The Global Private Enterprise (GPE) scheme in Kenya is the EIB’s largest global loan operation in the ACP countries. It is now into its fourth phase since the first operation, approved in 1991.

Over EUR 110 m has been allocated for some 230 investments in the productive sectors of the economy and linked services. Recently, the Bank carried out an ex-post monitoring programme.

The GPE loan Programme consists of loan facilities for medium to long-term investment by SMEs. It aims at promoting economic development by encouraging and facilitating new investments by private enterprises in key sectors of the economy.

Kenya is a country of exceptional potential: high performing sectors such as tea, tourism, horticulture and floriculture, successful at a world level; generally high entrepreneurial talent, quality professional services. But this is compromised by inadequate infrastructure, bureaucracy, volatile inputs to business decision-making (inflation, interest rates, GDP growth) and, as the consultant noted, a high degree of corruption, although this is unanimously condemned at every level and by all political sympathies.

How does the programme work?

The scheme is a two-tier or “Apex” operation. Funds are lent to Government and then channelled, via the Central Bank of Kenya (CBK), to selected commercial and development banks, that are in competition for the resources, on basically a first come, first served basis. The banks use the funds back-to-back to make medium/long term loans to private sector clients for their investments.

The facility has been articulated along two lines: foreign currency lending (only for companies with foreign-exchange revenues) and domestic currency lending (primarily for companies with local currency earnings).

Business prospection, project selection and appraisal are carried out by the banks themselves, subject to conforming with the EIB’s broad eligibility criteria. EIB funding may cover up to 50% of individual project costs.

After the appraisal, each finance request (containing information required by the EIB - e.g. financial structure, management expertise, environmental issues, employment, procurement) is forwarded through CBK to the EIB for agreement.

Interest rates are market-determined to avoid distortions within the country’s financial system. For Kenya Shilling loans, a choice is possible between fixed rate and annually adjustable rate.

An independent consultant – Mr Serge Guetta – was asked to study the GPE operation, together with a member of the EIB’s own monitoring department. After starting his career in development banking in Tunisia, Mr Guetta joined the World Bank, where he graduated to senior positions, finishing as Deputy Director of the Africa Projects Department. Prior to that he was the World Bank’s Regional Manager at the Abidjan bureau and Resident Representative in Zaire. Since leaving the World Bank, he has been active in the private sector in Africa, notably with the Générale banking group of Belgium and currently as Chairman of the Banque Atlantique in Côte d’Ivoire. Mr Guetta was thus able to view the project from the dual uppers of a development and commercial banker.
Government has paid, from its margin on the foreign currency lending, for a technical assistance unit to explain and promote the facility to enterprises, assist with bank training, help promoters with project documentation. A feature of the scheme has been ample publicity in the media, organised by the consultants, to ensure that the EIB facilities and means of access are known widely.

The analysis

On the point of starting the 4th phase of Kenya GPE Programme, EIB decided to study in depth the previous three phases, which had used up a total of EUR 100 million: EUR 55 million from the Bank’s own resources (1) and EUR 45 million of EDF’s resources (2).

The three phases analysed covered the period 1991, when the first operation was approved, until end-1999 when the EUR 100 million had been fully allocated. During those eight years a total of 191 investments were partly-financed, contributing to a total investment of some EUR 350 million, an estimate based on the plans outlined in the forms submitted to the EIB by the intermediary banks. The average investment per project was about EUR 1.8 million, average allocation being of almost 30% of the investment, the balance being met by promoters’ own funds and local banks loan facilities.

The intermediary banks play a crucial role in implementing the GPE programme. They take on the commercial risk and provide the additional finance necessary to carry out the projects. The scheme has also played a role in encouraging competition between them, leading to different conditions on offer. The publicity organised for the scheme has encouraged investors to “shop around” looking for the best response to their needs.

Investments benefited all of Kenya’s productive sectors and related services: agricultural processing, mechanical engineering, transport, horticulture, tourism, mining, etc. The linkage between investments is an important feature at the growth in primary sector activities spurred demand for production equipment and for packaging materials. About 65% of the funds were used for improvement of existing enterprises and 35% for setting up new activities. Some 55% of funds went to projects with primarily a foreign-exchange earning potential. Direct employment creation totalled close to 15,000 jobs.

In order to guarantee that funds are used as originally declared, all projects under the GPE programme are visited at least twice by the technical assistance unit: once during implementation and once upon entering into function. During the monitoring studies, an extra visit is organised to 33 sample projects, located in all parts of the country and representing a broad range of activities.

Strong points and possible improvements

The Consultant’s report stressed that no misuse or wrong application of funds was detected, no project had been implicated in cases of corruption or other scandals. The four-stage process of project approval (commercial bank, technical assistance unit, Central Bank and EIB) might explain this.

Cost overruns where these occurred were more related to under-estimation of working capital requirements, then calculations of the physical investments, and banks were invited to look more attentively at this aspect.

The scheme was, and still is, open to virtually all productive sectors, an approach that has the advantage of its flexibility and covers all applications submitted. Nevertheless, the study concludes that sectoral options could be taken into consideration and priority given to projects that, for example, create jobs at lower cost, export-oriented activities or import substitution projects, thus concentrating in those projects playing a catalytic role, having a significant multiplier effect on economic growth.

The report notes that the programme has had a positive impact on the banking sector, stimulating competition among banks and increasing the range of financial products they are able to offer in the field of long-term credit. The selection of development banks, local banks and subsidiaries of foreign banks as channels for the funding proved to be a good mix: local banks have been more receptive to assisting smaller projects of indigenous promoters, while foreign-owned banks have, to some extent, been operating with non-indigenous promoters, more involved in technology-based activities.

Another conclusion: transparent management has been vital for the success of GPE programme – publicity and the facilitating role of the technical assistance unit have contributed to make the scheme open to private enterprise with a viable project.

The GPE programme, as first developed in Kenya, has significance in the context of the new ACP-EU Partnership Agreement, which recognises the basic role of the private sector in any development strategy. The programme is an eight years long experience which provides some useful indicators on how to strengthen support for the private sector.

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