assistance programs. These institutions attempt, to the extent possible, to work through participatory organizations, such as women's organizations and cooperatives and, at the same time, to integrate small-

business assistance as one aspect, and not the all-inclusive goal of their efforts. This being the case, it is only fair to assess their impact on this broader basis of development.

Beneficiaries

Generally speaking, the NGO's are quite successful in reaching and assisting poor people who do not have access to more conventional means of support. As stated, this is especially true of women, who constitute over 85 percent of the clientele of the NCCK, Tototo and PfP programs. This is not universally the case, however, with the NGOs,as their clientele ranges in income from about ksh 200 to ksh 5500 per month.

Program Structure

The NGO programs typically operate in a decentralized fashion, in terms of outreach and service delivery, with administration and policy-making remaining fairly centralized. Decentralization in service delivery is, of course necessary in reaching the widespread and often isolated clientele of these programs. These programs therefore rely extremely heavily on the quality and motivation of their field staff, and success or failure appears to be largely due to the quality and experience of personnel, together with the adequacy of administrative systems. Because of this, we have concluded that investments in the technical upgrading of staff would be well worthwhile throughout the NGO community, and that technical assistance in program administration and management should also be made available.

Project Activities

As the focus of their programs is largely upon assisting the efforts of the self-employed in the informal and cooperative sectors, they are working to stabilize enterprises and employment, upgrade skills and increase productivity and income. Indeed, employment can be said to be upgraded and upgraded significantly, but as we have seen in the first part of the report, informal sector employment is categorically distinct

from formal sector employment and would perhaps best be judged in terms of position stabilization and income increases. It is for this reason that the effectiveness of NGO activity should not be viewed in terms of employment generated, despite the fact that the capital to employment ratio in the informal sector is roughly $2000 per job as compared to an investment ratio of $13000 per job in the formal sector.

For the most part, NGOs concentrate upon new financial services in attempting to assist enterprises, most of which (in terms of numbers, not capital) are small, petty retail-and-service enterprises. The basic approach of most of the organizations examined is to assist in instituting bookkeeping and enterprise management to improve performance utilizing this central mechanism, together with advice in marketing, raw material acquisition, credit utilization, etc. Skills training, in the case of Tototo, is heavily emphasized. Credit itself is not identified as the primary input needed, and only two programs (NCCK and Dareja) have instituted lending on any significant scale. While there is little to go on in measuring either the intensity or the output of these services, they do reach a large number of clients relative to the size of the programs. For combined direct services (ie, excluding Technoserve), 5790 clients were served by 79 staff and a total budget of approximately $327,000 for non-financial costs. This would roughly equal 73 clients per staff person, at a cost of $56 per client per year. This is highly cost effective, largely because of the grouping of clients which allows for more efficient utilization of staff time.

Financial Assistance

As mentioned, only two NGOs have institutionalized lending functions to any extent (NCCK and Daraja), and taken together, they have made less than 200 loans. NGO coverage in meeting credit demand is therefore extremely small. However, there obviously is an enormous gap to be filled in lending to NGO clients, since the commercial banks do not lend at this level. The question is, who would do it and how it should be done.

NGO lending is done at between 5 percent and 12 percent interest, with average two-year amortizations and a loan-size range of between Ksh 400 and Ksh 200,000. * Most of the loans are made for working capital purposes. Lending procedures are direct to client, as opposed to intermediary lending (except that PfP has recently begun an experimental process of capitalizing revolving loan funds among groups of market women).

Repayment results, as detailed in the text, are at present troublesome. NCCK has a rather high arrearage rate of 38 percent, while Daraja's program is at best recovering 60 percent of loan capital. The causes of lending problems are difficult to discern. The economic situation in Kenya has been extremely poor over the past 18 months, and the very small enterprises have been hit extremely hard. Yet, at the same time a lack of sound credit administration procedures and follow-up with clients is almost certainly related to repayment problems. What should be noted, however, is that the evidence, limited as it is, does not lead to the conclusion that the poorer the enterprise, the more difficult it is to lend. Daraja's clients are much wealthier than NCCK's but their lending record is more problematic. The lending problems exhibited by these organizations are no doubt due to the fact that it is indeed difficult to lend to poor people with small, vulnerable enterprises, but at the same time, our assessments also point to the credit administration and management problems of the PVOs. Three possible courses of action should therefore be taken in the expansion and/or upgrading of NGO lending programs. These are: (i) upgrade loan management and administration systems; (ii) make use of local banks where possible, being careful to maintain NGO policy control over lending and (iii) create within the intermediary entity a credit delivery and management mechanism.

Impact

While it is extremely difficult to generalize consistently

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*Because of the wide disparity in client numbers and income levels, averaging of loan figures would serve no purpose.

on overall impact with such a diversity of approaches and institutions, there are a few key points that can be made. First, while on a cost effectiveness basis, NGO outreach and client numbers are impressive, the programs directly reach only an extremely small segment of the informal sector (ie, roughly 6000 people out of millions). Even with the addition of indirect beneficiaries, (up to 36,000 to 40,000), the numbers are still small. With Technoserve's indirect beneficiaries, perhaps 200,000 are effected. There is therefore great need for expansion of institutions in this sector since they are the main support mechanism for people of this level, especially for women.

Secondly, while hard data on client performance is generally lacking, indications are that the services offered do have impact. NCCK's monitoring system, for example, shared steady client income increases over 18 months after the receipt of a loan. A 1980 evaluation of Tototo demonstrates both enhanced skill acquisition and increased incomes. Technoserve's efforts have produced steady organizational improvement and in some cases dramatic turnarounds at large cooperative organizations.

Thirdly, while little attention is given to the social development efforts of these organizations, the impact is distinctly there. Time after time the consultants were highly impressed by women's groups, Village Polytechnic work groups and cooperatives. All of these local self-help organizations were promoted and assisted by those organizations and some thousands of clients now benefit from them. More importantly, these organizations may well be viewed as vehicles through which legitimate, democratic development can be pursued by poor people in a country which has systematically failed to address its striking economic dualism.

Upgrading Needs

Despite the above-cited achievements, the NGOs examined, for the most part, have some critical upgrading needs, especially if they are to proceed toward expansion. These include the following:

(i) the upgrading of program planning, administration and management, especially of credit systems.

(ii) the upgrading of staff skills in technical and management assistance to enterprises.

(iii) the improvement of coordination and communication among the NGOs.

(iv) a further emphasis on group work and an upgrading of group enterprise assistance techniques among staff.

(v) a streamlining of relationships with donors.

(vi) an initiation or improvement of working relationships with banks whereby client interests can be promoted and credit leveraged.

(vii) a furthering of technical skills programs as a part of promoting women's income generation.

Absorptive Capacity

The following table compiles the program-by-program absorptive capacities detailed in each of the NGO program assessments. As stated earlier, these figures are meant to give an estimate of the level of funding at which an intermediary assistance entity should expect to operate over five years. The estimates given are not recommendations for funding of each program; this should be decided on a case-by-case basis by the entity itself.

Table 1

NGO Absorptive Capacity for Small Enterprise

Assistance Over Five Years.

	------ Non-Financial ------			Financial[a/]	Total AID Financing [b/]
	Total	%AID Funding	AID Funding		
PfP	1,492,125	50%	746,062	213,586	959,648
Tototo	698,931	75%	524,198	124,590	648,788
Daraja	122,674	50%	61,337	191,927	253,264
NCCK	1,517,915	65%	986,645	214,647	1,201,292
Technoserve	7,696,470	40%	3,078,580	-0-	3,078,580
TOTAL [c/]	11,528,115		5,396,822	744,750	6,141,572

a/ These figures represent capital for revolving loan funds. The total capital lent through these funds will exceed $2 million over five years.

b/ This assumes AID will provide 100% of credit capital.

c/ These figures assume a 15 percent annual rate of inflation; a 10 percent rate of expansion (except for Daraja); a 10 percent interest rate; and an average amortization of 2 years.

Part III: INTERMEDIARY ASSISTANCE

RECOMMENDATIONS FOR ESTABLISHING AN INTERMEDIARY ENTITY TO ASSIST SMALL-SCALE RURAL ENTERPRISES

Based upon an examination of the NGO capacities, prospects, and general assistance needs, we believe that creating an intermediary entity is a valid concept. Such an entity can fulfill three key requirements:

(i) assist NGOs in upgrading and expanding programs which promote income and employment-generation efforts for rural populations;

(ii) extend financial and non-financial services to small- and intermediate-sized individual and group enterprises (i.e., from Ksh. 50,000 and up in assets and from 0-20 in employees) that can absorb commercial credit but that, at present, have limited access to these services due to gaps in the Kenya enterprise-assistance structure; and

(iii) develop and support innovative efforts which assist rural enterprise development, such as the extension of management assistance and credit to small enterprises and production cooperatives, and which back innovative finance institutions at local or regional levels.

The intermediary entity would be autonomous, that is, sanctioned but not controlled by government, and staffed jointly by U.S.-expatriates and Kenyans. The organization would be spun off as a Kenyan entity within four years. To fulfill the various needs, we recommend that the intermediary entity assume the following functions:

1. Act as an administrative and financial intermediary.

Because of the difficulty for international donors to provide adequate assistance to individual NGOs in project management, implementation, follow-up, and coordination, USAID has indicated a desire to pull back from direct project-by-project involvement. This is a strong reason for establishing a single entity which serves as a financial conduit and administrative buffer between USAID (and hopefully other donors) and the NGOs. This arrangement can offer greater administrative and financial compliance from and coordination among the NGOs.

The intermediary could act as a conduit of grant funds for programmatic and lending activities. Criteria for grants and loans should emphasize:

(i) strong support for local organizations. To guard against an avalanche of proposals from outside organizations, require that international US-based PVOs have three to five years of on-the-ground experience in Kenya before they can apply for funds;

(ii) demonstrated involvement with the rural target population;

(iii) a level of administrative and managerial ability within the NGO which can be upgraded to a high level of performance with assistance;

(iv) some prior experience with providing enterprise assistance or a demonstrated ability to do so.

There are numerous existing Kenyan NGOs with income-generation experience and/or plans to pursue such efforts which would be of interest to the intermediary organization. In addition to the NGOs covered in previous sections, numerous local women's organizations have interests in pursuing income- and employment-generating activities. The dioceses of various Protestant churches, many of whom operate in coordination with the NCCK, offer a variety of opportunities for support. Perhaps foremost among these is the Diocese of Maseno South which now receives USAID funds through World Education, Inc. for rural development activities. The Diocese currently plans to establish a local finance company in western Kenya. This company would lend to economically established clients at commercial rates

and use the profits to subsidize lower interest loans to poor, first-time borrowers. (A preliminary concept piece on this finance company is attached as Appendix II).

The intermediary entity could finance both NGOs currently supported by USAID and new projects such as those mentioned above. For the former group, the estimated absorptive capacity for financial and non-financial assistance is $6.15 million over five years (see previous section). For the latter group we recommend 33 percent of the absorptive capacity of the currently supported groups as a starting figure ($2.02 million). This, of course, is a conservative estimate of the absorptive capacity beyond currently assisted groups. However, we believe it is best to begin slowly and not make more funds available than can be absorbed. Moreover, the intermediary may over time choose to divert some funds from currently supported organizations to new groups.

2. Promote communication and policy coordination among NGOs.

As stated above, little communication and coordination currently exists among Kenyan NGOs providing small enterprise assistance. A trusted central entity could succeed in transferring skills and information among groups. More importantly, dialogue among groups could lead to coordinated policies and operations with regard to location and distribution of services. A crucial element in promoting communication is a participatory approach in establishing the entity so that it is not seen as something "laid over" by a donor.

3. Deliver managerial assistance for upgrading NGOs.

Internal management upgrading of participating NGOs will be a critical need in any successful attempt to expand their activities. Such assistance should therefore be part of most, if not all, grant assistance as a condition of financial assistance. NGO administrators indicate that if such upgrading

assistance is delivered in confidence and in an atmosphere of trust, it will be both accepted and useful.

While the intermediary should closely monitor these upgrading efforts, they probably would be carried out most effecitvely through contractors. As cited previously, such assistance should include advice on general program and organizational development, project planning and implementation, and administration and financial management, particularly in the area of credit delivery. Management consulting firms could be contracted to establish consistent financial and administrative systems for participating organizations and assist in their adoption and implementation. If necessary, contractors could also assess grant and loan applications from previously unassisted organizations.

real function

4. Provide technical assistance.

Most organizations need additional staff training in technical areas. However, a critical limiting factor is that individually they cannot afford to employ technical experts in the various trade and enterprise areas represented by their clients. Through contractors, an intermediary could provide this crucial technical assistance both to NGOs and their staffs and to client enterprises (especially group enterprises). Costs of managerial and technical assistance over the length of the project would total an estimated $1 million.

5. Act as a credit facility.

As we have seen, few NGOs are currently engaged in lending to clients and those that do could use administrative help. With this in mind, we recommend that the intermediary institute its own revolving fund and lend to the NGOs. The NGOs in turn would on-lend to clients and repay to the central fund. This central fund would replace individual, grant financed loan funds. This mechanisms would allow central control over loan funds. Administrative upgrading for NGOs in credit delivery could be tied directly to this central lending activity.

We recommend that lending systems be established between the intermediary and the NGOs on a case-by-case basis. That is, both the loan process and the on-lending terms would be established on a case-by-case basis.

Interest rates, amortization, and grade periods would be set according to the level of clientele being serviced (which differs significantly from one project to the next) and the type of lending being pursued. For example, programs assisting poorer first-time borrowers could be allowed to lend on softer terms than programs for better-off clientele.

To the maximum extent possible, NGOs should be encouraged to administer their lending through local banks.1/The intermediary would assist in negotiating the terms of these arrangements between the banks and NGOs. This will range from purely administrative arrangements for bottom-end programs to at least shared risk arrangements for higher-level clientele programs. It is critical to point out, however, that sensitivity toward NGO lending goals must be maintained in this process; in other words, the NGOs, together with the intermediary entity, should retain policy control over their lending to assure that the appropriate level of clientele will continue to receive credit. It is important to note that if the banks were lending to their level of clientele, none of the NGOs (except the Daraja Trust) would need lending programs. NGO policy positions, therefore, should be respected with regard to their own clients.

6. Serve as a credit guarantor.

As stated above, the intermediary entity could play a crucial role in promoting the delivery of credit to small enterprises in the 0-20 employee range (both formal and informal) that are capable of absorbing commercial interest rates. Two assistance processes could be adopted in this regard.

First, through its grant policies, the intermediary could support NGOs (such as Technoserve and PfP) in their attempt to direct better off clients to commercial banks for loans (whether or not more established clients should pay fees for this promotional service can be decided during program design and review). To the extent possible, banks should be induced to lend to clients who are certified by the NGO as managerially and financially competent.

1/ Mobilization of savings should also be encouraged as part of the credit program.

Second, we recommend that a $1.5 million risk pool be established to assist in leveraging credit at this level. The amount of loan capital that can be leveraged through this amount remains to be negotiated, but it could total up to $5 million. With funds on deposit (which would be less than $1.5 million to start), the intermediary could make arrangements -- on a general rather than case-by-base basis -- for banks to access funds to cover their capital losses through default over a specified period of time. Details such as the ratio of risk assumption on both sides, and the method by which risk pool funds can be accessed by the banks will need to be worked out. In addition, the $1.5 million would be used to cover the risks associated with NGO lending.

7. Establish monitoring and evaluation systems.

Monitoring and evaluation of sub-projects will be critically important. At present, very little is known regarding the specific order, range, and intensity of financial and non-financial inputs that appear to have positive impacts on informal sector enterprises. Because so little is known, particularly with regard to the absorptive capacity for credit, we recommend a flexible case-by-case approach establishing credit terms. We believe it best to begin with flexible lending terms and a range of non-financial assistance and gradually move toward commercial lending terms with successful sub-projects. This process will require tight project monitoring from the ground level up; and an established system for using project monitoring information on an ongoing basis. An evaluation system to assess the effectiveness of the entire project is a critical element within the intermediary entity.

Design Elements

Although the structure of the intermediary must be detailed at a later date, the functions cited above dictate certain structural characteristics. First, the intermediary must have sufficient operational latitude and flexibility to assist a range of projects and institutions. In turn, this will require a sufficient degree of institutional autonomy and freedom from undue influence from any particular public, private, or voluntary group.

Nonetheless, the entity needs both government approval and authentic support from the NGO community. At the same time, however, NGOs have realistic concerns over governmental influence on their projects. The only feasible solution, it would appear, is to insure that an independent organization is created with representation from the public, private, and voluntary sectors. It should be sufficiently flexible functionally to insure general acceptability and dispersed institutionally to ensure autonomy.

Second, given the range of functions cited above, we foresee the need for two principals on the staff, both with sound experience in NGO-related income-generation programs in Africa. One would best have a background on the credit side and the other on management. USAID may want to use expatriates for these positions during the initial stages.

Taken together, the above suggests a model along the following lines.

(i) The organization should be an independent Kenyan-registered corporation formed in partnership with a U.S. organization, probably a PVO with relevant institutional experience.

(ii) The Board of Directors would have representation from the government (i.e., from two to three different ministries to avoid co-optation), from the private sector (business people with demonstrated interest and commitment to socio-economic development) and from NGOs (excluding those that would be potential beneficiaries of the intermediary).

(iii) The U.S. organization would initiate operation of the intermediary, establish assistance relationships with local NGOs, and train Kenyan counterparts to assume leadership of the organization after a two-to-three year period.

(iv) The staff would include two expatriates (one with a background in credit and one in management) and from four-to-six Kenyan counterparts (with extensive background in social/community development, enterprise and organizational management, and credit, preferably in the voluntary sector).

Perhaps the most crucial aspect of the intermediary is the manner in which it is developed. The government must consent to its establishment -- public sector involvement on the board and ongoing consultation with the government should suffice in this regard. Moreover, NGOs must trust in and feel a part of the intermediary. Maintaining a dialogue between the NGOs (in an advisory capacity) and the intermediary is one concrete way to facilitate this. To date, the attitudes of the NGOs are very accepting

of the idea of an intermediary entity; at the same time they are inquisitive regarding AID's plans and intentions.

We therefore recommend that AID communicate its thinking on the structure and function of the entity as soon as a preliminary position is defined. If this is done openly, we believe that some very meaningful ideas can be exchanged, and the whole intermediary concept can be rendered more practical. Without such participation, the entity could become isolated and viewed solely as a funding source. This could defeat the purpose of what we consider to be an extremely exciting and valid idea.

We further recommend that USAID assign a staff person or consultant to take the lead in developing the intermediary entity over the coming months. This person could work to:

(i) involve NGOs in the design phase of the intermediary;

(ii) facilitate a process that establishes a common understanding about the functions and purposes of the entity among participants;

(iii) carry out liaison work with the government in terms of initiating whatever legal and organizational clearances, etc., that are required;

(iv) identify the full range of NGOs involved in this sector;

(v) assess what sectors other donors are supporting through NGOs to insure that USAID's efforts fit in a coordinated fashion;

(vi) arrange for interim funding for presently supported NGOs whose funding will run out while the present project is in the development stage.

Budget for Intermediary Program

The following is an estimated budget which summarizes the recommendations made in the previous sections.

Table 1

Estimated Budget for Intermediary Program

1. Currently Assisted NGOs		$6.15 million
Financial Activities	$0.75 million	
Non-financial Activities	$5.40 million	
2. Other NGOs		$2.02 million
3. Intermediary Entity		$2.60 million
Personnel and program support[a/]	$1.60 million	
Technical and management assistance fund	$1.00 million	
4. Credit		$1.50 million
TOTAL		$12.27million

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a/ U.S. staff (2 persons X 3 years at $100,000 per year for salary, benefits and overhead). $600,000

Kenyan staff (6 persons X 5 years at $20,000 per year for salary and benefits) $600,000

Program support costs (5 years at $80,000 per year) $400,000

TOTAL $1.6 million

INTERMEDIATE LEVEL ASSISTANCE

As stated previously, one of the major problems to be solved in addressing the social concerns of the project is reaching and assisting the middle-size range of African enterprises. One promising solution to this problem appears to be involving rural-based and -owned enterprises, such as cooperatives, private group enterprises, and directed agricultural companies. Many of these enterprises range from $2 million in assets, with memberships up to 15,000. Many within the cooperative sector engage in agroprocessing. Table 2 demonstrates the size of such enterprises in the cooperative sector.

Although this team has not had the time to investigate such concerns, their total term capital needs are reported to be quite high, upwards of $100 million. Because of management problems, however, the actual abosrptive capacity of these concerns is significantly lower. Nonetheless, a very conservative estimate is that $10 million could be invested in this sector, especially if managerial assistance and close monitoring of credit utilization is offered as part of the assistance package. Such a program of credit and management assistance could be coordinated through the intermediary entity with the participation of management consultants specializing in this area. The capital requirements of such an effort could total $10 million in loans and approximate $3 to $4 million in management and technical assistance (see Table 3).

As we have not had the opportunity to assess in adequate detail the prospects for investment in this general area, we strongly recommend that some follow-up analysis be done. These enterprises largely represent the medium asset range(per member) enterprises in rural areas, and their absorptive capacity and membership is large.

Table 2
Activity Contribution to Total
Turnover and Share Capital
In 1979

Activity	No of Societies	Membership	Percentage of total turnover	Turnover (Kshs.000)	Share Cap. (Kshs.000)
Cereals	15	4439	-	469.5	135.0
Coffee	153	360109	66.7	1537149.4	40578.9
Cotton	72	105826	3.9	88760.4	1493.4
Vegetables	4	1971	0.1	3252.0	105.9
Pyrethrum	43	57832	1.6	37912.6	2328.3
Sisal	1	2851	0.1	3468.8	2301.8
Sugar Cane	51	750	4.1	94725.8	138.2
Dairy	98	119730	2.7	61134.2	152543.6
Ranching	18	15192	0.5	13173.4	18897.0
Multiproduce	255	143034	5.9	135309.9	12771.8
Farm Purchase	115	13114	0.2	6301.0	5841.3
Consumers	57	11786	1.0	18330.3	1836.1
Housing	37	10465	0.1	1737.6	10397.1
Savings & Cred.	586	270197	1.0	21650.6	576610.6
Timber	4	4108	-	1017.2	316.3
Craftsmen	7	596	-	79.0	51.5
Fisheries	28	4877	0.2	6410.0	128.5
Transport	2	2884	2.1	47707.7	2001.2
Building	9	161	0.4	9502.2	16.9
Others	56	17829	0.7	15085.4	13915.2
Unions	38	(456)	8.7	201288.9	11963.2
T o t a l	1639	1147757	100.0	2304466.9	854371.2

Source: Technoserve, 1980.

There is significant opportunity to enhance the social aspects of the project with management and credit assistance directed to this level. If such an investment and managerial assistance package appear feasible, we would not hesitate to recommend its adoption as part of the intermediary program.

Table 3

Estimated Budget for Intermediate Level Assistance a/

Credit capital	$10.0 million
Management assistance	$ 3.5 million
TOTAL	$13.5 million

a/ Initial estimates contingent on further assessment.

Part IV: SUMMARIES

SUMMARY

SOCIAL SOUNDNESS ANALYSIS: RURAL PRIVATE ENTERPRISES PROJECT

Commercial Lending Sub-component

The Social Soundness Analysis was carried out to provide an understanding of the complex dynamics and interdependencies among (1) the private enterprise system of Kenya, (2) the commercial banking system, (3) AID's target beneficiaries, and (4) project implementation alternatives within a relevant sociocultural context. (When it became clear that this aspect of the project as outlined in the PID would neither reach the target beneficiaries of USAID/Kenya's CDSS, nor achieve the majority of the desired outcomes of the project, it seemed counterproductive to complete an item-by-item detailing of Handbook III's SSA. Rather, we put major effort into clarifying the dynamics of the project in order to assist consideration of design options.) We have designed this analysis to provide an analytical framework for the testing of project design elements, to strengthen the economic and institutional analyses with which it is so closely related, and to assist in the creation of a socially and culturally feasible rural enterprise project.

The Socio/Cultural Context of the Project

The Kenyan population is overwhelmingly rural with 88 percent of the people living in rural areas and agriculture providing 65 percent of all employment. Eighty percent of all agricultural employment is provided by the smallholding. These small farms, while productive on a per unit basis, require on the average that 43 percent of household income be derived

from off-farm resources. The impact of population growth (4 percent) has resulted in ever smaller smallholder subdivisions, especially in Western Kenya. Rural areas will have to absorb the bulk of 11.8 million new employment seekers by the year 2000.

Private Enterprise in Kenya

Formal private enterprise employs only 540,000. It is largely urban, dominated by firms employing over 100 employees (85 percent of gross industrial output).

The informal sector is rural and characterized by small enterprises (1-10 employees). Wages are essential supplements to farm income. Average value of assets per enterprise is estimated at Ksh. 20,000. $2000+

Commercial Lending in Kenya

Lending is primarily short-term, in the form of overdrafts, with collateral requirements of 150 percent for first-time borrowers. Current lending patterns showed short-term credit for loans under Ksh. 10,000 as predominant in rural areas.

Medium-term credit has the opposite pattern with 87 percent of current loan portfolio with an average loan size of Ksh. 5 million.

Banks are reluctant to assume risks and costs of small loans and unwilling to relax customary collateral requirements.

The Probable Areas of Concentration of Project Financed Investments

Assuming an average loan size of $234,000 (the IFC experience) we can apply current lending patterns of commercial banks to the existing structure of private enterprise to estimate probable concentration. PID project criteria would concentrate investment in large (over 50 employee) capital intensive firms in urban and small cities of Kenya. One hundred firms would be aided in Nairobi and Mombasa creating 1,000 new urban jobs averaging US$1,400 per year in wages. An additional 261 firms would be aided, mostly in the smaller cities of

the country. They would create an additional 2,600 jobs. Because of the dynamics of commercial bank's lending, such as their high cost for small-to-medium term loans, and their unwillingness to assume high-risk loans, the rural entrepreneur who owns or wants to start an enterprise in the small- and medium-size range (1-50 employees) will be almost completely missed by the project as now designed.

Conclusion

As now designed the project would have little direct impact on AID/Kenya's primary target population (rural population, small enterprises, rural women) since (i) the vast majority of rural Kenyans would not qualify for assistance and (ii) the firms that would receive assistance would create few jobs per dollar invested. In short, the project does not address the critical development issues facing Kenya. And given that the project would be highly skewed away from the majority population and would exacerbate an already dangerously dualistic economy, we conclude that without major revisions in the conditions and policies, the commercial lending scheme would have a net negative social impact.

With these considerations in mind, we present in the following section a set of recommendations on project design that we believe can greatly improve the project.

SUMMARY

RECOMMENDATIONS ON COMMERCIAL LENDING SCHEME

While it is questionable to what extent socially sound lending can be pursued solely through commercial banks, we would make the following recommendations.

(i) Specify the intention of reaching and assisting small enterprises, cooperatives and other such entities which are representative of the target populations. Also, introduce incentives to the banks, through, for example, requiring that a percentage of lending go lower down the enterprise ladder or through adjusting margins.

(ii) Affect a lowering and liberalization of prevailing collateral requirements.

(iii) Promote the extension of working-capital as well as term-capital credits (so as to reach the majority of African enterprises which are retail concerns).

(iv) Move lending out of Nairobi and Mombasa toward the poorer western provinces.

(v) Further explore and develop NGO and other alternative mechanisms of credit and non-financial assistance to the extent possible.

SUMMARY ASSESSMENT OF NGO PROGRAMS

The great degree of diversity in goals, clientele, and methodologies among the NGOs makes it difficult to abstract generalizable conclusions. The following points, therefore, should be taken with this in mind.

First, the NGOs studied rate very highly from a social perspective. They reach and assist the self-employed poor who lack access to conventional support mechanisms. They are especially effective in reaching women who rarely benefit from loan and technical assistance programs aimed at enterprises (over 85 percent of the clients of three programs -- Tototo, NCCK, and PfP -- are women). At the same time, these programs seek to integrate social and economic inputs (e.g. through group formation) so that income-generation is based on local participation and organizational development and not seen as an end in itself.

Second, the outreach of these organizations through decentralized service delivery structures is impressive from a cost standpoint. Roughly 750 clients are served by the four indigenous programs examined at a cost per client of approximately $58 per year. In addition, Technoserve indirectly reaches a great number of clients through the upgrading of larger-scale organizations. Grouping of clients is the key to this relative cost efficiency. Relative to the scope of national needs, however, the outreach of these organizations is very limited.

Third, these organizations are delivering mostly non-financial assistance, with an emphasis on bookkeeping, management, marketing, and advocacy. Little hard data is available on either the intensity of inputs or of impact. That which does exist, however, indicates increased incomes and enterprise stabilization.

Fourth, NGO lending is severely limited in scope, producing a huge gap in credit delivery to the informal sector. Only two programs have institutionalized lending programs and less than 200 loans have been made. Repayment problems exist in both programs, with greater problems in the program dealing with wealthier clients. Repayment problems appear to be related to problems in loan administration and follow-up -- not the level of poverty among the clients. However, establishing lending programs does appear to be difficult for the NGOs.

Fifth, in terms of general impact, we were favorably impressed with the social action and group formation skills of the NGOs, the cost effectiveness and outreach capability of their non-financial services, and their overall ability to integrate diverse assistance elements and to adapt assistance to different situations. Their main impact appears to be in income generation and employment stabilization. This is in line with the character of employment in the informal sector.

Lastly, we would recommend NGO upgrading in the following areas:

(i) administration and management -- especially of loan programs;
(ii) delivery of managerial assistance to clients;
(iii) analysis of client credit needs;
(iv) inter-organizational communication and coordination;
(v) streamlining of relationships with donors.

SUMMARY

RECOMMENDATIONS ON INTERMEDIARY ENTITY

1. The entity would have three major purposes:

   (a) to assist NGOs in upgrading and expanding programs;

   (b) to promote the extension of services to small-to-intermediate-sized firms, both cooperative and privately or group-owned;

   (c) to support and undertake innovative efforts to reach and assist rural populations.

2. It would assume functions as:

   (i) An administrative and financial intermediary (between AID, other donors, and NGOs);

   (ii) A communication, coordinating and policy-setting entity;

   (iii) A source for upgrading of NGO managerial and administrative capabilities;

   (iv) A provider of technical assistance (to both NGOs and client enterprises);

   (v) A credit facility (through the establishment of a centrally-managed revolving credit fund);

   (vi) A credit guarantor, through the institution and management of a loan guarantee mechanism through the commercial banks;

   (vii) A monitoring and evaluation mechanism.

3. The intermediary would be a Kenyan registered corporation jointly initiated with a U.S.-based organization, probably a PVO with relevant experience in income-generation activities. It would have a board representative of the public, private and voluntary sectors and would be fully Kenyanized with a few years.

SUMMARY

INTERMEDIATE-LEVEL ASSISTANCE

1. Although not fully explored at this time, there appears to be a promising opportunity to move a significant amount of term-credit through rurally-based and -owned agro-processing entities, including cooperatives and directed agricultural companies.

2. A conservative estimate of the absorptive capacity among these large entities is $10 million. Such financing, however, would have to be accompanied by a major program of managerial assistance. Such assistance could be put in place through organizations such as Technoserve which have considerable experience and expertise in this area.

Appendix 1

Lending to Firms Through First IFC Project

LOCUS	SIZE	PRODUCT	TYPE	LOAN	TERM	OVERDRAFT			
Nairobi	Medium	Engineering	Private	2,500	1,700	800	1,700 for Machinery and Building	800 for Working Capital	Imported
Nairobi	Medium	Fertilizers	Private	1,100	500	600	500 for Purchase Machinery	600 for Working Capital	Imported
Nairobi	Small	Ice Cream Production	Private	1,400	1,000	400	1,000 for Purchase Machinery	400 for Working Capital	Imported
Nyeri	Medium	Hotel	Private	2,300	2,000	300	2,000 for Construction of Hotel Building	300 for Working Capital	Domestic
Nyeri	Medium	Soft Drinks	Private	2,550	1,800	750	1,800 for Purchase of Machinery	750 for Working Capital	Imported
Nairobi	Small	Printing	Private	6[illegible]	525	100	525 for Machinery and Equipment	100 for Working Capital	Imported
Nairobi	Small	Printing	Private	530	180	350	180 for Machinery and Equipment	350 for Working Capital	Imported
Nairobi	Medium	Dry Cleaning	Private	1,940	1,440	500	1,440 for Machinery and Building	500 for Working Capital	Imported
Nairobi	Small	Plastic and Melamine Production	Private	1,750	1,300	450	1,300 for Machinery and Equipment	450 for Working Capital	Imported
Kajiado	Small	Engineering	Private	950	650	300	650 for Machinery	300 for Working Capital	Imported

Appendix 1 (Continued)

Lending to Firms Through First IFC Project

	LOCUS	SIZE	PRODUCT	TYPE	LOAN	TERM	OVERDRAFT			
.	Nairobi	Small	Auto Repairs	Private	800	600	200	600 for Building Machinery and Equipment	200 for Working Capital	Imported
.	Nairobi	Small	Packaging	Private	2,400	1,700	700	1,700 for Machinery	700 for Working Capital	Imported
.	Nairobi	Medium	Printing	Private	2,800	1,800	1,000	1,800 for Computer Stationery and Machinery	1,000 for Working Capital	Imported
.	Nairobi	Medium	Printing	Private	2,640	1,640	1,000	1,640 for Machinery	1,000 for Working Capital	Imported
.	Nairobi	Medium	Engineering	Private	1,950	950	1,000	950 for Machinery and Irrigation Pipes	1,000 for Working Capital	Imported
.	Mombasa	Small	Transport	Private	1,075	1,000	75	1,000 for Purchase of 2 Lorries and 1 Trailer	75 for Working Capital	Imported
7.	Kisumu	Small	Sugar Manufacturing	Private	385	330	55	330 for Machinery and Equipment	55 for Working Capital	Imported
8.	Nairobi	Small	Furniture Manufacturing	Private	1,050	350	500	550 for Building and Machinery	500 for Working Capital	Imported
9.	Nairobi	Small	Engineering	Private	2,400	1,700	700	1,700 for Building and Machinery	700 for Working Capital	Imported

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