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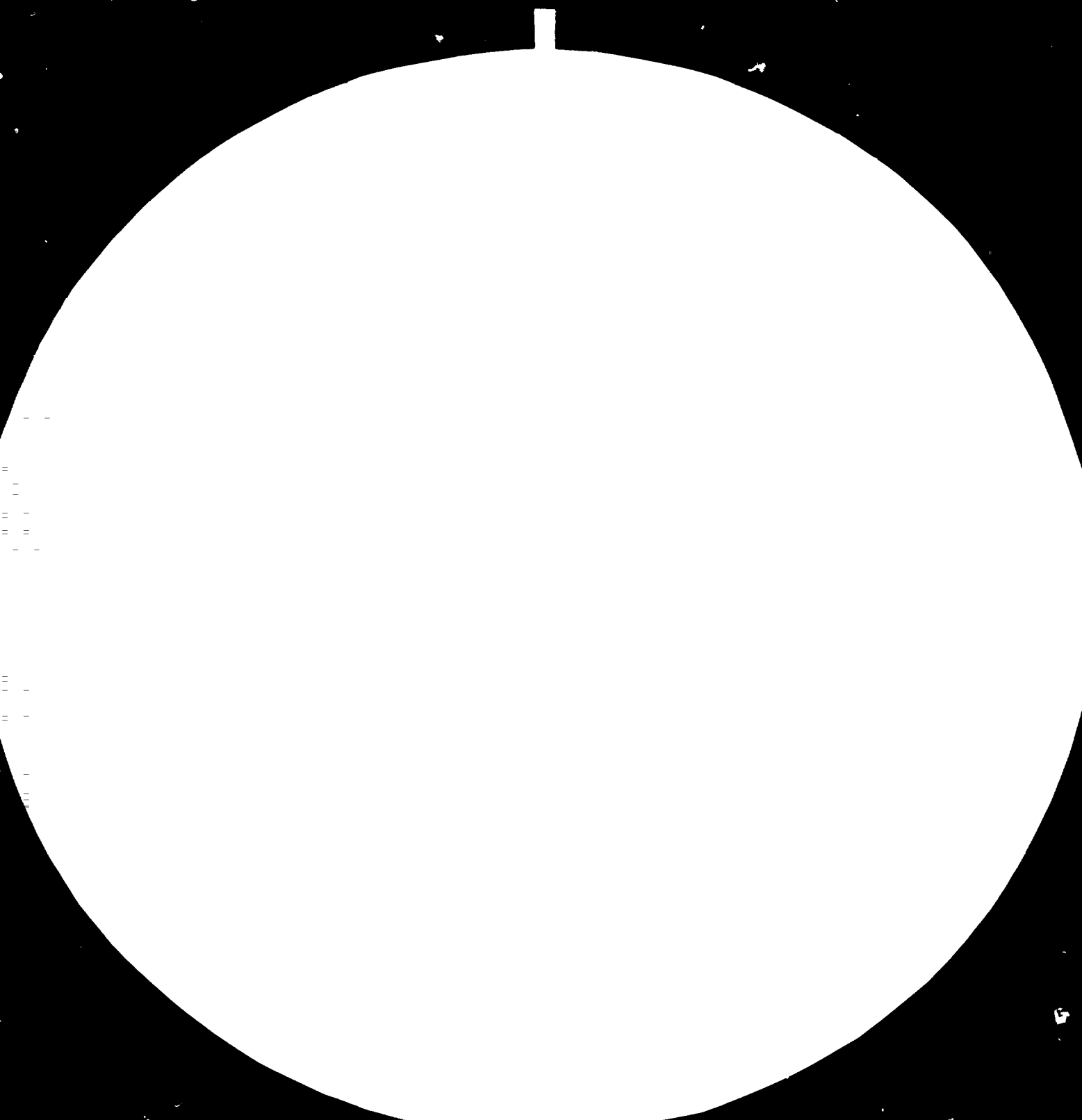
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12056

DRAFT

1982.

English.

Kenya. ASSISTANCE TO SMALL SCALE INDUSTRIES.

KENYA INDUSTRIAL ESTATES LIMITED

KEN/77/006

KENYA

Prepared for the Government of Kenya
by the United Nations Industrial Development Organization,
executing agency for the United Nations Development Programme.

Based on the work of P.D. Coote
Adviser in Financial Management

United Nations Industrial Development Organization
Vienna

This report has not been cleared with the United Nations Industrial Development Organization which does not, therefore, necessarily share the views presented.

with
12056

ASSISTANCE TO SMALL SCALE INDUSTRIES
KENYA INDUSTRIAL ESTATES LIMITED
KEN/77/006
KENYA

ADDENDUM TO TERMINAL REPORT

November 1982.

ADDENDUM TO TERMINAL REPORT

The following additional observations have been made regarding the Management of KIE since the completion of the Terminal Report.

EVALUATION / DONOR MISSIONS

A considerable amount of time has been and is being spent by the Senior Management of KIE in preparing for being interviewed by, holding discussions with Missions from various donor and other agencies. For example :-

September 1982.	World Bank Evaluation Mission.
Sept/Oct 1982.	U.N.D.P. Evaluation Mission.
Oct/Nov 1982.	US AID Consultants regarding possible provision of additional funds for KIE.
November 1982.	KFW Evaluation Mission.

The result of the various visits has to provoke a series of different responses from KIE, tailored to that which KIE considers the Mission wants to hear and what benefits can be obtained from various donors.

Consider then the purposes of and the responses to these visits.

<u>Mission.</u>	<u>Purpose.</u>	<u>K.I.E. Reaction.</u>	<u>Comments.</u>
World Bank.	Review of Loan.	Everything is running well but will be better when IDA funded Finance Manager arrives.	Debt equity rates not satisfactory. IDA may cancel availability of loan funds. Unlikely the Finance Manager (IDA funded) can greatly improve standard of Management. Possible that Finance Manager will be held responsible for all future KIE failures.

.../...

<u>Mission.</u>	<u>Purpose.</u>	<u>K.I.E. Reaction.</u>	<u>Comments.</u>
U.N.D.P.	Evaluation UNIDO/KIE Project.	More personnel needed.	A continued cry for training funds and personnel. KIE has been supported by expatriates since 1966. Some progress should have been made.
US AID (Con- sultants)	Possibility of additional Loan.	Our loan port- folio is in good shape and KIE is in a position to borrow and use additional funds.	Financial Projections show that KIE cannot service its present indebtness unless GOK converts most of the loan funds to equity. It should be noted also that KIE is unable to disburse all the funds at its disposal.
KFW.	Review.	Our arrears problems have been solved please find additional loan approved - DM 5 m.	KFW have made the granting of additional loan conditional on a substantial improvement in the arrears position. This has not been demonstrated.

FINANCIAL MANAGER.

The appointment of a Financial Manager funded by IDA seems to have had two effects on KIE :-

- i) A lowering of morale on the part of Finance Department staff - why is the Department always controlled by outsiders?
- ii) A tendency of the Management of KIE to believe that the new Finance Manager is a solution to all problems and that no further effort is needed to ensure that all will be well, and that there will be no trouble in borrowing additional funds.

In addition, it is considered that the Financial Manager, without firm direction from KIE Senior Management will not continue to utilize "Manuals" and systems already approved and implemented. Should this in fact come to pass then the two and a half years work undertaken by the 2 financial advisors can only be seen to have been wasted, a not unusual occurrence with advice and assistance given to KIE.

It has already been noted that KIE middle and top management are tending to avoid the consequences of, or implementation of decisions agreed to earlier in the year. It is disturbing too that the matters agreed to were with the consultation/approval of outside bodies, such as the auditors and the World Bank.

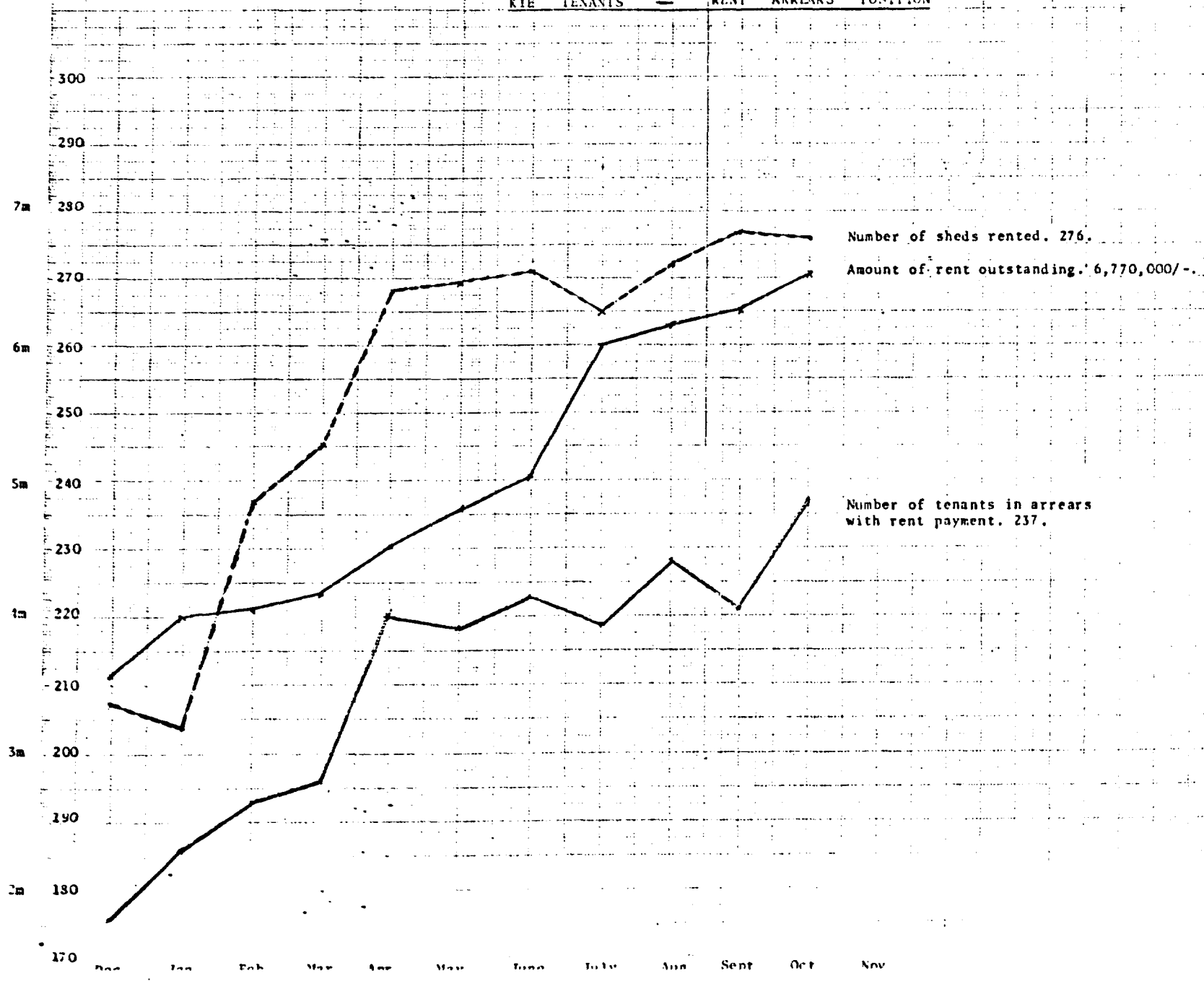
CONCLUSION.

Whilst it is easy to lay the blame at many of the problems being experienced at the feet of KIE Management, it could equally be said that donors and other agencies contribute to, in no small part, to the difficulties. In particular the number of missions, visits, etc, being persons seeking information only or bearing 'gifts' (additional loan funds, technical assistance) leave the KIE Management to spend a considerable amount of time in answering 'twenty-questions'. The net result has been therefore to distract Management's attention away from the needs of its own clients. This can be demonstrated to some effect by the attached graphs which show arrears position of both loans and rent. In addition to the now deteriorating arrears position can be added the fact that, it is understood some 200 plus applications for loans/projects awaiting appraisal.

RECOMMENDATION.

In order to ensure that the semblance of order returns to KIE Management it is recommended that UNIDO/UNDP again approach all donors and potential donors with the aim of reducing both the number of missions per year and producing a one time questionnaire to be used by all.

KIE TENANTS — RENT ARREARS POSITION



I N D E X

	<u>Page</u>
Explanatory Notes.	1.
Introduction - Project Background.	2.
Abstract.	4.
Official Arrangements.	6.
Contributions.	6.
Objectives of the Project.	7.
Training.	8.
Subcontracting.	8.
Report on Financial Advisory Assistance Given to KIE.	9.
Utilization of Projects Results.	13.
Findings.	15.
Recommendations.	16.
 List of Annex'.	

EXPLANATORY NOTES

The value of the Kenya currency to the United States Dollar has averaged K.Shs. 9.60 = \$US 1.

The legal unit of currency is the Shilling (Shs.) and one Shilling comprises one hundred cents; however it is often customary in both Official and Unofficial documents to refer to the Kenya pound (£) : in this case it should be noted that Shs. 20 or 20/- make one pound (£K).

Abbreviations

K.I.E.	Kenya Industrial Estates Limited.
G.O.P.A.	Gesellschaft fur Organisation Planung und Ausbildung MbH.
G.T.Z.	Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GMBH.
K.F.W.	Kreditanstalt Fuev Wrederaufbau.
I.C.D.C.	Industrial and Commercial Development Corporation.
I.D.B.	Industrial Development Bank.
R.I.D.C.	Rural Industrial Development Centre.
I.P.A.	Industrial Promotion Area.
G.O.K.	Government of Kenya.
S.I.D.F.A.	Senior Industrial Development Field Advisor.

INTRODUCTION
PROJECT BACKGROUND

After independence the Kenya Government started efforts to remove the imbalance of and to increase the share of the African population in Industry and Commerce.

In the early days, the Industrial and Commercial Development Corporation (I.C.D.C.) was entrusted with the implementation of the Government's policy. I.C.D.C. began in 1965 an industrial estate programme, in 1967 the K.I.E. - a fully-owned subsidiary of I.C.D.C. - was created. K.I.E. has been given the mandate to develop industrial estates throughout Kenya. Later on the K.I.E. was selected to implement a rural industrial development programme through building up and managing the rural industrial development centres and the industrial development areas (workshop clusters).

These components of K.I.E. are the Government's tools for an efficient implementation of the policy, the creation of higher employment and the increased participation of Africans as entrepreneurs in the industrial sector in general and in rural areas in particular.

Both programmes, the industrial estates, as well as the rural industrial development programme, have been supported by a number of bilateral donors through financial and technical assistance.

Donor assistance has been made available since 1968 and has come from Norway, Sweden, Denmark, Federal Republic of Germany, Japan and India amongst others.

At the present time industrial estates have been constructed at Nairobi, Nakuru, Mombasa, Kisumu and Eldoret and R.I.D.C.'s at Nyeri, Kakamega and Embu have been upgraded to Estate standard. R.I.D.C.'s and I.P.A.'s have been brought into operation at Machakos, Meru, Malindi, Voi, Siaya, Kisii, Kabarnet, Homa Bay, Tala and Karatina. Similar units are being constructed at Taveta and Sultan Hamud. Planning has commenced for further expansion at Kibwezi and Kericho.

Prior to this project no work had been carried out with KIE by U.N.I.D.O., U.N.D.P., or any other U.N. Agency (with the exception of the World Bank feasibility study in 1977).

The request for U.N.I.D.O. assistance followed the granting of a credit by the World Bank to the G.O.K./K.I.E. Experts were required to cater for the demands and preconditions set by the World Bank for the disbursement of the loan and in addition expertise was required to assist K.I.E. with the increase in work load brought about by ten years of operations.

ABSTRACT

Re : Ken/77/006 - Assistance to Small Scale Industries
Kenya Industrial Estates Limited.

Objective. (page 7).

The long-range objective of this project is to assist the Kenya Government in its efforts to develop small-scale industry in rural areas by decentralising operations and management and specifically in the case of this report, by providing expertise to the KIE Headquarters Nairobi in the Financial Management Sector.

Duration.

From March 1980 until June 1983.

Conclusions. (page 9 and 15).

KIE is suffering from organizational problems and management difficulties as a result of the change in direction from being a Government service department (as a subsidiary of Industrial Development Finance Corporation (I.C.D.C.)) providing consulting and technical services in small scale industry to becoming a fully fledged para-statal body which has been directed by GOK to becoming fully self supporting financially with earnings from lending to small industry and income generated from technical service centres and rent from estates. This course of action was adopted following recommendations from the World Bank.

To become self sufficient financially KIE will not only have to streamline its organization but take steps to diversify its sources of income.

Recommendations. (page 16).

With the exception of accounting services the Management of KIE to operate on a Regional Basis.

Lending activities to be expanded to include both Hire Purchase lending unsecured loan to the informal sector as well as allowing facilities for entrepreneurs to purchase their own factories on estates operated and constructed by KIE.

Greater Kenyanisation of KIE - use to be made where necessary of local consultants to make up for expertise not available in the framework of KIE staffing.

OFFICIAL ARRANGEMENTS

Assistance was requested in 1977, by the Kenya Government and KIE. The project was approved in 1977 and started under Preparatory Assistance in 1978 (January). Extension of approval was granted in July 1980 and again in August 1980, further extensions have been approved and at the present time consideration is being given to extending the project until end of June 1985. During that time it is proposed that consideration be given as to whether or not a new project UNIDO/KIE should be approved. KIE also received assistance from the World Bank - financial advisor and a projects advisor. This assistance commenced in May 1980 and finished in November 1982. In February 1980 the ILO provided further assistance by way of appointing a Staff Development and Training Advisor.

CONTRIBUTIONS

	Original Budget 1978	Revised Budget 1980	Revised Budget 1981	Revised Budget 1982
Expert Services.	678,155	871,040		
Training.	33,548	145,448		
Equipment.	11,220	16,970		
Miscellaneous.	10,866	10,866		
Total.	<u>733,789</u>	<u>1,044,324</u>		

As at expenditure amounted to :-
US\$.

Expert Services.
Training.
Equipment.
Miscellaneous.

Total.

Adjustments upwards were due to the extension of the project.

KIE and the GOK provided personnel services, premises, equipment and supplies including the local operating costs of the project.

It is planned at present, that UNIDO assistance will continue until June 1983.

OBJECTIVES OF THE PROJECT

The long range objective of the project is to assist the Kenya Government in its efforts to develop small-scale industry in rural areas by de-centralising industrial operations and management, so assisting the GOK in fostering a continued sustainable growth of the economy through a higher degree of self reliance and increased export potential, a more equal distribution of income, increased employment mainly in rural areas. To assist the Kenyan Government achieve this objective the World Bank has granted the GOK a loan to be utilized by KIE. This UNDP/UNIDO project aims at supplementing the financial assistance of the World Bank through giving technical assistance to strengthen and support the KIE in its above mentioned activities. The immediate objective of this project is to provide KIE with expertise to enable it to carry out the tasks given to it by the Government, in the construction and management of industrial estates, RIDC's and IDA's.

Specifically, the project provided

- expertise to the Kenyan Industrial Estates Headquarters in Nairobi in the financial management sector (the subject of this report).
- Specialists to assist KIE in their field programme of developing industrial estates, rural industrial development centres and industrial development areas all over the country.

To a greater extent the objectives of the financial management sector have been reached as can be seen from the attached work programme progress chart. The expert originally appointed took up the post in April 1978 for one year. Following his departure there was a rearrangement of the duties with additional financial Management expertise being provided by GOPA. The GOPA expert arrived in November 1979 and the replacement for the UNIDO expert arrived in late March 1980.

TRAINING

Formal training was arranged through the financing of KIE personnel to attend various courses. Such training was arranged on a direct KIE/SIDFA/UNIDO Headquarters basis.

A considerable amount of on-the-job training took place with various senior staff members of the finance department, particular emphasis being placed on simplicity of reports and the design of same and also the necessity of continually checking the standard of work to ensure not only accuracy but that in-service departmental training was being understood and acted upon.

Main training functions (planning) were taken over after one year (in February 1981) by the ILO expert appointed to assist with objectives of World Bank / KIE project.

SUBCONTRACTING

No sub-contracting was undertaken during the period being reported on - in relation to the duties of the financial advisor.

REPORT ON FINANCIAL ADVISORY ASSISTANCE
GIVEN TO KIE

Main Duties / Job Description.

As previously mentioned the original intention was that UNIDO should provide the total financial advisor service package however following the realignment of duties in 1979 and the subsequent appointment of two financial advisors - one from GOPA and one from UNIDO - resulted in the original financial advisors tasks being split and enlarged. (In addition to those two advisors the World Bank financed the appointment of another advisor known as the Financial Management Advisor). It would seem appropriate therefore to set out the job description of the two financial advisors and also the areas of work of each of the advisors as defined by KIE.

It would seem appropriate to mention that following requests by KIE the Financial Management Advisor confined his main duties to advise on day to day operations whilst the two Financial Advisors concentrated their efforts on a mainly planning role. In this latter function described in some small detail in this report the two advisors were generally encouraged (by KIE) to work as a team to the extent that in the absence of either on leave, the other would continue with and complete a particular task. The result being that the events, ideas and results were in the main the results of a joint effort.

Detailed job descriptions of the three Advisors are attached (Annex 1.) to this report.

The job descriptions for the Financial Advisors where subsequently broken down in some ten principal subjects :-

- i) Policy.
- ii) Banking.
- iii) Finance.
- iv) Planning and Budgeting.
- v) Projects.
- vi) Legal.
- vii) Administration.
- viii) Inspection and Audit.
- ix) Building and
- x) Manual writing and distribution.

This plan was approved by KIE with emphasis naturally being placed on the sections relating to iii) Finance and iv) Planning and Budgetting. (For detailed work plan and progress chart refer Annex 2). This plan was revised in July 1980 and has been subsequently followed to a great extent (refer Annex 3).

As inferred by the priorities of Finance and Planning and Budgetting principal efforts of the Advisors were confined to:-

- A. The introduction of suitable reporting systems covering :-
 1. Administration expenditure.
 2. Construction expenditure.
 3. Loan disbursement.
 4. Profit and Loss Account.
 5. Balance Sheet.
 6. Collection of a) Loan repayment.
b) Rental charges.
c) Other sundry charges.
 7. Classification of Bad and Doubtful Debts Report.

In this context it should be noted that one IDA (World Bank) Review Mission agreed that the new reporting systems (in particular that related to loan arrears) are suitable for KIE's purposes.

- B. Preparation of a draft paper, after considerable discussions with Treasury Officials, setting out future operational guidelines for KIE. It is understood that this paper has been accepted in principal by Treasury.
- C. The preparation of a model operational plan together with directions on completion and a work timetable for its production.
- D. The selection, purchase and installation of a mini-computer, together with suitable software. The computer was purchased and installed and programmed in such a manner as to provide KIE management with a reporting system which stated clearly the financial position of the company both as to loan and administration performance.

E. The assembling, classifying and indexing of existing KIE regulations relating to loans, estate construction, legal matters, finance, banking and staff.

The rewriting and enlarging of KIE regulations relating to loan disbursement, estate construction and financial matters in order to bring them into line with present day KIE practice and with the financial reporting system being operated by the Finance Department.

In particular the following manuals / regulations were written, accepted by KIE and subsequently put into operation :-

- i) Loan review, arrears and defaulters follow-up.
- ii) Capital and recurrent expenditure.
- iii) Annual Accounts and their preparation.
- iv) Internal securities - Theft and Fraud.
- v) Insurance.
- vi) Provisions for Bad and Doubtful Debts.
- vii) Account Classification and Codes.

F. Following recommendations Finance Department has been reorganized into three divisions :-

- a) Accounts : Computer operations, disbursement of loans and funds for capital expenditure, and the payment of accounts.
- b) Planning and Budgetting : Preparation and updating of the operational plan, monitoring expenditure, and budget preparation.
- c) Credit : Loan and rental payments (arrears follow-up) including visits to KIE Branches to monitor progress of debt collection. Minor reviews of loan and subsequent rescheduling of repayment arrangements.

In addition to the above principal activities, a number of studies were undertaken and papers written, at KIE's request, the principal ones of these being :-

- a) Lending to the informal sector (July 1981).
- b) Financial position of KIE (including future prospects) (June 1981).
- c) The future Financial Viability of Kenya Industrial Estates (Dec. 1980).
- d) Lending through Commercial Banks (September 1981).
- e) "Loan Review" a reporting system (November 1980).
- f) Cash Management and Interest Bearing Deposits (February 1981).
- g) Provision for Bad and Doubtful Debts (October 1981).
- h) Proposal for Provision of Industrial Buildings to small entrepreneurs (February 1980).
- i) Project Monitoring System (July 1980).
- j) Site and Service Scheme (for Industrial Estates) (December 1981).

The progress of this project can be monitored to some extent by referring to the papers attached to this report, namely, 'Review of Functions of KIE's Head Office Departments and Regional Offices' (June 1980) (Annex 4), and 'Proposed re-organization of Finance Department' (January 1981) (Annex 5).

It is pleasing to note that not only have the major proposals in the latter paper been adopted and implemented but that the original changes set out in the first paper (Annex 4) have to some extent also been implemented.

It should also be noted that the policy submissions relating to Provisions for Bad and Doubtful Debts (see g) above) were approved by the Board of KIE and this led to the publication and implementation of related regulations (see E(vi) above).

UTILIZATION OF PROJECTS RESULTS

- A) The reporting system has on stream in conjunction with the programming of the computer. To date management has made use of these reports both on an internal basis (e.g. monitoring administration expenditure) and on an external basis in presenting facts and figures (e.g. relating to loans arrears) to the World Bank and other review missions. (Refer KIE report to KFW dated the 26th May 1982 attached) (Annex 6).
- B) The operational guidelines, as accepted, are expected to be approved by GOK in due course. Such approval, it is expected, will direct KIE functions rather more towards lending and technical assistance for small industry and away from estate construction.
- C) The operational plan format has already been used in presenting KIE requests to Treasury in support of requests for future GOK and donor funding. It is understood that it is the intention of KIE Management to continue to use this format in order to preserve continuity of presentation.
- D) The mini-computer is operational and consideration is being given to upgrade its capability.
- E) The regulation / manuals introduced have improved KIE's Finance Department standards of operation. These manuals have been accepted as, in general, satisfactory by the World Bank and the Company Auditors.
- F) The use of the mini-computer and regulations/manuals by KIE staff has had the effect of reducing the time of the actual audit (1982) to some three and a half weeks from the previous average of two and a half months.

- G) As can be seen from Annex 7, there has been a substantial increase in the number of loans outstanding from September 1979 (250) to October 1982 (511) whilst arrears expressed as a percentage of loans outstandings has dropped from 84% to 65% .

FINDINGS

The major task of this Project was the creation of a profit orientated development bank from a government owned institution whose principal function was to provide a technical extension service to small industry. It was envisaged that this task would be undertaken through the strengthening of financial management and upgrading the effectiveness of the finance department.

In reality this has proved a very difficult task due in part to the non-banking background of the top and middle management of KIE and in part to the natural reluctance of all established staff members to change.

RECOMMENDATIONS

1. It is recommended that the services of the UNIDO financial management advisor be withdrawn as planned by the middle of 1983 and no additional assistance be granted under this category of assistance. The reasons for such withdrawal are :-
- a) Operation manuals have been written, the appropriate accounting machine (mini-computer) has been installed and all the required financial returns have been designed and are in use.
 - b) staffing of the finance department is considered to be satisfactory without outside assistance.
 - c) the financial advisor provided by the German Advisory Group COPA is scheduled to finish his assignment at the end of June 1983 whilst the Advisor financed directly by the World Bank completed his contract in November 1982.
 - d) a satisfactory relationship has been established between KIE and the local firm of management consultants, Deloitte Haskins and Sells, in particular, in relation to the writing of programmes for the mini-computer, design and implementation of reporting systems and manual preparation.
 - e) the World Bank have encouraged the KIE to appoint a non-Kenyan as Financial Manager. This new Financial Manager arrived in October 1982 and it is planned that he will be in full control of the Finance Department by the end of 1982. World Bank are financing this officer's salary.

The ultimate reason being that the staff of the finance department have sufficient skills, it is considered, to carry out their duties in such a manner as to meet the operational requirements of KIE. The retention of Advisors for this department might result in the withdrawal of competent staff from the finance Department and the absorption of Advisors in operation/line positions within the department.

However it should be noted that the World Bank have not considered these efforts to be satisfactory and that body considers that the appointment of their own nominee to the position of Financial Manager will ensure that KIE will become profitable. It has not been appreciated by the World Bank that the design, implementation, and education in use of end results of the finance reporting system will not take place overnight, and in fact, it will take some little time before such financial controls begin to have any effect either on KIE Management or borrowers.

2. It is further recommended that UNIDC retain a presence with KIE at Eldoret and that a further officer be stationed there. His task would be to ensure (through training) the following functions are properly carried out :-
- a) Financial returns and reports originating from Head Office - including arrears reports, - are properly acted on.
 - b) budgetting functions required by the regional office are properly carried out, and all financial returns are completed when due and compiled according to instructions.
 - c) that technological studies are carried out, on request for finance, by officers of the projects department or by Project Officers attached to the Regional Officer are appraised by the Regional Manager or any other competent Officer to ensure that the project is viable both from the borrowers point of view and that of KIE.
 - d) that all on going projects be reviewed on a six monthly basis to ensure that :-
 - i) project was proceeding as planned, funding, security documents being signed, etc.
 - ii) the entrepreneur was receiving the appropriate assistance (both technical and in management) from KIE.
 - iii) that the project remained financially viable and was in a position to meet all obligations including those due to KIE.

3. As a final recommendation it is proposed that the Officer stationed at Eldoret be prepared to give assistance to KIE along the lines already recommended for three regions of KIE that are easily accessible, namely Eldoret, Kisumu and Kakamega - in carrying out this function maximum effort must be made to harmonise activities with those of other consultants also engaged in rendering assistance to KIE.

List of Annex'

1. Job Description.
2. Work plan and Progress Chart.
3. Work plan and Progress Chart.
4. Paper 'Review of Functions of KIE's Head Office Departments and Regional Offices' (June 1980).
5. Paper 'Proposed re-organization of Finance Department' (January 1981).
6. Letter from KIE to KFW dated the 26.5.82.
7. Arrears Graph.

Peter D. Coote.
U.N.I.D.O. Financial Advisor.
Job Description.

The expert will be requested to analyse the system used in financial operations and give advice and suggestions to the KIE management, in particular the Operations Manager, on sound financial policies and systems.

- Policy. To assist and advise KIE and the Accounts and Extension Service Departments in particular in formulating and developing the financial policies and systems of KIE in accordance with sound financial and economic practices as applied to the requirements of estate management and development financial companies.
- Accounting. In collaboration with the Chief Financial Officer and other competent KIE officers develop and recommend procedures and systems for the preparation of accounting and statistical summaries and portfolio and rental position statements as an aid to management in the controlling of the activities of KIE and as required under the terms of loan agreements with lending institutions.
- Real Estate Management. Advise KIE on appropriate rent rates and service charges to implement KIE policy on real estate management. Develop and recommend systems and procedures for the effective collection of rent and other charges for services provided. Advise KIE on the financial aspects of alternative uses of KIE real estate and in particular with regard to the options of renting or selling.
- Organization. In connection with the performance of the above duties, advise KIE on the finance staff needed and the appropriate responsibilities for KIE's regional centres. The financial systems to be developed should provide for regional centres and adequate monitoring of regional activities at KIE headquarters.
- Assistance in developing and implementing on-the-job training programmes for financial staff of KIE.
- Offer any other advice and assistance as may be required by KIE management within the area of the expert's competence.

B.L. Pandiya.

Management Accountant.

Advisor with deligated responsibilities.

1. Financial Administration.
Responsible for over-all performance and running of the Finance Department particularly with regard to development and implementation of financial and accounting procedures and systems.
2. Financial Policies.
Suggest to the management new financial policies, suggest from time to time changes in existing policies and ensure that such approved policies are implemented - specifically prepare financial manuals.
3. Reporting System.
To device, develop and ensure application of a comprehensive management accounting and financial reporting system; so that the management is fully informed all the time in regard to KIE's finances. In this connection to ensure that there are regular and timely financial returns; and that other financial units of the company get from the head office any necessary financial data and information as required.
4. Resources.
In consultation with the Operations Manager, to plan for KIE's resources and ensure their effective utilization including resource control and management. To ensure that regular returns are given to the management on the current resource position.
5. Arrears.
To prepare in collaboration with the other relevant departments comprehensive and effective plan of action for reducing the rate of loan, rent and other arrears in KIE. To ensure that regular reports are submitted to the management on the arrears situation.
6. Budget.
 - a) Evolve an effective system of budgeting and budget control. Ensure that at all times the management is fully informed on the position of the budget. Approve investment and other development expenditure before the Chief Accountant can disburse. Accordingly should attend project committee meetings.

- b) Should evolve an effective system of purchasing, issuing and keeping of stores.
 - c) Design a workable procedure for vehicles and transport control including proper discipline in the use of vehicles.
7. Operational Plan.
To be responsible for the preparation and continuous review of KIE's short and long term operational plan. This function should be exercised in close collaboration with other heads of departments.
 8. Mechanization.
Plan and arrange for suitable mechanization of KIE's accounts as early as possible.
 9. Training.
To organize and ensure effective and coordinated training of all the staff in the department.
 10. To perform any other duties and functions as directed by the management.

Title. Financial Advisor, Kenya Industrial Estates.
Location. Nairobi, Kenya.
Duration. Two years.
Responsibility. To advise and assist KIE management in the development and implementation of sound financial policies and systems.

Duties.

1. Policy.

To assist and advise the management in formulating and developing the financial policies of KIE in accordance with sound financial and economic practices as applied to the requirements of development finance companies.

2. Funds and Portfolio Management.

In collaboration with the competent KIE officers:-

- develop and recommend financial objectives for cash management and investments, and on the basis of cash forecasts advise on the development of plans to ensure the availability of funds necessary to meet corporate financing for both short and long term needs (budgeting);
- assist management in the conduct of negotiations with commercial banks, investment banks, and other financial agencies to provide for the cash and capital requirements of KIE and recommend policies and procedures to ensure compliance with the terms and conditions of loan agreements and other obligations;
- develop and recommend procedures for the effective control of the disbursement of approved loans and the collection thereof, and assist when required the loan committees by giving advise on the screening and technical committee, regional committees and approval of loans;
- develop and recommend the policies, plans and procedures necessary for the effective control over the receipt, disbursement and custody of all the funds of KIE.

3. Organization.

In connection with the performance of the above duties, advise KIE management on the finance staff needed and the appropriate responsibilities for KIE's regional centres. The financial systems to be developed should provide for appropriate delegation of financial responsibility to regional centres and adequate monitoring of regional activities at KIE headquarters.

4. Training.

Advise on the development of training programmes for KIE financial staff and assist in such training.

WORKPLAN AND PROGRESS CHART

Annex 2.

FINANCIAL ADVISERS

(page 1)

Peter D. Coote (PDC) and Jurgen Doetinchem (JD)

Development of P/E Functions	Month Year					
	12/79	1/80	2/80	3/80	4/80	5/80
POLICY STATEMENT	Note on Interest Rates		Note on Moratorium Interest		Note on Provision of Industrial Buildings	
BANKING	ICDC- Transfer Agreement					Reconc ICDC-
			Selection of Short Term Experts for ICDC-Loan Portfolio Evaluation (cancelled)			
FINANCE				Existing Systems Study	Generate Payroll-Section Systems and Outline	Study of
PLANNING AND BUDGETTING	Study of Donor Fund Use and Format					
PROJECTS			Project Appraisal Procedures			
LEGAL				Transfer of Security Documents from Finance		
ADMINISTRATION				Registry Procedures		
INSPECTION & AUDIT						
BUILDING AND TSC						
MANUAL PRINTING AND DISTRIBUTION						
SPECIAL ASSIGNMENTS		Assistance to Dandora Feasibility Study Group			Malindi PIDC : Financial	
GENERAL EVENTS	JD arrived 2/12/79			PDC arrived 27/3/80		
FIELD TRIPS		Dandora		Malindi	Malindi	

Annex 2.

6/80	7/80	8/80	9/80	10/80	11/80	12/80	1/81	2/81	
					Informal Sector Loans		Loan Security		
	Allocation of Loan Accounts						Preparation of new Standard -		
			Preparation of Loan Review Format and Arrears Follow-up Procedure						
		Subloan Disbursement Format		Strongroom tendered					
	Functions		Redesign General Ledger: Centralised Accounting System						
		Accounting System Requirements: Purchase of Mini Computer			Hardware and Software Agreements	Mini Computer Programming			
		Design of Branches Return and Arrears Report Formats							
	Treasury Procedures								
	Subloan Allocation Records and Resources Position				World Bank Report: Operational Plan and Financial Forecasts				
		Establishment of Planning and Budgeting Officer							
	Application Form and Processing Sheet								
	Design of Project Monitoring System				Testing of Project Monitoring System			Redesign	
	Safe Custody of Security Documents								
	- Design and Implementation								
					Registry Instruction	Arrears Report	Branches Returns	Application Form	
	Implementation								
		JD: Copa Report		JD: WIDO Leave Report	JD: Copa Report		PDC: Final Report	PDC finishes	
		GTZ/GUPA Mission		GTZ-Computer Consultant		Worldbank Review Mission		RTW Review Mission	
Malindi									
		Mombasa Malindi, Voi	Malindi	Malindi	Malindi, Embu			Mombasa Malindi, Voi	

Annex 2.

12 / 81	1 / 82	2 / 82	3 / 82	4 / 82	5 / 82	6 / 82		
Draft Statement of Policy for KIE								
Physical Review of KIE Loan Portfolio (including								
Review of Operational Plan								
Banking Instructions Finance Instructions e t c								
JD: Final Report								
JD: Home Leave								

ACTIVITY		1980						1981						1982						REMARKS								
		7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		1	2	3	4	5	6		
3.	FINANCE	P																										
		A																										
3.1	Study of Accounting System Requirements (Purchase of Mini Computer)	P	→	→																								accomplished
		A	→	→																								
3.2	Preparation of Hardware + Software (Agreements)	P			→	→																						accomplished
		A			→	→																						
3.3	Mini Computer Programming + Implementation	P					→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	work commenced after GIZ decision in June 81 See 10.0 for details.	
		A					→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→		
3.4	Redesign of General Ledger	P		→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	being programmed See 11.0	
		A		→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→		
3.5	Design of Branches Return and Arrears Report Format	P	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	approved and under implementation by Programming Team See 11.0	
		A	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→		
3.6	Subloan Disbursement + Format	P	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	Regulations approved and circulated.	
		A	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→		
3.7	Strongroom Construction to be tendered	P		→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	Construction completed awaiting installation of shelving	
		A		→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→	→		
3.8	Fixed Asset Register for Computer	P																									Programming delayed. See 11.0	
		A																										
3.9	Resources Records for Computer	P																									Programming delayed. See 11.0	
		A																										
3.10	Redesign of Organisation Chart for Finance Department	P																									accomplished	
		A																										
3.11	Redesign of Workflow for Finance Department	P																									under implementation by Programming Team See 11.0.	
		A																										
3.12	Guidelines for Short Term Investment Management	P																									accomplished	
		A																										
3.13	Security Instructions for Head Office and Branches (cash, cheques, etc.)	P																									Draft under discussion.	
		A																										
		P																										
		A																										
		X																										

ACTIVITY

1980

1981

1982

ACTIVITY		1980						1981						1982						REMARKS							
		7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		1	2	3	4	5	6	
4.	PLANNING AND BUDGETTING	P																									
		A																									
4.1	Study of Donor Fund Use and Treasury Procedures	P																									accomplished
		A																									
4.2	Format Subloan Allocation Records and Resources Position	P																									accomplished
		A																									
4.3	Establishment of Planning and Budgeting Officer	P																									accomplished
		A																									
4.4	Review of Operational Plan and Financial Forecasts	P																									currently being reworked following World Bank Mission + G.O.P. Budget + German Govt Review Mission
		A																									
4.5	Study of Reimbursement Procedures to be used vis a vis Donors	P																									included under 3.6
		A																									
4.6.	Design of Budgeting + Budgeting Control Instructions	P																									Draft completed. Now under implementation by Programming Team See 11.0
		A																									
		P																									
		A																									
5.	PROJECTS	P																									
		A																									
5.1	Design and Implementation of Application Form and Processing Sheet	P																									accomplished, approved and in use
		A																									
5.2	Design of Project Monitoring System	P																									
		A																									
5.3	Testing of Project Monitoring System	P																									No further action required by KII.
		A																									
5.4	Redesign of Project Monitoring System	P																									no further action required by KII
		A																									
5.5	Project Appraisal Procedures	P																									No further action required by KII.
		A																									
		P																									
		A																									
		X																									
ACTIVITY			1980						1981						1982												

ACTIVITY	1980						1981						1982						REMARKS					
	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		1	2	3	4	5
6.	LEGAL MATTERS																							
6.1	Design of Instruction for Safe Custody of Security Documents																							
7.	INSPECTION AND AUDIT																							
7.1	Design of Inspection and Audit Procedures																							
8.	BUILDING AND TSC																							
8.1	TSC - Cost Review																							
8.2	Disbursement Regulations - Construction.																							

See Loan Disbursement Regulation.

Postponed until new accounting manual drafted by Computer Section.

Not required by KIB.

ACTIVITY			1980						1981						1982						REMARKS						
			7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		1	2	3	4	5	6
11.0	Computer Programming and Implementation.	P A																								To be carried out by NIE Computer implementation team with Fin. participation where possible.	
11.1	Borrowers Ledgers.	P A																									
11.1.1	Specification & Programming.	P A																									
11.1.2	Testing.	P A																									
11.1.3	Manual Writing.	P A																									
11.1.4	File Conversion.	P A																									
11.1.5	Training.	P A																									
		P A																									
		P A																									
		P A																									
		P A																									
		P A																									
ACTIVITY			7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	

ACTIVITY		1980												1981												1982						REMARKS
		7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6							
11.2	Rents - Tenants Ledger.	P																														
		A																														
11.2.1	Specification + Programming.	P																														
		A																														
11.2.2	Testing.	P																														
		A																														
11.2.3	Manual Writing.	P																														
		A																														
11.2.4	File Conversion.	P																														
		A																														
11.2.5	Training.	P																														
		A																														
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ACTIVITY		X	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6						

ACTIVITY		1981						1982						1983						REMARKS							
		7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12		1	2	3	4	5	6	
11.4	Nominal Commitment Record.	P																									
		A																									
11.4.1	Specification + Programming.	P																									
		A																									
11.4.2	Testing.	P																									
		A																									
11.4.3	Manual Writing.	P																									
		A																									
11.4.4	File Conversion.	P																									
		A																									
11.4.5	Training.	P																									
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ACTIVITY		X	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	

ACTIVITY		1982												1983						REMARKS	
		1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6		
1.0	POLICY.	P																			
		A																			
1.1	Paper on Site and Service Scheme.	P	—	—																	
		A	—	—																	
1.2	General and Operational Guidelines for FIE.	P			—	—	—	—													Draft agreed with Treasury on working party level.
		A			—	—	—	—													
		P																			
		A																			
2.0	BANKING.	P																			
		A																			
2.1	Loan Review & Follow-up Procedure.	P									—	—									Loan Regulation amended and printed.
		A					—	—													
2.2	Loan Appraisal Procedures.	P													—	—					Appraisal check list written and approved.
		A																			
		P																			
		A																			
		P																			
		A																			
		P																			
		A																			
ACTIVITY		X	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	

(30.9.1982)

A C T I V I T Y			1 9 8 2												1 9 8 3						R E M A R K S				
			1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6					
3.0	FINANCE																								
3.1	Strengthen Shelling																								
3.2	Capital Expenditure Regulations																								
3.3	Recurrent Expenditure Regulations																								
3.4	Internal Security Regulations																								
		Regulation approved and printed.																							
		Regulation approved and printed. Computer instruction handled.																							
		Regulation approved and printed. Field level approved and printed under implementation.																							
		Finished.																							

(00.0.1883)

ACTIVITY	1982												1983						REMARKS																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
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7.0 COMPUTER PROGRAMMING & IMPLEMENTATION.	P																		
	A																		
7.1 Borrowers' Ledger.	P																		- Borrowers Ledger Manual finalised.
	A																		
7.2 General Ledger.	P																		- System implemented. Manual finalised.
	A																		
7.3 Nominal Records for Projects Dept.	P																		- Delayed pending completion of other programmes.
	A																		
7.4 Rents - Tenants Ledger.	P																		- System implemented. Manual written.
	A																		
7.5 TSC Sundry Debtors Ledger.	P																		- System implemented.
	A																		
7.6 Expenditure Analysis by Activity.	P																		- Work started.
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	P																		
	A																		
8.0 TERMINAL REPORT.	P																		
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From: J. Doetinchem
P.D. Cotte

To: Managing Director
Operations Manager

Ref. No.

Date:

REVIEW OF FUNCTIONS OF KIE'S HEAD OFFICE DEPARTMENTS AND
REGIONAL OFFICES

This paper has been written at the request of the Managing Director.

The writers have after thorough investigation come to the opinion that the functions of the different departments and regional offices of KIE are at present time lacking in cohesion. The principal features of these recommendations are to restructure KIE so as to make the best use of the available resources. The principal aims are to

- enlarge the functions of the Projects Department which should act as impartial consultants to both, KIE's clients and KIE itself during all stages of project life
- streamline the Accounting Department so as to put ^{it} in a position to provide Management with up to date and meaningful financial information
- form a Planning and Budgeting Unit so as to remove "think tank" functions from normal day to day operations of other departments
- convert the present Extension Services Department into a Banking Department to assist KIE attain the GOK and Worldbank requirement that this organisation assume the format of a Development Bank.

Changing the functions of one department or introducing a new one naturally has repercussions on the structure as a whole. The structure proposed in Annex 1 and 2 tries to maintain, however, as much as possible of the present set up and should be regarded as a medium term target towards which the writers think KIE should develop. The proposed changes are summarized as follows:

(1) Project Department

The Project Department presently has to prepare feasibility studies and to play the most decisive role in the complicated decision making process that leads to the approval of a loan and the allotment of a shed. At this stage the responsibility of the Project Department ends abruptly and other departments have to implement the content of the approved paper. Under these circumstances the Project Department can rather easily discharge its duties by producing overoptimistic papers and getting them approved. As a result of this, considerable number of projects turn out to be nonstarters.

The proper function of the Project Department should, however, be to act as an impartial consultant to both the client and KIE. It should, therefore, be under no pressure to get project studies approved. This can only be achieved, if its decisive role in the approval of loans is removed, because this undermines its independence and exposes it to undue pressure from interested parties. It should, however, be in the position to discharge its duties by writing a project study with negative results.

Furthermore Project Department should take a vital interest ^{so} that projects recommended by it are really viable under all aspects. It can only have such interest, if its consultancy services are also to be called upon during the implementation and operation phase of a project.

Preparation of project studies should be done in the first instance by the Regional Project Officers (see Annex 2). Therefore, considerable decentralisation of Kenyan technical staff to various centres would be appropriate. This staff should consist of Engineers with a Business Administration Background or the reverse. No specialisation within a certain sector (e.g. chemical Products etc.) is necessary. To finalize the study the Regional Project Officer should be assisted by Senior Staff from Head Office which would have a similar qualification but with an additional specialisation within a certain sector. This project staff would have to be organized along sectoral lines and would be expected to spend considerable time travelling to assist and train project field staff on the spot.

To assist in project implementation (ordering and commissioning of machinery, detailed planning and layout) the Project Department needs a small corps of pure engineers. Sectoral specialisation is not so important for their task. Apart from supervising project implementation they also should be involved in finalizing project studies. Such questions as machinery selection, product design, machinery cost estimates, training needs, time planning for implementation etc. should be checked by them to insure that proper feedback from practical experience goes to new project studies.

A Product Development Section could be a logical complement to the other activities of the Project Department.

(2) Banking Department

The existing Extension Services Department should be converted into a Banking Department. It has to act as a counterbalance to the Project Department and should, therefore, receive from there finalized project studies in order to appraise them from a banking point of view with an emphasis on credit-worthiness of the loanee before loans are approved and sheds are allotted. (For vetting procedures and approval authorities see Annex 2).

The Banking Department should be split into regional sections each one supervising one region and acting as a link between Head Office and Regional Center for all matters relating to loan and tenancy agreements etc. It has, therefore, to follow up on all steps which supersedes regional authority and, therefore, must be processed through Head Office. Subsequently it ensures that proper action is taken by Regional Managers, especially as to loan follow up and review of projects that appear unable to meet their commitments. It requests the assistance of Projects Department if full scale reappraisal of a project is necessary.

The entrepreneurial development functions will be continued to be carried ^{out} by this department. It will, therefore, have to organise regional training seminars for entrepreneurs on such subjects as accounting, marketing, personnel management etc. This, however, will be a sporadic exercise in which the KIE staff of the Regional Offices will also have to participate in order to be able to act as permanent tutors of the entrepreneurs within their regions.

To achieve this objective we consider that the entrepreneurial development functions be the primary responsibility of one loans officer. This officer should also be involved as much as possible in normal day to day work of the Banking Department to prevent training becoming an academic exercise.

(3) Finance Department

The Finance Department should concern itself with acting as a Service Department to all sections and offices of KIE to providing

- Management with up to date meaningful information
- Branches and other offices with similar data
- Clients and borrowers with up to date statements of account
- for rapid disbursement of funds
- for maximizing earnings from short-term investments.

To do this the Department must be restructured so as to relieve itself of

- (a) Planning functions e.g. budget
- (b) Staff matters e.g. payroll
- (c) Custody of security documents.

Therefore, it is considered, that the Finance Department must be placed on an operational basis. That means it must be able to provide management with the following information on a daily basis:

- a) current liquidity position
- b) up to date loan - rent - TSC clients position including arrears
- c) short-term investments (e.g. term deposits) showing maturity date and interest rate
- d) expenditure position giving a comparison of actual with budget
- e) current resources position showing how much drawn, how much committed and the amount available for commitment
- f) current consolidated financial position of KIE (weekly basis)

(4) Planning and Budgeting Department

The activities gathered up in this unit become increasingly important for KIE and urgently need effective organisation under the permanent responsibility of a senior KIE officer. Operational Planning, Resource Planning and overall yearly Budgeting must be carried out in conjunction with most of the other departments, especially those responsible for Projects, Building, Banking and Finance / Accounting. Its function, therefore, is that of a management secretariat that prepares decision making papers for submission to Heads of Departments for consideration. Following such meetings the secretariat will prepare the appropriate submissions for the KIE Board.

Furthermore, the secretariat should generally act as a link to the Treasury and external donors and should, therefore, handle all correspondence with these entities.

As an annex it could also supervise the operation of the KIE library.

(5) Building Department

Building of Estate Infrastructure has become a nationwide activity since KIE is supposed to construct and maintain Estates and RIDCs in all parts of the country. The amount of work in this field calls for concentration of one department on these activities to assure appropriate planning and supervision of construction works.

In future estates could be developed in two steps

- (a) construction of basic infrastructure (roads, sewerage, water and electricity network) to cater for later shed construction according to projects prepared. Infrastructure development should, therefore, provide for flexible sub-division of plots according to later needs.
- (b) Construction of sheds should be done from time to time as projects are approved. Their layout should be adapted to the specific need of the project concerned.

The Building Department must be in the position to provide Projects Department with realistic unit costs per square meter of industrial building since the necessary expenditure for an individual project must be approved together with the project study.

Construction and equipment of TSCs (being part of the estate infrastructure) should also stay forthwith under the responsibility of the Building Department. As to the selection of TSC-Equipment, the department should liaise with Projects Department (Engineering Section).

The Building Department would also be responsible for the upkeep and maintenance of all estate infrastructure and would have to carry out the necessary inspections on a regular basis.

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(6) Legal Department

The Legal Department (like the Finance Department) is also to be regarded as a Service Unit to all other departments, especially to the Banking Department. On request of this it checks loan and rent agreements before signing, prepares security documents, assists in company registration and takes legal action against defaulters.

It acts as custodian for all security documents and title deeds to KIE property.

Finally it performs the duties of the Company Secretary including the holding of Board Meetings etc.

(7) Personnel and Administration Department

The main function of this department is to recruit in conjunction with other departments and in accordance with approved budget plans the necessary staff for all KIE offices.

Besides this it has to deal with all staff and salary matters generally. To ensure the necessary discretion of these matters it should have an own unit to prepare monthly salary statements and to record salary disbursements.

Within its administrative functions it has to purchase and maintain office equipment and motor vehicles and to control stores and stationery.

It allocates office room to staff and regulates the use of telephone facilities etc.

(8) Inspectors Department

The function of this Department is to carry out audits and inspections of KIE's books and accounts, a physical inspection of all assets, and verification of all liabilities on a regular basis.

In carrying out these duties the staff of this department is to ensure that all policies and procedures as laid down in Instruction Manuals are correctly followed.

Inspections and audits will take place on a surprise basis and will cover all departments and offices of KIE.

This department will report directly to the Managing Director and Operations Manager.

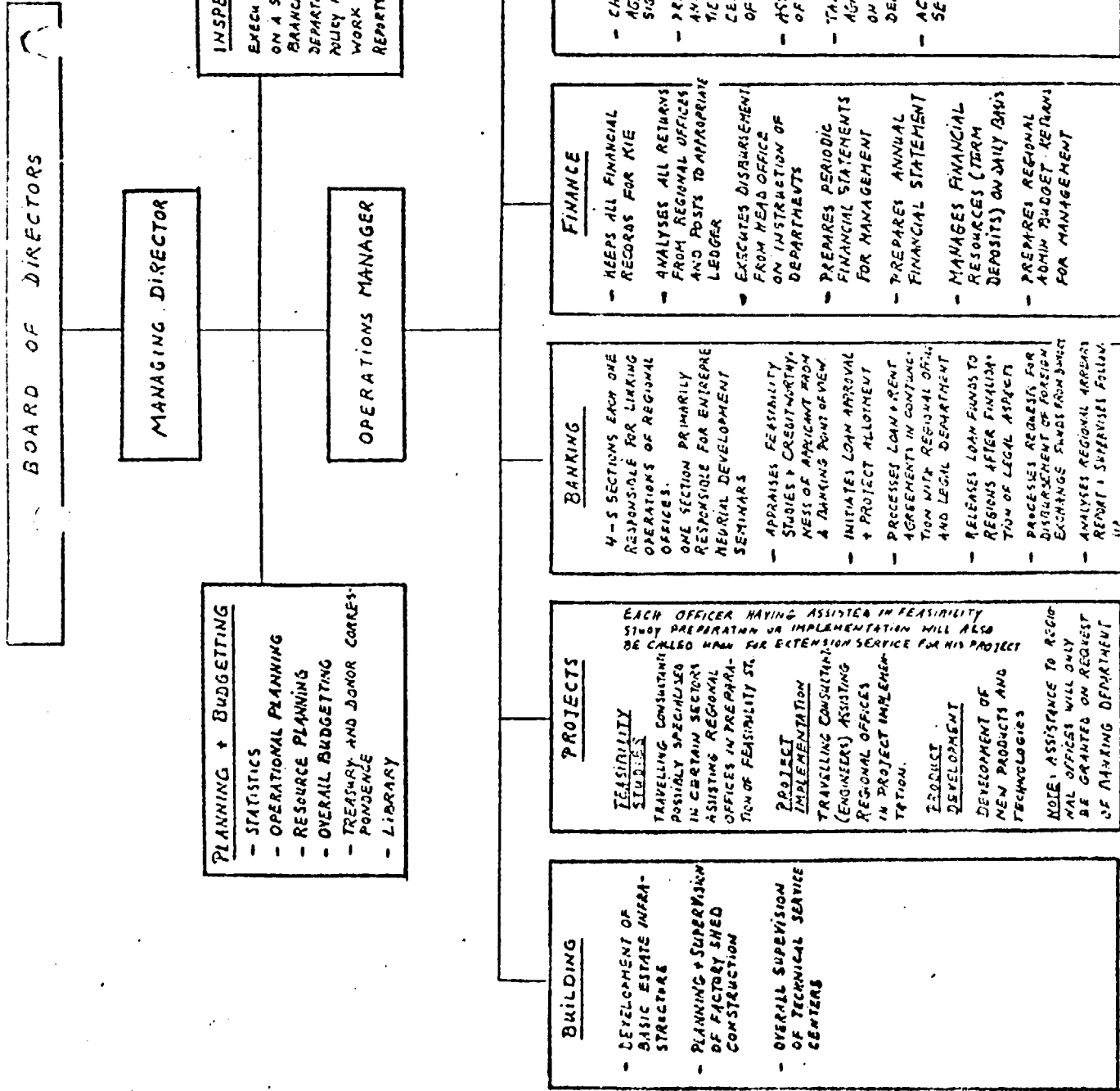
Final Remarks

In writing this paper we have considered the interest not only of KIE itself but of external donors and lenders and - most important - the small businessmen who are to be promoted. It has been stated that KIE has a successful record of implementing and operating projects. Be that as it may. - It is apparently not the view of such international bodies as the World Bank where judgment as to performance is based on how much has been lent, to whom it has been lent, how much has been repaid and in what time.

In this respect KIE's record cannot stand heavy criticism until such time as its methods of appraisal, implementation and recording have been considerably improved.

LIST OF APPENDICES

- (1) Proposed Organisation Chart for KIE - Head Office
- (2) Proposed Organisation Chart for KIE - Regional Offices
- (3) Proposed Loan Approval and Disbursement Authorities
- (4) Proposed Expenditure Authorities
- (5) Notes on Expenditure Authorities



Annex 4.

(Annex 2 thereto)

REGIONAL MANAGER

- CONDUCTS INTERVIEWS WITH PRINCIPAL TOGETHER WITH ECONOMIST
- KEEPS APPLICATION STATISTICS AND REPORTS ON THEM TO HEAD OFFICE
- APPROVES LOANS WITHIN REGIONAL AUTHORITY LIMITS
- FOR APPLICATIONS ABOVE AUTHORITY LIMIT COMMENTS ON FEASIBILITY STUDY IN PARTICULAR THE BANKING ASPECTS AND THEN FORWARDS THE STUDY TO HEAD OFFICE
- AUTHORIZES DISBURSMENTS WITHIN REGIONAL LIMITS OF AUTHORITY
- DEALS WITH ALL PERSONNEL MATTERS
- NEGOTIATES RESPONSIBLE AUTHORITY AS DELEGATED BY HEAD OFFICE

ECONOMIST

- PREPARES FEASIBILITY STUDIES, IF NECESSARY ASSISTED BY EXPERT FROM HEAD OFFICE
- EXAMINES FINANCIAL STANDING AND PROFESSIONAL RECORD OF APPLICANTS
- GIVES MANAGEMENT ADVICE TO ENTREPRENEURS AS AND WHEN REQUIRED

OPERATIONS OFFICER

- UPON APPROVAL OF PROJECTS DRAFTS LETTERS OF AUTHORITY (TO BE FINISHED BY REGIONAL MANAGER OR HEAD OFFICE)
- CONTROLS AND RECORDS ALL TRANSACTIONS ON BORROWERS CURRENCY ACCOUNTS
- DRAWS LOAN AND TENANCY AGREEMENTS TO BE SIGNED BY REGIONAL MANAGER OR HEAD OFFICE ACCORDING TO AUTHORITY LIMITS
- FOLLOWS UPON ALL LEGAL AND SECURITY MATTERS WITH HEAD OFFICE
- EXECUTES AND RECORDS DISBURSMENTS AUTHORIZED BY REGIONAL MANAGER AND HEAD OFFICE
- DISTINGUISHES MONTHLY STATEMENTS OF ACCOUNT (DEBITED FROM NO.) TO CLIENTS
- COLLECTS AND RECORDS ALL PAYMENTS FROM CLIENTS
- PREPARES MONTHLY AND OTHER RETURNS FOR HEAD OFFICE
- CONTROLS LIQUIDITY OF REGIONAL OFFICE

ENGINEER

- ASSISTS ECONOMIST IN PREPARATION OF FEASIBILITY STUDIES (TECHNICAL ASPECTS)
- ASSISTS ENTREPRENEURS IN PROJECT IMPLEMENTATION
 - ORDERING AND INSURANCE
 - CLEARING + FOUNDING + INSURANCE
 - DETAILED PLANNING
 - COMMISSIONING
- GIVES TECHNICAL ADVICE TO ENTREPRENEURS AS AND WHEN REQUIRED
- SUPERVISES THE TECHNICAL SERVICE CENTRE
- ENSURES MAINTENANCE OF ESTATE INFRASTRUCTURE

LOAN APPROVAL AND DISBURSEMENT AUTHORITIES

Annex 4.

(Annex 3 thereto)

	Approval Amount KSHs.	Disbursement Amounts KSHs.
RIDC - Manager	100,000	200,000
Regional Manager	500,000	1,000,000
H.Q. - Loans Officer	NIL	1,000,000
Head Banking Department	1,000,000	2,000,000
Operations Manager	2,000,000	4,000,000
Managing Director	3,000,000	5,000,000
Board of Directors	5,000,000	not required
	<p><u>NOTE:</u> In all cases where Loan amount required exceeds approval Limit, the officer handling the project paper will appraise it and then pass to senior officer with recommendations for approval or decline. The Board will receive a summary paper containing both Projects and Banking views as to prospects of project together with recommendation to approve or decline.</p>	<p><u>NOTE:</u> Disbursements will be executed by RIDC-Manager or Regional Operations Officer from funds released to them by Head Office. No disbursement will be made without</p> <ul style="list-style-type: none">(a) written request for disbursement from borrower.(b) authority of competent KIE-Officer (see above).

	EXPENDITURE AUTHORITY		CHARGING AUTHORITY
	CAPITAL COST KSH	CURRENT COST* KSH	
BOARD OF DIRECTORS	WITHIN OR IN EXCESS OF APPROVED BUDGET ANY ONE ITEM OVER 20,000	WITHIN OR IN EXCESS OF APPROVED BUDGET ANY ONE ITEM OVER 20,000	KSH
WITHIN APPROVED BUDGET ONLY			
MD OR TENDER COMMITTEE	20000 PER ITEM	(a) 20,000 PER ITEM (b) TRAVEL OUTSIDE KENYA (c) STAFF LOANS (MAY BE DELEGATED TO HEADS PERSONEL + ADMIN ONLY)	
OM	—	a) 10,000 PER ITEM b) TRAVEL WITHIN KENYA	
HEAD OF BUILDING DEPARTMENT	—	a) 2,000 PER ITEM b) TRAVEL WITHIN KENYA	
HEAD OF PROJECTS DEPARTMENT	—	"	- APPLICATION FEE - FEASIBILITY STUDY FEE - CONSULTING FEE
HEAD OF BANKING DEPARTMENT	—	"	- LOAN AGREEMENT FEE
HEAD OF FINANCE DEPARTMENT	—	"	- FEES FOR ISSUE OF DUPLICATE STATEMENTS OF ACCOUNT, DISHONOURD, CUSQUES ETC
HEAD OF LEGAL DEPARTMENT	—	(a) DIRECTORS FEES + TRAVEL (b) 2000 PER ITEM (c) TRAVEL WITHIN KENYA	- DEBENTURE FEE - STAMP DUTY - LEGAL REGISTRATION FEE
HEAD OF PERSONNEL AND ADMINISTRATION DEPARTMENT	5,000 PER ITEM	(a) SALARIES (b) 5000 PER ITEM (c) TRAVEL WITHIN KENYA	
REGIONAL MANAGERS	—	(a) 2000 PER ITEM (b) TRAVEL WITHIN KENYA	
RIDE MANAGERS	—	(c) 1000 PER ITEM (b) TRAVEL WITHIN REGION	

* ALL ITEMS COSTING LESS THAN KSH 1000 WILL BE

NOTES ON EXPENDITURE AUTHORITY

1. Local purchase orders will be used by senior officers in accordance with their expenditure authority.
2. Finance Department and Regional Operations Officers will issue cheques/cash against appropriate senior officer's signature on payment voucher. Supporting evidence is to be retained for audit purposes by Department concerned.
3. Disbursement of funds will be carried out as quickly as possible by Finance Department or Regional Operations Officer. All accounts are to be paid within 48 hours after authorisation by appropriate senior officer.
4. Suppliers statements will be handed direct to Finance Department to ensure that Departments concerned are reminded to submit accounts for payment.

MEMO
KENYA INDUSTRIAL ESTATES LIMITED

NAIROBI INDUSTRIAL ESTATE P.O. Box 18282 NAIROBI

From: FINANCIAL ADVISORS

To: CHIEF ACCOUNTANT

Ref. No.

Date: 27th January, 1981

Proposed Reorganisation of Finance
Department

Following our discussions enclosed are a proposed Organisation Chart for the Finance Department together with a set of flows-charts showing the proposed work-flow within the different subsections of the Department after the Mini Computer being installed and on stream.

c.c. Operations Manager

encl.

Discussed on 26/1/81

A. M. ...

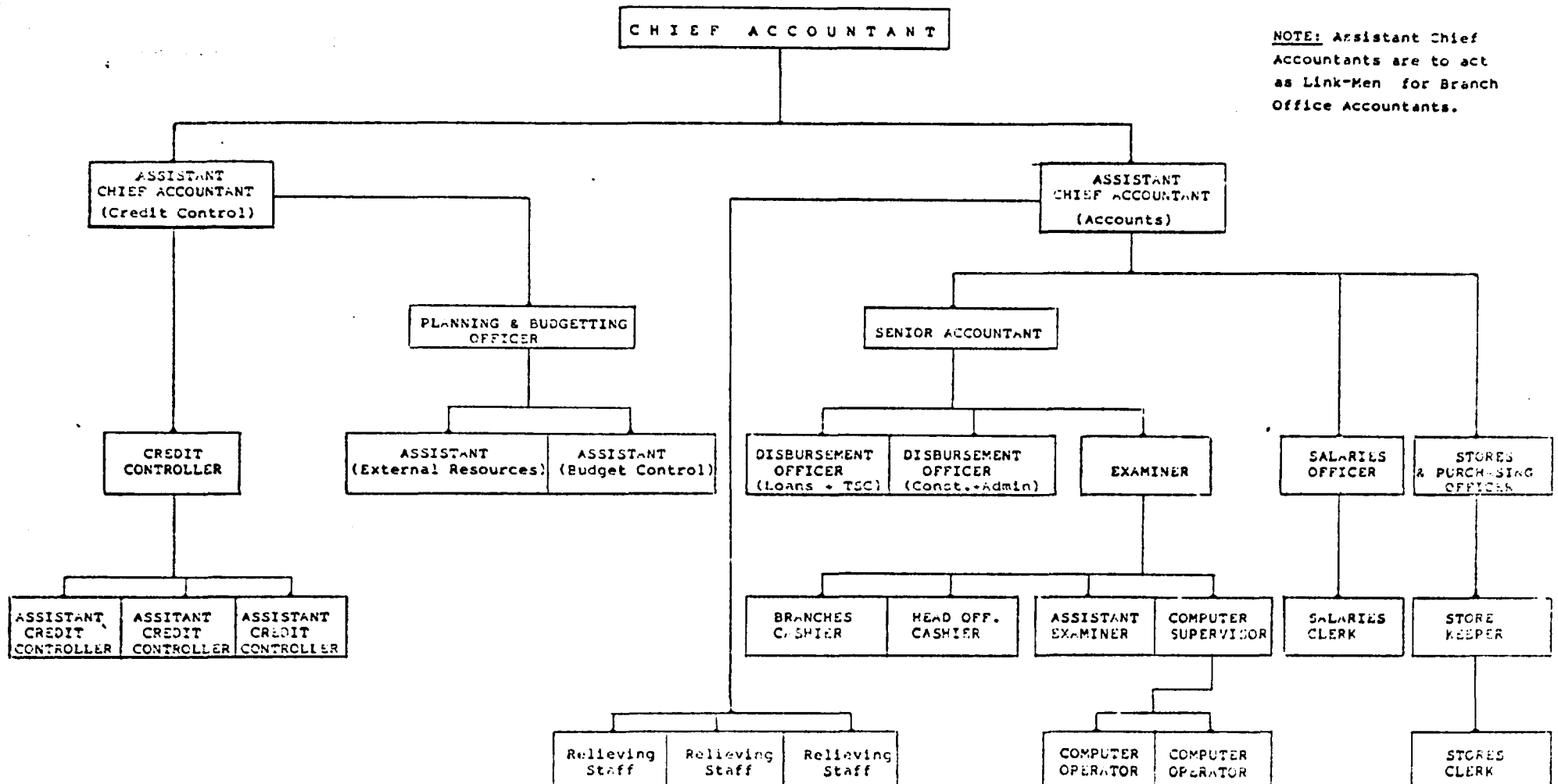
M. ...

...

FINANCE DEPARTMENT ORGANISATION CHART

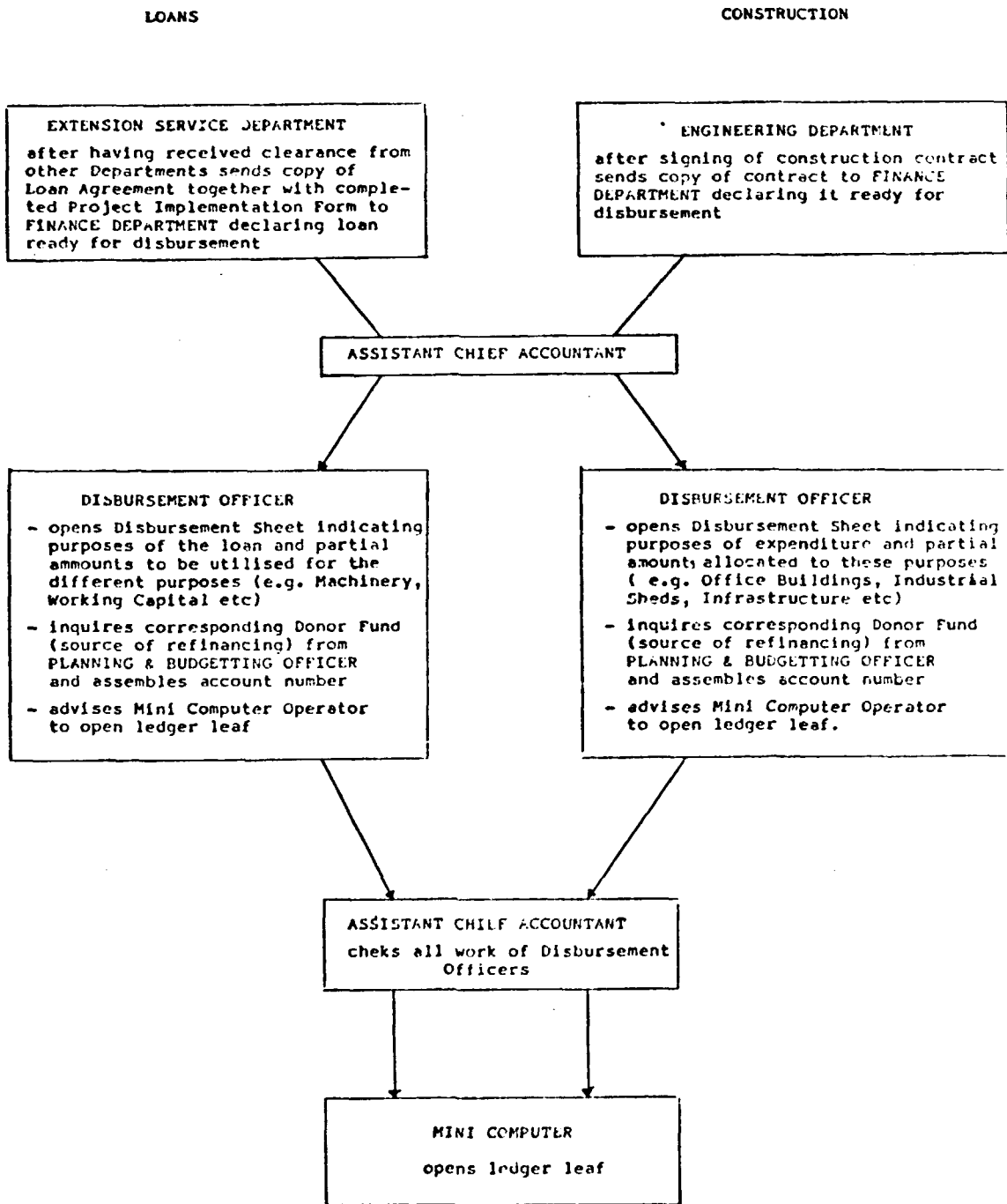
NOTE: This chart shows only the lines of communication and responsibility and takes no account of status or professional levels of staff members.

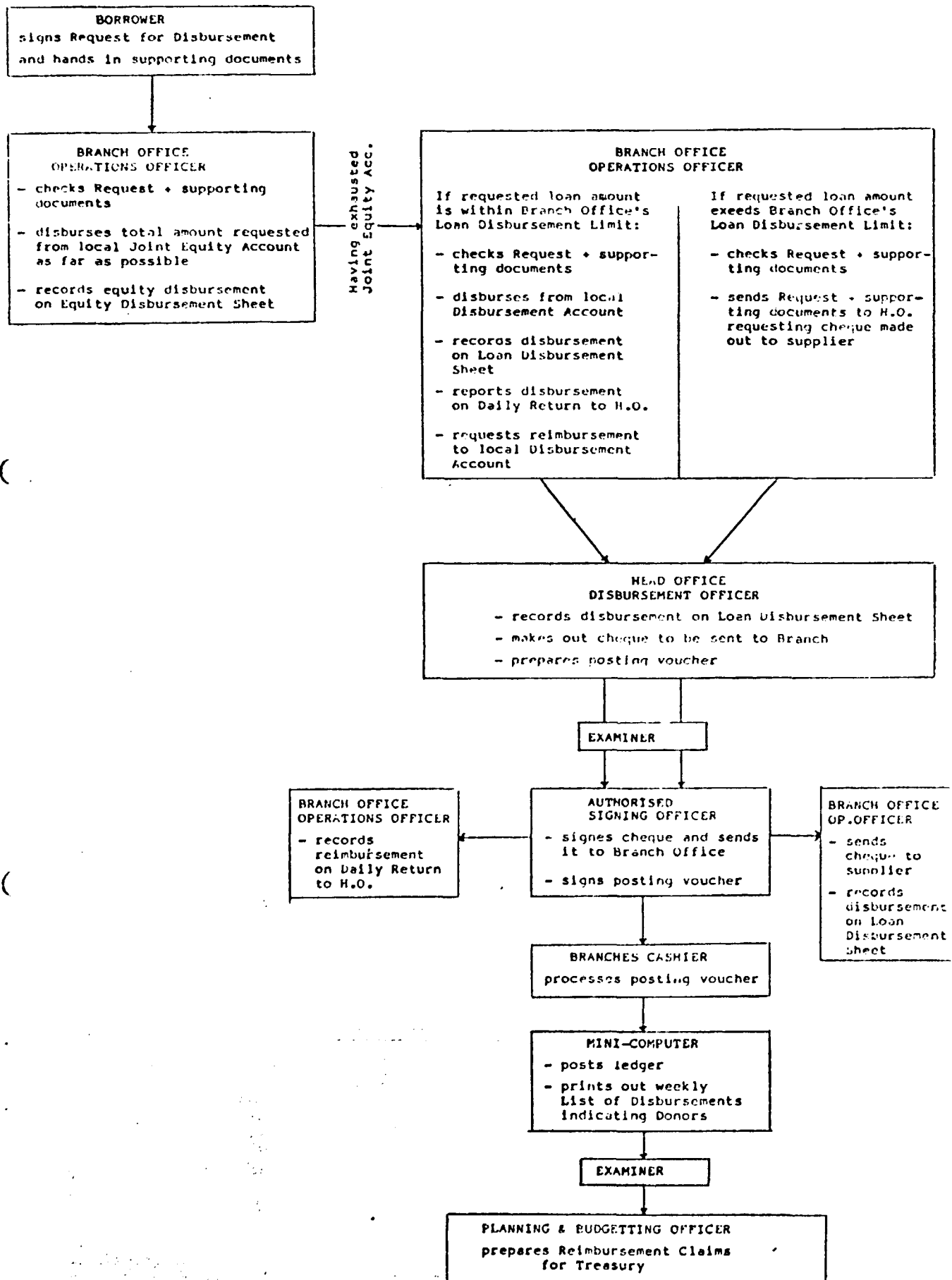
NOTE: Assistant Chief Accountants are to act as Link-Men for Branch Office Accountants.

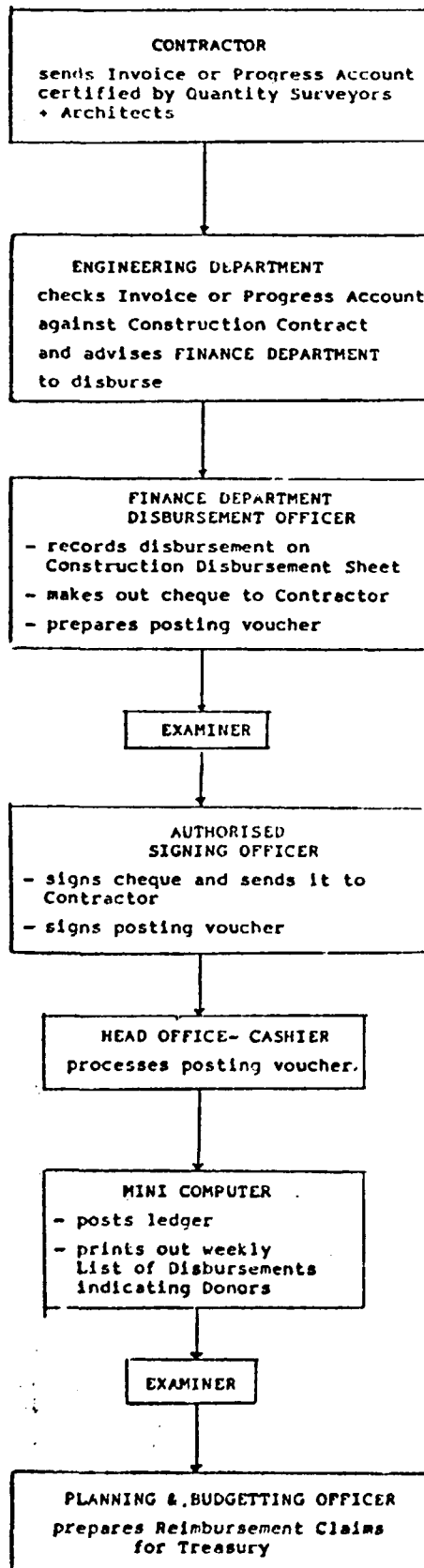


OPENING OF LOAN ACCOUNTS

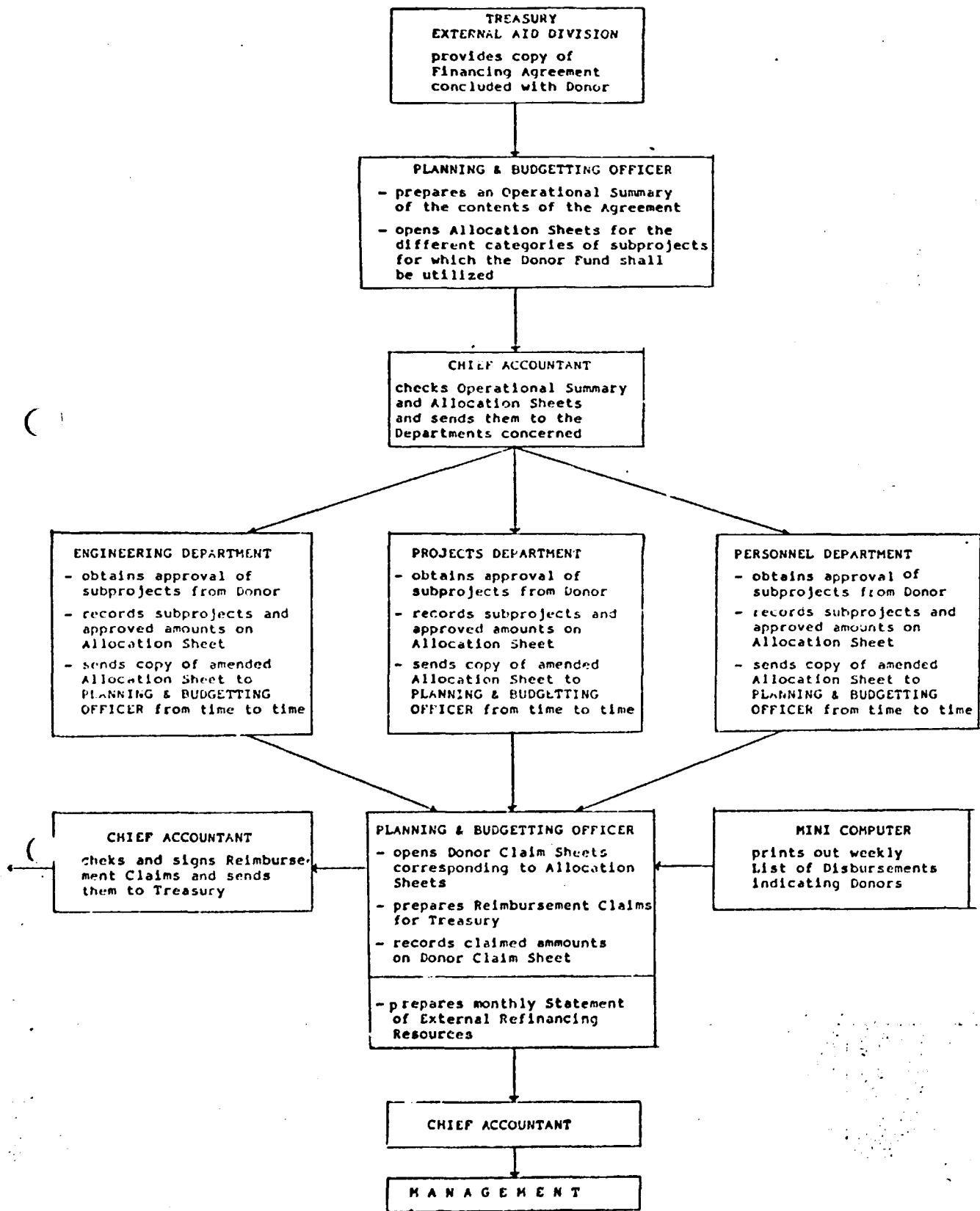
* FIXED ASSET ACCOUNTS FOR CONSTRUCTION



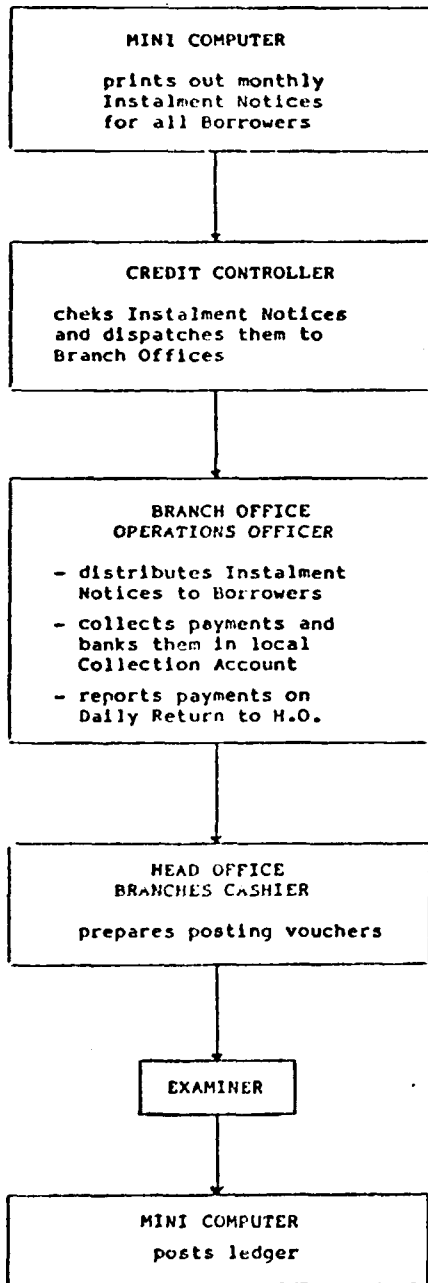




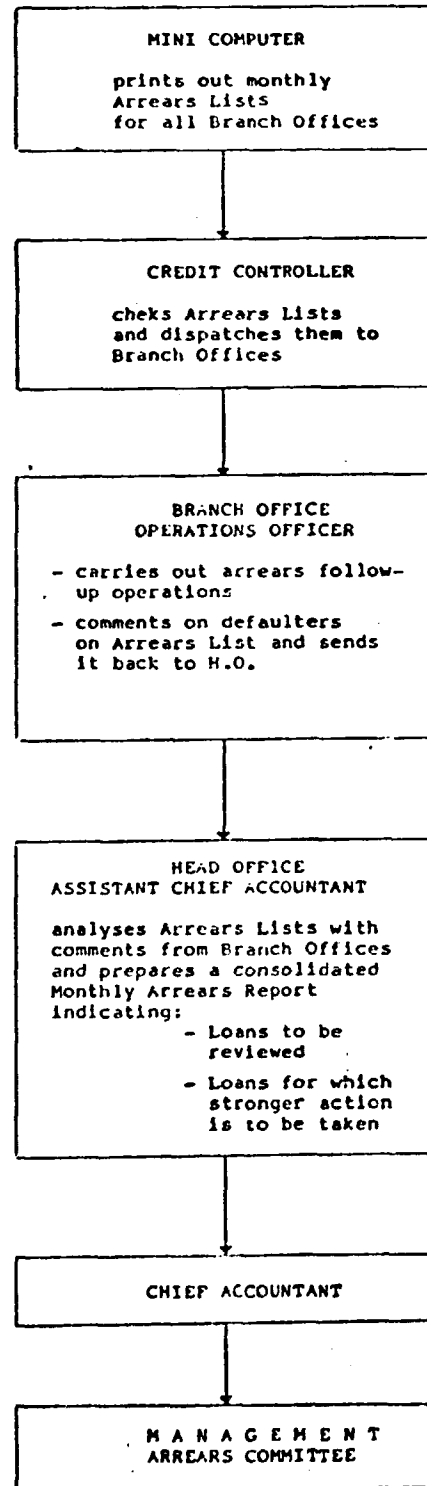
EXTERNAL REFINANCING RESOURCES



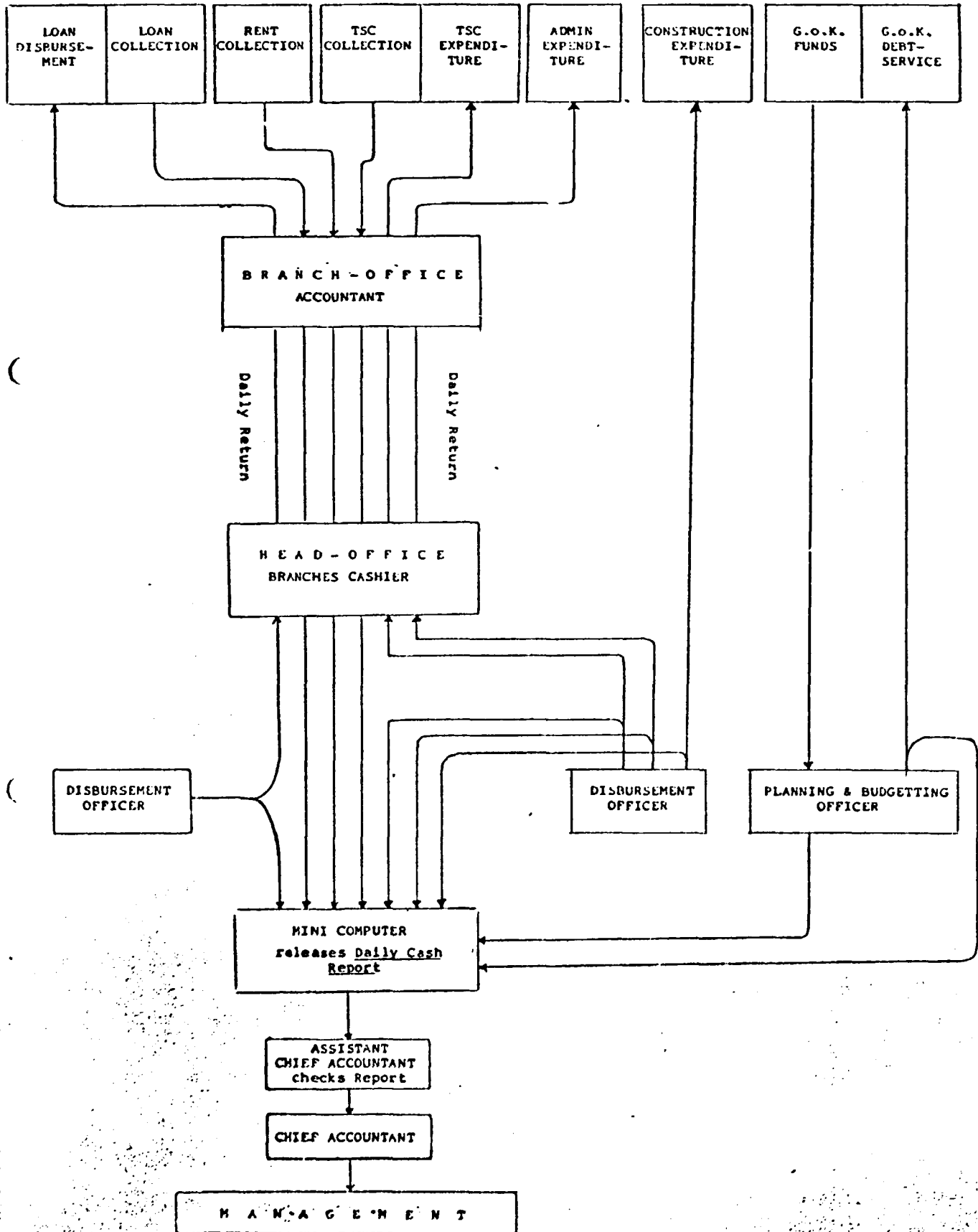
LOAN COLLECTION



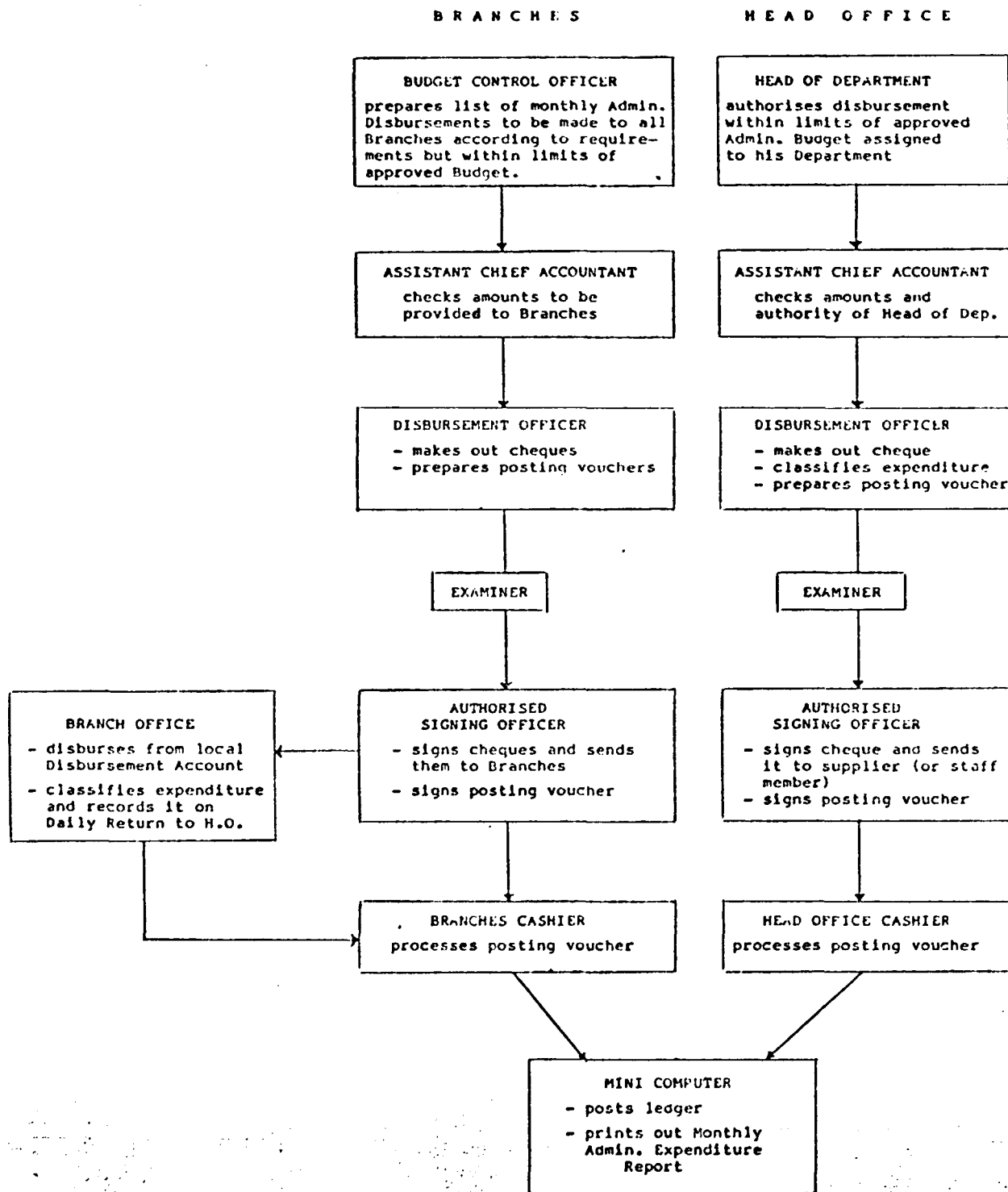
ARREARS FOLLOW UP



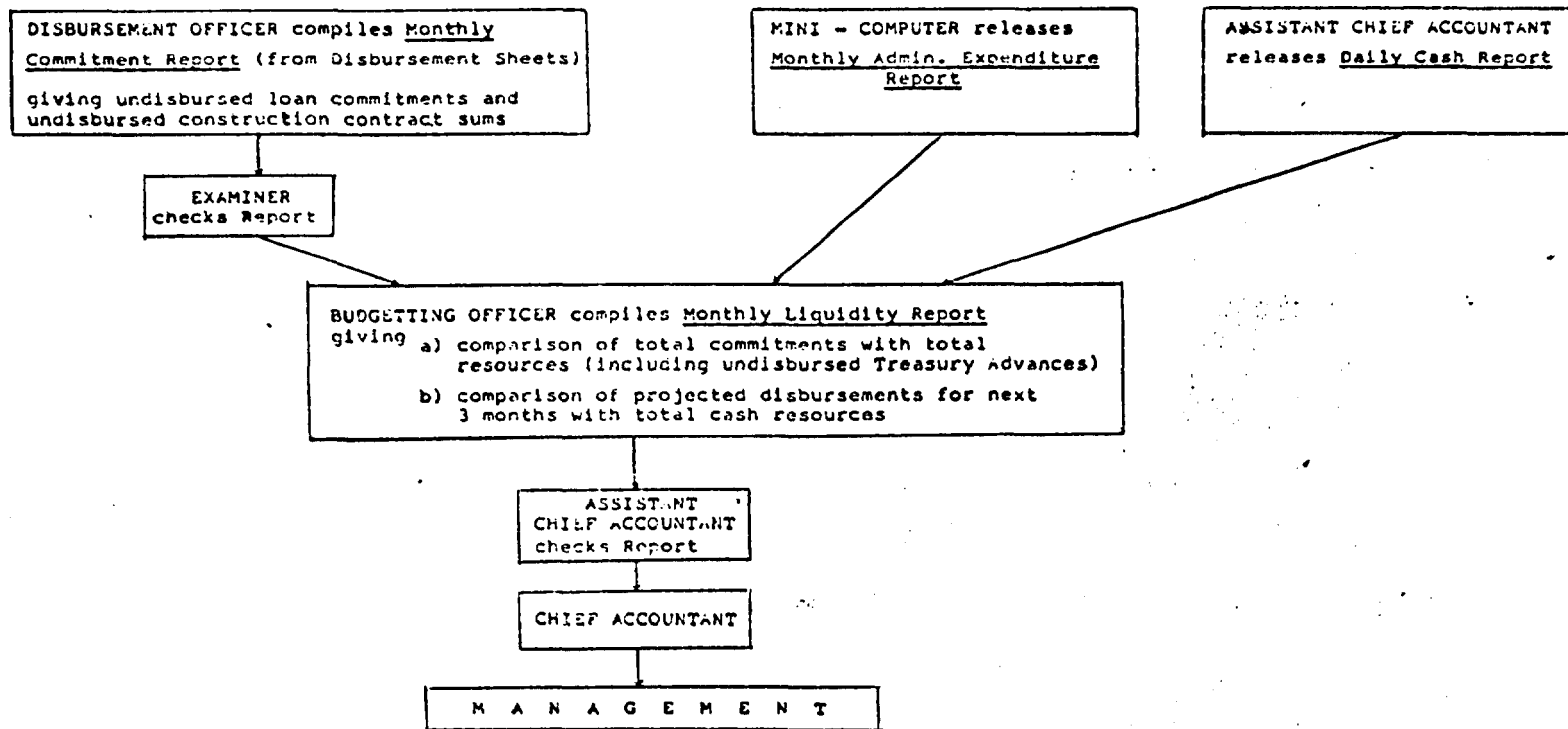
DAILY CASH REPORT



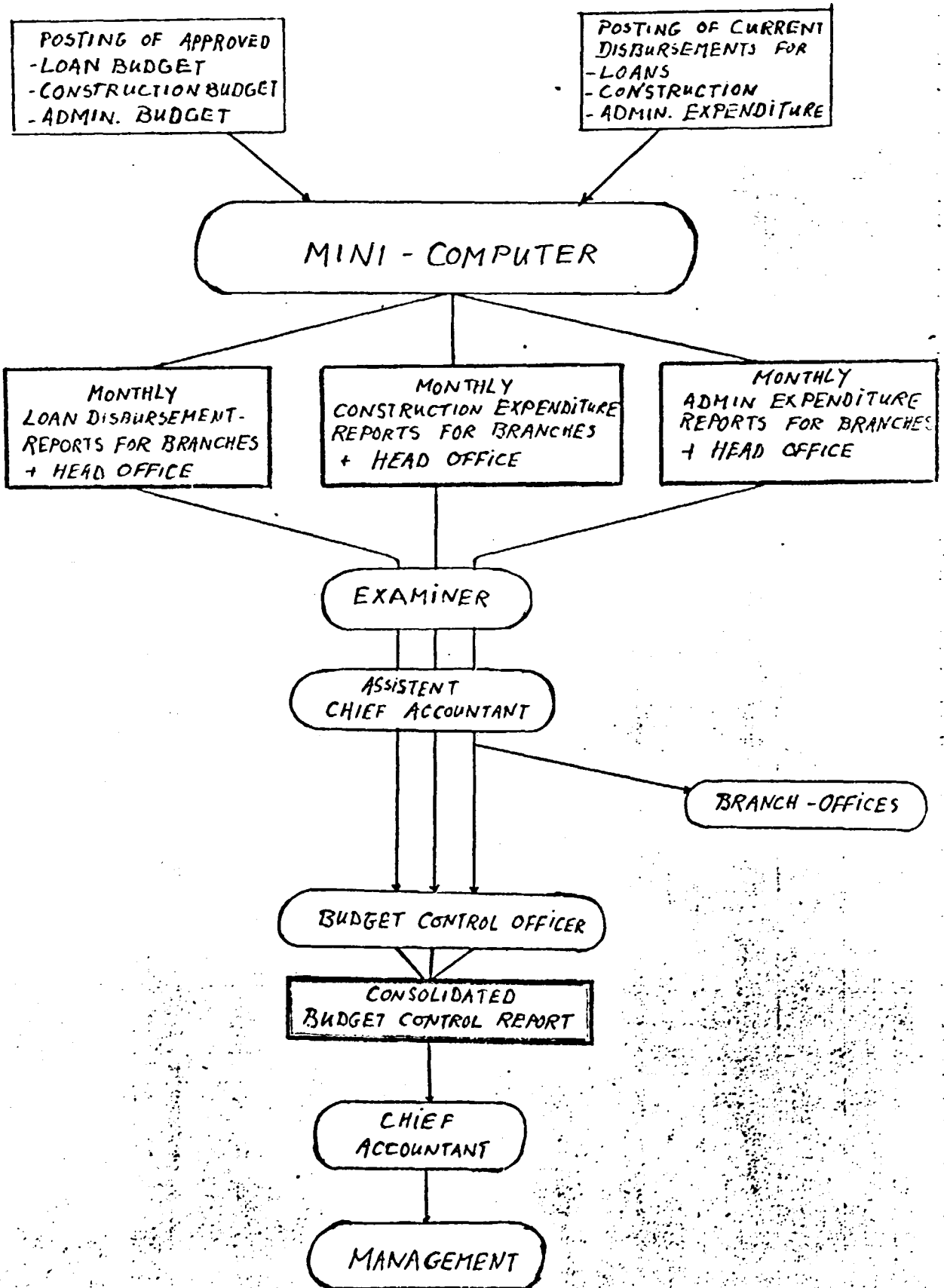
ADMIN. EXPENDITURE DISBURSEMENT



MONTHLY LIQUIDITY REPORT



MONTHLY BUDGET CONTROL





TELEPHONE 33551
TELEGRAM NAIROEST

YOUR REF

OUR REF ADMN. 1 / Vol. 9/34

Date 26th May, 1982

Kreditanstalt fuer Wiederaufbau

Palmengartenstr. 5 -9
D-6000 FRANKFURT (Main) 1

West Germany

Dear Sir,

L II b/1 FINANCIAL COOPERATION LOANS TO KENYA INDUSTRIAL ESTATES LTD.
AL 6565220 AND 7967904

We refer to your telex of March 3rd, 1982, informing us that you have decided to postpone your progress appraisal mission to a date later this year. We would like to prepare this appraisal by reporting on our financial situation as follows:

(1) Financial Management

Over the past three years KIE has made great efforts to recruit a qualified Kenyan financial manager. Unfortunately, these efforts have not been successful up to now, as it was found that the salary requirements for a qualified Kenyan are far above the official pay scale to which KIE is bound by the Kenya Government.

The World Bank has agreed to fund an expatriate financial adviser for a period of three years. Funds were made available from the training and consultancy component of the IDA credit. Recruitment was started in December last year but despite very attractive emoluments results have not been very encouraging. The World Bank has now suggested advertising the position of the KIE financial manager in the relevant international media.

The appointment of a financial manager is an issue to which the KIE management attaches great importance. The position is next to the KIE Managing Director in line of authority. Keeping the position vacant, could have increasingly negative effects. We have, therefore, as an interim measure, appointed Dr. Michael Burisch as acting financial manager for a period of one year. The external and internal recruitment efforts which hopefully will lead to a more permanent solution will continue. Meanwhile, as much as possible of the new KIE financial management systems are to be implemented.

.....2/

(2) Computerization of Accounts

The KIE finance department is being reorganized with the view to:

- ensuring consistency of financial records
- reducing posting delays
- providing more meaningful and up to date financial information to both the KIE management and the KIE entrepreneurs.

To achieve this a centralized accounting system has been designed with a visible record mini-computer as a central posting unit. An Olivetti 350 2030 funded from a German technical assistance grant was installed in mid 1981. This type of computer does not represent the most advanced technology but its functions are easily understood and it does not eliminate manual work completely. It was found that the technology was preferred by the officers who will have to operate the system.

The necessary systems analysis was provided by a working party including the KIE Chief Accountant, his deputies and the financial advisers provided under the German and UNIDO technical assistance programme. Local computer consultants were recruited to prepare the software according to KIE's specifications.

The first sub-system completed was the loan ledger which went live at the beginning of this year. The ledger is being posted on a monthly basis but preparations for weekly posting are almost complete. The system calculates interest on a daily basis and produces monthly arrears reports by branch office. Monthly statements of account and instalment notices are prepared for each borrower. The system is described in greater detail in appendix 1.

The second sub-system to go live is the general ledger. It has been completely re-designed to facilitate an analysis of the costs of the KIE programme by regions and by functions. The systems will produce monthly overall trial balance sheets and profit and loss accounts as well as budget control reports by branch office. Profit and loss accounts by activity and by branch office can be produced with some additional manual work. Testing and file conversion for the general ledger system are almost complete. The system is expected to go live in June this year. This will enable us to prepare our annual financial statements with the help of the new accounting system.

A third sub-system expected to go live before the end of June this year is the rental ledger. Programmes for this sub-system has been completed and the process of testing and file conversion has been started.

Two more sub-systems, the TSC debtors ledger and the sundry debtors ledger are in early stages of system's design. Furthermore, it is envisaged to use the mini computer to keep commitment records for the project department and the engineering department, showing both commitments of loan and construction funds by KIE and by donors.

(3) Finance and Accounting Manual

While introducing the new computer system we have also started the preparation of a new finance and accounting manual covering all areas of the KIE financial management. First to go into the manual are the KIE loan regulations which were sent to you earlier this year. Other regulations on capital expenditure, operational expenditure, insurances and budgeting are in advanced stages of preparation.

Detailed desk top instructions on the processing of cash collection and of operational expenditure have been prepared for the accounts staff at head office and branch office level. The manual will also contain a new organization chart for the finance department together with job descriptions for each senior post. The latest edition of the organization chart outlining the functions of the different sub-sections of the finance department is enclosed in this letter.

(4) Loan Collection and Arrears

Loan collection in KIE is a decentralized activity carried out by the branch office accountants. With the introduction of the computer system, this has been put on a more efficient working basis. Borrowers are now receiving monthly statements of accounts and instalment notices which are directly mailed to them from the head office. The branch offices are provided with copies of these statements together with a monthly arrears report. The arrears reports are to be returned to the head office with the branch office's comments on recoverability of loans and on necessary actions. As all loan accounting will be centralized, branch office accountants will have more time for proper loan follow up.

The credit control section of the finance department prepares monthly reports on loan arrears for the KIE management. The data processed by the computer summarized in six standard formats called "arrears analysis" number I to number VI. The most recent arrears analysis is annex to this letter. It indicates that the overall quality of the KIE loan portfolio is no longer deteriorating. The portfolio has entered into a process of stabilisation.

(5) Loan Categorization and Follow Up Operations

Following KFW's recommendations, KIE has established a staff arrears committee headed by the Chief Legal Officer and including the Projects Manager and the Chief Accountant. The committee reviewed all KIE loans and classed them into the following three categories:

- A - loans considered to be fully recoverable including loans that need routine re-scheduling.
- B - loans that need full scale re-appraisal in order to reach a decision on revitalization or liquidation.
- C - loans to be liquidated because the project is no longer considered to be viable.

As of 31st March, 1982, the KIE portfolio was made up as follows:

Category	No. of Borrowers	Total Debt outstand, Million Shs.	Total Arrears Million Shs.	%	Total Arrears over 12 months
A	297	117.1	11.7	10	5.1
B	43	20.9	7.6	36	5.0
C	130	50.6	21.3	43	17.0

The staff arrears committee is in principle meeting every week in order to decide whether certain projects should move from one category to another. The responsibility for follow up rests then with the

- finance department (credit control section) for category A loans
- projects department for category B loans
- legal department for category C loans.

Recommendations for action on category B and C loans are submitted to the normal KIE approval authorities by the projects department and legal department respectively. Two reports from these departments summarizing the stage of their operations are appended.

(6) Annual Accounts

A copy of our audited annual accounts for the financial year which ended on June 30th, 1981, is appended to this letter. In spite of substantially increased lending operations, the company incurred an annual loss of KSh. 17 million. The loss for the previous financial year had been KSh. 16.5 million.

In our 1980/81 income statement we have shown net interest earnings from loans after suspended interest of KSh. 5.692 million, representing interest accrued on arrears of over two years. Therefore, the net amount of interest earned of KSh. 4.490 million largely represents the actual amount of interest collected. Because of this change in accounting policy we were able to keep our annual provisions for bad and doubtful debts to the relatively low figure of KSh. 4.475 million. Had we used our usual method of accounting, the interest earnings would have been KSh. 10.182 million necessitating provisions of KSh. 10.167 million.

In the meantime, however, the borrowers ledger has been taken over by our new computer system. We now feel that it was unfortunate to change our accounting policy regarding provisions for bad and doubtful debts. We have re-examined the issue with the assistance of our external auditors and have established a policy that provides consistency and links

up both with the categorization of loans and the new computer systems. The details of the new policy are set out in our board paper no. 470, which was approved by the KIE board on May 14th, 1982. Apart from a necessary adaption which KIE will have to make in the financial year ending 30th June, 1982, the amount of annual provisions on the loan portfolio is likely to stay at a level of KShs. 10 to 14 million during the next three years. During the same time, the total provisions as a percentage of the gross portfolio is expected to come down gradually from presently 30% to about 20% in 1984/85.

(7) Financial Projections

Last year we embarked on a major financial planning exercise which is based on our actual performance data for the last four years. The subsequent projections show that it is very unlikely for KIE to become financially self-sufficient if the overall financial framework of our operations is not drastically changed.

In our discussions with our Parent Ministries and with outside donors it has become increasingly clear that the promotion of industrial enterprises owned and managed by Africans mainly in rural areas is an extremely complex and demanding task. That requires a broad array of promotional services which are not normally provided by other development banks. It has, therefore, been accepted by the Government that the financial framework under which KIE operates must take due regard of this fact.

In line with these discussions we have received an indication that the Kenya Government might now be willing to channel the majority of public funds to the KIE programme in the form of equity. The only exceptions from this general rule will be the IDA funds and the KFW funds which were lent to the Kenya Government and which will continue to be onlent to KIE at interest rates of 6% and 2% respectively. If these changes are effected, if furthermore KIE is allowed to increase its lending rate for all new loans to the current market level of 14% and to increase rents by 5% every year, there is a good chance that KIE might be able to break even by the year 1985/86. Enclosed is a set of financial projections using these assumptions.

We are looking forward to fruitful and constructive discussions with your team. Meanwhile, we will keep you informed on all relevant developments in the seven areas discussed above.

Yours faithfully,


(Charles S. Mbindyo)
Managing Director
KENYA INDUSTRIAL ESTATES LTD.

FINANCE DEPARTMENT ORGANISATION CHART

Annex 6. (6 of 6)

- NOTE:**
1. This chart shows lines of responsibility only and makes no acknowledgement of grades etc.
 2. At regular intervals all staff will be posted from one position to another to ensure that all officers are fully conversant with all aspects of Finance Department work.

