Folder Title:	Kenya - Industrial Development Bank - Loan 1148, Loan 1438, Loan 1817 - Project Completion Report - Correspondence
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Dates:	03/27/1987 – 07/21/1988
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PCR: KENYA-INDUSTRIAL DEVELOPMENT BANK (IDB)(LNS. 1148, 1438, 1817-KE) CORRESPONDENCE

DECLASSIFIED
WBG Archives

DATE PCR RECV'D 4/1/87

PROJECT: Kenya - Industrial Development Ban (IDB)

LN/~~CR~~ #: 1817-KE

Person Responsible G. C. Maniatis

PPAR ___ or PCR ✓

DRAFT TO COUNTRY ___

COMMENTS DUE BY ___

REPORT TO DGO ___

REPORT DATE: ___

FINAL REPORT SENT TO BORROWER? ___ (Y/N)

DATE: ___

COPY TO FILE? ___ (Y/N)

To Files

I made a series of recommendations for changes and additions (marked up copy) to Ms Horton on the revised PCR.

She will revise again the PCR, including some updating, by mid-June 1987

G

5/13/87

x=34453

Will send names
Will prod. Div to send it over
- changes have been made
6/24/87 JT

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. G.C. Maniatis, OEDD2

DATE: April 27, 1987

FROM: Melanie J. Horton, Operations Officer, EAPID

SUBJECT: KENYA - Industrial Development Bank (IDB) Project Completion Report

As we discussed on the telephone, here is the revised PCR for the Industrial Development Bank (IDB). The report includes a discussion of the projects under Loan 1148-KE and places less emphasis on Loan 1817-KE, which is still being disbursed. I have also included your comments regarding the preface, highlights and lessons learned.

MHorton:tgt

Changes Required:

1. Memo: Delete Ln 1817-KE and add: Loans 1148-KE and 1438-KE

2. PCR: Front Page: Delete 1980-85 and add Loans 1148-KE and 1438-KE

PCR also covers

3. Preface. ~~Indicate~~ Do not indicate that Loan 1817; just ~~but~~ mention when this latter loan was made, as well as when the first loan was made and audited (Report No 3944). It would would probably be clearer ~~good~~ to refer to them as loans I, II, III and IV. The PCR should cover loans II and III and not the period 1980-85, although the emphasis may well be on this period.

(1975-1985)

4. Basic Data Sheet: Delete references to Loan 1817

5. Highlights: Make cross-references to paras. in the text. Again, the PCR ~~does not should~~ cannot cover

(270)

(100):

1980-81 [(see 4 above).

6. Income statements + balance sheets should be supplied for 1975-1979 also 1986 (as an addition)

Lending operations

7. Arrears should be extended to 1986. Collection ratios misleading.

8 Does it finance private + public sector projects?

9 Annex 4

10. Board-top management

x^2 473 445 3

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ram Kumar Chopra, Director, OED

DATE: March 27, 1987

FROM: Manuel Penalver, Deputy Chief, EAPID

SUBJECT: KENYA - Industrial Development Bank (IDB)
Ln. 1817-KE
Project Completion Report

OLD VERSION

1. I am pleased to send you the final version of the Project Completion Report on Industrial Development Bank (IDB).

2. In transmitting the report, I would like to state the following:

(i) the report has been cleared by the relevant Programs Division;

(ii) before finalizing the report, it was submitted for comments to INDSP and their comments were taken into account; and

(iii) the report has also been cleared with the Legal Department to ensure that it would have no legal implications for the Bank.

cleared with and cc: Messrs. Madavo, Gusten, Graves, Lethem,
McBride, Long, Ms. Adu.

cc: Messrs. Wyss (EAPDR); Kraske (EA1DR); J. Adams (Nairobi); Jones (EA1KU);
Israel (PPD); Dubey (CPD); Golan (IND); Hittmair (CTR);
Mills (LOA); Watanabe (OED) (4); ESA Info. Center.; Div. BB.

MHorton:mgt

KENYA

INDUSTRIAL DEVELOPMENT BANK, LTD. (IDB)

PROJECT COMPLETION REPORT

1980-1985

PROJECT COMPLETION REPORT
KENYA
INDUSTRIAL DEVELOPMENT BANK OF KENYA, LIMITED (IDB)

1980 - 1985

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ANNEXES Page

Currency Equivalents

Currency Unit = Kenyan Shilling (Ksh) = 100 cents

FY79: 1 US $ = Ksh 7.33
FY80: 1 US $ = Ksh 7.42
FY81: 1 US $ = Ksh 9.05
FY82: 1 US $ = Ksh 10.92
FY83: 1 US $ = Ksh 13.31
FY84: 1 US $ = Ksh 14.41
FY85: 1 US $ = Ksh 16.43
FY86: 1 US $ = Ksh 16.33

Glossary of Abbreviations

IDB	Industrial Development Bank of Kenya
NBFI	Non-bank Financial Institution
DFI	Development Finance Institution
KIE	Kenya Industrial Estates
ICDC	Industrial and Commercial Development Corporation
DFCK	Development Finance Corporation of Kenya
EADB	East African Development Bank
NBK	National Bank of Kenya

Fiscal Year (IDB)

January 1 - December 31

PROJECT COMPLETION REPORT
KENYA
INDUSTRIAL DEVELOPMENT BANK OF KENYA, LTD. (IDB)

1980 - 1985

Preface

This Project Completion Report (PCR) covers the period 1980-1985, during which loans 1148-KE and 1438-KE were fully disbursed and loan 1817-KE was approved and largely committed. The PCR was prepared by the Eastern and Southern Africa Projects Department and is based on documentation prepared by IDB and a review of Bank documents relating to the project, including correspondence with IDB. The PCR presents a review of IDB's use of loan proceeds and of its institutional, operational and financial performance during this period.

PROJECT COMPLETION REPORT

KENYA

INDUSTRIAL DEVELOPMENT BANK, LTD. (IDB)

1980 - 1985

Basic Data
(Amounts in US $ million)

(As of March 31, 1986)	Original	Disbursed	Cancelled	Repaid	Outstanding
Loan 1148-KE	10.0	10.0	0.0	5.83	4.17
Loan 1438-KE	20.0	18.2	1.8	7.95	10.25
Loan 1817-KE	30.0	18.6	0.0	2.45	16.19

Project Data

	1148-KE		1438-KE		1817-KE	
	Original	Actual	Original	Actual	Original	Actual
Board Approval	7/1/75	7/8/75	5/30/77	5/25/77	3/31/80	3/25/80
Loan Agreement	7/30/75	7/25/75	6/30/77	6/22/77	4/31/80	6/16/80
Effectiveness	10/30/75	10/9/75	9/30/77	11/10/77	9/15/80	8/21/80
Completion of Commitments	7/1/77	7/30/78	7/1/80	7/1/80	12/31/82	12/31/86
Loan Closing	7/1/79	6/30/80	7/1/82	12/31/82	12/31/85	12/31/87

Mission Data

	Month/Year	No. of Weeks	No. of Persons	Staff Weeks	Date of Report
Appraisal-1817-KE	4/79	3	5	15.0	February 20, 1980
Supervision 1	2/80	1	2	2.0	April 24, 1980
Supervision 2	12/80	1.5	2	3.0	February 17, 1981
Supervision 3	12/81	1	1	1.0	February 12, 1982
Supervision 4	12/82	1	3	3.0	February 3, 1983
Supervision 5	5/83	2	1	2.0	June 3, 1983
Supervision 6	12/83	1.5	1	1.5	April 18, 1984
Supervision 7	9/84	2	1	2.0	October 26, 1984
Supervision 8	2/85	1.5	1	1.5	April 24, 1985
Supervision 9	10/85	1.5	2	3.0	December 23, 1985
Supervision 10	10/86	1.5	1	1.5	January 16, 1987

PROJECT COMPLETION REPORT

KENYA - INDUSTRIAL DEVELOPMENT BANK 1980-1985

HIGHLIGHTS

This report covers the period 1980-85, during which the second and third lines of credit to IDB (Loans 1148-KE and 1438-KE) were fully disbursed and a fourth line (Loan 1817-KE) was appraised, approved and largely committed. A previous PCR and PPAR (Report No. 3944) covered the first line of credit to IDB (Loan 946-KE) and the period 1973-1979. The earlier PCR and PPAR concluded that IDB had become a fairly efficient financial intermediary and had largely met its original institutional objectives. The reports noticed, however, that IDB's appraisal quality was declining, supervision and collection efforts were lax and profitability was low. They also pointed to the importance of linking DFC lending to discussions of industrial and financial sector policies.

The experience during 1980-85 largely bore out the problems foreseen by the earlier PCR and PPAR. During most of the period, IDB's portfolio quality deteriorated, reflecting inadequate project preparation and appraisal, poor supervision and inertia within IDB to tackle these problems. Moreover, difficult economic conditions during the period, which included initial macroeconomic disequilibrium and, later on, a substantive -- and successful -- stabilization program contributed significantly to IDB's poor performance. The main exogenous problems included foreign exchange constraints, low levels of demand, an inadequate supply of domestic currency term credit, inflation and exchange rate devaluations. IDB also experienced high staff turnover, often losing talented professionals to the private sector for higher pay, which further undermined its ability to improve its capabilities.

Fortunately, beginning in late 1984, IDB embarked, with the Bank's assistance through intensive supervision, on a serious effort to improve its collections performance and profitability. At the same time, the Kenyan economy emerged from recession and a serious drought, and demand for industrial investment rebounded slightly. Although IDB has made significant improvements in its loan appraisal and supervision functions and has shown profits in 1985 and 1986, considerable restructuring of the portfolio and a more commercial orientation are still necessary for IDB to remain viable over the long-term. IDB has already learned--perhaps the hard way--that project design should realistically take local supply and market conditions into consideration and that vigilant project supervision is necessary. At the same time, however, IDB needs to marshall resources other than foreign lines of credit and diversify its operations in order to remain competitive in the rapidly evolving Kenyan financial sector. Similarly, the Bank must continue to supervise IDB closely and broaden our involvement in the sector so as to help create a policy environment conducive to healthy industrial ventures and a competitive and efficient financial sector to assist their development.

I. INTRODUCTION

1.01 The previous PCR and PPAR (Report No. 3944) chronicle the origins and early development of IDB. Although during the mid- to late 1970s IDB showed satisfactory progress in developing its own cadre of staff and building up its portfolio, the early 1980s witnessed a sharp deterioration in the quality of IDB's portfolio, resulting in lower profitability and tight liquidity.

1.02 Most recently, the upturn in the economy and vigilant attention to portfolio supervision by IDB have resulted in some improvements in its profitability, liquidity and portfolio performance. The Bank has played a significant role in IDB's evolution over the past 13 years, providing four loans (Nos. 946-KE, 1148-KE, 1438-KE and 1817-KE) totalling US$65 million. During the period under review (1980-1985) the second and third lines of credit, 1148-KE and 1438-KE (US$10 million and US$20 million, respectively) were fully disbursed and the fourth, 1817-KE (amounting to US$30 million) became effective and was largely committed. The following table compares the terms and conditions of these three lines of credit:

Table 1: Bank Loans to IDB
Loans 1438-KE and 1817-KE

	1148-KE	1438-KE	1817-KE
Date Signed	July, 1975	June, 1977	August, 1980
Interest Rate	8.50%	8.20%	8.25%
Total Loan Amount	US$10 million	US$20 million	US$30 million
Free Limit	US$400,000	US$600,000	US$800,000
Aggregate Free Limit	US$2 million	US$4 million	US$7 million
Onlending Rate	n.a. 1/	11% minimum	12% minimum
Agreed Maximum IDB Debt:equity ratio	3:1	3:1	4:1

1/ No interest rate covenant for Loan 1148-KE.

1.03 Commitments and disbursements for all three loans proceeded more slowly than anticipated, and US $ 1.8 million was cancelled from Loan 1438-KE. Designed as follow-on projects, loans 1148-KE and 1438-KE incorporated few changes in IDB's policies or strategy, and emphasized strengthening the still new institution. Loan 1148-KE required a one year extension of the closing date for full disbursement. Loan 1438-KE took 5 months longer than envisaged at appraisal to disburse and US$1.8 million was cancelled. Similarly, and to a larger extent, commitments and disbursements from Loan 1817-KE have been slow, and the closing date has already been extended once by one year to December 31, 1986. These delays have arisen because of the sluggish performance of the Kenyan economy and its industrial sector, poor appraisalquality, and--later on--a conscious effort by IDB (encouraged by the Bank) to consolidate its operations and focus scarce management attention on the growing arrears problems (para. 3.01(a)).

1.04 Indeed, unlike the two earlier loans, the objectives of Loan 1817-KE focused already on the need for consolidation within IDB. In 1979-80 the Bank was negotiating a second Structural Adjustment credit with Kenya, focusing on rationalizing the country's protective regime, increasing export orientation, improving project selection criteria and rationalizing interest rate policies. Through Loan 1817-KE the Bank hoped to help IDB embark on a consolidation program, including improvements in appraisal and supervision procedures, greater selectivity in investment decisions through better financial analysis, improved monitoring of the equity portfolio, a decrease in the level of new equity investments, and restraining administrative costs.

1.05 Unfortunately, IDB's performance during the first years of the project period fell short of the Bank's expectations at appraisal. Projects continued to be import-dependent, and few showed much export potential. Although IDB gradually improved its appraisal procedures, it implemented a consolidation program more slowly than anticipated, and was particularly slow in developing a strong portfolio monitoring and debt collection capability. In addition, the 1982-84 recession produced foreign exchange shortages, slack demand and spiralling debt service burdens for Kenyan manufacturers with foreign-denominated debt. Thus, IDB's arrears worsened during 1980-85. Today, despite some recent improvements, IDB's portfolio continues to be one of the weakest in the region, with serious repercussions for its profitability and liquidity.

II. MACROECONOMIC AND SECTORAL SETTING

2.01 Although the Kenyan economy and the manufacturing sector in particular underwent significant expansion during the 1970s, they did so under policies that would later constitute constraints to further development. In particular, trade and exchange rate policies turned the internal terms of trade against agriculture, and encouraged inefficient production and over-dimensioning of particular subsectors. Moreover, while the manufacturing sector continued to grow, it remained highly capital-intensive and import-dependent. In recent years, Government increasingly emphasized, in its Fourth and Fifth Development Plans (1979-83 and 1983-88), tariff rationalization, export promotion, the phasing out of quantitative import restrictions, and private sector development rather than the excessive Government spending of the past.

2.02 Actual growth of the Kenyan economy during the first half of the 1980's has been less bouyant than projected in the Fourth and Fifth plans. The external terms of trade deteriorated sharply with the second oil crisis, and an erosion of fiscal discipline arrived in the wake of the mid-1970's "coffee boom". By 1980, the current account deficit had reached 12.5% of GDP and the Central Government budget deficit was 9.5% of GDP. After 1980, Government took important steps to redress these imbalances, trimming its budget deficit, permitting real wages to fall, restricting imports and allowing interest rates to become positive in real terms. A major devaluation in December 1982 restored the real effective exchange rate back to its 1976 level, and Government has continued to adjust the rate so as to avoid any sustained appreciation of the real exchange rate. The stabilization program, combined with a severe drought that hampered agricultural output, led to a decline in real GDP per capita of about 5% in real terms, and investment declined 25% in real terms between 1980 and 1985. The current account deficit also declined to about 5% of GDP by 1985, and Government reduced its budget deficit from 9.5% of GDP in 1980 to about 5% in 1985. The manufacturing sector suffered a similar decline, with 1984 investment levels amounting to only 63% of 1980 levels in real terms. Manufactured exports also declined from a high of 26% of total exports in 1980 to 18% in 1984.

2.03 In view of the economy's structural problems and adverse exogenous developments (deterioration of the terms of trade, drought), the deceleration of growth and decline in per capita incomes were inevitable. Fortunately, Kenya has been able to manage the deceleration in a fairly orderly fashion. Kenya, however, has not been as successful in setting the stage for renewed growth, and export volumes and investment levels continue to languish. Prospects for the Kenyan economy, and for the industrial sector in particular, while currently bouyant because of high world coffee prices, will depend, in the medium term, on how rapidly Government can increase the pace of implementation of policy measures to increase the efficiency and volume of investment, expand exports and mobilize domestic resources.

2.04 Financial Sector. Kenya's diverse financial system includes a central bank, 21 commercial banks, 34 non-bank financial institutions (NBFIs), 30 insurance companies, a postal savings bank, a social security system, numerous pension plans, six industrial development banks, a stock exchange and over 900 savings and credit cooperatives. Despite this diversity of institutions, Kenya's financial sector has not realized its full potential in mobilizing term resources for the industrial sector. Although Kenya does mobilize substantial term assets in the form of social security deposits, pension contributions and insurance reserves, these funds remain largely either in government securities or short-term deposits, rather than being lent to the private sector. Banks are reluctant to make long-term loans because: (i) Government-imposed interest rate ceilings do not allow differentiated interest rates for different maturities and/or levels of risk; (ii) the development banks, the primary vehicles for term financing to industry, have performed poorly and are considered unattractive investments; and (iii) relatively high inflation in the past (25% in 1980-81, 18% in 1981-82, and about 9% 1982-85) made investors wary of holding long-term securities. Indeed, interest rates were negative during the period 1980-1982, and have only become positive as inflation declined in 1983.

2.05 The commercial banks dominate the banking system. Four banks (Kenya Commercial Bank, National Bank of Kenya, Standard Bank and Barclay's Bank of Kenya) hold nearly two-thirds of total bank deposits in Kenya, although this percentage has declined recently, because of the rapid growth of the NBFIs. NBFIs can charge higher lending rates than commercial banks (19% vs. 14%) and have also earned more than the nominal ceiling rate by charging additional fees and altering their basis for calculating interest. The higher effective lending rates (sometimes as high as 25-30%) have enabled NBFIs to pay more for deposits. NBFIs have expanded their share of credit outstanding from 23% in 1976 to 35% in 1984, and have been particularly important in lending to manufacturing firms (largely through hire-purchase facilities). Recent legislation has removed NBFIs' ability to charge interest on a flat basis or to add supplemental fees, thus narrowing somewhat the gap between lending rates for NBFIs and commercial banks. Several of the NBFIs are also experiencing severe liquidity constraints.

2.06 Of the six development finance institutions (DFIs) operating in the industrial sector, Government directly or indirectly owns four: IDB, Kenya Industrial Estates (KIE), ICDC and the Kenya Tourist Development Corporation (KTDC). Government also has minority interests in the other two DFIs, the East African Development Bank (EADB), which also serves Uganda and Tanzania, and the Development Finance Corporation of Kenya (DFCK), which is privately controlled. The Bank group has made funds available to KIE, IDB and EADB and DFCK (the latter through IFC). Together, the assets of the six DFIs amount to about 12% of the combined assets of commercial banks and NBFIs. Traditionally, the DFIs have entered niches largely neglected by commercial banks and NBFIs: term lending, equity investments and lending to small-scale enterprises. Political considerations have also often played a part in lending decisions in many of the DFIs. At present, the DFIs have high arrears, low profitability and often have over-extended management and duplicative programs. This poor financial performance has also contributed to liquidity problems, and in particular, to a lack of Kenya shilling resources with which to finance the local cost components of projects. Although the DFIs are classified as NBFIs, as "development" institutions they have been reluctant to raise lending rates on local currency loans much above 15-16%. As a result, they have been unable to offer competitive rates for deposits or local borrowings, and thus have not been able to tap Kenya's significant pool of domestic savings.

III. THE INSTITUTION

3.01 At the beginning of the period under review (1980), the Bank appraised Loan 1817-KE. The following issues were discussed during appraisal and negotiations.

(a) Consolidation strategy for IDB: During its first 5 years, IDB's approvals grew at an average annual rate of 25% in real terms, and IDB became the leading term lending financial institution in the industrial sector. This rapid rate of growth, however, ultimately exacted a high cost in the deterioration of the quality of IDB's appraisals, project supervision and debt collection performance. IDB agreed to formalize and implement a strategy of selective growth and consolidation for the period 1980-82; establish a Loan Committee to screen all new project proposals and review problem projects; create an asset management section within IDB's finance department to supervise IDB's equity investments; and limit total equity investments to not more than 80% of its Class "A" subscribed shares during the commitment period of the Bank loan;

(b) IDB Profitability: IDB continued to make losses in the late 1970s because of high administrative costs, low returns from its equity portfolio, and increasing bad debt losses. In 1980 IDB agreed to limit the number of employees to 1979 levels and control its other administrative expenses. In addition, IDB agreed to increase loan spreads by raising interest rates on foreign currency loans to at least 12%. It later increased its interest rate on foreign currency loans to 13% and its rate for local currency loans to 14% (although recently it has charged 15-16% for some local currency loans).

(c) Provisions Policy: Until 1979, IDB had no accumulated provisions for possible losses, and only took writeoffs when realizing losses. Continuation of the existing *ad hoc* approach might have encouraged under-provisions over time, thus misrepresenting IDB's true financial situation. During negotiations for Loan 1817-KE, IDB agreed to create provisions in its accounts in accordance with sound commercial and accounting practices, accumulating by December 31, 1982 to not less than 3% of the value of its portfolio. IDB's accumulated provisions now exceed this amount, but its high level of arrears may necessitate even higher provisions (para. 5.06).

(d) New activities: IDB is a NBFI under Kenyan law, enabling it to accept time deposits and thus increase its local currency resources. IDB had also considered other activities, such as financing working capital, letter of credit operations, financing warehouses, etc. While supporting the direction of these activities in that they diversified IDB's sources of revenues and would help generate much needed local currency, the Bank was concerned that such activities should not add to IDB's administrative overheads and that they contribute to its profitability.

(e) Financial Covenants: The Loan Agreement for Loan 1817-KE between the Bank and IDB included three major financial covenants: (i) IDB would furnish to the Bank its audited accounts not more than four months after the end of each fiscal year: (ii) IDB would maintain a consolidated debt: equity ratio below 4:1 and (iii) IDB would not carry exchange risk on its foreign currency operations. Only the debt:equity ratio covenant represented a significant change from the previous two loans (3:1 ratio required). Nonetheless, IDB expressed the concern that a 4:1 debt equity limitation might unduly restrict IDB's future operations. The subsequent slowdown in IDB's approvals, however, has eliminated the need for a higher gearing ratio. IDB has largely complied with the other financial covenants, although foreign currency risk has presented problems for many of IDB's borrowers, given the significant decline in the value of the Ksh vis-à-vis other major currencies. In addition, because of timing differences (clients repaying IDB after IDB has repaid donor agencies), to date IDB has made some small profits on its foreign exchange transactions.

3.02 Ownership. IDB's ownership did not change during the period 1980-85, although the existing shareholders provided an additional US$10.3 million equivalent in additional share capital (Annex 11). Government directly or indirectly owns 100% of IDB's share capital. IDB's shareholders include Government (58.2%), ICDC (12.1%), Kenya National Assurance Company (9.9%), National Bank of Kenya (9.9%) and Kenya Reinsurance Corporation (9.9%). Because of IDB's lackluster performance as well as liquidity constraints for some shareholders (ICDC and NBK in particular), IDB's shareholders have been reluctant to provide much additional share capital in recent years, despite IDB's lack of domestic currency resources.

3.03 Management and Organization. Prior to 1980, IDB had 3 Departments (Finance, Administration and Operations) with 4 divisions under the Chief of Operations: Investments, Project Advisory Service, Investigations (appraisal) and Research and Promotion. The appraisal mission in 1979 suggested that IDB institute a Loan Committee to review project proposals prior to Board approval and an asset management function (for monitoring the equity portfolio) within the Finance Department. The Loan Committee functioned well during project implementation, but the asset management function never really materialized as envisaged, and instead was subsumed into normal project supervision. Project supervision and debt collection remained the weakest functions within IDB during the past 5 years. Organizationally, responsibility for debt collection has often been unclear, moving from operations to finance and back again. On the positive side, shifting responsibility for project implementation to the appraisal department enabled the already overstretched supervision staff to focus more fully on problem projects. IDB rationalized its organization further in 1985, merging the research and development division with appraisals, creating a debt collection unit within the operations department and giving the supervision/debt collection division a stronger manager. This strengthening of the supervision/collections function has facilitated the development of more project-specific action programs for arrears-affected loans.

3.04 Staffing and Training. Annex 1 shows the evolution of IDB staffing during 1981-85. Despite an agreement during negotiations to freeze IDB staff at its 1979 levels, IDB hired 47 new staff during the 1980-85 period (mostly in 1981), particularly support personnel, finance and computer professionals. Overall staff levels have remained roughly constant since 1981 and IDB's administrative costs remained satisfactory at 2% of average total assets. Low morale and salaries helped fuel the loss of professional staff, who left for other Kenyan financial institutions. Although IDB was slow at first to fill professional staff vacancies, most of the key positions have now been filled. IDB has also instituted a virtual freeze on support staff hirings and has given priority to filling operations department vacancies, although the supervision function remains understaffed. IDB, along with the other Kenyan parastatals, received an 11% overall increase in its salary structure for 1986, and similar increases are expected during 1987 and 1988. IDB's salary classification did not change, however, and thus IDB will remain less attractive than Government-owned commercial banks, whose higher classification enables them to pay higher salaries. IDB has consistently provided excellent training to its staff, both in-house and through overseas seminars and universities. During 1981-85, 88 professional staff spent over 500 staff weeks in training programs. Most of IDB's training costs have been met by funds from bilateral donors.

3.05 Procedures. During the course of loan supervision, Bank missions noted major weaknesses in IDB's procedures and recommended measures for alleviating them.

(a) Appraisals. The rapid growth in appraisals during 1980-82 contributed to a deterioration in their quality, particularly in terms of market and financial analyses, assessing the capabilities and resources of project sponsors, and determining adequate implementation and grace periods. The creation of the Loan Committee and the slowdown in approvals which began in 1983-84 helped facilitate more thorough reviews of project proposals, although some weaknesses remain.

(b) Supervision. Supervision staff levels have often been inadequate for tackling IDB's troubled portfolio. Until recently, IDB's supervision activities remained monitoring-oriented. In 1984-85, however, IDB began to prepare individual "action plans" for problem projects, and was taking a more active role in solving the problems of its client firms, by preparing financial restructuring plans, hiring short-term consultants to assist projects, etc. It also added professional staff to the monitoring division, established a consultancy unit and created a separate debt collection unit to follow-up on projects in arrears.

(c) Debt Collection. IDB did not have a separate debt collection unit until 1984. In 1985, IDB moved debt collection to operations and created a committee of high level officers and managers (including the Managing Director) to follow up on individual delinquent projects. IDB rescheduled about 30 loans in 1984-85, with the new payment schedules being largely followed. Consequently, IDB's collections ratios improved significantly during 1985, although the portfolio as a whole remains heavily affected by arrears (para.5.04).

(d) Accounting and Data Processing. IDB's accounting staff is relatively strong altough audit reports have often been delayed because of reconciliation difficulties and discussions about provisions. IDB has experienced difficulty in the installation and use of its minicomputer system, however, primarily because of the lack of in-house systems analysis and programming expertise. In addition, IDB has not regularly prepared forecast and actual cashflow statements. IDB has now purchased a microcomputer for portfolio monitoring and project analysis and has hired two experienced analysts. It has also discussed its computer problems with its external auditors, and is making the necessary revisions.

(e) Money and Banking Activities. During 1982-83 IDB established a money and banking unit in the finance department for collecting short-term deposits, making working capital loans, and providing letter of credit and foreign exchange services to clients. Shortly thereafter, however, the Bank became concerned about the soundness of some of IDB's domestic currency working capital loan operations, which were often made to delinquent clients at low margins and were poorly monitored. After strong urging from the Bank, IDB largely disbanded the money and banking unit and discontinued making domestic currency working capital loans. Since 1985 a revived unit has focused more on gathering deposits and providing letters of credit, and is exploring the possibility of discounting high quality receivables for selected clients.

IV. ALLOCATION OF THE LOANS

Loan 1438-KE

4.01 IDB committed US$ 18.2 million of the original US$ 20.0 million under Loan 1438-KE for 16 projects. 11 of the 16 projects were above the free limit (US$ 600,000). Total estimated project costs for these 16 projects amounted to US$ 169.1 million, with the Bank financing on average about 11% of total project costs. The 12 above free limit subloans ranged in size from US$ 609,140 to US$ 3,168,530 (37.6% of estimated project costs) for a wire rod manufacturing plant. The 4 below free limit subloans ranged from US$ 133,097 to US$ 525,210. Interest rates charged ranged from 11% (minimum stipulated in the loan agreements) to 12.5%, and maturities ranged from five to twelve years, including grace periods.

4.02 Annex 2 summarizes the key characteristics of the subprojects approved under Loan 1438-KE. As of March 31, 1986, all 16 projects had finished the implementation stage; one had prepayed its loan to IDB, and two had gone into receivership. The projects were expected to create 2579 jobs at a high average cost of US$ 65,582 per job. Three projects had average costs per job above US$ 100,000: Synresins, Pan African Paper Mills, and Madhupaper. Both Pan African Paper Mills and Madhupaper were expansions of highly capital intensive operations. Without these three projects, the average estimated cost per job amounted to a still high US$ 48,572. For the projects with actual job creation data, the average cost per job (again excluding Madhupaper, Pan African Paper Mills and Synresins) was a high US$ 65,238.

4.03 Significant cost overruns contributed to the high actual costs per job. Although on average the 16 projects had overruns of about 22%, five had overruns amounting to 50% or more of estimated project costs. The factors contributing to these overruns included poor project design, poor choice of equipment or technology, underestimates of time necessary for implementation, delays in project implementation (restricted access to import licences, agreements with technical partners or Government) and some changes in project scope. Significant delays (in some cases up to 2 years) also led to price escalations arising from inflation and devaluation of the Kenyan shilling. As a result, the projects often faced higher debt service obligations than originally anticipated, with repayments coming due before commercial operations had begun.

4.04 Several projects continued to experience difficulties after project implementation, due to import restrictions imposed during 1982-84, shortages of domestic raw materials, or Government policies (low sugar prices for Nzoia Sugar, change in duties affecting Special Steel). Additionally, overly optimistic market assessments resulted in poor performance of several projects. Consequently, subloans approved under Loan 1438-KE have high arrears, with 12 of 16 loans having arrears over three months, and 92.5% of the portfolio affected by arrears as of March 31, 1986. Arrears of three months or more amount to 27% of amounts outstanding.

4.05 On average the subprojects financed under Loan 1438-KE appeared less import-dependent and more export-oriented than those financed under earlier loans, but many projects continued to be inward-oriented. Of the four hotel projects financed, which were expected to produce significant foreign exchange earnings, only one has been successful. Only three manufacturing firms have had significant export sales: Double Diamond, Pan African Paper Mills and Kaluworks. Of the sixteen subprojects, 6 depended on imports for 75% or more of their raw materials, and only four manufacturing projects used primarily domestic raw materials. Tourism accounted for 4 subprojects and 20% of amounts approved, while metals accounted for 5 subprojects and 35% of amounts approved. Both subsectors have experienced difficulties during the period under review.

4.06 IDB calculated ex-ante financial and economic rates of return for all 16 projects, but has not provided ex-post rates of return. The estimated FRRs ranged from 11% to 52%, averaging 25%, while the estimated ERRs ranged from 12% to 68%, with an average of 30%. Although we have no ex-post rate of return calculations, the profitability data available indicates that for many projects the FRR and ERR would be significantly lower than anticipated. Indeed, seven of the 16 projects have accumulated significant losses, and several have negative net worth.

4.07 Projects under Loan 1438-KE were largely split between new and expansion/renovation projects. Although both new and expansion projects have had difficulties, the greenfield operations were more likely to experience difficulties during implementation. The expansionprojects which experienced difficulties were those with weak management (Datini, African Tours and Hotels). Only three projects were located in rural areas. Annex 3 contains a description of the projects financed under Loan 1438-KE and their present status.

<u>Loan 1817-KE</u>

4.08 Although Loan 1817-KE has not yet been closed, many of the projects were approved during the period under review. As of March 31, 1986, IDB had committed US $ 23.1 million of the original US $ 30.0 million under Loan 1817-KE for 22 projects. 8 of the 22 subloans were above the free limit (US $ 800,000). Total estimated project costs for these 22 projects amounted to US $ 133.9 million, with the Bank financing on average about 18% of total project costs. The 8 above free limit subloans ranged in size from US $ 995,690 to expand a plastics operation to US $ 4.5 million (17% of project costs) for a steel rolling mill. The 14 below free limit subloans ranged from US $ 99,530 to US $ 650,000 and averaged US $ 368,000. Three projects, totalling US$ 2.1 million, were made as short-term imported raw material loans, to ease liquidity and foreign exchange constraints for stronger IDB clients 1/. All subloans were made at an interest rate of 13%, with maturities ranging from 1 to 12 years (including imported raw material loans), and term loans averaging about nine years.

4.09 Annex 4 summarizes the characteristics of the subprojects approved under Loan 1817-KE. As of March 31, 1986, six of the 22 projects were still under implementation; one in particular, Coastal Canners, has been delayed by about two years because of wavering interest on the part of the sponsors, a change in project design and subsequent reappraisal. The subprojects are expected to create over 5600 jobs at an average cost of US $ 23,650 per job, significantly lower than those under 1438-KE. Two projects have average costs per job near or above US $ 100,000 (Seracoatings and Egatex), although Egatex, whose cost per job is estimated at US $ 99,000 is an expansion project.

4.10 Similar to projects approved under Loan 1438-KE, many subprojects have experienced significant cost overruns during implementation. For the nineteen projects with actual investment cost data, the average cost overrun in local currency was a very high 92%. The majority of these overruns came from two hotel projects: Equatorial Beach and Mukawa, whose actual project costs were 3 and 4 times, respectively, the original cost estimates. In both cases, significant changes in project design and expansion of project scope resulted in these overruns. In other cases, delays in securing equity capital or completing legal documentation, coupled with changes in the exchange rate led to significant overruns. Only six projects had overruns less than 10% of estimated project costs. Overruns were usually financed with funds intended for meeting working capital requirements (equity and/or short-term loans and overdrafts), thus subjecting projects to liquidity strains before commercial operations could begin.

4.11 Compliance with loan objectives regarding reduced import dependency and increased export orientation was disappointing. Nine of the 22 projects depended on imports for 70% or more of their raw materials and eight relied 100% on imported raw materials (although one of the eight was an imported raw material loan). Similarly, only five projects anticipate having export sales, and only two would be fully geared toward export markets.

1/ US$ 5 million was allocated to this purpose in 1984 as a means of directing some of IDB's resources toward strengthening the existing portfolio rather than financing more greenfield operations.

4.12 More positively, the subprojects were less geared toward greenfield operations than in the previous project, with only 35% of amounts going for new projects. The remainder of funds have been used for expansion and modernization projects or imported raw material loans. IDB's projects continue to be located largely in urban areas, particularly Nairobi and Mombasa, with 30% of the projects approved under Loan 1817-KE located in rural areas.

4.13 Arrears for the projects under Loan 1817-KE are somewhat lower than those of IDB's portfolio as a whole. As of December 31, 1985 arrears of 3 months or more amounted to 25% of portfolio for the loans under Loan 1817-KE, vs. 31% for the portfolio as a whole. Twelve, or 52% of the projects were affected by arrears. The better record for the loans approved under Loan 1817-KE may be due to the closer scrutiny of Bank staff, some self-selection on IDB's part, and a greater emphasis on expansion projects. Nonetheless, as many of these projects are still under implementation or just beginning commercial operations, their arrears may increase as the loans age.

V. OPERATIONS AND FINANCIAL CONDITION

5.01 Operations. Annex 5 shows IDB's approvals, commitments and disbursements (actual and projected) for the period 1981-85. During that time, IDB made 87 loans and 4 equity investments, with a significant slowing down of approvals occurring in 1983-84. IDB made virtually no domestic currency loans after 1981 because of its own resource and liquidity constraints. Total approvals during 1981-85 amounted to Ksh 581.7 million, or 63.5% of projected levels. Much of the shortfall in approvals arose from (i) the recession; (ii) shortages of foreign exchange during 1982-84; and (iii) IDB's efforts after 1983 to consolidate its operations. In addition, IDB's lack of local currency resources diminished demand for its foreign exchange loans, as it was unable to offer clients an attractive mix of domestic and foreign currency funds.

5.02 IDB made all its loans to industrial enterprises, but moved away from large, Government-sponsored projects and approved more loans to medium-scale enterprises, often to indigenous Kenyan entrepreneurs with limited experience. Consequently, average loan size declined significantly. Unfortunately, these projects were often more highly leveraged than larger enterprises (loan financing could exceed 75% of total project costs) with IDB often being the only term lender. Thus, IDB's exposure in individual projects has increased over time.

5.03 Commitments and disbursements have also been slower than anticipated, although during 1983-85 IDB improved its pace of commitments and disbursements. By December 31, 1985, however, undisbursed commitments remained high at US$ 15.3 million, because of (1) slow completion of loan documentation; (2) technical problems; (3) insufficient sponsors' contributions; and (4) delays in securing approval from external creditors. The delays in implementation often have had an adverse effect on IDB's portfolio performance (para.5.04), as many projects' grace periods expired and arrears accumulated before commercial activities could begin and projects faced significant cost overruns.

Portfolio

5.04 Loans. Annex 6 shows the evolution of IDB's loan portfolio during 1981-85. As of December 31, 1985, IDB had 98 active projects in its portfolio, including 22 under implementation, for a total of Ksh 875 million in principal outstanding. Although growing 169% over 1981 levels in Ksh terms, the portfolio grew only 72% in US$ terms because of the depreciation of the Ksh since 1981. IDB's portfolio has sharply deteriorated during the past 5 years, with arrears as a percentage of portfolio increasing from 18% in 1981 to 31% in 1985. Moreover, the arrears affected portfolio has increased significantly from 51% of portfolio in 1981 to 82% in 1985. 15 projects, amounting to 12% of portfolio, were under receivership at December 31, 1985. Owing to more intensive project monitoring and arrears follow-up efforts, collections ratios improved somewhat during 1985, to nearly 100% for the year. IDB has found, however, that many of its strongest projects are prepaying their loans (in order to avoid foreign exchange risk), thus leaving IDB a generally weaker portfolio for which improvements in collections will come more slowly. IDB also has a core group of about 20 major problem projects, the prospects for which are generally low.

5.05 IDB's portfolio shows a wide range of subsectors, but is dominated by three subsectors in particular: metal and engineering (27% of portfolio), tourism (22% of portfolio) and textiles (19% of portfolio). Although all three subsectors have many troubled projects (and nearly 98% of the tourism subsector is affected by arrears), other subsectors, particularly automotive, wood and mining/quarrying, have arrears in excess of 50% of total amounts outstanding. Many of these projects, particularly in wood, food processing and mining/quarrying, are medium-scale enterprises which were originally undercapitalized and had weak management. A summary of IDB's portfolio by subsector is shown as Annex 7.

5.06 IDB has accumulated provisions totalling about 9% of gross portfolio, but total provisions may still be less than are warranted given the pervasive arrears problem. A total of 45 projects, amounting to 45% of total amounts outstanding, have arrears of twelve months or more. Proposed accumulated provisions for 1985 total Ksh 89.4 million, or less than half of the amounts in arrears over 12 months. IDB suspends interest income for projects with arrears in excess of 24 months, and since 1983 has suspended about Ksh 42 million or 15% of total gross loan income. IDB is currently reviewing its provisions policies with its auditors, and the status of several projects with long-standing arrears and low provisions.

Equity Investments

5.07 IDB's equity investments as of December 31, 1985 amounted to Ksh 105.3 million in 27 companies. IDB's share of ownership did not exceed 30% except for three companies (Amgeco, Kicomi and Booth Manufacturing), and IDB does not have a majority position in any firm. Of the 27 firms, 13 are profitable, representing 32.5% of IDB's equity portfolio. The remaining 14 firms, including four in receivership, are performing poorly, and 8 of these 14 had negative net worth in 1985. IDB's dividend return on its total gross portfolio has also been disappointing during the past several years, falling well short of appraisal estimates. In 1984-85, IDB's dividend return for the total gross portfolio remained at about 3%. Returns on the 13 profitable companies alone have been somewhat higher (only 9 of these firms pay dividends), amounting to 9.6% in 1984 and 8.5% in 1985. IDB's equity portfolio covers a wide range of sectors, with the largest subsectoral representations being food, metal/engineering and tourism. Food projects account for 18.7% of IDB's equity investments: two of these, South Nyanza Sugar and Nzoia Sugar, are unprofitable because of low levels of capacity utilization and low sugar prices. IDB's largest equity holding (21% of the equity portfolio) is in Kicomi, a large integrated textile project in Kisumu, which has recently undergone rehabilitation and financial restructuring.

5.08 On balance, IDB's decision to use scarce domestic currency resources for equity investments has not been fruitful, as the average dividend returns have been lower than potential interest income (IDB can charge up to 19% on local currency loans). In addition, IDB's ability to capture capital gains on its investments has been low, as it finds sales of these investments, even profitable ones, difficult. Moreover, IDB's total unrealized return on the gross portfolio was a negative 10.5%, as IDB's share of net accumulated losses has wiped out its original investment in 12 out of 27 firms. Had IDB put these funds into local currency loans, the funds might also have had a greater chance of being recycled than they have had as equity investments. The poor performance of the equity portfolio has adversely effected IDB's profitability, as IDB has taken an adequate Ksh 28 million in provisions and writeoffs against the equity portfolio.

5.09 Financial Condition. Annexes 8-10, which show IDB's projected and actual balance sheets, income statements and ratio analyses for the period 1981-85, demonstrate that IDB's profitability and liquidity suffered during this period. Although actual interest income earned was close to projections, higher administrative costs and significantly higher bad debt provisions eroded IDB's profitability. Indeed, IDB made losses in 1981 and 1983, and its return on assets averaged a low 1.4% during 1981-85 compared to the projected 6.7% at the time of the appraisal of loan 1817-KE. Administrative costs averaged 2.2% of average total assets during the period, with a declining trend over time, from 2.5% of average total assets in 1981 to 1.9% in 1985. While the appraisal team had estimated that bad debt provisions would amount to about 0.5% of average total assets per year, actual provisions expense had to be increased to 3.0% per annum during the five year period. IDB's average spread has also been lower than anticipated, averaging 1.9% in 1981-1985 vs. the projected level of 3.9%. IDB's spreads have been lower than anticipated despite an increase in interest rates (to 13%-14%) because IDB needs to suspend interest on loans with arrears of two years or more. Indeed, in 1985 IDB's spread was a very low 1.2%, which in itself was inadequate to cover administrative costs and loan provisions. IDB showed a small profit in 1985, however, largely due to higher investment income, proceeds from the sale of some investments, and writebacks of earlier provisions.

5.10 IDB's balance sheet also reflects the weakness of its portfolio. Current ratios, adjusted to eliminate amounts in arrears from current assets, averaged a low 1.2:1 during 1981-85. IDB's liquidity hit its low point in 1982 (current ratio of 0.9), but subsequently improved steadily, and reached 1.5:1 in 1985. IDB has experienced liquidity problems because of its poor collections performance, low profitability and its inability to mobilize deposits (because it did not offer competitive yields for deposits). IDB's debt: equity ratio has remained well within the 4:1 limit stipulated at the time of appraisal of Loan 1817-KE, but has increased steadily from 2.1:1 in 1981 to 3.2:1 in 1985. IDB's leverage has risen faster than anticipated at appraisal because of (i) lower profitability, thus depleting IDB's reserves and retained earnings; (i) slow payment of new share capital; and (iii) devaluation of the Kenyan shilling, which increased IDB's foreign currency denominated debt in Kenyan shilling terms. The devaluation has similarly affected IDB's loan portfolio and arrears.

Resource Mobilization

5.11 As shown in Annex 11, IDB has been relatively successful in mobilizing external resources for its foreign currency lending requirements, receiving US$ 65 million in new lines of credit. Between 1980 and 1985, IDB received new lines of credit from IBRD (US$ 30 million), BADEA (US$ 10 million), the Swiss Government (US $ 10 million) and the African Development Bank (US$20 million). IDB has been less successful, however, in mobilizing local currency resources aside from additional share subscriptions from its existing shareholders. Between 1980 and 1985, IDB attracted US$ 10.3 million equivalent in new share capital, but found it increasingly difficult to do so as its own performance lagged and some of its shareholders (in particular National Bank of Kenya and ICDC) lacked the resources to meet capital subscription obligations. IDB has not borrowed locally or raised significant new deposits.

VI. CONCLUSIONS

6.01 Progress made within IDB during 1981-1985 was largely disappointing until 1984. Starting in 1985, IDB began to show some real improvements in its portfolio supervision and debt collection functions. Although the 1979 appraisal mission's diagnosis was largely correct, it was not until late 1984 that IDB made significant progress in consolidating its operations and strengthening the institution. The poor performance of projects financed under Loan 1438-KE, which were largely import-dependent, poorly prepared, and insufficiently supervised demonstrates the slow progress of change within IDB. Similarly, many of the projects financed under Loan 1817-KE have experienced significant cost overruns and have had difficulties meeting their debt service obligations. The quality of loan appraisals has improved in the past two years, and the internal review mechanisms are generally working well. Nonetheless, IDB will most likely continue to have high levels of arrears, as it does not always have the skills and resources to solve the problems of its most troubled clients, and political pressures have eliminated liquidation as an option in several cases.

6.02 IDB continues to play an important role in the industrial sector. It has successfully mobilized external resources for Kenyan industry, has recruited and trained an able core of professional staff (many of whom have left IDB for positions in other banks or the private sector), and when done carefully, can make a positive contribution to the identification and preparation of new industrial projects. It also has an opportunity now to assist in the rehabilitation and restructuring of existing industries, although it will need significant financial resources and technical staff in order to succeed in this task. It will also need the political will to abandon certain unviable projects and resist possible future pressures from Government. IDB's inability to mobilize domestic currency resources in the past is a key impediment to its future operations, particularly as it looks to rehabilitate existing projects. Raising interest rates to their legal ceilings, and perhaps instituting variable rates and/or eliminating lending rate ceilings, would enable IDB to tap local resources for this purpose. IDB should also consider selling some of its better investments in order to recycle those resources into new projects.

Annex 1

Kenya
Industrial Development Bank (IDB)
Project Completion Report
Evolution of Staffing 1981-1985

Year ended December 31	1981	1982	1983	1984	1985
Total staff at beginning of year	94	121	122	111	118
of which support staff	65	87	87	80	78
of which professionals	29	34	35	31	40
Total staff who left IDB	6	2	16	6	4
of which support staff	4	-	11	3	1
of which professionals	2	2	5	3	3
due to resignation	6	2	15	5	4
due to termination by IDB	-	-	-	1	-
due to retirement	-	-	1	-	-
Total new staff during year	33	3	5	13	10
of which support staff	26	-	4	1	2
of which professionals	7	3	1	12	8
Total staff at end of year	121	122	111	118	121
of which support staff	87	87	80	78	76
of which professionals	34	35	31	40	45

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
INDUSTRIAL DEVELOPMENT BANK
Project Completion Report
Listing of Subprojects Financed Under
Loan 1438-KE

Sub-borrower's Name	Subproject No.	Sector	Products	(US $) Amount Approved	Type of Project
Steel Billets Casting	A-1	metal	steel billets	1,038,992.80	new
Kaluworks	A-3	plastics	enamel and plasticware	2,292,993.00	expansion
Nzoia Sugar Ltd.	A-4	food	sugar	1,975,309.00	new
Booth Manufacturing	A-5	metal	aluminum extrusion	265,224.00	expansion
Panafrican Paper Mills	A-6	paper	paper	609,139.84	expansion
Madhupaper International	A-8	paper	paper	1,255,466.00	expansion
Datini Mercantile	A-9	metal	wheelbarrows	827,324.00	expansion
Hotelspan	A-10	tourism	hotel	2,240,000.00	new
Gnanjivan	A-11	metal	screws, fasteners	1,075,050.00	new
Holiday Centre	A-13	tourism	hotel	1,053,848.24	new
Synresins	A-15	chemicals	paint, resins	1,142,300.00	new
Mumwe Investments	A-16	tourism	hotel	257,296.23	new
Specialized Steel Mills	A-17	metal	wire rods	3,168,530.00	new
African Tours and Hotels	B-1	tourism	hotel	133,097.00	expansion
Double Diamond Tanneries	B-2	leather	leather	332,292.55	new
Cabroworks	B-4	construction	roofing felt	525,210.00	modernization
			TOTAL	18,192,072.66	

IDF Division, Eastern and Southern Africa Region
June, 1986

Description of Projects Financed Under Loan 1438-KE
SPECIAL STEEL MILLS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Ruiru
Products	:	Wire rods
Other Lenders	:	FMO & Hawker Siddeley Power Engineering Limited
Loan outstanding as at 30.11.85	:	KShs. 53.06 million

Arrears as at 30.11.85		KShs '000
Principal		817
Interest		9,984
	Total	10,801

2. OPERATIONAL PERFORMANCE

	KShs '000		
	1983	1984	1985 (June)
Turnover	-	66,297	57,177
Profit (Loss)	-	(10,126)	(11,136)
Cumulative Profit (Loss)	-	(10,126)	(21,262)

3. BACKGROUND

Special Steel Mills Limited was incorporated on 30th May, 1980 to manufacture high quality wire rods, bars, rounds and squares at Ruiru Township. The project is fully owned by the Bhattessa Family. It started with an initial share capital of KShs. 23.0 million which has since been increased to KShs. 50.0 million through capitalization of KShs. 10.0 million from inter-company loans and KShs. 17.0 million from revaluation reserve account.

IDB's investment in the project is in the form of a term loan of US$ 3,168,526 equivalent which was approved by the Bank's Board of Directors on 30th April, 1980. At the time of approval the loan was equivalent to KShs. 240 million but because of the general devaluation of the Kenya shilling against major currencies in which the loan was disbursed, the loan is now equivalent to about KShs. 52 million. The loan had a moratorium of two years on principal to be repaid in fourteen half-yearly installments commencing June, 1982.

4. PROBLEMS

(i) Implementation: The project was originally expected to start commercial operations in January, 1982. However, there were delays of about twenty months resulting from delays in land sub-division and obtaining import licences for vital tooling and key machinery parts. Due to the delay, original project cost underestimates, and increase of duty on plant and machinery the project cost rose from the original estimate of about KShs. 64 million to KShs. 110 million. Actual commercial operations

started in the last quarter of 1983 and as such the project was not able to keep to the original loan repayment schedule. On August 9, 1982, IDB rescheduled the repayment program by three installments so as to commence in January, 1984.

(ii) Production: Although commercial production started in the last quarter of 1983, there was no trading during the year. Furthermore, whereas duty on imported billets was 10% and that on wire rods was 30% during project conception, it had now been made uniform at 25% thus eroding the original duty differential. As a result the project became non-competitive with imported wire rods and operated much below economic capacity level. It was not able to service its loans and on 14th September, 1984 IDB was yet again forced to reschedule the loan by four installments so as to commence in January, 1986.

5. PRESENT STATUS

As at 30th November, 1985 IDB outstanding loan was KShs. 53.06 million while principal and interest arrears had accumulated to a total of KShs. 10.8 million. Although production and sales have shown some marked improvement, the operations are well below economic level and the project is still not expected to generate sufficient funds to clear the arrears.

6. IDB ACTION

IDB is working with the sponsors ways of restructuring the company's financial obligations including the loan repayment schedule so that it will be in a position to clear the outstanding arrears. This may also mean holding discussions with the project's other financiers. In the meantime, IDB has given support to the company's request to the Government to restructure import duty on billets and wire rods.

GNANJIVAN SCREWS & FASTENERS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Ruiru
Products	:	nuts & screws
Other Lenders	:	Bank of Credit & Commerce
Estimated Project Cost	:	KShs. 15.8 million
Actual Project Cost	:	KShs. 26.5 million
Date operations begun	:	December, 1982
Loan outstanding as at 30.11.85	:	KShs. 11.93 million

Arrears as at 30.11.85		KShs'000
Principal		1,396
Interest		228
	Total	1,624

2. OPERATIONAL PERFORMANCE

	KShs'000	
	1982	1983
Turnover	634	4,992
Profit (Loss)	(1,171)	(7,288)
Cumulative Profit (Loss)	(6,764)	(14,052)

3. BACKGROUND

Gnanjivan Screws and Fasteners Limited was incorporated on 17th May, 1979 to manufacture high tensile and precision fasteners. The shareholders of the company are the Bhattessa Family (60%) and Nalin Nailworks Limited (40%). The latter company is fully owned by the Bhattessa Family. Originally the project was estimated to cost KShs. 15.8 million but was implemented at a total cost of KShs. 26.5 million.

IDB's investment of US$ 1,075,052 was approved on 25th July, 1979 to be repaid over 10 years (including 2 years moratorium), the first installment being due in December, 1981. The project was originally expected to start commercial production by July, 1980 but was delayed until end of 1982, as a result of which in March 1982 the IDB loan had to be rescheduled by three installments with the first payment due on 15th July, 1983.

As at 30th November, 1985 the IDB outstanding loan was KShs. 11.93 million while principal and interest arrears were KShs. 1.4 million and KShs. 228,000 respectively.

4. PROBLEMS

(i) Implementation: The project implementation was delayed for nearly two and half years due to a number of reasons. Security arrangements took a long time to finalize as the plot had not yet

been sub-divided. Central Bank took a long time to approve the technical collaboration agreement with GKN of Britain, and import licences were also delayed. Due to this delay there were cost overruns of nearly KShs. 11.0 million arising from inflation, exchange rate fluctuations and pre-operational expenses. The overrun was financed by the sponsors. Obtaining these finances also contributed to total delay.

(ii) Operational: Problems at this stage were lack of raw materials due to import licence problems, inability to generate bulk sales due to lack of vital laboratory testing equipment (hence could not guarantee the Kenya Bureau of Standards requirements) resulting in capacity underutilization. The initial problem of quality was overcome with the installation of quality testing equipment.

5. PRESENT STATUS

Although operations are still below projected levels, the company has continued to service the IDB loan satisfactorily. However Annual Accounts Reports are not provided in time.

KALUWORKS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Mombasa
Products	:	Household utensils
Date Operations begun	:	1968
Loan outstanding at 30.11.85	:	KShs. 8,085,540

Arrears at 30.11.85		KShs.
Principal		1,047,978
Interest		1,005
	Total	1,048,983

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985 June
Turnover	90,667	99,030	60,949
Profit (Loss)	-	4,882	6,386
Retained Profit (Loss)	-	4,231	6,567

3. BACKGROUND

Kaluworks Limited was incorporated in February, 1968 as a limited liability company to manufacture and trade in a wide range of household ware. The company is a wholly owned subsidiary of Kenya Aluminum Industrial Works Limited which is a holding company and itself wholly owned and controlled by the Chandaria Group.

IDB's investment of US$ 2,292,993 was approved on 26th April, 1978 for the expansion of the company's enamelware and plasticware capacities. The expansion was to involve the installation of a furnace with greater capacity and increasing the number of injection moulding machines with higher capacities.

By the time of IDB's loan approval the expansion was already underway and was expected to be complete in the last quarter of 1979. In the first quarter of 1980 the full project expansion was completed and production started.

4. PRESENT STATUS

The project has been operating without any major problems and its IDB loan servicing has been satisfactory.

STEEL BILLET CASTING LIMITED

1. BASIC DATA

Sector	:	Engineering and Metal Products
Location	:	Nairobi (Dandora)
Loan outstanding as at 30.11.85	:	KShs. 39.45 million

Arrears as at 30.11.85		KShs'000
Principal		14,007
Interest		6,425
	TOTAL	20,432

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept)
Turnover	44,909	52,275	51,094
Profit (Loss)	430	4,492	5,074
Cumulative Profit (Loss)	(21,943)	(17,451)	(12,377)

3. BACKGROUND

Steel Billet Castings Limited was incorporated in 1978 with the objective of implementing a project to manufacture steel billets using locally available ferrous scrap. The major shareholders are Steel Rolling Mills Limited, IDB (12.5%) and individual private investors.

IDB's first loan investment of US$ 1,677,420 was approved on 22nd November, 1977. At the same time, an IDB equity investment of KShs. 125 million was approved by IDB's Board of Directors. A second loan investment of US$ 1,238,880 was approved on 14th June, 1978. Finally a local currency loan investment of KShs. 3.50 million was approved on 25th May, 1981.

The company started commercial operations in November, 1980 but continued to make losses until 1983 as a result of which losses accumulated to KShs. 22 million and Steel Billets could not service its loans. In the last three years the company has been registering some profits and is paying IDB in order to liquidate the accumulated principal and interest arrears. As at 30th November, 1985, principal and interest arrears stood at KShs. 14 million and KShs. 6.4 million respectively.

4. PROBLEMS

(i) Implementation: Production was originally expected to commence in April, 1979 but was delayed for nearly 18 months and commissioning of the plant was done only in October, 1980. The actual cost of the completed project together with revised working capital requirements of KShs. 21.7 million was KShs. 62

million resulting in cost overruns of KShs. 10 million. The delay in implementation was due to a delay of nearly 14 months before the agreement was reached between IDB and Standard Bank Limited on the issue of securities. A further delay of 4 months was due to non-availability of raw materials and mistakes in structural fittings which caused the work to be re-done. Machinery delivery was also delayed due to dock strikes in the harbors.

(ii) Production: Initially the performance of the project was below expectation principally due to low billet price realization, shortage of scrap and unavailability of adequate import licences for essential raw material inputs. While the problem of imported raw material inputs has now been solved, the project is still operating well below capacity due mainly to lack of locally generated ferrous scrap. A sister company has now been formed to produce more scrap through ship breaking in Mombasa, but continued competition from imported billets may limit their local production.

5. IDB ACTION

Because of financial problems experienced by the project, IDB on 29th November, 1984 rescheduled the loan repayment by six installments so that installments due in 1985, 1986 and 1987 would be payable in 1988. The company has agreed to make monthly payments of KShs. 500,000/= to offset the outstanding arrears.

ALPHARAMA LIMITED (DOUBLE DIAMOND)

1. BASIC DATA

Sector	:	Textiles and Leather Products
Location	:	Athi River
Products	:	Wet-Blue Leather
Original Project Cost Estimate	:	KShs. 6.0 million
Actual (final) project cost	:	KShs. 8.63 million
Date operations commenced	:	1981
Loan outstanding as at 30.11.85	:	KShs. 1.23 million
Arrears as at 30.11.85 (KSHS'000)		Nil

2. BACKGROUND

Alpharama Limited is the former Double Diamond Tanneries Limited which was owned by Mr. F.N. Macharia, Mr. K.L. Bhasin and Mr. S.N. Hamawi. The company changed its name after a change in ownership and management in December, 1982. The present shareholders in the company are Mr. F.N. Macharia (40%), Mr. A. Combos and Mr. H. Combos. The latter two are British citizens (residing in Kenya) and together have 60% shareholding in the company through a locally incorporated company, Intralga Limited.

IDB loan investment of US$ 333,750 was approved on 28th March, 1979. Although commercial operation of Double Diamond Tanneries Ltd. started in May, 1980 on schedule, two main setbacks adversely affected the company's financial position. First was the imposition of a ban on export of semi-processed hides and skins in June 1980, which was lifted six months later. More seriously, in December, 1981, the company had problems with health authorities in respect of the effluent treatment plant and discharge of treated water into the Athi River.

Immediately after taking over, the new company embarked on a major re-organization programme including modification of factory buildings, improvement of the effluent treatment plant, installation of reliable water supply and storage systems, and installation of additional machinery and equipment. This expansion programme resulted in quadrupling the project's tanning capacity and satisfactory servicing of the IDB loan. As at 30th November, 1985 the outstanding loan was KShs. 1.23 million while total arrears in principal and interest were nil.

3. PRESENT STATUS

The company is up-to-date in the servicing of IDB loans. It is, however, not possible to ascertain the actual financial position since the company has not yet provided the Bank with performance reports. However, the position may be assumed to be satisfactory on the basis of its loan servicing record and increased output.

HOTELSPAN LIMITED

1. BASIC DATA

Sector	Tourism
Location	Mombasa
Other lenders	PSP(UK), Kenyac, National Bank of Kenya
Estimated Project Cost	KShs. 43,000,000
Actual Project Cost	KShs. 110,000,000
Date operations begun	December, 1981
Loan outstanding as at 30.11.85	KShs. 47.33 million

Arrears as at 30.11.85		KShs'000
Principal		6,831
Interest		5,783
	TOTAL	12,614

2. OPERATIONAL PERFORMANCE

	1983	1984	1985(Nov)
Turnover	31,756	39,116	40,645
Profit (Loss)	(17,826)	(19,074)	(11,836)
Cumulative profit (Loss)	(43,586)	(63,855)	(75,691)
Reserves (After valuation)	-	12,218	382

3. BACKGROUND

Hotelspan Limited was incorporated on 5th February 1979 as a private company for the purpose of developing and owning Diani Reef Hotel which is situated at the South Coast, Mombasa. The shareholders of the company are Sonotels International (75.12%), IDB (15.24%) and Siana Mara (9.64%).

IDB approved a term loan of US$ 2.23 million and equity investment of KShs. 4.9 million on 17th January, 1979. In November, 1980 IDB approved a second loan of US$ 1.05 million and further equity of KShs. 1.96 million bringing the total equity investment to KShs. 6.86 million. The original cost estimate for the 300 bed luxury hotel was KShs. 43 million and provided for expansion to 500 beds. The final project cost escalated to KShs. 110 million. The first phase of the expansion is in the process of being implemented using loan finance from a Scotland Bank and E.C.G.D. guarantee.

As at 30th November, 1985, IDB outstanding loan was KShs. 47.33 million while principal and interest arrears had accumulated to KShs. 6.831 million and 5.783 million respectively.

4. MAJOR PROBLEMS

Implementation: This was expected to commence in January, 1979 but was delayed for one year while allocation of the plot was being negotiated with the Government. The plot was finally acquired in January, 1980 at a cost of K Shs 880,000 as opposed to the original assumption of acquiring it free of charge. Construction work began immediately and the project was commissioned in December, 1981. Although the original project cost was a mere KShs 43 million, it finally cost K Shs 110 million to complete. The main causes of these large cost increases were:

- delays in project start-up resulting in price escalations in imported items and the duties and sale tax. Long implementation period also increased professional and consultancy fees.

- devaluation of the Kenya shilling

- poor project planning and management

- omission of essential cost items such as land, laundry and kitchen equipment.

Operation: The company has been having marketing problems; both room and bed occupancy have been low especially during low tourist season. The company's losses have resulted in accumulated losses of about KShs 75 million.

5. IDB ACTION

In 1984 the term lenders agreed to reschedule loans. IDB is dissatisfied with the hotel's tariff structure and credit policies but management is adamant that the hotel is realizing the best rates and good efforts are being put in collecting the overdue accounts. IDB has decided not to make any further investment in the company for the proposed expansion.

DATINI MERCHANTILE LIMITED

1. BASIC DATA

Sector	:	Engineering & Metal products
Location	:	Nairobi
First Principal Repayment Date	:	December, 1980
Loan outstanding as at 30.11.85	:	KShs. 12.52 million

Arrears as at 30.11.85

Principal	KShs. 3.612 million
Interest	KShs. 2.153 million
Total	KShs. 5.765 million

2. OPERATIONAL PERFORMANCE (KSHS'000

	1982	1983	1984	1985
Turnover	12,100	12,198	12,103	15,042
Profit (Loss)	333	96	(3,413)	(131)
Cumulative profit (Loss)	(709)	(613)	(4,026)	(4,157)

3. BACKGROUND

The current shareholders of Datini Merchantile Limited acquired the company as a going concern in 1976. The project produces wheelbarrows, metal shelving and other metal products.

IDB loan investment in the project was approved on 25th October, 1978 for the purpose of completing a proposed expansion programme which was to triple the project's output. The expansion programme was completed in 1981 almost two years behind schedule, as a result of which commencement of loan repayment coincided with that of production. The company found itself in financial problems and after paying the first two installments it approached IDB for rescheduling of subsequent installments falling due in 1982. Although this was approved by IDB, the project was still not able to service its loans and arrears continued to accumulate.

4. MAJOR PROBLEMS

(i) In the last few years, several competitors have entered the market, particularly that of wheelbarrows. The company was not able to react appropriately because of poor marketing management.

(ii) The company is also experiencing working capital problems and has stretched its overdraft facility with Standard Bank to the limit.

(iii) As a result of the devaluation of the Kenya shilling, the company's debt level has almost doubled. This has meant higher service charges.

5. IDB ACTION

As a result of the continued poor performance by the company, IDB in November, 1984 carried out a detailed review of the project's operations and came up with recommendations on marketing, management reorganization, diversification of the product range and technical management improvement. With the implementation of these recommendations, the company's performance has improved with monthly sales picking up well. With some assistance from the Commonwealth Secretariat, the company is launching a diversification program which is aimed at boosting sales. A monthly repayment of KShs. 200,000 has been agreed on to help clear the arrears.

NZOIA SUGAR COMPANY LIMITED

1. BASIC DATA

Sector	:	Food & Beverages
Location	:	Bungoma District
Products	:	Mill white sugar
Date operations commenced	:	October, 1976
Loan outstanding as at 30.11.85	:	KShs. 9.314 million

Arrears as at 30.11.85		KShs'000
Principal		1,914
Interest		63
	TOTAL	1,977

2. OPERATIONAL PERFORMANCE

		KShs'000	
	(Actual) 31.3.85	(Actual) 31.3.84	(Projected) 31.3.85
Turnover	210,115	134,108	188,329
Profit (Loss)	(107,846)	(105,305)	(95,330)
Cumulative Profit (Loss)	(423,846)	(510,649)	(605,980)

3. BACKGROUND

The company was incorporated in August, 1975 and commenced commercial production in October, 1978. The paid up share capital of KShs. 210 million is subscribed by Kenya Government (94.8%), Five-Cail Babcock (2.8%), and IDB (2.4%). IDB loan investment of US$ 1,975,309 was approved on 26th October, 1977, while equity investments of KShs. 5.0 million was approved on 26th April, 1978.

4. MAJOR PROBLEMS

(i) Implementation: There were no major problems during implementation. The project started operations in time and was implemented at a cost of KShs. 548 million as opposed to the estimate of KShs. 542.4 million.

(ii) Operation: Since the company commenced commercial operations the trading results have been characterized by continuous losses. The main reasons for poor financial performance are: capacity under-utilization resulting from inadequate cane supply, lower recovery factor due to low quality and machinery inefficiency, heavy debt servicing due to high debt/equity ratio, poor loan terms and devaluation of the Kenya shilling and high cost of inputs and unmatched prices of sugar.

5. PRESENT STATUS

As a result of the poor performance the company was projected to register total losses of KShs. 606 million as at 31st March, 1985 and its net worth eroded to negative KShs. 366 million. The company is therefore technically insolvent.

The Government has continued to settle the long term French loans on behalf of the company having paid FF 152,667,274 an equivalent of KShs. 252.6 million as at 31st August, 1985. The company has, however, been servicing IDB loan regularly.

SYNRESINS LIMITED

1. BASIC DATA

Sector	:	Chemical, rubber & plastics
Location	:	Nairobi
Products	:	Alkyd resins, emulsion & polyster
Original Estimated Project Cost	:	KShs. 21.760 million
Actual Project Cost	:	KShs. 33.815 million
Date of commencement of operations	:	August 1982
Loan outstanding as at 30.11.85	:	KShs. 18.52 million

Arrears as at 30.11.85		KShs'000
Principal		3,126
Interest		2,072
	TOTAL	5,198

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Oct)
Turnover	8,100	25,680	35,170
Profit (Loss)	(6,500)	(2,772)	(248)
Cumulative Profit (Loss)	(17,229)	(20,071)	(20,319)

3. BACKGROUND

Synresins Limited is owned by Newtech Industries (Kenya) Ltd. which was incorporated in July 1976 to develop and promote a resins project in Kenya. IDB's investment in the project was approved on 19th December, 1979. The loan was payable in nine years including a two year moratorium so that the first installment was due in January, 1982. However, by the end of the moratorium period the project had not started operations and could therefore not meet the repayments. On 7th January, 1982 IDB rescheduled the loan by two installments so that loan repayment would commence in January, 1983. Even after the rescheduling, the company continued to accumulate arrears on principal and interest. IDB was again forced to reschedule the loan on 29th November, 1984 by four installments such that installments due in 1985 and 1986 would now be paid in 1990.

4. MAJOR PROBLEMS

(i) Implementation: The project implementation was delayed by about ten months due to delayed approvals of technical franchise and machinery supply agreement by Central Bank. This delay also led to cost overruns. There were also delays in commissioning due to problems in obtaining licences for raw materials required for project commissioning.

(ii) Production: During the first year of production, the level of operation was very low due to insufficient working capital and long delays in approvals of import licences for raw material. Although production improved in later years, the project still continued to experience problems of competition from imported products, lack of local raw materials and working capital. In 1985 the company's performance improved and overall production and sales were within the budget.

5. PRESENT STATUS

As at 30th November, 1985 the total IDB outstanding loan was KShs. 18.52 million while total arrears (principal and interest) had accumulated to KShs. 5.198 million. The company has been making monthly repayments of KShs. 240,000 so as to liquidate arrears. With the improved performance IDB may ask for enhancement of this amount.

AFRICAN TOURS AND HOTELS LIMITED

(BUFFALO SPRINGS LODGE)

1. BASIC DATA

Sector	:	Tourism
Location	:	Isiolo Game Reserve, Samburu
Other Lenders	:	A.T & H.L.
Date operations begun	:	1981
Loan outstanding as at 30.11.85	:	2.26 million

Arrears as at 30.11.86		KShs.
Principal		700,627
Interest		598,803
	TOTAL	1,299,430

2. OPERATIONAL PERFORMANCE

The company has not provided its audited annual accounts and reports since 1980 because it has not been able to meet audit fees due to the auditors.

3. BACKGROUND

The Lodge was started as a luxury tented camp in Isiolo Game Reserve, Samburu. African Tours & Hotels Limited became a major shareholder in 1977 when it acquired 51% of the shares. The balance was held by Isiolo County Council (41.4%), and other local investors.

IDB's investment of US$ 133,097 term loan and KShs. 810,000 equity (7.6%) was approved on 23rd March, 1979. The term loan is guaranteed jointly by African Tours & Hotels Limited, and Kenya Tourist Development Corporation. The project has continuously made losses because of poor performance resulting from failure to attract business as it cannot compete with lodges in the area. As a result, the IDB loan to the project has not been serviced and as at 30th November, 1985 the outstanding loan was KShs. 2.26 million while principal and interest arrears had accumulated to KShs. 700,626 and KShs. 598,803 respectively. The ATHL Directors want to reschedule the IDB loan.

4. PRESENT STATUS

The project needs a face-lift estimated to cost KShs. 2.4 million in order to compete with others in the area.

CABROWORKS LIMITED

1. BASIC DATA

Sector	:	Construction Industry
Location	:	Mombasa
Products	:	Roofing Felt
Date Operation Commenced	:	1963
Loan outstanding as at 30.11.85	:	KShs. 2.15 million

Arrears as at 30.11.85		KShs'000
Principal		134.10
Interest		0.49 CR
	TOTAL	133.61

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1982/3	1983/4	1984/5
Turnover	24,000	36,073	33,534
Profit/(Loss)	634	5,222	237
Cumulative profit/(loss)	579	5,800	6,406

3. BACKGROUND

Cabroworks Limited started operations in Mombasa in 1963 to produce roofing felt. The company is wholly owned by Cassman Brown & Company Limited. The company has increased its product range to include bitumen/asphalt and paving bricks. IDB's investment of US$434,582 was approved on 2nd April, 1980 for the purpose of expansion. The company's performance has been satisfactory and has been up-to-date in servicing of IDB loan. As at 30th November, 1985, the outstanding loan amounted to KShs. 2.15 million while total principal and interest arrears were KShs. 133,607.

4. MAJOR PROBLEMS

The company has not experienced any major problems. It will however, now face competition from a new company, Bitumen Products Ltd. a subsidiary of Venus Metals (A) Ltd.

BOOTH MANUFACTURING AFRICA LTD

1. BASIC DATA

Sector	:	Engineering & Metal Products
Location	:	Nairobi & Thika
Products	:	Aluminum extrusions and fire extinguishers
Loan outstanding as at 30.11.85	:	KShs.8.574 million

Arrears as at 30.11.85		KShs'000
Principal		46.34
Interest		942.19
	TOTAL	988.52

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept.)
Turnover	27,575	37,852	27,121
Profit/(loss)	2,121	3,942	2,949
Retained profit/ (loss) and reserves	10,101	16,130	-

3. BACKGROUND

Booth Manufacturing Africa Limited BMAL is a private company wholly owned by Kenya Aluminum Works Ltd (KALW) which is in turn wholly owned by the Chandaria Group. KAIW is itself a holding company owning and charged with the running (in addition to BMAL) of Kaluworks Limited in Mombasa, and Ideal Casements Ltd in Nairobi.

BMAL came into being in June 1973, when KAIW purchased the present manufacturing business from Booth Manufacturing Company Ltd., the latter being part of the British firm of Tombooth, whose activities are general trade and export.

IDB's first investment which was approved in 1976 was for an expansion and diversification programme in the industrial area, Nairobi. The diversification program involved putting up a new factory for the manufacture of extended aluminum sections. The second investment approved in 1977 was for re-location of the project (from Nairobi to Thika) and increasing the scope of the project to include facilities to manufacture copper and brass tubes. The Nairobi site was only adequate for aluminum tubes. Finally the third investment approved in 1978 was to finance part of the cost overruns.

4. PROBLEMS

(i) Implementation: The changes in the scope of the project and relocation resulted in long delays in project implementation. This, plus increase in built-up area, requirement for deeper foundation and increase in the cost of building materials and

power supply resulted in cost overruns of about KShs. 7.3 million.

(ii) Production: The performance of the Thika plant has been affected by competition from continued imports. Generally the project's performance is improving thus increasing the overall profitability of BMAL.

IDB ACTION

No special action is being taken by IDB apart from regular monitoring and pressing for loan repayment. The company is considering prepayment of the IDB loan.

PANAFRICAN PAPER MILLS LTD.

1. BASIC DATA

Sector	:	Paper & Pulp
Location	:	Webuye, Bungoma District
Products	:	Paper & Pulp
Date operation commenced	:	1975
Loan outstanding as at 30.11.85	:	KShs. 9.942 million

Arrears as at 30.11.85		KShs'000
Principal		26.932
Interest		14.722 (CR)
	TOTAL	12.210

2. OPERATIONAL PERFORMANCE

	KShs'000 1983/84
Turnover	575,453
Profit/(loss)	47,856
Cumulative profit/(loss)	140,293

3. BACKGROUND

Panafrican Paper Mills Limited was incorporated in 1970 as a joint venture between the Government of Kenya (33.9%), Oriental Paper Mills (29.3%), IFC (24.9%), ICDC (5.6%), DFCK (1.6%), EADB (3.6%) and BODC (1.1%).

In addition to bleached and un-bleached paper, the company has introduced production of news print by installing a mechanical pulp section. Because of the diversity in type and quality of paper demand in the printing and paper conversion industry, the mill has had to adjust and now produces about 80 different grades of bleached paper.

The mill also has a caustic soda/hydro chloric acid plant that supplies its own requirements and supplies a surplus to the local market.

Dividends were declared in 1980, 1982 and 1983 but because of no price increases for a number of years, dividends were not declared in 1983. Inspite of a price increase of 7.5% which was granted in 1984 the trading results for 1985 recorded a loss of KShs. 9.0 million as a result of continued weakening of the Kenya shilling against major foreign currencies, rising costs of inputs and spare parts and inadequate price adjustment for the end products.

The servicing of IDB loan continues to be satisfactory and as at 30th November, 1985 the outstanding loan was KShs. 9.942 million while total arrears were only KShs. 12,210.

KENYA
INDUSTRIAL DEVELOPMENT BANK
Project Completion Report
Listing of Subprojects Financed Under Loan 1817-KE

Sub-borrower's Name	Subproject No.	Sector	Products	(US $) Amount Approved	Type of Subproject
Equatorial Beach	A - 3	tourism	hotel	2,650,870	New
Mukawa Hotels	A - 5	tourism	hotel	3,576,680	New
Mabati, Ltd.	A - 6	metal products	steel	4,534,460	Expansion
Coastal Canners	A - 7	food processing	fruit juice concentrate	1,156,510	New
Seracoatings	A - 8	chemicals/plastics	plastics	2,315,000	Expansion
Fundisha Salt Works	A - 9	food processing	salt	1,395,660	Expansion
E. African Bag & Cordage	A - 10	packaging	fiber bags	1,300,000	Imported Raw Material
Pan Plastics	A - 11	chemicals/plastics	plastics	995,690	Expansion
Clayworks	B - 1	chemicals/plastics	bricks, tiles	328,850	Expansion
Dimkas Wood	B - 2	wood products	consumer goods	295,230	New
Sigma Surface Coating	B - 3	chemicals/plastics	chemicals	146,000	New
Tiger Shoe Co.	B - 4	leather products	shoes	328,800	Expansion
Nairobi Oil Products	B - 5	petroleum	petroleum reprocessing	751,310	Expansion
Kenya Fishnet Industries	B - 6	textiles	fishnets	99,530	Expansion
Wire Products	B - 7	metal products	nails	333,335	Expansion
Lakeland Hotel	B - 8	tourism	hotel	388,914	New
Metal Box Kenya	B - 9	metal products	cans	308,370	Modernization
Karatina Animal Feeds	B - 10	agroindustry	animal feeds	155,100	New
Garissa Tanners	B - 11	leather products	leather	492,088	New
EGATEX	B - 12	textiles	knitwear	404,515	Imported Raw Material
Kicomi (1983) Ltd.	B - 13	textiles	fabric	470,000	Imported Raw Material
House of Manji	B - 14	food processing	cereals	650,000	Expansion
				23,076,912	

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected vs. Actual Lending Operations
1981-1985
(Ksh million)

Year Ending December 31	1981		1982		1983		1984		1985		Total 1981-85	
Approvals:	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
Term Loans-Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	67.0	703.2	490.5
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	135.0	703.2	558.5
Term Loans-Domestic Currency	30.3	17.5	35.6	-	41.9	-	30.0	0.8	32.0	0.0	169.8	18.3
Equity Investments	10.0	2.0	10.0	0.2	10.0	-	-	2.5	13.0	0.2	43.0	4.9
Total Domestic Currency	40.3	19.5	45.6	0.2	51.9	0.0	30.0	3.3	45.0	0.2	212.8	23.2
Total Loans	172.4	243.3	206.1	83.3	246.5	66.6	120.0	48.6	128.0	135.0	873.0	576.8
Total Approvals	182.4	245.3	216.1	83.5	256.5	66.6	120.0	51.1	141.0	135.2	916.0	581.7
Commitments:												
Term Loans-Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	67.0	639.6	574.7
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	135.0	639.6	642.7
Term Loans-Domestic Currency	28.6	23.1	33.0	-	38.8	-	23.0	-	25.0	-	148.4	23.1
Equity Investments	10.0	5.4	10.0	0.2	10.0	-	-	2.5	-	-	30.0	8.1
Total Domestic Currency	38.6	28.5	43.0	0.2	48.8	0.0	23.0	2.5	25.0	0.0	178.4	31.2
Total Loans	161.4	289.4	189.3	115.1	226.3	66.6	107.0	59.7	104.0	135.0	788.0	665.8
Total Commitments	171.4	294.8	199.3	115.3	236.3	66.6	107.0	62.2	104.0	135.0	818.0	673.9
Disbursements:												
Term Loans-Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	102.9	644.2	612.2
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	27.1	-	27.1
Total Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	130.0	644.2	639.3
Term Loans-Domestic Currency	25.4	23.3	30.0	14.8	34.9	4.1	9.0	1.9	9.0	-	108.3	44.1
Equity Investments	10.9	5.4	10.0	-	10.0	0.2	0.0	2.5	-	0.2	30.9	8.3
Total Domestic Currency	36.3	28.7	40.0	14.8	44.9	4.3	9.0	4.4	9.0	0.2	139.2	52.4
Total Loans	144.7	177.1	170.5	194.1	201.3	71.5	124.0	110.7	112.0	130.0	752.5	683.4
Total Disbursements	155.6	182.5	180.5	194.1	211.3	71.7	124.0	113.2	112.0	130.2	783.4	691.7

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA

Industrial Development Bank (IDB)

Project Completion Report

Analysis of Loans in Arrears 1981-85

	1981 1/	1982	1983	1984	1985
Number of loans in Arrears					
Total Number of loans in portfolio	108	97	121	99	98
Number of loans in arrears over 3 months	53	55	103	67	71
As a % of total loans	49%	57%	85%	68%	72%
Principal Affected by Arrears (Ksh million)					
Total principal outstanding	325.3	556.4	718.7	781.1	875.0
Principal affected arrears over 3 months	166.8	395.0	632.4	687.4	717.5
As a % of total principal outstanding	51%	71%	88%	88%	82%
Actual Amounts in Arrears (Ksh million)					
Arrears over 3 months	57.3	96.2	218.5	252.3	270.9
As a % of total principal outstanding	17.6%	17.3%	30.4%	32.3%	31.0%
Collections Ratios 2/	na	na	76%	76%	99%

1/ Includes only amounts in arrears 6 months or more, because of limits in IDB records at that time.

2/ Collections as a percentage of new amounts coming due.

IDF Division, Eastern and Souther Region

June, 1986

KENYA
Industrial Development Bank
Project Completion Report
Sectoral Distribution Loan Portfolio, December 31, 1985
(Ksh '000)

Sector	No. of Loans	Amounts 1/ Outstanding	% of Loans	% Amounts Outstanding	% Amounts Affected by Arrears	Arrears of 3 mos. or more	Arrears as % Total Due	No. of Projects in Receivership
Agroindustry	11	77,111.9	11.2%	7.6%	74.7%	15,321.1	19.9%	2
Automotive	3	13,907.2	3.1%	1.4%	95.5%	9,700.9	69.8%	2
Chemical	9	91,698.5	9.2%	9.0%	77.9%	31,713.1	34.6%	0
Construction	3	8,681.4	3.1%	0.9%	100.0%	2,322.3	26.8%	0
Food	7	11,022.8	7.1%	1.1%	100.0%	5,098.7	46.3%	1
Leather	3	9,462.2	3.1%	0.9%	86.9%	378.7	4.0%	0
Metal/Engineering	17	275,659.7	17.3%	27.1%	78.4%	63,264.2	23.0%	2
Mining/Quarries	2	6,878.3	2.0%	0.7%	100.0%	3,592.5	52.2%	2
Paper/Printing	5	26,904.1	5.1%	2.6%	63.1%	12,544.8	46.6%	0
Plastics	2	35,022.0	2.0%	3.4%	99.7%	4,870.7	13.9%	0
Rope/Cord	5	8,153.3	5.1%	0.8%	82.3%	1,690.2	20.7%	1
Services	1	9,069.6	1.0%	0.9%	0.0%	0.0	0.0%	0
Textiles	13	193,381.8	13.3%	19.0%	65.6%	49,028.8	25.4%	2
Tourism	9	224,323.1	9.2%	22.0%	98.3%	57,651.4	25.7%	2
Wood	8	27,143.4	8.2%	2.7%	100.0%	14,310.2	52.7%	1
TOTAL	98	1,018,419.3	100.0%	100.0%	81.1%	271,519.8	26.7%	15

1/ Includes interest arrears.

IDF Division, Eastern and Southern Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected and Actual Balance Sheets
1981-1985
(In Ksh million)

Year Ending December 31	1981		1982		1983		1984 1/		1985 1/	
	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
ASSETS:										
Current Assets:										
Cash and Misc.	25.0	24.3	30.1	14.4	35.6	4.6	10.8	10.7	48.6	16.8
Short-term Deposits	90.0	52.1	65.0	48.0	45.0	26.2	45.2	45.2	120.0	106.9
Project Debtors 2/	n.a	98.0	n.a.	164.8	n.a	183.5	230.8	221.6	205.9	247.6
Other Debtors 2/	n.a	-	n.a	-	n.a	10.3	5.1	10.2	7.1	38.0
Loans-Current portion	63.8	66.7	86.2	84.1	107.1	93.1	101.0	100.4	92.2	112.6
Total Current Assets	178.8	241.1	181.3	311.3	187.8	317.7	392.9	388.1	473.9	521.9
Portfolio:										
Loans	397.0	344.1	481.3	487.7	575.5	476.7	528.3	530.4	524.7	657.8
Equity	112.9	103.5	122.9	84.0	132.9	81.2	66.6	66.6	66.6	66.6
Less Accum. Provisions	(16.3)	(55.3)	(20.2)	(46.5)	(24.8)	(42.7)	(32.8)	(33.9)	(38.2)	(57.2)
Net Portfolio	493.6	392.3	584.0	525.2	683.6	515.2	562.1	563.1	556.0	667.2
Net Fixed Assets	3.6	2.6	3.3	1.9	3.3	1.4	3.3	3.3	12.4	3.4
Total Assets	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5
LIABILITIES										
Current Liabilities:										
Bank overdraft	-	0.6	-	0.6	-	-	-	-	-	-
Payables and accruals 3/	11.8	74.9	13.6	77.7	16.0	26.0	40.7	39.5	53.9	96.6
Current portion long-term debt	58.3	62.1	73.2	79.2	89.6	73.8	80.1	81.1	106.1	92.4
Total Current Liabilities	70.1	137.6	86.8	157.5	105.6	99.8	120.8	120.6	160.0	189.0
Long-term Debt:										
Foreign Borrowings	372.7	321.4	445.0	476.9	527.6	515.8	626.4	580.1	625.7	n.a
Local Borrowings	13.3	11.1	8.3	5.5	2.5	3.0	4.3	2.7	1.9	n.a
Total Long-term debt	386.0	332.5	453.3	482.4	530.1	518.8	630.7	582.8	627.6	727.7
Exchange Gain and Adj. Accts.	-	9.2	-	26.9	-	32.5	-	45.0	-	50.1
Shareholders Equity:										
Share Capital	229.2	207.9	229.2	222.6	229.2	247.1	249.0	249.0	293.6	257.6
Reserves & Retained Earnings	(9.4)	(51.2)	(0.7)	(51.0)	9.7	(63.9)	(42.3)	(42.9)	(38.9)	(31.9)
Total Net Worth	219.8	156.7	228.5	171.6	238.9	183.2	206.7	206.1	254.7	225.7
Total Liabilities and Equity	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5

1/ 1984 and 1985 projected figures from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.

2/ Staff Appraisal Report did not separate project debtors (i.e., arrears of interest and principal) from other debtors.

3/ Actual payables and accruals include deposits from IDB customers.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
1817-KE
Project Completion Report
Projected and Actual Income Statements
1981 - 1985
(In Ksh million)

Year Ending December 31	1981 Projected	1981 Actual	1982 Projected	1982 Actual	1983 Projected	1983 Actual	1984 1/ Projected	1984 1/ Actual	1985 1/ Projected	1985 1/ Actual
INCOME										
Interest & Commitment Income from Loans 2/	51.1	52.6	64.4	69.5	77.5	72.0	98.8	85.1	87.2	85.9
Dividend Income	4.3	2.5	6.2	2.8	8.9	3.5	3.3	3.3	3.0	6.8
Interest Income from ST Investments, Deposits	5.6	5.9	5.4	7.0	3.8	5.0	5.6	5.8	12.0	11.6
Other Income 3/	1.8	2.8	2.1	12.2	2.4	4.0	15.3	16.8	6.0	9.2
Total Income	62.7	63.8	78.2	91.5	92.6	84.5	123.0	111.0	108.2	113.5
EXPENSES										
Interest & Commitment Charges on Borrowing	35.5	38.4	41.3	43.8	50.1	53.9	52.7	52.4	58.8	61.3
Salaries & Personnel Charges 4/ Administrative & Gen. Expenses 4/	n.a.	9.5	n.a.	11.4	n.a.	11.3	12.0	11.1	15.0	14.2
Provision for Losses	3.5	43.5	3.9	8.9	4.5	25.7	29.0	18.0	23.0	19.0
Other Expenses 5/	0.8	1.0	0.9	18.7	1.0	0.6	0.5	0.5	0.6	0.4
Total Expenses	51.9	98.6	59.3	89.7	70.0	97.5	101.4	90.0	104.6	101.3
Net Profit (Loss)	10.9	(34.8)	18.9	1.8	22.6	(13.0)	21.6	21.0	3.6	12.2

1/ Projected figures for 1984 and 1985 are from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.
2/ IDB began to suspend interest for loans with arrears of 24 months in 1983. Thus, loan income projected prior to for 1983 may be overstated, as it has not suspended interest.
3/ Other Income includes: commissions and management fees, gains/(losses) on sale of fixed assets, exchange rate realised gains/(losses), and writebacks of prior provisions.
4/ Staff Appraisal Report provided only aggregate salary and administrative cost data.
5/ Other Expenses comprised largely of depreciation. In 1983, however, it includes Ksh 17.8 million in losses realized on the disposal of equity investments.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
1817-KE

Project Completion Report
Projected and Actual Financial Ratios
1981 - 1985
(In Ksh million)

Year Ending December 31	1981		1982		1983		1984		1985	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Income Statement as % Average Total Assets:										
Loan and Dividend Income	9.0%	8.7%	9.8%	9.8%	10.5%	9.0%	11.1%	9.9%	10.8%	8.6%
Investment Income	0.9%	0.9%	0.7%	0.9%	0.5%	0.6%	0.6%	0.6%	1.2%	1.1%
Other Income	0.3%	0.4%	0.3%	1.7%	0.3%	0.5%	1.7%	1.9%	0.2%	0.9%
Total Income	10.2%	10.0%	10.8%	12.4%	11.3%	10.1%	13.4%	12.4%	12.2%	10.6%
Borrowing Charges	5.8%	6.0%	5.7%	5.9%	6.1%	6.4%	5.8%	5.9%	5.9%	5.7%
Admin. Expenses	2.0%	2.5%	1.8%	2.5%	1.8%	2.1%	2.1%	2.1%	2.2%	1.9%
Provisions	0.6%	6.8%	0.5%	1.2%	0.5%	3.1%	3.2%	2.0%	3.7%	1.8%
Other Expenses	0.1%	0.2%	0.1%	2.5%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
Total Expenses	8.5%	15.5%	8.2%	12.2%	8.5%	11.7%	11.1%	10.1%	11.9%	9.4%
Net Profit/(Loss)	1.8%	(5.5%)	2.6%	0.2%	2.8%	(1.6%)	2.4%	2.3%	0.3%	1.1%
Long-term debt: equity ratio	1.8	2.1	2.0	2.8	2.2	2.8	3.1	2.8	2.5	3.2
Current ratio 1/	2.6	1.0	2.1	0.9	1.8	1.2	1.3	1.3	1.6	1.5
Net Profit as % Avg. Equity	5.5%	(22.2%)	8.4%	1.1%	9.7%	(7.3%)	9.7%	10.8%	1.5%	5.1%
Accum. Provisions/Portfolio	3.2%	12.4%	3.3%	8.1%	3.5%	7.7%	5.5%	5.7%	6.5%	7.9%
Loan Income as % Gross Portfolio	12.4%	12.0%	12.5%	12.9%	12.4%	9.7%	12.8%	10.6%	10.4%	9.2%
Fin. Expenses as % Borrowings	7.8%	11.3%	8.5%	9.2%	8.7%	8.1%	7.9%	8.3%	8.1%	8.0%
Avg. Spread	4.6%	0.7%	4.0%	3.7%	3.7%	1.6%	4.9%	2.3%	2.3%	1.2%

1/ Excluding arrears from current assets.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Project Completion Report
Industrial Development Bank
Status of Compliance With Major Loan Covenants

Covenant	Status of Compliance
A. All Loans	
Borrower shall not amend Statement of Policy without prior approval of the Bank.	In compliance.
Borrower shall submit audit reports within 4 months of end of each fiscal year.	Generally submits reports about 2-4 months late.
IDB to protect itself against foreign exchange risk.	Generally in compliance, although IDB has made some foreign exchange risk gains on timing differences between receipt of payment from subloan and payment to IBRD and other donors.
B. Loan 1148-KE	
Debt:equity ratio will be no greater than 3:1.	In compliance.
C. Loan 1438-KE	
IDB will conclude agreements regarding managed funds operations on behalf of Government and not manage or undertake any new equity investments on behalf of Government.	In compliance.
Debt:equity ratio will be no greater than 4:1.	In compliance.
D. Loan 1817-KE	
Debt:equity ratio will not exceed 4:1.	In compliance.

IDB shall maintain a Management Committee to screen new proposals and review the status of projects.	In compliance.
IDB shall create provisions for future losses in respect to its equity and loan portfolio in accordance with sound accounting practices.	Generally in compliance, although provisions may be low in respect of a few Government-supported projects.

KENYA

Project Completion Report
IDB Cashflow Statements 1983-86
(Ksh '000)

Year	1983	1984	1985	1986[1]
Receipts:				
Loan Principal				
Foreign	25,014	38,596	49,571	12,283
Local	5,349	3,295	3,810	1,032
Subtotal	30,363	41,891	53,381	13,315
Loan Interest				
Foreign	34,074	34,868	28,694	14,060
Local	2,567	813	1,419	259
Subtotal	36,641	35,681	30,113	14,319
Arrears Collections	33,437	36,011	60,758	55,175
Bridging Finance	7,432	5,764	600	0
Fees	2,127	3,381	4,508	2,515
Dividends/Equity Sales	5,631	2,926	5,841	1,550
Loan Sales	0	24,605	29,789	0
Subtotal	48,627	72,687	101,496	59,240
Total Project Receipts	115,631	150,259	184,990	86,874
Staff Loans	1,204	1,304	1,923	1,102
Share Capital	26,500	1,826	8,644	0
Investment Interest	0	4,981	4,957	1,957
Other Receipts	981	1,083	902	797
Subtotal	28,685	9,194	16,426	3,856
Total Receipts	144,316	159,453	201,416	90,730
Payments:				
Loan Principal				
Foreign	52,166	63,760	94,450	54,562
Local	5,016	2,226	1,643	750
Subtotal	57,182	65,986	96,093	55,312
Loan Interest				
Foreign	43,941	48,506	58,942	29,047
Local	740	412	249	69
Subtotal	44,681	48,918	59,191	29,116
Fees	2,898	2,317	4,508	1,291
Local Loan Disbursements	5,807	2,137	0	308
Equity Disbursements	0	2,500	238	0
Subtotal	8,705	6,954	4,746	1,599
Total Operational Outflow	110,568	121,858	160,030	86,027
Staff Loans	1,395	1,908	2,953	1,649
Capital Expenditure	120	302	154	472
IDB Headquarters	0	2,093	352	0
Salaries, Admin.	17,879	19,766	17,414	10,096
Subtotal	19,394	24,069	20,873	12,217
Total Outflows	129,962	145,927	180,903	98,244
Net Surplus/(Deficit)	14,354	13,526	20,513	(7,514)
Beginning Cash	1,372	15,726	29,252	49,765
Ending Cash	15,726	29,252	49,765	42,251
Net Surplus/(deficit) from Operations	5,063	28,401	24,960	847
Less Admin. Costs	(12,816)	8,635	7,546	(9,249)

1/ First six months only.

file

FORM NO. 75
(6–83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 7/21/88

NAME	ROOM NO.
Harold Wackman	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
X	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

This arrived too late for inclusion in the PCR, which was circulated to the Board last month. In any case, it would probably not have led to any changes.

FROM:	ROOM NO.:	EXTENSION:
Henry B. Thomas	H-6099	32916

CONFIDENTIAL

Industrial Development Bank Limited

National Bank Building · Harambee Avenue · P.O. Box 44036 · Nairobi · Kenya · Telephone: 337079

Telex: 22339
Cables: Indevbank Nairobi

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JAN 15 2025
WBG ARCHIVES

Ref: C/MP 102/04/16

July 8th 1988

Mr. Rene Ribi
Acting Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department
The World Bank
1818 H Street, N.W.
WASHINGTON, D.C. 20433
U.S.A.

Dear Mr. Ribi,

RE: PROJECT COMPLETION REPORT ON KENYA - SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS (LOANS 1148-KE and 1438-KE)

Mr. F.N. Ondieki, Managing Director of the Industrial Development Bank, who is currently on leave has requested me to reply on his behalf to your letter of June 8th 1988 under which you submitted the final version of the Project Completion Report on loans 1148-KE and 1438-KE. We would again like to convey our regrets for not having submitted our comments on time on the draft of the Report which you sent to us with your letter of March 7th 1988.

We would also like to again convey our deep appreciation to IBRD for the invaluable support and understanding that you have extended to IDB since its inception some fifteen years ago. The financial assistance obtained from IBRD over this period has provided the main base of IDB's funding operations to Kenya's industrial development. Also and of crucial importance to IDB's evolution to the institution it is today has been the constructive suggestions that have been provided from time to time through IBRD's reviews of Kenya's economic and industrial development in general and IDB's operations and procedures in particular. This has been in addition to the extremely useful training that many of IDB management and professional staff have obtained from IBRD.

....2

CONFIDENTIAL

We are in basic agreement with the findings and conclusions in the Completion Report. The financial viability of IDB which is now the basis of IDB's future operations and effectiveness is at a crucial stage. There is also then the fact that the economic and financial environment, both local and international, under which IDB is operating today is very different from what it was when the institution was set up. It is therefore evident that IDB needs to redefine its role and adopt new means of operations if it has to restore and sustain its financial health and continue to play a relevant role in the country's economy in the context of these changed circumstances.

IDB's financial condition has, to a very large extent, been directly related to the state of its investment portfolio. This portfolio has been characterised by an increased rate of reduction in the better paying projects as many of these have either fully repaid their loans or prepaid such loans. There is then the continuing burden of projects with substantial Government participation which carry considerable arrears and provisions but on which final decisions on liquidation or rehabilitation lie outside the scope of IDB. There are also projects in the former Medium Scale Enterprise Scheme category which by their very nature were faced with severe capitalisation, working capital and management problems. Although rehabilitation plans were prepared for most of these projects, implementation of many of the plans has been hampered mainly due to lack of suitable additional financing. There is then the general problem of rocketing debt service burdens for virtually all the projects in the loan portfolio due to the volatility in foreign exchange fluctuations particularly since 1981. Lastly on the equity portfolio, although there has been some improvement on the returns, this has not been overly spectacular.

The concerted measures made to improve project selection and appraisal, project monitoring, consultancy and debt collection have, notwithstanding the position in the portfolio outlined above, resulted in an improvement in the Bank's profitability. This has also so far enabled IDB to meet its commitments to external lenders and finance its operations.

Although there has been a significant change in the environment in which IDB has been operating, IDB has continued to pursue the same objectives and use basically the same means that were set up when IDB was created. IDB has all along pursued its development objectives while at the same time having to aim for profitability in a commercial sense. The 1980s have seen a much greater emphasis for public sector enterprises such as IDB to be much more commercially and profit orientated. This has been the case in many developed and developing countries. The degree to which IDB could realign itself to this changed emphasis was severely delimited by a number of factors, the first of which being the type of resources that were available

....3

to IDB to finance its operations. IDB's principal resources have been foreign currency loans. Countries such as Kenya where the balance of payments continue to be one of the main problems and where at its stage of development the industrial sector is quite robust, will continue to require foreign exchange resources to finance new and existing industrial enterprises. However the problems arising from foreign currency lending in the traditional manner has already been pointed out. Consequently an important component in the redefinition of IDB's future and indeed other industrial development finance institutions in this category has to be a restructing of IDB's foreign exchange portfolio and ensuring access to domestic, particularly longterm resources.

This has also been a period in the country's financial sector particularly marked with an increase in competition in the main activity, longterm industrial financing, undertaken by IDB. Other institutions are now not only offering this type of funding more competitively but they are also doing so in addition to many other services that they re providing. In this context, apart from the need for some rationalisation of the provision of industrial development financing and services, a redefinition of IDB's future role has also to take into account a greater degree of managerial and operational flexibility then is possible for IDB in its present form.

IDB has built up invaluable experience in development financing over the period in which it has been in existence. The high calibre and variety of its professional staff are a substantial resource both for the institution and the country as a whole. Based on this and the ongoing work within the Bank, the proposals made by IDB to the Government on IDB's current status and future prospects, and critically, the Industrial and Financial Sector Operations that IBRD is now carrying out, a new strategy can be finalised now to enable IDB meet the challenges of the coming decades.

Yours sincerely,
INDUSTRIAL DEVELOPMENT BANK LIMITED

M.P. KUNGURU
CHIEF OF OPERATIONS
For: Managing Director

file

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

June 8, 1988

Mr. James Adams
Director
Regional Mission in Eastern Africa
World Bank
Reinsurance Plaza, 5th & 6th Floors
Taifa Road
Nairobi, Kenya

Dear Mr. Adams:

Re: Project Completion Report on Kenya - Second and Third Industrial Development Bank Projects (Loans 1148-KE and 1438-KE)

I am enclosing two envelopes with letters to officials in Kenya which contain copies of the final version of the above-mentioned report. I would be grateful if your office would undertake to have them delivered at your earliest convenience.

Copies of the letters and the report are enclosed for your information.

Yours sincerely,

Rene Ribi
Acting Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department

Enclosures

HBThomas:gw

ITT 440098 · RCA 248423 · WUI 64145

file

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

June 8, 1988

Mr. R.R. Ojee
Permanent Secretary
Ministry of Industry
P.O. Box 30430
Nairobi, Kenya

Dear Mr. Ojee:

Re: Project Completion Report on Kenya - Second and Third Industrial Development Bank Projects (Loans 1148-KE and 1438-KE)

The final version of the above-mentioned report has now been distributed to the Bank's Board of Directors. It is my pleasure to send you a copy of this report for your information.

Yours sincerely,

Rene Ribi
Acting Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department

Attachment

HBThomas:gw

file

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

June 8, 1988

Mr. F.N. Ondieki
Managing Director
Industrial Development Bank
Industrial Bank Building
Harambee Avenue
P.O. Box 44036
Nairobi, Kenya

Dear Mr. Ondieki:

Re: Project Completion Report on Kenya - Second and Third Industrial Development Bank Projects (Loans 1148-KE and 1438-KE)

The final version of the above-mentioned report has now been distributed to the Bank's Board of Directors. It is my pleasure to send you a copy of this report for your information.

With reference to your telex dated May 13 and our reply of May 16, we have yet to receive your comments on this report. When we do, we will ensure that they are forwarded to the appropriate parties.

Yours sincerely,

Rene Ribi
Acting Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department

Attachment

HBThomas:gw

WORLDBANK MSS

ZCZC OERC0108 OERS0329
WDIAL
REF : OEDDR
OINFO

-SUBJECT: KENYA - PCR: SECOND/THIRD IDB (LNS. 1148/1438-KE)
-DRAFTED BY: HENRY THOMAS EXT: 32916
-AUTHORIZED BY: ALEXANDER NOWICKI
-CC: MESSRS. JEMBERE, EXECUTIVE DIRECTOR
- WACKMAN (AF2IE), AMOAKO (AF2CO)

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963 22339 =
- MR. F. N. ONDIEKI, MANAGING DIRECTOR
- INDUSTRIAL DEVELOPMENT BANK
- NAIROBI, KENYA
BT
WASHINGTON, DC - 16-MAY-88
RE PROJECT COMPLETION REPORT ON SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS (LOANS 1148-KE AND 1438-KE). THANK YOU FOR YOUR TELEX OF MAY 13. AS WE RECEIVED YOUR TELEX SEVERAL WEEKS AFTER THE DUE DATE FOR COMMENTS, I REGRET TO INFORM YOU THAT THE ABOVE-MENTIONED REPORT HAS ALREADY BEEN PRINTED. HOWEVER, WE LOOK FORWARD TO RECEIVING YOUR COMMENTS AND WILL ENSURE THAT THEY ARE SENT TO THE APPROPRIATE PARTIES. I WILL BE FORWARDING TO YOU A COPY OF THE FINAL REPORT IN DUE COURSE. BEST REGARDS, ALEXANDER NOWICKI, DIVISION CHIEF, OPERATIONS EVALUATION DEPARTMENT.

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22339 INDEVBANK
LLMR. ALEXAMDER NOWIDKI
IBRD WASHINGTON

PROJECT COMPLETION REPORT
LOANS 1147-KE AND 1438-KE

THANK YOU FOR YOUR LETTER OF MARCH 7, 1988 ENCLOSING THE ABOVE REPORT.

I REGRET THAT I WAS NOT ABLE TO REPLY BEFORE APRIL 18, 1988 AS I HAVE BEEN OUT OF THE COUNTRY ON OTHER DUTIES. I AM REVIEWING THE REPORT AND WILL SEND YOU MY COMMENTS WITHIN THE NEXT SEVEN DAYS.

BEST RGDS,

cc Messrs. Wackman
Asamoako

F. N. ONDIEKI
MANAGING DIRECTOR, IDB

C. C. MR. M. JEMBERE,
EXECUTIVE DIRECTOR

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FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: 5/12/88	
NAME		ROOM NO.
Mr. Nowicki		
OK to Print		
Date: 5/13/88		

	APPROPRIATE DISPOSITION		NOTE AND RETURN
X	APPROVAL		NOTE AND SEND ON
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	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL		SIGNATURE
	NOTE AND FILE		**URGENT**

REMARKS:

KENYA - PCR on Second/Third Industrial Development Bank Projects (Loans 1147-KE and 1438-KE)

May we have your OK to print?

FROM: Henry	ROOM NO.:	EXTENSION:

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: May 5, 1988

TO: Mr. Edward K. Jaycox, Vice President, AFR

FROM: Ram K. Chopra, Acting DGO

EXTENSION: 32924

SUBJECT: Selective Auditing Procedures:
Project Completion Report on Kenya - Second and
Third Industrial Development Bank (IDB) Projects
(Loans 1148-KE and 1438-KE)

The above projects have not been audited by OED staff. The PCR was prepared by the former Industrial Development and Finance Division (Eastern and Southern Africa Region) and sent by OED to the Borrower on March 7, 1988, for comments. However, none were received.

The report is now being released to the Executive Directors and the President.

Attachment

cc: Messrs. Rovani (o/r) (DGO)
Churchill (IENDR)
Madavo (AF2DR)
Amoako (AF2CO)
Wackman (AF2IE)
Rigo (LEGAF)

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS

(LOANS 1148-KE and 1438-KE)

May 5, 1988

Industrial Development and Finance Division
Eastern and Southern Africa Region

GLOSSARY OF ABBREVIATIONS

IDB	Industrial Development Bank of Kenya
NBFI	Non-bank Financial Institution
DFI	Development Finance Institution
KIE	Kenya Industrial Estates
ICDC	Industrial and Commercial Development Corporation
DFCK	Development Finance Corporation of Kenya
EADB	East African Development Bank
NBK	National Bank of Kenya

CURRENCY EQUIVALENTS

Currency Unit = Kenyan Shilling (K Sh) = 100 cents

FY79: 1 US$ = K Sh 7.33
FY80: 1 US$ = K Sh 7.42
FY81: 1 US$ = K Sh 9.05
FY82: 1 US$ = K Sh 10.92
FY83: 1 US$ = K Sh 13.31
FY84: 1 US$ = K Sh 14.41
FY85: 1 US$ = K Sh 16.43
FY86: 1 US$ = K Sh 16.33

FISCAL YEAR (IDB)

January 1 - December 31

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

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KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

PREFACE

This Project Completion Report (PCR) covers the experience with Loans 1148-KE and 1438-KE, the second and third of a series. They were approved in 1975 and 1977 in the amounts of US$10 million and US$20 million, respectively, and disbursed by 1984. A fourth loan, 1817-KE was approved in 1980 and has now been largely committed. Both loans under review were made directly to IDB, with Government providing a guarantee. The PCR was prepared by the Eastern and Southern Africa Projects Department and is based on documentation prepared by IDB and a review of Bank documents relating to the project, including correspondence with IDB. A Project Completion mission visited IDB during February, 1986.

The PCR was forwarded to the Borrower and the Government in draft form for their comments, but none were received.

The two projects have not been audited by the Operations Evaluation Department.

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

BASIC DATA SHEET

KEY PROJECT DATA

	1148-KE		1438-KE	
	Original	Actual	Original	Actual
First Mention in Files	-	-	-	-
Appraisal	-	12/6/74	-	11/22/76
Board Approval	-	7/8/75	-	5/25/77
Loan Agreement	-	7/25/75	-	6/22/77
Effectiveness	10/30/75	10/9/75	9/30/77	11/10/77
Completion of Commitments	7/1/77	7/30/78	7/1/80	7/1/80
Loan Closing	7/1/79	6/30/80	7/1/82	12/31/82
Total Project Cost:				
US$M	32.2	30.9	43.3	53.1
Local Currency	230.0	252.7	361.6	400.9

Name of Borrower: Industrial Development Bank, Ltd.
Guarantor: Government of Kenya

LOAN DATA
(US$ million)

	Original	Disbursed	Cancelled	As of February 28, 1988 Repaid	Outstanding
Loan 1148-KE	10.0	10.0	0.0	7.1	2.9
Loan 1438-KE	20.0	18.2	1.8	10.0	8.2

STAFF INPUT
(Manweeks)

	FY75	FY76	FY77	FY78	FY79	FY80	FY81	FY82	FY83	FY84	FY85	FY86	FY87	TOTAL
Ln. 1148-KE														
Preappraisal	5.5	-	-	-	-	-	-	-	-	-	-	-	-	5.5
Appraisal	23.7	0.6	-	-	-	-	-	-	-	-	-	-	-	24.3
Negotiation	4.5	1.2	-	-	-	-	-	-	-	-	-	-	-	5.7
Supervision	-	21.0	4.0	11.5	1.6	0.2	-	-	-	0.2	0.4	-	0.2	39.1
Other	-	-	-	-	4.5	-	-	-	-	-	-	-	-	4.5
Totals	33.7	22.8	4.0	11.5	6.0	0.2	-	-	-	0.2	0.4	-	0.2	79.1
Ln. 1438-KE														
Preappraisal	0.3	15.5	12.2	-	-	-	-	-	-	-	-	-	-	28.1
Appraisal	-	-	85.7	-	-	-	-	-	-	-	-	-	-	85.7
Negotiation	-	-	3.2	-	-	-	-	-	-	-	-	-	-	3.2
Supervision	-	-	2.0	13.1	4.5	8.7	4.6	0.4	2.3	1.4	-	2.6	0.2	39.5
Totals	0.3	15.5	103.0	13.1	4.5	8.7	4.6	0.4	2.3	1.4	-	2.6	0.2	156.5

DISBURSEMENT PROFILE FOR LOANS 1148-KE AND 1438-KE

Fiscal Year	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Cumulative Percentage Disbursed:												
Loan 1148-KE:												
Appraisal Estimate	2.5%	63.0%	94.0%	100.0%								
Actual	0.0%	6.0%	40.0%	67.0%	86.9%	100.0%						
Bank Standard for Sector	2.0%	7.0%	13.0%	30.0%	49.0%	66.0%	79.0%	88.0%	95.0%	100.0%		
Loan 1438-KE:												
Appraisal Estimate			8.0%	35.0%	67.5%	100.0%						
Actual			0.0%	0.0%	12.7%	32.2%	58.4%	80.0%	89.9%	91.0%		
Bank Standard for Sector			2.0%	7.0%	13.0%	30.0%	49.0%	66.0%	79.0%	88.0%	95.0%	100.0%

MISSION DATA

Missions:	Month/Year	No. of Persons	Staff Days in field	Performance Rating	Trend	Types of Problems
Appraisal	Apr-79	5	105			
Post-Appraisal	Jul-79	1	5			
Supervision	Feb-80	2	14	2	improving	profitability, arrears
Supervision	Dec-80	2	21	2	stationery	staff turnover, arrears
Supervision	Dec-81	1	7	3	deteriorating	management, portfolio arrears
Supervision	Dec-82	3	21	3	stationery	liquidity, portfolio condition
Supervision	May-83	1	14	3	improving	liquidity, portfolio condition
Supervision	Dec-83	1	10.5	3	stationery	liquidity, portfolio condition
Supervision	Sep-84	1	14	3	improving	portfolio condition
Supervision	Feb-85	1	10.5	3	improving	portfolio condition
Supervision	Oct-85	2	21	2	improving	portfolio condition, financial mgmt
Completion	Feb-86	1	14			

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

EVALUATION SUMMARY

A previous PPAR (Report No. 3944) covered the first line of credit to the Industrial Development Bank (Loan 946-KE). The PPAR concluded that IDB had become a fairly efficient financial intermediary and had largely met its original institutional objectives. The report noted, however, that IDB's appraisal quality was declining, supervision and collection efforts were lax and profitability was low. It also pointed to the importance of linking DFC lending to discussions of industrial and financial sector policies.

The experience with Loans 1148-KE and 1438-KE largely bore out the problems foreseen by the earlier PPAR. During the period under review (1980 through 1985), IDB's portfolio quality deteriorated sharply, reflecting inadequate project preparation and appraisal, poor supervision and intertia within IDB to tackle these problems (paras. 5.04-5.06). Moreover, difficult economic conditions during the period, which included initial macroeconomic disequilibrium and, later, a substanttive -- and successful -- stabilization program contributed significantly to IDB's poor perforamnce (paras. 2.01 - 2.03). Low domestic demand for manufactured goods, constraints on the availability of foreign exchange for imported inputs and substantial devaluations of the Kenyan shilling all had a deleterious effect on IDB's clients. In addition, the financial sector in Kenya had grown and evolved significantly since IDB's inception, increasing competition, particularly for loans to strong projects. Finally, IDB was subjected to political influence during part of this period, further eroding its portfolio quality and staff turnover was high.

Beginning in late 1984, IDB embarked on a serious effort to strengthen its collections performance and profitability. Although IDB's loan appraisal and supervision functions have improved and it showed profits in 1985 and 1986, these internal changes will not be enough to turn around the institution. Because of increased competition for good projects and the unattractiveness of IDB's products (foreign currency denominated loans), IDB will not be able to lend its way out of its poor portfolio. At the same time, it has found it impossible to mobilize local currency resources because of its own poor portfolio and lack of collateral. Therefore, IDB's portfolio requires significant restructuring and a fresh look at IDB's role, its strategy and its structure is necessary for it to be viable (paras. 6.01 -6.03). This restructuring is beginning now under an Industrial Sector Adjustment Credit.

The lessons learned for the Bank from its relationship with IDB should be instructive for DFC operations throughout Africa and in other countries. First, it appears that Bank staff underestimated the degree to which politics could be brought to bear on IDB. Second, our involvement in the industrial and financial sectors during that period focused very narrowly on IDB and another DFC client and supervision appears to have been preoccupied with subproject reviews, appraisal criteria and other internal matters. Despite the Bank's involvement in the development of two Structural Adjustment Loans during the period under review, little analysis appears to have been done on the impact of stabilization and liberalization on the corporate sector and financial system, and in particular, on IDB and its clients. Consequently, we were not aware of the depth of the financial distress within IDB's portfolio until very late. Finally, Bank staff and IDB should have looked much earlier at ways to diversify IDB's resource base (especially vis-a-vis domestic currency resources) and products so as to keep up with Kenya's increasingly competitive financial system. The traditional DFC model as embodied by IDB is nearly obsolete today in Kenya's financial system. All in all, our involvement under the two Loans reviewed added little value to IDB and to Kenya's industrial and financial sectors, particularly in the areas of institutional strengthening and policy reform. These still-present policy and institutional issues are being tackled under two upcoming policy-based operations: the Industrial Sector Adjustment Credit and a Financial Sector Operation (paras. 6.01-6.03).

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

I. INTRODUCTION

1.01 The PPAR (Report No. 3944) chronicles the origins and early development of IDB and experience with the Bank's first loan to IDB. Although during the mid- to late 1970s IDB showed satisfactory progress in developing its own cadre of staff and building up its portfolio, the early 1980s witnessed a sharp deterioration in the quality of IDB's portfolio, resulting in lower profitability and tight liquidity.

1.02 Most recently, the upturn in the economy and vigilant attention to portfolio supervision by IDB have resulted in some improvements in its profitability, liquidity and portfolio performance. The Bank has played a significant role in IDB's evolution over the past 13 years, providing four loans (Nos. 946-KE, 1148-KE, 1438-KE and 1817-KE) totalling US$65 million. The second and third lines of credit, 1148-KE and 1438-KE (US$10 million and US$20 million, respectively) were fully disbursed by 1984. The following table illustrates the terms and conditions of these two lines of credit:

Table 1: Bank Loans to IDB
Loans 1148-KE and 1438-KE

	1148-KE	1438-KE
Date Signed	July, 1975	June, 1977
Interest Rate	8.50%	8.20%
Total Loan Amount	US$10 million	US$20 million
Free Limit	US$400,000	US$600,000
Aggregate Free Limit	US$2 million	US$4 million
Onlending Rate 1/	10-11%	11% minimum
Agreed Maximum IDB Debt:equity ratio	3:1	3:1

1/ No interest rate covenant for Loan 1148-KE.

1.03 Commitments and disbursements for the two loans proceeded more slowly than anticipated, and US $ 1.8 million was cancelled from Loan 1438-KE. Designed as follow-on projects, Loans 1148-KE and 1438-KE incorporated few changes in IDB's policies or strategy, and emphasized strengthening the still new institution. Loan 1148-KE required a one year extension of the closing date for full disbursement. Loan 1438-KE took 5 months longer than envisaged at appraisal to disburse and US$1.8 million was cancelled.

1.04 By 1980 the Bank had recognized the need for consolidation within IDB. In 1979-80 the Bank was negotiating a second Structural Adjustment credit with Kenya, focusing on rationalizing the country's protective regime, increasing export orientation, improving project selection criteria and rationalizing interest rate policies. The Bank hoped to help IDB embark on a consolidation program, including improvements in appraisal and supervision procedures, greater selectivity in investment decisions through better financial analysis, improved monitoring of the equity portfolio, a decrease in the level of new equity investments, and restraining administrative costs.

1.05 Unfortunately, IDB's performance during 1980-1985 fell short of the Bank's expectations. Projects continued to be import-dependent, and few showed much export potential. Although IDB gradually improved its appraisal procedures, it implemented a consolidation program more slowly than anticipated, and was particularly slow in developing a strong portfolio monitoring and debt collection capability. In addition, the 1982-84 recession produced foreign exchange shortages, slack demand and spiralling debt service burdens for Kenyan manufacturers with foreign-denominated debt. Thus, IDB's arrears worsened during 1980-85. Today, despite some recent improvements, IDB's portfolio continues to be one of the weakest in the region, with serious repercussions for its profitability and liquidity.

II. MACROECONOMIC AND SECTORAL SETTING

2.01 Although the Kenyan economy and the manufacturing sector in particular underwent significant expansion during the 1970s, they did so under policies that would later constitute constraints to further development. In particular, trade and exchange rate policies turned the internal terms of trade against agriculture, and encouraged inefficient production and over-dimensioning of particular subsectors. Moreover, while the manufacturing sector continued to grow, it remained highly capital-intensive and import-dependent. In recent years, Government increasingly emphasized, in its Fourth and Fifth Development Plans (1979-83 and 1983-88), tariff rationalization, export promotion, the phasing out of quantitative import restrictions, and private sector development rather than the excessive Government spending of the past.

2.02 Actual growth of the Kenyan economy during the first half of the 1980's has been less bouyant than projected in the Fourth and Fifth plans. The external terms of trade deteriorated sharply with the second oil crisis, and an erosion of fiscal discipline arrived in the wake of the mid-1970's "coffee boom". By 1980, the current account deficit had reached 12.5% of GDP and the Central Government budget deficit was 9.5% of GDP. After 1980, Government took important steps to redress these imbalances, trimming its budget deficit, permitting real wages to fall, restricting imports and allowing interest rates to become positive in real terms. A major devaluation in December 1982 restored the real effective exchange rate back to its 1976 level, and Government has continued to adjust the rate so as to avoid any sustained appreciation of the real exchange rate.

The stabilization program, combined with a severe drought that hampered agricultural output, led to a decline in real GDP per capita of about 5% in real terms, and investment declined 25% in real terms between 1980 and 1985. The current account deficit also declined to about 5% of GDP by 1985, and Government reduced its budget deficit from 9.5% of GDP in 1980 to about 5% in 1985. The manufacturing sector suffered a similar decline, with 1984 investment levels amounting to only 63% of 1980 levels in real terms. Manufactured exports also declined from a high of 26% of total exports in 1980 to 18% in 1984.

2.03 In view of the economy's structural problems and adverse exogenous developments (deterioration of the terms of trade, drought), the deceleration of growth and decline in per capita incomes were inevitable. Fortunately, Kenya has been able to manage the deceleration in a fairly orderly fashion. Kenya, however, has not been as successful in setting the stage for renewed growth, and export volumes and investment levels continue to languish. Prospects for the Kenyan economy, and for the industrial sector in particular, while currently bouyant because of high world coffee prices, will depend, in the medium term, on how rapidly Government can increase the pace of implementation of policy measures to increase the efficiency and volume of investment, expand exports and mobilize domestic resources.

2.04 Financial Sector. Kenya's diverse financial system includes a central bank, 21 commercial banks, 34 non-bank financial institutions (NBFIs), 30 insurance companies, a postal savings bank, a social security system, numerous pension plans, six industrial development banks, a stock exchange and over 900 savings and credit cooperatives. Despite this diversity of institutions, Kenya's financial sector has not realized its full potential in mobilizing term resources for the industrial sector. Although Kenya does mobilize substantial term assets in the form of social security deposits, pension contributions and insurance reserves, these funds remain largely either in government securities or short-term deposits, rather than being lent to the private sector. Banks are reluctant to make long-term loans because: (i) Government-imposed interest rate ceilings do not allow differentiated interest rates for different maturities and/or levels of risk; (ii) the development banks, the primary vehicles for term financing to industry, have performed poorly and are considered unattractive investments; and (iii) relatively high inflation in the past (25% in 1980-81, 18% in 1981-82, and about 9% 1982-85) made investors wary of holding long-term securities. Indeed, interest rates were negative during the period 1980-1982, and have only become positive as inflation declined in 1983.

2.05 The commercial banks dominate the banking system. Four banks (Kenya Commercial Bank, National Bank of Kenya, Standard Bank and Barclay's Bank of Kenya) hold nearly two-thirds of total bank deposits in Kenya, although this percentage has declined recently, because of the rapid growth of the NBFIs. NBFIs can charge higher lending rates than commercial banks (19% vs. 14%) and have also earned more than the nominal ceiling rate by charging additional fees and altering their basis for calculating interest. The higher effective lending rates (sometimes as high as 25-30%) have enabled NBFIs to pay more for deposits. NBFIs have expanded their

share of credit outstanding from 23% in 1976 to 35% in 1984, and have been particularly important in lending to manufacturing firms (largely through hire-purchase facilities). Recent legislation has removed NBFIs' ability to charge interest on a flat basis or to add supplemental fees, thus narrowing somewhat the gap between lending rates for NBFIs and commercial banks. Several of the NBFIs are also experiencing severe liquidity constraints.

2.06 Of the six development finance institutions (DFIs) operating in the industrial sector, Government directly or indirectly owns four: IDB, Kenya Industrial Estates (KIE), ICDC and the Kenya Tourist Development Corporation (KTDC). Government also has minority interests in the other two DFIs, the East African Development Bank (EADB), which also serves Uganda and Tanzania, and the Development Finance Corporation of Kenya (DFCK), which is privately controlled. The Bank group has made funds available to KIE, IDB and EADB and DFCK (the latter through IFC). Together, the assets of the six DFIs amount to about 12% of the combined assets of commercial banks and NBFIs. Traditionally, the DFIs have entered niches largely neglected by commercial banks and NBFIs: term lending, equity investments and lending to small-scale enterprises. Political considerations have also often played a part in lending decisions in many of the DFIs. At present, the DFIs have high arrears, low profitability and often have over-extended management and duplicative programs. This poor financial performance has also contributed to liquidity problems, and in particular, to a lack of Kenya shilling resources with which to finance the local cost components of projects. Although the DFIs are classified as NBFIs, as "development" institutions they have been reluctant to raise lending rates on local currency loans much above 15-16%. As a result, they have been unable to offer competitive rates for deposits or local borrowings, and thus have not been able to tap Kenya's significant pool of domestic savings.

III. THE INSTITUTION

3.01 The Bank's appraised Loan 1817-KE in 1980 presented an opportunity to discuss the following issues:

(a) Consolidation strategy for IDB: During the late 1970s, IDB's approvals grew at an average annual rate of 25% in real terms, and IDB became the leading term lending financial institution in the industrial sector. This rapid rate of growth, however, ultimately exacted a high cost in the deterioration of the quality of IDB's appraisals, project supervision and debt collection performance. IDB agreed to formalize and implement a strategy of selective growth and consolidation for the period 1980-82; establish a Loan Committee to screen all new project proposals and review problem projects; create an asset management section within IDB's finance department to supervise IDB's equity investments; and limit total equity investments to not more than 80% of its Class "A" subscribed shares during the commitment period of the Bank loan. Although IDB's approval rate did not slow until after 1982, it implemented several of the other reform measures.

(b) IDB Profitability: IDB continued to make losses in the late 1970s because of high administrative costs, low returns from its equity portfolio, and increasing bad debt losses. In 1980 IDB agreed to limit the number of employees to 1979 levels and control its other administrative expenses. In addition, IDB agreed to increase loan spreads by raising interest rates on foreign currency loans to at least 12%. It later increased its interest rate on foreign currency loans to 13% and its rate for local currency loans to 14% (although recently it has charged 15-16% for some local currency loans). Profitability improved marginally in the 1980s (para. 5.09), but continues to be low because of poor portfolio performance.

(c) Provisions Policy: Until 1979, IDB had no accumulated provisions for possible losses, and only took writeoffs when realizing losses. Continuation of the existing ad hoc approach might have encouraged under-provisions over time, thus misrepresenting IDB's true financial situation. During negotiations for Loan 1817-KE, IDB agreed to create provisions in its accounts in accordance with sound commercial and accounting practices, accumulating by December 31, 1982 to not less than 3% of the value of its portfolio. IDB's accumulated provisions now exceed this amount, but its high level of arrears may necessitate even higher provisions (para. 5.06).

(d) New activities: IDB is a NBFI under Kenyan law, enabling it to accept time deposits and thus increase its local currency resources. IDB had also considered other activities, such as financing working capital, letter of credit operations, financing warehouses, etc. While supporting the direction of these activities in that they diversified IDB's sources of revenues and would help generate much needed local currency, the Bank was concerned that such activities should not add to IDB's administrative overheads and that they contribute to its profitability.

(e) Financial Covenants: Annex 11 shows IDB's compliace with the major loan covenants under Loans 1148-KE, 1438-KE and 1817-KE. The debt:equity ratio covenant was changed for 1817-KE (moving 3:1 to a 4:1 maximum). Nonetheless, IDB expressed the concern that a 4:1 debt equity limitation might unduly restrict IDB's future operations. The subsequent slowdown in IDB's approvals, however, has eliminated the need for a higher gearing ratio. IDB has largely complied with the other financial covenants, although foreign currency risk has presented problems for many of IDB's borrowers, given the significant decline in the value of the Ksh vis-à-vis other major currencies. In addition, because of timing differences (clients repaying IDB after IDB has repaid donor agencies), to date IDB has made some small profits on its foreign exchange transactions.

3.02 Ownership. IDB's ownership structure did not change during the period 1980-85, although the existing shareholders provided an additional US$10.3 million equivalent in additional share capital (Annex 11). Government directly or indirectly through parastatals owns 100% of IDB's share capital. IDB's shareholders include Government (58.2%), ICDC (12.1%), Kenya National Assurance Company (9.9%), National Bank of Kenya (9.9%) and Kenya Reinsurance Corporation (9.9%). Because of IDB's lackluster performance as well as liquidity constraints for some shareholders (ICDC and NBK in particular), IDB's shareholders have been reluctant to provide much additional share capital in recent years, despite IDB's lack of domestic currency resources.

3.03 Management and Organization. IDB's Board consists largely of civil servants and representatives from the shareholding parastatals. Both the Chairman of the Board and the Managing Director are political appointees. Because of Government interference in decision-making, IDB's management and Board have not had sufficient automony in project approvals or in winding up poorly performing projects. Recently, however, this interference has been less problematic, although the general centralization of decision-making in Kenya has resulted in significant delays waiting for Government approval on many small, administrative matters. Prior to 1980, IDB had 3 Departments (Finance, Administration and Operations) with 4 divisions under the Chief of Operations: Investments, Project Advisory Service, Investigations (appraisal) and Research and Promotion. The appraisal mission in 1979 suggested that IDB institute a Loan Committee to review project proposals prior to Board approval and an asset management function (for monitoring the equity portfolio) within the Finance Department. The Loan Committee functioned well during project implementation, but the asset management function never really materialized as envisaged, and instead was subsumed into normal project supervision. Project supervision and debt collection remained the weakest functions within IDB during the past 5 years. Organizationally, responsibility for debt collection has often been unclear, moving from operations to finance and back again. On the positive side, shifting responsibility for project implementation to the appraisal department enabled the already overstretched supervision staff to focus more fully on problem projects. IDB rationalized its organization further in 1985, merging the research and development division with appraisals, creating a debt collection unit within the operations department and giving the supervision/debt collection division a stronger manager. This strengthening of the supervision/collections function has facilitated the development of more project-specific action programs for arrears-affected loans.

3.04 Staffing and Training. Annex 1 shows the evolution of IDB staffing during 1981-85. Despite an agreement during negotiations to freeze IDB staff at its 1979 levels, IDB hired 47 new staff during the 1980-85 period (mostly in 1981), particularly support personnel, finance and computer professionals. Overall staff levels have remained roughly constant since 1981 and IDB's administrative costs remained satisfactory at 2% of average total assets. Low morale and salaries helped fuel the loss of professional staff, who left for other Kenyan financial institutions. Although IDB was slow at first to fill professional staff vacancies, most of the key positions have now been filled. IDB has also instituted a virtual freeze on support staff hirings and has given priority to filling operations department vacancies, although the supervision function remains understaffed. IDB, along with the other Kenyan parastatals, received an 11% overall increase in its salary structure for 1986, and similar

increases are expected during 1987 and 1988. IDB's salary classification did not change, however, and thus IDB will remain less attractive than Government-owned commercial banks, whose higher classification enables them to pay higher salaries. IDB has consistently provided excellent training to its staff, both in-house and through overseas seminars and universities. During 1981-85, 88 professional staff spent over 500 staff weeks in training programs. Most of IDB's training costs have been met by funds from bilateral donors.

3.05 Procedures. During the course of loan supervision, Bank missions noted major weaknesses in IDB's procedures and recommended measures for alleviating them.

(a) Appraisals. The rapid growth in appraisals during 1980-82 contributed to a deterioration in their quality, particularly in terms of market and financial analyses, assessing the capabilities and resources of project sponsors, and determining adequate implementation and grace periods. The creation of the Loan Committee and the slowdown in approvals which began in 1983-84 helped facilitate more thorough reviews of project proposals, although some weaknesses remain in market analysis, assessing management capabilities and developing viable financial restructurings for problem projects.

(b) Supervision. Supervision staff levels have often been inadequate for tackling IDB's troubled portfolio. Until recently, IDB's supervision activities remained monitoring-oriented. In 1984-85, however, IDB began to prepare individual "action plans" for problem projects, and was taking a more active role in solving the problems of its client firms, by preparing financial restructuring plans, hiring short-term consultants to assist projects, etc. It also added professional staff to the monitoring division, established a consultancy unit and created a separate debt collection unit to follow-up on projects in arrears.

(c) Debt Collection. IDB did not have a separate debt collection unit until 1984. In 1985, IDB moved debt collection to operations and created a committee of high level officers and managers (including the Managing Director) to follow up on individual delinquent projects. IDB rescheduled about 30 loans in 1984-85, with the new payment schedules being largely followed. Consequently, IDB's collections ratios improved significantly during 1985, although the portfolio as a whole remains heavily affected by arrears (para.5.04).

(d) Accounting and Data Processing. IDB's accounting staff is relatively strong although audit reports have often been delayed because of reconciliation difficulties and discussions about provisions. IDB has experienced difficulty in the installation and use of its minicomputer system, however, primarily because of the lack of in-house systems analysis and programming expertise. In addition, IDB has not regularly prepared forecast and actual cashflow statements. IDB has now purchased a microcomputer for portfolio monitoring and project analysis and has hired two experienced analysts. It has also discussed its computer problems with its external auditors, and is making the necessary revisions.

(e) Money and Banking Activities. During 1982-83 IDB established a money and banking unit in the finance department for collecting short-term deposits, making working capital loans, and providing letter of credit and foreign exchange services to clients. Shortly thereafter, however, the Bank became concerned about the soundness of some of IDB's domestic currency working capital loan operations, which were often made to delinquent clients at low margins and were poorly monitored. After strong urging from the Bank, IDB largely disbanded the money and banking unit and discontinued making domestic currency working capital loans. Since 1985 a revived unit has focused more on gathering deposits and providing letters of credit, and is exploring the possibility of discounting high quality receivables for selected clients.

IV. ALLOCATION OF THE LOANS

Loan 1148-KE

4.01 IDB committed the full US$10 million allocated for Loan 1148-KE over a period of about 2 1/2 years. These 13 subloans, all in the private sector, ranged in size from US$129,869 to US$1.3 million, and 11 were above the free limit. Total project costs for these 13 projects amounted to US$123.1 million, with the Bank financing on average about 8% of these costs. The Bank's share of financing varied widely, however, ranging from 2.4% to 43.3% of total project costs. Interest rates charged on the subloans ranged from 10% to 11% (no interest rate covenant), and maturities ranged from 7 to 12 years, including grace periods.

4.02 Annex 2 summarizes the key characteristics of the subprojects approved under the line of credit. As of March 31, 1986, all but one project were operational (currently in receivership) and three had prepaid their loans. Despite the strong bias toward capital intensive subsectors (plastics, chemicals, metals), the projects have created 7,316 jobs at a reasonable cost per job of about US$16,800 per job--considerably lower than for the two subsequent lines of credit. Cost per job ranged from US$8,240 for a glassworks to US$79,000 for an expansion/diversification for a manufacture of PVC cables. The one failed project, Kenya Furfural, had a high estimated cost per job of over US$120,000. Were it employing the anticipated 220 workers, it would have had an actual cost per job of US$167,000.

4.03 Although at present only two of the 13 projects are categorized as major problem projects and a third is in receivership, two other project financed under the line of credit have experienced serious problems and were rehabilitated and restructured by IDB and the other creditors. These two, and a third project (all textiles) experienced poor management and fierce competition from imports and from other domestic manufacturers. Kisumu Cotton Mills (now Kicomi) has been perhaps the most successful of the three rehabilitations, as it changed its shareholders and management, revamped its marketing strategy and substantially restructured its capitalization. The other two, Rivatex and Yuken, continue to have high accumulated losses; indeed, Rivatex has negative net worth.

4.04 Overall, performance of the subprojects financed under Loan 1148-KE was disappointing. As of March 31, 1986, all of the loans not fully repaid were affected by arrears of three months or more and arrears amounted to about 38% of total amounts outstanding--a level much higher than that for the portfolio as a whole. Arrears from these loans amounted to 21% of IDB's total portfolio, while the underlying loans accounted for 16% of IDB's total portfolio. In the case of Kenya Furfural, Yuken Textiles, Kenya Glassworks and Salt Manufacturers, arrears of 3 months or more amount to more than 50% of total amounts outstanding for each loan. The poor performance of subloans under this line of credit lies in: (i) poor project design and technological problems; (ii) inadequate market analysis; (iii) infrastructural constraints (i.e., inadequate water supply for a textile plant); (iv) price controls which limited margins; (v) competition from imports; and (vi) rising debt service on foreign exchange denominated loans with the devaluation of the KSh.

4.05 Subprojects under 1148-KE were also highly import dependent for their raw materials, which exacerbated pressure on operating margins when the KSh was devalued. In addition, only two projects of the 13 were expected to have significant export sales and one of them--Kenya Furfural--is in receivership and is not operational. Six of the thirteen projects dependent on imports for 50% or more of their raw materials.

4.06 IDB calculated ex-ante financial rates of return for all 13 projects and economic rates of return for eleven. The average estimated financial and economic rates of returns were quite close--22% and 19.6%, respectively--but the divergence is quite wide for projects subject to price controls or import restrictions. The estimated FRRs ranged from 12.6% to 35% while the ERRs ranged from 12% to 28%. The poor repayment record and low profitability of the subloans suggests that actual rates of return are considerably lower than the estimates.

Loan 1438-KE

4.07 IDB committed US$ 18.2 million of the original US$ 20.0 million under Loan 1438-KE for 16 projects. 11 of the 16 projects were above the free limit (US$ 600,000). Total estimated project costs for these 16 projects amounted to US$ 169.1 million, with the Bank financing on average about 11% of total project costs. The 12 above free limit subloans ranged in size from US$ 609,140 to US$ 3,168,530 (37.6% of estimated project costs) for a wire rod manufacturing plant. The 4 below free limit subloans ranged from US$ 133,097 to US$ 525,210. Interest rates charged ranged from 11% (minimum stipulated in the loan agreements) to 12.5%, and maturities ranged from five to twelve years, including grace periods.

4.08 Annex 3 summarizes the key characteristics of the subprojects approved under Loan 1438-KE. As of March 31, 1986, all 16 projects had finished the implementation stage; one had prepaid its loan to IDB, and two had gone into receivership. The projects were expected to create 2579 jobs at a high average cost of US$65,582 per job. Three projects had average costs per job above US$ 100,000: Synresins, Pan African Paper Mills, and Madhupaper. Both Pan African Paper Mills and Madhupaper were expansions of highly capital intensive operations. Without these three projects, the average estimated cost per job amounted to a still high US$48,572.

For the projects with actual job creation data, the average cost per job (again excluding Madhupaper, Pan African Paper Mills and Synresins) was a high US$ 65,238.

4.09 Significant cost overruns contributed to the high actual costs per job. Although on average the 16 projects had overruns of about 22%, five had overruns amounting to 50% or more of estimated project costs. The factors contributing to these overruns included poor project design, poor choice of equipment or technology, underestimates of time necessary for implementation, delays in project implementation (restricted access to import licences, agreements with technical partners or Government) and some changes in project scope. Significant delays (in some cases up to 2 years) also led to price escalations arising from inflation and devaluation of the Kenyan shilling. As a result, the projects often faced higher debt service obligations than originally anticipated, with repayments coming due before commercial operations had begun.

4.10 Several projects continued to experience difficulties after project implementation, due to import restrictions imposed during 1982-84, shortages of domestic raw materials, or Government policies (low sugar prices for Nzoia Sugar, change in duties affecting Special Steel). Additionally, overly optimistic market assessments resulted in poor performance of several projects. Consequently, subloans approved under Loan 1438-KE have high arrears, with 12 of 16 loans having arrears over three months, and 92.5% of the portfolio affected by arrears as of March 31, 1986. Arrears of three months or more amount to 27% of amounts outstanding.

4.11 On average the subprojects financed under Loan 1438-KE appeared less import-dependent and more export-oriented than those financed under earlier loans, but many projects continued to be inward-oriented. Of the four hotel projects financed, which were expected to produce significant foreign exchange earnings, only one has been successful. Only three manufacturing firms have had significant export sales: Double Diamond, Pan African Paper Mills and Kaluworks. Of the sixteen subprojects, 6 depended on imports for 75% or more of their raw materials, and only four manufacturing projects used primarily domestic raw materials. Tourism accounted for 4 subprojects and 20% of amounts approved, while metals accounted for 5 subprojects and 35% of amounts approved. Both subsectors have experienced difficulties during the period under review.

4.12 IDB calculated ex-ante financial and economic rates of return for all 16 projects, but has not provided ex-post rates of return. The estimated FRRs ranged from 11% to 52%, averaging 25%, while the estimated ERRs ranged from 12% to 68%, with an average of 30%. Profitability data available indicates that for many projects the actual FRR and ERR would be significantly lower than anticipated. Indeed, seven of the 16 projects have accumulated significant losses, and several have negative net worth.

4.13 Projects under Loan 1438-KE were largely split between new and expansion/renovation projects. Although both new and expansion projects have had difficulties, the greenfield operations were more likely to experience difficulties during implementation. The expansion projects

which experienced difficulties were those with weak management (Datini, African Tours and Hotels). Only three projects were located in rural areas. Annex 4 contains a description of selected projects financed under Loans 1148-KE and 1438-KE and their present status.

V. OPERATIONS AND FINANCIAL CONDITION

5.01 Operations. During the 1970s, IDB's total approvals increased about 14% per annum in real terms, significantly higher than forecast at the time of appraisal of the first loan. Its growth rate exceeded the estimated growth in capital formation for manufacturing in Kenya during this period because of strong promotion and successful resource mobilization. Annex 5 shows IDB's approvals, commitments and disbursements (actual and projected) for the period 1981-85. During that time, IDB made 87 loans and 4 equity investments, with a significant slowing down of approvals occurring in 1983-84. IDB made virtually no domestic currency loans after 1981 because of its own resource and liquidity constraints. Total approvals during 1981-85 amounted to Ksh 581.7 million, or 63.5% of projected levels. Much of the shortfall in approvals arose from (i) the recession; (ii) shortages of foreign exchange during 1982-84; and (iii) IDB's efforts after 1983 to consolidate its operations. In addition, IDB's lack of local currency resources diminished demand for its foreign exchange loans, as it was unable to offer clients an attractive mix of domestic and foreign currency funds.

5.02 IDB made all its loans to industrial enterprises, but moved away from large, Government-sponsored projects and approved more loans to medium-scale enterprises, often to indigenous Kenyan entrepreneurs with limited experience. Consequently, average loan size declined significantly. Unfortunately, these projects were often more highly leveraged than larger enterprises (loan financing could exceed 75% of total project costs) with IDB often being the only term lender. Thus, IDB's exposure in individual projects has increased over time.

5.03 Commitments and disbursements have also been slower than anticipated, although during 1983-85 IDB improved its pace of commitments and disbursements. By December 31, 1985, however, undisbursed commitments remained high at US$ 15.3 million, because of (1) slow completion of loan documentation; (2) technical problems; (3) insufficient sponsors' contributions; and (4) delays in securing approval from external creditors. The delays in implementation often have had an adverse effect on IDB's portfolio performance (para.5.04), as many projects' grace periods expired and arrears accumulated before commercial activities could begin and projects faced significant cost overruns.

Portfolio

5.04 Loans. As noted in the previous PPAR, by 1980 IDB's portfolio already showed signs of serious problems. By 1980, 34% of the portfolio was affected by arrears of three months or more. Annex 6 shows the evolution of IDB's loan portfolio during 1981-85. As of December 31, 1985, IDB had 98 active projects in its portfolio, including 22 under implementation, for a total of Ksh 875 million in principal outstanding. Although growing 169% over 1981 levels in Ksh terms, the portfolio grew only 72% in US$ terms because of the depreciation of the Ksh since 1981.

IDB's portfolio has sharply deteriorated during the past 5 years, with arrears as a percentage of portfolio increasing from 18% in 1981 to 31% in 1985. Moreover, the arrears affected portfolio has increased significantly from 51% of portfolio in 1981 to 82% in 1985. 15 projects, amounting to 12% of portfolio, were under receivership at December 31, 1985. Owing to more intensive project monitoring and arrears follow-up efforts, collections ratios improved somewhat during 1985, to nearly 100% for the year. IDB has found, however, that many of its strongest projects are prepaying their loans (in order to avoid foreign exchange risk), thus leaving IDB a generally weaker portfolio for which improvements in collections will come more slowly. IDB also has a core group of about 20 major problem projects, the prospects for which are generally low.

5.05 IDB's portfolio shows a wide range of subsectors, but is dominated by three subsectors in particular: metal and engineering (27% of portfolio), tourism (22% of portfolio) and textiles (19% of portfolio). Although all three subsectors have many troubled projects (and nearly 98% of the tourism subsector is affected by arrears), other subsectors, particularly automotive, wood and mining/quarrying, have arrears in excess of 50% of total amounts outstanding. Many of these projects, particularly in wood, food processing and mining/quarrying, are medium-scale enterprises which were originally undercapitalized and had weak management. A summary of IDB's portfolio by subsector is shown as Annex 7.

5.06 IDB has accumulated provisions totalling about 9% of gross portfolio, but total provisions may still be less than are warranted given the pervasive arrears problem. A total of 45 projects, amounting to 45% of total amounts outstanding, have arrears of twelve months or more. Proposed accumulated provisions for 1985 total Ksh 89.4 million, or less than half of the amounts in arrears over 12 months. IDB suspends interest income for projects with arrears in excess of 24 months, and since 1983 has suspended about Ksh 42 million or 15% of total gross loan income. IDB is currently reviewing its provisions policies with its auditors, and the status of several projects with long-standing arrears and low provisions.

Equity Investments

5.07 IDB's equity investments as of December 31, 1985 amounted to Ksh 105.3 million in 27 companies. IDB's share of ownership did not exceed 30% except for three companies (Amgeco, Kicomi and Booth Manufacturing), and IDB does not have a majority position in any firm. Of the 27 firms, 13 are profitable, representing 32.5% of IDB's equity portfolio. The remaining 14 firms, including four in receivership, are performing poorly, and 8 of these 14 had negative net worth in 1985. IDB's dividend return on its total gross portfolio has also been disappointing during the past several years, falling well short of appraisal estimates. In 1984-85, IDB's dividend return for the total gross portfolio remained at about 3%. Returns on the 13 profitable companies alone have been somewhat higher (only 9 of these firms pay dividends), amounting to 9.6% in 1984 and 8.5% in 1985. IDB's equity portfolio covers a wide range of sectors, with the largest subsectoral representations being food, metal/engineering and tourism. Food projects account for 18.7% of IDB's equity investments: two of these, South Nyanza Sugar and Nzoia Sugar, are unprofitable because of low levels of capacity utilization and low sugar prices. IDB's largest equity holding (21% of the equity portfolio) is in Kicomi, a large integrated textile project in Kisumu, which has recently undergone rehabilitation and financial restructuring.

5.08 On balance, IDB's decision to use scarce domestic currency resources for equity investments has not been fruitful, as the average dividend returns have been lower than potential interest income (IDB can charge up to 19% on local currency loans). In addition, IDB's ability to capture capital gains on its investments has been low, as it finds sales of these investments, even profitable ones, difficult. Moreover, IDB's total unrealized return on the gross portfolio was a negative 10.5%, as IDB's share of net accumulated losses has wiped out its original investment in 12 out of 27 firms. Had IDB put these funds into local currency loans, the funds might also have had a greater chance of being recycled than they have had as equity investments. The poor performance of the equity portfolio has adversely effected IDB's profitability, as IDB has taken an adequate Ksh 28 million in provisions and writeoffs against the equity portfolio.

5.09 Financial Condition. During the 1970s, IDB's profitability was poor due to insufficient spreads, high administrative costs and poor portfolio performance which necessitated high provisions expenses. Annexes 8-10, which show IDB's projected and actual balance sheets, income statements and ratio analyses for the period 1981-85, demonstrate that IDB's profitability and liquidity continued to suffer during the period under review. Although actual interest income earned was close to projections, higher administrative costs and significantly higher bad debt provisions eroded IDB's profitability. Indeed, IDB made losses in 1981 and 1983, and its return on assets averaged a low 1.4% during 1981-85 compared to the projected 6.7% at the time of the appraisal of loan 1817-KE. Administrative costs averaged 2.2% of average total assets during the period, with a declining trend over time, from 2.5% of average total assets in 1981 to 1.9% in 1985. While the appraisal team had estimated that bad debt provisions would amount to about 0.5% of average total assets per year, actual provisions expense had to be increased to 3.0% per annum during the five year period. IDB's average spread has also been lower than anticipated, averaging 1.9% in 1981-1985 vs. the projected level of 3.9%. IDB's spreads have been lower than anticipated despite an increase in interest rates (to 13%-14%) because IDB needs to suspend interest on loans with arrears of two years or more. Indeed, in 1985 IDB's spread was a very low 1.2%, which in itself was inadequate to cover administrative costs and loan provisions. IDB showed a small profit in 1985, however, largely due to higher investment income, proceeds from the sale of some investments, and writebacks of earlier provisions.

5.10 IDB's balance sheet also reflects the weakness of its portfolio. Current ratios, adjusted to eliminate amounts in arrears from current assets, averaged a low 1.2:1 during 1981-85. IDB's liquidity hit its low point in 1982 (current ratio of 0.9), but subsequently improved steadily, and reached 1.5:1 in 1985. IDB has experienced liquidity problems because of its poor collections performance, low profitability and its inability to mobilize deposits (because it did not offer competitive yields for deposits). IDB's debt: equity ratio has remained well within the 4:1 limit stipulated at the time of appraisal of Loan 1817-KE, but has increased steadily from 2.1:1 in 1981 to 3.2:1 in 1985. IDB's leverage has risen faster than anticipated at appraisal because of (i) lower profitability, thus depleting IDB's reserves and retained earnings; (i) slow payment of new share capital; and (iii) devaluation of the Kenyan shilling, which increased IDB's foreign currency denominated debt in Kenyan shilling terms. The devaluation has similarly affected IDB's loan portfolio and arrears.

Resource Mobilization

5.11 As shown in Annex 12, IDB has been relatively successful in mobilizing external resources for its foreign currency lending requirements, receiving US $ 65 million in new lines of credit. Between 1980 and 1985, IDB received new lines of credit from IBRD (US $ 30 million), BADEA (US $ 10 million), the Swiss Government (US $ 10 million) and the African Development Bank (US $ 20 million). IDB has been less successful, however, in mobilizing local currency resources aside from additional share subscriptions from its existing shareholders. Between 1980 and 1985, IDB attracted US $ 10.3 million equivalent in new share capital, but found it increasingly difficult to do so as its own performance lagged and some of its shareholders (in particular National Bank of Kenya and ICDC) lacked the resources to meet capital subscription obligations. IDB has not borrowed locally or raised significant new deposits.

VI. CONCLUSIONS AND LESSONS LEARNED

6.01 Although IDB grew rapidly during the 1970s to become an important source of term finance to industry, its performance during 1981-85 was largely disappointing. Although the 1979 appraisal mission's diagnosis regarding the need for consolidation was largely correct, it was not until late 1984 that IDB made significant progress in slowing its pace of approvals and strengthening the institution. IDB has taken important steps to improve project supervision and collections. Loan appraisals have also improved somewhat and internal review mechanisms are generally working well. Nonetheless, the poor record of the projects financed under the two Loans demonstrate that the selection of projects remained weak well into the early 1980s.

6.02 These internal reforms, however, are not sufficient to make IDB viable. Because of increased competition for good projects and the lack of demand for foreign currency denominated loans, IDB will not be able to lend its way out of its poor portfolio. It will also need the political will and the cooperation of Government to restructure its portfolio and liquidate certain unviable projects. Although IDB has been successful at mobilizing external resources, it has been unable to mobilize local currency resources and thus diversify its financial base because of its poor portfolio and lack of collateral. Consequently, a fresh look at IDB's role and its structure are necessary in order to (i) fashion a viable strategy for IDB and the other industrial development banks in Kenya; (ii) restructure the existing portfolio; and (iii) provide the resulting institution(s) with the financial base, autonomy and professional skills necessary. This restructuring is beginning now under an Industrial Sector Adjustment Credit.

6.03 The lessons learned for the Bank from its relationship with IDB should be instructive for DFC operations in other countries. First, it appears that Bank staff underestimated the degree to which politics could be brought to bear on IDB. Second, our involvement in the industrial and financial sectors during that period focused very narrowly on IDB and another DFC client, while supervision appears to have been preoccupied with subproject reviews, appraisal criteria and other internal matters. Even as early as 1980, IDB was considered to be at worst a project with moderate problems, when in fact the arrears affected portfolio had reached 50 percent of total portfolio and bad debt provisions were minimal. Since IDB's profitability had been low through the 1970s, IDB's reserves were inadequate to weather the sharp deterioration in portfolio performance during 1982-84. Despite the Bank's involvement in the development of two Structural Adjustment Loans during the period under review, little analysis appears to have been done on the impact of stabilization and liberalization on the corporate sector and financial system, and in particular, on IDB and its clients. Consequently, we were not aware of the depth of the financial distress within IDB's portfolio until very late. The relationship with IDB also provides a telling example that the traditional DFC model -- channelling term foreign exchange loans to industry -- is finding it increasingly difficult to compete with other financial institutions, especially in dynamic financial sectors such as Kenya's. Today, facing a plethora of financial institutions and increasing bank liquidity in Kenya, IDB is often reduced to providing the most risky financial instruments to the riskiest clients. More attention should have been paid to the changing structure of competition in the financial sector in Kenya and in reorienting IDB to evolve within that framework.

Annex 1

Kenya
Industrial Development Bank (IDB)
Project Completion Report
Evolution of Staffing 1981-1985

Year ended December 31	1981	1982	1983	1984	1985
Total staff at beginning of year	94	121	122	111	118
of which support staff	65	87	87	80	78
of which professionals	29	34	35	31	40
Total staff who left IDB	6	2	16	6	4
of which support staff	4	-	11	3	1
of which professionals	2	2	5	3	3
due to resignation	6	2	15	5	4
due to termination by IDB	-	-	-	1	-
due to retirement	-	-	1	-	-
Total new staff during year	33	3	5	13	10
of which support staff	26	-	4	1	2
of which professionals	7	3	1	12	8
Total staff at end of year	121	122	111	118	121
of which support staff	87	87	80	78	76
of which professionals	34	35	31	40	45

IDF Division, Eastern and Southern Africa Region
June, 1986

Annex 2

Kenya
Industrial Development Bank (IDB)
Project Completion Report

List of Subprojects financed under Loan 1148-KE

Sub-Borrower's Name	Subproject No.	Sector	(US $) Amount Approved	Product	Type of Project
Rivatex	A-1	textiles	1,120,000	fabrics	new
Kenya Hotel Properties	A-2	tourism	644,000	hotel	expansion
Eslon Plastics	A-3	plastics/chemicals	735,294	plastics	expansion
Dawa Pharmaceuticals	A-4	plastics/chemicals	1,120,000	pharmaceuticals	new
AMEGECO	A-6	metals/engineering	446,485	ship repair	expansion
Booth Manufacturing	A-7	metals/engineering	961,630	aluminum	expansion
Salt Manufacturers	A-8	food	129,869	salt	new
Kisumu Cotton Mills	A-9	textiles	712,000	fabric/yarn	expansion
Kenya Furfural	A-10	plastics/chemicals	1,205,000	furfural	new
Kenya Glass Works	A-11	plastics/chemicals	1,309,275	glass bottle	modernization
Kenwestfal	A-12	metals/engineering	754,320	PVC cables	expansion
Steel Billets	A-13	metals/engineering	638,427	steel billets	new
Yuken Textiles	B-1	textiles	223,700	garments	new
Total			10,000,000		

KENYA
INDUSTRIAL DEVELOPMENT BANK
Project Completion Report
Listing of Subprojects Financed Under
Loan 1438-KE

Sub-borrower's Name	Subproject No.	Sector	Products	(US $) Amount Approved	Type of Project
Steel Billets Casting	A-1	metal	steel billets	1,038,992.80	new
Kaluworks	A-3	plastics	enamel and plasticware	2,292,993.00	expansion
Nzoia Sugar Ltd.	A-4	food	sugar	1,975,309.00	new
Booth Manufacturing	A-5	metal	aluminum extrusion	265,224.00	expansion
Panafrican Paper Mills	A-6	paper	paper	609,139.84	expansion
Madhupaper International	A-8	paper	paper	1,255,466.00	expansion
Datini Mercantile	A-9	metal	wheelbarrows	827,324.00	expansion
Hotelspan	A-10	tourism	hotel	2,240,000.00	new
Gnanjivan	A-11	metal	screws, fasteners	1,075,050.00	new
Holiday Centre	A-13	tourism	hotel	1,053,848.24	new
Synresins	A-15	chemicals	paint, resins	1,142,300.00	new
Mumwe Investments	A-16	tourism	hotel	257,296.23	new
Specialized Steel Mills	A-17	metal	wire rods	3,168,530.00	new
African Tours and Hotels	B-1	tourism	hotel	133,097.00	expansion
Double Diamond Tanneries	B-2	leather	leather	332,292.55	new
Cabroworks	B-4	construction	roofing felt	525,210.00	modernization
			TOTAL	18,192,072.66	

IDF Division, Eastern and Southern Africa Region
June, 1986

Description of Selected Projects Financed Under Loans 1148-KE and 1438-KE

SPECIAL STEEL MILLS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Ruiru
Products	:	Wire rods
Other Lenders	:	FMO & Hawker Siddeley Power Engineering Limited
Loan outstanding as at 30.11.85	:	KShs. 53.06 million

Arrears as at 30.11.85

	KShs '000
Principal	817
Interest	9,984
Total	10,801

2. OPERATIONAL PERFORMANCE

	KShs '000		
	1983	1984	1985 (June)
Turnover	-	66,297	57,177
Profit (Loss)	-	(10,126)	(11,136)
Cumulative Profit (Loss)	-	(10,126)	(21,262)

3. BACKGROUND

Special Steel Mills Limited was incorporated on 30th May, 1980 to manufacture high quality wire rods, bars, rounds and squares at Ruiru Township. The project is fully owned by the Bhattessa Family. It started with an initial share capital of KShs. 23.0 million which has since been increased to KShs. 50.0 million through capitalization of KShs. 10.0 million from inter-company loans and KShs. 17.0 million from revaluation reserve account.

IDB's investment in the project is in the form of a term loan of US$ 3,168,526 equivalent which was approved by the Bank's Board of Directors on 30th April, 1980. At the time of approval the loan was equivalent to KShs. 240 million but because of the general devaluation of the Kenya shilling against major currencies in which the loan was disbursed, the loan is now equivalent to about KShs. 52 million. The loan had a moratorium of two years on principal to be repaid in fourteen half-yearly installments commencing June, 1982.

4. PROBLEMS

(i) Implementation: The project was originally expected to start commercial operations in January, 1982. However, there were delays of about twenty months resulting from delays in land sub-division and obtaining import licences for vital tooling and key machinery parts. Due to the delay, original project cost underestimates, and increase of duty on plant and machinery the project cost rose from the original estimate of about KShs. 64 million to KShs. 110 million. Actual commercial operations

started in the last quarter of 1983 and as such the project was not able to keep to the original loan repayment schedule. On August 9, 1982, IDB rescheduled the repayment program by three installments so as to commence in January, 1984.

(ii) Production: Although commercial production started in the last quarter of 1983, there was no trading during the year. Furthermore, whereas duty on imported billets was 10% and that on wire rods was 30% during project conception, it had now been made uniform at 25% thus eroding the original duty differential. As a result the project became non-competitive with imported wire rods and operated much below economic capacity level. It was not able to service its loans and on 14th September, 1984 IDB was yet again forced to reschedule the loan by four installments so as to commence in January, 1986.

5. PRESENT STATUS

As at 30th November, 1985 IDB outstanding loan was KShs. 53.06 million while principal and interest arrears had accumulated to a total of KShs. 10.8 million. Although production and sales have shown some marked improvement, the operations are well below economic level and the project is still not expected to generate sufficient funds to clear the arrears.

6. IDB ACTION

IDB is working with the sponsors ways of restructuring the company's financial obligations including the loan repayment schedule so that it will be in a position to clear the outstanding arrears. This may also mean holding discussions with the project's other financiers. In the meantime, IDB has given support to the company's request to the Government to restructure import duty on billets and wire rods.

GNANJIVAN SCREWS & FASTENERS LIMITED

1. BASIC DATA

Sector	: Metal products & Engineering
Location	: Ruiru
Products	: nuts & screws
Other Lenders	: Bank of Credit & Commerce
Estimated Project Cost	: KShs. 15.8 million
Actual Project Cost	: KShs. 26.5 million
Date operations begun	: December, 1982
Loan outstanding as at 30.11.85	: KShs. 11.93 million

Arrears as at 30.11.85		KShs'000
Principal		1,396
Interest		228
	Total	1,624

2. OPERATIONAL PERFORMANCE

	KShs'000 1982	1983
Turnover	634	4,992
Profit (Loss)	(1,171)	(7,288)
Cumulative Profit (Loss)	(6,764)	(14,052)

3. BACKGROUND

Gnanjivan Screws and Fasteners Limited was incorporated on 17th May, 1979 to manufacture high tensile and precision fasteners. The shareholders of the company are the Bhattessa Family (60%) and Nalin Nailworks Limited (40%). The latter company is fully owned by the Bhattessa Family. Originally the project was estimated to cost KShs. 15.8 million but was implemented at a total cost of KShs. 26.5 million.

IDB's investment of US$ 1,075,052 was approved on 25th July, 1979 to be repaid over 10 years (including 2 years moratorium), the first installment being due in December, 1981. The project was originally expected to start commercial production by July, 1980 but was delayed until end of 1982, as a result of which in March 1982 the IDB loan had to be rescheduled by three installments with the first payment due on 15th July, 1983.

As at 30th November, 1985 the IDB outstanding loan was KShs. 11.93 million while principal and interest arrears were KShs. 1.4 million and KShs. 228,000 respectively.

4. PROBLEMS

(i) Implementation: The project implementation was delayed for nearly two and half years due to a number of reasons. Security arrangements took a long time to finalize as the plot had not yet

been sub-divided. Central Bank took a long time to approve the technical collaboration agreement with GKN of Britain, and import licences were also delayed. Due to this delay there were cost overruns of nearly KShs. 11.0 million arising from inflation, exchange rate fluctuations and pre-operational expenses. The overrun was financed by the sponsors. Obtaining these finances also contributed to total delay.

(ii) Operational: Problems at this stage were lack of raw materials due to import licence problems, inability to generate bulk sales due to lack of vital laboratory testing equipment (hence could not guarantee the Kenya Bureau of Standards requirements) resulting in capacity underutilization. The initial problem of quality was overcome with the installation of quality testing equipment.

5. PRESENT STATUS

Although operations are still below projected levels, the company has continued to service the IDB loan satisfactorily. However Annual Accounts Reports are not provided in time.

KALUWORKS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Mombasa
Products	:	Household utensils
Date Operations begun	:	1968
Loan outstanding at 30.11.85	:	KShs. 8,085,540

Arrears at 30.11.85		KShs.
Principal		1,047,978
Interest		1,005
	Total	1,048,983

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985 June
Turnover	90,667	99,030	60,949
Profit (Loss)	-	4,882	6,386
Retained Profit (Loss)	-	4,231	6,567

3. BACKGROUND

Kaluworks Limited was incorporated in February, 1968 as a limited liability company to manufacture and trade in a wide range of household ware. The company is a wholly owned subsidiary of Kenya Aluminum Industrial Works Limited which is a holding company and itself wholly owned and controlled by the Chandaria Group.

IDB's investment of US$ 2,292,993 was approved on 26th April, 1978 for the expansion of the company's enamelware and plasticware capacities. The expansion was to involve the installation of a furnace with greater capacity and increasing the number of injection moulding machines with higher capacities.

By the time of IDB's loan approval the expansion was already underway and was expected to be complete in the last quarter of 1979. In the first quarter of 1980 the full project expansion was completed and production started.

4. PRESENT STATUS

The project has been operating without any major problems and its IDB loan servicing has been satisfactory.

STEEL BILLET CASTING LIMITED

1. BASIC DATA

Sector	:	Engineering and Metal Products
Location	:	Nairobi (Dandora)
Loan outstanding as at 30.11.85	:	KShs. 39.45 million

Arrears as at 30.11.85

		KShs'000
Principal		14,007
Interest		6,425
	TOTAL	20,432

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept)
Turnover	44,909	52,275	51,094
Profit (Loss)	430	4,492	5,074
Cumulative Profit (Loss)	(21,943)	(17,451)	(12,377)

3. BACKGROUND

Steel Billet Castings Limited was incorporated in 1978 with the objective of implementing a project to manufacture steel billets using locally available ferrous scrap. The major shareholders are Steel Rolling Mills Limited, IDB (12.5%) and individual private investors.

IDB's first loan investment of US$ 1,677,420 was approved on 22nd November, 1977. At the same time, an IDB equity investment of KShs. 125 million was approved by IDB's Board of Directors. A second loan investment of US$ 1,238,880 was approved on 14th June, 1978. Finally a local currency loan investment of KShs. 3.50 million was approved on 25th May, 1981.

The company started commercial operations in November, 1980 but continued to make losses until 1983 as a result of which losses accumulated to KShs. 22 million and Steel Billets could not service its loans. In the last three years the company has been registering some profits and is paying IDB in order to liquidate the accumulated principal and interest arrears. As at 30th November, 1985, principal and interest arrears stood at KShs. 14 million and KShs. 6.4 million respectively.

4. PROBLEMS

(i) Implementation: Production was originally expected to commence in April, 1979 but was delayed for nearly 18 months and commissioning of the plant was done only in October, 1980. The actual cost of the completed project together with revised working capital requirements of KShs. 21.7 million was KShs. 62

million resulting in cost overruns of KShs. 10 million. The delay in implementation was due to a delay of nearly 14 months before the agreement was reached between IDB and Standard Bank Limited on the issue of securities. A further delay of 4 months was due to non-availability of raw materials and mistakes in structural fittings which caused the work to be re-done. Machinery delivery was also delayed due to dock strikes in the harbors.

(ii) Production: Initially the performance of the project was below expectation principally due to low billet price realization, shortage of scrap and unavailability of adequate import licences for essential raw material inputs. While the problem of imported raw material inputs has now been solved, the project is still operating well below capacity due mainly to lack of locally generated ferrous scrap. A sister company has now been formed to produce more scrap through ship breaking in Mombasa, but continued competition from imported billets may limit their local production.

5. IDB ACTION

Because of financial problems experienced by the project, IDB on 29th November, 1984 rescheduled the loan repayment by six installments so that installments due in 1985, 1986 and 1987 would be payable in 1988. The company has agreed to make monthly payments of KShs. 500,000/= to offset the outstanding arrears.

ALPHARAMA LIMITED (DOUBLE DIAMOND)

1. BASIC DATA

Sector	:	Textiles and Leather Products
Location	:	Athi River
Products	:	Wet-Blue Leather
Original Project Cost Estimate	:	KShs. 6.0 million
Actual (final) project cost	:	KShs. 8.63 million
Date operations commenced	:	1981
Loan outstanding as at 30.11.85	:	KShs. 1.23 million
Arrears as at 30.11.85 (KSHS'000)		Nil

2. BACKGROUND

Alpharama Limited is the former Double Diamond Tanneries Limited which was owned by Mr. F.N. Macharia, Mr. K.L. Bhasin and Mr. S.N. Hamawi. The company changed its name after a change in ownership and management in December, 1982. The present shareholders in the company are Mr. F.N. Macharia (40%), Mr. A. Combos and Mr. H. Combos. The latter two are British citizens (residing in Kenya) and together have 60% shareholding in the company through a locally incorporated company, Intralga Limited.

IDB loan investment of US$ 333,750 was approved on 28th March, 1979. Although commercial operation of Double Diamond Tanneries Ltd. started in May, 1980 on schedule, two main setbacks adversely affected the company's financial position. First was the imposition of a ban on export of semi-processed hides and skins in June 1980, which was lifted six months later. More seriously, in December, 1981, the company had problems with health authorities in respect of the effluent treatment plant and discharge of treated water into the Athi River.

Immediately after taking over, the new company embarked on a major re-organization programme including modification of factory buildings, improvement of the effluent treatment plant, installation of reliable water supply and storage systems, and installation of additional machinery and equipment. This expansion programme resulted in quadrupling the project's tanning capacity and satisfactory servicing of the IDB loan. As at 30th November, 1985 the outstanding loan was KShs. 1.23 million while total arrears in principal and interest were nil.

3. PRESENT STATUS

The company is up-to-date in the servicing of IDB loans. It is, however, not possible to ascertain the actual financial position since the company has not yet provided the Bank with performance reports. However, the position may be assumed to be satisfactory on the basis of its loan servicing record and increased output.

HOTELSPAN LIMITED

1. BASIC DATA

Sector	Tourism
Location	Mombasa
Other lenders	PSP(UK), Kenyac, National Bank of Kenya
Estimated Project Cost	KShs. 43,000,000
Actual Project Cost	KShs. 110,000,000
Date operations begun	December, 1981
Loan outstanding as at 30.11.85	KShs. 47.33 million

Arrears as at 30.11.85	KShs'000
Principal	6,831
Interest	5,783
TOTAL	12,614

2. OPERATIONAL PERFORMANCE

	1983	1984	1985(Nov)
Turnover	31,756	39,116	40,645
Profit (Loss)	(17,826)	(19,074)	(11,836)
Cumulative profit (Loss)	(43,586)	(63,855)	(75,691)
Reserves (After valuation)	-	12,218	382

3. BACKGROUND

Hotelspan Limited was incorporated on 5th February 1979 as a private company for the purpose of developing and owning Diani Reef Hotel which is situated at the South Coast, Mombasa. The shareholders of the company are Sonotels International (75.12%), IDB (15.24%) and Siana Mara (9.64%).

IDB approved a term loan of US$ 2.23 million and equity investment of KShs. 4.9 million on 17th January, 1979. In November, 1980 IDB approved a second loan of US$ 1.05 million and further equity of KShs. 1.96 million bringing the total equity investment to KShs. 6.86 million. The original cost estimate for the 300 bed luxury hotel was KShs. 43 million and provided for expansion to 500 beds. The final project cost escalated to KShs. 110 million. The first phase of the expansion is in the process of being implemented using loan finance from a Scotland Bank and E.C.G.D. guarantee.

As at 30th November, 1985, IDB outstanding loan was KShs. 47.33 million while principal and interest arrears had accumulated to KShs. 6.831 million and 5.783 million respectively.

4. MAJOR PROBLEMS

Implementation: This was expected to commence in January, 1979 but was delayed for one year while allocation of the plot was being negotiated with the Government. The plot was finally acquired in January, 1980 at a cost of K Shs 880,000 as opposed to the original assumption of acquiring it free of charge. Construction work began immediately and the project was commissioned in December, 1981. Although the original project cost was a mere KShs 43 million, it finally cost K Shs 110 million to complete. The main causes of these large cost increases were:

- delays in project start-up resulting in price escalations in imported items and the duties and sale tax. Long implementation period also increased professional and consultancy fees.

- devaluation of the Kenya shilling

- poor project planning and management

- omission of essential cost items such as land, laundry and kitchen equipment.

Operation: The company has been having marketing problems; both room and bed occupancy have been low especially during low tourist season. The company's losses have resulted in accumulated losses of about KShs 75 million.

5. IDB ACTION

In 1984 the term lenders agreed to reschedule loans. IDB is dissatisfied with the hotel's tariff structure and credit policies but management is adamant that the hotel is realizing the best rates and good efforts are being put in collecting the overdue accounts. IDB has decided not to make any further investment in the company for the proposed expansion.

DATINI MERCHANTILE LIMITED

1. BASIC DATA

Sector	:	Engineering & Metal products
Location	:	Nairobi
First Principal Repayment Date	:	December, 1980
Loan outstanding as at 30.11.85	:	KShs. 12.52 million

Arrears as at 30.11.85

Principal	KShs. 3.612 million
Interest	KShs. 2.153 million
Total	KShs. 5.765 million

2. OPERATIONAL PERFORMANCE (KSHS'000

	1982	1983	1984	1985
Turnover	12,100	12,198	12,103	15,042
Profit (Loss)	333	96	(3,413)	(131)
Cumulative profit (Loss)	(709)	(613)	(4,026)	(4,157)

3. BACKGROUND

The current shareholders of Datini Merchantile Limited acquired the company as a going concern in 1976. The project produces wheelbarrows, metal shelving and other metal products.

IDB loan investment in the project was approved on 25th October, 1978 for the purpose of completing a proposed expansion programme which was to triple the project's output. The expansion programme was completed in 1981 almost two years behind schedule, as a result of which commencement of loan repayment coincided with that of production. The company found itself in financial problems and after paying the first two installments it approached IDB for rescheduling of subsequent installments falling due in 1982. Although this was approved by IDB, the project was still not able to service its loans and arrears continued to accumulate.

4. MAJOR PROBLEMS

(i) In the last few years, several competitors have entered the market, particularly that of wheelbarrows. The company was not able to react appropriately because of poor marketing management.

(ii) The company is also experiencing working capital problems and has stretched its overdraft facility with Standard Bank to the limit.

(iii) As a result of the devaluation of the Kenya shilling, the company's debt level has almost doubled. This has meant higher service charges.

5. IDB ACTION

As a result of the continued poor performance by the company, IDB in November, 1984 carried out a detailed review of the project's operations and came up with recommendations on marketing, management reorganization, diversification of the product range and technical management improvement. With the implementation of these recommendations, the company's performance has improved with monthly sales picking up well. With some assistance from the Commonwealth Secretariat, the company is launching a diversification program which is aimed at boosting sales. A monthly repayment of KShs. 200,000 has been agreed on to help clear the arrears.

NZOIA SUGAR COMPANY LIMITED

1. BASIC DATA

Sector	: Food & Beverages
Location	: Bungoma District
Products	: Mill white sugar
Date operations commenced	: October, 1976
Loan outstanding as at 30.11.85	: KShs. 9.314 million

Arrears as at 30.11.85	KShs'000
Principal	1,914
Interest	63
TOTAL	1,977

2. OPERATIONAL PERFORMANCE

	KShs'000 (Actual) 31.3.85	(Actual) 31.3.84	(Projected) 31.3.85
Turnover	210,115	134,108	188,329
Profit (Loss)	(107,846)	(105,305)	(95,330)
Cumulative Profit (Loss)	(423,846)	(510,649)	(605,980)

3. BACKGROUND

The company was incorporated in August, 1975 and commenced commercial production in October, 1978. The paid up share capital of KShs. 210 million is subscribed by Kenya Government (94.8%), Five-Cail Babcock (2.8%), and IDB (2.4%). IDB loan investment of US$ 1,975,309 was approved on 26th October, 1977, while equity investments of KShs. 5.0 million was approved on 26th April, 1978.

4. MAJOR PROBLEMS

(i) Implementation: There were no major problems during implementation. The project started operations in time and was implemented at a cost of KShs. 548 million as opposed to the estimate of KShs. 542.4 million.

(ii) Operation: Since the company commenced commercial operations the trading results have been characterized by continuous losses. The main reasons for poor financial performance are: capacity under-utilization resulting from inadequate cane supply, lower recovery factor due to low quality and machinery inefficiency, heavy debt servicing due to high debt/equity ratio, poor loan terms and devaluation of the Kenya shilling and high cost of inputs and unmatched prices of sugar.

5. PRESENT STATUS

As a result of the poor performance the company was projected to register total losses of KShs. 606 million as at 31st March, 1985 and its net worth eroded to negative KShs. 366 million. The company is therefore technically insolvent.

The Government has continued to settle the long term French loans on behalf of the company having paid FF 152,667,274 an equivalent of KShs. 252.6 million as at 31st August, 1985. The company has, however, been servicing IDB loan regularly.

SYNRESINS LIMITED

1. BASIC DATA

Sector	:	Chemical, rubber & plastics
Location	:	Nairobi
Products	:	Alkyd resins, emulsion & polyster
Original Estimated Project Cost	:	KShs. 21.760 million
Actual Project Cost	:	KShs. 33.815 million
Date of commencement of operations	:	August 1982
Loan outstanding as at 30.11.85	:	KShs. 18.52 million

Arrears as at 30.11.85		KShs'000
Principal		3,126
Interest		2,072
	TOTAL	5,198

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Oct)
Turnover	8,100	25,680	35,170
Profit (Loss)	(6,500)	(2,772)	(248)
Cumulative Profit (Loss)	(17,229)	(20,071)	(20,319)

3. BACKGROUND

Synresins Limited is owned by Newtech Industries (Kenya) Ltd. which was incorporated in July 1976 to develop and promote a resins project in Kenya. IDB's investment in the project was approved on 19th December, 1979. The loan was payable in nine years including a two year moratorium so that the first installment was due in January, 1982. However, by the end of the moratorium period the project had not started operations and could therefore not meet the repayments. On 7th January, 1982 IDB rescheduled the loan by two installments so that loan repayment would commence in January, 1983. Even after the rescheduling, the company continued to accumulate arrears on principal and interest. IDB was again forced to reschedule the loan on 29th November, 1984 by four installments such that installments due in 1985 and 1986 would now be paid in 1990.

4. MAJOR PROBLEMS

(i) Implementation: The project implementation was delayed by about ten months due to delayed approvals of technical franchise and machinery supply agreement by Central Bank. This delay also led to cost overruns. There were also delays in commissioning due to problems in obtaining licences for raw materials required for project commissioning.

(ii) Production: During the first year of production, the level of operation was very low due to insufficient working capital and long delays in approvals of import licences for raw material. Although production improved in later years, the project still continued to experience problems of competition from imported products, lack of local raw materials and working capital. In 1985 the company's performance improved and overall production and sales were within the budget.

5. PRESENT STATUS

As at 30th November, 1985 the total IDB outstanding loan was KShs. 18.52 million while total arrears (principal and interest) had accumulated to KShs. 5.198 million. The company has been making monthly repayments of KShs. 240,000 so as to liquidate arrears. With the improved performance IDB may ask for enhancement of this amount.

AFRICAN TOURS AND HOTELS LIMITED

(BUFFALO SPRINGS LODGE)

1. BASIC DATA

Sector	:	Tourism
Location	:	Isiolo Game Reserve, Samburu
Other Lenders	:	A.T & H.L.
Date operations begun	:	1981
Loan outstanding as at 30.11.85	:	2.26 million

Arrears as at 30.11.86		KShs.
Principal		700,627
Interest		598,803
	TOTAL	1,299,430

2. OPERATIONAL PERFORMANCE

The company has not provided its audited annual accounts and reports since 1980 because it has not been able to meet audit fees due to the auditors.

3. BACKGROUND

The Lodge was started as a luxury tented camp in Isiolo Game Reserve, Samburu. African Tours & Hotels Limited became a major shareholder in 1977 when it acquired 51% of the shares. The balance was held by Isiolo County Council (41.4%), and other local investors.

IDB's investment of US$ 133,097 term loan and KShs. 810,000 equity (7.6%) was approved on 23rd March, 1979. The term loan is guaranteed jointly by African Tours & Hotels Limited, and Kenya Tourist Development Corporation. The project has continuously made losses because of poor performance resulting from failure to attract business as it cannot compete with lodges in the area. As a result, the IDB loan to the project has not been serviced and as at 30th November, 1985 the outstanding loan was KShs. 2.26 million while principal and interest arrears had accumulated to KShs. 700,626 and KShs. 598,803 respectively. The ATHL Directors want to reschedule the IDB loan.

4. PRESENT STATUS

The project needs a face-lift estimated to cost KShs. 2.4 million in order to compete with others in the area.

CABROWORKS LIMITED

1. BASIC DATA

Sector	:	Construction Industry
Location	:	Mombasa
Products	:	Roofing Felt
Date Operation Commenced	:	1963
Loan outstanding as at 30.11.85	:	KShs. 2.15 million

Arrears as at 30.11.85		KShs'000
Principal		134.10
Interest		0.49 CR
	TOTAL	133.61

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1982/3	1983/4	1984/5
Turnover	24,000	36,073	33,534
Profit/(Loss)	634	5,222	237
Cumulative profit/(loss)	579	5,800	6,406

3. BACKGROUND

Cabroworks Limited started operations in Mombasa in 1963 to produce roofing felt. The company is wholly owned by Cassman Brown & Company Limited. The company has increased its product range to include bitumen/asphalt and paving bricks. IDB's investment of US$434,582 was approved on 2nd April, 1980 for the purpose of expansion. The company's performance has been satisfactory and has been up-to-date in servicing of IDB loan. As at 30th November, 1985, the outstanding loan amounted to KShs. 2.15 million while total principal and interest arrears were KShs. 133,607.

4. MAJOR PROBLEMS

The company has not experienced any major problems. It will however, now face competition from a new company, Bitumen Products Ltd. a subsidiary of Venus Metals (A) Ltd.

BOOTH MANUFACTURING AFRICA LTD

1. BASIC DATA

Sector	:	Engineering & Metal Products
Location	:	Nairobi & Thika
Products	:	Aluminum extrusions and fire extinguishers
Loan outstanding as at 30.11.85	:	KShs.8.574 million

Arrears as at 30.11.85		KShs'000
Principal		46.34
Interest		942.19
	TOTAL	988.52

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept.)
Turnover	27,575	37,852	27,121
Profit/(loss)	2,121	3,942	2,949
Retained profit/ (loss) and reserves	10,101	16,130	-

3. BACKGROUND

Booth Manufacturing Africa Limited BMAL is a private company wholly owned by Kenya Aluminum Works Ltd (KALW) which is in turn wholly owned by the Chandaria Group. KAIW is itself a holding company owning and charged with the running (in addition to BMAL) of Kaluworks Limited in Mombasa, and Ideal Casements Ltd in Nairobi.

BMAL came into being in June 1973, when KAIW purchased the present manufacturing business from Booth Manufacturing Company Ltd., the latter being part of the British firm of Tombooth, whose activities are general trade and export.

IDB's first investment which was approved in 1976 was for an expansion and diversification programme in the industrial area, Nairobi. The diversification program involved putting up a new factory for the manufacture of extended aluminum sections. The second investment approved in 1977 was for re-location of the project (from Nairobi to Thika) and increasing the scope of the project to include facilities to manufacture copper and brass tubes. The Nairobi site was only adequate for aluminum tubes. Finally the third investment approved in 1978 was to finance part of the cost overruns.

4. PROBLEMS

(i) Implementation: The changes in the scope of the project and relocation resulted in long delays in project implementation. This, plus increase in built-up area, requirement for deeper foundation and increase in the cost of building materials and

power supply resulted in cost overruns of about KShs. 7.3 million.

(ii) Production: The performance of the Thika plant has been affected by competition from continued imports. Generally the project's performance is improving thus increasing the overall profitability of BMAL.

IDB ACTION

No special action is being taken by IDB apart from regular monitoring and pressing for loan repayment. The company is considering prepayment of the IDB loan.

PANAFRICAN PAPER MILLS LTD.

1. BASIC DATA

Sector	:	Paper & Pulp
Location	:	Webuye, Bungoma District
Products	:	Paper & Pulp
Date operation commenced	:	1975
Loan outstanding as at 30.11.85	:	KShs. 9.942 million

Arrears as at 30.11.85	KShs'000
Principal	26.932
Interest	14.722 (CR)
TOTAL	12.210

2. OPERATIONAL PERFORMANCE

	KShs'000 1983/84
Turnover	575,453
Profit/(loss)	47,856
Cumulative profit/(loss)	140,293

3. BACKGROUND

Panafrican Paper Mills Limited was incorporated in 1970 as a joint venture between the Government of Kenya (33.9%), Oriental Paper Mills (29.3%), IFC (24.9%), ICDC (5.6%), DFCK (1.6%), EADB (3.6%) and BODC (1.1%).

In addition to bleached and un-bleached paper, the company has introduced production of news print by installing a mechanical pulp section. Because of the diversity in type and quality of paper demand in the printing and paper conversion industry, the mill has had to adjust and now produces about 80 different grades of bleached paper.

The mill also has a caustic soda/hydro chloric acid plant that supplies its own requirements and supplies a surplus to the local market.

Dividends were declared in 1980, 1982 and 1983 but because of no price increases for a number of years, dividends were not declared in 1983. Inspite of a price increase of 7.5% which was granted in 1984 the trading results for 1985 recorded a loss of KShs. 9.0 million as a result of continued weakening of the Kenya shilling against major foreign currencies, rising costs of inputs and spare parts and inadequate price adjustment for the end products.

The servicing of IDB loan continues to be satisfactory and as at 30th November, 1985 the outstanding loan was KShs. 9.942 million while total arrears were only KShs. 12,210.

SALT MANUFACTURERS (K) LIMITED (SMKL)

The Project

Salt Manufacturers (K) Limited comprises salt harvesting works at Gongoni, (north of Malindi) and the refinery at Mombasa.

The project company was incorporated in May, 1974 and currently has K Shs 17.3 million authorized share capital with K Shs 15.5 million subscribed and paid up as follows:

	Ordinary Shares	Preference Share capital (KShs '000)	Total
ICDC	3295	2244	5539
IDB	2500	800	3300
ICDC Investment Company	1000	-	1000
Private Shareholders	1705	-	1705
Saltec International	4000	-	4000
Total	12500	3044	15544

Company long term debts totalled K Shs 16.74 million as of December, 1984.

IDB Involvement

SMKL was started as a joint venture between local bodies and Saltex International, an Italian firm. Saltex International organized the supply of project machinery, and was given an 8 year contract from 1975 to implement and manage the project. The project was to be carried out in two phases with the saltworks initially producing 50,000 and ultimately 80,000 tons of raw salt per year; and the refinery producing 10 tons of refined salt per hour of operation.

In 1974, IDB provided K SHs 2 million equity and US$336,000 in loans to SMKL, but due to increased costs during implementation, the Bank had by 1979 invested a total of K Shs 2.5 million in equity (21.7% shareholding) and US$1,017,851 in two loans in SMKL. The loans were K Sh 7.1 million equivalent at date of approval and were scheduled to be fully repaid by December, 1983.

Project Implementation

A major problem of SMKL project has been the prolonged implementation period and subsequent cost overruns. While the refinery at Mombasa was completed in 1977, the saltworks implementation dragged on for 4 years. A first salt harvest of 8600 tons were however made at the works in 1980.

Due to the poor management and long delay in implementation, project total cost increased from an estimated Shs 28.9 million to Shs 40.0 million.

Past Performance and IDB Loan Servicing

The delay in implementation of the saltworks meant that the refinery had to operate with imported raw salt supplies for longer than originally anticipated. Importing raw salt more than doubled the estimated cost of harvesting the raw salt at Gongoni. SMKL's initial performance was further adversely affected by the increased preoperating expenses and the poor, costly management under Saltec International culminating in the termination of the management contract in 1979. Due to these problems the company continued accumulating heavy losses until 1983. Since 1984, resulting from IDB active involvement in rehabilitation of the project, performance has drastically improved with profits increasing from Shs 3.39 million in 1983 to Shs 7.88 million in 1984. This has offset most of the accumulated losses.

Current Status

	1984	1985
Share capital	15,544	15,544
Total term debt	16,746	20,844
Gross fixed assets	39,362	36,601
Sales	58,826	34,795
Profit	7,884	3,394
Retained profit (Loss)	(2,775)	(10,659)

Arrears on the IDB Loan as at June 30, 1985 were:

Principal	Shs 10,232,000
Interest	Shs 559,000

Part of the principal arrears has been rescheduled and the company has been paying K Sh 500,000 per month to clear the interest arrears and part of the principal.

YUKEN TEXTILE INDUSTRY LTD.

1. Basic Data

Sector:	Textiles and Leather
Date of loan approval:	June 30, 1976
Amount of loan approved:	US$223,750
Arrears as at 30.11.85	K Shs '000
Principal	1,138,375
Interest	2,674,987
	3,813,362

2. Past Performance

	K Shs '000			
	1981	1982	1983	1984
Turnover	6,601	13,130	4,337	8,040
Net Profit (Loss)	(6,687)	(6,272)	(4,615)	(8,701)
Cumulative Profit/(Loss)	(18,995)	(26,026)	(30,642)	(39,344)

3. Background

Yuken was originally conceived as a joint venture between a Yugoslav group (Yugotextil) and ICDC. IDB was later invited to join as both a shareholder and lender. The original Yuken was therefore, owned by the three parties on an equal basis i.e. 33 1/3 per cent.

The company commenced operations in 1978 and since then performance has been poor. By the end of 1984, the company had accumulated losses totalling over K Shs 39 million. In 1983, ICDC took over total ownership of the company by buying out the shareholding of both the Yugoslav groups and IDB. The company also opened its own retail outlets through the incorporation of a subsidiary (Y-Fashions) which has consistently returned losses.

4. Major Problems

The problem of this company have been identified as poor management, lack of working capital and severe competition from other cheaper manufacturers. During Yuken's existence, various measures have been proposed and implemented but no appreciable improvement has been achieved. One major problem here has been that measures have been implemented on a piecemeal basis with very little contribution to the revival of the project.

5. Proposed Action

Agreement was reached in September, 1985 between the owners and landers on the implementation of a proposed rehabilitation programme which involve additional equity injection, capitalization of accrued interest and loan rescheduling. On its part IDB in principle agreed to spread the accrued interest over 3 years starting from January, 1986, and reschedule the principal repayments to January, 1989. The company also agreed to pay Shs 75,000 per month beginning September, 1985 to meet the current interest but has continually defaulted on the arrangement. IDB is executing more pressure on ICDC who owns the company outright.

DAWA PHARMACEUTICALS LIMITED

Background

Dawa Pharmaceuticals Limited was incorporated on April 30, 1974 as a private limited liability company with the objective of owning and operating a pharmaceutical and veterinary drugs plant in Kenya. The sponsors of the project were the ICDC, KRKA Pharmaceutical Works of Yugoslavia and three local Kenyan investors.

In September, 1975 the IDB Board approved a loan of US$1.12 million then equivalent to Shs. 8.0 million towards the financing of this project whose capital costs had been estiamted at K Shs 42.964 million. The loan was for a period of 10 years including 2 years moratorium at an interest rate of 11% per annum. The first instalment of principal was to be paid on December 30, 1978.

Project implementation was completed at the end of 1976 and commercial production commenced in March, 1977.

Past Performance

Dawa's initial performance was initially very poor, but over the years has greatly improved and presently the company is able to service its debts. The following is a summary of performance over the last five years.

	K Shs '000				
	1980	1981	1982	1983	1984
Turnover	53,639	71,819	67,941	95,786	69,016
Profit (Loss)	3,014	1,447)	(6,775)	5,562	895
Cumulative Loss	(24,427)	(24,427)	(27,755)	(24,193)	(23,298)

The company profitability is declining due to low sales volume for some product lines. The company's management is rectifying the situation by vigorously pursuing the new marketing strategies especially in the export market.

IDB Action

Debt servicing has been satisfactory and only Shs 16,701 was outstanding as arrears as at June 31, 1985. IDB is to monitor the project closely.

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected vs. Actual Lending Operations
1981-1985
(Ksh million)

Year Ending December 31	1981		1982		1983		1984		1985		Total 1981-85	
	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
Approvals:												
Term Loans-Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	67.0	703.2	490.5
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	135.0	703.2	558.5
Term Loans-Domestic Currency	30.3	17.5	35.6	-	41.9	-	30.0	0.8	32.0	0.0	169.8	18.3
Equity Investments	10.0	2.0	10.0	0.2	10.0	-	-	2.5	13.0	0.2	43.0	4.9
Total Domestic Currency	40.3	19.5	45.6	0.2	51.9	0.0	30.0	3.3	45.0	0.2	212.8	23.2
Total Loans	172.4	243.3	206.1	83.3	246.5	66.6	120.0	48.6	128.0	135.0	873.0	576.8
Total Approvals	182.4	245.3	216.1	83.5	256.5	66.6	120.0	51.1	141.0	135.2	916.0	581.7
Commitments:												
Term Loans-Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	67.0	639.6	574.7
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	135.0	639.6	642.7
Term Loans-Domestic Currency	28.6	23.1	33.0	-	38.8	-	23.0	-	25.0	-	148.4	23.1
Equity Investments	10.0	5.4	10.0	0.2	10.0	-	-	2.5	-	-	30.0	8.1
Total Domestic Currency	38.6	28.5	43.0	0.2	48.8	0.0	23.0	2.5	25.0	0.0	178.4	31.2
Total Loans	161.4	289.4	189.3	115.1	226.3	66.6	107.0	59.7	104.0	135.0	788.0	665.8
Total Commitments	171.4	294.8	199.3	115.3	236.3	66.6	107.0	62.2	104.0	135.0	818.0	673.9
Disbursements:												
Term Loans-Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	102.9	644.2	612.2
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	27.1	-	27.1
Total Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	130.0	644.2	639.3
Term Loans-Domestic Currency	25.4	23.3	30.0	14.8	34.9	4.1	9.0	1.9	9.0	-	108.3	44.1
Equity Investments	10.9	5.4	10.0	-	10.0	0.2	0.0	2.5	-	0.2	30.9	8.3
Total Domestic Currency	36.3	28.7	40.0	14.8	44.9	4.3	9.0	4.4	9.0	0.2	139.2	52.4
Total Loans	144.7	177.1	170.5	194.1	201.3	71.5	124.0	110.7	112.0	130.0	752.5	683.4
Total Disbursements	155.6	182.5	180.5	194.1	211.3	71.7	124.0	113.2	112.0	130.2	783.4	691.7

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA

Industrial Development Bank (IDB)

Project Completion Report

Analysis of Loans in Arrears 1981-85

	1981 1/	1982	1983	1984	1985
Number of loans in Arrears					
Total Number of loans in portfolio	108	97	121	99	98
Number of loans in arrears over 3 months	53	55	103	67	71
As a % of total loans	49%	57%	85%	68%	72%
Principal Affected by Arrears (Ksh million)					
Total principal outstanding	325.3	556.4	718.7	781.1	875.0
Principal affected arrears over 3 months	166.8	395.0	632.4	687.4	717.5
As a % of total principal outstanding	51%	71%	88%	88%	82%
Actual Amounts in Arrears (Ksh million)					
Arrears over 3 months	57.3	96.2	218.5	252.3	270.9
As a % of total principal outstanding	17.6%	17.3%	30.4%	32.3%	31.0%
Collections Ratios 2/	na	na	76%	76%	99%
Collections as % of New Billings plus Arrears	na	na	29%	28%	35%

1/ Includes only amounts in arrears 6 months or more, because of limits in IDB records at that time.

2/ Collections as a percentage of new amounts coming due.

IDF Division, Eastern and Souther Region

June, 1986

KENYA
Industrial Development Bank
Project Completion Report
Sectoral Distribution Loan Portfolio, December 31, 1985
(Ksh '000)

Sector	No. of Loans	Amounts 1/ Outstanding	% of Loans	% Amounts Outstanding	% Amounts Affected by Arrears	Arrears of 3 mos. or more	Arrears as % Total Due	No. of Projects in Receivership
Agroindustry	11	77,111.9	11.2%	7.6%	74.7%	15,321.1	19.9%	2
Automotive	3	13,907.2	3.1%	1.4%	95.5%	9,700.9	69.8%	2
Chemical	9	91,698.5	9.2%	9.0%	77.9%	31,713.1	34.6%	0
Construction	3	8,681.4	3.1%	0.9%	100.0%	2,322.3	26.8%	0
Food	7	11,022.8	7.1%	1.1%	100.0%	5,098.7	46.3%	1
Leather	3	9,462.2	3.1%	0.9%	86.9%	378.7	4.0%	0
Metal/Engineering	17	275,659.7	17.3%	27.1%	78.4%	63,264.2	23.0%	2
Mining/Quarries	2	6,878.3	2.0%	0.7%	100.0%	3,592.5	52.2%	2
Paper/Printing	5	26,904.1	5.1%	2.6%	63.1%	12,544.8	46.6%	0
Plastics	2	35,022.0	2.0%	3.4%	99.7%	4,870.7	13.9%	0
Rope/Cord	5	8,153.3	5.1%	0.8%	82.3%	1,690.2	20.7%	1
Services	1	9,069.6	1.0%	0.9%	0.0%	0.0	0.0%	0
Textiles	13	193,381.8	13.3%	19.0%	65.6%	49,028.8	25.4%	2
Tourism	9	224,323.1	9.2%	22.0%	98.3%	57,651.4	25.7%	2
Wood	8	27,143.4	8.2%	2.7%	100.0%	14,310.2	52.7%	1
TOTAL	98	1,018,419.3	100.0%	100.0%	81.1%	271,519.8	26.7%	15

1/ Includes interest arrears.

IDF Division, Eastern and Southern Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected and Actual Balance Sheets
1981-1985
(In Ksh million)

Year Ending December 31	1981 Proj.	1981 Actual	1982 Proj.	1982 Actual	1983 Proj.	1983 Actual	1984 1/ Proj.	1984 1/ Actual	1985 1/ Proj.	1985 1/ Actual
ASSETS:										
Current Assets:										
Cash and Misc.	25.0	24.3	30.1	14.4	35.6	4.6	10.8	10.7	48.6	16.8
Short-term Deposits	90.0	52.1	65.0	48.0	45.0	26.2	45.2	45.2	120.0	106.9
Project Debtors 2/	n.a	98.0	n.a.	164.8	n.a	183.5	230.8	221.6	205.9	247.6
Other Debtors 2/	n.a	-	n.a	-	n.a	10.3	5.1	10.2	7.1	38.0
Loans-Current portion	63.8	66.7	86.2	84.1	107.1	93.1	101.0	100.4	92.2	112.6
Total Current Assets	178.8	241.1	181.3	311.3	187.8	317.7	392.9	388.1	473.9	521.9
Portfolio:										
Loans	397.0	344.1	481.3	487.7	575.5	476.7	528.3	530.4	524.7	657.8
Equity	112.9	103.5	122.9	84.0	132.9	81.2	66.6	66.6	66.6	66.6
Less Accum. Provisions	(16.3)	(55.3)	(20.2)	(46.5)	(24.8)	(42.7)	(32.8)	(33.9)	(38.2)	(57.2)
Net Portfolio	493.6	392.3	584.0	525.2	683.6	515.2	562.1	563.1	556.0	667.2
Net Fixed Assets	3.6	2.6	3.3	1.9	3.3	1.4	3.3	3.3	12.4	3.4
Total Assets	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5
LIABILITIES										
Current Liabilities:										
Bank overdraft	-	0.6	-	0.6	-	-	-	-	-	-
Payables and accruals 3/	11.8	74.9	13.6	77.7	16.0	26.0	40.7	39.5	53.9	96.6
Current portion long-term debt	58.3	62.1	73.2	79.2	89.6	73.8	80.1	81.1	106.1	92.4
Total Current Liabilities	70.1	137.6	86.8	157.5	105.6	99.8	120.8	120.6	160.0	189.0
Long-term Debt:										
Foreign Borrowings	372.7	321.4	445.0	476.9	527.6	515.8	626.4	580.1	625.7	n.a
Local Borrowings	13.3	11.1	8.3	5.5	2.5	3.0	4.3	2.7	1.9	n.a
Total Long-term debt	386.0	332.5	453.3	482.4	530.1	518.8	630.7	582.8	627.6	727.7
Exchange Gain and Adj. Accts.	-	9.2	-	26.9	-	32.5	-	45.0	-	50.1
Shareholders Equity:										
Share Capital	229.2	207.9	229.2	222.6	229.2	247.1	249.0	249.0	293.6	257.6
Reserves & Retained Earnings	(9.4)	(51.2)	(0.7)	(51.0)	9.7	(63.9)	(42.3)	(42.9)	(38.9)	(31.9)
Total Net Worth	219.8	156.7	228.5	171.6	238.9	183.2	206.7	206.1	254.7	225.7
Total Liabilities and Equity	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5

1/ 1984 and 1985 projected figures from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.

2/ Staff Appraisal Report did not separate project debtors (i.e., arrears of interest and principal) from other debtors.

3/ Actual payables and accruals include deposits from IDB customers.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
1817-KE
Project Completion Report
Projected and Actual Income Statements
1981 - 1985
(In Ksh million)

Year Ending December 31	1981 Projected	1981 Actual	1982 Projected	1982 Actual	1983 Projected	1983 Actual	1984 1/ Projected	1984 1/ Actual	1985 1/ Projected	1985 1/ Actual
INCOME										
Interest & Commitment Income from Loans 2/	51.1	52.6	64.4	69.5	77.5	72.0	98.8	85.1	87.2	85.9
Dividend Income	4.3	2.5	6.2	2.8	8.9	3.5	3.3	3.3	3.0	6.8
Interest Income from ST Investments, Deposits	5.6	5.9	5.4	7.0	3.8	5.0	5.6	5.8	12.0	11.6
Other Income 3/	1.8	2.8	2.1	12.2	2.4	4.0	15.3	16.8	6.0	9.2
Total Income	62.7	63.8	78.2	91.5	92.6	84.5	123.0	111.0	108.2	113.5
EXPENSES										
Interest & Commitment Charges on Borrowing	35.5	38.4	41.3	43.8	50.1	53.9	52.7	52.4	58.8	61.3
Salaries & Personnel Charges 4/	n.a.	9.5	n.a.	11.4	n.a.	11.3	12.0	11.1	15.0	14.2
Administrative & Gen. Expenses 4/										
Provision for Losses	3.5	43.5	3.9	8.9	4.5	25.7	29.0	18.0	23.0	19.0
Other Expenses 5/	0.8	1.0	0.9	18.7	1.0	0.6	0.5	0.5	0.6	0.4
Total Expenses	51.9	98.6	59.3	89.7	70.0	97.5	101.4	90.0	104.6	101.3
Net Profit (Loss)	10.9	(34.8)	18.9	1.8	22.6	(13.0)	21.6	21.0	3.6	12.2

1/ Projected figures for 1984 and 1985 are from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.
2/ IDB began to suspend interest for loans with arrears of 24 months in 1983. Thus, loan income projected prior to for 1983 may be overstated, as it has not suspended interest.
3/ Other Income includes: commissions and management fees, gains/(losses) on sale of fixed assets, exchange rate realised gains/(losses), and writebacks of prior provisions.
4/ Staff Appraisal Report provided only aggregate salary and administrative cost data.
5/ Other Expenses comprised largely of depreciation. In 1983, however, it includes Ksh 17.8 million in losses realized on the disposal of equity investments.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA

Industrial Development Bank (IDB)

1817-KE

Project Completion Report

Projected and Actual Financial Ratios

1981 - 1985

(In Ksh million)

Year Ending December 31	1981 Projected	1981 Actual	1982 Projected	1982 Actual	1983 Projected	1983 Actual	1984 Projected	1984 Actual	1985 Projected	1985 Actual
Income Statement as % Average Total Assets:										
Loan and Dividend Income	9.0%	8.7%	9.8%	9.8%	10.5%	9.0%	11.1%	9.9%	10.8%	8.6%
Investment Income	0.9%	0.9%	0.7%	0.9%	0.5%	0.6%	0.6%	0.6%	1.2%	1.1%
Other Income	0.3%	0.4%	0.3%	1.7%	0.3%	0.5%	1.7%	1.9%	0.2%	0.9%
Total Income	10.2%	10.0%	10.8%	12.4%	11.3%	10.1%	13.4%	12.4%	12.2%	10.6%
Borrowing Charges	5.8%	6.0%	5.7%	5.9%	6.1%	6.4%	5.8%	5.9%	5.9%	5.7%
Admin. Expenses	2.0%	2.5%	1.8%	2.5%	1.8%	2.1%	2.1%	2.1%	2.2%	1.9%
Provisions	0.6%	6.8%	0.5%	1.2%	0.5%	3.1%	3.2%	2.0%	3.7%	1.8%
Other Expenses	0.1%	0.2%	0.1%	2.5%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
Total Expenses	8.5%	15.5%	8.2%	12.2%	8.5%	11.7%	11.1%	10.1%	11.9%	9.4%
Net Profit/(Loss)	1.8%	(5.5%)	2.6%	0.2%	2.8%	(1.6%)	2.4%	2.3%	0.3%	1.1%
Long-term debt: equity ratio	1.8	2.1	2.0	2.8	2.2	2.8	3.1	2.8	2.5	3.2
Current ratio 1/	2.6	1.0	2.1	0.9	1.8	1.2	1.3	1.3	1.6	1.5
Net Profit as % Avg. Equity	5.5%	(22.2%)	8.4%	1.1%	9.7%	(7.3%)	9.7%	10.8%	1.5%	5.1%
Accum. Provisions/Portfolio	3.2%	12.4%	3.3%	8.1%	3.5%	7.7%	5.5%	5.7%	6.5%	7.9%
Loan Income as % Gross Portfolio	12.4%	12.0%	12.5%	12.9%	12.4%	9.7%	12.8%	10.6%	10.4%	9.2%
Fin. Expenses as % Borrowings	7.8%	11.3%	8.5%	9.2%	8.7%	8.1%	7.9%	8.3%	8.1%	8.0%
Avg. Spread	4.6%	0.7%	4.0%	3.7%	3.7%	1.6%	4.9%	2.3%	2.3%	1.2%

1/ Excluding arrears from current assets.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Project Completion Report
Industrial Development Bank
Status of Compliance With Major Loan Covenants

Covenant	Status of Compliance
A. All Loans	
Borrower shall not amend Statement of Policy without prior approval of the Bank.	In compliance.
Borrower shall submit audit reports within 4 months of end of each fiscal year.	Generally submits reports about 2-4 months late.
IDB to protect itself against foreign exchange risk.	Generally in compliance, although IDB has made some foreign exchange risk gains on timing differences between receipt of payment from subloan and payment to IBRD and other donors.
B. Loan 1148-KE	
Debt:equity ratio will be no greater than 3:1.	In compliance.
C. Loan 1438-KE	
IDB will conclude agreements regarding managed funds operations on behalf of Government and not manage or undertake any new equity investments on behalf of Government.	In compliance.
Debt:equity ratio will be no greater than 4:1.	In compliance.
D. Loan 1817-KE	
Debt:equity ratio will not exceed 4:1.	In compliance.

IDB shall maintain a Management Committee to screen new proposals and review the status of projects.	In compliance.
IDB shall create provisions for future losses in respect to its equity and loan portfolio in accordance with sound accounting practices.	Generally in compliance, although provisions may be low in respect of a few Government-supported projects.

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Resource Mobilization (1980-1985)

Sources of Funds	Date of Approval	Amount in Original Denom.	Amount in US $	Years Maturity 1/	Grace Period	Interest Rate	Guarantor
1. Foreign Debt Official							
- World Bank 1817-KE	1980	US $ 30 million	US $ 30 million	17		8.25%	Government of Kenya
- BADEA	1980	US $ 5 million	US $ 5 million	11	2	7.00%	Government of Kenya
- Swiss Mixed Credit 2/	1982	SF 20 million	US $ 10 million	12	2	-	Government of Kenya
- ADB III 3/	1985	UA 20 million	US $ 20 million	15	3	10.00%	Government of Kenya
Total Foreign Debt			US $ 65 million				
2. Equity							
	1980	Ksh 39.8 million	US $ 5.3 million				
	1981	Ksh 14.8 million	US $ 1.4 million				
	1982	Ksh 14.7 million	US $ 1.2 million				
	1983	Ksh 24.5 million	US $ 1.8 million				
	1984	Ksh 1.9 million	US $ 0.1 million				
	1985	Ksh 8.6 million	US $ 0.5 million				
Total Equity			US $10.3 million				

1/ Including grace period

2/ Half of SF 20 million from consortium of Swiss banks.

3/ Not yet effective because Government has not yet signed guarantee agreement.

IDF Division. Eastern and Southern Africa Region
June, 1986

KENYA

Annex 13

Project Completion Report
IDB Cashflow Statements 1983-86
(KSh '000)

Year	1983	1984	1985	1986[1]/
Receipts:				
Loan Principal				
Foreign	25,014	38,596	49,571	12,283
Local	5,349	3,295	3,810	1,032
Subtotal	30,363	41,891	53,381	13,315
Loan Interest				
Foreign	34,074	34,868	28,694	14,060
Local	2,567	813	1,419	259
Subtotal	36,641	35,681	30,113	14,319
Arrears Collections	33,437	36,011	60,758	55,175
Bridging Finance	7,432	5,764	600	0
Fees	2,127	3,381	4,508	2,515
Dividends/Equity Sales	5,631	2,926	5,841	1,550
Loan Sales	0	24,605	29,789	0
Subtotal	48,627	72,687	101,496	59,240
Total Project Receipts	115,631	150,259	184,990	86,874
Staff Loans	1,204	1,304	1,923	1,102
Share Capital	26,500	1,826	8,644	0
Investment Interest	0	4,981	4,957	1,957
Other Receipts	981	1,083	902	797
Subtotal	28,685	9,194	16,426	3,856
Total Receipts	144,316	159,453	201,416	90,730
Payments:				
Loan Principal				
Foreign	52,166	63,760	94,450	54,562
Local	5,016	2,226	1,643	750
Subtotal	57,182	65,986	96,093	55,312
Loan Interest				
Foreign	43,941	48,506	58,942	29,047
Local	740	412	249	69
Subtotal	44,681	48,918	59,191	29,116
Fees	2,898	2,317	4,508	1,291
Local Loan Disbursements	5,807	2,137	0	308
Equity Disbursements	0	2,500	238	0
Subtotal	8,705	6,954	4,746	1,599
Total Operational Outflow	110,568	121,858	160,030	86,027
Staff Loans	1,395	1,908	2,953	1,649
Capital Expenditure	120	302	154	472
IDB Headquarters	0	2,093	352	0
Salaries, Admin.	17,879	19,766	17,414	10,096
Subtotal	19,394	24,069	20,873	12,217
Total Outflows	129,962	145,927	180,903	98,244
Net Surplus/(Deficit)	14,354	13,526	20,513	(7,514)
Beginning Cash	1,372	15,726	29,252	49,765
Ending Cash	15,726	29,252	49,765	42,251
Net Surplus/(deficit) from Operations	5,063	28,401	24,960	847
Less Admin. Costs	(12,816)	8,635	7,546	(9,249)

1/ First six months only.

PASS-THROUGH PCR UNIT COST SHEET

file

PROJECT: KENYA - SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK (IDB) PROJECTS

LOAN/CREDIT NO: Loans 1148-KE and 1438-KE

PCR PREPARED BY: Industrial Development and Finance Division Eastern and Southern Africa Region

		MAN-DAYS
REVIEWED BY:	Henry B. Thomas	0.25
APPROVED BY:	Alexander Nowicki	

TOTAL OED COST:

STAFF	
CONSULTANT	2.0
TOTAL	2.25

DATE: May 5, 1988

PCR ASSESSMENT:

Uneven. While factually well prepared, the PCR is weak in discussing the Bank's role and responsibilities and the lessons to be learned.

file

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 7, 1988

Mr. James Adams
Director
Regional Mission in Eastern Africa
World Bank
Reinsurance Plaza, 5th & 6th Floors
Taifa Road
Nairobi, Kenya

Dear Mr. Adams:

I am enclosing two envelopes addressed to officials in Kenya which contain copies of the draft Project Completion Report for the Kenya - Second and Third Industrial Development Bank Projects (Loans 1148-KE and 1438-KE). Letters to those authorities are also included which request comments on the draft.

I would be grateful if your office would have them delivered at your earliest convenience.

Copies of the letters and the report are attached for your information.

Sincerely yours,

Alexander Nowicki
Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department

Enclosures

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 7, 1988

Mr. F.N. Ondieki
Managing Director
Industrial Development Bank
Industrial Bank Building
Harambee Avenue
P.O. Box 44036
Nairobi, Kenya

Dear Mr. Ondieki

Re: Project Completion Report on Kenya - Industrial Development Bank of Kenya (Loans 1148-KE and 1438-KE)

I am forwarding to you and Mr. R.R. Ojee, Permanent Secretary, Ministry of Industry, a draft Project Completion Report (PCR) on the abovementioned project prepared by the Industrial Development and Finance Division (Eastern and Southern Africa Region). This project will not be audited by the Operations Evaluation Department. We are inviting any comments you or your colleagues wish to make on the PCR by April 18, 1988. Such comments will be reflected in the final version of the PCR and will be incorporated verbatim as an Annex to the Report before it is submitted to the Board of Executive Directors.

Please advise us, preferably by telex, if you have no comments.

We shall send you, for your information, a copy of the final version of the PCR after it has been distributed to our Board.

Yours sincerely,

Alexander Nowicki
Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department

Attachment

cc: Mr. M. Jembere, Executive Director

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

March 7, 1988

Mr. R.R. Ojee
Permanent Secretary
Ministry of Industry
P. O. Box 30430
Nairobi, Kenya

Dear Mr. Ojee:

Re: Project Completion Report on Kenya - Industrial Development Bank of Kenya (Loans 1148-KE and 1438-KE)

I am forwarding to you and Mr. F.N. Ondieki, Managing Director, Industrial Development Bank, a draft Project Completion Report (PCR) on the above-mentioned project prepared by the Industrial Development and Finance Division (Eastern and Southern Africa Region). This project will not be audited by the Operations Evaluation Department. We are inviting any comments you or your colleagues wish to make on the PCR by April 18, 1988. Such comments will be reflected in the final version of the PCR and will be incorporated verbatim as an Annex to the Report before it is submitted to the Board of Executive Directors.

Please advise us, preferably by telex, if you have no comments.

We shall send you, for your information, a copy of the final version of the PCR after it has been distributed to our Board.

Yours sincerely,

Alexander Nowicki
Division Chief
Policy-Based Lending, Industry,
Public Utilities & Urban Sectors
Operations Evaluation Department

Attachment

cc: Mr. M. Jembere, Executive Director

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: March 7, 1988

TO: Mr. Harold Wackman, Chief, AF2IE

FROM: Alexander Nowicki, Chief, OEDD2

EXTENSION: 32911

SUBJECT: Project Completion Report on Kenya - Second and Third Industrial Development Bank Projects (Loans 1148-KE and 1438-KE)

1. The attached Project Completion Report, which was prepared by the Industrial Development and Finance Division (Eastern and Southern Africa Region) prior to reorganization, has been read in this Department and will not be audited.

2. The PCR is being sent to the Borrower and its agencies for comments by April 18, 1988. Any comments received will be sent to you to be reflected in the Project Completion Report and reproduced as an annex.

Attachment

cc: Messrs. Madavo (AF2DR)
Amoako (AF2CO)

DRAFT
CONFIDENTIAL

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS

(LOANS 1148-KE and 1438-KE)

March 7, 1988

Industrial Development and Finance Division
Eastern and Southern Africa Region

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

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PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

PREFACE

This Project Completion Report (PCR) covers the experience with Loans 1148-KE and 1438-KE, the second and third of a series. They were approved in 1975 and 1977 in the amounts of US$10 million and US$20 million, respectively, and disbursed by 1984. A fourth loan, 1817-KE was approved in 1980 and has now been largely committed. Both loans under review were made directly to IDB, with Government providing a guarantee. The PCR was prepared by the Eastern and Southern Africa Projects Department and is based on documentation prepared by IDB and a review of Bank documents relating to the project, including correspondence with IDB. A Project Completion mission visited IDB during February, 1986.

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

BASIC DATA SHEET

KEY PROJECT DATA

	1148-KE		1438-KE	
	Original	Actual	Original	Actual
First Mention in Files	n.a.	n.a.	n.a.	n.a.
Appraisal	12/1/74	12/6/74	11/22/76	11/22/76
Board Approval	7/1/75	7/8/75	5/30/77	5/25/77
Loan Agreement	7/30/75	7/25/75	6/30/77	6/22/77
Effectiveness	10/30/75	10/9/75	9/30/77	11/10/77
Completion of Commitments	7/1/77	7/30/78	7/1/80	7/1/80
Loan Closing	7/1/79	6/30/80	7/1/82	12/31/82
Total Project Cost - US$M	32.2	30.9	43.3	53.1
- Local Currency	230.0	252.7	361.6	400.9
Economic and Financial Rates of Return	n.a.	n.a.	n.a.	n.a.

LOAN DATA
(US$ million)

Loan Statement	Original Amount	Disbursed 1/	Cancelled
Loan 1148-KE	10.0	10.0	0.0
Loan 1438-KE	20.0	18.2	1.8

Borrower:
Name of Borrower: Industrial Development Bank, Ltd.
Guarantor: Government of Kenya
Fiscal Year: January 1 - December 31

1/ As of March 31, 1987

DISBURSEMENT PROFILE FOR LOANS 1148-KE AND 1438-KE

Fiscal Year	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Cumulative Percentage Disbursed:												
Loan 1148-KE:												
Appraisal Estimate	2.5%	63.0%	94.0%	100.0%								
Actual	0.0%	6.0%	40.0%	67.0%	86.9%	100.0%						
Bank Standard for Sector	2.0%	7.0%	13.0%	30.0%	49.0%	66.0%	79.0%	88.0%	95.0%	100.0%		
Loan 1438-KE:												
Appraisal Estimate			8.0%	35.0%	67.5%	100.0%						
Actual			0.0%	0.0%	12.7%	32.2%	58.4%	80.0%	89.9%	91.0%		
Bank Standard for Sector			2.0%	7.0%	13.0%	30.0%	49.0%	66.0%	79.0%	88.0%	95.0%	100.0%

MISSION DATA

Missions:	Month/Year	No. of Persons	Staff Days in field	Performance Rating	Trend	Types of Problems
Appraisal	Apr-79	5	105			
Post-Appraisal	Jul-79	1	5			
Supervision	Feb-80	2	14	2	improving	profitability, arrears
Supervision	Dec-80	2	21	2	stationery	staff turnover, arrears
Supervision	Dec-81	1	7	3	deteriorating	management, portfolio arrears
Supervision	Dec-82	3	21	3	stationery	liquidity, portfolio condition
Supervision	May-83	1	14	3	improving	liquidity, portfolio condition
Supervision	Dec-83	1	10.5	3	stationery	liquidity, portfolio condition
Supervision	Sep-84	1	14	3	improving	portfolio condition
Supervision	Feb-85	1	10.5	3	improving	portfolio condition
Supervision	Oct-85	2	21	2	improving	portfolio condition, financial mgmt
Completion	Feb-86	1	14			

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

HIGHLIGHTS

A previous PPAR (Report No. 3944) covered the first line of credit to IDB (Loan 946-KE). The PPAR concluding that IDB had become a fairly efficient financial intermediary and had largely met its original institutional objectives. The report noticed, however, that IDB's appraisal quality was declining, supervision and collection efforts were lax and profitability was low. It also pointed to the importance of linking DFC lending to discussions of industrial and financial sector policies.

The experience with Loans 1148-KE and 1438-KE largely bore out the problems foreseen by the earlier PPAR. During most of the period, IDB's portfolio quality deteriorated, reflecting inadequate project preparation and appraisal, poor supervision and inertia within IDB to tackle these problems (paras. 5.04-5.06). Moreover, difficult economic conditions during the period, which included initial macroeconomic disequilibrium and, later on, a substantive -- and successful -- stabilization program contributed significantly to IDB's poor performance (paras. 2.01-2.03). The main exogenous problems included foreign exchange constraints, low levels of demand, an inadequate supply of domestic currency term credit, inflation and exchange rate devaluations. IDB also experienced high staff turnover, often losing talented professionals to the private sector for higher pay, which further undermined its ability to improve its capabilities.

Beginning in late 1984, IDB embarked, with the Bank's assistance through intensive supervision, on a serious effort to improve its collections performance and profitability. At the same time, the Kenyan economy emerged from recession and a serious drought, and demand for industrial investment rebounded slightly. Although IDB has made significant improvements in its loan appraisal and supervision functions and has shown profits in 1985 and 1986, considerable restructuring of the portfolio and a more commercial orientation are still necessary for IDB to remain viable over the long-term (paras. 6.01-6.03). IDB has already learned--perhaps the hard way--that project design should realistically take local supply and market conditions into consideration and that vigilant project supervision is necessary. At the same time, however, IDB needs to marshall resources other than foreign lines of credit and diversify its operations in order to remain competitive in the rapidly evolving Kenyan financial sector. Similarly, the Bank must continue to supervise IDB closely and broaden our involvement in the sector so as to help create a policy environment conducive to healthy industrial ventures and a competitive and efficient financial sector to assist their development. The lessons of experience are presented in paras. 6.01-6.03.

PROJECT COMPLETION REPORT

KENYA

SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK PROJECTS
(Loans 1148-KE and 1438-KE)

I. INTRODUCTION

1.01 The PPAR (Report No. 3944) chronicles the origins and early development of IDB and experience with the Bank's first loan to IDB. Although during the mid- to late 1970s IDB showed satisfactory progress in developing its own cadre of staff and building up its portfolio, the early 1980s witnessed a sharp deterioration in the quality of IDB's portfolio, resulting in lower profitability and tight liquidity.

1.02 Most recently, the upturn in the economy and vigilant attention to portfolio supervision by IDB have resulted in some improvements in its profitability, liquidity and portfolio performance. The Bank has played a significant role in IDB's evolution over the past 13 years, providing four loans (Nos. 946-KE, 1148-KE, 1438-KE and 1817-KE) totalling US$65 million. The second and third lines of credit, 1148-KE and 1438-KE (US$10 million and US$20 million, respectively) were fully disbursed by 1984. The following table illustrates the terms and conditions of these two lines of credit:

Table 1: Bank Loans to IDB
Loans 1148-KE and 1438-KE

	1148-KE	1438-KE
Date Signed	July, 1975	June, 1977
Interest Rate	8.50%	8.20%
Total Loan Amount	US$10 million	US$20 million
Free Limit	US$400,000	US$600,000
Aggregate Free Limit	US$2 million	US$4 million
Onlending Rate 1/	10-11%	11% minimum
Agreed Maximum IDB Debt:equity ratio	3:1	3:1

1/ No interest rate covenant for Loan 1148-KE.

1.03 Commitments and disbursements for the two loans proceeded more slowly than anticipated, and US $ 1.8 million was cancelled from Loan 1438-KE. Designed as follow-on projects, Loans 1148-KE and 1438-KE incorporated few changes in IDB's policies or strategy, and emphasized strengthening the still new institution. Loan 1148-KE required a one year extension of the closing date for full disbursement. Loan 1438-KE took 5 months longer than envisaged at appraisal to disburse and US$1.8 million was cancelled.

1.04 By 1980 the Bank had recognized the need for consolidation within IDB. In 1979-80 the Bank was negotiating a second Structural Adjustment credit with Kenya, focusing on rationalizing the country's protective regime, increasing export orientation, improving project selection criteria and rationalizing interest rate policies. The Bank hoped to help IDB embark on a consolidation program, including improvements in appraisal and supervision procedures, greater selectivity in investment decisions through better financial analysis, improved monitoring of the equity portfolio, a decrease in the level of new equity investments, and restraining administrative costs.

1.05 Unfortunately, IDB's performance during 1980-1985 fell short of the Bank's expectations. Projects continued to be import-dependent, and few showed much export potential. Although IDB gradually improved its appraisal procedures, it implemented a consolidation program more slowly than anticipated, and was particularly slow in developing a strong portfolio monitoring and debt collection capability. In addition, the 1982-84 recession produced foreign exchange shortages, slack demand and spiralling debt service burdens for Kenyan manufacturers with foreign-denominated debt. Thus, IDB's arrears worsened during 1980-85. Today, despite some recent improvements, IDB's portfolio continues to be one of the weakest in the region, with serious repercussions for its profitability and liquidity.

II. MACROECONOMIC AND SECTORAL SETTING

2.01 Although the Kenyan economy and the manufacturing sector in particular underwent significant expansion during the 1970s, they did so under policies that would later constitute constraints to further development. In particular, trade and exchange rate policies turned the internal terms of trade against agriculture, and encouraged inefficient production and over-dimensioning of particular subsectors. Moreover, while the manufacturing sector continued to grow, it remained highly capital-intensive and import-dependent. In recent years, Government increasingly emphasized, in its Fourth and Fifth Development Plans (1979-83 and 1983-88), tariff rationalization, export promotion, the phasing out of quantitative import restrictions, and private sector development rather than the excessive Government spending of the past.

2.02 Actual growth of the Kenyan economy during the first half of the 1980's has been less bouyant than projected in the Fourth and Fifth plans. The external terms of trade deteriorated sharply with the second oil crisis, and an erosion of fiscal discipline arrived in the wake of the mid-1970's "coffee boom". By 1980, the current account deficit had reached 12.5% of GDP and the Central Government budget deficit was 9.5% of GDP. After 1980, Government took important steps to redress these imbalances, trimming its budget deficit, permitting real wages to fall, restricting imports and allowing interest rates to become positive in real terms. A major devaluation in December 1982 restored the real effective exchange rate back to its 1976 level, and Government has continued to adjust the rate so as to avoid any sustained appreciation of the real exchange rate.

The stabilization program, combined with a severe drought that hampered agricultural output, led to a decline in real GDP per capita of about 5% in real terms, and investment declined 25% in real terms between 1980 and 1985. The current account deficit also declined to about 5% of GDP by 1985, and Government reduced its budget deficit from 9.5% of GDP in 1980 to about 5% in 1985. The manufacturing sector suffered a similar decline, with 1984 investment levels amounting to only 63% of 1980 levels in real terms. Manufactured exports also declined from a high of 26% of total exports in 1980 to 18% in 1984.

2.03 In view of the economy's structural problems and adverse exogenous developments (deterioration of the terms of trade, drought), the deceleration of growth and decline in per capita incomes were inevitable. Fortunately, Kenya has been able to manage the deceleration in a fairly orderly fashion. Kenya, however, has not been as successful in setting the stage for renewed growth, and export volumes and investment levels continue to languish. Prospects for the Kenyan economy, and for the industrial sector in particular, while currently bouyant because of high world coffee prices, will depend, in the medium term, on how rapidly Government can increase the pace of implementation of policy measures to increase the efficiency and volume of investment, expand exports and mobilize domestic resources.

2.04 Financial Sector. Kenya's diverse financial system includes a central bank, 21 commercial banks, 34 non-bank financial institutions (NBFIs), 30 insurance companies, a postal savings bank, a social security system, numerous pension plans, six industrial development banks, a stock exchange and over 900 savings and credit cooperatives. Despite this diversity of institutions, Kenya's financial sector has not realized its full potential in mobilizing term resources for the industrial sector. Although Kenya does mobilize substantial term assets in the form of social security deposits, pension contributions and insurance reserves, these funds remain largely either in government securities or short-term deposits, rather than being lent to the private sector. Banks are reluctant to make long-term loans because: (i) Government-imposed interest rate ceilings do not allow differentiated interest rates for different maturities and/or levels of risk; (ii) the development banks, the primary vehicles for term financing to industry, have performed poorly and are considered unattractive investments; and (iii) relatively high inflation in the past (25% in 1980-81, 18% in 1981-82, and about 9% 1982-85) made investors wary of holding long-term securities. Indeed, interest rates were negative during the period 1980-1982, and have only become positive as inflation declined in 1983.

2.05 The commercial banks dominate the banking system. Four banks (Kenya Commercial Bank, National Bank of Kenya, Standard Bank and Barclay's Bank of Kenya) hold nearly two-thirds of total bank deposits in Kenya, although this percentage has declined recently, because of the rapid growth of the NBFIs. NBFIs can charge higher lending rates than commercial banks (19% vs. 14%) and have also earned more than the nominal ceiling rate by charging additional fees and altering their basis for calculating interest. The higher effective lending rates (sometimes as high as 25-30%) have enabled NBFIs to pay more for deposits. NBFIs have expanded their

share of credit outstanding from 23% in 1976 to 35% in 1984, and have been particularly important in lending to manufacturing firms (largely through hire-purchase facilities). Recent legislation has removed NBFIs' ability to charge interest on a flat basis or to add supplemental fees, thus narrowing somewhat the gap between lending rates for NBFIs and commercial banks. Several of the NBFIs are also experiencing severe liquidity constraints.

2.06 Of the six development finance institutions (DFIs) operating in the industrial sector, Government directly or indirectly owns four: IDB, Kenya Industrial Estates (KIE), ICDC and the Kenya Tourist Development Corporation (KTDC). Government also has minority interests in the other two DFIs, the East African Development Bank (EADB), which also serves Uganda and Tanzania, and the Development Finance Corporation of Kenya (DFCK), which is privately controlled. The Bank group has made funds available to KIE, IDB and EADB and DFCK (the latter through IFC). Together, the assets of the six DFIs amount to about 12% of the combined assets of commercial banks and NBFIs. Traditionally, the DFIs have entered niches largely neglected by commercial banks and NBFIs: term lending, equity investments and lending to small-scale enterprises. Political considerations have also often played a part in lending decisions in many of the DFIs. At present, the DFIs have high arrears, low profitability and often have over-extended management and duplicative programs. This poor financial performance has also contributed to liquidity problems, and in particular, to a lack of Kenya shilling resources with which to finance the local cost components of projects. Although the DFIs are classified as NBFIs, as "development" institutions they have been reluctant to raise lending rates on local currency loans much above 15-16%. As a result, they have been unable to offer competitive rates for deposits or local borrowings, and thus have not been able to tap Kenya's significant pool of domestic savings.

III. THE INSTITUTION

3.01 The Bank's appraised Loan 1817-KE in 1980 presented an opportunity to discuss the following issues:

(a) Consolidation strategy for IDB: During the late 1970s, IDB's approvals grew at an average annual rate of 25% in real terms, and IDB became the leading term lending financial institution in the industrial sector. This rapid rate of growth, however, ultimately exacted a high cost in the deterioration of the quality of IDB's appraisals, project supervision and debt collection performance. IDB agreed to formalize and implement a strategy of selective growth and consolidation for the period 1980-82; establish a Loan Committee to screen all new project proposals and review problem projects; create an asset management section within IDB's finance department to supervise IDB's equity investments; and limit total equity investments to not more than 80% of its Class "A" subscribed shares during the commitment period of the Bank loan. Although IDB's approval rate did not slow until after 1982, it implemented several of the other reform measures.

(b) IDB Profitability: IDB continued to make losses in the late 1970s because of high administrative costs, low returns from its equity portfolio, and increasing bad debt losses. In 1980 IDB agreed to limit the number of employees to 1979 levels and control its other administrative expenses. In addition, IDB agreed to increase loan spreads by raising interest rates on foreign currency loans to at least 12%. It later increased its interest rate on foreign currency loans to 13% and its rate for local currency loans to 14% (although recently it has charged 15-16% for some local currency loans). Profitability improved marginally in the 1980s (para. 5.09), but continues to be low because of poor portfolio performance.

(c) Provisions Policy: Until 1979, IDB had no accumulated provisions for possible losses, and only took writeoffs when realizing losses. Continuation of the existing ad hoc approach might have encouraged under-provisions over time, thus misrepresenting IDB's true financial situation. During negotiations for Loan 1817-KE, IDB agreed to create provisions in its accounts in accordance with sound commercial and accounting practices, accumulating by December 31, 1982 to not less than 3% of the value of its portfolio. IDB's accumulated provisions now exceed this amount, but its high level of arrears may necessitate even higher provisions (para. 5.06).

(d) New activities: IDB is a NBFI under Kenyan law, enabling it to accept time deposits and thus increase its local currency resources. IDB had also considered other activities, such as financing working capital, letter of credit operations, financing warehouses, etc. While supporting the direction of these activities in that they diversified IDB's sources of revenues and would help generate much needed local currency, the Bank was concerned that such activities should not add to IDB's administrative overheads and that they contribute to its profitability.

(e) Financial Covenants: Annex 11 shows IDB's compliace with the major loan covenants under Loans 1148-KE, 1438-KE and 1817-KE. The debt:equity ratio covenant was changed for 1817-KE (moving 3:1 to a 4:1 maximum). Nonetheless, IDB expressed the concern that a 4:1 debt equity limitation might unduly restrict IDB's future operations. The subsequent slowdown in IDB's approvals, however, has eliminated the need for a higher gearing ratio. IDB has largely complied with the other financial covenants, although foreign currency risk has presented problems for many of IDB's borrowers, given the significant decline in the value of the Ksh vis-à-vis other major currencies. In addition, because of timing differences (clients repaying IDB after IDB has repaid donor agencies), to date IDB has made some small profits on its foreign exchange transactions.

3.02 Ownership. IDB's ownership structure did not change during the period 1980-85, although the existing shareholders provided an additional US$10.3 million equivalent in additional share capital (Annex 11). Government directly or indirectly through parastatals owns 100% of IDB's share capital. IDB's shareholders include Government (58.2%), ICDC (12.1%), Kenya National Assurance Company (9.9%), National Bank of Kenya (9.9%) and Kenya Reinsurance Corporation (9.9%). Because of IDB's lackluster performance as well as liquidity constraints for some shareholders (ICDC and NBK in particular), IDB's shareholders have been reluctant to provide much additional share capital in recent years, despite IDB's lack of domestic currency resources.

3.03 Management and Organization. IDB's Board consists largely of civil servants and representatives from the shareholding parastatals. Both the Chairman of the Board and the Managing Director are political appointees. Because of Government interference in decision-making, IDB's management and Board have not had sufficient automony in project approvals or in winding up poorly performing projects. Recently, however, this interference has been less problematic, although the general centralization of decision-making in Kenya has resulted in significant delays waiting for Government approval on many small, administrative matters. Prior to 1980, IDB had 3 Departments (Finance, Administration and Operations) with 4 divisions under the Chief of Operations: Investments, Project Advisory Service, Investigations (appraisal) and Research and Promotion. The appraisal mission in 1979 suggested that IDB institute a Loan Committee to review project proposals prior to Board approval and an asset management function (for monitoring the equity portfolio) within the Finance Department. The Loan Committee functioned well during project implementation, but the asset management function never really materialized as envisaged, and instead was subsumed into normal project supervision. Project supervision and debt collection remained the weakest functions within IDB during the past 5 years. Organizationally, responsibility for debt collection has often been unclear, moving from operations to finance and back again. On the positive side, shifting responsibility for project implementation to the appraisal department enabled the already overstretched supervision staff to focus more fully on problem projects. IDB rationalized its organization further in 1985, merging the research and development division with appraisals, creating a debt collection unit within the operations department and giving the supervision/debt collection division a stronger manager. This strengthening of the supervision/collections function has facilitated the development of more project-specific action programs for arrears-affected loans.

3.04 Staffing and Training. Annex 1 shows the evolution of IDB staffing during 1981-85. Despite an agreement during negotiations to freeze IDB staff at its 1979 levels, IDB hired 47 new staff during the 1980-85 period (mostly in 1981), particularly support personnel, finance and computer professionals. Overall staff levels have remained roughly constant since 1981 and IDB's administrative costs remained satisfactory at 2% of average total assets. Low morale and salaries helped fuel the loss of professional staff, who left for other Kenyan financial institutions. Although IDB was slow at first to fill professional staff vacancies, most of the key positions have now been filled. IDB has also instituted a virtual freeze on support staff hirings and has given priority to filling operations department vacancies, although the supervision function remains understaffed. IDB, along with the other Kenyan parastatals, received an 11% overall increase in its salary structure for 1986, and similar

increases are expected during 1987 and 1988. IDB's salary classification did not change, however, and thus IDB will remain less attractive than Government-owned commercial banks, whose higher classification enables them to pay higher salaries. IDB has consistently provided excellent training to its staff, both in-house and through overseas seminars and universities. During 1981-85, 88 professional staff spent over 500 staff weeks in training programs. Most of IDB's training costs have been met by funds from bilateral donors.

3.05 Procedures. During the course of loan supervision, Bank missions noted major weaknesses in IDB's procedures and recommended measures for alleviating them.

(a) Appraisals. The rapid growth in appraisals during 1980-82 contributed to a deterioration in their quality, particularly in terms of market and financial analyses, assessing the capabilities and resources of project sponsors, and determining adequate implementation and grace periods. The creation of the Loan Committee and the slowdown in approvals which began in 1983-84 helped facilitate more thorough reviews of project proposals, although some weaknesses remain in market analysis, assessing management capabilities and developing viable financial restructurings for problem projects.

(b) Supervision. Supervision staff levels have often been inadequate for tackling IDB's troubled portfolio. Until recently, IDB's supervision activities remained monitoring-oriented. In 1984-85, however, IDB began to prepare individual "action plans" for problem projects, and was taking a more active role in solving the problems of its client firms, by preparing financial restructuring plans, hiring short-term consultants to assist projects, etc. It also added professional staff to the monitoring division, established a consultancy unit and created a separate debt collection unit to follow-up on projects in arrears.

(c) Debt Collection. IDB did not have a separate debt collection unit until 1984. In 1985, IDB moved debt collection to operations and created a committee of high level officers and managers (including the Managing Director) to follow up on individual delinquent projects. IDB rescheduled about 30 loans in 1984-85, with the new payment schedules being largely followed. Consequently, IDB's collections ratios improved significantly during 1985, although the portfolio as a whole remains heavily affected by arrears (para.5.04).

(d) Accounting and Data Processing. IDB's accounting staff is relatively strong although audit reports have often been delayed because of reconciliation difficulties and discussions about provisions. IDB has experienced difficulty in the installation and use of its minicomputer system, however, primarily because of the lack of in-house systems analysis and programming expertise. In addition, IDB has not regularly prepared forecast and actual cashflow statements. IDB has now purchased a microcomputer for portfolio monitoring and project analysis and has hired two experienced analysts. It has also discussed its computer problems with its external auditors, and is making the necessary revisions.

(e) Money and Banking Activities. During 1982-83 IDB established a money and banking unit in the finance department for collecting short-term deposits, making working capital loans, and providing letter of credit and foreign exchange services to clients. Shortly thereafter, however, the Bank became concerned about the soundness of some of IDB's domestic currency working capital loan operations, which were often made to delinquent clients at low margins and were poorly monitored. After strong urging from the Bank, IDB largely disbanded the money and banking unit and discontinued making domestic currency working capital loans. Since 1985 a revived unit has focused more on gathering deposits and providing letters of credit, and is exploring the possibility of discounting high quality receivables for selected clients.

IV. ALLOCATION OF THE LOANS

Loan 1148-KE

4.01 IDB committed the full US$10 million allocated for Loan 1148-KE over a period of about 2 1/2 years. These 13 subloans, all in the private sector, ranged in size from US$129,869 to US$1.3 million, and 11 were above the free limit. Total project costs for these 13 projects amounted to US$123.1 million, with the Bank financing on average about 8% of these costs. The Bank's share of financing varied widely, however, ranging from 2.4% to 43.3% of total project costs. Interest rates charged on the subloans ranged from 10% to 11% (no interest rate covenant), and maturities ranged from 7 to 12 years, including grace periods.

4.02 Annex 2 summarizes the key characteristics of the subprojects approved under the line of credit. As of March 31, 1986, all but one project were operational (currently in receivership) and three had prepaid their loans. Despite the strong bias toward capital intensive subsectors (plastics, chemicals, metals), the projects have created 7,316 jobs at a reasonable cost per job of about US$16,800 per job--considerably lower than for the two subsequent lines of credit. Cost per job ranged from US$8,240 for a glassworks to US$79,000 for an expansion/diversification for a manufacture of PVC cables. The one failed project, Kenya Furfural, had a high estimated cost per job of over US$120,000. Were it employing the anticipated 220 workers, it would have had an actual cost per job of US$167,000.

4.03 Although at present only two of the 13 projects are categorized as major problem projects and a third is in receivership, two other project financed under the line of credit have experienced serious problems and were rehabilitated and restructured by IDB and the other creditors. These two, and a third project (all textiles) experienced poor management and fierce competition from imports and from other domestic manufacturers. Kisumu Cotton Mills (now Kicomi) has been perhaps the most successful of the three rehabilitations, as it changed its shareholders and management, revamped its marketing strategy and substantially restructured its capitalization. The other two, Rivatex and Yuken, continue to have high accumulated losses; indeed, Rivatex has negative net worth.

4.04 Overall, performance of the subprojects financed under Loan 1148-KE was disappointing. As of March 31, 1986, all of the loans not fully repaid were affected by arrears of three months or more and arrears amounted to about 38% of total amounts outstanding--a level much higher than that for the portfolio as a whole. Arrears from these loans amounted to 21% of IDB's total portfolio, while the underlying loans accounted for 16% of IDB's total portfolio. In the case of Kenya Furfural, Yuken Textiles, Kenya Glassworks and Salt Manufacturers, arrears of 3 months or more amount to more than 50% of total amounts outstanding for each loan. The poor performance of subloans under this line of credit lies in: (i) poor project design and technological problems; (ii) inadequate market analysis; (iii) infrastructural constraints (i.e., inadequate water supply for a textile plant); (iv) price controls which limited margins; (v) competition from imports; and (vi) rising debt service on foreign exchange denominated loans with the devaluation of the KSh.

4.05 Subprojects under 1148-KE were also highly import dependent for their raw materials, which exascerbated pressure on operating margins when the KSh was devalued. In addition, only two projects of the 13 were expected to have significant export sales and one of them--Kenya Furfural--is in receivership and is not operational. Six of the thirteen projects dependent on imports for 50% or more of their raw materials.

4.06 IDB calculated ex-ante financial rates of return for all 13 projects and economic rates of return for eleven. The average estimated financial and economic rates of returns were quite close--22% and 19.6%, respectively--but the divergence is quite wide for projects subject to price controls or import restrictions. The estimated FRRs ranged from 12.6% to 35% while the ERRs ranged from 12% to 28%. The poor repayment record and low profitability of the subloans suggests that actual rates of return are considerably lower than the estimates.

Loan 1438-KE

4.07 IDB committed US$ 18.2 million of the original US$ 20.0 million under Loan 1438-KE for 16 projects. 11 of the 16 projects were above the free limit (US$ 600,000). Total estimated project costs for these 16 projects amounted to US$ 169.1 million, with the Bank financing on average about 11% of total project costs. The 12 above free limit subloans ranged in size from US$ 609,140 to US$ 3,168,530 (37.6% of estimated project costs) for a wire rod manufacturing plant. The 4 below free limit subloans ranged from US$ 133,097 to US$ 525,210. Interest rates charged ranged from 11% (minimum stipulated in the loan agreements) to 12.5%, and maturities ranged from five to twelve years, including grace periods.

4.08 Annex 3 summarizes the key characteristics of the subprojects approved under Loan 1438-KE. As of March 31, 1986, all 16 projects had finished the implementation stage; one had prepaid its loan to IDB, and two had gone into receivership. The projects were expected to create 2579 jobs at a high average cost of US$ 65,582 per job. Three projects had average costs per job above US$ 100,000: Synresins, Pan African Paper Mills, and Madhupaper. Both Pan African Paper Mills and Madhupaper were expansions of highly capital intensive operations. Without these three projects, the average estimated cost per job amounted to a still high US$48,572.

For the projects with actual job creation data, the average cost per job (again excluding Madhupaper, Pan African Paper Mills and Synresins) was a high US$ 65,238.

4.09 Significant cost overruns contributed to the high actual costs per job. Although on average the 16 projects had overruns of about 22%, five had overruns amounting to 50% or more of estimated project costs. The factors contributing to these overruns included poor project design, poor choice of equipment or technology, underestimates of time necessary for implementation, delays in project implementation (restricted access to import licences, agreements with technical partners or Government) and some changes in project scope. Significant delays (in some cases up to 2 years) also led to price escalations arising from inflation and devaluation of the Kenyan shilling. As a result, the projects often faced higher debt service obligations than originally anticipated, with repayments coming due before commercial operations had begun.

4.10 Several projects continued to experience difficulties after project implementation, due to import restrictions imposed during 1982-84, shortages of domestic raw materials, or Government policies (low sugar prices for Nzoia Sugar, change in duties affecting Special Steel). Additionally, overly optimistic market assessments resulted in poor performance of several projects. Consequently, subloans approved under Loan 1438-KE have high arrears, with 12 of 16 loans having arrears over three months, and 92.5% of the portfolio affected by arrears as of March 31, 1986. Arrears of three months or more amount to 27% of amounts outstanding.

4.11 On average the subprojects financed under Loan 1438-KE appeared less import-dependent and more export-oriented than those financed under earlier loans, but many projects continued to be inward-oriented. Of the four hotel projects financed, which were expected to produce significant foreign exchange earnings, only one has been successful. Only three manufacturing firms have had significant export sales: Double Diamond, Pan African Paper Mills and Kaluworks. Of the sixteen subprojects, 6 depended on imports for 75% or more of their raw materials, and only four manufacturing projects used primarily domestic raw materials. Tourism accounted for 4 subprojects and 20% of amounts approved, while metals accounted for 5 subprojects and 35% of amounts approved. Both subsectors have experienced difficulties during the period under review.

4.12 IDB calculated ex-ante financial and economic rates of return for all 16 projects, but has not provided ex-post rates of return. The estimated FRRs ranged from 11% to 52%, averaging 25%, while the estimated ERRs ranged from 12% to 68%, with an average of 30%. Profitability data available indicates that for many projects the actual FRR and ERR would be significantly lower than anticipated. Indeed, seven of the 16 projects have accumulated significant losses, and several have negative net worth.

4.13 Projects under Loan 1438-KE were largely split between new and expansion/renovation projects. Although both new and expansion projects have had difficulties, the greenfield operations were more likely to experience difficulties during implementation. The expansion projects

which experienced difficulties were those with weak management (Datini, African Tours and Hotels). Only three projects were located in rural areas. Annex 4 contains a description of selected projects financed under Loans 1148-KE and 1438-KE and their present status.

V. OPERATIONS AND FINANCIAL CONDITION

5.01 Operations. During the 1970s, IDB's total approvals increased about 14% per annum in real terms, significantly higher than forecast at the time of appraisal of the first loan. Its growth rate exceeded the estimated growth in capital formation for manufacturing in Kenya during this period because of strong promotion and successful resource mobilization. Annex 5 shows IDB's approvals, commitments and disbursements (actual and projected) for the period 1981-85. During that time, IDB made 87 loans and 4 equity investments, with a significant slowing down of approvals occurring in 1983-84. IDB made virtually no domestic currency loans after 1981 because of its own resource and liquidity constraints. Total approvals during 1981-85 amounted to Ksh 581.7 million, or 63.5% of projected levels. Much of the shortfall in approvals arose from (i) the recession; (ii) shortages of foreign exchange during 1982-84; and (iii) IDB's efforts after 1983 to consolidate its operations. In addition, IDB's lack of local currency resources diminished demand for its foreign exchange loans, as it was unable to offer clients an attractive mix of domestic and foreign currency funds.

5.02 IDB made all its loans to industrial enterprises, but moved away from large, Government-sponsored projects and approved more loans to medium-scale enterprises, often to indigenous Kenyan entrepreneurs with limited experience. Consequently, average loan size declined significantly. Unfortunately, these projects were often more highly leveraged than larger enterprises (loan financing could exceed 75% of total project costs) with IDB often being the only term lender. Thus, IDB's exposure in individual projects has increased over time.

5.03 Commitments and disbursements have also been slower than anticipated, although during 1983-85 IDB improved its pace of commitments and disbursements. By December 31, 1985, however, undisbursed commitments remained high at US$ 15.3 million, because of (1) slow completion of loan documentation; (2) technical problems; (3) insufficient sponsors' contributions; and (4) delays in securing approval from external creditors. The delays in implementation often have had an adverse effect on IDB's portfolio performance (para.5.04), as many projects' grace periods expired and arrears accumulated before commercial activities could begin and projects faced significant cost overruns.

Portfolio

5.04 Loans. As noted in the previous PPAR, by 1980 IDB's portfolio already showed signs of serious problems. By 1980, 34% of the portfolio was affected by arrears of three months or more. Annex 6 shows the evolution of IDB's loan portfolio during 1981-85. As of December 31, 1985, IDB had 98 active projects in its portfolio, including 22 under implementation, for a total of Ksh 875 million in principal outstanding. Although growing 169% over 1981 levels in Ksh terms, the portfolio grew only 72% in US$ terms because of the depreciation of the Ksh since 1981.

IDB's portfolio has sharply deteriorated during the past 5 years, with arrears as a percentage of portfolio increasing from 18% in 1981 to 31% in 1985. Moreover, the arrears affected portfolio has increased significantly from 51% of portfolio in 1981 to 82% in 1985. 15 projects, amounting to 12% of portfolio, were under receivership at December 31, 1985. Owing to more intensive project monitoring and arrears follow-up efforts, collections ratios improved somewhat during 1985, to nearly 100% for the year. IDB has found, however, that many of its strongest projects are prepaying their loans (in order to avoid foreign exchange risk), thus leaving IDB a generally weaker portfolio for which improvements in collections will come more slowly. IDB also has a core group of about 20 major problem projects, the prospects for which are generally low.

5.05 IDB's portfolio shows a wide range of subsectors, but is dominated by three subsectors in particular: metal and engineering (27% of portfolio), tourism (22% of portfolio) and textiles (19% of portfolio). Although all three subsectors have many troubled projects (and nearly 98% of the tourism subsector is affected by arrears), other subsectors, particularly automotive, wood and mining/quarrying, have arrears in excess of 50% of total amounts outstanding. Many of these projects, particularly in wood, food processing and mining/quarrying, are medium-scale enterprises which were originally undercapitalized and had weak management. A summary of IDB's portfolio by subsector is shown as Annex 7.

5.06 IDB has accumulated provisions totalling about 9% of gross portfolio, but total provisions may still be less than are warranted given the pervasive arrears problem. A total of 45 projects, amounting to 45% of total amounts outstanding, have arrears of twelve months or more. Proposed accumulated provisions for 1985 total Ksh 89.4 million, or less than half of the amounts in arrears over 12 months. IDB suspends interest income for projects with arrears in excess of 24 months, and since 1983 has suspended about Ksh 42 million or 15% of total gross loan income. IDB is currently reviewing its provisions policies with its auditors, and the status of several projects with long-standing arrears and low provisions.

Equity Investments

5.07 IDB's equity investments as of December 31, 1985 amounted to Ksh 105.3 million in 27 companies. IDB's share of ownership did not exceed 30% except for three companies (Amgeco, Kicomi and Booth Manufacturing), and IDB does not have a majority position in any firm. Of the 27 firms, 13 are profitable, representing 32.5% of IDB's equity portfolio. The remaining 14 firms, including four in receivership, are performing poorly, and 8 of these 14 had negative net worth in 1985. IDB's dividend return on its total gross portfolio has also been disappointing during the past several years, falling well short of appraisal estimates. In 1984-85, IDB's dividend return for the total gross portfolio remained at about 3%. Returns on the 13 profitable companies alone have been somewhat higher (only 9 of these firms pay dividends), amounting to 9.6% in 1984 and 8.5% in 1985. IDB's equity portfolio covers a wide range of sectors, with the largest subsectoral representations being food, metal/engineering and tourism. Food projects account for 18.7% of IDB's equity investments: two of these, South Nyanza Sugar and Nzoia Sugar, are unprofitable because of low levels of capacity utilization and low sugar prices. IDB's largest equity holding (21% of the equity portfolio) is in Kicomi, a large integrated textile project in Kisumu, which has recently undergone rehabilitation and financial restructuring.

5.08 On balance, IDB's decision to use scarce domestic currency resources for equity investments has not been fruitful, as the average dividend returns have been lower than potential interest income (IDB can charge up to 19% on local currency loans). In addition, IDB's ability to capture capital gains on its investments has been low, as it finds sales of these investments, even profitable ones, difficult. Moreover, IDB's total unrealized return on the gross portfolio was a negative 10.5%, as IDB's share of net accumulated losses has wiped out its original investment in 12 out of 27 firms. Had IDB put these funds into local currency loans, the funds might also have had a greater chance of being recycled than they have had as equity investments. The poor performance of the equity portfolio has adversely effected IDB's profitability, as IDB has taken an adequate Ksh 28 million in provisions and writeoffs against the equity portfolio.

5.09 Financial Condition. During the 1970s, IDB's profitability was poor due to insufficient spreads, high administrative costs and poor portfolio performance which necessitated high provisions expenses. Annexes 8-10, which show IDB's projected and actual balance sheets, income statements and ratio analyses for the period 1981-85, demonstrate that IDB's profitability and liquidity continued to suffer during the period under review. Although actual interest income earned was close to projections, higher administrative costs and significantly higher bad debt provisions eroded IDB's profitability. Indeed, IDB made losses in 1981 and 1983, and its return on assets averaged a low 1.4% during 1981-85 compared to the projected 6.7% at the time of the appraisal of loan 1817-KE. Administrative costs averaged 2.2% of average total assets during the period, with a declining trend over time, from 2.5% of average total assets in 1981 to 1.9% in 1985. While the appraisal team had estimated that bad debt provisions would amount to about 0.5% of average total assets per year, actual provisions expense had to be increased to 3.0% per annum during the five year period. IDB's average spread has also been lower than anticipated, averaging 1.9% in 1981-1985 vs. the projected level of 3.9%. IDB's spreads have been lower than anticipated despite an increase in interest rates (to 13%-14%) because IDB needs to suspend interest on loans with arrears of two years or more. Indeed, in 1985 IDB's spread was a very low 1.2%, which in itself was inadequate to cover administrative costs and loan provisions. IDB showed a small profit in 1985, however, largely due to higher investment income, proceeds from the sale of some investments, and writebacks of earlier provisions.

5.10 IDB's balance sheet also reflects the weakness of its portfolio. Current ratios, adjusted to eliminate amounts in arrears from current assets, averaged a low 1.2:1 during 1981-85. IDB's liquidity hit its low point in 1982 (current ratio of 0.9), but subsequently improved steadily, and reached 1.5:1 in 1985. IDB has experienced liquidity problems because of its poor collections performance, low profitability and its inability to mobilize deposits (because it did not offer competitive yields for deposits). IDB's debt: equity ratio has remained well within the 4:1 limit stipulated at the time of appraisal of Loan 1817-KE, but has increased steadily from 2.1:1 in 1981 to 3.2:1 in 1985. IDB's leverage has risen faster than anticipated at appraisal because of (i) lower profitability, thus depleting IDB's reserves and retained earnings; (i) slow payment of new share capital; and (iii) devaluation of the Kenyan shilling, which increased IDB's foreign currency denominated debt in Kenyan shilling terms. The devaluation has similarly affected IDB's loan portfolio and arrears.

Resource Mobilization

5.11 As shown in Annex 12, IDB has been relatively successful in mobilizing external resources for its foreign currency lending requirements, receiving US$ 65 million in new lines of credit. Between 1980 and 1985, IDB received new lines of credit from IBRD (US$ 30 million), BADEA (US$ 10 million), the Swiss Government (US $ 10 million) and the African Development Bank (US$20 million). IDB has been less successful, however, in mobilizing local currency resources aside from additional share subscriptions from its existing shareholders. Between 1980 and 1985, IDB attracted US$ 10.3 million equivalent in new share capital, but found it increasingly difficult to do so as its own performance lagged and some of its shareholders (in particular National Bank of Kenya and ICDC) lacked the resources to meet capital subscription obligations. IDB has not borrowed locally or raised significant new deposits.

VI. CONCLUSIONS AND LESSONS LEARNED

6.01 Although IDB grew rapidly during the 1970s to become a leader in Kenya for providing term finance to industry, its performance during 1981-1985 was largely disappointing until 1984. Starting in 1985, IDB began to show some real improvements in its portfolio supervision and debt collection functions. Although the 1979 appraisal mission's diagnosis was largely correct, it was not until late 1984 that IDB made significant progress in consolidating its operations and strengthening the institution. The poor performance of projects financed under Loan 1438-KE, which were largely import-dependent, poorly prepared, and insufficiently supervised demonstrates the slow progress of change within IDB. The quality of loan appraisals has improved in the past two years, and the internal review mechanisms are generally working well, but serious weaknesses remain in appraisal and supervision. Nonetheless, IDB will most likely continue to have high levels of arrears, as it does not always have the skills and resources to solve the problems of its most troubled clients, and political pressures have eliminated liquidation as an option in several cases.

6.02 IDB continues to play an important role in the industrial sector. It has successfully mobilized external resources for Kenyan industry, has recruited and trained an able core of professional staff (many of whom have left IDB for positions in other banks or the private sector), and when done carefully, can make a positive contribution to the identification and preparation of new industrial projects. It also has an opportunity now to assist in the rehabilitation and restructuring of existing industries, although it will need significant financial resources and technical staff in order to succeed in this task. It will also need the political will to liquidate certain unviable projects and resist possible future pressures from Government. IDB's inability to mobilize domestic currency resources in the past is a key impediment to its future operations, particularly as it looks to rehabilitate existing projects. Raising interest rates to their legal ceilings, and perhaps instituting variable rates and/or eliminating lending rate ceilings, would enable IDB to tap local resources for this purpose. IDB should also consider selling some of its better investments in order to recycle those resources into new projects. Given the poor quality of its portfolio, however, IDB's ability to borrow locally will be curtailed, and it is unlikely to be able to compete effectively with private financial institutions.

6.03 In retrospect, it appears that Bank staff were slow in recognizing the depth of the difficulties faced by IDB and its clients. Even as early as 1980, IDB was considered to be at worst a project with moderate problems, when in fact the arrears affected portfolio had reached 50% of total portfolio and bad debt provisions were minimal. Since IDB's profitability had been low through the 1970s, IDB's reserves were inadequate to weather the sharp deterioration in portfolio performance during 1982-84. The IDB story also provides a telling example that the traditional DFC model--channelling term foreign exchange loans to industry--is finding it increasingly difficult to compete with other financial institutions, especially in dynamic financial sectors such as Kenya. Today, facing a plethora of financial institutions and increasing bank liquidity in Kenya, IDB is often reduced to providing the most risky financial instruments to the riskiest clientele. Such a position is not viable for IDB over the long-term. As the Bank devises new lending operations for the industrial and financial sector, more attention should be given to helping the existing financial institutions tap domestic savings. At the same time, we need to examine critically the options available to IDB and help it and Government formulate a viable plan for its restructuring. Although what IDB's role is to be not yet clear, it is likely that significant financial, organizational and managerial changes will be necessary for its continued existence.

March 27, 1987

Annex 1

Kenya
Industrial Development Bank (IDB)
Project Completion Report
Evolution of Staffing 1981-1985

Year ended December 31	1981	1982	1983	1984	1985
Total staff at beginning of year	94	121	122	111	118
of which support staff	65	87	87	80	78
of which professionals	29	34	35	31	40
Total staff who left IDB	6	2	16	6	4
of which support staff	4	-	11	3	1
of which professionals	2	2	5	3	3
due to resignation	6	2	15	5	4
due to termination by IDB	-	-	-	1	-
due to retirement	-	-	1	-	-
Total new staff during year	33	3	5	13	10
of which support staff	26	-	4	1	2
of which professionals	7	3	1	12	8
Total staff at end of year	121	122	111	118	121
of which support staff	87	87	80	78	76
of which professionals	34	35	31	40	45

IDF Division, Eastern and Southern Africa Region
June, 1986

Annex 2

Kenya
Industrial Development Bank (IDB)
Project Completion Report

List of Subprojects financed under Loan 1148-KE

Sub-Borrower's Name	Subproject No.	Sector	(US $) Amount Approved	Product	Type of Project
Rivatex	A-1	textiles	1,120,000	fabrics	new
Kenya Hotel Properties	A-2	tourism	644,000	hotel	expansion
Eslon Plastics	A-3	plastics/chemicals	735,294	plastics	expansion
Dawa Pharmaceuticals	A-4	plastics/chemicals	1,120,000	pharmaceuticals	new
AMEGECO	A-6	metals/engineering	446,485	ship repair	expansion
Booth Manufacturing	A-7	metals/engineering	961,630	aluminum	expansion
Salt Manufacturers	A-8	food	129,869	salt	new
Kisumu Cotton Mills	A-9	textiles	712,000	fabric/yarn	expansion
Kenya Furfural	A-10	plastics/chemicals	1,205,000	furfural	new
Kenya Glass Works	A-11	plastics/chemicals	1,309,275	glass bottle	modernization
Kenwestfal	A-12	metals/engineering	754,320	PVC cables	expansion
Steel Billets	A-13	metals/engineering	638,427	steel billets	new
Yuken Textiles	B-1	textiles	223,700	garments	new
Total			10,000,000		

KENYA
INDUSTRIAL DEVELOPMENT BANK
Project Completion Report
Listing of Subprojects Financed Under
Loan 1438-KE

Sub-borrower's Name	Subproject No.	Sector	Products	(US $) Amount Approved	Type of Project
Steel Billets Casting	A-1	metal	steel billets	1,038,992.80	new
Kaluworks	A-3	plastics	enamel and plasticware	2,292,993.00	expansion
Nzoia Sugar Ltd.	A-4	food	sugar	1,975,309.00	new
Booth Manufacturing	A-5	metal	aluminum extrusion	265,224.00	expansion
Panafrican Paper Mills	A-6	paper	paper	609,139.84	expansion
Madhupaper International	A-8	paper	paper	1,255,466.00	expansion
Datini Mercantile	A-9	metal	wheelbarrows	827,324.00	expansion
Hotelspan	A-10	tourism	hotel	2,240,000.00	new
Gnanjivan	A-11	metal	screws, fasteners	1,075,050.00	new
Holiday Centre	A-13	tourism	hotel	1,053,848.24	new
Synresins	A-15	chemicals	paint, resins	1,142,300.00	new
Mumwe Investments	A-16	tourism	hotel	257,296.23	new
Specialized Steel Mills	A-17	metal	wire rods	3,168,530.00	new
African Tours and Hotels	B-1	tourism	hotel	133,097.00	expansion
Double Diamond Tanneries	B-2	leather	leather	332,292.55	new
Cabroworks	B-4	construction	roofing felt	525,210.00	modernization
			TOTAL	18,192,072.66	

IDF Division, Eastern and Southern Africa Region
June, 1986

Description of Selected Projects Financed Under Loans 1148-KE and 1438-KE

SPECIAL STEEL MILLS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Ruiru
Products	:	Wire rods
Other Lenders	:	FMO & Hawker Siddeley Power Engineering Limited
Loan outstanding as at 30.11.85	:	KShs. 53.06 million

Arrears as at 30.11.85

	KShs '000
Principal	817
Interest	9,984
Total	10,801

2. OPERATIONAL PERFORMANCE

	1983	KShs '000 1984	1985 (June)
Turnover	-	66,297	57,177
Profit (Loss)	-	(10,126)	(11,136)
Cumulative Profit (Loss)	-	(10,126)	(21,262)

3. BACKGROUND

Special Steel Mills Limited was incorporated on 30th May, 1980 to manufacture high quality wire rods, bars, rounds and squares at Ruiru Township. The project is fully owned by the Bhattessa Family. It started with an initial share capital of KShs. 23.0 million which has since been increased to KShs. 50.0 million through capitalization of KShs. 10.0 million from inter-company loans and KShs. 17.0 million from revaluation reserve account.

IDB's investment in the project is in the form of a term loan of US$ 3,168,526 equivalent which was approved by the Bank's Board of Directors on 30th April, 1980. At the time of approval the loan was equivalent to KShs. 240 million but because of the general devaluation of the Kenya shilling against major currencies in which the loan was disbursed, the loan is now equivalent to about KShs. 52 million. The loan had a moratorium of two years on principal to be repaid in fourteen half-yearly installments commencing June, 1982.

4. PROBLEMS

(i) Implementation: The project was originally expected to start commercial operations in January, 1982. However, there were delays of about twenty months resulting from delays in land sub-division and obtaining import licences for vital tooling and key machinery parts. Due to the delay, original project cost underestimates, and increase of duty on plant and machinery the project cost rose from the original estimate of about KShs. 64 million to KShs. 110 million. Actual commercial operations

started in the last quarter of 1983 and as such the project was not able to keep to the original loan repayment schedule. On August 9, 1982, IDB rescheduled the repayment program by three installments so as to commence in January, 1984.

(ii) Production: Although commercial production started in the last quarter of 1983, there was no trading during the year. Furthermore, whereas duty on imported billets was 10% and that on wire rods was 30% during project conception, it had now been made uniform at 25% thus eroding the original duty differential. As a result the project became non-competitive with imported wire rods and operated much below economic capacity level. It was not able to service its loans and on 14th September, 1984 IDB was yet again forced to reschedule the loan by four installments so as to commence in January, 1986.

5. PRESENT STATUS

As at 30th November, 1985 IDB outstanding loan was KShs. 53.06 million while principal and interest arrears had accumulated to a total of KShs. 10.8 million. Although production and sales have shown some marked improvement, the operations are well below economic level and the project is still not expected to generate sufficient funds to clear the arrears.

6. IDB ACTION

IDB is working with the sponsors ways of restructuring the company's financial obligations including the loan repayment schedule so that it will be in a position to clear the outstanding arrears. This may also mean holding discussions with the project's other financiers. In the meantime, IDB has given support to the company's request to the Government to restructure import duty on billets and wire rods.

GNANJIVAN SCREWS & FASTENERS LIMITED

1. BASIC DATA

Sector	: Metal products & Engineering
Location	: Ruiru
Products	: nuts & screws
Other Lenders	: Bank of Credit & Commerce
Estimated Project Cost	: KShs. 15.8 million
Actual Project Cost	: KShs. 26.5 million
Date operations begun	: December, 1982
Loan outstanding as at 30.11.85	: KShs. 11.93 million

Arrears as at 30.11.85		KShs'000
Principal		1,396
Interest		228
	Total	1,624

2. OPERATIONAL PERFORMANCE

	KShs'000	
	1982	1983
Turnover	634	4,992
Profit (Loss)	(1,171)	(7,288)
Cumulative Profit (Loss)	(6,764)	(14,052)

3. BACKGROUND

Gnanjivan Screws and Fasteners Limited was incorporated on 17th May, 1979 to manufacture high tensile and precision fasteners. The shareholders of the company are the Bhattessa Family (60%) and Nalin Nailworks Limited (40%). The latter company is fully owned by the Bhattessa Family. Originally the project was estimated to cost KShs. 15.8 million but was implemented at a total cost of KShs. 26.5 million.

IDB's investment of US$ 1,075,052 was approved on 25th July, 1979 to be repaid over 10 years (including 2 years moratorium), the first installment being due in December, 1981. The project was originally expected to start commercial production by July, 1980 but was delayed until end of 1982, as a result of which in March 1982 the IDB loan had to be rescheduled by three installments with the first payment due on 15th July, 1983.

As at 30th November, 1985 the IDB outstanding loan was KShs. 11.93 million while principal and interest arrears were KShs. 1.4 million and KShs. 228,000 respectively.

4. PROBLEMS

(i) Implementation: The project implementation was delayed for nearly two and half years due to a number of reasons. Security arrangements took a long time to finalize as the plot had not yet

been sub-divided. Central Bank took a long time to approve the technical collaboration agreement with GKN of Britain, and import licences were also delayed. Due to this delay there were cost overruns of nearly KShs. 11.0 million arising from inflation, exchange rate fluctuations and pre-operational expenses. The overrun was financed by the sponsors. Obtaining these finances also contributed to total delay.

(ii) Operational: Problems at this stage were lack of raw materials due to import licence problems, inability to generate bulk sales due to lack of vital laboratory testing equipment (hence could not guarantee the Kenya Bureau of Standards requirements) resulting in capacity underutilization. The initial problem of quality was overcome with the installation of quality testing equipment.

5. PRESENT STATUS

Although operations are still below projected levels, the company has continued to service the IDB loan satisfactorily. However Annual Accounts Reports are not provided in time.

KALUWORKS LIMITED

1. BASIC DATA

Sector	: Metal products & Engineering
Location	: Mombasa
Products	: Household utensils
Date Operations begun	: 1968
Loan outstanding at 30.11.85	: KShs. 8,085,540

Arrears at 30.11.85		KShs.
Principal		1,047,978
Interest		1,005
	Total	1,048,983

2. OPERATIONAL PERFORMANCE

		KShs'000	
	1983	1984	1985 June
Turnover	90,667	99,030	60,949
Profit (Loss)	-	4,882	6,386
Retained Profit (Loss)	-	4,231	6,567

3. BACKGROUND

Kaluworks Limited was incorporated in February, 1968 as a limited liability company to manufacture and trade in a wide range of household ware. The company is a wholly owned subsidiary of Kenya Aluminum Industrial Works Limited which is a holding company and itself wholly owned and controlled by the Chandaria Group.

IDB's investment of US$ 2,292,993 was approved on 26th April, 1978 for the expansion of the company's enamelware and plasticware capacities. The expansion was to involve the installation of a furnace with greater capacity and increasing the number of injection moulding machines with higher capacities.

By the time of IDB's loan approval the expansion was already underway and was expected to be complete in the last quarter of 1979. In the first quarter of 1980 the full project expansion was completed and production started.

4. PRESENT STATUS

The project has been operating without any major problems and its IDB loan servicing has been satisfactory.

STEEL BILLET CASTING LIMITED

1. BASIC DATA

Sector	:	Engineering and Metal Products
Location	:	Nairobi (Dandora)
Loan outstanding as at 30.11.85	:	KShs. 39.45 million

Arrears as at 30.11.85		KShs'000
Principal		14,007
Interest		6,425
	TOTAL	20,432

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept)
Turnover	44,909	52,275	51,094
Profit (Loss)	430	4,492	5,074
Cumulative Profit (Loss)	(21,943)	(17,451)	(12,377)

3. BACKGROUND

Steel Billet Castings Limited was incorporated in 1978 with the objective of implementing a project to manufacture steel billets using locally available ferrous scrap. The major shareholders are Steel Rolling Mills Limited, IDB (12.5%) and individual private investors.

IDB's first loan investment of US$ 1,677,420 was approved on 22nd November, 1977. At the same time, an IDB equity investment of KShs. 125 million was approved by IDB's Board of Directors. A second loan investment of US$ 1,238,880 was approved on 14th June, 1978. Finally a local currency loan investment of KShs. 3.50 million was approved on 25th May, 1981.

The company started commercial operations in November, 1980 but continued to make losses until 1983 as a result of which losses accumulated to KShs. 22 million and Steel Billets could not service its loans. In the last three years the company has been registering some profits and is paying IDB in order to liquidate the accumulated principal and interest arrears. As at 30th November, 1985, principal and interest arrears stood at KShs. 14 million and KShs. 6.4 million respectively.

4. PROBLEMS

(i) Implementation: Production was originally expected to commence in April, 1979 but was delayed for nearly 18 months and commissioning of the plant was done only in October, 1980. The actual cost of the completed project together with revised working capital requirements of KShs. 21.7 million was KShs. 62

million resulting in cost overruns of KShs. 10 million. The delay in implementation was due to a delay of nearly 14 months before the agreement was reached between IDB and Standard Bank Limited on the issue of securities. A further delay of 4 months was due to non-availability of raw materials and mistakes in structural fittings which caused the work to be re-done. Machinery delivery was also delayed due to dock strikes in the harbors.

(ii) Production: Initially the performance of the project was below expectation principally due to low billet price realization, shortage of scrap and unavailability of adequate import licences for essential raw material inputs. While the problem of imported raw material inputs has now been solved, the project is still operating well below capacity due mainly to lack of locally generated ferrous scrap. A sister company has now been formed to produce more scrap through ship breaking in Mombasa, but continued competition from imported billets may limit their local production.

5. IDB ACTION

Because of financial problems experienced by the project, IDB on 29th November, 1984 rescheduled the loan repayment by six installments so that installments due in 1985, 1986 and 1987 would be payable in 1988. The company has agreed to make monthly payments of KShs. 500,000/= to offset the outstanding arrears.

ALPHARAMA LIMITED (DOUBLE DIAMOND)

1. BASIC DATA

Sector	:	Textiles and Leather Products
Location	:	Athi River
Products	:	Wet-Blue Leather
Original Project Cost Estimate	:	KShs. 6.0 million
Actual (final) project cost	:	KShs. 8.63 million
Date operations commenced	:	1981
Loan outstanding as at 30.11.85	:	KShs. 1.23 million
Arrears as at 30.11.85 (KSHS'000)		Nil

2. BACKGROUND

Alpharama Limited is the former Double Diamond Tanneries Limited which was owned by Mr. F.N. Macharia, Mr. K.L. Bhasin and Mr. S.N. Hamawi. The company changed its name after a change in ownership and management in December, 1982. The present shareholders in the company are Mr. F.N. Macharia (40%), Mr. A. Combos and Mr. H. Combos. The latter two are British citizens (residing in Kenya) and together have 60% shareholding in the company through a locally incorporated company, Intralga Limited.

IDB loan investment of US$ 333,750 was approved on 28th March, 1979. Although commercial operation of Double Diamond Tanneries Ltd. started in May, 1980 on schedule, two main setbacks adversely affected the company's financial position. First was the imposition of a ban on export of semi-processed hides and skins in June 1980, which was lifted six months later. More seriously, in December, 1981, the company had problems with health authorities in respect of the effluent treatment plant and discharge of treated water into the Athi River.

Immediately after taking over, the new company embarked on a major re-organization programme including modification of factory buildings, improvement of the effluent treatment plant, installation of reliable water supply and storage systems, and installation of additional machinery and equipment. This expansion programme resulted in quadrupling the project's tanning capacity and satisfactory servicing of the IDB loan. As at 30th November, 1985 the outstanding loan was KShs. 1.23 million while total arrears in principal and interest were nil.

3. PRESENT STATUS

The company is up-to-date in the servicing of IDB loans. It is, however, not possible to ascertain the actual financial position since the company has not yet provided the Bank with performance reports. However, the position may be assumed to be satisfactory on the basis of its loan servicing record and increased output.

HOTELSPAN LIMITED

1. BASIC DATA

Sector	Tourism
Location	Mombasa
Other lenders	PSP(UK), Kenyac, National Bank of Kenya
Estimated Project Cost	KShs. 43,000,000
Actual Project Cost	KShs. 110,000,000
Date operations begun	December, 1981
Loan outstanding as at 30.11.85	KShs. 47.33 million

Arrears as at 30.11.85		KShs'000
Principal		6,831
Interest		5,783
	TOTAL	12,614

2. OPERATIONAL PERFORMANCE

	1983	1984	1985(Nov)
Turnover	31,756	39,116	40,645
Profit (Loss)	(17,826)	(19,074)	(11,836)
Cumulative profit (Loss)	(43,586)	(63,855)	(75,691)
Reserves (After valuation)	-	12,218	382

3. BACKGROUND

Hotelspan Limited was incorporated on 5th February 1979 as a private company for the purpose of developing and owning Diani Reef Hotel which is situated at the South Coast, Mombasa. The shareholders of the company are Sonotels International (75.12%), IDB (15.24%) and Siana Mara (9.64%).

IDB approved a term loan of US$ 2.23 million and equity investment of KShs. 4.9 million on 17th January, 1979. In November, 1980 IDB approved a second loan of US$ 1.05 million and further equity of KShs. 1.96 million bringing the total equity investment to KShs. 6.86 million. The original cost estimate for the 300 bed luxury hotel was KShs. 43 million and provided for expansion to 500 beds. The final project cost escalated to KShs. 110 million. The first phase of the expansion is in the process of being implemented using loan finance from a Scotland Bank and E.C.G.D. guarantee.

As at 30th November, 1985, IDB outstanding loan was KShs. 47.33 million while principal and interest arrears had accumulated to KShs. 6.831 million and 5.783 million respectively.

4. MAJOR PROBLEMS

Implementation: This was expected to commence in January, 1979 but was delayed for one year while allocation of the plot was being negotiated with the Government. The plot was finally acquired in January, 1980 at a cost of K Shs 880,000 as opposed to the original assumption of acquiring it free of charge. Construction work began immediately and the project was commissioned in December, 1981. Although the original project cost was a mere KShs 43 million, it finally cost K Shs 110 million to complete. The main causes of these large cost increases were:

- delays in project start-up resulting in price escalations in imported items and the duties and sale tax. Long implementation period also increased professional and consultancy fees.

- devaluation of the Kenya shilling

- poor project planning and management

- omission of essential cost items such as land, laundry and kitchen equipment.

Operation: The company has been having marketing problems; both room and bed occupancy have been low especially during low tourist season. The company's losses have resulted in accumulated losses of about KShs 75 million.

5. IDB ACTION

In 1984 the term lenders agreed to reschedule loans. IDB is dissatisfied with the hotel's tariff structure and credit policies but management is adamant that the hotel is realizing the best rates and good efforts are being put in collecting the overdue accounts. IDB has decided not to make any further investment in the company for the proposed expansion.

DATINI MERCHANTILE LIMITED

1. BASIC DATA

Sector	:	Engineering & Metal products
Location	:	Nairobi
First Principal Repayment Date	:	December, 1980
Loan outstanding as at 30.11.85	:	KShs. 12.52 million

Arrears as at 30.11.85

Principal	KShs. 3.612 million
Interest	KShs. 2.153 million
Total	KShs. 5.765 million

2. OPERATIONAL PERFORMANCE (KSHS'000

	1982	1983	1984	1985
Turnover	12,100	12,198	12,103	15,042
Profit (Loss)	333	96	(3,413)	(131)
Cumulative profit (Loss)	(709)	(613)	(4,026)	(4,157)

3. BACKGROUND

The current shareholders of Datini Merchantile Limited acquired the company as a going concern in 1976. The project produces wheelbarrows, metal shelving and other metal products.

IDB loan investment in the project was approved on 25th October, 1978 for the purpose of completing a proposed expansion programme which was to triple the project's output. The expansion programme was completed in 1981 almost two years behind schedule, as a result of which commencement of loan repayment coincided with that of production. The company found itself in financial problems and after paying the first two installments it approached IDB for rescheduling of subsequent installments falling due in 1982. Although this was approved by IDB, the project was still not able to service its loans and arrears continued to accumulate.

4. MAJOR PROBLEMS

(i) In the last few years, several competitors have entered the market, particularly that of wheelbarrows. The company was not able to react appropriately because of poor marketing management.

(ii) The company is also experiencing working capital problems and has stretched its overdraft facility with Standard Bank to the limit.

(iii) As a result of the devaluation of the Kenya shilling, the company's debt level has almost doubled. This has meant higher service charges.

5. IDB ACTION

As a result of the continued poor performance by the company, IDB in November, 1984 carried out a detailed review of the project's operations and came up with recommendations on marketing, management reorganization, diversification of the product range and technical management improvement. With the implementation of these recommendations, the company's performance has improved with monthly sales picking up well. With some assistance from the Commonwealth Secretariat, the company is launching a diversification program which is aimed at boosting sales. A monthly repayment of KShs. 200,000 has been agreed on to help clear the arrears.

NZOIA SUGAR COMPANY LIMITED

1. BASIC DATA

Sector	:	Food & Beverages
Location	:	Bungoma District
Products	:	Mill white sugar
Date operations commenced	:	October, 1976
Loan outstanding as at 30.11.85	:	KShs. 9.314 million

Arrears as at 30.11.85		KShs'000
Principal		1,914
Interest		63
	TOTAL	1,977

2. OPERATIONAL PERFORMANCE

	KShs'000		
	(Actual) 31.3.85	(Actual) 31.3.84	(Projected) 31.3.85
Turnover	210,115	134,108	188,329
Profit (Loss)	(107,846)	(105,305)	(95,330)
Cumulative Profit (Loss)	(423,846)	(510,649)	(605,980)

3. BACKGROUND

The company was incorporated in August, 1975 and commenced commercial production in October, 1978. The paid up share capital of KShs. 210 million is subscribed by Kenya Government (94.8%), Five-Cail Babcock (2.8%), and IDB (2.4%). IDB loan investment of US$ 1,975,309 was approved on 26th October, 1977, while equity investments of KShs. 5.0 million was approved on 26th April, 1978.

4. MAJOR PROBLEMS

(i) Implementation: There were no major problems during implementation. The project started operations in time and was implemented at a cost of KShs. 548 million as opposed to the estimate of KShs. 542.4 million.

(ii) Operation: Since the company commenced commercial operations the trading results have been characterized by continuous losses. The main reasons for poor financial performance are: capacity under-utilization resulting from inadequate cane supply, lower recovery factor due to low quality and machinery inefficiency, heavy debt servicing due to high debt/equity ratio, poor loan terms and devaluation of the Kenya shilling and high cost of inputs and unmatched prices of sugar.

5. PRESENT STATUS

As a result of the poor performance the company was projected to register total losses of KShs. 606 million as at 31st March, 1985 and its net worth eroded to negative KShs. 366 million. The company is therefore technically insolvent.

The Government has continued to settle the long term French loans on behalf of the company having paid FF 152,667,274 an equivalent of KShs. 252.6 million as at 31st August, 1985. The company has, however, been servicing IDB loan regularly.

SYNRESINS LIMITED

1. BASIC DATA

Sector	:	Chemical, rubber & plastics
Location	:	Nairobi
Products	:	Alkyd resins, emulsion & polyster
Original Estimated Project Cost	:	KShs. 21.760 million
Actual Project Cost	:	KShs. 33.815 million
Date of commencement of operations	:	August 1982
Loan outstanding as at 30.11.85	:	KShs. 18.52 million

Arrears as at 30.11.85		KShs'000
Principal		3,126
Interest		2,072
	TOTAL	5,198

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Oct)
Turnover	8,100	25,680	35,170
Profit (Loss)	(6,500)	(2,772)	(248)
Cumulative Profit (Loss)	(17,229)	(20,071)	(20,319)

3. BACKGROUND

Synresins Limited is owned by Newtech Industries (Kenya) Ltd. which was incorporated in July 1976 to develop and promote a resins project in Kenya. IDB's investment in the project was approved on 19th December, 1979. The loan was payable in nine years including a two year moratorium so that the first installment was due in January, 1982. However, by the end of the moratorium period the project had not started operations and could therefore not meet the repayments. On 7th January, 1982 IDB rescheduled the loan by two installments so that loan repayment would commence in January, 1983. Even after the rescheduling, the company continued to accumulate arrears on principal and interest. IDB was again forced to reschedule the loan on 29th November, 1984 by four installments such that installments due in 1985 and 1986 would now be paid in 1990.

4. MAJOR PROBLEMS

(i) Implementation: The project implementation was delayed by about ten months due to delayed approvals of technical franchise and machinery supply agreement by Central Bank. This delay also led to cost overruns. There were also delays in commissioning due to problems in obtaining licences for raw materials required for project commissioning.

(ii) Production: During the first year of production, the level of operation was very low due to insufficient working capital and long delays in approvals of import licences for raw material. Although production improved in later years, the project still continued to experience problems of competition from imported products, lack of local raw materials and working capital. In 1985 the company's performance improved and overall production and sales were within the budget.

5. PRESENT STATUS

As at 30th November, 1985 the total IDB outstanding loan was KShs. 18.52 million while total arrears (principal and interest) had accumulated to KShs. 5.198 million. The company has been making monthly repayments of KShs. 240,000 so as to liquidate arrears. With the improved performance IDB may ask for enhancement of this amount.

AFRICAN TOURS AND HOTELS LIMITED

(BUFFALO SPRINGS LODGE)

1. BASIC DATA

Sector	:	Tourism
Location	:	Isiolo Game Reserve, Samburu
Other Lenders	:	A.T & H.L.
Date operations begun	:	1981
Loan outstanding as at 30.11.85	:	2.26 million

Arrears as at 30.11.86		KShs.
Principal		700,627
Interest		598,803
	TOTAL	1,299,430

2. OPERATIONAL PERFORMANCE

The company has not provided its audited annual accounts and reports since 1980 because it has not been able to meet audit fees due to the auditors.

3. BACKGROUND

The Lodge was started as a luxury tented camp in Isiolo Game Reserve, Samburu. African Tours & Hotels Limited became a major shareholder in 1977 when it acquired 51% of the shares. The balance was held by Isiolo County Council (41.4%), and other local investors.

IDB's investment of US$ 133,097 term loan and KShs. 810,000 equity (7.6%) was approved on 23rd March, 1979. The term loan is guaranteed jointly by African Tours & Hotels Limited, and Kenya Tourist Development Corporation. The project has continuously made losses because of poor performance resulting from failure to attract business as it cannot compete with lodges in the area. As a result, the IDB loan to the project has not been serviced and as at 30th November, 1985 the outstanding loan was KShs. 2.26 million while principal and interest arrears had accumulated to KShs. 700,626 and KShs. 598,803 respectively. The ATHL Directors want to reschedule the IDB loan.

4. PRESENT STATUS

The project needs a face-lift estimated to cost KShs. 2.4 million in order to compete with others in the area.

CABROWORKS LIMITED

1. BASIC DATA

Sector	:	Construction Industry
Location	:	Mombasa
Products	:	Roofing Felt
Date Operation Commenced	:	1963
Loan outstanding as at 30.11.85	:	KShs. 2.15 million

Arrears as at 30.11.85		KShs'000
Principal		134.10
Interest		0.49 CR
	TOTAL	133.61

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1982/3	1983/4	1984/5
Turnover	24,000	36,073	33,534
Profit/(Loss)	634	5,222	237
Cumulative profit/(loss)	579	5,800	6,406

3. BACKGROUND

Cabroworks Limited started operations in Mombasa in 1963 to produce roofing felt. The company is wholly owned by Cassman Brown & Company Limited. The company has increased its product range to include bitumen/asphalt and paving bricks. IDB's investment of US$434,582 was approved on 2nd April, 1980 for the purpose of expansion. The company's performance has been satisfactory and has been up-to-date in servicing of IDB loan. As at 30th November, 1985, the outstanding loan amounted to KShs. 2.15 million while total principal and interest arrears were KShs. 133,607.

4. MAJOR PROBLEMS

The company has not experienced any major problems. It will however, now face competition from a new company, Bitumen Products Ltd. a subsidiary of Venus Metals (A) Ltd.

BOOTH MANUFACTURING AFRICA LTD

1. BASIC DATA

Sector	:	Engineering & Metal Products
Location	:	Nairobi & Thika
Products	:	Aluminum extrusions and fire extinguishers
Loan outstanding as at 30.11.85	:	KShs.8.574 million

Arrears as at 30.11.85		KShs'000
Principal		46.34
Interest		942.19
	TOTAL	988.52

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept.)
Turnover	27,575	37,852	27,121
Profit/(loss)	2,121	3,942	2,949
Retained profit/ (loss) and reserves	10,101	16,130	-

3. BACKGROUND

Booth Manufacturing Africa Limited BMAL is a private company wholly owned by Kenya Aluminum Works Ltd (KALW) which is in turn wholly owned by the Chandaria Group. KAIW is itself a holding company owning and charged with the running (in addition to BMAL) of Kaluworks Limited in Mombasa, and Ideal Casements Ltd in Nairobi.

BMAL came into being in June 1973, when KAIW purchased the present manufacturing business from Booth Manufacturing Company Ltd., the latter being part of the British firm of Tombooth, whose activities are general trade and export.

IDB's first investment which was approved in 1976 was for an expansion and diversification programme in the industrial area, Nairobi. The diversification program involved putting up a new factory for the manufacture of extended aluminum sections. The second investment approved in 1977 was for re-location of the project (from Nairobi to Thika) and increasing the scope of the project to include facilities to manufacture copper and brass tubes. The Nairobi site was only adequate for aluminum tubes. Finally the third investment approved in 1978 was to finance part of the cost overruns.

4. PROBLEMS

(i) Implementation: The changes in the scope of the project and relocation resulted in long delays in project implementation. This, plus increase in built-up area, requirement for deeper foundation and increase in the cost of building materials and

power supply resulted in cost overruns of about KShs. 7.3 million.

(ii) Production: The performance of the Thika plant has been affected by competition from continued imports. Generally the project's performance is improving thus increasing the overall profitability of BMAL.

IDB ACTION

No special action is being taken by IDB apart from regular monitoring and pressing for loan repayment. The company is considering prepayment of the IDB loan.

PANAFRICAN PAPER MILLS LTD.

1. BASIC DATA

Sector	:	Paper & Pulp
Location	:	Webuye, Bungoma District
Products	:	Paper & Pulp
Date operation commenced	:	1975
Loan outstanding as at 30.11.85	:	KShs. 9.942 million

Arrears as at 30.11.85		KShs'000
Principal		26.932
Interest		14.722 (CR)
	TOTAL	12.210

2. OPERATIONAL PERFORMANCE

	KShs'000 1983/84
Turnover	575,453
Profit/(loss)	47,856
Cumulative profit/(loss)	140,293

3. BACKGROUND

Panafrican Paper Mills Limited was incorporated in 1970 as a joint venture between the Government of Kenya (33.9%), Oriental Paper Mills (29.3%), IFC (24.9%), ICDC (5.6%), DFCK (1.6%), EADB (3.6%) and BODC (1.1%).

In addition to bleached and un-bleached paper, the company has introduced production of news print by installing a mechanical pulp section. Because of the diversity in type and quality of paper demand in the printing and paper conversion industry, the mill has had to adjust and now produces about 80 different grades of bleached paper.

The mill also has a caustic soda/hydro chloric acid plant that supplies its own requirements and supplies a surplus to the local market.

Dividends were declared in 1980, 1982 and 1983 but because of no price increases for a number of years, dividends were not declared in 1983. Inspite of a price increase of 7.5% which was granted in 1984 the trading results for 1985 recorded a loss of KShs. 9.0 million as a result of continued weakening of the Kenya shilling against major foreign currencies, rising costs of inputs and spare parts and inadequate price adjustment for the end products.

The servicing of IDB loan continues to be satisfactory and as at 30th November, 1985 the outstanding loan was KShs. 9.942 million while total arrears were only KShs. 12,210.

SALT MANUFACTURERS (K) LIMITED (SMKL)

The Project

Salt Manufacturers (K) Limited comprises salt harvesting works at Gongoni, (north of Malindi) and the refinery at Mombasa.

The project company was incorporated in May, 1974 and currently has K Shs 17.3 million authorized share capital with K Shs 15.5 million subscribed and paid up as follows:

	Ordinary Shares	Preference Share capital (KShs '000)	Total
ICDC	3295	2244	5539
IDB	2500	800	3300
ICDC Investment Company	1000	-	1000
Private Shareholders	1705	-	1705
Saltec International	4000	-	4000
Total	12500	3044	15544

Company long term debts totalled K Shs 16.74 million as of December, 1984.

IDB Involvement

SMKL was started as a joint venture between local bodies and Saltex International, an Italian firm. Saltex International organized the supply of project machinery, and was given an 8 year contract from 1975 to implement and manage the project. The project was to be carried out in two phases with the saltworks initially producing 50,000 and ultimately 80,000 tons of raw salt per year; and the refinery producing 10 tons of refined salt per hour of operation.

In 1974, IDB provided K SHs 2 million equity and US$336,000 in loans to SMKL, but due to increased costs during implementation, the Bank had by 1979 invested a total of K Shs 2.5 million in equity (21.7% shareholding) and US$1,017,851 in two loans in SMKL. The loans were K Sh 7.1 million equivalent at date of approval and were scheduled to be fully repaid by December, 1983.

Project Implementation

A major problem of SMKL project has been the prolonged implementation period and subsequent cost overruns. While the refinery at Mombasa was completed in 1977, the saltworks implementation dragged on for 4 years. A first salt harvest of 8600 tons were however made at the works in 1980.

Due to the poor management and long delay in implementation, project total cost increased from an estimated Shs 28.9 million to Shs 40.0 million.

Past Performance and IDB Loan Servicing

The delay in implementation of the saltworks meant that the refinery had to operate with imported raw salt supplies for longer than originally anticipated. Importing raw salt more than doubled the estimated cost of harvesting the raw salt at Gongoni. SMKL's initial performance was further adversely affected by the increased preoperating expenses and the poor, costly management under Saltec International culminating in the termination of the management contract in 1979. Due to these problems the company continued accumulating heavy losses until 1983. Since 1984, resulting from IDB active involvement in rehabilitation of the project, performance has drastically improved with profits increasing from Shs 3.39 million in 1983 to Shs 7.88 million in 1984. This has offset most of the accumulated losses.

Current Status

	1984	1985
Share capital	15,544	15,544
Total term debt	16,746	20,844
Gross fixed assets	39,362	36,601
Sales	58,826	34,795
Profit	7,884	3,394
Retained profit (Loss)	(2,775)	(10,659)

Arrears on the IDB Loan as at June 30, 1985 were:

Principal	Shs 10,232,000
Interest	Shs 559,000

Part of the principal arrears has been rescheduled and the company has been paying K Sh 500,000 per month to clear the interest arrears and part of the principal.

YUKEN TEXTILE INDUSTRY LTD.

1. Basic Data

Sector:	Textiles and Leather
Date of loan approval:	June 30, 1976
Amount of loan approved:	US$223,750
Arrears as at 30.11.85	K Shs '000
Principal	1,138,375
Interest	2,674,987
	3,813,362

2. Past Performance

	K Shs '000			
	1981	1982	1983	1984
Turnover	6,601	13,130	4,337	8,040
Net Profit (Loss)	(6,687)	(6,272)	(4,615)	(8,701)
Cumulative Profit/(Loss)	(18,995)	(26,026)	(30,642)	(39,344)

3. Background

Yuken was originally conceived as a joint venture between a Yugoslav group (Yugotextil) and ICDC. IDB was later invited to join as both a shareholder and lender. The original Yuken was therefore, owned by the three parties on an equal basis i.e. 33 1/3 per cent.

The company commenced operations in 1978 and since then performance has been poor. By the end of 1984, the company had accumulated losses totalling over K Shs 39 million. In 1983, ICDC took over total ownership of the company by buying out the shareholding of both the Yugoslav groups and IDB. The company also opened its own retail outlets through the incorporation of a subsidiary (Y-Fashions) which has consistently returned losses.

4. Major Problems

The problem of this company have been identified as poor management, lack of working capital and severe competition from other cheaper manufacturers. During Yuken's existence, various measures have been proposed and implemented but no appreciable improvement has been achieved. One major problem here has been that measures have been implemented on a piecemeal basis with very little contribution to the revival of the project.

5. Proposed Action

Agreement was reached in September, 1985 between the owners and lenders on the implementation of a proposed rehabilitation programme which involve additional equity injection, capitalization of accrued interest and loan rescheduling. On its part IDB in principle agreed to spread the accrued interest over 3 years starting from January, 1986, and reschedule the principal repayments to January, 1989. The company also agreed to pay Shs 75,000 per month beginning September, 1985 to meet the current interest but has continually defaulted on the arrangement. IDB is executing more pressure on ICDC who owns the company outright.

DAWA PHARMACEUTICALS LIMITED

Background

Dawa Pharmaceuticals Limited was incorporated on April 30, 1974 as a private limited liability company with the objective of owning and operating a pharmaceutical and veterinary drugs plant in Kenya. The sponsors of the project were the ICDC, KRKA Pharmaceutical Works of Yugoslavia and three local Kenyan investors.

In September, 1975 the IDB Board approved a loan of US$1.12 million then equivalent to Shs. 8.0 million towards the financing of this project whose capital costs had been estiamted at K Shs 42.964 million. The loan was for a period of 10 years including 2 years moratorium at an interest rate of 11% per annum. The first instalment of principal was to be paid on December 30, 1978.

Project implementation was completed at the end of 1976 and commercial production commenced in March, 1977.

Past Performance

Dawa's initial performance was initially very poor, but over the years has greatly improved and presently the company is able to service its debts. The following is a summary of performance over the last five years.

	K Shs '000				
	1980	1981	1982	1983	1984
Turnover	53,639	71,819	67,941	95,786	69,016
Profit (Loss)	3,014	1,447)	(6,775)	5,562	895
Cumulative Loss	(24,427)	(24,427)	(27,755)	(24,193)	(23,298)

The company profitability is declining due to low sales volume for some product lines. The company's management is rectifying the situation by vigorously pursuing the new marketing strategies especially in the export market.

IDB Action

Debt servicing has been satisfactory and only Shs 16,701 was outstanding as arrears as at June 31, 1985. IDB is to monitor the project closely.

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected vs. Actual Lending Operations
1981-1985
(Ksh million)

Year Ending December 31	1981		1982		1983		1984		1985		Total 1981-85	
	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
Approvals:												
Term Loans-Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	67.0	703.2	490.5
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	135.0	703.2	558.5
Term Loans-Domestic Currency	30.3	17.5	35.6	-	41.9	-	30.0	0.8	32.0	0.0	169.8	18.3
Equity Investments	10.0	2.0	10.0	0.2	10.0	-	-	2.5	13.0	0.2	43.0	4.9
Total Domestic Currency	40.3	19.5	45.6	0.2	51.9	0.0	30.0	3.3	45.0	0.2	212.8	23.2
Total Loans	172.4	243.3	206.1	83.3	246.5	66.6	120.0	48.6	128.0	135.0	873.0	576.8
Total Approvals	182.4	245.3	216.1	83.5	256.5	66.6	120.0	51.1	141.0	135.2	916.0	581.7
Commitments:												
Term Loans-Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	67.0	639.6	574.7
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	135.0	639.6	642.7
Term Loans-Domestic Currency	28.6	23.1	33.0	-	38.8	-	23.0	-	25.0	-	148.4	23.1
Equity Investments	10.0	5.4	10.0	0.2	10.0	-	-	2.5	-	-	30.0	8.1
Total Domestic Currency	38.6	28.5	43.0	0.2	48.8	0.0	23.0	2.5	25.0	0.0	178.4	31.2
Total Loans	161.4	289.4	189.3	115.1	226.3	66.6	107.0	59.7	104.0	135.0	788.0	665.8
Total Commitments	171.4	294.8	199.3	115.3	236.3	66.6	107.0	62.2	104.0	135.0	818.0	673.9
Disbursements:												
Term Loans-Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	102.9	644.2	612.2
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	27.1	-	27.1
Total Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	130.0	644.2	639.3
Term Loans-Domestic Currency	25.4	23.3	30.0	14.8	34.9	4.1	9.0	1.9	9.0	-	108.3	44.1
Equity Investments	10.9	5.4	10.0	-	10.0	0.2	0.0	2.5	-	0.2	30.9	8.3
Total Domestic Currency	36.3	28.7	40.0	14.8	44.9	4.3	9.0	4.4	9.0	0.2	139.2	52.4
Total Loans	144.7	177.1	170.5	194.1	201.3	71.5	124.0	110.7	112.0	130.0	752.5	683.4
Total Disbursements	155.6	182.5	180.5	194.1	211.3	71.7	124.0	113.2	112.0	130.2	783.4	691.7

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Analysis of Loans in Arrears 1981-85

Number of loans in Arrears	1981 1/	1982	1983	1984	1985
Total Number of loans in portfolio	108	97	121	99	98
Number of loans in arrears over 3 months	53	55	103	67	71
As a % of total loans	49%	57%	85%	68%	72%
Principal Affected by Arrears (Ksh million)					
Total principal outstanding	325.3	556.4	718.7	781.1	875.0
Principal affected arrears over 3 months	166.8	395.0	632.4	687.4	717.5
As a % of total principal outstanding	51%	71%	88%	88%	82%
Actual Amounts in Arrears (Ksh million)					
Arrears over 3 months	57.3	96.2	218.5	252.3	270.9
As a % of total principal outstanding	17.6%	17.3%	30.4%	32.3%	31.0%
Collections Ratios 2/	na	na	76%	76%	99%
Collections as % of New Billings plus Arrears	na	na	29%	28%	35%

1/ Includes only amounts in arrears 6 months or more, because of limits in IDB records at that time.
2/ Collections as a percentage of new amounts coming due.

IDF Division, Eastern and Souther Region
June, 1986

KENYA
Industrial Development Bank
Project Completion Report
Sectoral Distribution Loan Portfolio, December 31, 1985
(Ksh '000)

Sector	No. of Loans	Amounts 1/ Outstanding	% of Loans	% Amounts Outstanding	% Amounts Affected by Arrears	Arrears of 3 mos. or more	Arrears as % Total Due	No. of Projects in Receivership
Agroindustry	11	77,111.9	11.2%	7.6%	74.7%	15,321.1	19.9%	2
Automotive	3	13,907.2	3.1%	1.4%	95.5%	9,700.9	69.8%	2
Chemical	9	91,698.5	9.2%	9.0%	77.9%	31,713.1	34.6%	0
Construction	3	8,681.4	3.1%	0.9%	100.0%	2,322.3	26.8%	0
Food	7	11,022.8	7.1%	1.1%	100.0%	5,098.7	46.3%	1
Leather	3	9,462.2	3.1%	0.9%	86.9%	378.7	4.0%	0
Metal/Engineering	17	275,659.7	17.3%	27.1%	78.4%	63,264.2	23.0%	2
Mining/Quarries	2	6,878.3	2.0%	0.7%	100.0%	3,592.5	52.2%	2
Paper/Printing	5	26,904.1	5.1%	2.6%	63.1%	12,544.8	46.6%	0
Plastics	2	35,022.0	2.0%	3.4%	99.7%	4,870.7	13.9%	0
Rope/Cord	5	8,153.3	5.1%	0.8%	82.3%	1,690.2	20.7%	1
Services	1	9,069.6	1.0%	0.9%	0.0%	0.0	0.0%	0
Textiles	13	193,381.8	13.3%	19.0%	65.6%	49,028.8	25.4%	2
Tourism	9	224,323.1	9.2%	22.0%	98.3%	57,651.4	25.7%	2
Wood	8	27,143.4	8.2%	2.7%	100.0%	14,310.2	52.7%	1
TOTAL	98	1,018,419.3	100.0%	100.0%	81.1%	271,519.8	26.7%	15

1/ Includes interest arrears.

IDF Division, Eastern and Southern Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected and Actual Balance Sheets
1981-1985
(In Ksh million)

Year Ending December 31	1981		1982		1983		1984 1/		1985 1/	
	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
ASSETS:										
Current Assets:										
Cash and Misc.	25.0	24.3	30.1	14.4	35.6	4.6	10.8	10.7	48.6	16.8
Short-term Deposits	90.0	52.1	65.0	48.0	45.0	26.2	45.2	45.2	120.0	106.9
Project Debtors 2/	n.a	98.0	n.a.	164.8	n.a	183.5	230.8	221.6	205.9	247.6
Other Debtors 2/	n.a	-	n.a	-	n.a	10.3	5.1	10.2	7.1	38.0
Loans-Current portion	63.8	66.7	86.2	84.1	107.1	93.1	101.0	100.4	92.2	112.6
Total Current Assets	178.8	241.1	181.3	311.3	187.8	317.7	392.9	388.1	473.9	521.9
Portfolio:										
Loans	397.0	344.1	481.3	487.7	575.5	476.7	528.3	530.4	524.7	657.8
Equity	112.9	103.5	122.9	84.0	132.9	81.2	66.6	66.6	66.6	66.6
Less Accum. Provisions	(16.3)	(55.3)	(20.2)	(46.5)	(24.8)	(42.7)	(32.8)	(33.9)	(38.2)	(57.2)
Net Portfolio	493.6	392.3	584.0	525.2	683.6	515.2	562.1	563.1	556.0	667.2
Net Fixed Assets	3.6	2.6	3.3	1.9	3.3	1.4	3.3	3.3	12.4	3.4
Total Assets	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5
LIABILITIES										
Current Liabilities:										
Bank overdraft	-	0.6	-	0.6	-	-	-	-	-	-
Payables and accruals 3/	11.8	74.9	13.6	77.7	16.0	26.0	40.7	39.5	53.9	96.6
Current portion long-term debt	58.3	62.1	73.2	79.2	89.6	73.8	80.1	81.1	106.1	92.4
Total Current Liabilities	70.1	137.6	86.8	157.5	105.6	99.8	120.8	120.6	160.0	189.0
Long-term Debt:										
Foreign Borrowings	372.7	321.4	445.0	476.9	527.6	515.8	626.4	580.1	625.7	n.a
Local Borrowings	13.3	11.1	8.3	5.5	2.5	3.0	4.3	2.7	1.9	n.a
Total Long-term debt	386.0	332.5	453.3	482.4	530.1	518.8	630.7	582.8	627.6	727.7
Exchange Gain and Adj. Accts.	-	9.2	-	26.9	-	32.5	-	45.0	-	50.1
Shareholders Equity:										
Share Capital	229.2	207.9	229.2	222.6	229.2	247.1	249.0	249.0	293.6	257.6
Reserves & Retained Earnings	(9.4)	(51.2)	(0.7)	(51.0)	9.7	(63.9)	(42.3)	(42.9)	(38.9)	(31.9)
Total Net Worth	219.8	156.7	228.5	171.6	238.9	183.2	206.7	206.1	254.7	225.7
Total Liabilities and Equity	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5

1/ 1984 and 1985 projected figures from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.

2/ Staff Appraisal Report did not separate project debtors (i.e., arrears of interest and principal) from other debtors.

3/ Actual payables and accruals include deposits from IDB customers.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
1817-KE
Project Completion Report
Projected and Actual Income Statements
1981 - 1985
(In Ksh million)

Year Ending December 31	1981 Projected	1981 Actual	1982 Projected	1982 Actual	1983 Projected	1983 Actual	1984 1/ Projected	1984 1/ Actual	1985 1/ Projected	1985 1/ Actual
INCOME										
Interest & Commitment Income from Loans 2/	51.1	52.6	64.4	69.5	77.5	72.0	98.8	85.1	87.2	85.9
Dividend Income	4.3	2.5	6.2	2.8	8.9	3.5	3.3	3.3	3.0	6.8
Interest Income from ST Investments, Deposits	5.6	5.9	5.4	7.0	3.8	5.0	5.6	5.8	12.0	11.6
Other Income 3/	1.8	2.8	2.1	12.2	2.4	4.0	15.3	16.8	6.0	9.2
Total Income	62.7	63.8	78.2	91.5	92.6	84.5	123.0	111.0	108.2	113.5
EXPENSES										
Interest & Commitment Charges on Borrowing	35.5	38.4	41.3	43.8	50.1	53.9	52.7	52.4	58.8	61.3
Salaries & Personnel Charges 4/	n.a.	9.5	n.a.	11.4	n.a.	11.3	12.0	11.1	15.0	14.2
Administrative & Gen. Expenses 4/										
Provision for Losses	3.5	43.5	3.9	8.9	4.5	25.7	29.0	18.0	23.0	19.0
Other Expenses 5/	0.8	1.0	0.9	18.7	1.0	0.6	0.5	0.5	0.6	0.4
Total Expenses	51.9	98.6	59.3	89.7	70.0	97.5	101.4	90.0	104.6	101.3
Net Profit (Loss)	10.9	(34.8)	18.9	1.8	22.6	(13.0)	21.6	21.0	3.6	12.2

1/ Projected figures for 1984 and 1985 are from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.
2/ IDB began to suspend interest for loans with arrears of 24 months in 1983. Thus, loan income projected prior to for 1983 may be overstated, as it has not suspended interest.
3/ Other Income includes: commissions and management fees, gains/(losses) on sale of fixed assets, exchange rate realised gains/(losses), and writebacks of prior provisions.
4/ Staff Appraisal Report provided only aggregate salary and administrative cost data.
5/ Other Expenses comprised largely of depreciation. In 1983, however, it includes Ksh 17.8 million in losses realized on the disposal of equity investments.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA

Industrial Development Bank (IDB)

1817-KE

Project Completion Report

Projected and Actual Financial Ratios

1981 - 1985

(In Ksh million)

Year Ending December 31	1981		1982		1983		1984		1985	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Income Statement as % Average Total Assets:										
Loan and Dividend Income	9.0%	8.7%	9.8%	9.8%	10.5%	9.0%	11.1%	9.9%	10.8%	8.6%
Investment Income	0.9%	0.9%	0.7%	0.9%	0.5%	0.6%	0.6%	0.6%	1.2%	1.1%
Other Income	0.3%	0.4%	0.3%	1.7%	0.3%	0.5%	1.7%	1.9%	0.2%	0.9%
Total Income	10.2%	10.0%	10.8%	12.4%	11.3%	10.1%	13.4%	12.4%	12.2%	10.6%
Borrowing Charges	5.8%	6.0%	5.7%	5.9%	6.1%	6.4%	5.8%	5.9%	5.9%	5.7%
Admin. Expenses	2.0%	2.5%	1.8%	2.5%	1.8%	2.1%	2.1%	2.1%	2.2%	1.9%
Provisions	0.6%	6.8%	0.5%	1.2%	0.5%	3.1%	3.2%	2.0%	3.7%	1.8%
Other Expenses	0.1%	0.2%	0.1%	2.5%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
Total Expenses	8.5%	15.5%	8.2%	12.2%	8.5%	11.7%	11.1%	10.1%	11.9%	9.4%
Net Profit/(Loss)	1.8%	(5.5%)	2.6%	0.2%	2.8%	(1.6%)	2.4%	2.3%	0.3%	1.1%
Long-term debt: equity ratio	1.8	2.1	2.0	2.8	2.2	2.8	3.1	2.8	2.5	3.2
Current ratio 1/	2.6	1.0	2.1	0.9	1.8	1.2	1.3	1.3	1.6	1.5
Net Profit as % Avg. Equity	5.5%	(22.2%)	8.4%	1.1%	9.7%	(7.3%)	9.7%	10.8%	1.5%	5.1%
Accum. Provisions/Portfolio	3.2%	12.4%	3.3%	8.1%	3.5%	7.7%	5.5%	5.7%	6.5%	7.9%
Loan Income as % Gross Portfolio	12.4%	12.0%	12.5%	12.9%	12.4%	9.7%	12.8%	10.6%	10.4%	9.2%
Fin. Expenses as % Borrowings	7.8%	11.3%	8.5%	9.2%	8.7%	8.1%	7.9%	8.3%	8.1%	8.0%
Avg. Spread	4.6%	0.7%	4.0%	3.7%	3.7%	1.6%	4.9%	2.3%	2.3%	1.2%

1/ Excluding arrears from current assets.

KENYA
Project Completion Report
Industrial Development Bank
Status of Compliance With Major Loan Covenants

Covenant	Status of Compliance
A. All Loans	
Borrower shall not amend Statement of Policy without prior approval of the Bank.	In compliance.
Borrower shall submit audit reports within 4 months of end of each fiscal year.	Generally submits reports about 2-4 months late.
IDB to protect itself against foreign exchange risk.	Generally in compliance, although IDB has made some foreign exchange risk gains on timing differences between receipt of payment from subloan and payment to IBRD and other donors.
B. Loan 1148-KE	
Debt:equity ratio will be no greater than 3:1.	In compliance.
C. Loan 1438-KE	
IDB will conclude agreements regarding managed funds operations on behalf of Government and not manage or undertake any new equity investments on behalf of Government.	In compliance.
Debt:equity ratio will be no greater than 4:1.	In compliance.
D. Loan 1817-KE	
Debt:equity ratio will not exceed 4:1.	In compliance.

IDB shall maintain a Management Committee to screen new proposals and review the status of projects.	In compliance.
IDB shall create provisions for future losses in respect to its equity and loan portfolio in accordance with sound accounting practices.	Generally in compliance, although provisions may be low in respect of a few Government-supported projects.

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Resource Mobilization (1980-1985)

Sources of Funds	Date of Approval	Amount in Original Denom.	Amount in US $	Years Maturity 1/	Grace Period	Interest Rate	Guarantor
1. Foreign Debt							
Official							
- World Bank 1817-KE	1980	US $ 30 million	US $ 30 million	17		8.25%	Government of Kenya
- BADEA	1980	US $ 5 million	US $ 5 million	11	2	7.00%	Government of Kenya
- Swiss Mixed Credit 2/	1982	SF 20 million	US $ 10 million	12	2	-	Government of Kenya
- ADB III 3/	1985	UA 20 million	US $ 20 million	15	3	10.00%	Government of Kenya
Total Foreign Debt			US $ 65 million				
2. Equity							
	1980	Ksh 39.8 million	US $ 5.3 million				
	1981	Ksh 14.8 million	US $ 1.4 million				
	1982	Ksh 14.7 million	US $ 1.2 million				
	1983	Ksh 24.5 million	US $ 1.8 million				
	1984	Ksh 1.9 million	US $ 0.1 million				
	1985	Ksh 8.6 million	US $ 0.5 million				
Total Equity			US $10.3 million				

1/ Including grace period

2/ Half of SF 20 million from consortium of Swiss banks.

3/ Not yet effective because Government has not yet signed guarantee agreement.

IDF Division. Eastern and Southern Africa Region
June, 1986

KENYA

Annex 13

Project Completion Report
IDB Cashflow Statements 1983-86
(KSh '000)

Year	1983	1984	1985	1986 1/
Receipts:				
Loan Principal				
Foreign	25,014	38,596	49,571	12,283
Local	5,349	3,295	3,810	1,032
Subtotal	30,363	41,891	53,381	13,315
Loan Interest				
Foreign	34,074	34,868	28,694	14,060
Local	2,567	813	1,419	259
Subtotal	36,641	35,681	30,113	14,319
Arrears Collections	33,437	36,011	60,758	55,175
Bridging Finance	7,432	5,764	600	0
Fees	2,127	3,381	4,508	2,515
Dividends/Equity Sales	5,631	2,926	5,841	1,550
Loan Sales	0	24,605	29,789	0
Subtotal	48,627	72,687	101,496	59,240
Total Project Receipts	115,631	150,259	184,990	86,874
Staff Loans	1,204	1,304	1,923	1,102
Share Capital	26,500	1,826	8,644	0
Investment Interest	0	4,981	4,957	1,957
Other Receipts	981	1,083	902	797
Subtotal	28,685	9,194	16,426	3,856
Total Receipts	144,316	159,453	201,416	90,730
Payments:				
Loan Principal				
Foreign	52,166	63,760	94,450	54,562
Local	5,016	2,226	1,643	750
Subtotal	57,182	65,986	96,093	55,312
Loan Interest				
Foreign	43,941	48,506	58,942	29,047
Local	740	412	249	69
Subtotal	44,681	48,918	59,191	29,116
Fees	2,898	2,317	4,508	1,291
Local Loan Disbursements	5,807	2,137	0	308
Equity Disbursements	0	2,500	238	0
Subtotal	8,705	6,954	4,746	1,599
Total Operational Outflow	110,568	121,858	160,030	86,027
Staff Loans	1,395	1,908	2,953	1,649
Capital Expenditure	120	302	154	472
IDB Headquarters	0	2,093	352	0
Salaries, Admin.	17,879	19,766	17,414	10,096
Subtotal	19,394	24,069	20,873	12,217
Total Outflows	129,962	145,927	180,903	98,244
Net Surplus/(Deficit)	14,354	13,526	20,513	(7,514)
Beginning Cash	1,372	15,726	29,252	49,765
Ending Cash	15,726	29,252	49,765	42,251
Net Surplus/(deficit) from Operations	5,063	28,401	24,960	847
Less Admin. Costs	(12,816)	8,635	7,546	(9,249)

1/ First six months only.

NOTE OF RECORD

KENYA - SECOND AND THIRD INDUSTRIAL DEVELOPMENT BANK (IDB) PROJECTS (Loan 1148-KE, US$10.0 m; Loan 1438-KE, US$20.0 m)

Reason for Pass-through Decision

1. The two Loans covered by the PCR are the Bank's second (of 1974) and third (of 1976) to the IDB of Kenya. The first Loan, of 1973, was reviewed in PPAR No. 3944 dated May 28, 1982. It emphasized especially the need for the Bank to be more critical in its appraisal and supervision of IDB and its subprojects. The current PCR expresses similar concerns, and a PPAR might have been interesting. However, a fourth Loan (1817-KE) was made in 1980, and it will be useful to include the experience of that Loan also, when completed, for the next PPAR.

Quality of PCR

2. The PCR is factually well prepared and discloses IDB's rather erratic progress and precarious position in a forthright manner. Although it does not state outright that the two projects in question have been failures, there can be little doubt that this is what it intends to say ("what IDB's role is to be [is] not yet clear", para 6.03). It is rather weak in discussing the Bank's role and responsibility for the course of events ("Bank staff were slow in recognizing the depth of difficulties", para 6.03), and much more could be said about lessons to be learned. The forthcoming PPAR (on completion of 1817-KE) will have interesting case studies to review.

Project Objectives

3. The project objectives for both Loans were simple and straightforward: (a) to have Bank funds (alongside others) channeled into sound enterprises in Kenya; and (b) to achieve this, to help build up IDB as an effective DFC (established in 1973 with the Bank's active encouragement).

Implementation Experiences

4. It is likely that, because of the Bank's strong involvement in the creation of IDB, Bank staff may have inclined, in their appraisals, toward excessively benign assessments. Both the 1974 and the 1976 appraisals are run-of-the-mill reports, without much hint of the many problems ahead. Even the 1980 appraisal (1817-KE, not covered by the present PCR) refers (para 3.11) to IDB's "adequate operational record, sound management and excellent relationship...with the Bank" and suggests "no particular risks other than those normally associated with DFC lending" (at a time when the "bad" portfolio was at least 50% of total).

5. For the two Loans in question, project implementation appears little short of disastrous. Most subprojects financed are in grave difficulties (for 1438-KE, 92.5% by amount had over three months' arrears as of March 31, 1986). Both Loans suffered lengthy delays in utilization: one year for 1148-KE, and several years for 1438-KE (para 1.03 of PCR says five months; this is inconsistent with the Disbursement Profile on page iii, which suggests a 4 or 5 year delay, before cancellation of a 9% Loan balance).

Overall Assessment and Lessons Learned

6. As already touched upon, the PCR is somewhat evasive in its overall assessment of and conclusions about the project experience. It seems to suggest that, beginning in 1984 or 1985, IDB has made significant progress in improving its performance, but suggests no conclusion as to whether, until then, IDB net economic contribution had been positive or negative. The facts presented strongly suggest the latter, and the PCR is flawed in not at least posing the question.

7. The lessons learned, or to be learned, are also not clearly enunciated and structured. What, for example, are the relevance and importance of:

- The Bank's appraisals of IDB: they sound frighteningly weak, uncritical, innocuous (and that includes the 1980 SAR);
- Were there inordinate pressures, within the Bank, to produce lending, and did this compromise appraisal standards?
- How has Government influence, though a Board of Directors heavily made up of Ministry representatives, and in other ways, affected IDB's poor record?
- How about the effects of Kenyanization?
- Did Bank supervision teams sound any alarm about IDB's many bad financial practices (such as accruing interest on unserviced loans for 24 months, too high administrative expenses, too low spread, lack of provisions against losses, etc.)?
- Why was little or nothing done to ensure real project supervision within IDB until it was much too late (the 1976 SAR hardly mentions the subject)?

These, and a host of similar question, are left unanswered. The PCR, in its ominous last sentence, is right in saying that "significant financial, organizational and managerial changes will be necessary for [IDB's] continued existence". Indeed, the sustainability of this DFC is seriously in doubt, and the Bank's operational department would be wise to focus hard, in its supervision, on this question. Overall, the two projects must be considered failures.

Prepared by: Einar Sekse (consultant) ES
Reviewed by: Henry B. Thomas 3/7/87
Date: March 1, 1988
Read by: Alexander Nowicki

FORM NO. 27 - OCR
(3/82)

WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

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PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: OEDD2

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

START HERE

ADDRESSED TO MR. F.N. ONDIEKI, MANAGING DIRECTOR, INDUSTRIAL DEVELOPMENT BANK (IDB), NAIROBI. RE SECOND (1148) AND THIRD (1438) LOANS TO IDB. THANK YOU FOR YOUR TELEX OF JULY 16, 1987 CONFIRMING MY PROPOSED VISIT AROUND SEPTEMBER 24. UNFORTUNATELY, DUE TO INABILITY TO COMBINE MISSION WITH THAT IN ANOTHER COUNTRY FOR REASONS BEYOND MY CONTROL, I WILL NOT BE ABLE TO BE IN NAIROBI AT THIS DATE. I WILL THEREFORE CONTACT YOU LATER IN THE YEAR TO FIX A NEW MUTUALLY CONVENIENT DATE. MANY THANKS FOR YOUR KIND COOPERATION. BEST REGARDS, GEORGE C. MANIATIS, PRINCIPAL EVALUATION OFFICER, OPERATIONS EVALUATION DEPARTMENT, INTBAFRAD.

END OF TEXT

PINK AREA TO BE LEFT BLANK AT ALL TIMES

INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: | TELEX NO.: 22339 | DATE: 7/31/87

SUBJECT:

DRAFTED BY: GCManiatis/rak

EXTENSION: 33040

CLEARANCES AND COPY DISTRIBUTION:

AUTHORIZED BY (Name and Signature): George C. Maniatis

DEPARTMENT: OED

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cc: Mr Maniatis

FILE

ZCZC DIST9952 WUI506
OEDD2
REF : TCP FCA
****
* OEDD2 *
****

WUI506
22339 INDEVBANK

FROM: IDB, NAIROBI

TO: WORLD BANK

FOR MR. ALEXANDER NOWICKI
DIVISION CHIEF, OPERATIONS EVALUATION DEPT.

I ACKNOWLEDGE RECEPIIPT OF YR TLX OF 13.7.87 ADDRESSED TO MR. F. N. ONDIEKI, MANAGING DIRECTOR, IDB, WHO IS CURRENTLY OUT OF THE COUNTRY. I WOULD LIKE TO CONFIRM THAT THE PROPOSED VISIT BY MR. MANIATIS AROUND SEPTEMBER 24TH 1987 FOR APPROX ONE WEEK IS ACCEPTABLE TO IDB.

BEST REGARDS

MARTIN KUNGURU
CHIEF OF OPERATIONS

22339 INDEVBANK
226506 0551 160787
01710171 506

=07160648

NNNN

cc: Mr Maniatis

Kenya

ZCZC DIST9952 WUI506
OEDD2
REF : TCP FCA
****
* OEDD2 *
****

WUI506
22339 INDEVBANK

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TO: WORLD BANK

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DIVISION CHIEF, OPERATIONS EVALUATION DEPT.

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BEST REGARDS

MARTIN KUNGURU
CHIEF OF OPERATIONS

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226506 0551 160787
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cc: Mr Maniatis

Kenya

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BEST REGARDS

MARTIN KUNGURU
CHIEF OF OPERATIONS

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226506 0551 160787
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NNNN

FORM NO. 27 - OCR (3/82)

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PAGE 1 OF 1

OFFICIAL DEPT/DIV ABBREVIATION: OEDD2

MESSAGE NUMBER:

TEST NUMBER (FOR CASHIER'S USE ONLY):

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BOOK OF TWO MESSAGES

1. F.N. ONDIEKI
   MANAGING DIRECTOR
   INDUSTRIAL BANK BUILDING
   HARAMBEE AVENUE
   P.O. BOX 44036
   NAIROBI, KENYA
   TELEPHONE 337079
   TELEX 22339
2. MR. R.R. OJEE
   PERMANENT SECRETARY
   MINISTRY OF INDUSTRY
   P.O. BOX 30430
   NAIROBI, KENYA
   TELEPHONE 340010
   CABLE INDMIN

END OF TEXT

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CLASS OF SERVICE:	TELEX NO.:	DATE: 7-10-87
SUBJECT:	DRAFTED BY: GCManiatis/rak	EXTENSION: 33040
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Alexander Nowicki	
	DEPARTMENT: OED	
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(3/82)

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END OF TEXT

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SUBJECT:	DRAFTED BY: GCManiatis/rak	EXTENSION: 33040
CLEARANCES AND COPY DISTRIBUTION:	AUTHORIZED BY (Name and Signature): Alexander Nowicki	
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PAGE 2 OF 2

OFFICIAL DEPT/DIV ABBREVIATION: OEDD2

MESSAGE NUMBER:

TEST NUMBER (FOR CASHIER'S USE ONLY):

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DEVELOPMENT, RESOURCE MOBILIZATION EFFORT, AND IDB'S PLANS FOR THE IMMEDIATE FUTURE. IN THIS CONNECTION, HE WOULD LIKE TO ARRANGE, ON ARRIVAL, VISITS TO THE MINISTRY OF FINANCE, CENTRAL BANK, FINANCIAL INSTITUTIONS, BUSINESS COMMUNITY AND A SAMPLE OF SUBPROJECTS. OED'S REPORT, TOGETHER WITH THE REGION'S COMPLETION REPORT, WILL BE FORWARDED TO YOU IN DRAFT FORM FOR YOUR COMMENTS WHICH WILL THEN BE REFLECTED IN THE FINAL DOCUMENT TO BE SUBMITTED TO THE WORLD BANK'S EXECUTIVE DIRECTORS. KINDLY INFORM ME BY CABLE AS SOON AS POSSIBLE WHETHER PROPOSED TIMING CONVENIENT IN ORDER TO FIRM UP TRAVEL PLANS. BEST REGARDS, ALEXANDER NOWICKI, DIVISION CHIEF, OPERATIONS EVALUATION DEPARTMENT, INTBAFRAD.

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PINK AREA TO BE LEFT BLANK AT ALL TIMES

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CLASS OF SERVICE:

TELEX NO.:

DATE: 7-10-87

SUBJECT:

DRAFTED BY: GCManiatis/rak

EXTENSION: 33040

CLEARANCES AND COPY DISTRIBUTION:

cc: Messrs. Wackman
Amoako

AUTHORIZED BY (Name and Signature): Alexander Nowicki

DEPARTMENT: OED

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OFFICIAL DEPT/DIV ABBREVIATION: OEDD2

MESSAGE NUMBER

TEST NUMBER (FOR CASHIER'S USE ONLY)

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FOR MR. JAMES W. ADAMS, DIRECTOR, REGIONAL MISSION IN EASTERN AFRICA, INTBAFRAD. THE FOLLOWING TELEX WAS SENT TO MESSRS. F.N. ONDIEKI AND R.R. OJEE. ADDRESSED TO MR. F.N. ONDIEKI, MANAGING DIRECTOR, IDB, NAIROBI AND COPIED TO MR. R.R. OJEE, PERMANENT SECRETARY, MINISTRY OF INDUSTRY, NAIROBI. RE SECOND (1148) AND THIRD (1438) LOANS TO INDUSTRIAL DEVELOPMENT BANK (IDB). FOLLOWING THE DISBURSEMENT OF THESE LOANS AND THE PREPARATION OF A COMPLETION REPORT BY THE EASTERN AND SOUTHERN AFRICA REGIONAL OFFICE, THE OPERATIONS EVALUATION DEPARTMENT (OED), AN INDEPENDENT UNIT WITHIN THE WORLD BANK, WILL COMPLETE THE PROCESS BY UNDERTAKING AN EVALUATION OF THE PROJECT EXPERIENCE AND THE RESULTS ACHIEVED, INCLUDING AN ASSESSMENT OF THE IMPACT OF THE BANK'S ASSISTANCE ON IDB AND THE SUBPROJECTS FINANCED BY THE LOANS. THE MAIN PURPOSE OF THIS EVALUATION IS TO DRAW LESSONS FROM THE PROJECT EXPERIENCE AND IMPROVE THE QUALITY OF THE BANK'S LENDING AND TECHNICAL ASSISTANCE ACTIVITIES. A VERY IMPORTANT PART OF THIS PROCESS IS TO HAVE THE VIEWS OF THE BORROWER AND ITS AGENCIES ON THESE MATTERS. WE THEREFORE PROPOSE THAT MR. GEORGE C. MANIATIS, PRINCIPAL EVALUATION OFFICER, VISIT KENYA AROUND SEPTEMBER 24, 1987 FOR APPROXIMATELY ONE WEEK. HE WOULD LIKE TO DISCUSS IN PARTICULAR THE UTILIZATION OF BANK FUNDS AND, MORE

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CLASS OF SERVICE:	TELEX NO.: 22022	DATE: 7-10-87
SUBJECT:	DRAFTED BY: GCManiatis/rak	EXTENSION: 33040
CLEARANCES AND COPY DISTRIBUTION: cc: Messrs. Amoako, Wackman	AUTHORIZED BY (Name and Signature): Alexander Nowicki	
	DEPARTMENT: OED	
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June 29, 1987

TO: Mr. Maniatis, OED

FROM: M. Horton, EAPID

Listed below is a list of persons who are to receive Kenya - IDB's PCR.

1) Mr. F.N. Ondieki
   Managing Director
   Industrial Development Bank, Ltd.
   P.O. Box 44036
   Nairobi, KENYA

2) Mr. C.S. Mbindyo
   Permanent Secretary
   Ministry of Finance
   P.O. Box 30007
   Nairobi, KENYA

3) Prof. Peter Gacii, EBS
   Permanent Secretary
   Ministry of Industry
   P.O. Box 30430
   Nairobi, KENYA

/tgt

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   P.O. Box 30430
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/tgt

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

June 29, 1987

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   Permanent Secretary
   Ministry of Industry
   P.O. Box 30430
   Nairobi, KENYA

/tgt

P-1852

Messrs Maniatis / H. Thomas

This is a very dry and factual PCR —
I suggest we pass it through.

However, I suspect that the one-page reviews of sub-borrowers' problems might not have been explored enough.
This could be probably done during the pass-through procedure.

Let me know, please

- whether you agree with the above
- who will do it?

Thanks

[signature]

4/1/87

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

April 2, 1987

Alec,

OK Pl. ask them for PCR accordingly DD

Re: <u>PCR on Kenya - IDB</u>

- The heading is misleading. As Henry points out, the PCR is in effect covering 3 loans, 1148, 1438 and 1817 (IDB II-IV). The PCR, however, does not provide information on subproject performance supported by the early loan 1148, while the last loan 1817 is uncommitted by 25% and undisbursed by 40%. The closing date has been extended to 12/87.

- The PCR is good and candid, and covers the main issues -- except for the lessons of experience. Therefore it can be passed through, the more so since we audited the first and I don't see how much more we can find out.

- But since (a) information on loan 1148 is missing; and (b) loan 1817 has not been fully disbursed, and it may well take more than a year, I suggest that we informally request the Region to withdraw it and resubmit it after full disbursement and with more complete information. OK

- Henry is busy and so am I, but I can handle it. However, I feel that newcomers in the Division could benefit from the exposure.

George

N.B. Region advised they will do 1148 & 1438 within 2 weeks. 4/9/87

P.S. Another option might be to do the PCR for 1148 & 1438 now, and later for 1817.

P-1852

KENYA IDB

This PCR should be covering 3 loans (1148, 1438, and 1817).

There is no data on 1148 subprojects, what seems to be fairly good data on 1438 subprojects (Annexes 2 & 3) and minimal data on 1817 subprojects (Annex 4)(See also Chapter IV).

The PCR seems to be covering a period of time (1980-85), not the experience with the 3 loans (Loan 1817 was approved in 1980, the other 2 in 1975 and 1977).

No lessons were drawn.

Without reading the PCR, I can make no other comments, in particular whether it should be passed through.

Henry

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Ram Kumar Chopra, Director, OED

DATE: March 27, 1987

FROM: Manuel Penalver, Deputy Chief, EAPID

SUBJECT: KENYA - Industrial Development Bank (IDB)
Ln. 1817-KE
Project Completion Report

1. I am pleased to send you the final version of the Project Completion Report on Industrial Development Bank (IDB).

2. In transmitting the report, I would like to state the following:

(i) the report has been cleared by the relevant Programs Division;

(ii) before finalizing the report, it was submitted for comments to INDSP and their comments were taken into account; and

(iii) the report has also been cleared with the Legal Department to ensure that it would have no legal implications for the Bank.

cleared with and cc: Messrs. Madavo, Gusten, Graves, Lethem, McBride, Long, Ms. Adu.

cc: Messrs. Wyss (EAPDR); Kraske (EA1DR); J. Adams (Nairobi); Jones (EA1KU); Israel (PPD); Dubey (CPD); Golan (IND); Hittmair (CTR); Mills (LOA); Watanabe (OED) (4); ESA Info. Center.; Div. BB.

MHorton:mgt

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Code: 587.024

OFFICE MEMORANDUM

TO: Mr. Ram Kumar Chopra, Director, OED

DATE: March 27, 1987

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MHorton:mgt
x=34453

DATE PCR RECEIVED IN OED: 03/30/87

DATE PCR ENDORSED TO THE SECTOR: ~~04/01/87~~

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE:

TO: Mr. Ram Kumar Chopra, Director, OED

FROM: Manuel Penalver, Deputy Chief, EAPID

Inserted omitted pages

EXTENSION: 34460

SUBJECT: KENYA - Industrial Development Bank (IDB)
Loans 1148-KE and 1438-KE
Project Completion Report

1. I am pleased to send you the final version of the Project Completion Report on Industrial Development Bank (IDB).

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(iii) the report has also been cleared with the Legal Department to ensure that it would have no legal implications for the Bank.

cw & cc: Messrs. Madavo, Gusten, Graves, Lethem, McBride, Long; Ms. Adu

cc: Messrs. Wyss (EAPDR); Kraske (EA1DR); J. Adams (Nairobi); Jones (EA1KU); Israel (PPD); Dubey (CPD); Golan (IND); Carlsson (CTRVP); Mills (LOA); Watanabe (OED) (4); ESA Info. Center; Div. BB.

MHorton/tgt

PROJECT COMPLETION REPORT

KENYA

INDUSTRIAL DEVELOPMENT BANK, LTD. (IDB)

LOANS 1148-KE AND 1438-KE

March 27, 1987

Industrial Development and Finance Division
Eastern and Southern Africa Region

CURRENCY EQUIVALENTS

Currency Unit = Kenyan Shilling (K Sh) = 100 cents

FY79: 1 US$ = K Sh 7.33
FY80: 1 US$ = K Sh 7.42
FY81: 1 US$ = K Sh 9.05
FY82: 1 US$ = K Sh 10.92
FY83: 1 US$ = K Sh 13.31
FY84: 1 US$ = K Sh 14.41
FY85: 1 US$ = K Sh 16.43
FY86: 1 US$ = K Sh 16.33

GLOSSARY OF ABBREVIATIONS

IDB	Industrial Development Bank of Kenya
NBFI	Non-bank Financial Institution
DFI	Development Finance Institution
KIE	Kenya Industrial Estates
ICDC	Industrial and Commercial Development Corporation
DFCK	Development Finance Corporation of Kenya
EADB	East African Development Bank
NBK	National Bank of Kenya

FISCAL YEAR (IDB)

January 1 - December 31

PROJECT COMPLETION REPORT

KENYA
INDUSTRIAL DEVELOPMENT BANK OF KENYA, LIMITED (IDB)
1980 - 1985

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PROJECT COMPLETION REPORT

KENYA
INDUSTRIAL DEVELOPMENT BANK OF KENYA (IDB)
(Loans 1148-KE and 1438-KE)

PREFACE

This Project Completion Report (PCR) covers the experience with Loans 1148-KE and 1438-KE, the second and third of a series. They were approved in 1975 and 1977 in the amounts of US$10 million and US$20 million, respectively, and disbursed by 1984. A fourth loan, 1817-KE was approved in 1980 and has now been largely committed. Both loans under review were made directly to IDB, with Government providing a guarantee. The PCR was prepared by the Eastern and Southern Africa Projects Department and is based on documentation prepared by IDB and a review of Bank documents relating to the project, including correspondence with IDB. A Project Completion mission visited IDB during February, 1986.

PROJECT COMPLETION REPORT
KENYA
INDUSTRIAL DEVELOPMENT BANK, LTD. (IDB)
1980 - 1985

LOANS 1148-KE and 1438-KE
KEY PROJECT DATA

	1148-KE		1438-KE	
	Original	Actual	Original	Actual
First Mention in Files	n.a.	n.a.	n.a.	n.a.
Appraisal	12/1/74	12/6/74	11/22/76	11/22/76
Board Approval	7/1/75	7/8/75	5/30/77	5/25/77
Loan Agreement	7/30/75	7/25/75	6/30/77	6/22/77
Effectiveness	10/30/75	10/9/75	9/30/77	11/10/77
Completion of Commitments	7/1/77	7/30/78	7/1/80	7/1/80
Loan Closing	7/1/79	6/30/80	7/1/82	12/31/82
Total Project Cost - US$M	32.2	30.9	43.3	53.1
- Local Currency	230.0	252.7	361.6	400.9
Economic and Financial Rates of Return	n.a.	n.a.	n.a.	n.a.

L O A N D A T A
(US$ million)

Loan Statement	Original Amount	Disbursed 1/	Cancelled
Loan 1148-KE	10.0	10.0	0.0
Loan 1438-KE	20.0	18.2	1.8

Borrower:
Name of Borrower: Industrial Development Bank, Ltd.
Guarantor: Government of Kenya
Fiscal Year: January 1 - December 31

1/ As of March 31, 1987

DISBURSEMENT PROFILE FOR LOANS 1148-KE AND 1438-KE

Fiscal Year	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Cumulative Percentage Disbursed:												
Loan 1148-KE:												
Appraisal Estimate	2.5%	63.0%	94.0%	100.0%								
Actual	0.0%	6.0%	40.0%	67.0%	86.9%	100.0%						
Bank Standard for Sector	2.0%	7.0%	13.0%	30.0%	49.0%	66.0%	79.0%	88.0%	95.0%	100.0%		
Loan 1438-KE:												
Appraisal Estimate			8.0%	35.0%	67.5%	100.0%						
Actual			0.0%	0.0%	12.7%	32.2%	58.4%	80.0%	89.9%	91.0%		
Bank Standard for Sector			2.0%	7.0%	13.0%	30.0%	49.0%	66.0%	79.0%	88.0%	95.0%	100.0%

MISSION DATA

Missions:	Month/Year	No. of Persons	Staff Days in field	Performance Rating	Trend	Types of Problems
Appraisal	Apr-79	5	105			
Post-Appraisal	Jul-79	1	5			
Supervision	Feb-80	2	14	2	improving	profitability, arrears
Supervision	Dec-80	2	21	2	stationery	staff turnover, arrears
Supervision	Dec-81	1	7	3	deteriorating	management, portfolio arrears
Supervision	Dec-82	3	21	3	stationery	liquidity, portfolio condition
Supervision	May-83	1	14	3	improving	liquidity, portfolio condition
Supervision	Dec-83	1	10.5	3	stationery	liquidity, portfolio condition
Supervision	Sep-84	1	14	3	improving	portfolio condition
Supervision	Feb-85	1	10.5	3	improving	portfolio condition
Supervision	Oct-85	2	21	2	improving	portfolio condition, financial mgmt
Completion	Feb-86	1	14			

PROJECT COMPLETION REPORT

KENYA - INDUSTRIAL DEVELOPMENT BANK
1980-1985

HIGHLIGHTS

A previous PPAR (Report No. 3944) covered the first line of credit to IDB (Loan 946-KE). The PPAR concluding that IDB had become a fairly efficient financial intermediary and had largely met its original institutional objectives. The report noticed, however, that IDB's appraisal quality was declining, supervision and collection efforts were lax and profitability was low. It also pointed to the importance of linking DFC lending to discussions of industrial and financial sector policies.

The experience with Loans 1148-KE and 1438-KE largely bore out the problems foreseen by the earlier PPAR. During most of the period, IDB's portfolio quality deteriorated, reflecting inadequate project preparation and appraisal, poor supervision and inertia within IDB to tackle these problems (paras. 5.04-5.06). Moreover, difficult economic conditions during the period, which included initial macroeconomic disequilibrium and, later on, a substantive -- and successful -- stabilization program contributed significantly to IDB's poor performance (paras. 2.01-2.03). The main exogenous problems included foreign exchange constraints, low levels of demand, an inadequate supply of domestic currency term credit, inflation and exchange rate devaluations. IDB also experienced high staff turnover, often losing talented professionals to the private sector for higher pay, which further undermined its ability to improve its capabilities.

Beginning in late 1984, IDB embarked, with the Bank's assistance through intensive supervision, on a serious effort to improve its collections performance and profitability. At the same time, the Kenyan economy emerged from recession and a serious drought, and demand for industrial investment rebounded slightly. Although IDB has made significant improvements in its loan appraisal and supervision functions and has shown profits in 1985 and 1986, considerable restructuring of the portfolio and a more commercial orientation are still necessary for IDB to remain viable over the long-term (paras. 6.01-6.03). IDB has already learned--perhaps the hard way--that project design should realistically take local supply and market conditions into consideration and that vigilant project supervision is necessary. At the same time, however, IDB needs to marshall resources other than foreign lines of credit and diversify its operations in order to remain competitive in the rapidly evolving Kenyan financial sector. Similarly, the Bank must continue to supervise IDB closely and broaden our involvement in the sector so as to help create a policy environment conducive to healthy industrial ventures and a competitive and efficient financial sector to assist their development. The lessons of experience are presented in paras. 6.01-6.03.

I. INTRODUCTION

1.01 The PPAR (Report No. 3944) chronicles the origins and early development of IDB and experience with the Bank's first loan to IDB. Although during the mid- to late 1970s IDB showed satisfactory progress in developing its own cadre of staff and building up its portfolio, the early 1980s witnessed a sharp deterioration in the quality of IDB's portfolio, resulting in lower profitability and tight liquidity.

1.02 Most recently, the upturn in the economy and vigilant attention to portfolio supervision by IDB have resulted in some improvements in its profitability, liquidity and portfolio performance. The Bank has played a significant role in IDB's evolution over the past 13 years, providing four loans (Nos. 946-KE, 1148-KE, 1438-KE and 1817-KE) totalling US$65 million. The second and third lines of credit, 1148-KE and 1438-KE (US$10 million and US$20 million, respectively) were fully disbursed by 1984. The following table illustrates the terms and conditions of these two lines of credit:

Table 1: Bank Loans to IDB
Loans 1148-KE and 1438-KE

	1148-KE	1438-KE
Date Signed	July, 1975	June, 1977
Interest Rate	8.50%	8.20%
Total Loan Amount	US$10 million	US$20 million
Free Limit	US$400,000	US$600,000
Aggregate Free Limit	US$2 million	US$4 million
Onlending Rate 1/	10-11%	11% minimum
Agreed Maximum IDB Debt:equity ratio	3:1	3:1

1/ No interest rate covenant for Loan 1148-KE.

1.03 Commitments and disbursements for the two loans proceeded more slowly than anticipated, and US $ 1.8 million was cancelled from Loan 1438-KE. Designed as follow-on projects, Loans 1148-KE and 1438-KE incorporated few changes in IDB's policies or strategy, and emphasized strengthening the still new institution. Loan 1148-KE required a one year extension of the closing date for full disbursement. Loan 1438-KE took 5 months longer than envisaged at appraisal to disburse and US$1.8 million was cancelled.

1.04 By 1980 the Bank had recognized the need for consolidation within IDB. In 1979-80 the Bank was negotiating a second Structural Adjustment credit with Kenya, focusing on rationalizing the country's protective regime, increasing export orientation, improving project selection criteria and rationalizing interest rate policies. The Bank hoped to help IDB embark on a consolidation program, including improvements in appraisal and supervision procedures, greater selectivity in investment decisions through better financial analysis, improved monitoring of the equity portfolio, a decrease in the level of new equity investments, and restraining administrative costs.

1.05 Unfortunately, IDB's performance during 1980-1985 fell short of the Bank's expectations. Projects continued to be import-dependent, and few showed much export potential. Although IDB gradually improved its appraisal procedures, it implemented a consolidation program more slowly than anticipated, and was particularly slow in developing a strong portfolio monitoring and debt collection capability. In addition, the 1982-84 recession produced foreign exchange shortages, slack demand and spiralling debt service burdens for Kenyan manufacturers with foreign-denominated debt. Thus, IDB's arrears worsened during 1980-85. Today, despite some recent improvements, IDB's portfolio continues to be one of the weakest in the region, with serious repercussions for its profitability and liquidity.

II. MACROECONOMIC AND SECTORAL SETTING

2.01 Although the Kenyan economy and the manufacturing sector in particular underwent significant expansion during the 1970s, they did so under policies that would later constitute constraints to further development. In particular, trade and exchange rate policies turned the internal terms of trade against agriculture, and encouraged inefficient production and over-dimensioning of particular subsectors. Moreover, while the manufacturing sector continued to grow, it remained highly capital-intensive and import-dependent. In recent years, Government increasingly emphasized, in its Fourth and Fifth Development Plans (1979-83 and 1983-88), tariff rationalization, export promotion, the phasing out of quantitative import restrictions, and private sector development rather than the excessive Government spending of the past.

2.02 Actual growth of the Kenyan economy during the first half of the 1980's has been less bouyant than projected in the Fourth and Fifth plans. The external terms of trade deteriorated sharply with the second oil crisis, and an erosion of fiscal discipline arrived in the wake of the mid-1970's "coffee boom". By 1980, the current account deficit had reached 12.5% of GDP and the Central Government budget deficit was 9.5% of GDP. After 1980, Government took important steps to redress these imbalances, trimming its budget deficit, permitting real wages to fall, restricting imports and allowing interest rates to become positive in real terms. A major devaluation in December 1982 restored the real effective exchange rate back to its 1976 level, and Government has continued to adjust the rate so as to avoid any sustained appreciation of the real exchange rate.

The stabilization program, combined with a severe drought that hampered agricultural output, led to a decline in real GDP per capita of about 5% in real terms, and investment declined 25% in real terms between 1980 and 1985. The current account deficit also declined to about 5% of GDP by 1985, and Government reduced its budget deficit from 9.5% of GDP in 1980 to about 5% in 1985. The manufacturing sector suffered a similar decline, with 1984 investment levels amounting to only 63% of 1980 levels in real terms. Manufactured exports also declined from a high of 26% of total exports in 1980 to 18% in 1984.

2.03 In view of the economy's structural problems and adverse exogenous developments (deterioration of the terms of trade, drought), the deceleration of growth and decline in per capita incomes were inevitable. Fortunately, Kenya has been able to manage the deceleration in a fairly orderly fashion. Kenya, however, has not been as successful in setting the stage for renewed growth, and export volumes and investment levels continue to languish. Prospects for the Kenyan economy, and for the industrial sector in particular, while currently bouyant because of high world coffee prices, will depend, in the medium term, on how rapidly Government can increase the pace of implementation of policy measures to increase the efficiency and volume of investment, expand exports and mobilize domestic resources.

2.04 Financial Sector. Kenya's diverse financial system includes a central bank, 21 commercial banks, 34 non-bank financial institutions (NBFIs), 30 insurance companies, a postal savings bank, a social security system, numerous pension plans, six industrial development banks, a stock exchange and over 900 savings and credit cooperatives. Despite this diversity of institutions, Kenya's financial sector has not realized its full potential in mobilizing term resources for the industrial sector. Although Kenya does mobilize substantial term assets in the form of social security deposits, pension contributions and insurance reserves, these funds remain largely either in government securities or short-term deposits, rather than being lent to the private sector. Banks are reluctant to make long-term loans because: (i) Government-imposed interest rate ceilings do not allow differentiated interest rates for different maturities and/or levels of risk; (ii) the development banks, the primary vehicles for term financing to industry, have performed poorly and are considered unattractive investments; and (iii) relatively high inflation in the past (25% in 1980-81, 18% in 1981-82, and about 9% 1982-85) made investors wary of holding long-term securities. Indeed, interest rates were negative during the period 1980-1982, and have only become positive as inflation declined in 1983.

2.05 The commercial banks dominate the banking system. Four banks (Kenya Commercial Bank, National Bank of Kenya, Standard Bank and Barclay's Bank of Kenya) hold nearly two-thirds of total bank deposits in Kenya, although this percentage has declined recently, because of the rapid growth of the NBFIs. NBFIs can charge higher lending rates than commercial banks (19% vs. 14%) and have also earned more than the nominal ceiling rate by charging additional fees and altering their basis for calculating interest. The higher effective lending rates (sometimes as high as 25-30%) have enabled NBFIs to pay more for deposits. NBFIs have expanded their

share of credit outstanding from 23% in 1976 to 35% in 1984, and have been particularly important in lending to manufacturing firms (largely through hire-purchase facilities). Recent legislation has removed NBFIs' ability to charge interest on a flat basis or to add supplemental fees, thus narrowing somewhat the gap between lending rates for NBFIs and commercial banks. Several of the NBFIs are also experiencing severe liquidity constraints.

2.06 Of the six development finance institutions (DFIs) operating in the industrial sector, Government directly or indirectly owns four: IDB, Kenya Industrial Estates (KIE), ICDC and the Kenya Tourist Development Corporation (KTDC). Government also has minority interests in the other two DFIs, the East African Development Bank (EADB), which also serves Uganda and Tanzania, and the Development Finance Corporation of Kenya (DFCK), which is privately controlled. The Bank group has made funds available to KIE, IDB and EADB and DFCK (the latter through IFC). Together, the assets of the six DFIs amount to about 12% of the combined assets of commercial banks and NBFIs. Traditionally, the DFIs have entered niches largely neglected by commercial banks and NBFIs: term lending, equity investments and lending to small-scale enterprises. Political considerations have also often played a part in lending decisions in many of the DFIs. At present, the DFIs have high arrears, low profitability and often have over-extended management and duplicative programs. This poor financial performance has also contributed to liquidity problems, and in particular, to a lack of Kenya shilling resources with which to finance the local cost components of projects. Although the DFIs are classified as NBFIs, as "development" institutions they have been reluctant to raise lending rates on local currency loans much above 15-16%. As a result, they have been unable to offer competitive rates for deposits or local borrowings, and thus have not been able to tap Kenya's significant pool of domestic savings.

III. THE INSTITUTION

3.01 The Bank's appraised Loan 1817-KE in 1980 presented an opportunity to discuss the following issues:

(a) Consolidation strategy for IDB: During the late 1970s, IDB's approvals grew at an average annual rate of 25% in real terms, and IDB became the leading term lending financial institution in the industrial sector. This rapid rate of growth, however, ultimately exacted a high cost in the deterioration of the quality of IDB's appraisals, project supervision and debt collection performance. IDB agreed to formalize and implement a strategy of selective growth and consolidation for the period 1980-82; establish a Loan Committee to screen all new project proposals and review problem projects; create an asset management section within IDB's finance department to supervise IDB's equity investments; and limit total equity investments to not more than 80% of its Class "A" subscribed shares during the commitment period of the Bank loan. Although IDB's approval rate did not slow until after 1982, it implemented several of the other reform measures.

(b) IDB Profitability: IDB continued to make losses in the late 1970s because of high administrative costs, low returns from its equity portfolio, and increasing bad debt losses. In 1980 IDB agreed to limit the number of employees to 1979 levels and control its other administrative expenses. In addition, IDB agreed to increase loan spreads by raising interest rates on foreign currency loans to at least 12%. It later increased its interest rate on foreign currency loans to 13% and its rate for local currency loans to 14% (although recently it has charged 15-16% for some local currency loans). Profitability improved marginally in the 1980s (para. 5.09), but continues to be low because of poor portfolio performance.

(c) Provisions Policy: Until 1979, IDB had no accumulated provisions for possible losses, and only took writeoffs when realizing losses. Continuation of the existing ad hoc approach might have encouraged under-provisions over time, thus misrepresenting IDB's true financial situation. During negotiations for Loan 1817-KE, IDB agreed to create provisions in its accounts in accordance with sound commercial and accounting practices, accumulating by December 31, 1982 to not less than 3% of the value of its portfolio. IDB's accumulated provisions now exceed this amount, but its high level of arrears may necessitate even higher provisions (para. 5.06).

(d) New activities: IDB is a NBFI under Kenyan law, enabling it to accept time deposits and thus increase its local currency resources. IDB had also considered other activities, such as financing working capital, letter of credit operations, financing warehouses, etc. While supporting the direction of these activities in that they diversified IDB's sources of revenues and would help generate much needed local currency, the Bank was concerned that such activities should not add to IDB's administrative overheads and that they contribute to its profitability.

(e) Financial Covenants: Annex 11 shows IDB's compliace with the major loan covenants under Loans 1148-KE, 1438-KE and 1817-KE. The debt:equity ratio covenant was changed for 1817-KE (moving 3:1 to a 4:1 maximum). Nonetheless, IDB expressed the concern that a 4:1 debt equity limitation might unduly restrict IDB's future operations. The subsequent slowdown in IDB's approvals, however, has eliminated the need for a higher gearing ratio. IDB has largely complied with the other financial covenants, although foreign currency risk has presented problems for many of IDB's borrowers, given the significant decline in the value of the Ksh vis-à-vis other major currencies. In addition, because of timing differences (clients repaying IDB after IDB has repaid donor agencies), to date IDB has made some small profits on its foreign exchange transactions.

3.02 Ownership. IDB's ownership structure did not change during the period 1980-85, although the existing shareholders provided an additional US$10.3 million equivalent in additional share capital (Annex 11). Government directly or indirectly through parastatals owns 100% of IDB's share capital. IDB's shareholders include Government (58.2%), ICDC (12.1%), Kenya National Assurance Company (9.9%), National Bank of Kenya (9.9%) and Kenya Reinsurance Corporation (9.9%). Because of IDB's lackluster performance as well as liquidity constraints for some shareholders (ICDC and NBK in particular), IDB's shareholders have been reluctant to provide much additional share capital in recent years, despite IDB's lack of domestic currency resources.

3.03 Management and Organization. IDB's Board consists largely of civil servants and representatives from the shareholding parastatals. Both the Chairman of the Board and the Managing Director are political appointees. Because of Government interference in decision-making, IDB's management and Board have not had sufficient automony in project approvals or in winding up poorly performing projects. Recently, however, this interference has been less problematic, although the general centralization of decision-making in Kenya has resulted in significant delays waiting for Government approval on many small, administrative matters. Prior to 1980, IDB had 3 Departments (Finance, Administration and Operations) with 4 divisions under the Chief of Operations: Investments, Project Advisory Service, Investigations (appraisal) and Research and Promotion. The appraisal mission in 1979 suggested that IDB institute a Loan Committee to review project proposals prior to Board approval and an asset management function (for monitoring the equity portfolio) within the Finance Department. The Loan Committee functioned well during project implementation, but the asset management function never really materialized as envisaged, and instead was subsumed into normal project supervision. Project supervision and debt collection remained the weakest functions within IDB during the past 5 years. Organizationally, responsibility for debt collection has often been unclear, moving from operations to finance and back again. On the positive side, shifting responsibility for project implementation to the appraisal department enabled the already overstretched supervision staff to focus more fully on problem projects. IDB rationalized its organization further in 1985, merging the research and development division with appraisals, creating a debt collection unit within the operations department and giving the supervision/debt collection division a stronger manager. This strengthening of the supervision/collections function has facilitated the development of more project-specific action programs for arrears-affected loans.

3.04 Staffing and Training. Annex 1 shows the evolution of IDB staffing during 1981-85. Despite an agreement during negotiations to freeze IDB staff at its 1979 levels, IDB hired 47 new staff during the 1980-85 period (mostly in 1981), particularly support personnel, finance and computer professionals. Overall staff levels have remained roughly constant since 1981 and IDB's administrative costs remained satisfactory at 2% of average total assets. Low morale and salaries helped fuel the loss of professional staff, who left for other Kenyan financial institutions. Although IDB was slow at first to fill professional staff vacancies, most of the key positions have now been filled. IDB has also instituted a virtual freeze on support staff hirings and has given priority to filling operations department vacancies, although the supervision function remains understaffed. IDB, along with the other Kenyan parastatals, received an 11% overall increase in its salary structure for 1986, and similar

increases are expected during 1987 and 1988. IDB's salary classification did not change, however, and thus IDB will remain less attractive than Government-owned commercial banks, whose higher classification enables them to pay higher salaries. IDB has consistently provided excellent training to its staff, both in-house and through overseas seminars and universities. During 1981-85, 88 professional staff spent over 500 staff weeks in training programs. Most of IDB's training costs have been met by funds from bilateral donors.

3.05 Procedures. During the course of loan supervision, Bank missions noted major weaknesses in IDB's procedures and recommended measures for alleviating them.

(a) Appraisals. The rapid growth in appraisals during 1980-82 contributed to a deterioration in their quality, particularly in terms of market and financial analyses, assessing the capabilities and resources of project sponsors, and determining adequate implementation and grace periods. The creation of the Loan Committee and the slowdown in approvals which began in 1983-84 helped facilitate more thorough reviews of project proposals, although some weaknesses remain in market analysis, assessing management capabilities and developing viable financial restructurings for problem projects.

(b) Supervision. Supervision staff levels have often been inadequate for tackling IDB's troubled portfolio. Until recently, IDB's supervision activities remained monitoring-oriented. In 1984-85, however, IDB began to prepare individual "action plans" for problem projects, and was taking a more active role in solving the problems of its client firms, by preparing financial restructuring plans, hiring short-term consultants to assist projects, etc. It also added professional staff to the monitoring division, established a consultancy unit and created a separate debt collection unit to follow-up on projects in arrears.

(c) Debt Collection. IDB did not have a separate debt collection unit until 1984. In 1985, IDB moved debt collection to operations and created a committee of high level officers and managers (including the Managing Director) to follow up on individual delinquent projects. IDB rescheduled about 30 loans in 1984-85, with the new payment schedules being largely followed. Consequently, IDB's collections ratios improved significantly during 1985, although the portfolio as a whole remains heavily affected by arrears (para.5.04).

(d) Accounting and Data Processing. IDB's accounting staff is relatively strong although audit reports have often been delayed because of reconciliation difficulties and discussions about provisions. IDB has experienced difficulty in the installation and use of its minicomputer system, however, primarily because of the lack of in-house systems analysis and programming expertise. In addition, IDB has not regularly prepared forecast and actual cashflow statements. IDB has now purchased a microcomputer for portfolio monitoring and project analysis and has hired two experienced analysts. It has also discussed its computer problems with its external auditors, and is making the necessary revisions.

(e) Money and Banking Activities. During 1982-83 IDB established a money and banking unit in the finance department for collecting short-term deposits, making working capital loans, and providing letter of credit and foreign exchange services to clients. Shortly thereafter, however, the Bank became concerned about the soundness of some of IDB's domestic currency working capital loan operations, which were often made to delinquent clients at low margins and were poorly monitored. After strong urging from the Bank, IDB largely disbanded the money and banking unit and discontinued making domestic currency working capital loans. Since 1985 a revived unit has focused more on gathering deposits and providing letters of credit, and is exploring the possibility of discounting high quality receivables for selected clients.

IV. ALLOCATION OF THE LOANS

Loan 1148-KE

4.01 IDB committed the full US$10 million allocated for Loan 1148-KE over a period of about 2 1/2 years. These 13 subloans, all in the private sector, ranged in size from US$129,869 to US$1.3 million, and 11 were above the free limit. Total project costs for these 13 projects amounted to US$123.1 million, with the Bank financing on average about 8% of these costs. The Bank's share of financing varied widely, however, ranging from 2.4% to 43.3% of total project costs. Interest rates charged on the subloans ranged from 10% to 11% (no interest rate covenant), and maturities ranged from 7 to 12 years, including grace periods.

4.02 Annex 2 summarizes the key characteristics of the subprojects approved under the line of credit. As of March 31, 1986, all but one project were operational (currently in receivership) and three had prepaid their loans. Despite the strong bias toward capital intensive subsectors (plastics, chemicals, metals), the projects have created 7,316 jobs at a reasonable cost per job of about US$16,800 per job--considerably lower than for the two subsequent lines of credit. Cost per job ranged from US$8,240 for a glassworks to US$79,000 for an expansion/diversification for a manufacture of PVC cables. The one failed project, Kenya Furfural, had a high estimated cost per job of over US$120,000. Were it employing the anticipated 220 workers, it would have had an actual cost per job of US$167,000.

4.03 Although at present only two of the 13 projects are categorized as major problem projects and a third is in receivership, two other project financed under the line of credit have experienced serious problems and were rehabilitated and restructured by IDB and the other creditors. These two, and a third project (all textiles) experienced poor management and fierce competition from imports and from other domestic manufacturers. Kisumu Cotton Mills (now Kicomi) has been perhaps the most successful of the three rehabilitations, as it changed its shareholders and management, revamped its marketing strategy and substantially restructured its capitalization. The other two, Rivatex and Yuken, continue to have high accumulated losses; indeed, Rivatex has negative net worth.

4.04 Overall, performance of the subprojects financed under Loan 1148-KE was disappointing. As of March 31, 1986, all of the loans not fully repaid were affected by arrears of three months or more and arrears amounted to about 38% of total amounts outstanding--a level much higher than that for the portfolio as a whole. Arrears from these loans amounted to 21% of IDB's total portfolio, while the underlying loans accounted for 16% of IDB's total portfolio. In the case of Kenya Furfural, Yuken Textiles, Kenya Glassworks and Salt Manufacturers, arrears of 3 months or more amount to more than 50% of total amounts outstanding for each loan. The poor performance of subloans under this line of credit lies in: (i) poor project design and technological problems; (ii) inadequate market analysis; (iii) infrastructural constraints (i.e., inadequate water supply for a textile plant); (iv) price controls which limited margins; (v) competition from imports; and (vi) rising debt service on foreign exchange denominated loans with the devaluation of the KSh.

4.05 Subprojects under 1148-KE were also highly import dependent for their raw materials, which exacerbated pressure on operating margins when the KSh was devalued. In addition, only two projects of the 13 were expected to have significant export sales and one of them--Kenya Furfural--is in receivership and is not operational. Six of the thirteen projects dependent on imports for 50% or more of their raw materials.

4.06 IDB calculated ex-ante financial rates of return for all 13 projects and economic rates of return for eleven. The average estimated financial and economic rates of returns were quite close--22% and 19.6%, respectively--but the divergence is quite wide for projects subject to price controls or import restrictions. The estimated FRRs ranged from 12.6% to 35% while the ERRs ranged from 12% to 28%. The poor repayment record and low profitability of the subloans suggests that actual rates of return are considerably lower than the estimates.

Loan 1438-KE

4.07 IDB committed US$ 18.2 million of the original US$ 20.0 million under Loan 1438-KE for 16 projects. 11 of the 16 projects were above the free limit (US$ 600,000). Total estimated project costs for these 16 projects amounted to US$ 169.1 million, with the Bank financing on average about 11% of total project costs. The 12 above free limit subloans ranged in size from US$ 609,140 to US$ 3,168,530 (37.6% of estimated project costs) for a wire rod manufacturing plant. The 4 below free limit subloans ranged from US$ 133,097 to US$ 525,210. Interest rates charged ranged from 11% (minimum stipulated in the loan agreements) to 12.5%, and maturities ranged from five to twelve years, including grace periods.

4.08 Annex 3 summarizes the key characteristics of the subprojects approved under Loan 1438-KE. As of March 31, 1986, all 16 projects had finished the implementation stage; one had prepaid its loan to IDB, and two had gone into receivership. The projects were expected to create 2579 jobs at a high average cost of US$ 65,582 per job. Three projects had average costs per job above US$ 100,000: Synresins, Pan African Paper Mills, and Madhupaper. Both Pan African Paper Mills and Madhupaper were expansions of highly capital intensive operations. Without these three projects, the average estimated cost per job amounted to a still high US$48,572.

For the projects with actual job creation data, the average cost per job (again excluding Madhupaper, Pan African Paper Mills and Synresins) was a high US$ 65,238.

4.09 Significant cost overruns contributed to the high actual costs per job. Although on average the 16 projects had overruns of about 22%, five had overruns amounting to 50% or more of estimated project costs. The factors contributing to these overruns included poor project design, poor choice of equipment or technology, underestimates of time necessary for implementation, delays in project implementation (restricted access to import licences, agreements with technical partners or Government) and some changes in project scope. Significant delays (in some cases up to 2 years) also led to price escalations arising from inflation and devaluation of the Kenyan shilling. As a result, the projects often faced higher debt service obligations than originally anticipated, with repayments coming due before commercial operations had begun.

4.10 Several projects continued to experience difficulties after project implementation, due to import restrictions imposed during 1982-84, shortages of domestic raw materials, or Government policies (low sugar prices for Nzoia Sugar, change in duties affecting Special Steel). Additionally, overly optimistic market assessments resulted in poor performance of several projects. Consequently, subloans approved under Loan 1438-KE have high arrears, with 12 of 16 loans having arrears over three months, and 92.5% of the portfolio affected by arrears as of March 31, 1986. Arrears of three months or more amount to 27% of amounts outstanding.

4.11 On average the subprojects financed under Loan 1438-KE appeared less import-dependent and more export-oriented than those financed under earlier loans, but many projects continued to be inward-oriented. Of the four hotel projects financed, which were expected to produce significant foreign exchange earnings, only one has been successful. Only three manufacturing firms have had significant export sales: Double Diamond, Pan African Paper Mills and Kaluworks. Of the sixteen subprojects, 6 depended on imports for 75% or more of their raw materials, and only four manufacturing projects used primarily domestic raw materials. Tourism accounted for 4 subprojects and 20% of amounts approved, while metals accounted for 5 subprojects and 35% of amounts approved. Both subsectors have experienced difficulties during the period under review.

4.12 IDB calculated ex-ante financial and economic rates of return for all 16 projects, but has not provided ex-post rates of return. The estimated FRRs ranged from 11% to 52%, averaging 25%, while the estimated ERRs ranged from 12% to 68%, with an average of 30%. Profitability data available indicates that for many projects the actual FRR and ERR would be significantly lower than anticipated. Indeed, seven of the 16 projects have accumulated significant losses, and several have negative net worth.

4.13 Projects under Loan 1438-KE were largely split between new and expansion/renovation projects. Although both new and expansion projects have had difficulties, the greenfield operations were more likely to experience difficulties during implementation. The expansion projects

which experienced difficulties were those with weak management (Datini, African Tours and Hotels). Only three projects were located in rural areas. Annex 4 contains a description of selected projects financed under Loans 1148-KE and 1438-KE and their present status.

V. OPERATIONS AND FINANCIAL CONDITION

5.01 Operations. During the 1970s, IDB's total approvals increased about 14% per annum in real terms, significantly higher than forecast at the time of appraisal of the first loan. Its growth rate exceeded the estimated growth in capital formation for manufacturing in Kenya during this period because of strong promotion and successful resource mobilization. Annex 5 shows IDB's approvals, commitments and disbursements (actual and projected) for the period 1981-85. During that time, IDB made 87 loans and 4 equity investments, with a significant slowing down of approvals occurring in 1983-84. IDB made virtually no domestic currency loans after 1981 because of its own resource and liquidity constraints. Total approvals during 1981-85 amounted to Ksh 581.7 million, or 63.5% of projected levels. Much of the shortfall in approvals arose from (i) the recession; (ii) shortages of foreign exchange during 1982-84; and (iii) IDB's efforts after 1983 to consolidate its operations. In addition, IDB's lack of local currency resources diminished demand for its foreign exchange loans, as it was unable to offer clients an attractive mix of domestic and foreign currency funds.

5.02 IDB made all its loans to industrial enterprises, but moved away from large, Government-sponsored projects and approved more loans to medium-scale enterprises, often to indigenous Kenyan entrepreneurs with limited experience. Consequently, average loan size declined significantly. Unfortunately, these projects were often more highly leveraged than larger enterprises (loan financing could exceed 75% of total project costs) with IDB often being the only term lender. Thus, IDB's exposure in individual projects has increased over time.

5.03 Commitments and disbursements have also been slower than anticipated, although during 1983-85 IDB improved its pace of commitments and disbursements. By December 31, 1985, however, undisbursed commitments remained high at US$ 15.3 million, because of (1) slow completion of loan documentation; (2) technical problems; (3) insufficient sponsors' contributions; and (4) delays in securing approval from external creditors. The delays in implementation often have had an adverse effect on IDB's portfolio performance (para.5.04), as many projects' grace periods expired and arrears accumulated before commercial activities could begin and projects faced significant cost overruns.

Portfolio

5.04 Loans. As noted in the previous PPAR, by 1980 IDB's portfolio already showed signs of serious problems. By 1980, 34% of the portfolio was affected by arrears of three months or more. Annex 6 shows the evolution of IDB's loan portfolio during 1981-85. As of December 31, 1985, IDB had 98 active projects in its portfolio, including 22 under implementation, for a total of Ksh 875 million in principal outstanding. Although growing 169% over 1981 levels in Ksh terms, the portfolio grew only 72% in US$ terms because of the depreciation of the Ksh since 1981.

IDB's portfolio has sharply deteriorated during the past 5 years, with arrears as a percentage of portfolio increasing from 18% in 1981 to 31% in 1985. Moreover, the arrears affected portfolio has increased significantly from 51% of portfolio in 1981 to 82% in 1985. 15 projects, amounting to 12% of portfolio, were under receivership at December 31, 1985. Owing to more intensive project monitoring and arrears follow-up efforts, collections ratios improved somewhat during 1985, to nearly 100% for the year. IDB has found, however, that many of its strongest projects are prepaying their loans (in order to avoid foreign exchange risk), thus leaving IDB a generally weaker portfolio for which improvements in collections will come more slowly. IDB also has a core group of about 20 major problem projects, the prospects for which are generally low.

5.05 IDB's portfolio shows a wide range of subsectors, but is dominated by three subsectors in particular: metal and engineering (27% of portfolio), tourism (22% of portfolio) and textiles (19% of portfolio). Although all three subsectors have many troubled projects (and nearly 98% of the tourism subsector is affected by arrears), other subsectors, particularly automotive, wood and mining/quarrying, have arrears in excess of 50% of total amounts outstanding. Many of these projects, particularly in wood, food processing and mining/quarrying, are medium-scale enterprises which were originally undercapitalized and had weak management. A summary of IDB's portfolio by subsector is shown as Annex 7.

5.06 IDB has accumulated provisions totalling about 9% of gross portfolio, but total provisions may still be less than are warranted given the pervasive arrears problem. A total of 45 projects, amounting to 45% of total amounts outstanding, have arrears of twelve months or more. Proposed accumulated provisions for 1985 total Ksh 89.4 million, or less than half of the amounts in arrears over 12 months. IDB suspends interest income for projects with arrears in excess of 24 months, and since 1983 has suspended about Ksh 42 million or 15% of total gross loan income. IDB is currently reviewing its provisions policies with its auditors, and the status of several projects with long-standing arrears and low provisions.

Equity Investments

5.07 IDB's equity investments as of December 31, 1985 amounted to Ksh 105.3 million in 27 companies. IDB's share of ownership did not exceed 30% except for three companies (Amgeco, Kicomi and Booth Manufacturing), and IDB does not have a majority position in any firm. Of the 27 firms, 13 are profitable, representing 32.5% of IDB's equity portfolio. The remaining 14 firms, including four in receivership, are performing poorly, and 8 of these 14 had negative net worth in 1985. IDB's dividend return on its total gross portfolio has also been disappointing during the past several years, falling well short of appraisal estimates. In 1984-85, IDB's dividend return for the total gross portfolio remained at about 3%. Returns on the 13 profitable companies alone have been somewhat higher (only 9 of these firms pay dividends), amounting to 9.6% in 1984 and 8.5% in 1985. IDB's equity portfolio covers a wide range of sectors, with the largest subsectoral representations being food, metal/engineering and tourism. Food projects account for 18.7% of IDB's equity investments: two of these, South Nyanza Sugar and Nzoia Sugar, are unprofitable because of low levels of capacity utilization and low sugar prices. IDB's largest equity holding (21% of the equity portfolio) is in Kicomi, a large integrated textile project in Kisumu, which has recently undergone rehabilitation and financial restructuring.

5.08 On balance, IDB's decision to use scarce domestic currency resources for equity investments has not been fruitful, as the average dividend returns have been lower than potential interest income (IDB can charge up to 19% on local currency loans). In addition, IDB's ability to capture capital gains on its investments has been low, as it finds sales of these investments, even profitable ones, difficult. Moreover, IDB's total unrealized return on the gross portfolio was a negative 10.5%, as IDB's share of net accumulated losses has wiped out its original investment in 12 out of 27 firms. Had IDB put these funds into local currency loans, the funds might also have had a greater chance of being recycled than they have had as equity investments. The poor performance of the equity portfolio has adversely effected IDB's profitability, as IDB has taken an adequate Ksh 28 million in provisions and writeoffs against the equity portfolio.

5.09 Financial Condition. During the 1970s, IDB's profitability was poor due to insufficient spreads, high administrative costs and poor portfolio performance which necessitated high provisions expenses. Annexes 8-10, which show IDB's projected and actual balance sheets, income statements and ratio analyses for the period 1981-85, demonstrate that IDB's profitability and liquidity continued to suffer during the period under review. Although actual interest income earned was close to projections, higher administrative costs and significantly higher bad debt provisions eroded IDB's profitability. Indeed, IDB made losses in 1981 and 1983, and its return on assets averaged a low 1.4% during 1981-85 compared to the projected 6.7% at the time of the appraisal of loan 1817-KE. Administrative costs averaged 2.2% of average total assets during the period, with a declining trend over time, from 2.5% of average total assets in 1981 to 1.9% in 1985. While the appraisal team had estimated that bad debt provisions would amount to about 0.5% of average total assets per year, actual provisions expense had to be increased to 3.0% per annum during the five year period. IDB's average spread has also been lower than anticipated, averaging 1.9% in 1981-1985 vs. the projected level of 3.9%. IDB's spreads have been lower than anticipated despite an increase in interest rates (to 13%-14%) because IDB needs to suspend interest on loans with arrears of two years or more. Indeed, in 1985 IDB's spread was a very low 1.2%, which in itself was inadequate to cover administrative costs and loan provisions. IDB showed a small profit in 1985, however, largely due to higher investment income, proceeds from the sale of some investments, and writebacks of earlier provisions.

5.10 IDB's balance sheet also reflects the weakness of its portfolio. Current ratios, adjusted to eliminate amounts in arrears from current assets, averaged a low 1.2:1 during 1981-85. IDB's liquidity hit its low point in 1982 (current ratio of 0.9), but subsequently improved steadily, and reached 1.5:1 in 1985. IDB has experienced liquidity problems because of its poor collections performance, low profitability and its inability to mobilize deposits (because it did not offer competitive yields for deposits). IDB's debt: equity ratio has remained well within the 4:1 limit stipulated at the time of appraisal of Loan 1817-KE, but has increased steadily from 2.1:1 in 1981 to 3.2:1 in 1985. IDB's leverage has risen faster than anticipated at appraisal because of (i) lower profitability, thus depleting IDB's reserves and retained earnings; (i) slow payment of new share capital; and (iii) devaluation of the Kenyan shilling, which increased IDB's foreign currency denominated debt in Kenyan shilling terms. The devaluation has similarly affected IDB's loan portfolio and arrears.

Resource Mobilization

5.11 As shown in Annex 12, IDB has been relatively successful in mobilizing external resources for its foreign currency lending requirements, receiving US$ 65 million in new lines of credit. Between 1980 and 1985, IDB received new lines of credit from IBRD (US$ 30 million), BADEA (US$ 10 million), the Swiss Government (US $ 10 million) and the African Development Bank (US$20 million). IDB has been less successful, however, in mobilizing local currency resources aside from additional share subscriptions from its existing shareholders. Between 1980 and 1985, IDB attracted US$ 10.3 million equivalent in new share capital, but found it increasingly difficult to do so as its own performance lagged and some of its shareholders (in particular National Bank of Kenya and ICDC) lacked the resources to meet capital subscription obligations. IDB has not borrowed locally or raised significant new deposits.

VI. CONCLUSIONS AND LESSONS LEARNED

6.01 Although IDB grew rapidly during the 1970s to become a leader in Kenya for providing term finance to industry, its performance during 1981-1985 was largely disappointing until 1984. Starting in 1985, IDB began to show some real improvements in its portfolio supervision and debt collection functions. Although the 1979 appraisal mission's diagnosis was largely correct, it was not until late 1984 that IDB made significant progress in consolidating its operations and strengthening the institution. The poor performance of projects financed under Loan 1438-KE, which were largely import-dependent, poorly prepared, and insufficiently supervised demonstrates the slow progress of change within IDB. The quality of loan appraisals has improved in the past two years, and the internal review mechanisms are generally working well, but serious weaknesses remain in appraisal and supervision. Nonetheless, IDB will most likely continue to have high levels of arrears, as it does not always have the skills and resources to solve the problems of its most troubled clients, and political pressures have eliminated liquidation as an option in several cases.

6.02 IDB continues to play an important role in the industrial sector. It has successfully mobilized external resources for Kenyan industry, has recruited and trained an able core of professional staff (many of whom have left IDB for positions in other banks or the private sector), and when done carefully, can make a positive contribution to the identification and preparation of new industrial projects. It also has an opportunity now to assist in the rehabilitation and restructuring of existing industries, although it will need significant financial resources and technical staff in order to succeed in this task. It will also need the political will to liquidate certain unviable projects and resist possible future pressures from Government. IDB's inability to mobilize domestic currency resources in the past is a key impediment to its future operations, particularly as it looks to rehabilitate existing projects. Raising interest rates to their legal ceilings, and perhaps instituting variable rates and/or eliminating lending rate ceilings, would enable IDB to tap local resources for this purpose. IDB should also consider selling some of its better investments in order to recycle those resources into new projects. Given the poor quality of its portfolio, however, IDB's ability to borrow locally will be curtailed, and it is unlikely to be able to compete effectively with private financial institutions.

6.03 In retrospect, it appears that Bank staff were slow in recognizing the depth of the difficulties faced by IDB and its clients. Even as early as 1980, IDB was considered to be at worst a project with moderate problems, when in fact the arrears affected portfolio had reached 50% of total portfolio and bad debt provisions were minimal. Since IDB's profitability had been low through the 1970s, IDB's reserves were inadequate to weather the sharp deterioration in portfolio performance during 1982-84. The IDB story also provides a telling example that the traditional DFC model--channelling term foreign exchange loans to industry--is finding it increasingly difficult to compete with other financial institutions, especially in dynamic financial sectors such as Kenya. Today, facing a plethora of financial institutions and increasing bank liquidity in Kenya, IDB is often reduced to providing the most risky financial instruments to the riskiest clientele. Such a position is not viable for IDB over the long-term. As the Bank devises new lending operations for the industrial and financial sector, more attention should be given to helping the existing financial institutions tap domestic savings. At the same time, we need to examine critically the options available to IDB and help it and Government formulate a viable plan for its restructuring. Although what IDB's role is to be not yet clear, it is likely that significant financial, organizational and managerial changes will be necessary for its continued existence.

Annex 1

Kenya
Industrial Development Bank (IDB)
Project Completion Report
Evolution of Staffing 1981-1985

Year ended December 31	1981	1982	1983	1984	1985
Total staff at beginning of year	94	121	122	111	118
of which support staff	65	87	87	80	78
of which professionals	29	34	35	31	40
Total staff who left IDB	6	2	16	6	4
of which support staff	4	-	11	3	1
of which professionals	2	2	5	3	3
due to resignation	6	2	15	5	4
due to termination by IDB	-	-	-	1	-
due to retirement	-	-	1	-	-
Total new staff during year	33	3	5	13	10
of which support staff	26	-	4	1	2
of which professionals	7	3	1	12	8
Total staff at end of year	121	122	111	118	121
of which support staff	87	87	80	78	76
of which professionals	34	35	31	40	45

IDF Division, Eastern and Southern Africa Region
June, 1986

Annex 2

Kenya
Industrial Development Bank (IDB)
Project Completion Report

List of Subprojects financed under Loan 1148-KE

Sub-Borrower's Name	Subproject No.	Sector	(US $) Amount Approved	Product	Type of Project
Rivatex	A-1	textiles	1,120,000	fabrics	new
Kenya Hotel Properties	A-2	tourism	644,000	hotel	expansion
Eslon Plastics	A-3	plastics/chemicals	735,294	plastics	expansion
Dawa Pharmaceuticals	A-4	plastics/chemicals	1,120,000	pharmaceuticals	new
AMEGECO	A-6	metals/engineering	446,485	ship repair	expansion
Booth Manufacturing	A-7	metals/engineering	961,630	aluminum	expansion
Salt Manufacturers	A-8	food	129,869	salt	new
Kisumu Cotton Mills	A-9	textiles	712,000	fabric/yarn	expansion
Kenya Furfural	A-10	plastics/chemicals	1,205,000	furfural	new
Kenya Glass Works	A-11	plastics/chemicals	1,309,275	glass bottle	modernization
Kenwestfal	A-12	metals/engineering	754,320	PVC cables	expansion
Steel Billets	A-13	metals/engineering	638,427	steel billets	new
Yuken Textiles	B-1	textiles	223,700	garments	new
Total			10,000,000		

KENYA
INDUSTRIAL DEVELOPMENT BANK
Project Completion Report
Listing of Subprojects Financed Under
Loan 1438-KE

Sub-borrower's Name	Subproject No.	Sector	Products	(US $) Amount Approved	Type of Project
Steel Billets Casting	A-1	metal	steel billets	1,038,992.80	new
Kaluworks	A-3	plastics	enamel and plasticware	2,292,993.00	expansion
Nzoia Sugar Ltd.	A-4	food	sugar	1,975,309.00	new
Booth Manufacturing	A-5	metal	aluminum extrusion	265,224.00	expansion
Panafrican Paper Mills	A-6	paper	paper	609,139.84	expansion
Madhupaper International	A-8	paper	paper	1,255,466.00	expansion
Datini Mercantile	A-9	metal	wheelbarrows	827,324.00	expansion
Hotelspan	A-10	tourism	hotel	2,240,000.00	new
Gnanjivan	A-11	metal	screws, fasteners	1,075,050.00	new
Holiday Centre	A-13	tourism	hotel	1,053,848.24	new
Synresins	A-15	chemicals	paint, resins	1,142,300.00	new
Mumwe Investments	A-16	tourism	hotel	257,296.23	new
Specialized Steel Mills	A-17	metal	wire rods	3,168,530.00	new
African Tours and Hotels	B-1	tourism	hotel	133,097.00	expansion
Double Diamond Tanneries	B-2	leather	leather	332,292.55	new
Cabroworks	B-4	construction	roofing felt	525,210.00	modernization
			TOTAL	18,192,072.66	

IDF Division, Eastern and Southern Africa Region
June, 1986

Description of Selected Projects Financed Under Loans 1148-KE and 1438-KE

SPECIAL STEEL MILLS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Ruiru
Products	:	Wire rods
Other Lenders	:	FMO & Hawker Siddeley Power Engineering Limited
Loan outstanding as at 30.11.85	:	KShs. 53.06 million

Arrears as at 30.11.85

		KShs '000
Principal		817
Interest		9,984
	Total	10,801

2. OPERATIONAL PERFORMANCE

	1983	KShs '000 1984	1985 (June)
Turnover	-	66,297	57,177
Profit (Loss)	-	(10,126)	(11,136)
Cumulative Profit (Loss)	-	(10,126)	(21,262)

3. BACKGROUND

Special Steel Mills Limited was incorporated on 30th May, 1980 to manufacture high quality wire rods, bars, rounds and squares at Ruiru Township. The project is fully owned by the Bhattessa Family. It started with an initial share capital of KShs. 23.0 million which has since been increased to KShs. 50.0 million through capitalization of KShs. 10.0 million from inter-company loans and KShs. 17.0 million from revaluation reserve account.

IDB's investment in the project is in the form of a term loan of US$ 3,168,526 equivalent which was approved by the Bank's Board of Directors on 30th April, 1980. At the time of approval the loan was equivalent to KShs. 240 million but because of the general devaluation of the Kenya shilling against major currencies in which the loan was disbursed, the loan is now equivalent to about KShs. 52 million. The loan had a moratorium of two years on principal to be repaid in fourteen half-yearly installments commencing June, 1982.

4. PROBLEMS

(i) Implementation: The project was originally expected to start commercial operations in January, 1982. However, there were delays of about twenty months resulting from delays in land sub-division and obtaining import licences for vital tooling and key machinery parts. Due to the delay, original project cost underestimates, and increase of duty on plant and machinery the project cost rose from the original estimate of about KShs. 64 million to KShs. 110 million. Actual commercial operations

started in the last quarter of 1983 and as such the project was not able to keep to the original loan repayment schedule. On August 9, 1982, IDB rescheduled the repayment program by three installments so as to commence in January, 1984.

(ii) Production: Although commercial production started in the last quarter of 1983, there was no trading during the year. Furthermore, whereas duty on imported billets was 10% and that on wire rods was 30% during project conception, it had now been made uniform at 25% thus eroding the original duty differential. As a result the project became non-competitive with imported wire rods and operated much below economic capacity level. It was not able to service its loans and on 14th September, 1984 IDB was yet again forced to reschedule the loan by four installments so as to commence in January, 1986.

5. PRESENT STATUS

As at 30th November, 1985 IDB outstanding loan was KShs. 53.06 million while principal and interest arrears had accumulated to a total of KShs. 10.8 million. Although production and sales have shown some marked improvement, the operations are well below economic level and the project is still not expected to generate sufficient funds to clear the arrears.

6. IDB ACTION

IDB is working with the sponsors ways of restructuring the company's financial obligations including the loan repayment schedule so that it will be in a position to clear the outstanding arrears. This may also mean holding discussions with the project's other financiers. In the meantime, IDB has given support to the company's request to the Government to restructure import duty on billets and wire rods.

GNANJIVAN SCREWS & FASTENERS LIMITED

1. BASIC DATA

Sector	: Metal products & Engineering
Location	: Ruiru
Products	: nuts & screws
Other Lenders	: Bank of Credit & Commerce
Estimated Project Cost	: KShs. 15.8 million
Actual Project Cost	: KShs. 26.5 million
Date operations begun	: December, 1982
Loan outstanding as at 30.11.85	: KShs. 11.93 million

Arrears as at 30.11.85		KShs'000
Principal		1,396
Interest		228
	Total	1,624

2. OPERATIONAL PERFORMANCE

	KShs'000	
	1982	1983
Turnover	634	4,992
Profit (Loss)	(1,171)	(7,288)
Cumulative Profit (Loss)	(6,764)	(14,052)

3. BACKGROUND

Gnanjivan Screws and Fasteners Limited was incorporated on 17th May, 1979 to manufacture high tensile and precision fasteners. The shareholders of the company are the Bhattessa Family (60%) and Nalin Nailworks Limited (40%). The latter company is fully owned by the Bhattessa Family. Originally the project was estimated to cost KShs. 15.8 million but was implemented at a total cost of KShs. 26.5 million.

IDB's investment of US$ 1,075,052 was approved on 25th July, 1979 to be repaid over 10 years (including 2 years moratorium), the first installment being due in December, 1981. The project was originally expected to start commercial production by July, 1980 but was delayed until end of 1982, as a result of which in March 1982 the IDB loan had to be rescheduled by three installments with the first payment due on 15th July, 1983.

As at 30th November, 1985 the IDB outstanding loan was KShs. 11.93 million while principal and interest arrears were KShs. 1.4 million and KShs. 228,000 respectively.

4. PROBLEMS

(i) Implementation: The project implementation was delayed for nearly two and half years due to a number of reasons. Security arrangements took a long time to finalize as the plot had not yet

been sub-divided. Central Bank took a long time to approve the technical collaboration agreement with GKN of Britain, and import licences were also delayed. Due to this delay there were cost overruns of nearly KShs. 11.0 million arising from inflation, exchange rate fluctuations and pre-operational expenses. The overrun was financed by the sponsors. Obtaining these finances also contributed to total delay.

(ii) Operational: Problems at this stage were lack of raw materials due to import licence problems, inability to generate bulk sales due to lack of vital laboratory testing equipment (hence could not guarantee the Kenya Bureau of Standards requirements) resulting in capacity underutilization. The initial problem of quality was overcome with the installation of quality testing equipment.

5. PRESENT STATUS

Although operations are still below projected levels, the company has continued to service the IDB loan satisfactorily. However Annual Accounts Reports are not provided in time.

KALUWORKS LIMITED

1. BASIC DATA

Sector	:	Metal products & Engineering
Location	:	Mombasa
Products	:	Household utensils
Date Operations begun	:	1968
Loan outstanding at 30.11.85	:	KShs. 8,085,540

Arrears at 30.11.85

		KShs.
Principal		1,047,978
Interest		1,005
	Total	1,048,983

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985 June
Turnover	90,667	99,030	60,949
Profit (Loss)	-	4,882	6,386
Retained Profit (Loss)	-	4,231	6,567

3. BACKGROUND

Kaluworks Limited was incorporated in February, 1968 as a limited liability company to manufacture and trade in a wide range of household ware. The company is a wholly owned subsidiary of Kenya Aluminum Industrial Works Limited which is a holding company and itself wholly owned and controlled by the Chandaria Group.

IDB's investment of US$ 2,292,993 was approved on 26th April, 1978 for the expansion of the company's enamelware and plasticware capacities. The expansion was to involve the installation of a furnace with greater capacity and increasing the number of injection moulding machines with higher capacities.

By the time of IDB's loan approval the expansion was already underway and was expected to be complete in the last quarter of 1979. In the first quarter of 1980 the full project expansion was completed and production started.

4. PRESENT STATUS

The project has been operating without any major problems and its IDB loan servicing has been satisfactory.

STEEL BILLET CASTING LIMITED

1. BASIC DATA

Sector : Engineering and Metal Products
Location : Nairobi (Dandora)
Loan outstanding as at 30.11.85 : KShs. 39.45 million

Arrears as at 30.11.85

		KShs'000
Principal		14,007
Interest		6,425
	TOTAL	20,432

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Sept)
Turnover	44,909	52,275	51,094
Profit (Loss)	430	4,492	5,074
Cumulative Profit (Loss)	(21,943)	(17,451)	(12,377)

3. BACKGROUND

Steel Billet Castings Limited was incorporated in 1978 with the objective of implementing a project to manufacture steel billets using locally available ferrous scrap. The major shareholders are Steel Rolling Mills Limited, IDB (12.5%) and individual private investors.

IDB's first loan investment of US$ 1,677,420 was approved on 22nd November, 1977. At the same time, an IDB equity investment of KShs. 125 million was approved by IDB's Board of Directors. A second loan investment of US$ 1,238,880 was approved on 14th June, 1978. Finally a local currency loan investment of KShs. 3.50 million was approved on 25th May, 1981.

The company started commercial operations in November, 1980 but continued to make losses until 1983 as a result of which losses accumulated to KShs. 22 million and Steel Billets could not service its loans. In the last three years the company has been registering some profits and is paying IDB in order to liquidate the accumulated principal and interest arrears. As at 30th November, 1985, principal and interest arrears stood at KShs. 14 million and KShs. 6.4 million respectively.

4. PROBLEMS

(i) Implementation: Production was originally expected to commence in April, 1979 but was delayed for nearly 18 months and commissioning of the plant was done only in October, 1980. The actual cost of the completed project together with revised working capital requirements of KShs. 21.7 million was KShs. 62

million resulting in cost overruns of KShs. 10 million. The delay in implementation was due to a delay of nearly 14 months before the agreement was reached between IDB and Standard Bank Limited on the issue of securities. A further delay of 4 months was due to non-availability of raw materials and mistakes in structural fittings which caused the work to be re-done. Machinery delivery was also delayed due to dock strikes in the harbors.

(ii) Production: Initially the performance of the project was below expectation principally due to low billet price realization, shortage of scrap and unavailability of adequate import licences for essential raw material inputs. While the problem of imported raw material inputs has now been solved, the project is still operating well below capacity due mainly to lack of locally generated ferrous scrap. A sister company has now been formed to produce more scrap through ship breaking in Mombasa, but continued competition from imported billets may limit their local production.

5. IDB ACTION

Because of financial problems experienced by the project, IDB on 29th November, 1984 rescheduled the loan repayment by six installments so that installments due in 1985, 1986 and 1987 would be payable in 1988. The company has agreed to make monthly payments of KShs. 500,000/= to offset the outstanding arrears.

ALPHARAMA LIMITED (DOUBLE DIAMOND)

1. BASIC DATA

Sector	:	Textiles and Leather Products
Location	:	Athi River
Products	:	Wet-Blue Leather
Original Project Cost Estimate	:	KShs. 6.0 million
Actual (final) project cost	:	KShs. 8.63 million
Date operations commenced	:	1981
Loan outstanding as at 30.11.85	:	KShs. 1.23 million
Arrears as at 30.11.85 (KSHS'000)		Nil

2. BACKGROUND

Alpharama Limited is the former Double Diamond Tanneries Limited which was owned by Mr. F.N. Macharia, Mr. K.L. Bhasin and Mr. S.N. Hamawi. The company changed its name after a change in ownership and management in December, 1982. The present shareholders in the company are Mr. F.N. Macharia (40%), Mr. A. Combos and Mr. H. Combos. The latter two are British citizens (residing in Kenya) and together have 60% shareholding in the company through a locally incorporated company, Intralga Limited.

IDB loan investment of US$ 333,750 was approved on 28th March, 1979. Although commercial operation of Double Diamond Tanneries Ltd. started in May, 1980 on schedule, two main setbacks adversely affected the company's financial position. First was the imposition of a ban on export of semi-processed hides and skins in June 1980, which was lifted six months later. More seriously, in December, 1981, the company had problems with health authorities in respect of the effluent treatment plant and discharge of treated water into the Athi River.

Immediately after taking over, the new company embarked on a major re-organization programme including modification of factory buildings, improvement of the effluent treatment plant, installation of reliable water supply and storage systems, and installation of additional machinery and equipment. This expansion programme resulted in quadrupling the project's tanning capacity and satisfactory servicing of the IDB loan. As at 30th November, 1985 the outstanding loan was KShs. 1.23 million while total arrears in principal and interest were nil.

3. PRESENT STATUS

The company is up-to-date in the servicing of IDB loans. It is, however, not possible to ascertain the actual financial position since the company has not yet provided the Bank with performance reports. However, the position may be assumed to be satisfactory on the basis of its loan servicing record and increased output.

HOTELSPAN LIMITED

1. BASIC DATA

Sector	Tourism
Location	Mombasa
Other lenders	PSP(UK), Kenyac, National Bank of Kenya
Estimated Project Cost	KShs. 43,000,000
Actual Project Cost	KShs. 110,000,000
Date operations begun	December, 1981
Loan outstanding as at 30.11.85	KShs. 47.33 million

Arrears as at 30.11.85	KShs'000
Principal	6,831
Interest	5,783
TOTAL	12,614

2. OPERATIONAL PERFORMANCE

	1983	1984	1985(Nov)
Turnover	31,756	39,116	40,645
Profit (Loss)	(17,826)	(19,074)	(11,836)
Cumulative profit (Loss)	(43,586)	(63,855)	(75,691)
Reserves (After valuation)	-	12,218	382

3. BACKGROUND

Hotelspan Limited was incorporated on 5th February 1979 as a private company for the purpose of developing and owning Diani Reef Hotel which is situated at the South Coast, Mombasa. The shareholders of the company are Sonotels International (75.12%), IDB (15.24%) and Siana Mara (9.64%).

IDB approved a term loan of US$ 2.23 million and equity investment of KShs. 4.9 million on 17th January, 1979. In November, 1980 IDB approved a second loan of US$ 1.05 million and further equity of KShs. 1.96 million bringing the total equity investment to KShs. 6.86 million. The original cost estimate for the 300 bed luxury hotel was KShs. 43 million and provided for expansion to 500 beds. The final project cost escalated to KShs. 110 million. The first phase of the expansion is in the process of being implemented using loan finance from a Scotland Bank and E.C.G.D. guarantee.

As at 30th November, 1985, IDB outstanding loan was KShs. 47.33 million while principal and interest arrears had accumulated to KShs. 6.831 million and 5.783 million respectively.

4. MAJOR PROBLEMS

Implementation: This was expected to commence in January, 1979 but was delayed for one year while allocation of the plot was being negotiated with the Government. The plot was finally acquired in January, 1980 at a cost of K Shs 880,000 as opposed to the original assumption of acquiring it free of charge. Construction work began immediately and the project was commissioned in December, 1981. Although the original project cost was a mere KShs 43 million, it finally cost K Shs 110 million to complete. The main causes of these large cost increases were:

- delays in project start-up resulting in price escalations in imported items and the duties and sale tax. Long implementation period also increased professional and consultancy fees.
- devaluation of the Kenya shilling
- poor project planning and management
- omission of essential cost items such as land, laundry and kitchen equipment.

Operation: The company has been having marketing problems; both room and bed occupancy have been low especially during low tourist season. The company's losses have resulted in accumulated losses of about KShs 75 million.

5. IDB ACTION

In 1984 the term lenders agreed to reschedule loans. IDB is dissatisfied with the hotel's tariff structure and credit policies but management is adamant that the hotel is realizing the best rates and good efforts are being put in collecting the overdue accounts. IDB has decided not to make any further investment in the company for the proposed expansion.

DATINI MERCHANTILE LIMITED

1. BASIC DATA

Sector	:	Engineering & Metal products
Location	:	Nairobi
First Principal Repayment Date	:	December, 1980
Loan outstanding as at 30.11.85	:	KShs. 12.52 million

Arrears as at 30.11.85

Principal	KShs. 3.612 million
Interest	KShs. 2.153 million
Total	KShs. 5.765 million

2. OPERATIONAL PERFORMANCE (KSHS'000

	1982	1983	1984	1985
Turnover	12,100	12,198	12,103	15,042
Profit (Loss)	333	96	(3,413)	(131)
Cumulative profit (Loss)	(709)	(613)	(4,026)	(4,157)

3. BACKGROUND

The current shareholders of Datini Merchantile Limited acquired the company as a going concern in 1976. The project produces wheelbarrows, metal shelving and other metal products.

IDB loan investment in the project was approved on 25th October, 1978 for the purpose of completing a proposed expansion programme which was to triple the project's output. The expansion programme was completed in 1981 almost two years behind schedule, as a result of which commencement of loan repayment coincided with that of production. The company found itself in financial problems and after paying the first two installments it approached IDB for rescheduling of subsequent installments falling due in 1982. Although this was approved by IDB, the project was still not able to service its loans and arrears continued to accumulate.

4. MAJOR PROBLEMS

(i) In the last few years, several competitors have entered the market, particularly that of wheelbarrows. The company was not able to react appropriately because of poor marketing management.

(ii) The company is also experiencing working capital problems and has stretched its overdraft facility with Standard Bank to the limit.

(iii) As a result of the devaluation of the Kenya shilling, the company's debt level has almost doubled. This has meant higher service charges.

5. IDB ACTION

As a result of the continued poor performance by the company, IDB in November, 1984 carried out a detailed review of the project's operations and came up with recommendations on marketing, management reorganization, diversification of the product range and technical management improvement. With the implementation of these recommendations, the company's performance has improved with monthly sales picking up well. With some assistance from the Commonwealth Secretariat, the company is launching a diversification program which is aimed at boosting sales. A monthly repayment of KShs. 200,000 has been agreed on to help clear the arrears.

NZOIA SUGAR COMPANY LIMITED

1. BASIC DATA

Sector	:	Food & Beverages
Location	:	Bungoma District
Products	:	Mill white sugar
Date operations commenced	:	October, 1976
Loan outstanding as at 30.11.85	:	KShs. 9.314 million

Arrears as at 30.11.85		KShs'000
Principal		1,914
Interest		63
	TOTAL	1,977

2. OPERATIONAL PERFORMANCE

	KShs'000		
	(Actual) 31.3.85	(Actual) 31.3.84	(Projected) 31.3.85
Turnover	210,115	134,108	188,329
Profit (Loss)	(107,846)	(105,305)	(95,330)
Cumulative Profit (Loss)	(423,846)	(510,649)	(605,980)

3. BACKGROUND

The company was incorporated in August, 1975 and commenced commercial production in October, 1978. The paid up share capital of KShs. 210 million is subscribed by Kenya Government (94.8%), Five-Cail Babcock (2.8%), and IDB (2.4%). IDB loan investment of US$ 1,975,309 was approved on 26th October, 1977, while equity investments of KShs. 5.0 million was approved on 26th April, 1978.

4. MAJOR PROBLEMS

(i) Implementation: There were no major problems during implementation. The project started operations in time and was implemented at a cost of KShs. 548 million as opposed to the estimate of KShs. 542.4 million.

(ii) Operation: Since the company commenced commercial operations the trading results have been characterized by continuous losses. The main reasons for poor financial performance are: capacity under-utilization resulting from inadequate cane supply, lower recovery factor due to low quality and machinery inefficiency, heavy debt servicing due to high debt/equity ratio, poor loan terms and devaluation of the Kenya shilling and high cost of inputs and unmatched prices of sugar.

5. PRESENT STATUS

As a result of the poor performance the company was projected to register total losses of KShs. 606 million as at 31st March, 1985 and its net worth eroded to negative KShs. 366 million. The company is therefore technically insolvent.

The Government has continued to settle the long term French loans on behalf of the company having paid FF 152,667,274 an equivalent of KShs. 252.6 million as at 31st August, 1985. The company has, however, been servicing IDB loan regularly.

SYNRESINS LIMITED

1. BASIC DATA

Sector	:	Chemical, rubber & plastics
Location	:	Nairobi
Products	:	Alkyd resins, emulsion & polyster
Original Estimated Project Cost	:	KShs. 21.760 million
Actual Project Cost	:	KShs. 33.815 million
Date of commencement of operations	:	August 1982
Loan outstanding as at 30.11.85	:	KShs. 18.52 million

Arrears as at 30.11.85		KShs'000
Principal		3,126
Interest		2,072
	TOTAL	5,198

2. OPERATIONAL PERFORMANCE

	KShs'000		
	1983	1984	1985(Oct)
Turnover	8,100	25,680	35,170
Profit (Loss)	(6,500)	(2,772)	(248)
Cumulative Profit (Loss)	(17,229)	(20,071)	(20,319)

3. BACKGROUND

Synresins Limited is owned by Newtech Industries (Kenya) Ltd. which was incorporated in July 1976 to develop and promote a resins project in Kenya. IDB's investment in the project was approved on 19th December, 1979. The loan was payable in nine years including a two year moratorium so that the first installment was due in January, 1982. However, by the end of the moratorium period the project had not started operations and could therefore not meet the repayments. On 7th January, 1982 IDB rescheduled the loan by two installments so that loan repayment would commence in January, 1983. Even after the rescheduling, the company continued to accumulate arrears on principal and interest. IDB was again forced to reschedule the loan on 29th November, 1984 by four installments such that installments due in 1985 and 1986 would now be paid in 1990.

4. MAJOR PROBLEMS

(i) Implementation: The project implementation was delayed by about ten months due to delayed approvals of technical franchise and machinery supply agreement by Central Bank. This delay also led to cost overruns. There were also delays in commissioning due to problems in obtaining licences for raw materials required for project commissioning.

(ii) Production: During the first year of production, the level of operation was very low due to insufficient working capital and long delays in approvals of import licences for raw material. Although production improved in later years, the project still continued to experience problems of competition from imported products, lack of local raw materials and working capital. In 1985 the company's performance improved and overall production and sales were within the budget.

5. PRESENT STATUS

As at 30th November, 1985 the total IDB outstanding loan was KShs. 18.52 million while total arrears (principal and interest) had accumulated to KShs. 5.198 million. The company has been making monthly repayments of KShs. 240,000 so as to liquidate arrears. With the improved performance IDB may ask for enhancement of this amount.

AFRICAN TOURS AND HOTELS LIMITED

(BUFFALO SPRINGS LODGE)

1. BASIC DATA

Sector	:	Tourism
Location	:	Isiolo Game Reserve, Samburu
Other Lenders	:	A.T & H.L.
Date operations begun	:	1981
Loan outstanding as at 30.11.85	:	2.26 million

Arrears as at 30.11.86		KShs.
Principal		700,627
Interest		598,803
	TOTAL	1,299,430

2. OPERATIONAL PERFORMANCE

The company has not provided its audited annual accounts and reports since 1980 because it has not been able to meet audit fees due to the auditors.

3. BACKGROUND

The Lodge was started as a luxury tented camp in Isiolo Game Reserve, Samburu. African Tours & Hotels Limited became a major shareholder in 1977 when it acquired 51% of the shares. The balance was held by Isiolo County Council (41.4%), and other local investors.

IDB's investment of US$ 133,097 term loan and KShs. 810,000 equity (7.6%) was approved on 23rd March, 1979. The term loan is guaranteed jointly by African Tours & Hotels Limited, and Kenya Tourist Development Corporation. The project has continuously made losses because of poor performance resulting from failure to attract business as it cannot compete with lodges in the area. As a result, the IDB loan to the project has not been serviced and as at 30th November, 1985 the outstanding loan was KShs. 2.26 million while principal and interest arrears had accumulated to KShs. 700,626 and KShs. 598,803 respectively. The ATHL Directors want to reschedule the IDB loan.

4. PRESENT STATUS

The project needs a face-lift estimated to cost KShs. 2.4 million in order to compete with others in the area.

CABROWORKS LIMITED

1. BASIC DATA

Sector	:	Construction Industry
Location	:	Mombasa
Products	:	Roofing Felt
Date Operation Commenced	:	1963
Loan outstanding as at 30.11.85	:	KShs. 2.15 million

Arrears as at 30.11.85		KShs'000
Principal		134.10
Interest		0.49 CR
	TOTAL	133.61

2. OPERATIONAL PERFORMANCE

	1982/3	1983/4	1984/5
		KShs'000	
Turnover	24,000	36,073	33,534
Profit/(Loss)	634	5,222	237
Cumulative profit/(loss)	579	5,800	6,406

3. BACKGROUND

Cabroworks Limited started operations in Mombasa in 1963 to produce roofing felt. The company is wholly owned by Cassman Brown & Company Limited. The company has increased its product range to include bitumen/asphalt and paving bricks. IDB's investment of US$434,582 was approved on 2nd April, 1980 for the purpose of expansion. The company's performance has been satisfactory and has been up-to-date in servicing of IDB loan. As at 30th November, 1985, the outstanding loan amounted to KShs. 2.15 million while total principal and interest arrears were KShs. 133,607.

4. MAJOR PROBLEMS

The company has not experienced any major problems. It will however, now face competition from a new company, Bitumen Products Ltd. a subsidiary of Venus Metals (A) Ltd.

BOOTH MANUFACTURING AFRICA LTD

1. BASIC DATA

Sector	:	Engineering & Metal Products
Location	:	Nairobi & Thika
Products	:	Aluminum extrusions and fire extinguishers
Loan outstanding as at 30.11.85	:	KShs.8.574 million

Arrears as at 30.11.85

		KShs'000
Principal		46.34
Interest		942.19
	TOTAL	988.52

2. OPERATIONAL PERFORMANCE

	1983	1984	1985(Sept.)
		KShs'000	
Turnover	27,575	37,852	27,121
Profit/(loss)	2,121	3,942	2,949
Retained profit/ (loss) and reserves	10,101	16,130	-

3. BACKGROUND

Booth Manufacturing Africa Limited BMAL is a private company wholly owned by Kenya Aluminum Works Ltd (KALW) which is in turn wholly owned by the Chandaria Group. KAIW is itself a holding company owning and charged with the running (in addition to BMAL) of Kaluworks Limited in Mombasa, and Ideal Casements Ltd in Nairobi.

BMAL came into being in June 1973, when KAIW purchased the present manufacturing business from Booth Manufacturing Company Ltd., the latter being part of the British firm of Tombooth, whose activities are general trade and export.

IDB's first investment which was approved in 1976 was for an expansion and diversification programme in the industrial area, Nairobi. The diversification program involved putting up a new factory for the manufacture of extended aluminum sections. The second investment approved in 1977 was for re-location of the project (from Nairobi to Thika) and increasing the scope of the project to include facilities to manufacture copper and brass tubes. The Nairobi site was only adequate for aluminum tubes. Finally the third investment approved in 1978 was to finance part of the cost overruns.

4. PROBLEMS

(i) Implementation: The changes in the scope of the project and relocation resulted in long delays in project implementation. This, plus increase in built-up area, requirement for deeper foundation and increase in the cost of building materials and

power supply resulted in cost overruns of about KShs. 7.3 million.

(ii) Production: The performance of the Thika plant has been affected by competition from continued imports. Generally the project's performance is improving thus increasing the overall profitability of BMAL.

IDB ACTION

No special action is being taken by IDB apart from regular monitoring and pressing for loan repayment. The company is considering prepayment of the IDB loan.

PANAFRICAN PAPER MILLS LTD.

1. BASIC DATA

Sector	:	Paper & Pulp
Location	:	Webuye, Bungoma District
Products	:	Paper & Pulp
Date operation commenced	:	1975
Loan outstanding as at 30.11.85	:	KShs. 9.942 million

Arrears as at 30.11.85		KShs'000
Principal		26.932
Interest		14.722 (CR)
	TOTAL	12.210

2. OPERATIONAL PERFORMANCE

	KShs'000 1983/84
Turnover	575,453
Profit/(loss)	47,856
Cumulative profit/(loss)	140,293

3. BACKGROUND

Panafrican Paper Mills Limited was incorporated in 1970 as a joint venture between the Government of Kenya (33.9%), Oriental Paper Mills (29.3%), IFC (24.9%), ICDC (5.6%), DFCK (1.6%), EADB (3.6%) and BODC (1.1%).

In addition to bleached and un-bleached paper, the company has introduced production of news print by installing a mechanical pulp section. Because of the diversity in type and quality of paper demand in the printing and paper conversion industry, the mill has had to adjust and now produces about 80 different grades of bleached paper.

The mill also has a caustic soda/hydro chloric acid plant that supplies its own requirements and supplies a surplus to the local market.

Dividends were declared in 1980, 1982 and 1983 but because of no price increases for a number of years, dividends were not declared in 1983. Inspite of a price increase of 7.5% which was granted in 1984 the trading results for 1985 recorded a loss of KShs. 9.0 million as a result of continued weakening of the Kenya shilling against major foreign currencies, rising costs of inputs and spare parts and inadequate price adjustment for the end products.

The servicing of IDB loan continues to be satisfactory and as at 30th November, 1985 the outstanding loan was KShs. 9.942 million while total arrears were only KShs. 12,210.

SALT MANUFACTURERS (K) LIMITED (SMKL)

The Project

Salt Manufacturers (K) Limited comprises salt harvesting works at Gongoni, (north of Malindi) and the refinery at Mombasa.

The project company was incorporated in May, 1974 and currently has K Shs 17.3 million authorized share capital with K Shs 15.5 million subscribed and paid up as follows:

	Ordinary Shares	Preference Share capital (KShs '000)	Total
ICDC	3295	2244	5539
IDB	2500	800	3300
ICDC Investment Company	1000	-	1000
Private Shareholders	1705	-	1705
Saltec International	4000	-	4000
Total	12500	3044	15544

Company long term debts totalled K Shs 16.74 million as of December, 1984.

IDB Involvement

SMKL was started as a joint venture between local bodies and Saltex International, an Italian firm. Saltex International organized the supply of project machinery, and was given an 8 year contract from 1975 to implement and manage the project. The project was to be carried out in two phases with the saltworks initially producing 50,000 and ultimately 80,000 tons of raw salt per year; and the refinery producing 10 tons of refined salt per hour of operation.

In 1974, IDB provided K SHs 2 million equity and US$336,000 in loans to SMKL, but due to increased costs during implementation, the Bank had by 1979 invested a total of K Shs 2.5 million in equity (21.7% shareholding) and US$1,017,851 in two loans in SMKL. The loans were K Sh 7.1 million equivalent at date of approval and were scheduled to be fully repaid by December, 1983.

Project Implementation

A major problem of SMKL project has been the prolonged implementation period and subsequent cost overruns. While the refinery at Mombasa was completed in 1977, the saltworks implementation dragged on for 4 years. A first salt harvest of 8600 tons were however made at the works in 1980.

Due to the poor management and long delay in implementation, project total cost increased from an estimated Shs 28.9 million to Shs 40.0 million.

Past Performance and IDB Loan Servicing

The delay in implementation of the saltworks meant that the refinery had to operate with imported raw salt supplies for longer than originally anticipated. Importing raw salt more than doubled the estimated cost of harvesting the raw salt at Gongoni. SMKL's initial performance was further adversely affected by the increased preoperating expenses and the poor, costly management under Saltec International culminating in the termination of the management contract in 1979. Due to these problems the company continued accumulating heavy losses until 1983. Since 1984, resulting from IDB active involvement in rehabilitation of the project, performance has drastically improved with profits increasing from Shs 3.39 million in 1983 to Shs 7.88 million in 1984. This has offset most of the accumulated losses.

Current Status

	1984	1985
Share capital	15,544	15,544
Total term debt	16,746	20,844
Gross fixed assets	39,362	36,601
Sales	58,826	34,795
Profit	7,884	3,394
Retained profit (Loss)	(2,775)	(10,659)

Arrears on the IDB Loan as at June 30, 1985 were:

Principal	Shs 10,232,000
Interest	Shs 559,000

Part of the principal arrears has been rescheduled and the company has been paying K Sh 500,000 per month to clear the interest arrears and part of the principal.

YUKEN TEXTILE INDUSTRY LTD.

1. Basic Data

Sector:	Textiles and Leather
Date of loan approval:	June 30, 1976
Amount of loan approved:	US$223,750
Arrears as at 30.11.85	K Shs '000
Principal	1,138,375
Interest	2,674,987
	3,813,362

2. Past Performance

	K Shs '000			
	1981	1982	1983	1984
Turnover	6,601	13,130	4,337	8,040
Net Profit (Loss)	(6,687)	(6,272)	(4,615)	(8,701)
Cumulative Profit/(Loss)	(18,995)	(26,026)	(30,642)	(39,344)

3. Background

Yuken was originally conceived as a joint venture between a Yugoslav group (Yugotextil) and ICDC. IDB was later invited to join as both a shareholder and lender. The original Yuken was therefore, owned by the three parties on an equal basis i.e. 33 1/3 per cent.

The company commenced operations in 1978 and since then performance has been poor. By the end of 1984, the company had accumulated losses totalling over K Shs 39 million. In 1983, ICDC took over total ownership of the company by buying out the shareholding of both the Yugoslav groups and IDB. The company also opened its own retail outlets through the incorporation of a subsidiary (Y-Fashions) which has consistently returned losses.

4. Major Problems

The problem of this company have been identified as poor management, lack of working capital and severe competition from other cheaper manufacturers. During Yuken's existence, various measures have been proposed and implemented but no appreciable improvement has been achieved. One major problem here has been that measures have been implemented on a piecemeal basis with very little contribution to the revival of the project.

5. Proposed Action

Agreement was reached in September, 1985 between the owners and lenders on the implementation of a proposed rehabilitation programme which involve additional equity injection, capitalization of accrued interest and loan rescheduling. On its part IDB in principle agreed to spread the accrued interest over 3 years starting from January, 1986, and reschedule the principal repayments to January, 1989. The company also agreed to pay Shs 75,000 per month beginning September, 1985 to meet the current interest but has continually defaulted on the arrangement. IDB is executing more pressure on ICDC who owns the company outright.

DAWA PHARMACEUTICALS LIMITED

Background

Dawa Pharmaceuticals Limited was incorporated on April 30, 1974 as a private limited liability company with the objective of owning and operating a pharmaceutical and veterinary drugs plant in Kenya. The sponsors of the project were the ICDC, KRKA Pharmaceutical Works of Yugoslavia and three local Kenyan investors.

In September, 1975 the IDB Board approved a loan of US$1.12 million then equivalent to Shs. 8.0 million towards the financing of this project whose capital costs had been estiamted at K Shs 42.964 million. The loan was for a period of 10 years including 2 years moratorium at an interest rate of 11% per annum. The first instalment of principal was to be paid on December 30, 1978.

Project implementation was completed at the end of 1976 and commercial production commenced in March, 1977.

Past Performance

Dawa's initial performance was initially very poor, but over the years has greatly improved and presently the company is able to service its debts. The following is a summary of performance over the last five years.

	K Shs '000				
	1980	1981	1982	1983	1984
Turnover	53,639	71,819	67,941	95,786	69,016
Profit (Loss)	3,014	1,447)	(6,775)	5,562	895
Cumulative Loss	(24,427)	(24,427)	(27,755)	(24,193)	(23,298)

The company profitability is declining due to low sales volume for some product lines. The company's management is rectifying the situation by vigorously pursuing the new marketing strategies especially in the export market.

IDB Action

Debt servicing has been satisfactory and only Shs 16,701 was outstanding as arrears as at June 31, 1985. IDB is to monitor the project closely.

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected vs. Actual Lending Operations
1981-1985
(Ksh million)

Year Ending December 31	1981		1982		1983		1984		1985		Total 1981-85	
	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
Approvals:												
Term Loans-Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	67.0	703.2	490.5
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	142.1	225.8	170.5	83.3	204.6	66.6	90.0	47.8	96.0	135.0	703.2	558.5
Term Loans-Domestic Currency	30.3	17.5	35.6	-	41.9	-	30.0	0.8	32.0	0.0	169.8	18.3
Equity Investments	10.0	2.0	10.0	0.2	10.0	-	-	2.5	13.0	0.2	43.0	4.9
Total Domestic Currency	40.3	19.5	45.6	0.2	51.9	0.0	30.0	3.3	45.0	0.2	212.8	23.2
Total Loans	172.4	243.3	206.1	83.3	246.5	66.6	120.0	48.6	128.0	135.0	873.0	576.8
Total Approvals	182.4	245.3	216.1	83.5	256.5	66.6	120.0	51.1	141.0	135.2	916.0	581.7
Commitments:												
Term Loans-Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	67.0	639.6	574.7
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	68.0	-	68.0
Total Foreign Currency	132.8	266.3	156.3	115.1	187.5	66.6	84.0	59.7	79.0	135.0	639.6	642.7
Term Loans-Domestic Currency	28.6	23.1	33.0	-	38.8	-	23.0	-	25.0	-	148.4	23.1
Equity Investments	10.0	5.4	10.0	0.2	10.0	-	-	2.5	-	-	30.0	8.1
Total Domestic Currency	38.6	28.5	43.0	0.2	48.8	0.0	23.0	2.5	25.0	0.0	178.4	31.2
Total Loans	161.4	289.4	189.3	115.1	226.3	66.6	107.0	59.7	104.0	135.0	788.0	665.8
Total Commitments	171.4	294.8	199.3	115.3	236.3	66.6	107.0	62.2	104.0	135.0	818.0	673.9
Disbursements:												
Term Loans-Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	102.9	644.2	612.2
Imported Raw Material Loans	-	-	-	-	-	-	-	-	-	27.1	-	27.1
Total Foreign Currency	119.3	153.8	140.5	179.3	166.4	67.4	115.0	108.8	103.0	130.0	644.2	639.3
Term Loans-Domestic Currency	25.4	23.3	30.0	14.8	34.9	4.1	9.0	1.9	9.0	-	108.3	44.1
Equity Investments	10.9	5.4	10.0	-	10.0	0.2	0.0	2.5	-	0.2	30.9	8.3
Total Domestic Currency	36.3	28.7	40.0	14.8	44.9	4.3	9.0	4.4	9.0	0.2	139.2	52.4
Total Loans	144.7	177.1	170.5	194.1	201.3	71.5	124.0	110.7	112.0	130.0	752.5	683.4
Total Disbursements	155.6	182.5	180.5	194.1	211.3	71.7	124.0	113.2	112.0	130.2	783.4	691.7

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Analysis of Loans in Arrears 1981-85

Number of loans in Arrears	1981 1/	1982	1983	1984	1985
Total Number of loans in portfolio	108	97	121	99	98
Number of loans in arrears over 3 months	53	55	103	67	71
As a % of total loans	49%	57%	85%	68%	72%
Principal Affected by Arrears (Ksh million)					
Total principal outstanding	325.3	556.4	718.7	781.1	875.0
Principal affected arrears over 3 months	166.8	395.0	632.4	687.4	717.5
As a % of total principal outstanding	51%	71%	88%	88%	82%
Actual Amounts in Arrears (Ksh million)					
Arrears over 3 months	57.3	96.2	218.5	252.3	270.9
As a % of total principal outstanding	17.6%	17.3%	30.4%	32.3%	31.0%
Collections Ratios 2/	na	na	76%	76%	99%
Collections as % of New Billings plus Arrears	na	na	29%	28%	35%

1/ Includes only amounts in arrears 6 months or more, because of limits in IDB records at that time.
2/ Collections as a percentage of new amounts coming due.

IDF Division, Eastern and Souther Region
June, 1986

KENYA
Industrial Development Bank
Project Completion Report
Sectoral Distribution Loan Portfolio, December 31, 1985
(Ksh '000)

Sector	No. of Loans	Amounts 1/ Outstanding	% of Loans	% Amounts Outstanding	% Amounts Affected by Arrears	Arrears of 3 mos. or more	Arrears as % Total Due	No. of Projects in Receivership
Agroindustry	11	77,111.9	11.2%	7.6%	74.7%	15,321.1	19.9%	2
Automotive	3	13,907.2	3.1%	1.4%	95.5%	9,700.9	69.8%	2
Chemical	9	91,698.5	9.2%	9.0%	77.9%	31,713.1	34.6%	0
Construction	3	8,681.4	3.1%	0.9%	100.0%	2,322.3	26.8%	0
Food	7	11,022.8	7.1%	1.1%	100.0%	5,098.7	46.3%	1
Leather	3	9,462.2	3.1%	0.9%	86.9%	378.7	4.0%	0
Metal/Engineering	17	275,659.7	17.3%	27.1%	78.4%	63,264.2	23.0%	2
Mining/Quarries	2	6,878.3	2.0%	0.7%	100.0%	3,592.5	52.2%	2
Paper/Printing	5	26,904.1	5.1%	2.6%	63.1%	12,544.8	46.6%	0
Plastics	2	35,022.0	2.0%	3.4%	99.7%	4,870.7	13.9%	0
Rope/Cord	5	8,153.3	5.1%	0.8%	82.3%	1,690.2	20.7%	1
Services	1	9,069.6	1.0%	0.9%	0.0%	0.0	0.0%	0
Textiles	13	193,381.8	13.3%	19.0%	65.6%	49,028.8	25.4%	2
Tourism	9	224,323.1	9.2%	22.0%	98.3%	57,651.4	25.7%	2
Wood	8	27,143.4	8.2%	2.7%	100.0%	14,310.2	52.7%	1
TOTAL	98	1,018,419.3	100.0%	100.0%	81.1%	271,519.8	26.7%	15

1/ Includes interest arrears.

IDF Division, Eastern and Southern Region
June, 1986

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Projected and Actual Balance Sheets
1981-1985
(In Ksh million)

Year Ending December 31	1981		1982		1983		1984 1/		1985 1/	
	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual	Proj.	Actual
ASSETS:										
Current Assets:										
Cash and Misc.	25.0	24.3	30.1	14.4	35.6	4.6	10.8	10.7	48.6	16.8
Short-term Deposits	90.0	52.1	65.0	48.0	45.0	26.2	45.2	45.2	120.0	106.9
Project Debtors 2/	n.a	98.0	n.a.	164.8	n.a	183.5	230.8	221.6	205.9	247.6
Other Debtors 2/	n.a	-	n.a	-	n.a	10.3	5.1	10.2	7.1	38.0
Loans-Current portion	63.8	66.7	86.2	84.1	107.1	93.1	101.0	100.4	92.2	112.6
Total Current Assets	178.8	241.1	181.3	311.3	187.8	317.7	392.9	388.1	473.9	521.9
Portfolio:										
Loans	397.0	344.1	481.3	487.7	575.5	476.7	528.3	530.4	524.7	657.8
Equity	112.9	103.5	122.9	84.0	132.9	81.2	66.6	66.6	66.6	66.6
Less Accum. Provisions	(16.3)	(55.3)	(20.2)	(46.5)	(24.8)	(42.7)	(32.8)	(33.9)	(38.2)	(57.2)
Net Portfolio	493.6	392.3	584.0	525.2	683.6	515.2	562.1	563.1	556.0	667.2
Net Fixed Assets	3.6	2.6	3.3	1.9	3.3	1.4	3.3	3.3	12.4	3.4
Total Assets	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5
LIABILITIES										
Current Liabilities:										
Bank overdraft	-	0.6	-	0.6	-	-	-	-	-	-
Payables and accruals 3/	11.8	74.9	13.6	77.7	16.0	26.0	40.7	39.5	53.9	96.6
Current portion long-term debt	58.3	62.1	73.2	79.2	89.6	73.8	80.1	81.1	106.1	92.4
Total Current Liabilities	70.1	137.6	86.8	157.5	105.6	99.8	120.8	120.6	160.0	189.0
Long-term Debt:										
Foreign Borrowings	372.7	321.4	445.0	476.9	527.6	515.8	626.4	580.1	625.7	n.a
Local Borrowings	13.3	11.1	8.3	5.5	2.5	3.0	4.3	2.7	1.9	n.a
Total Long-term debt	386.0	332.5	453.3	482.4	530.1	518.8	630.7	582.8	627.6	727.7
Exchange Gain and Adj. Accts.	-	9.2	-	26.9	-	32.5	-	45.0	-	50.1
Shareholders Equity:										
Share Capital	229.2	207.9	229.2	222.6	229.2	247.1	249.0	249.0	293.6	257.6
Reserves & Retained Earnings	(9.4)	(51.2)	(0.7)	(51.0)	9.7	(63.9)	(42.3)	(42.9)	(38.9)	(31.9)
Total Net Worth	219.8	156.7	228.5	171.6	238.9	183.2	206.7	206.1	254.7	225.7
Total Liabilities and Equity	676.0	636.0	768.6	838.4	874.6	834.3	958.3	954.5	1042.3	1192.5

1/ 1984 and 1985 projected figures from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.

2/ Staff Appraisal Report did not separate project debtors (i.e., arrears of interest and principal) from other debtors.

3/ Actual payables and accruals include deposits from IDB customers.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
1817-KE
Project Completion Report
Projected and Actual Income Statements
1981 - 1985
(In Ksh million)

Year Ending December 31	1981 Projected	1981 Actual	1982 Projected	1982 Actual	1983 Projected	1983 Actual	1984 1/ Projected	1984 1/ Actual	1985 1/ Projected	1985 1/ Actual
INCOME										
Interest & Commitment Income from Loans 2/	51.1	52.6	64.4	69.5	77.5	72.0	98.8	85.1	87.2	85.9
Dividend Income	4.3	2.5	6.2	2.8	8.9	3.5	3.3	3.3	3.0	6.8
Interest Income from ST Investments, Deposits	5.6	5.9	5.4	7.0	3.8	5.0	5.6	5.8	12.0	11.6
Other Income 3/	1.8	2.8	2.1	12.2	2.4	4.0	15.3	16.8	6.0	9.2
Total Income	62.7	63.8	78.2	91.5	92.6	84.5	123.0	111.0	108.2	113.5
EXPENSES										
Interest & Commitment Charges on Borrowing	35.5	38.4	41.3	43.8	50.1	53.9	52.7	52.4	58.8	61.3
Salaries & Personnel Charges 4/	n.a.	9.5	n.a.	11.4	n.a.	11.3	12.0	11.1	15.0	14.2
Administrative & Gen. Expenses 4/										
Provision for Losses	3.5	43.5	3.9	8.9	4.5	25.7	29.0	18.0	23.0	19.0
Other Expenses 5/	0.8	1.0	0.9	18.7	1.0	0.6	0.5	0.5	0.6	0.4
Total Expenses	51.9	98.6	59.3	89.7	70.0	97.5	101.4	90.0	104.6	101.3
Net Profit (Loss)	10.9	(34.8)	18.9	1.8	22.6	(13.0)	21.6	21.0	3.6	12.2

1/ Projected figures for 1984 and 1985 are from IDB's budget, as the Staff Appraisal Report only showed projections through 1983.
2/ IDB began to suspend interest for loans with arrears of 24 months in 1983. Thus, loan income projected prior to for 1983 may be overstated, as it has not suspended interest.
3/ Other Income includes: commissions and management fees, gains/(losses) on sale of fixed assets, exchange rate realised gains/(losses), and writebacks of prior provisions.
4/ Staff Appraisal Report provided only aggregate salary and administrative cost data.
5/ Other Expenses comprised largely of depreciation. In 1983, however, it includes Ksh 17.8 million in losses realized on the disposal of equity investments.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Industrial Development Bank (IDB)
1817-KE
Project Completion Report
Projected and Actual Financial Ratios
1981 - 1985
(In Ksh million)

Year Ending December 31	1981 Projected	1981 Actual	1982 Projected	1982 Actual	1983 Projected	1983 Actual	1984 Projected	1984 Actual	1985 Projected	1985 Actual
Income Statement as % Average Total Assets:										
Loan and Dividend Income	9.0%	8.7%	9.8%	9.8%	10.5%	9.0%	11.1%	9.9%	10.8%	8.6%
Investment Income	0.9%	0.9%	0.7%	0.9%	0.5%	0.6%	0.6%	0.6%	1.2%	1.1%
Other Income	0.3%	0.4%	0.3%	1.7%	0.3%	0.5%	1.7%	1.9%	0.2%	0.9%
Total Income	10.2%	10.0%	10.8%	12.4%	11.3%	10.1%	13.4%	12.4%	12.2%	10.6%
Borrowing Charges	5.8%	6.0%	5.7%	5.9%	6.1%	6.4%	5.8%	5.9%	5.9%	5.7%
Admin. Expenses	2.0%	2.5%	1.8%	2.5%	1.8%	2.1%	2.1%	2.1%	2.2%	1.9%
Provisions	0.6%	6.8%	0.5%	1.2%	0.5%	3.1%	3.2%	2.0%	3.7%	1.8%
Other Expenses	0.1%	0.2%	0.1%	2.5%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%
Total Expenses	8.5%	15.5%	8.2%	12.2%	8.5%	11.7%	11.1%	10.1%	11.9%	9.4%
Net Profit/(Loss)	1.8%	(5.5%)	2.6%	0.2%	2.8%	(1.6%)	2.4%	2.3%	0.3%	1.1%
Long-term debt: equity ratio	1.8	2.1	2.0	2.8	2.2	2.8	3.1	2.8	2.5	3.2
Current ratio 1/	2.6	1.0	2.1	0.9	1.8	1.2	1.3	1.3	1.6	1.5
Net Profit as % Avg. Equity	5.5%	(22.2%)	8.4%	1.1%	9.7%	(7.3%)	9.7%	10.8%	1.5%	5.1%
Accum. Provisions/Portfolio	3.2%	12.4%	3.3%	8.1%	3.5%	7.7%	5.5%	5.7%	6.5%	7.9%
Loan Income as % Gross Portfolio	12.4%	12.0%	12.5%	12.9%	12.4%	9.7%	12.8%	10.6%	10.4%	9.2%
Fin. Expenses as % Borrowings	7.8%	11.3%	8.5%	9.2%	8.7%	8.1%	7.9%	8.3%	8.1%	8.0%
Avg. Spread	4.6%	0.7%	4.0%	3.7%	3.7%	1.6%	4.9%	2.3%	2.3%	1.2%

1/ Excluding arrears from current assets.

IDF Division, Eastern and Southern Africa Region
June, 1986

KENYA
Project Completion Report
Industrial Development Bank
Status of Compliance With Major Loan Covenants

Covenant	Status of Compliance
A. All Loans	
Borrower shall not amend Statement of Policy without prior approval of the Bank.	In compliance.
Borrower shall submit audit reports within 4 months of end of each fiscal year.	Generally submits reports about 2-4 months late.
IDB to protect itself against foreign exchange risk.	Generally in compliance, although IDB has made some foreign exchange risk gains on timing differences between receipt of payment from subloan and payment to IBRD and other donors.
B. Loan 1148-KE	
Debt:equity ratio will be no greater than 3:1.	In compliance.
C. Loan 1438-KE	
IDB will conclude agreements regarding managed funds operations on behalf of Government and not manage or undertake any new equity investments on behalf of Government.	In compliance.
Debt:equity ratio will be no greater than 4:1.	In compliance.
D. Loan 1817-KE	
Debt:equity ratio will not exceed 4:1.	In compliance.

IDB shall maintain a Management Committee to screen new proposals and review the status of projects.	In compliance.
IDB shall create provisions for future losses in respect to its equity and loan portfolio in accordance with sound accounting practices.	Generally in compliance, although provisions may be low in respect of a few Government-supported projects.

KENYA
Industrial Development Bank (IDB)
Project Completion Report
Resource Mobilization (1980-1985)

Sources of Funds	Date of Approval	Amount in Original Denom.	Amount in US $	Years Maturity 1/	Grace Period	Interest Rate	Guarantor
1. Foreign Debt							
Official							
- World Bank 1817-KE	1980	US $ 30 million	US $ 30 million	17		8.25%	Government of Kenya
- BADEA	1980	US $ 5 million	US $ 5 million	11	2	7.00%	Government of Kenya
- Swiss Mixed Credit 2/	1982	SF 20 million	US $ 10 million	12	2	-	Government of Kenya
- ADB III 3/	1985	UA 20 million	US $ 20 million	15	3	10.00%	Government of Kenya
Total Foreign Debt			US $ 65 million				
2. Equity							
	1980	Ksh 39.8 million	US $ 5.3 million				
	1981	Ksh 14.8 million	US $ 1.4 million				
	1982	Ksh 14.7 million	US $ 1.2 million				
	1983	Ksh 24.5 million	US $ 1.8 million				
	1984	Ksh 1.9 million	US $ 0.1 million				
	1985	Ksh 8.6 million	US $ 0.5 million				
Total Equity			US $10.3 million				

1/ Including grace period

2/ Half of SF 20 million from consortium of Swiss banks.

3/ Not yet effective because Government has not yet signed guarantee agreement.

IDF Division. Eastern and Southern Africa Region
June, 1986

KENYA

Annex 13

Project Completion Report
IDB Cashflow Statements 1983-86
(KSh '000)

Year	1983	1984	1985	1986 1/
Receipts:				
Loan Principal				
Foreign	25,014	38,596	49,571	12,283
Local	5,349	3,295	3,810	1,032
Subtotal	30,363	41,891	53,381	13,315
Loan Interest				
Foreign	34,074	34,868	28,694	14,060
Local	2,567	813	1,419	259
Subtotal	36,641	35,681	30,113	14,319
Arrears Collections	33,437	36,011	60,758	55,175
Bridging Finance	7,432	5,764	600	0
Fees	2,127	3,381	4,508	2,515
Dividends/Equity Sales	5,631	2,926	5,841	1,550
Loan Sales	0	24,605	29,789	0
Subtotal	48,627	72,687	101,496	59,240
Total Project Receipts	115,631	150,259	184,990	86,874
Staff Loans	1,204	1,304	1,923	1,102
Share Capital	26,500	1,826	8,644	0
Investment Interest	0	4,981	4,957	1,957
Other Receipts	981	1,083	902	797
Subtotal	28,685	9,194	16,426	3,856
Total Receipts	144,316	159,453	201,416	90,730
Payments:				
Loan Principal				
Foreign	52,166	63,760	94,450	54,562
Local	5,016	2,226	1,643	750
Subtotal	57,182	65,986	96,093	55,312
Loan Interest				
Foreign	43,941	48,506	58,942	29,047
Local	740	412	249	69
Subtotal	44,681	48,918	59,191	29,116
Fees	2,898	2,317	4,508	1,291
Local Loan Disbursements	5,807	2,137	0	308
Equity Disbursements	0	2,500	238	0
Subtotal	8,705	6,954	4,746	1,599
Total Operational Outflow	110,568	121,858	160,030	86,027
Staff Loans	1,395	1,908	2,953	1,649
Capital Expenditure	120	302	154	472
IDB Headquarters	0	2,093	352	0
Salaries, Admin.	17,879	19,766	17,414	10,096
Subtotal	19,394	24,069	20,873	12,217
Total Outflows	129,962	145,927	180,903	98,244
Net Surplus/(Deficit)	14,354	13,526	20,513	(7,514)
Beginning Cash	1,372	15,726	29,252	49,765
Ending Cash	15,726	29,252	49,765	42,251
Net Surplus/(deficit) from Operations	5,063	28,401	24,960	847
Less Admin. Costs	(12,816)	8,635	7,546	(9,249)

1/ First six months only.