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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

KENYA - AGRICULTURAL SECTOR LOAN I

AID-DLC/P-2

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED

AID-DLC/P-2102

June 12, 1975

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Kenya - Agriculture Loan Sector I

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed thirteen million five hundred thousand dollars ($13,500,000) to the Government of Kenya to assist in financing foreign exchange and local currency costs of activities in support of the development and improvement of the agricultural sector of the Kenyan economy.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Wednesday, June 18, 1975; please note your concurrence or objection is requested by close of business on Monday, June 23, 1975. If you are a voting member a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review

Attachments:

Summary and Recommendations
Project Analysis
Annexes A - I

TABLE OF CONTENTS

KENYA PROJECT PAPER

TITLE: Kenya Agricultural Sector Loan I - $13.5 million

PART I - SUMMARY AND RECOMMENDATIONS

A. Program Cost and Terms

The total amount of the proposed loan is $13.5 million. It is expected that $10.1 million will be disbursed for seasonal production credit within the first year after signing of the loan. The remaining $3.4 million reserved for less progressive, small-farmer production and marketing programs will be disbursed over a three-year period from loan signing.

The Borrower is the Government of Kenya, represented by the Ministry of Finance and Planning. The programs financed by the loan will be executed by the Ministries of Agriculture and of Cooperative Development, the Agriculture Finance Corporation, the Cooperative Bank of Kenya, Ltd. and the Kenya Farmers Association.

As its contribution, the GOK will provide a minimum of K.Shs. 32.13 million (U.S. $4,500,000) through the Guaranteed Minimum Return program to finance wheat and maize production in 1975.

B. Description and Justification of the Program

1. Program Description

This proposed sector loan will provide funds through the GOK agriculture sector budget to finance the production of wheat, maize and certain cash crops in the 1975-76 planting seasons and to initiate a number of experimental programs designed to test new approaches for providing less-progressive small farmers comprehensive production and marketing services over the period 1975-1978.

The loan will be divided into three components. Under the first component (Part A), $6.7 million will be on-lent by the GOK to the Agricultural Finance Corporation (AFC) and the Kenya Farmers Association (KFA) to provide seasonal credit for wheat and maize production by large commercial farmers. These funds should be fully disbursed by July 1976. The second component (Part B) provides

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$3.4 million to be on-lent by the GOK to the AFC, KFA and the Cooperative Bank of Kenya for seasonal production loans to small progressive farmers who for the most part have received credit in the past from AFC, KFA, or the cooperatives system. Funds provided for this segment will finance the production of maize, wheat, and other cash crops. This portion of the loan should be fully disbursed by July 1976. Under the third component of the loan (Part C), $3.4 million will be made available for a new program designed to provide comprehensive production and marketing services to less-progressive small farmers who have potential but who have not previously significantly benefited from services either from the GOK or private entities.

In order to finance inputs required for the 1975 long-rains planting season, funds for Parts A and B of this loan were borrowed in February 1975 from the Central Bank by the Treasury and are being on-lent through the Cereals and Sugar Finance Corporation to participating agencies. The proceeds of the AID loan will be used to repay the borrowings from the Central Bank. As farmers repay their loans to the intermediate credit institutions, these institutions will in turn repay the Cereals and Sugar Finance Corporation which will deposit the funds in a special account. During the three-year disbursement period of the loan, these deposits will be jointly reprogrammed by the GOK and A.I.D. for agricultural programs financed through the GOK budget. In programming these funds, priority will be given to allocations to the program financed under Part C of the loan and other programs supporting smallholder agricultural production. Funds for the Part C component of the loan will be disbursed to operating agencies over a three-year period to finance sub-projects in seven districts. Releases will be made in accordance with the requirements of these individual district projects. Reflows from funds released for credit under the third program component will be deposited in a special account and will revolve in support of programs under this component.

In broad outline, the third component of the program attempts to expand and upgrade the institutional capacity of GOK agencies and the cooperative movement to begin a program which effectively reaches potentially viable, less-progressive small farmers. The GOK has designated seven districts in which an intensive program will be mounted over the period 1975-78 to reach the target group. Within these areas, the Ministries of Agriculture and Cooperative Development will plan and implement programs designed to provide comprehensive and integrated production and marketing services to a significant number of small farmers. Each program will include development of packages for the various crops appropriate to the area (e.g. seeds, fertilizer and pesticides), a system for delivering these packages to points easily accessible to farmers, provision of necessary extension services, production credit if required, marketing services, (e.g. purchase of outputs), and credit repayment arrangements. Funds provided for this component will be channeled through the GOK budget and will be applied to both capital and operating budgets for these programs. In addition, $330,000 in foreign exchange will be used to procure technical assistance personnel for program planning, management and evaluation and for participant training.

2. Program Justification

a. Relationship of Loan to GOK Agricultural Development Policies

Among the Government's agricultural development policies outlined in the 1974-78 Development Plan, two are immediately pertinent to the proposed sector loan: achievement of a 6.2 percent target rate of growth of marketed production through intensified land use and improvement in the distribution of rural income by obtaining a significant increase in the proportion of farmers who obtain a cash income from their land. The Government's strategy for reaching these and other sector goals stated in the Plan is to increase the rate of public expenditure on programs aimed at helping large numbers of farmers to intensify production.

It is uncertain how quickly this strategy, which focuses primarily on smallholders as the vehicle for increasing production, can result in substantial gains in production. The GOK cannot, therefore, rely solely on such a strategy for the short term. This is consistent with the view of World Bank staff who point out that unless production can be increased, development of the small-farmer subsector will suffer because necessary resources will not be available. Recognizing this fact, and in the face of serious short-term economic problems, the Government stated in its Sessional Paper No. 1 of 1974 that greater priority would have to be given to projects aimed at achieving higher agricultural production. In effect, while maintaining its commitment to development of the small-farmer subsector, the Government placed more stress on increasing production by all classes of farmers in order to meet domestic food needs, reduce food imports and, if possible, increase exportable surpluses. This strategy was reaffirmed in the Government's "Sessional Paper No. 4 of 1975 on Economic Prospects and Policies" released on May 2, 1975. The proposed sector loan reflects these dual strategy objectives by providing an injection of credit funds to meet increased production costs of established large and progressive small producers to enable them to intensify land use and maintain or increase production. At the same time, it initiates a new program designed to bring less-progressive small farmers into the monetary economy.

Pressures arising from dramatic increases in import prices (56 percent in 1974) and the much lower rate of increase in export prices (42 percent in 1974) are placing severe limitations on the GOK's ability to finance its balance of payments deficits in the next few years. In response to these pressures, the Government is now revising the current five-year development plan. Although few details of the revision have been made public as yet, its basic thrust will be to substantially increase budgets for productive sectors of the economy, particularly agriculture, with commensurate reductions in less-productive sectors. Revised budget figures provided in Sessional Paper No. 5 show Ministry of Agriculture development expenditures for the years FY 1975-78 will increase from the original figure of £ 59.0 million to £ 98.4 million, an increase of 66.8 percent. At the revised level, the Ministry will receive 21.6 percent of the total development budget over the four-year period. The bulk of these increases will be for crop development and credit programs. While no details are yet available as to how these budget increases will be allocated among the large and small-farmer sub-sectors, it is known that the increases planned will be funded largely by external donors, most of whom are attempting to target the preponderance of their resources on small farmer programs.

In response to the GOK's increased emphasis on production and small-farmer development, the Kenya DAP anticipates a series of agriculture sector loans during the 1974-78 Development Plan period. These loans will focus primarily on support for GOK efforts to improve the lot of the smallholder. This first sector loan will provide the basis for future such loans which may include funding for expansion of the experimental small-farmer projects begun under this loan as well as other elements of the Government's development budget for the agricultural sector such as marketing, storage, transport and training facilities.

b. Relationship of Loan to Kenya DAP

The Kenya Development Assistance Plan calls for continued A.I.D. involvement in the agricultural sector as its principal area of concentration. The DAP proposes that A.I.D. expand its relatively narrow focus on livestock development to one of increasing incomes of smallholders, thereby reflecting GOK long-run priorities and goals, the role agriculture and smallholders must play in the economy, and the need for particular attention to the sector if the Government is to reach the equity goals stated in its existing Development Plan.

The major long-term constraints facing Kenya agriculture identified by the DAP are: 1) an unfavorable pricing situation; 2) the inability of the sector to absorb resources due to deficiencies in project planning, design and implementation ability; 3) poor organization or coordination among the various institutions serving the sector; 4) the paucity of available technical information from many crops and areas, particularly among smallholders; 5) ineffective delivery services for extension, product inputs, marketing and credit; and 6) quantitative and qualitative shortages of trained manpower.

With the exception of the pricing problem, the proposed sector loan begins to address these constraints, particularly as they affect the small farmer. 1/ At the same time, the loan also recognizes the need to address Kenya's short-term production problem which, if not dealt with, will seriously impede the Government's ability to successfully confront sectoral constraints to small-farmer development. In developing the loan, the Government has engaged in a major planning exercise requiring the careful coordination of the various agencies servicing the sector in order to ensure the quick and efficient use of credit funds made available to the loan. This effort, together with increased credit supply and prices should ensure maintenance of production of basic grains.

Over the longer term, the loan offers a new program designed to provide services to small, less-progressive farmers which focuses directly on the sectoral constraints listed above. It designs an action program to fund and provide comprehensive and integrated systems of production and marketing services to significant numbers of less-progressive small farmers. It provides for training and assignment of qualified personnel within the Ministry of Agriculture and the Ministry of Cooperative Development as well as at participating cooperative unions and societies, to ensure that implementation is carried out in a timely and efficient manner. It carefully times and coordinates the activities of these Ministries as well as those of participating cooperative unions and societies. It develops technical production packages and educates farmers in their use. These limited programs will assist the GOK in devising new and effective ways to eliminate long-term constraints to small-farmer development and will provide models for additional programs to expand services to less-progressive small farmers in order to integrate them into the monetary sector.

The proposed loan is thus an initial step toward developing activities responsive to the general problem of increased equity for the small farmer and the specific bottlenecks identified in the DAP. At the same time, it responds to the GOK's short-term production and

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1/ With regard to the price problem, in January 1975 the GOK took steps to raise basic grain prices and thereby eliminate subsidies to urban consumers and approximate world market prices. The producer price of wheat was raised from K.Shs. 1,000 ($140.05) per metric ton to K.Shs. 1,111 ($155.60). The price of maize was raised from K.Shs. 555/55 ($77.80) per metric ton to K.Shs. 722/21 ($101.15).

domestic resource availability problems. Over the longer term, it will support GOK proposals for new relationships and operations of key GOK agencies engaged in small-farmer programs.

c. Rationale for Sector Lending

A number of considerations lead to the conclusion that assistance should be provided in the form of a sector loan. First, the program supported by the loan is directed at problems which cut across the whole sector, including needs for production increases arising from balance of payments and domestic consumption requirements and need for action to improve the welfare of small farmers. It is thus an overall sector program which includes several components and different types of activities carried on by different organizations and in different geographical areas. Further, loan funds are to be used to assist in financing specified areas of the GOK agricultural budget rather than for the purchase of specified goods and services.

A basic purpose of the loan as a whole is to provide a means for influencing the GOK to give practical and operational expression to general policies for improving the position of small farmers which have been enunciated but which have not yet been implemented. This includes influencing adoption of a broadened definition of small farmers so as to include farmers not now being covered by input and credit systems, the establishment of means of integrated input delivery and output purchase systems, the establishment of necessary administrative and coordinating mechanisms, and the making of specific budgetary provision for programs to provide services to small farmers covered by the expanded definition.

The loan is further designed to support changes in existing policies and practices which tend to limit small farmer access to inputs and markets. These include farm and loan size, security and other eligibility requirements for credit; risks to be assumed by agencies providing inputs; output services to be provided; and locations at which input deliveries and output purchases are to be made. It is thus expected to provide a basis for policies, program content, and administrative arrangements with respect to follow-on and expanded programs for improving the welfare of small farmers who are not covered by existing systems for provision of services.

Finally, the program involves a large element of experimentation with program content and method of administration which requires the ability to make changes in activities, areas and administration. The required flexibility to make in-course changes as significant as may be required under the program would be very difficult to acomplish under, and would not be appropriate to, a project loan.

PART II - THE PROGRAM

A. Program Background

1. History and Development of Proposal

In September 1974, the GOK submitted a loan application to A.I.D. requesting $13.5 million for short-term seasonal credit to finance the production of wheat and maize for the 1975 long-rains planting season beginning in February 1975. Because of rapid increases in the cost of imported inputs, the effect of the credit squeeze and continuing increases in domestic production costs, the Government stated that traditional sources of seasonal credit would not be sufficient to finance planned acreages of wheat and maize. The government noted that unless production of these crops could be maintained or increased, it would have to import substantial quantities of wheat and continue restrictions on maize exports, thus exacerbating the country's already difficult foreign exchange position.

In responding to the GOK's request, A.I.D. stated that a minimum of 50 percent of the loan should be reserved for the small-farmer subsector and that careful consideration should be given not only to credit requirements but to all constraints that could inhibit production by small farmers. In analyzing these constraints, it was decided that one quarter of the loan should be used to initiate a program which could effectively reach less-progressive small farmers who previously not significantly benefited from production and marketing services offered by Government or private organizations. With this element, the proposed program both assists the Government in meeting its short-term production goals through an injection of funds to increase the supply of seasonal credit and also initiates a modest new program to provide a total range of production and marketing services to less-progressive small farmers. It thereby responds to GOK and A.I.D. equity concerns and helps lay the base for the Government's long-term goal of increasing national production through development of the small-farmer subsector.

The loan has been discussed with the Ambassador and other interested members of the Country Team and they have approved this approach.

2. Present Situation

In the past year, the GOK has placed a high priority on increasing agricultural production to provide food and raw materials for domestic consumption and exports, thus increasing foreign exchange availability. Imports in 1973 of food, live animals, vegetable oils and animal oils and fats amounted to nine percent of total imports and were valued at over $52 million. Wheat, sugar and animal and vegetable oils and fats accounted for about 80 percent of food imports. Potentially, much of this food could have been produced in Kenya. Agricultural exports in 1973 amounted to nearly 60 percent of total exports. Given the continuing rapid rise in the value of imports, without growth in agricultural exports and in agricultural import substitutes, the Kenyan balance of payments position may continue to seriously deteriorate in the next few years and thus lead to a significant slowdown in GOK development efforts.

In light of this situation, it is apparent that production must be maintained, and if possible, increased. In the short run, to achieve this objective, it is necessary to undertake a program which utilizes the established producers for whom existing institutional and distribution capabilities already exist. In the long run, however, failure to develop the capacity to tap the full potential of the estimated 1.2 million smallholders in Kenya would be an inefficient use of resources.

Stimulating large landholders to produce and/or increase output should be fairly simple. Throughout the large farm grain production areas, input supply channels are already in place, as are marketing outlets. For inputs, these areas are served primarily by the Kenya Farmers Association (KFA), a cooperative organization of larger farmers (20 acres and above). KFA has a well-established network of distribution points which market a full range of inputs. Grain farmers receive good research and extension support from the Ministry of Agriculture. Both KFA and the Agricultural Finance Corporation (AFC) provide seasonal production credit to farmers. Machinery contractors who provide land preparation and harvesting services can at this time meet the requirements of farmers who require such services. Finally, both the Wheat Board and the Maize and Produce Board operate an extensive network for the purchase of wheat, maize and other staple crops. In most of the large-farm production areas, the KFA performs this function on behalf of the boards. Given the extensive infrastructure already in place, the large producers should respond if financing for their operations is available and if they are assured remunerative prices for their outputs.

For smallholders, however, the situation is much more difficult. Fewer than 200,000 of the 1.2 million smallholders in Kenya have access to formal credit with which to purchase inputs. The organization and coverage of input supply channels is uneven in small-farm areas. While nearly 500,000 smallholders are affiliated with cooperatives, most of these cooperatives provide little more than marketing services for export crops. The extension service, which employs over 6,300 people, concentrates on progressive farmers with over half of field visits made to only ten percent of the farmers. (Based on Western Province research, it appears that at least half of the farmers do not see an extension agent on an annual basis.) Further, suitable technological packages have not been developed for smallholder food crop production. Plans and programs to improve the situation are lacking due to a shortage of manpower with planning and management skills.

Thus, only a small proportion of the smallholders can be expected to quickly respond to additional production incentives such as increased credit availability or improved prices. Reaching the majority will require substantial restructuring of the systems and organizations which have responsibility for providing necessary inputs and services. Action programs which meet their particular needs will have to be developed. Such programs will first have to enlist the interest and participation of less-progressive small farmers through grassroots organization and education programs by the Ministry of Agriculture and the cooperative movement. Activities of input distribution organizations such as KFA and the Kenya National Federation of Cooperatives will have to be expanded, coordinated and/or reoriented. The Ministry of Agriculture will have to develop small-farm technical production packages for particular areas, train extension officers in their use and redirect these officers' efforts toward small-farm areas. The Ministry of Cooperative Development will have to rapidly expand its assistance to the cooperative movement, strengthening existing unions and societies and organizing new ones. It will also have to expand its focus to give greater emphasis to food crops. Intermediate credit institutions such as the AFC and the Cooperative Bank will have to review their lending policies and procedures, particularly those relating to creditworthiness and security, to allow participation by farmers previously excluded by these institutions' conservative approaches. Finally, marketing procedures and channels will have to be changed to allow access to them by small farmers. Purchasing bodies will need to expand their coverage and outreach and payment practices will have to be streamlined. As discussed in detail below, that portion of the proposed loan set aside for assisting small, less-progressive small farmers attempts to address these constraints.

3. Related A.I.D. Assistance

Since 1970, A.I.D. has participated in an experimental special rural development program (SRDP) in Vihiga Division in western Kenya. The SRDP program differs from the proposed program in that it has been concerned with the planning and implementing of a number of separate, unrelated experimental projects (e.g. maize and tea credit, rural business and labor intensive roads) whereas the proposed project is concerned with the development and implementation of an integrated system of production and marketing services to help small farmers increase their production and incomes. The Vihiga program maize credit project, however, has provided some information for the development of the new sector program.

Perhaps the most important lesson learned has been that involvement and participation of credit recipients is critical. They must be educated in the uses and responsibilities of credit early in the program. Farmers in the program with the best repayment record are those who have received such instruction in credit seminars. The seminars have attempted to draw farmers into the decision-making process by guiding them first through discussions of their aspirations and needs and then educating them in the need for and uses of credit.

Other lessons learned in Vihiga have been that it is very difficult to reorient credit institutions traditionally charged with supporting the commercial farm subsector toward servicing new, marginal farmers. Second, use of sophisticated inputs requires a considerable education and extension effort to ensure that farmers realize potential yields through proper husbandry practices. Third, farmers must be provided with marketing channels and pricing arrangements which will protect them from seasonal price fluctuations. Fourth, substantial coverage of small farmers in a particular area requires a commitment of manpower and operating budgets which may be beyond the ability of operating agencies to provide. Therefore, in their initial stages, programs may need substantial additional support. Finally, to ensure good repayment performance, lending agencies must provide for personal follow up of delinquent debtors.

Repayment rates in the four years the Vihiga program has operated have varied between 85 percent in 1971 when a small, selective program was conducted, to 35 percent in 1973, a year of serious drought. For 1974, it is estimated repayment will be 70 - 75 percent with no significant difference between individuals with secured or unsecured loans. It is hard to compare annual experiences between years in Vihiga in that the policies and procedures were changed from year to year. In all cases, however, personal follow up is resulting in increased repayments.

4. Other Donor Assistance

There are four other SRDP programs funded by bilateral donors. These programs are currently undergoing intensive evaluation and will be carefully studied for lessons applicable to the proposed program.

The IBRD and West Germany have made a series of loans for smallholder credit programs operated by AFC. For the most part, however, these programs have focused on more progressive small farmers and have financed medium term credit for farm improvements and grade cattle. They have not focused on seasonal credit for crop production by less-progressive small farmers.

Among programs of other donors in Kenya, that which is most relevant to the proposed A.I.D. project, is the Nordic Project for Cooperative Assistance to Kenya. Jointly sponsored by Denmark, Finland, Norway and Sweden, this project has operated in Kenya since 1967. It has provided technical assistance in a number of areas: cooperative education, accountancy in cooperatives, cooperative rural credit and savings schemes, and management performance in cooperatives. It has concentrated on providing technical assistance in organization and management to cooperative societies and unions and on devising credit and savings schemes for more progressive cooperatives. The development of food crop cooperatives has not received any great impetus either from the Government or the Nordic project until now, because of the disorganized and poorly controlled marketing arrangements for these crops. However, faced with the need to substantially increase production of grains and other food crops, the Government has in the last several months instructed the Ministry of Cooperative Development to initiate programs for the diversification of established cooperatives and the development of new ones. Funds provided under the proposed A.I.D. loan will provide the first substantial amounts of capital made available for food crop production by cooperatives. Both the Ministry of Cooperative Development and the Nordic donors and advisors have been supportive of the proposed loan, particularly the small farmer component. They have expressed their willingness to expand their activities and modify their policies and procedures in order to reach the target group.

5. <u>Host Country Activity</u>

Although it is the expressed policy of the Government of Kenya to increase agricultural production, largely through the small-scale farmers, a clear-cut strategy for reaching substantial numbers of small farmers is still in the process of being developed. Likewise, experimental credit programs operated by the AFC from direct Government as well as other donor resources have not been very successful in reaching significant numbers of marginal farmers. Their coverage has been limited in numbers, and they have tended to stress creditworthiness and repayment. For the most part, loans have gone for medium-term farm improvement and investment and have concentrated on established small farmers.

The cooperative programs discussed above have been perhaps the most successful in reaching small farmers. However, they have tended to focus on providing services to small farmers in export crop producing cooperatives, and there is only limited potential for further expansion in this area.

Under the Special Rural Development Program, the GOK has operated a maize production program in the Tetu Division of Central Province which does appear to provide some useful lessons for small-farmer service programs. In the Tetu scheme, a number of small farmers were selected to participate in a maize production program. Participants were selected by Junior Agricultural Assistants (JAA's) at the sub-location level (the lowest political division of Government), based on the JAA's knowledge of their personal traits, position in the community, farming history, etc. Those selected were brought to a Farmer Training Center (FTC) for a week during which the program was explained and instruction was provided in production practices and the uses and responsibilities of credit. At the end of the week, farmers who chose to participate were provided coupons to procure pre-packaged inputs provided by cooperative societies at specified points. (Participants were not required to be members of these societies, however.) During the growing season, JAA's made periodic farm visits to monitor participants' progress. Finally, the Maize and Produce Board appointed agents at the FTCs to purchase maize for cash. Although loans made under this program were unsecured, repayment experience has been over 80 percent. Field representatives of AFC and the Ministry of Agriculture believe this relatively good record has resulted primarily from careful preparation of participants and an active repayment follow-up program.

With respect to other GOK rural development programs, the current Development Plan calls for greatly expanded social services in the rural areas based on decentralization of development planning and implementation to the district level. The plan calls for construction of 107 new rural health centers and dispensaries and increased emphasis on environmental health and disease eradication programs. The agricultural road program has been greatly expanded. Between FY 1976-1978, K £ 22 million, or 44.3 percent of the GOK budget for road construction, is devoted to secondary and minor roads. Between 1974 and 1978 the proportion of the rural population served by safe water supplies will increase from nine to 25 percent. Finally, in the area of education, in January 1974 school fees were abolished in Standards 1 to 4. Steps are now being taken to increase the number of primary school teachers to meet increased enrollments generated by this policy change. Although school construction expenditures will be reduced because of the Government's decision to cut economically non-productive investments during the next five years, the Harambee school construction program will continue to be encouraged, but with more attention to site approval and expansion of existing schools.

6. Other Donor Opinion

As noted above, the Nordic donors have expressed their support of this program. The IBRD Resident Representative also supports the program as an innovative new departure, but believes implementation of the program will be difficult. He believes the small-farmer component of the program can serve as a forerunner for the Bank's Integrated Agricultural Development Program (IADP) scheduled for 1976. 1/ No donor has expressed interest in financing the program.

B. Program Elements and Purposes 2/

1. Summary

The program to be financed totals $13.5 million and consists of three components:

Part A -- $6,700,000 for short-term production credit for large wheat and maize farmers.

Part B -- $3,400,000 for short-term production credit for progressive, established small farmers growing wheat, maize, and other cash crops.

Part C -- $3,400,000 to support a program designed to improve the welfare of less-progressive small farmers by increasing their production and incomes. Under Part C programs will be undertaken to expand the capacity of institutions which currently are providing services to small farmers in Kenya to enable them to reach new small farmers with packages consisting of inputs, extension, credit (when necessary), and a marketing system. The target group is small farmers not currently being reached, but who have the potential for increasing their farm income if this package was made available. 3/

In anticipation that A.I.D. will approve the proposed loan, in February 1975, the Treasury borrowed funds from the Central Bank in order to advance credit needed to finance plantings of wheat, maize and other food crops for the long-rains production season which began that month. Funds were on-lent to the Cereals and Sugar Finance

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1/ See Annex C for a discussion of the relationship between IADP and this loan.

2/ For the data and analysis required to support the conclusions of this section, please refer to Appendices A and B.

3/ See II.B.4. for a more complete discussion of the target group.

Corporation (CSFC) which, in turn, is lending these funds to AFC, KFA and the Cooperative Bank. Tables I and II provide illustrative detail on how funds will be allocated under Parts A and B among crops, institutions and types of farmer. While the amounts shown in Tables I and II express probable allocations, adjustments among institutions and crops may be necessary according to demand and institutional capacities. Whatever adjustments are made, A.I.D. funds provided under the proposed loan will only be reimbursed according to the proportions shown above with these exceptions: the amount of funds earmarked for large-farm production (Part A) may be shifted to Parts B and C; similarly, funds provided for Part B programs may be shifted to Part C. These exceptions allow greater allocations to both progressive and less-progressive small farmers, should this appear desirable.

TABLE I

A.I.D. Agricultural Sector Loan
Estimated Allocation of Funds
Under Part A - Large Farmer Credit

Crop/ Agency	Allocation KL Mil.	Allocation U.S.$ Equiv.	Ave. Loan per Ha.[a]	Total Ha. Financed
Wheat				
KFA	1.4	3.92	KL 31.2 ($ 87.40)	44,851
AFC	0.3	.84	KL 31.2 ($ 87.40)	9,611
Sub-total	1.7	4.76		54,462
Maize				
KFA	0.1	.28	KL 42.65 ($119.47)	2,344
AFC	0.6	1.68	KL 42.65 ($119.47)	14,062
Sub-total	0.7	1.96		16,406
Grand Total	2.4	6.72		70,868

[a] Average loans per hectare based on costs of purchased inputs plus transport (Tables I - V, Annex A).

TABLE II

A.I.D. Agricultural Sector Loan
Estimated Allocation of Funds
Under Part B - Small Farmer Credit

Crop/ Agency	Allocation KL Mil.	U.S.$ Equiv.	Ave. Loan per Ha.	Total Ha. Financed
Wheat				
KFA	0.20	.56	KL 31.2 ($87.40)a/	6,407
Maize				
KFA	0.20	.56	KL 42.65 ($119.47)a/	4,687
AFC	0.10	.28	KL 52 ($145.65)b/	1,922
Coops	0.20	.56	KL 42.65 ($119.47)a/	4,687
Sub-total	0.50	1.40		11,296
Passion Fruit				
Coops	0.03	0.084	KL 89.2 ($249.85)a/	336
Beans				
Coops	0.17	0.476	KL 37.6 ($105.32a/	4,520
Sunflowers				
Coops	0.30	0.84	KL 31.72 ($ 88.85)a/	9,454
Sub-total	0.50	1.40		14,310
Grand Total	1.20	3.36		32,013

a/ Average loans per hectare based on costs of purchased inputs plus transport (Tables I - V , Annex A).

b/ Assumes financing of 30 percent of costs of production (Table II, Annex A) because AFC small farmer clients typically request credit both for inputs and some labor.

2. Part A - Large Farmer Credit

For purposes of this project, Part A large farmers are defined according to criteria established by the AFC, i.e., land holdings over 20 acres.

Funds provided under this portion of the program will allow the GOK to maintain the pool of short-term production credit available to these large farmers who habitually employ credit in the production of wheat and maize. Without such credit, the output from this sub-sector of the economy will be badly constrained because of greatly increased production costs. Unless adequate credit is made available, farmers will be required to use less efficient techniques in their production process or completely forego placing some of their land into production. In either case, the outcome will be less wheat and maize produced in Kenya and will result in increased imports of wheat and maize to feed the population. The costs of these imports will worsen an already critical balance of payments deficit.

As shown in Table I, credit for large farmers will be channeled through the KFA and AFC. Funds were lent by the CSFC to the KFA at eight percent. The loan is secured by KFA's fixed assets. KFA has used these funds to pay outstanding suppliers' credits and thereby has been able to extend larger amounts of inputs on credit than would otherwise have been possible. KFA has carefully reviewed its list of regular clients and has selected farmers who have a proven credit record with KFA, who have no outstanding indebtedness with either KFA or AFC and who market their production to KFA acting as agent for the grain marketing boards. To these clients KFA may also extend cash loans for land preparation, labor, harvesting and transportation services; however, most large farmers already possess either the capital or equipment for these purposes. Credit is extended by KFA for a twelve-month term at ten percent per annum. To ensure farmers do not borrow for the same purposes from both KFA and AFC, these organizations periodically compare lists of borrowers.

Funds received by AFC have been used to establish a new credit program to supplement the traditional Guaranteed Minimum Return (GMR) source. These funds are being lent by the CSFC to AFC at seven and a half percent. AFC on-lends them at ten percent. Under this new program, farmers may borrow up to 80 percent of their production costs; however, for large, efficient farmers credit will probably be extended only for cost inputs and transport. Loans are secured by the farmers' title deeds. They must be repaid within twelve months. Crop insurance of K.Shs. 350/00 per acre at a cost of K.Shs 5/00 per acre is also available. No A.I.D. funds will be provided for crop insurance, however. These terms compare very favorably with the GMR program under which borrowers may receive K.Shs. 350/00 per acre at a rate of ten percent per annum. The GMR program also allows purchase of crop insurance.

Under the GMR program, AFC acts only as an administering agent of the CSFC. AFC does not hold title deeds for security and is not liable to CSFC for loan repayments. Because of the poor repayment record under the GMR program and because the AFC is liable to repay the CSFC for funds advanced in anticipation of the A.I.D. loan, AFC Branch

Managers have been selectively placing loans under this program with clients who have established a solid repayment record with AFC. In addition, as with all loans made by AFC from its own resources, the AFC will take the borrower's title deed as security for the loan.

3. Part B - Progressive Small Farmer Credit

For purposes of this segment of the program, small commercial farmers are defined as those with land holdings of less than 20 acres. In practice, average size of land holdings should be well below these levels. As shown on Table II, of the total of \$3.36 million (K.£ 1.2 million) earmarked for small farmers, \$1.96 million (K.£ 700,000) is allocated to cooperative farmers whose average holdings will be well below 20 acres.

Those portions of the loan supporting AFC and KFA will go to established small-farmer clients who have received some form of credit from these institutions in the past. Terms and conditions will be the same as those described above for large farmers.

Funds allocated to the cooperative system have been lent to the Cooperative Bank by the CSFC at seven percent per annum. The Bank will on-lend the unions and societies at eight percent. They in turn will lend to their members at ten percent. Loans will be made to assist societies now producing coffee, pyrethrum, dairy products and cotton to diversify their production into food crops. Loans will be made under the same general terms and conditions as those observed under the ongoing Cooperative Production Credit Scheme (CPCS), i.e., loans will be provided for a production package and all necessary expenses will be financed; only 25 percent of loans may be given in cash and societies will accept payment vouchers from suppliers for the balance; term of loans will be twelve months; loans will be secured against the Borrower's cash crop; and loans will be recovered by deductions from payments for crops delivered to the society.

Although these crops will receive priority consideration, other food crops may be considered if local conditions indicate they would be more appropriate for farmers to produce. Although no specific restrictions have been set on farm size below 20 acres, typical farm sizes of members of participating cooperatives range between 4 and 20 acres with the majority in the range of 4-12 acres. Crops planned to be produced under the loan are currently maize, passion fruit, sunflower and Mexican 142 beans.

4. Part C - Less-Progressive Small Farmer Service Program

a. Small Farmer Designation

The criterion employed in defining small farmers under this portion of the program is based upon the net per capita real income which a farm family receives from its farm. Hence, there is no set size in terms of acreage or resource ownership which is applicable for all areas of Kenya because of the variation in rainfall, topography, land use, and cultivation practices in the small holder sector. The definition is also a function of the number of persons supported by the agricultural resources of the farm. The advantage of this definition is that it is based on a single quantifiable datum which will identify family well being while recognizing the variations in resource ownership and utilization within a framework of resource requirements imposed by the physical and social environment.

In identifying the target group we have set a bottom limit of $50 per capita potential net farm income and an upper limit of $150. The lower limit accords with the IBRD minimum per capita income target in rural areas. The upper level equates to the estimated average per capita income of urban Africans in Kenya.1/ It is also the figure A.I.D. uses as the cut-off point in defining the "poor majority" and developing countries.

The production packages described in Table III, Annex C, require a farmer participating in Part C to cultivate between 1.7 and 2 acres, depending on the crops chosen. Net farm income from the packages ranges from $132 to $198. It is anticipated most farmer participants will be able to use two packages which would yield a potential net farmer income of $264 to $369. Based on an average family size of six persons, this would yield a potential net per capita income of between $44 and $66, in the lower range of our target group.

Practically speaking, it will be impossible to exclude from the Part C program any farmer who wishes to participate and whose land is adequate for one production package. The goal, however, will be to attract farmers who have the potential for realizing the minimum per capita income target. It is not likely the program will attract farmers who can realize an income level exceeding the $150 per capita limit. To realize this level of income, such farmers must use progressive techniques and have benefited from information and technology from the public or private sector.

1/ To obtain this figure, the average per capita income of Africans in the 11 largest towns in Kenya which had a non-African population of less than 15% in 1969, the latest year for which data is available, was calculated. This income level is $152.48. The calculation for this value is based upon data contained in the <u>1974 Statistical Abstract</u>. The rational behind this income level is that it represents an approximation of the opportunity costs to a farm family of remaining on the farm. It is probably a conservative figure due to inflation over the last six years, however, there is no guarantee that the family could gain employment in the urban areas. For our purposes it does provide a reasonable benchmark.

B. Proposed Program

Left to himself, the less-progressive small farmer faces a nearly overwhelming set of problems in attempting to enter the monetary economy in any substantial way. To obtain credit he must deal with institutions who demand proof of his production ability and may also require his title deed as security -- an unacceptable risk for many. Even if he has access to credit, inputs frequently are not readily assessable or available at the proper time, due to the inadequate distribution networks in small farm areas. Because the extension service focuses on large farmers, he does not receive adequate technical guidance on the use of inputs and proper husbandry. Because established marketing institutions do not cater to his needs, he has problems transporting and disposing of his production, and because he lacks liquidity and storage capability he is subject to great price fluctuations and sharp trading practices in local markets. Finally, if he works many acres he has problems finding and paying for labor during planting and harvest times.

The program proposed under Part C attempts to address these problems in a comprehensive manner through the cooperative system with the assistance of the Ministry of Agriculture (MOA). The GOK has chosen seven target districts in which there are 17 unions composed of 205 societies with 59,600 members. In this group of societies most are relatively weak. They provide few services to members, most of whom produce primarily for consumption with a small amount of cash crops for sale. Given proper assistance, however, these farmers could produce and earn substantially more.

In initiating this program the GOK will designate the unions and societies in the seven districts which will participate in the first year. The Ministry of Cooperative Development (MOCD) will then assign additional staff to assist in improving their management. When the program is announced any farmer will be allowed to apply, even if not a cooperative member. Approximately 8,000 farmers will be chosen from the applicants to attend a short course at a Farmer Training Center (FTC) given by MOA and MOCD personnel who will provide instruction in use of recommended technological packages, the uses and responsibilities of credit and in cooperatives. Participating societies will offer credit if required for input purchases either from society stores or private traders. Field personnel of the MOA will assist farmers during the planting, growing and harvest times to ensure proper practices are followed. Societies, acting as purchasing agents for the Maize and Produce Board, will provide transport as needed and take delivery of farmers' produce. Farmers will be paid immediately in cash after loan repayments are deducted. As required, additional storage capacity for unions and societies will be funded under the program.

To ensure adequate planning, management and evaluation, the MOA and MOCD will assign additional personnel to target areas. The loan will provide foreign exchange for the services of a project supervisor and an evaluation team. (The evaluation plan is described in Section II.D below.) Funds are also provided for participant training for cooperative officials. Finally, ten Peace Corps Volunteers will be assigned at the union level to provide training in budgeting, accounting and other aspects of management.

In summary, the budget for the first three years of the Part C program is as follows on Table III.

TABLE III

Part C Summary Budget

Item	Cost - $000
Foreign Exchange Costs	
Project Supervision	$ 150.0
Evaluation Contract	54.0
Participant Training	178.5
Sub-Total	$ 382.5
Local Currency Operating Costs	
Equipment and supplies	$ 80.0
Farmer Training	270.0
F.T.C. Staff	15.0
Coop Staff	200.0
Storage Construction	200.0
15% ontingency	172.5
Sub-Total	$ 937.5
Local Currency Credit	$ 2,080.0
TOTAL	$ 3,400.0

For a more complete discussion of the Part C program, targets and budgets, see Annex C.

C. Impact of the Program

1. National Impact

The programs financed by Part A, B and C of the loan will have significant direct and indirect effects both on the overall economy and on individual farmers. These effects will be felt in the short run (1975), in the medium run (1975/1976 to 1977/1978), and over the longer run.

In the short run, the most significant impact on the economy as a whole will be through the incremental crop production associated with Parts A and B. The Kenya shilling counterpart generated by the dollar proceeds of Parts A and B will finance credit to support the production of wheat (52 percent of credit funds under Parts A and B), maize (33 percent), and other food crops (14 percent) for domestic consumption, import-substitution and export. Using the hectarage figures from Tables I and II above and the incremental yield figures from Annex A, Tables I and II above, Parts A and B will support increased wheat and maize production of approximately 26,000 metric tons and 55,000 metric tons, respectively. At current world market prices this added production would save $17.0 million in foreign exchange ($5.8 million for wheat and $11.2 million for maize).1/ On the alternative assumption that the credit supports wheat production on land previously taken out of production (rather than intensification of production on existing hectarages), the incremental production for wheat would be 106,000 metric tons, which would save about $23.5 million in foreign exchange, for a total foreign exchange saving (wheat and maize) of $34.7 million. If all of the incremental maize production were available for export, it would earn about $6 million at current world prices. Thus the range of possible foreign exchange savings and earnings for wheat and maize production support under the loan is roughly $12 million (26,000 MT additional wheat output, all maize exported) to $35 million (106,000 MT additional wheat output, all maize for import substitution).

No attempt has been made to calculate a rate of return to the economy for the program. However, the unweighed average of the incremental benefit/cost ratios for production supported by Parts A and B is 2.6:1, with a range of from 2.5:1 for sunflower and passion fruit to 3.0:1 for beans (see Annex A, Tables I-V). The benefit/cost ratios for the production packages included in Part C range from 2.10:1 for maize/sunflower to 3.2:1 for maize/groundnuts (See Annex C). The weighted average of the incremental benefit/cost ratios for Parts A and B if wheat and maize are valued at world market prices is 4.14:1.

1/ Based on the late April 1975 prices c.i.f. Mombasa of $224.50 per metric ton for U.S. No. 2 hard red winter wheat and $205.000 per metric ton for U.S. No. 3 yellow corn. The corresponding U.S. f.o.b. prices are $134.000 for wheat and $115.50 for maize.

Since the credit made available by the GOK to the intermediate credit institutions under Parts A and B is to be repayed within eighteen months from February 1975, the funds will be available for reprogramming by September 1976 (although some of the funds may actually be available sooner). While no effort has been made to designate programs for which loan reflows might be used, the GOK has agreed in principle that programs directed at small farmers will receive first priority in allocations of the funds. The funds could be allocated to the program financed under Part C of the loan (to permit more rapid expansion of that program, if feasible), to other smallholder credit programs, or to smallholder programs financed under the GOK FY 1976 budget. To the extent that the loan reflows are allocated to credit programs, further reflows will be available in subsequent periods. Thus over the medium run at least the full amount of the credit under Parts A and B ($10.1 million), plus interest will be available for reprogramming to supplement domestic resources for the support of agricultural production programs.

For the program's likely impact on the environment, see Annex F.

2. Impact on Farmers

The credit provided under Part A of the loan will be utilized by a relatively small number of farmers - probably about 1,500 - with holdings of over 20 acres (8 hectares); based on GOK projections, the average area of wheat or maize production financed would be 124 acres for wheat and 63 acres for maize. Part B will benefit a much larger number of small progressive farmers with holdings under 8 hectares. The number is difficult to estimate, but if the average area devoted to the crops to be financed under Part B is 3 hectares, then Part B would reach about 10,000 small farmers. The program for less-progressive farmers financed under Part C is designed to reach 7,800 new farmers in each of three years, so that the number of farmers benefiting will increase from 7,800 in 1975/1976 to about 24,000 in 1977/1978. The latter figure would be equivalent to about half the coop members in the seven districts or nearly 20 percent of all farm families in those areas. As noted in Section III.B.4 above, the Part C program would permit farmers who now produce primarily for subsistence to increase their net farm incomes by up to $400, or about $65 per capita assuming a family size of 6.

Over the long run, of course, the Part C program (and to some extent the Part B program) will affect a much larger group of farmers through increasing the GOK's capacity to mount programs reaching smallholders. Both Part B and Part C of the loan support programs will provide information and experience leading to improved program planning and implementation, while Part C in particular will help to strengthen the institutions oriented toward assisting the small farmer. It should also be noted that the availability of credit reflows from Parts A and B beginning in mid-1976 will provide an additional means of reaching a large number of small farmers, either through support for smallholder credit programs or non-credit programs financed through the GOK budget. Assuming only one round of additional expenditures on smallholder programs from credit reflows the proportion of the funds spent on small farmers would rise from one-half to more than two-thirds, counting only the direct impact of the funds. Thus the loan will benefit a total of about 35,000 progressive and less-progressive farmers initially, and will probably benefit a substantially larger number subsequently through the use of reflows from Parts A and B and through the ultimate impact of the Part C program on the capacity of Kenyan institutions to provide access to relevant services for small farmers.

D. Program Implementation, Procurement, Financing, and Evaluation

1. Implementation

Parts A and B of the loan will fund $10.1 million (K.£ 3.6 million) for seasonal crop production credit. It is expected that these funds will be fully disbursed within twelve months after signing of the Loan Agreement. The loan will be authorized in June 1975 and the Loan Agreement negotiated and signed by July 15, 1975. Conditions Precedent to disbursement should be satisfied by July 31. An initial disbursement may be made for Parts A and B immediately thereafter based on a reimbursement request submitted by the GOK reporting the amounts, numbers and types of loans approved. Thereafter, disbursements will be made quarterly against reports of loans approved, based on the following planned disbursement pattern:

September,15, 1975	$ 5.6 million
December 15, 1975	2.8 million
March 15, 1976	1.4 million
June 15, 1976	0.3 million

Part C of the loan will have a three-year disbursement period over fiscal years 1975/76, 1976/77 and 1977/78. Conditions Precedent to the disbursement for Part C activities should be met by July 31, 1975. A.I.D. will make quarterly reimbursements to the GOK for local costs based on reports of disbursements against budget line items. Foreign exchange costs for technical assistance will be administered by A.I.D. A.I.D. will contract for technical assistance personnel on behalf of the GOK and arrange for disbursements directly to contractors using standard procedures. Participant training will be arranged directly by A.I.D. 1/

1/ For more detail on Part C implementation see Annex C, Section E.

The disbursement pattern for Part C is as follows:

TABLE IV

Part C Disbursement Pattern

	Year ($000)		
Purpose	1975/76	1976/77	1977/78
Technical Assistance	$ 68.0	$ 68.0	$ 68.0
Participant Training	59.5	59.5	59.5
Other Administration and Development	326.5	305.5	305.5
Credit	702.0	1,378.0	- 1/
	$1,156.0	$1,811.0	$ 433.0

1/ The program will assist 7,800 new participants each year. Taking into account normal attrition, credit needs for years 1975/76 and 1976/77 should be covered. Beginning in year 1977/78, reflows from Parts A and B will be applied to meet credit requirements for new participants.

The GOK contribution to this program shall be $4.5 million (K.Shs. 32,130,000) disbursed for 1975 advances under the GMR program for maize and wheat production.

2. Procurement

The purpose of this loan is to provide credit funds to assist the GOK in meeting its urgent objective of maintaining food crop production in 1975. The bulk of the funds provided under the loan will be used to procure from Kenya sources fertilizer and other agricultural chemicals manufactured or produced in Code 935 countries. Loans made to farmers and financed on a reimbursement basis under Parts A and B have been utilized almost entirely from the local procurement of agricultural inputs for application during the planting season extending from February 1975 to July 1975. It is anticipated that approximately $700,000 of the agricultural credit funds under Part C will finance farmer procurement of fertilizer and chemicals for the December 1975-January 1976 planting season. All of these agricultural inputs which will be used in the 1975 and 1976 seasons are in Kenya or in the procurement pipeline and are almost entirely of local source but manufactured or produced in Code 935 countries. In addition, only small amounts of fertilizer and chemicals manufactured or produced in Code 941 countries will be available in Kenya for the December 1977-January 1978 planting season for which the remaining $1,380,000 of Part C agricultural credit funds will be disbursed. It is crucial, therefore, for the implementation of the agricultural credit activities and the attainment of the purpose of the loan that no restriction be placed on farmers' local purchase of fertilizer and chemicals which were manufactured or produced in Code 935 countries.

Inasmuch as the source of all fertilizer and chemicals procured by farmers is Kenya, there is no source problem regarding use of local currencies under the loan. However, because most of the inputs being purchased are manufactured or produced in Code 935 countries, it must be determined that loan funds may be used to finance their purchase. There are a number of arguments which support such a determination.

First, in the case of the Kenya loan approximately $11.0 million of the $12.3 million estimated to be used for credit will be spent in Kenya on fertilizer procured during the time the Administrator's authorization to permit worldwide (Code 899) fertilizer procurement was in effect. This authorization in effect determined that sufficient fertilizer for worldwide needs was not available from the U.S. and Code 941 countries after April 24, 1974 as evidenced by the "Fertilizer Procurement Policy Statement for FY 1974-75".

Second, in Kenya as in much of Africa, A.I.D. faces serious problems in generating local currency through commodity import programs. In 1974, Kenyan imports from the U.S. did not exceed $45 million (including a U.S. grain purchase of about $10 million). Of this amount it is likely that not more than one third was eligible for AID Program Loan financing. As a result of its increasingly serious balance of payments position, the level of 1975-76 Kenyan imports from the U.S. probably will decline. In addition to the relatively low level of U.S. commercial trading to Kenya, in the past commercial import practices in Kenya have not accommodated AID program lending; and the 1973 Kenya Program Loan of $10 million was not workable in the context of financing a variety of eligible commercial imports. If A.I.D. were again to try to generate local currencies under a commodity import program, it will be impossible to assist the GOK in meeting its critical need to maintain grain production levels in 1975. It also undoubtedly would constrain the development of the proposed local currency funded small farmer production program, and possibly force us to defer new programs until new approaches and procedures could be worked out.

Third, many thousands of purchase transactions will take place using credit extended under the loan. Neither A.I.D. nor the Government of Kenya have the ability to police such purchasing to determine where the commodity is manufactured or produced and it would not be economically or administratively feasible to attempt to set up such a monitoring program. For these reasons the loan authorization will approve use of credit funds provided under the loan to procure locally fertilizers and other agricultural chemicals which were manufactured or produced in Code 935 countries.

Under Part C small motorcycles will be provided for Peace Corps Volunteers assigned to participating cooperative unions. This will enable them to provide technical assistance to the management of primary cooperative societies participating in the program. There are no U.S. - made motorcycles in the 90 cc. category, which is the type most suited for operation on rural roads in Kenya. Additionally, spare parts service and maintenance facilities for U.S.-made motorcycles are not available in Kenya. Therefore, (1) special circumstances exist justification waiver of Section 636(i) of the FAA of 1961, as amended, and (2) there is a reasonable basis for waiver of source/origin from AID Geographic Code 941 and Kenya to Code 935.

With respect to procurement of items other than fertilizer, other chemicals and motorcycles the aggregate value of all Code 935 off-shelf procurement will be limited to $100,000 and the invoice value of single transactions will be limited to $2,500.

3. Financing

The GOK will make provision for Parts A and B of the loan in its 1975/76 budget estimates. For Parts A and B, participating credit agencies have received advances from the Central Bank loan through the CSFC and are approving loans to farmers. Immediately after loan signing, they will submit reports of loans advanced to the Treasury which will submit a reimbursement request to A.I.D. Reimbursement from A.I.D. will be paid by the Treasury to the Central Bank to discharge its debt. As participating credit agencies collect outstanding loans, they will repay their CSFC loans. Principal and interest amounts repaid will be deposited in a special account and jointly reprogrammed by the GOK and A.I.D. for uses within the agriculture sector, with priority to be given to small farmer programs. These funds and any credit rollovers within the special account will be subject to joint reprogramming for as long as AID and the GOK agree.

The GOK will also make provisions for Part C of the loan in its Fiscal Years 1975/76, 1976/77 and 1977/78 budget estimates. Under

Part C, A.I.D. will reimburse the Ministry of Agriculture and the Ministry of Cooperative Development on the basis of quarterly reimbursement requests from the Ministry of Finance and Planning. For credit requirements under the program, the Ministry of Cooperative Development will advance funds to the Cooperative Bank for on-lending to cooperative unions and societies. Principal and interest repayments will be deposited in a special account and will be used only for future support of Part C programs. In addition, in programming reflows from Parts A and B, first priority will be given to additional requirements for Part C programs.

4. Evaluation

Parts A and B of the program will be evaluated on a different basis from Part C. With respect to Parts A and B, an evaluation will be conducted by A.I.D. in August-September 1976. This evaluation will be based on data submitted with reimbursement requests (i.e., number, sizes and purposes of loans made by institutions and category of farmer), on production data gathered by the Ministry of Agriculture and on repayment data gathered from the participating credit agencies. The evaluation will attempt to draw conclusions on the institutional competences of the respective agencies, the characteristics of their clientele and their repayment experiences. It will also attempt to identify special problems in reaching small farmers, to draw conclusions on Kenya's overall seasonal crop production credit requirements and estimate marginal production generated by the loan.

The success of Part C of the loan will be judged by the extent to which it strengthens the ability of GOK institutions to deliver production and marketing services to marginal farmers. The measure of this success will be increased production and income by participating farmers. Development of specific monitoring and evaluation procedures as part of the program plan is a Condition Precedent to any disbursement under the loan. The Loan Agreement also includes covenants requiring annual evaluations and incorporation of evaluation results into on-going and planned small-farmer programs.

As currently envisaged, Part C of the loan will fund a short term (six weeks) consultant contract to prepare a monitoring and evaluation plan before the program gets underway. The plan will specify the objectives of the evaluation, analytical techniques to be employed, and data requirements. Responsibilities of each participating organization will be identified as will be their specific data gathering requirements. Systems and procedures for data gathering and processing will be planned. All of this work must be completed and approved prior to selection of the first group of participating farmers. The farmer training courses will be used as a major means of data generation. The contractor will train farmer training course instructors in the use of survey forms and in data collection methods. He will also assist in the first training sessions where base line data is to be gathered from participating farmers. At the end of the first year of the program and prior to commencement of recruitment and training of the second group of farmers, the contractor will return to Kenya for a month-long evaluation in which GOK and A.I.D. personnel will participate. Based on findings of the evaluation program, modifications will be made for the second year's program. Similar evaluations will be conducted at the end of the second and third years.

5. Loan Conditions and Covenants

The loan agreement contains four conditions precedent to disbursement of funds for any part of the loan. Three of these are standard: 1) a GOK Attorney General's opinion that the loan agreement is a legally binding document, 2) speciman signatures of authorized GOK representatives and 3) evidence of the source and availability of the GOK contribution. The fourth CP requires that a detailed plan for Part C activities from June 30, 1975 to June 30, 1978 be mutually agreed upon between the GOK and A.I.D. The plan must include plans for administration and evaluation of Part C activities. The purpose of this last CP is to ensure full understanding of and agreement on all aspects of the project as well as its timely initiation.

In addition to these CPs, the loan contains a number of covenants, warranties and undertakings. Two are of particular importance. First, the GOK agrees to deposit all principal and interest repayments of seasonal production credit loans in a special account for joint reprogramming by the GOK and A.I.D. The loan agreement or implementation letter will specify that in reprogramming these funds first priority will be given to programs assisting less progressive small farmers and to any additional requirements of the Part C program. This covenant will be in effect for initial repayments and any credit rollovers for as long as AID and the GOK agree, and will ensure, insofar as is possible, that all loan funds will ultimately benefit the rural poor of Kenya.

The second covenant with special significance in terms of future A.I.D. and GOK involvement in programs affecting less progressive small farmers calls for a comprehensive annual joint evaluation of loan activities coupled with GOK agreement to incorporate evaluation results into existing or planned programs directed at small farmers. Inasmuch as Part C of the loan is one of the first comprehensive and extensive small farmer food crop production programs undertaken in Kenya, evaluation findings should be extremely important in guiding future efforts in this area.

In negotiating its planned 1975 $30.0 program loan to Kenya, the World Bank has negotiated a number of very significant agreements to promote accelerated agricultural development which AID supports. A.I.D. has discussed these fully with the GOK, which understands these are an important framework for the AID assistance, although these agreements will not be specific conditions of the AID loan.

First, the Government has agreed to substantially strengthen the planning and implementation capacity of the Ministry of Agriculture. This will require priority development of new projects and increases in local and expatriate staff. A.I.D. plans to support this initiative by providing funding for four agricultural planning officers in the reorganized planning unit of the Ministry. Second, the GOK has agreed to substantially increase the development budget for the agricultural sector. As noted in Part I. B. 2.a. above, Ministry of Agriculture development budget expenditures for the years FY 1975-78 will increase from the original 1974-78 Development Plan figure of Ƀ59.0 ($165 million) to Ƀ98.4 ($275.5 million), an increase of 66.8 percent. In addition, allocations for labor intensive rural and secondary road construction have been greatly increased and these categories will receive over 44 percent of all road construction funds for the period FY 1976-78. Third, the GOK has agreed on the importance of maintaining cost/price incentives for agricultural production. As noted in Part I.B.2.b. above, in January 1975 the Government took steps to significantly raise basic grain prices and has further agreed to keep prices under review in light of the cost of inputs and changes in income earned in other sectors.

ANNEX A

Kenya's Agricultural Sector

Table of Contents

ANNEX A

Kenya's Agricultural Sector

A. Introduction

The following is a selective treatment of the Kenya agricultural sector. Generally only those elements which affect or are affected by the Agricultural Sector Loan are treated in any depth. For a more comprehensive discussion the reader is referred to the 1974 Kenya Development Assistance Plan (DAP), the 1973 IBRD Kenya Agricultural Sector Survey and the 1972 ILO/UNDP Report, Employment, Incomes and Equality.

B. Role of Agriculture in the Kenyan Economy

While agriculture has declined in relative importance as Kenya's economy has expanded it is still the dominant sector by almost any measure. Agriculture provides a livelihood for approximately 85 percent of the population and outside of "services" is the largest wage employer. In 1973, agriculture (including subsistence production but excluding forestry and fishing) provided approximately 32 percent of GDP, (in constant prices) down from 38 percent in 1964 but still almost double the contribution of the second leading sector, government services, and nearly triple the value added by the manufacturing sector. Of agriculture's output approximately one-half is in the monetary sector. Although there is variation from year to year (due in large part to variations in weather and fluctuating international commodity price levels), agricultural exports--primarily coffee, tea, meat products, sisal and pyrethrum--account for 60-70 percent by value of total commodity exports.

Over the past decade the sector's performance has been fairly good. The average real growth rate of the monetary sector of agriculture during the period 1964-1973 was 6.0 percent; non-monetary sector output grew somewhat more slowly (3.7 percent), giving an overall growth rate of about 4.7 percent. This compares with the overall real GDP growth rate of about 6.8 percent per annum during the same period. In 1973 the agricultural sector recorded a real growth rate of 5.0 percent with the monetary portion rising 7.5 percent. For 1974 overall growth rates are not yet available but marketed production in current prices grew 14.6 percent over 1973. Smallholders normally provide a little over half of the marketed production as well as nearly all the production not entering the monetary sector. Thus, smallholders produce roughly 75 percent of the agricultural contribution to GDP.

C. GOK Agricultural Sector Development Plans and Policies

Until recently the GOK's agricultural development strategy was largely based on production of cash crops for market, primarily export. The large farm sub-sector was reduced under various settlement and land reallocation schemes but not so fast as to cause substantial production declines. Large numbers of smallholders were made active participants in the market economy through the development of smallholder cash crop production programs. In general this strategy was successful; the growth in marketed smallholder production nearly doubled in value terms from 1966-1973. However, this strategy has also led to wide variations in the value of marketings (and incomes) between similar climatic and ecological areas reflecting the time of entry and opportunity for entry into production of the specific crops. Market weaknesses for traditional exports further reduce the feasibility of continuing this strategy as a long-run basis for development.

The cash crops for export strategy was only one component of an implicit GOK policy of taxing agriculture, either directly or indirectly, and utilizing these resources for the development of other sectors. In many respects, the agricultural sector was left to take care of itself. This was particularly true of smallholders not producing export crops. Allocations of GOK resources reflected this relative neglect of agriculture as the Ministry of Agriculture received only a small portion of the development budget.

More recently a shift in attitudes toward agriculture has taken place. The GOK has realized that the agricultural sector in the coming decade must: 1) provide a source of employment for about 75 percent of the additional labor entering the market; 2) provide food for a population growing at about 3.5 percent per annum and an even more rapidly growing urban sector; 3) provide raw materials to support the projected 10.2 percent growth in manufacturing output; and 4) provide a means of addressing the income distribution and other equity problems which confront the nation.

The goals for the agricultural sector contained in the 1974-1978 Development Plan may be summarized as follows.

1. To achieve an annual sector growth rate of 5.2 percent in constant prices during 1974-1978;

2. To achieve a growth in marketed production of 6.7 percent per annum;

3. To improve the distribution of rural income by obtaining a significant increase in the proportion of farmers who obtain a cash income from their land;

4. To devise methods of developing the less favored areas and to promote a more even development among the different areas of the country;

5. To increase the opportunities for employment in the agricultural sector;

6. To improve standards of nutrition in the rural areas;

7. To increase agricultural exports;

8. To complete the Kenyanization of large-scale mixed farms and to make significant progress towards Kenyanization of ranches and plantations.

The strategy to achieve the sector goals is based on an increase in the rate of public development expenditure in the sector from $33.8 million in 1973/1974 to $66.6 million in 1977/1978 total development Expenditures over the Plan period would be $252.7 million, as compared to actual expenditures of $79.9 million during the previous plan period. 1/ Similarly, recurrent expenditures for the Plan period (1973/1974 - 1977/1978) were to increase to $203.5 million, as against $125.6 million during the 1968/1969 - 1972/1973 period; the detailed recurrent expenditures projection under the newly revised budget for the Plan period are not yet available.

The major emphasis according to the Plan will be on more intensive land use with the highest priority in the expenditure of funds given to programs aimed at helping large numbers of small farmers in smallholder areas to intensify production. In the high to medium potential areas hybrid maize, pyrethrum, horticultural crops, sugar and dairy products will be emphasized. For medium potential and marginal cropping areas emphasis will be placed on developing crop varieties and cultural practices for alternative crops such as pulses, oilseeds and sorghum. Livestock development in low potential and semi-arid areas will be continued on an expanded scale. More intensive land use will also be encouraged through land adjudication and registration, through new settlement schemes and through the continuing sub-division of large-scale farmer into smallholder units. Large farms will be maintained intact only as required to provide sufficient supplies of certain products such as wheat, hybrid maize seed and breeding herds of livestock, which can be produced best on a large scale basis. Irrigation and soil conservation are also scheduled to receive additional emphasis.

Final components of the overall strategy will be to overhaul agricultural marketing and pricing policies to provide production incentives and to increase the capabilities and efficiency of the many statutory boards and corporations in providing services which will facilitate and encourage production.

D. Agricultural Pricing

In the three publications cited in Section A above the pricing structure facing the Kenyan producer was identified as a critical problem. An overvalued currency and low interest rates leading to undervalued capital, low produce prices, and high input prices were combining to reduce production incentives and investment in agriculture.

More recently the situation has dramatically changed. Since the Kenyan shilling is tied to the U.S. dollar, the continued decline in the dollar vis-a-vis a number of world currencies has in effect devalued the shilling. Interest rates have also been increased to 10-12 percent from roughly 8 percent. Producer prices for major crops (maize, wheat, etc.) have been raised

1/ The recently released Sessional Paper No. 4 of 1975 provides for additional development budget increases of approximately $28 million between 1974/1975 and 1977/1978.

substantially to near current world market levels. The January 1975 price hikes brought maize to Ksh. 722 ($101) per metric ton compared to Ksh. 444 ($62) in 1974 and Ksh. 389 ($55) in 1973; wheat to Ksh. 1111 ($156) per metric ton or 43 percent higher than 1974 and 89 percent higher than 1973 prices; and sugar cane to Ksh. 90 ($12.60) per metric ton compared to Ksh. 60 ($8.40) in 1974 and Ksh. 50 ($7.00) in 1973. Prices were also raised for milk and rice while prices for beef animals were decontrolled. For cash crops, such as coffee, tea and pyrethrum, prices have remained at remunerative levels.

Although input prices have not been reduced and have actually increased, it appears that the terms of trade between the agricultural sector and the remainder of the economy have begun to shift in agriculture's favor. A rough agricultural price index based on farm prices and quantities marketed of 10 crops and a farmer consumer price index adapted from the Nairobi Price Index for Low Income Groups shows an improvement in the terms of trade of about 25 percent from 1973/1974. The new 1975 prices for agricultural products indicate an additional shift in agriculture's favor.

Taken together the above changes have resulted in a substantial improvement in the pricing situation for farmers; i.e., price incentives previously lacking are now available, particularly for small farmers less seriously affected by increased input prices. Further evidence of adequate returns for the producer is provided by the farm level analyses contained in Section I of this annex.

E. Manpower, Planning and Management

One of the more serious problems which confronts the sector is a quantitative and qualitative shortage of manpower (also discussed in an institutional context in the following section). A GOK manpower survey projected 1978 deficits of agronomists, semi-professional agronomists, agricultural instructors/extension workers and other agricultural workers. A particular problem identified by the IBRD Agricultural Sector Survey is the shortage of women extension workers.

Perhaps of greater severity than the quantitative shortfall is the qualitative problem. Evaluation materials on nearly every project mentions the need for greater planning and administrative skills. The presence of technical assistance personnel in various administrative posts indicates that the shortage of Kenyan staff with these skills is even more serious. Planning is a particular limitation. In general, detailed, implementation-ready plans for new projects and programs are not available.

The results of this situation are poorly planned projects, a lack of new, innovative projects, some difficulty in staffing up new projects and a slow rate of implementation. The implication is that outside assistance is vital in planning new activities which must be phased in very slowly so they do not over-tax existing manpower and administrative/ implementation capabilities. It is also clear that operational rather than advisory personnel are needed and that training, both on-the-job and in the classroom, is required.

F. Institutions in the Sector

The following does not describe all the institutions and organizations that are active in the agricultural sector. Only those which will play a key role in implementing the Agricultural Sector Loan are included.

1. The Ministry of Agriculture

The largest organization with the most pervasive responsibilities in the Agricultural Sector is the Ministry of Agriculture (MOA). Total Ministry staff totals about 14,000 in the following seven divisions: Crop Research, Crop Production, Land and Farm Management, Animal Production, Range Management and Livestock Marketing, Veterinary Services and Economic Planning. The Ministry also has a supervisory function relative to eighteen boards, authorities, commissions and corporations active in the sector.

The activities of the Crop Production and Land and Farm Management Divisions are particularly relevant to the sector loan. The Agricultural Extension Service, employing over 6,000 people, comes under the Crop Production Division. In general, the service has operated with limited effectiveness. The reasons for this may be broadly grouped into three categories: 1) staff capability, motivation and mobility; 2) extension approach; and 3) lack of coordination. Particularly at the lower or farmer contact levels, extension staff have been inadequately trained and lack the required technical knowledge. Also, the salary levels and promotion system provide little incentive to do more than the minimum. Finally, the lack of staff mobility and general logistical support prevents the staff from making contacts.

The extension approach in the past has been to concentrate on individual contact with large progressive farmers, largely to the exclusion of smaller, less progressive farmers. Research in Western Province indicated that 10 percent of the farmers judged as progressive received 57 percent of all extension visits. Similarly, women farmers (the major producers of food crops) have largely been left out of agricultural extension efforts. A few years ago it was deliberate policy not to give advice to women farmers. Today there are still very few women agricultural extension agents. Finally, the extension advice offered has not been coordinated or integrated with a delivery system for inputs, credit and marketing. Thus the farmers' opportunity to use "advice" has often been curtailed.

Improving the overall effectiveness of the extension service will require better training of extension personnel, greater emphasis on mass extension techniques aimed at small farmers, provision for greater staff mobility, the development of staff incentives and the development of integrated programs combining extension with credit, marketing, inputs, etc.

The Land and Farm Management Division coordinates technical matters relating to land and farm management and agricultural credit. In this role the Division collects data from farmers and prepares costs of production estimates used in calculating credit requirements for various crops. Normally more data has been collected than used with the greatest share of attention paid to larger farmers. The Division needs to increase its small farmer focus and pay particular attention to collecting data needed for planning.

2. The Agricultural Finance Corporation

The Agricultural Finance Corporation (AFC) is a statutory boad established by the GOK in 1963. It lends to large and small farmers, to public and private corporations, to local authorities, and to individuals serving the agricultural sector (e.g., private tractor hire services). In 1972, 83 percent of AFC's loans ($33.6 million) went to 2,500 large farmers and 17 percent were for 14,500 small farmers. The AFC has 33 branch offices in rural Kenya, and in 1973 had 120 field staff. Farmers must go to a branch office to obtain a loan application (sold to farmers for Ksh. 10 - $1.40 - each), and until recently, the loan application had to be sent to Nairobi for approval. Currently, AFC is experimenting with allowing local approval of loans by some branches.

All accounting is done in Nairobi and farmers complain that they often wait months between the time they sell their crop and the time that AFC notifies KFA how much to deduct. In districts where the Kenya Farmers' Association (KFA) is not a crop buyer, AFC has no way of recovering loans through deductions from crops sold. Although land deeds are generally used as security for loans, the AFC is extremely reluctant in practice to forclose. Arrearages have been a problem. In 1971, 49 percent of small farm loans were in arrears for over a year and 23 percent were in arrears for two years or more. The loan repayments record has improved recently, but the default rate is probably still at least 20 percent for small farmer loans.

Some progress has been made in simplifying AFC loan forms. In February 1975, AFC replaced the old eight-page form with a two-page form (one filled out by the farmer and one page filled out by the AFC branch officer). In 1975, AFC also reduced the minimum loan from Ksh. 1,000 ($140) to Ksh. 500 ($70).

The AFC also administers for the Cereals and Sugar Finance Corporation (CSFC), the Guaranteed Minimum Return (GMR) program. This program, also known as the Minimum Financial Return (MFR) program, was begun in 1942 to stimulate production by large expatriate farmers. In subsequent years it has been extended to all farmers growing at least 20 acres of either wheat or hybrid maize. The program provides seasonal credit, which was raised from Ksh. 250 ($35) to Ksh. 350 ($49) per acre in February 1975, plus a crop insurance element (costing Ksh. 5. or $0.70 per acre in premiums). Most GMR loans are collected for the AFC by the Kenya Farmers' Association.

3. Kenya Farmers' Association

The Kenya Farmers' Association (KFA) was founded in 1915 by settlers as a cooperative for the purchase of agricultural inputs. Currently, the 2,500-member organization operates on a countrywide basis selling several thousand items used by farmers. The KFA purchases maize and wheat and several other crops in its role as buying agent for the Maize and Produce Board (MPB) in the Rift Valley and for the Wheat Board throughout Kenya. Although it is a cooperative, it is commonly considered outside the mainstream of the cooperative movement in Kenya because it provides only limited services to small farmers. While it is true that originally KFA membership was open only to farmers with 100 acres or more, the minimum acreage to be eligible for membership was reduced to 20 acres in 1969, an acreage that might include small farmers in some districts. While KFA does not extend credit to non-members, it does serve small farmers not eligible for membership, selling them inputs directly, or through its stockists on a cash basis. (A stockist is a store or other outlet selling one or more agricultural inputs). In many areas the KFA stockist is the major source of farm inputs used by small farmers.

4. Cooperatives

In 1974 there were about 1,060 active societies in Kenya with an estimated membership of 450,000 people. About 600 of these are agricultural societies.

Primary cooperative societies market nearly 90 percent of Kenya's pyrethrum, 75 percent of cotton lint, 50 percent of coffee, and 30 percent of sugar cane and milk. Besides collecting, processing, and transporting farmers' produce, many marketing societies supply farm inputs and seasonal credit(almost exclusively for the foregoing commodities). The primary marketing societies are supported by 36 district cooperative unions which provide such centralized services as bookkeeping, transport, storage, and credit and savings facilities. Complementing this basic organization of primary societies and unions are four former white settler farmer organizations. These countrywide cooperatives include the Kenya Cooperative Creameries Ltd., Kenya Planters Cooperative Union, the Horticultural Cooperative Union, and the Kenya Farmers' Association Ltd., which is involved in marketing farm produce and supplying farm inputs.

The apex organization of all the cooperatives is the Kenya National Federation of Cooperatives (KNFC) while the Cooperative Bank of Kenya Ltd. serves as banker for the Cooperative Movement. The Cooperative Bank finances cooperative societies and provides an outlet for societies' funds and membership savings. Loans are extended to unions which in turn lend to societies for on-lending to members.

The Ministry of Cooperative Development performs many functions which would otherwise rest with the KNFC. This institution oversees and regulates activities at all levels in the Cooperative Movement.

5. The Maize and Produce Board

The Maize and Produce Board (MPB) is a statutory body established in 1966. It is governed by a Board of Directors which includes representatives from both the Government and the private sector. The MPB has monopoly control over the movement of maize between districts (including export) as well as over a large number of minor crops such as beans, cashew nuts, groundnuts, millet, paddy rice, sorghum and sunflower. The MPB buys and sells these commodities (except exports) at prices fixed by government. To carry out its responsibilities, the MPB employs a staff of over 700 and operates about 35 buying and storage depots. Storage capacity under MPB control exceeds 450,000 metric tons. In 1973 purchases of the MPB totalled over $32 million.

Criticisms can be levied against the Board for its lack of interest and ability to purchase small quantities (i.e., less than a full 90-kilogram bag of any produce), the relatively small number of buying depots, and inefficiency. The IBRD has recommended that the Board be relieved of its monopoly role in maize marketing in an effort to reduce costs.

6. Commercial Banks

Four of the eleven commercial banks operating in Kenya -- Kenya Commercial Bank, Barclays Bank International, the Standard Bank and the Cooperative Bank of Kenya (CBK)-- are involved in significant agricultural lending. The first three of these have been established in Kenya for many years and are linked with British overseas banking groups. The Cooperative Bank of Kenya (CBK) was established in 1969 to meet the needs of cooperative societies and to support the government's efforts to strengthen the cooperative movement in Kenya. In this role the CBK does not accept deposits from nor make loans to individuals. It deals only with cooperative unions and societies providing short and medium term credit (up to 5 years).

From 1962 to 1973 commercial bank agricultural loans, normally at rates above those charged by government agricultural credit institutions, ranged from 9.8 to 13.2 percent of credit extended by commercial banks. As of September, 1974 the amount outstanding totalled $56.4 million or about 10 percent of credit extended. Land is usually taken as security and most loans are of less than 18 months duration. The number of loans is estimated at less than 10,000 with the majority of the funds lent by the three large commercial banks going to large farmers. All have experimented with small farmer credit schemes and incurred losses. In general these banks have neither the interest nor the experience to effectively provide small farm credit.

From 1968 to mid-1974 the Cooperative Bank of Kenya made loans totalling over $16.5 million. The CBK typically lends to cooperative unions at interest rates two percentage points below rates charged farmers while the cooperative societies have a one percentage point margin between the rates they pay the unions and the rates they charge farmers (currently CBK lends at 8 percent, the unions at 9 percent and the societies at 10 percent).

G. Agricultural Credit: Supply and Demand

1. Supply

Agricultural credit is available from a number of institutions under a variety of programs for a wide range of purposes. The oldest sources, supplying primarily larger farmers, are the commercial banks, the Kenya Farmers' Association (KFA), other similar but smaller input supply firms, the AFC (which absorbed the earlier Land and Agricultural Bank), and the Guaranteed Minimum Return scheme (GMR) administered by the AFC. Smallholder credit is available mainly from newer sources and from programs specifically introduced to help develop smallholder agriculture. These include the Kenya Tea Development Authority, Pyrethrun Board, Cotton Lint and Seed Marketing

Board, Horticultural Crop Development Authority, National Irrigation Authority, Chemelil Sugar Out-growers Scheme, cooperative societies, the Cooperative Production Credit Scheme (CPCS), experimental programs of the major commercial banks and commercial suppliers, smallholder credit schemes of the AFC, and the FAO input supply schemes. Large quantities of credit for land purchase and development have also been provided by the Agricultural Settlement Fund (ASF) through the Ministry of Lands and Settlement. Finally, smallholder credit is also available from traditional informal sources such as other family members, village headmen and local merchants. While these sources are growing in importance, they are probably still relatively insignificant.

In broad terms the credit extended may be divided into three types: long, medium and short term. Long term credit is mainly used for land purchase with the ASF, the AFC and the commercial banks the major sources. It is estimated that long term credit amounts to about 30 percent of all credit outstanding. Medium term credit is provided for farm development including land clearing, building, equipment and livestock purchases. About 45 percent of all credit is medium term provided mainly by AFC, the ASF, commercial banks and government programs. Short term or production credit is provided for seasonal inputs. Major sources are the commercial banks, merchant suppliers, the GMR, cooperative societies and various authorities and boards. Short term credit accounts for approximately 25 percent of outstanding credit. 2/

The actual amounts of credit provided by the various organizations are difficult to determine. In 1972 the IBRD estimated that outstanding agricultural credit from all but traditional informal sources amounted to roughly $135 million, of which 32 percent was provided by the ASF, 27 percent by commercial banks, 23 percent by AFC, 9 percent by input and machinery suppliers (including KFA), and 6 percent by GMR; other sources accounted for the remainder. 3/ Small farms accounted for about $50 million of the total outstanding, of which $35 million was long-term ASF credit for land purchase. Of the total outstanding, about $37 million was for short term credit, including roughly $18 million from commercial banks, $12 million from KFA and other suppliers, $6 million from GMR and the remainder from cooperatives and other institutions.

Comparable figures or projections are not available for 1973, 1974 or 1975. However, short-term and medium-term commercial bank credit

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2/ This discussion is drawn largely from Annex 7 of the IBRD Kenya Agricultural Credit Survey.

3/ *ibid.*, Table 1

outstanding to agriculture increased from $36 million in 1972 to roughly $70 million in 1974, of which roughly half may be short term credit, including production credit. Commercial bank credit to agriculture should continue to increase in 1975 roughly in line with the 12 percent credit ceiling, which would imply that short-term credit could increase by about $3-4 million. Credit from KFA, on the other hand, has been seriously restricted by the liquidity squeeze and will probably not exceed $6 million in 1975, as compared with about $10 million in 1972. The GMR program has been increased from the $8.5 million level of the past several years to $14.1 million, and the amount allowed per acre has been increased (due to higher input costs) from Ksh. 250 ($35)to Ksh. 350 ($49) for wheat and from Ksh. 180 ($25) to Ksh. 350 ($49) for maize. Thus in the absence of GOK intervention, the total increase in the availability of production, credit would be the $5.6 million GMR increase, since the likely increase in commercial bank short term agricultural credit would be roughly offset (or more than offset) by the decline in credit from KFA. Most of the increase in the GMR program is to cover the higher credit allowance per acre; if fully utilized, the 1975 GMR program would cover 290,000 acres (or about 117,000 hectares) of wheat and hybrid maize, s compared with 259,000 acres (or about 106,000 hectares) in 1974.

1. Demand for Credit

Any discussion of the demand for credit must acknowledge the already mentioned differences between the large and small farm sub-sectors. For the large farmers, agricultural credit is a vital component of the agricultural process. A large farmer cannot expect to possess all the investment and operating capital needed at various times during the agricultural year. Since these farms are commercial operations credit is employed at all stages as long as a reasonable return appears possible. It is this "business" attitude which makes this group of farms the recipients of most of the credit extended. It is estimated that the 3,000 or so large farmers receive more than 60 percent of all farm credit and over 80 percent of the short and medium term credit from organized sources. As the value of their production and the costs of production increase, the demand for credit from this group will expand.

Turning to the estimated 1.2 million smallholders, the need and demand for credit is less clear. Smallholder credit is often viewed as one of the most direct ways of encouraging smallholders with limited financial resources to adopt farming innovations and thereby increase their level of agricultural production. Yet smallholder credit in Kenya only had limited success. The rate of expansion of credit has been low, repayment rates have been generally poorer than anticipated, and the correlation between loans extended and increased productivity remains unclear. 4/

One of the basic assumptions underlying smallholder credit programs is that the rate of capital accumulation in small-scale agriculture is very slow and the farmer is held back from adopting available innovations due to the lack of sufficient funds. However, there is now a substantial amount of evidence indicating that a great deal of capital formation is being generated in Kenya's rural areas. Investments in permanent crops, land purchase and improvement, large self-help collection funds, high enrollment in rural schools charging relatively high fees, and investment in non-agricultural entreprenurial businesses suggests considerable rural savings. Included among the sources for such cash surplus are increased prices for export crops, urban-rural remittances, and profits from trade and other rural business activities.

In addition, alternatives to formal credit exist such as informal lending and the liquidation of non-cash assets from which farmers can finance agricultural innovations. Coffee, for example, a crop having a long gap between initial investment and the beginning of a cash flow, has been rapidly adopted in Central and Western Provinces with very little access to credit.

If there is indeed surplus savings in the smallholder areas, then it is possible to alternatively assume that the rate of adoption of certain agricultural innovations is low because returns to investment are low, perceived to be low, or that the high risk is too great for the possible gain. The question of returns to investment is critical to smallholder credit schemes. Given a smallholder's level of technology, skills, resources, access to land, labor and services, his perceptions of the value of investments based upon his opportunity costs and the potential of risk may vary substantially from a statistical analysis of costs and returns.

Evidence suggests that for many persons it is not the lack of finances but rather the lack of other essentials which render returns too low and/or risks too high to justify investment. To get a high return on smallholder investment, among other things, there must be available to the farmer at an appropriate time and reasonable cost supplies and equipment, expertise, labor, transport, and marketing and storage facilities for his produce.

4/ For a comprehensive discussion of credit for smallholders, see AID, "Small Farmer Credit in Kenya", AID Spring Review of Small Farmer Credit, Volume VII, February 1973 (by G.F. Donaldson and J.D. von Pschke).

There are persons, however, for whom the shortage of working capital is a real constraint to the adoption of new technologies. The 1972 ILO report on Kenya suggests that there may be a major need for credit when a farmer is unable to generate domestic savings for purchased inputs or hired labor, when the inputs are available only in large individual quantities, and when there is a long-period between investment and cash returns. There are also farmers who are unable to obtain development credit because they are technically "uncreditworthy". This includes many larger smallholders, both on settlement schemes and elsewhere, who have their collateral fully pledged or are otherwise ineligible to participate in credit programs. Often part of the farm is under-used for want of resources to bring it into production. Credit can and should be used to promote the use of new technology and the adoption of innovation; it can lessen short-run hardships and reduce the risks associated with innovation.

But whether or not credit is a critical constraint to certain individuals it may not be the only constraint. If all production essentials are not made available in an integrated fashion, there is little chance of a project's success. Evidence from the AID-financed Special Rural Development Project in Vihiga (Western Kenya) indicates that both farmers with and those without credit adopted hybrid maize once information, supplies, etc., were made more accessible.

The poor repayment rate on smallholder loans may be partly attributed to the low profitability of the crops being financed. However, recent evaluation reports on smallholder programs also attribute a high rate of arrears to the inexperience of smallholders in the use of credit. Once an enterprise is perceived as a good investment opportunity, farmers receiving credit should be instructed as to the terms and obligations of the loan. Ideally, the farmer recipient should also be affiliated with a lending institution (a cooperative, for example) in which he may participate in policy-making, and in which he has a vested interest.

To summarize, it can be expected that demand from large farmers, mainly for short and medium term credit, will rise as input prices rise and as production of wheat and maize increases in response to higher output prices. With respect to small farmers, the IBRD Agricultural Sector Survey estimated that about 500,000 out of Kenya's 1.2 million smallholders may be classified as progressive farmers, and that about 200,000 - 250,000 have access to formal credit, primarily for export crops. Perhaps another 300,000 to 400,000 smallholders could potentially be progressive farmers, although there are no available figures which allow estimating the size of the group with any precision. Over the long run, a large percentage of the progressive and potentially progressive smallholders will probably use credit, both for food crops and non-food crops. The rate of increase in demand will be largely a function of rate of improvements in access to credit and related services, i.e., a function of the rate of improvement in institutional capacities.

In the short run, i.e., for 1975, the demand for credit is expected to increase sharply due to improved price incentives and increased input costs. The GOK hopes that current wheat and maize prices will be adequate to intensify land use as well as bring an additional 40,000 - 60,000 hectares of wheat into production, and an additional 30,000 to 40,000 hectares of hybrid maize. The demand for production credit based only on the increase in area under production, assuming all farmers use credit for inputs (and assuming the credit figures per hectare given in Tables I and II of Section II.B. of the Project Paper), would be $3.5 to $5.3 million for wheat and $3.6 to $4.8 million for maize; or a total of $7.1 to $10.1 million. To the extent that credit allowances per hectare are higher in practice than suggested in Section II.B. of the Project Paper (e.g. the GMR level of $121 per hectare rather than $87.50), and to the extent that higher input prices lead farmers to seek more credit for intensification of production on existing hectarages, the incremental demand would be correspondingly higher, perhaps on the order of $12-15 million. Thus with private sector credit supply (commercial banks and KFA) stagnant and only an additional $5.6 million available to meet incremental production credit demand from GMR, the unfilled credit gap for 1975 (in the absence of the AID loan) is on the order of $8-10 million.

3. Problems in the Agricultural Credit System

The first identifiable problem is an imbalance in the system. While long-established sources of credit have continued to service a large farm sub-sector diminishing in relative importance, these old sources have not been expanded or adapted nor new sources developed which effectively cater to the growing small farm sub-sector. Consequently large farmers still receive most of the credit. The transfer of land has also been a drain on the credit system as funds, resources and attention were drawn away from development purposes and channeled to the purchase of land (simply a resource transfer). The result was a lack of concern for small farmer credit needs.

Closely related to the above is the lack of integrated policy and policy-making machinery under which the system functions. The farm credit system operates in relative isolation from the overall financial management of the nation. It should function under more clear-cut national guidelines and objectives. There is a need for a central policy-making group, which includes representatives of all institutions involved.

The institutions in the system tend to overemphasize security, making adequate collateral the most important criterion for granting a loan. This works against small farmers with little to offer for collateral. Also, the present credit system is often not closely integrated with technical and managerial developments in agriculture. Credit programs are frequently not based on research and there is little contact between extension and credit. In this situation credit is extended for the wrong purposes and with little real chance of recovery. Finally, enforcement measures regarding loan repayment must be strengthened and used. The government agencies have traditionally been reluctant to use their powers of foreclosure. Thus there is a tendency for farmers not to view credit as an obligation but as a gift. In this situation a few benefit at the expense of the many for whom the credit is not available.

The agricultural credit situation and the above problems as they relate specifically to smallholders are discussed in the following section.

H. Smallholder Sub-Sector

There are roughly 1.2 million small holdings in Kenya, of which about 25 percent are less than 1 hectare in size and 25 percent are between one and two hectares. Rarely are these smallholders "subsistence" farmers in the sense of being largely self sufficient. Most small farmers sell portions of their output with nearly all crops serving as potential cash crops and in one area or another in one season or another they may be major cash earners. Even farmers who produce only enough of a crop to equal their consumption may sell some of the crop at harvest and buy it back later.

Much of the agriculture is hoe culture, but ox ploughing is important in a few areas. Seasonal labor shortages are a problem. The use of new technologies and modern inputs is very uneven. For example farmers in certain areas seem to have adopted new technologies such as hybrid or composite maize to a large extent. In other areas only a very small percentage of the farmers are using improved maize. A similar situation exists for fertilizer and other inputs. Generally it appears that the constraints are more those of opportunity than a resistance to change. Smallholder adoption of tea, coffee and other cash crops is a clear indication of a basic receptiveness.

The smallholder faces particular problems in the supply of inputs and services, including credit, relevant technology, marketing and, as indicated earlier, extension services. Inputs are often not available within a reasonable distance and in the quantities required. This reflects the past development of the input distribution system, which has been in the hands of the private sector and geared to larger farmers and export crops. Low demand at the village level results in few outlets and low supply which helps keep demand low (i.e., it is a self-perpetuating system).

Part of the input supply difficulty is related to the credit system. It is estimated that roughly 200,000 smallholders have access to formal credit. Little or no credit is available from any source for subsistence crops. The actual need by small farmers for credit is the subject of some debate as noted above. The arguments that small farmers need credit to acquire capital items and that the capital is perhaps available from other sources are presented elsewhere. Based on field study in preparing Part C of the loan, however, it is our judgement that certain groups of small farmers need and can effectively use credit. Further we believe that credit can be an important element in inducing farmers to adopt new varieties or ideas which they might view as too risky otherwise. Also as these farmers become more commercially oriented their need for credit will grow.

The current problem is largely an institutional one with a lack of organizations able to provide small farmers with credit. Thus current demands, which may be small, cannot be met and any expansion is precluded. Developing the institutional capability is the key first step.

The body of technology on which to base wide-reaching smallholder production programs is incomplete in Kenya. For a number of crops such as maize, coffee, tea and wheat there is a substantial mass of technical data available for the main production areas. For other crops such as pulses, oilseeds, sorghum and horticultural crops, only limited information for limited areas is available. However, research on the agro-economic aspects of production and on smallholder farming system is particularly lacking. Also the lower rainfall and marginal production areas have not received much attention. Thus technical information to use of smallholders is not always available.

Although marketing was not identified in the Kenya DAP as a serious constraint, it is apparent that for small farmers producing other than traditional cash crops locating a market can be difficult. The marketing of cash crops such as tea, coffee, pyrethrum, milk etc. is well organized with marketing boards, private industry and cooperatives involved. Most prices are fixed. The problems are ones of management and keeping marketing margins down to ensure that producers receive an adequate return.

It is in the area of maize and minor crop marketing that the small farmer faces the more serious problems. The Maize and Produce Board (MPB) is the ultimate buyer of these crops. The Board operates a number of buying stations throughout the country but coverage does not extend to all areas. The Board has also not been interested in buying extremely small quantities. At the same time, the cooperatives have been reluctant to get involved in the marketing of food crops such as maize. Similar situations exist for other minor crops. Obviously, if production of maize and other minor crops is to be increased and marketable surpluses created, a guaranteed buying point within a reasonable distance must be available.

This will require that the cooperative and/or the MPB and/or other organizations to establish new facilities in a large number of new areas.

I. Illustrative Farm Budgets and Benefit/Cost Ratios

These budgets are based upon generalized conditions from data supplied by the MOA which were modified by information gained via interviews with the cooperatives and field visits. While they represent, to the best of our knowledge, a true approximation of the farm budgets they should be considered illustrative.

The budgets on Tables I-V show that in spite of the recent increase in fertilizer prices it still gives an economic return to the farmer. The tables are based on the assumption that even without the availability of credit for inputs the farmer would still use his land for production but would receive a much lower return. The exception is Table V (Passion Fruit) which could not be a commercial crop without a relatively high level of inputs. Thus Table V considers the availability of credit for inputs as the critical criterion for the farmer and thus the benefit/cost ratio is based on an assumption that there is no production without credit.

In each case the prices reported are the current prices, which reflect the recent increases by the GOK. The interest rate of 10% is the actual rate of interest the farmer pays for his credit under Parts A, B and C of the loan.

The benefit/cost ratios vary between 2.98 and 2.5 with the unweighted average being 2.63. This means that not only are the additional inputs a good investment for the respective farmer but that the marginal value products of the investment in each crop are remarkably similar. This rough equality of returns implies that the recommended package of inputs for each crop is generally appropriate, and that no substantial gains would accrue from a significant shift in the pattern of production among the various crops. Thus the utilization of the credit along the lines illustrated in the following farm budget tables (I-V) should not result in any significant misallocation of resources.

TABLE I

WHEAT

BENEFIT/COST RATIO OF CREDIT FINANCED INPUTS PER HECTARE

	Without		With
Output/Kgs/hectare)	1,323.00		1,755.00
Price 1/ (Kshs/kg)	1.111		1.111
Value of Production	Shs.1,470.00		1,950.00
Incremental		480.00	
Production Costs (Kshs)			
Land Preparation	345.00		345.00
Seed	127.50		170.00
Fertilizer (11·55:0)	263.25		351.00
Herbicides/pesticides	22.25		44.50
Planting	50.00		50.00
Harvesting/drying	100.00		100.00
Transport	44.10		58.50
Inputs Subtotal	952.10		1,119.00
Interest on Purchased Inputs 2/	20.65		28.24
Total Costs	972.75		1,147.24
Incremental Costs		174.49	
Gross Margin	497.25		802.76
Incremental Benefit/Cost Ratio		2.75:1	

1/ Kshs. 100/- per 90 kilo bag.

2/ 10% Interest for 6 months on purchased inputs

TABLE II

M A I Z E

BENEFIT/COST RATIO OF CREDIT FINANCED INPUTS PER HECTARE

	East		West	
	Without	With	Without	With
Output (kgs/hectares)	2,250	4,500	1,800	3,600 - 40 kg
Price 1/ (Kshs/kg)	.722	.722	.722	.722
Value of Production	Sh. 1,624.50	3,249.00	1,299.60	2,599.20
Incremental Value of Gross Output	1,624.50		1,299.60	
Production Costs (Kshs)				
Land Preparation	300.00	300.00	300.00	300.00
Seed @ Sh. 2.5/kg.	41.90	62.50	41.90	62.50
Fertilizer (TSP) 75 Kgs	255.00	255.00	255.00	255.00
Fertilizer (CAN) 165 Kgs	-	346.50	-	346.50
		601.50		
Insecticide (Diptrex)	15.00	30.00	15.00	30.00
Herbicide (MCPA)	-	24.00	-	24.00
Harvesting @ 2/-bag	50.00	100.00	40.00	80.00
Shelling @ 1/30-bag	32.50	65.00	26.00	52.00
Transport @ 3/-bag	75.00	150.00	60.00	120.00
Inputs Subtotal	769.40	1,333.00	737.90	1,270.00
Interest on Purchased Inputs 2/	31.17	71.76	31.17	71.76
Total Costs	800.57	1,404.76	769.07	1,341.76
Incremental Costs	604.19		572.68	
Gross Margin	823.93	1,844.24	530.53	1,257.44
Incremental Benefit/cost Ratio	2.69:1		2.27:1	

1/ Based on a price of Ksh. 65 per 90 kilogram bag

2/ At 10%

TABLE III

PASSION FRUIT 1/

BENEFIT/COST RATIO OF CREDIT FINANCED INPUTS PER HECTARE

	With
Output (Tons/Hectare)	5
Price (Kshs/Ton)	1,000
Value of Production	5,000
Production Costs	
Seedbed Preparation	320
Seed	100
Fertilizer	750
Spraying	1,000
Transport	60
Inputs Subtotal	2,230
Interest on Purchased Inputs 2/	200
Total Cost	2,430
Gross Margin	2,570
Benefit/Cost Ratio	2.5:1

1/ Without the utilization of improved inputs Passion Fruit is not considered to be a viable commercial crop hence figures are only available (and reported) for the activity utilizing improved inputs.

2/ At 10%

TABLE IV

MEXICAN 142 BEANS

BENEFIT/COST RATIO OF CREDIT FINANCED INPUTS PER HECTARE

	Without		With
Output (Kgs/hectare)	675		1,350 - 15 bags
Price 1/ (Kshs/kg)	1,889		1,889
Value of Production	1,275.00		2,550.00
Incremental		1,275.00	
Production Costs			
Land Preparation	*		*
Seed	120.00		180.00
Fertilizer (TSP)	306.00		408.00
Insecticide (Rogo)	-		4,00
Insecticide (Endosulfam)	48.75		97.50
Fungicide	-		62.50
Spraying	-		35.00
Harvesting	37.50		75.00
Transport	39.00		78.00
Inputs Subtotal	551.25		940.00
Interest on Purchased Intputs 2/	35.47		75.18
Total Costs	586.62		1,015.18
Incremental Costs		428.56	
Gross Margin	688.38		1,534.82
Incremental Benefit/cost Ratio		2.98:1	

* Interplanted with maize

1/ Based on Ksh. 170/- per 90 kilo bag

2/ At 10%

TABLE V

SUNFLOWER

BENEFIT/COST RATIO OF CREDIT FINANCED INPUTS PER HECTARE

	Without		With Additional Inputs
Output (Kgs/hectare)	600		1,200
Price 1/ (Kshs/kg)	1,425		1,425
Value of Production	855.00		1,710.00
Incremental		855.00	
Production Costs			
Land Preparation	250.00		345.00
Seed	20.00		30.00
Fertilizer	170.00		340.00
Harvesting	15.00		30.00
Transport	24.00		48.00
Inputs Subtotal	479.00		793.00
Interest on Purchased Inputs 2/	19.00		37.06
Total Costs	498.00		830.06
Incremental Costs		332.06	
Gross Margin	357.00		897.94
Incremental Benefit/Cost Ratio		2.57:1	

1/ Based on Ksh. 57/- per 40 kilo bag.

2/ At $8\frac{1}{2}$ percent

ANNEX B

Kenya's Economic Position and Prospects

The first section below discusses very briefly Kenya's current economic position as it has evolved over the past several years, and its prospects in light of the policies adopted over the past eighteen months by the Government of Kenya (GOK). Subsequent sections provide a more detailed treatment of the balance of payments, money and credit, and public finance. The final section draws upon the first four sections and discusses the rationale for the balance of payments and budget support to be provided under the Kenya Agricultural Sector Loan.

1. Current Economic Situation and GOK Policies

Kenya sustained a remarkably high GDP growth rate (in real terms) of 6.8 percent per annum during its first decade of independence (1964-1973). Toward the end of that decade, however, questions began to arise as to whether Kenya could or should maintain the type of development which had prevailed since independence. The balance of payments crisis of 1971/1972 suggested that Kenya's highly capital-intensive and import-intensive growth pattern could not be sustained indefinitely. Moreover, rapid GDP growth had been accompanied by an unacceptably low rate of increase in modern sector employment of only 2 percent per annum. Concern over this problem led the GOK to request an ILO employment mission, which concluded in its report that the GOK's employment and equity goals could not be achieved without fairly fundamental structural changes addressed at overcoming the high degree of economic dualism inherited from the colonial era. 1/ A subsequent IBRD Basic Economic Report, prepared in conjunction with the drafting of Kenya's Development Plan for 1974-1978, concluded that continuation of the previous growth pattern would not contribute to reaching the GOK's employment and equity objectives, and would be unsustainable in any case due to the emergence of an unmanageable external resources gap. 2/ The IBRD recommended a development strategy based on fuller use of domestic resources through greater emphasis on agriculture and resource-based industry. The principal policy instruments recommended were shifts in development budget allocations (toward agriculture and resource-based industry, and away from social services and infrastructure) and price adjustments designed to bring existing factor and product prices closer to their

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1/ ILO/UNDP, Employment, Incomes and Equality - A strategy for Increasing Productive Employment in Kenya, (Geneva, 1972). For the GOK response to the ILO/UNDP Report see Republic of Kenya, "Sessional Paper on Employment", Sessional Paper No. 10 of 1973, May, 1973.

2/ IBRD, "The Second Decade: A Basic Economic Report on Kenya", Report No. 201-KE, January 15, 1974 (in five volumes).

scarcity values (and thus improve the efficiency of resource use).3/

Kenya's 1974-1978 Development Plan, published in March, 1974, reflected the GOK's general acceptance of the recommendations of the ILO/UNDP and IBRD reports. 4/ The Plan was out of date as soon as it was published, however, due to the oil price increases announced in the last quarter of 1973. In a policy statement released at the time of Plan publication, the GOK announced a series of measures intended to protect the balance of payments and accelerate the restructuring of the economy; these included the reintroduction of controls on selected non-essential imports, increased wheat and sugar production for import substitution, and more rapid implementation of rural development programs.5/

In June 1974 the GOK introduced additional fiscal and monetary policy measures-principally increased taxes, higher interest rates and ceilings on the expansion of credit to the private sector.6/ In January 1975 new higher food prices were announced which eliminated the subsidization of urban consumers and provided improved incentives for domestic producers. Finally, in May 1975, the GOK published a comprehensive statement of fiscal, monetary and incomes policies aimed at maintaining progress toward Plan objectives in face of the deterioration in Kenya's balance of payments position and prospects since late 1973.7/ In developing its current strategy, the GOK has attempted to "choose policies for our crisis years which in so far as possible reinforce our longer term objectives of promoting growth, employment and an improved distribution of income".8/ In broad outline, the current GOK strategy is to restructure the economy rapidly enough to permit continued development within a much more binding external resources constraint. This requires restraining imports and promoting exports, which in turn requires the compression of private and public sector consumption in order to

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3/ For a more detailed discussion of these issues, see the Development Overview section of the AID Development Assistance Plan (DAP) for Kenya (October, 1974), pp. 4-15.

4/ Republic of Kenya, Development Plan 1974-1978 (Nairobi, 1974) (in two volumes). For a summary of the Plan objectives and strategies see DAP, pp. 1[illegible]-20.

5/ Republic of Kenya, "On the Current Economic Situation in Kenya", Sessional Paper No. 1 of 1974, March [illegible], 1974.

6/ Republic of Kenya, "Budget Speech for the Fiscal Year 1974/75", June 1[illegible] 1974.

7/ Republic of Kenya, "On Economic Prospects and Policies", Sessional Paper No. 4 of 1975, February 7, 1975 (released in May, 1975).

8/ Ibid, p.7

release resources for increased production for import substitution and for export. To support this redirection of resources the GOK aims to hold the domestic rate of inflation to half of the international rate, and to hold the rate of wage increases to roughly three-fourths of the domestic rate of inflation.

The policy measures developed by the GOK to implement this strategy are discussed in further detail in the sections below.

2. Balance of Payments

During Kenya's first decade of independence the GOK was able to maintain a favorable balance of payments position; availability of external resources was generally not a constraint. Although the trade deficit increased from $30 million in 1963 to $140 million in 1973, this was offset by increases in net receipts for other current account items (e.g. tourism), so that the deficit on current account remained relatively small. The exception was 1971, when a rapid deterioration in the current account balance, combined with reduced net capital inflows, led to a substantial payments deficit. With the imposition of import and credit controls the balance of payments moved back into surplus in 1972 and 1973. Foreign exchange reserves increased from $190 million at the end of 1971 to $285 million (or the equivalent of nearly six months' imports) in mid-1973. Reserves declined thereafter following removal of controls, but still stood at about $230 million as of the end of 1973; the balance of payments surplus for 1973 was $25 million.9/

The impact on Kenya's balance of payments of the "oil crisis" and the accompanying high rate of international inflation was immediate and severe. Although the volume of imports increased only negligibly, import prices increased nearly 50 percent, with the result that imports increased from $600 million in 1973 to nearly $950 million in 1974. Export prices also rose, but by only about 25 percent, so that the trade deficit increased to $290 million (as compared with $110 million in 1973). Other current account items and the capital account continued in surplus, leaving an overall payments deficit of $93 million. This was financed by IMF drawings and other special balance of payments assistance of $54 million, and a decline in reserves of $39 million; at the end of 1974 foreign exchange reserves were $190 million, or about two months' imports.

9/ For a detailed discussion of the evolution Kenya's balance of payments position over the past several years, see IMF, "Kenya - Recent Economic Developments", Report SM/74/23[illegible], October 1[illegible], 1974.

The GOK intends to rely on fiscal, monetary and incomes policies to affect the future growth rate of imports and exports, supplemented by specific measures to limit imports and promote exports. The policy package is aimed at holding the growth rate of imports in real terms to 2 percent per annum (as compared with 7.[illegible] percent during the period 1964-1972 and a planned rate of 6.7 percent); and increasing the real growth rate of exports to 8 percent (versus 4.5 percent 1964-1972, 7.0 percent planned for 1974-1978). The major overall policy measures include restraint on GOK expenditures, budget reallocations, higher taxes, continued restraints on the expansion of credit to the private sector and parastatals, and wage restraint. The GOK has also instituted a number of more specific balance of payments measures. To limit oil imports, the GOK has increased taxes on gasoline by about $0.12 per gallon and recently reduced the maximum speed limit from 70 m.p.h. to 60 m.p.h. With respect to non-oil imports, the GOK has already introduced selective restrictions on imports of non-essentials, and is considering imposing further restrictions and possibly additional sales taxes. Negotiations with Uganda and Tanzania are continuing concerning the development of a more uniform East African Community tariff structure, which would tend to inhibit imports of capital and intermediate goods. 11/ The GOK is also considering a range of measures intended to encourage import substitution, improve the maintenance and utilization of existing capital goods and facilities, and discourage speculative inventory accumulation. The 10 percent subsidy on exports of manufactured goods which came into effect in November 1974 will also be continued.

Based on an assessment of the likely impact of the above measures and on expected trends in import and export prices, the GOK and IBRD have projected trade deficits on the order of $380 million (current prices) for 197[illegible]-1978, and current account deficits of $280-300 million. Assuming a gradual increase in net long term capital inflows (public and private) from an estimated $121 million in 1974 to $190 million in 1978, the overall payments deficit ("basic balance") would increase to about $170 million in 1976, then decline to $100 million by 1978. Since reserves should probably not be drawndown any further, (and in fact will have to be built up slightly, since by 1978 the present level of reserves would cover only about one month's imports)the deficit will have to be financed by balance of payments assistance from various sources, principally the IMF and the IBRD. Borrowing on this scale will substantially increase Kenya's external debt, although the IBRD has estimated that the above projections imply an increase in the debt service ratio from about 4 percent in 1973 to 11 percent by the end of the 1970s (excluding Kenya's share of EAC debt, which is largely self-liquidating). 12/

11/ For discussion of the rationale of a more uniform tariff structure and its possible impact, see the IBRD Basic economic report, Annex 3 ("Key Issues in the Private Sector"), Chapter 3.

12/ IBRD, "Kenya Program Loan", Report No. P-1574-KE, May 6,1975, p. 17.

The GOK and IBRD balance of payments projections are based upon an assumed growth rate in real GDP of 5-6 percent per annum, as compared with the Plan target of 7.4 percent. If the population growth rate continues at about 3.5 percent per annum, this would permit an apparent increase in real per capital GDP of 1.5 to 2.5 percent per annum. It should be noted, however, that the balance of payments projections assume a continued deterioration in Kenya's terms of trade, which implies that the GDP figures must be adjusted for the income effect of the terms of trade. Thus in 1974, real GDP increased by only 4.6 percent (due largely to poor weather and the dampening effect of higher import prices), but real income adjusted for terms of trade increased by only 1 percent; thus per capita real income actually fell by 2.5 percent. However, the GOK projects increases in real income per capita of about 1 percent per annum in 1975 and 1976, 2 percent in 1977 and 3 percent in 1978. 13/

3. Money and Credit

Monetary policy has played a generally passive role in Kenya until quite recently. As noted above, the GOK responded to the 1971 balance of payments difficulties by imposing selective credit controls (July 1971) and establishing a 12 percent per annum ceiling on the growth of commercial bank credit to the private sector (February 1972). 14/ These credit measures, combined with the extensive import controls introduced in January 1972, brought about an absolute decline in imports between December 1971 and June 1973, when the credit and import controls were lifted.

In the case of the current balance of payments crisis, the GOK has decided to avoid imposing extensive and detailed credit controls and import controls if possible, due to the excessive distortions they might introduce into the economy over the relatively long period the balance of payments adjustment process is expected to last (i.e., to the end of the decade). Thus in June 1974 the Central Bank of Kenya reintroduced a general 12 percent ceiling on the annual increase of commercial bank credit to the private sector, but did not reimpose selective credit controls. The Central Bank stipulated that the needs of the agricultural sector and of African small enterprises be met in full. The 12 percent ceiling was also applied to public enterprises other than the Cereals and Sugar Finance Corporation.

13/ Sessional Paper No. 4 of 1975, Table 1. The IBRD projections assume somewhat lower GDP growth rates and are thus less optimistic.

14/ Much of this discussion is drawn from IMF Report SM/74/235, pp. 35-43. Appendices II and III of the report present detailed descriptions of GOK development corporations and of nonbank financial intermediaries.

In addition, the Central Bank extended the 15 percent liquid assets requirement to non-bank financial institutions and established closer control over local borrowing by foreign-controlled firms. In July, the Central Bank raised minimum deposit and lending rates to bring the interest rate structure in Kenya more closely into line with international interest rates. The legal minimum interest rate on time and savings deposits was raised from 3 to 5 percent, and the minimum lending rate from 7 to 8 percent. As a result of these measures actual lending rates moved up 2 to 3 percentage points to the 9-14 percentage range.

The imposition of the 12 percent ceiling in the annual increase of commercial bank credit probably had a significant restraining influence on the volume of 1974 imports, although rising import prices must have played a significant role as well. Overall credit outstanding rose by only 9 percent in the six-month period up to December 31, 1974, whereas the increases had been 18 percent and 28 percent in the previous two six-month periods. Trade credits for imports rose by less than 1 percent between June and December 1974, as compared with increases of about 50 percent between January and June 1974 and 25 percent between June and December 1973. Credit to the agricultural sector rose by 44 percent (from $48 million to $67 million) in June-December 1974, and increased from 8.9 percent of total credit outstanding to 11.6 percent, indicating that the Central Bank's efforts to insulate agriculture from the effects of the credit squeeze were generally successful. They were unsuccessful with respect to the Kenya Farmer's Association (KFA), however, which was forced by the credit squeeze to reduce its own short-term lending for agricultural input purchases from about $10 million previously to $5-6 million in 1975. The effect of higher interest rates since mid-1974 is more difficult to assess, although it may account for some of the easing in demand for credit from private households, financial institutions and domestic traders.

Regarding future policies, the Central Bank will probably maintain the credit ceilings beyond June 1975 for as long as the balance of payments is substantially in deficit, although there may be some relaxing of the ceiling figure (from 12 percent to perhaps 13 or 14); in any case, credit restrictions are to be a major means of bringing the imports down to about 20 percent of GDP by 1979, from the current level of 25 percent. The Central Bank has apparently also decided to use manipulation of the interest rate structure as an active instrument of policy, and will initiate a comprehensive study in the near future of the level of interest rates and possible adjustments within the interest rate structure.

4. Public Finance

The GOK's fiscal performance since independence has been impressive. In 1964 Kenya had a recurrent budget deficit and relied on external assistance for support of the entire development budget. As a result of a strong tax effort (tax revenues rose by over 16 percent per annum in the post-independence decade) and successful efforts to control spending, the GOK was able to support an increase in development expenditures averaging 27 percent per annum with reduced relative dependance on foreign aid and minimal reliance on domestic borrowing. Recurrent budget surpluses have been a major contributor to domestic savings, which reached an exceptionally high rate of 24 percent of GDP in 1973. Government has also been a major contributor to investment, which rose from 14 percent of GDP in 1964 to over 25 percent in 1973. 15/

The GOK intends to continue to rely heavily on fiscal policies to support its current strategy, particularly in restraining expenditures, reducing GOK reliance on domestic borrowing and reallocating budget expenditures toward more productive uses, especially in the rural sector. The outlines of this approach were clear in the 1974/75 budget (introduced in June 1974), which included tax increases, a reduced rate of growth of current expenditures, and a 50 percent increase in Ministry of Agriculture development expenditures. Subsequently the GOK produced a revised forward budget for the remainder of the Plan period (1975/1976-1977/1978). 16/ The forward budget projects real rates of growth of development and recurrent expenditure of 7.8 percent and 6.3 percent respectively, as compared with planned figures of 12.3 and 11.2 percent. Revenues are projected to increase at about 11 percent per annum, or slightly below the planned rate. With respect to the composition of the budget, the GOK has attempted to shift development expenditures "toward agriculture and rural development, toward early maturing and quickly productive projects and toward projects with low import requirements and high employment potential". 17/ The most notable reallocation of development expenditures is the substantial increase in funding for agriculture and water and the concomitant reduction in the share going to construction of roads, bridges and government buildings. The percentage allocation of total development expenditures for agriculture and water was increased from a planned 22 percent to 35 percent (as compared with 13 percent during fiscal years 1969-1973), while that for roads, bridges and buildings declined from a planned figure of 21 percent to 18 percent

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15/ For a detailed discussion of the GOK's fiscal performance, see IMF Report SM/74/235, pp. 17-26. The tax system is described in the report's Appendix I.

16/ Published with Sessional Paper No. 4 of 1975

17/ *ibid*, p.17

(as compared with 35 percent in 1969-1973). Moreover, of the amounts allocated for road construction, 45 percent will be expended for secondary and feeder road construction, compared with 22 percent in fiscal years 1973 and 1974. With respect to recurrent expenditures, the reduction in the projected growth rate was achieved largely by freezing the proportion of the budget allocated to education at the 1975/1976 figure of 34 percent. This implies that recurrent expenditures for education in future years may grow only as rapidly as overall expenditures (7 percent), whereas educational expenditure had been growing in recent years at 17 percent per annum.

5. Rationale of the Loan

Both the ILO/UNDP report and the IBRD Basic Economic Report concluded that achievement of the GOK's employment and equity goals would require that Kenya maintain its high growth rate while restructuring the pattern of growth to assure greater compatibility between output and equity objectives. 18/ The principal threat to maintenance of the GDP growth rate through the remainder of the decade is the difficult balance of payments situation Kenya faces. The major potential or actual constraints to the rapid restructuring of the pattern of growth (which requires much greater emphasis on rural development in general and on smallholder agricultural production in particular) are pricing policies, planning, institutional capabilities, and availability of domestic resources.

The Kenya Agricultural Sector Loan addresses these constraints in several ways. First, the $10.1 million of the loan available for support of existing credit institutions and programs (Parts A and B) will disburse quickly and thus will provide support for Kenya's balance of payments in 1975 as well as augment the domestic credit and budget resources available for short-term agricultural lending. The additional production supported by the credit could save as much as $30-35 million in foreign exchange by saving up to $24 million in wheat imports and providing up to $11 million in corn output available for import-substitution or export in 1975 and 1976. (This additional production is assumed in the balance of payments projections given in Table 1.) Also, the principal and interest repayments from Parts A and B

18/ For an attempt at quantification of the possible output/equity tradeoffs in Kenya see Annex I of the IBRD Basic Economic Report, particularly Chapters 4 and 5.

which will become available to the GOK in the second half of 1976, will provide additional resources which can be directed to existing credit programs or to expansion of the kinds of activities supported under Part C (services for less progressive farmers). The $3.4 million provided under Part C will disburse over three years and thus will make little contribution to alleviation of the balance of payments constraint in 1975. It will, however, contribute to the increased flow of development financing which the GOK has built into its balance of payments projections. Much more importantly, Part C will provide technical assistance and financial resources to support GOK efforts to develop improved systems for extending necessary services to smallholder food crop producers; the development, operation and evaluation of these systems will make a valuable contribution to the planning of programs for smallholders and to the development of the relevant institutions.

In summary, the loan addresses the external resources constraint in the short term (Parts A and B) and medium term (Part C), the domestic resources constraint in the short term (Parts A and B) and medium term (Part C and reflows from Parts A, B and C), and the planning and institutional constraints (Part C). The pricing policy constraint is not addressed explicitly by the loan due to the adequate increases in producer and consumer prices of January 1975, together with subsequent GOK statements concerning agricultural pricing policy and the inclusion of an agricultural prices covenant in the IBRD Program Loan for Kenya. However, it has been made clear to the GOK in discussions concerning the loan that favorable A.I.D. consideration of the GOK's loan request is partially attributable to the GOK's recent favorable pricing policy.

The rationale for Part C of the loan is discussed at length in Annex C and need not be elaborated here. With respect to Parts A and B, it will be useful to consider first the external and domestic resource gaps which Parts A and B are addressed to, and second, the adequacy of GOK efforts to keep these gaps within manageable limits.

According to GOK figures, the balance of payments deficit now projected for 1975 is on the order of $160-170 million. The GOK has received 1975 balance of payments assistance commitments thus far of over $140 million, including $30 million under the IBRD Program Loan, $86 million in IMF drawings (including $14 million for the first credit tranche, $52 million in Oil Facility and Extended Facility drawings, and $20 from the projected increase in Kenya's IMF quota), an estimated $21 million in assistance from other multilateral sources (EEC $15 million, UN Oil Facility $1.7 million and African Development Bank Oil Facility $3.8 million), and $7 million under a U.K. program loan. The $10.1 million available under Parts A and B of the loan will assist the GOK in filling most of the remainder of the projected gap for 1975.

It is extremely difficult, of course, to give a precise estimate either of the production impact of the credit provided under the loan or of the short-term production credit "gap." The demand for production credit is affected by a myriad of somewhat unpredictable factors including farmer reactions to price incentives, perceptions of risk due to poor weather and disease, etc. The GOK approach has been to estimate the credit requirements for increased input costs and the additional areas to be brought into production, and to assure that availability of credit does not become a constraint. This requires an estimate of the supply of credit, which the GOK has done on an incremental basis by assuming that production credit from traditional sources (commercial banks and input suppliers) would decline or remain about constant due to the credit squeeze, and that the GOK-supplied credit would have to make up for any decline in private sector credit, cover part of the increase in production costs, and cover the increases in wheat acreages and acreages planted to high-yielding corn varieties (as well as increased acreages under passion fruit, haricot beans and sunflowers). The incremental demand for production credit, based on increased costs for existing acreages and projections of additional acreage required for wheat and maize is very roughly $12 - 15 million (See Section G. Annex A). The additional amounts available for wheat and maize production are the $5.6 million increase in Guaranteed Minimum Return (GMR) funds and the $8.7 million from the A.I.D. loan for a total of $14.3 million. Thus, the available credit may somewhat more than cover the requirements, although the decline in traditional private sector credit might increase demand for public sector credit sufficiently to bring demand into rough equality with supply. Also, the GOK has deliberately attempted to keep credit supply slightly ahead of demand to assure that credit is not a constraint.

The "credit gap" could, of course, be filled by internal borrowing rather than by external borrowing from A.I.D. (which is what the GOK has actually done on an interim basis). Given the current credit squeeze and the GOK's objective of holding domestic price increases below international price increases, external borrowing is clearly the preferable course for the GOK. Moreover, production credit is the one area which is able to absorb substantial additional financial resources effectively in the short run for food crop production and for which large increases are necessary in 1975.

As regards GOK policies, both the IMF and the IBRD have concluded in recent documents that the current policy mix is appropriate and that it should be adequate to permit Kenya to adjust to a new external equilibrium position while providing maximum support for the GOK equity and output goals.[19] In addition, an IMF mission to Kenya in April concerning Kenya's use of the IMF Extended Facility endorsed GOK policies and recommended substantial continued support of Kenya's long-term balance of payments adjustment program, subject to semi-annual joint reviews of progress under the program. The IMF analysis has tended to focus on credit policies, policies affecting recurrent revenues and expenditures, and on policies affecting the balance of payments over the short and medium run. The IBRD has concentrated on longer-run policies affecting the restructuring of Kenya's growth pattern, i.e., the reallocation of resources to directly productive activities and rural development and the realignment of product and factor prices to reflect the scarcity of capital resources and the relative abundance of Kenya's land and labor resources. As noted above, the GOK began the process of budgetary reallocation in the Plan, but carried it much further in the budget for 1974/1975 and in the revised forward budget for the remainder of the plan period (1975/1976 - 1977/1978). On product and factor pricing, the GOK has moved over the past year to set the prices of major food crops at levels which provide improved incentives and eliminate subsidization for urban consumers, to restrain modern sector wages and salaries and to increase the cost of capital. The Central Bank raised interest rates for the first time ever in June 1974, and is planning to initiate a comprehensive study of the interest rate structure in the near future. A far-reaching reform in the tariff structure is under review with the EAC partner states, as is a possible reduction in investment allowances. The GOK has also considered exchange rate adjustments, although it has apparently decided not to devalue at this time, partially because the tieing of the Kenya shilling to the dollar has already resulted in a substantial depreciation (on the order of 12-15 percent) against the average of world currencies.[20] In general, the GOK's anti-inflation policies are designed to gradually improve the position of the shilling and avoid the disruptive effects of a devaluation.

It is too early to assess the adequacy and feasibility of the GOK policies, although both the IMF and IBRD have endorsed the current policy package and concluded that it provides a basis for substantial

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19/ IBRD, "Kenya Program Loan", Report No. P-1574a-KE, May 6, 1975.

20/ The Kenya shilling is pegged to the U.S. dollar at $1 = KS 7.14286 balance of payments assistance and increased levels of development assistance. The GOK is aware that the very large planned increases in resource allocations to agriculture and rural development will require aggressive efforts to expand relevant planning and implementation capacities, and has been actively assessing means of strengthening the relevant GOK institutions (as evidenced by requests for A.I.D. assistance in agricultural planning and health sector management). The political feasibility of the policy package is also open to question-the policies imply a very slow rate of growth in real incomes, and some of the policies (particularly those affecting eduction and wages) have already come under strong attack. 21/

On balance, the GOK's program of economic management appears to have reasonable prospects of success. It is a well-conceived, comprehensive and realistic program and has been formulated with a full awareness of the operative institutional and political constraints. The program warrants full support from the international donor community, including increased levels of assistance from the U.S.

21/ In fact, the GOK was recently forced to relax its original guidelines on wage increases under threat of a nationwide general strike (among other pressures), although the policy restricting wage increases to less than the estimated rate of inflation is still in effect. The GOK also permitted an increase in the urban minimum wage from 240 shillings per month to 300 shillings (The Central Organization of Trade Unions had demanded 400). It should be noted that real wages had probably declined by 10 percent per year in 1973 and 1974 .

LESS-PROGRESSIVE SMALL FARMER SERVICES PROGRAM-PART C

A. Objectives

The objective of Part C is to design and develop the capacity within the cooperative system to organize and implement a program which will provide comprehensive production and marketing services for food crop production to less progressive small-scale farmers.

The system includes the selection, packaging and delivery of inputs required for specific crop combinations. It includes farmer training in use of these packages, cooperative participation and training for proper management of credit by the farmers. The system requires coordination of input delivery with field extension visits to the participating farmers. It includes provision of marketing services based on prompt payment to the farmer for his produce combined with proper storage and handling of produce by the cooperatives. The system, to be implemented, requires training for both the local cooperatives and field extension staff and assumes that the current activities of the cooperatives will be expanded in terms of services provided, clientele and crop orientation. These modifications and the design of the system, along with their rationale are discussed in greater detail below.

B. Present Situation

The Ministry of Agriculture (MOA) has designated seven geographic areas that are predominantly smallholder regions to be the target locations for the Part C smallholder program. Table I lists the number of active unions and the affiliated cooperatives identified by type in each of the seven districts, total farm families, area and average size of holdings plus a list of KFA appointed stockists within each district. Almost half of the farmers in these seven districts are cooperative members. The cotton and cereal cooperatives are predominant in the western districts and coffee is grown in all districts listed. It is important to note that cooperative unions and member societies exist throughout the regions designated by the MOA.

There are weaknesses in these cooperatives, however, which have reduced their effectiveness in supporting the development of either cash or food crop production by their members. Although cotton, coffee and dairy cooperatives market cash crops, individual producers of these commodities in Western and Nyanza Provinces receive only limited benefits from these services since their holdings of cash crops seldom exceed one acre of cotton or one-half acre of coffee. In addition, the producers are predominantly cultivators of food crops--maize, beans, groundnuts, etc.--for home consumption and limited sales. Members cannot market food crops through their cooperatives since the cooperatives are not authorized by the Maize and Produce Board to be purchasing agents. Another weakness of these cooperatives is their failure in most instances to provide input supply services. This last constraint also applies even for the relatively well-organized cash crop cooperatives. The absence of an accessible supply of inputs limits the use of improved seed and fertilizer for food crop production.

Despite these problems, the organizational structure of the cooperatives in the program area is firmly established and it is the only agency which reaches out to the more remotely situated and neglected smallholder. It is possible, with a carefully conceived, properly supported program, to build the existing cooperative network into a fully integrated supply, marketing and credit system capable of supporting the typical subsistence oriented producer so that he can improve his economic status and contribute to the food supply of the country.

C. The Program

1. Background

Discussions at the MOA and Ministry of Cooperative Development (MOCD) followed by extensive field contacts with personnel of both agencies have contributed to the proposed plan of action designed to develop an integrated service system. The program also has been reviewed with cooperative union and society leadership of cooperatives in seven districts.

The Ministry of Cooperative Development personnel agree that the C.P.C.S. 1/ system at present does not offer the less-progressive smallholder an opportunity to employ seasonal credit for food crop production. They support an integrated cooperative development plan and recognize that the credit segment of such a plan must allow more access by the so-called higher-risk farmer borrower than the C.P.C.S. system now permits. The MOCD through the Federation of unions and societies is cooperating fully in the development of the program.

The MOA has been directly involved in the planning for the program. AID's program development consultant is officed in the Ministry and has been assigned a full-time counterpart from the Ministry's Planning Division. The proposed program has been reviewed with all major divisions of the Ministry. The Extension and Training Division, Crop Production Division, and Farm Management Division and the Economic Planning Division have responded favorably to the general outline. Ministry field personnel, Provincial and District Agricultural Officers and District Crop Officers have been contacted in the seven districts and have cooperated in the field surveys and assisted in the formulation of crop production recommendations. Plans for farmer training courses have been reviewed with District Agricultural Officers (D.A.O.).

1/ See Annex A for a discussion of the C.P.C.S. system.

2. Program Components

a. Administration

An Inter-agency Coordinating Committee made up of the Directors of the principal divisions of MOA and MOCD will have the responsibility to:

1. Approve the program plans.
2. Coordinate program activities.
3. Conduct periodic reviews of program progress and problems.
4. Review the results of the annual evaluation and take appropriate action when necessary.

The MOCD leadership of cooperative unions within the seven districts will be instructed to carry out the program. This action is to be followed by the assignment of additional field personnel to advise and assist the unions and their respective societies in organizing supply, marketing and credit systems. Action by the MOCD on this requirement has begun with the recent assignment of additional cooperative officers to several western unions.

Ministry of Agriculture Provincial and District Officers will be officially informed of the application of the plan in their respective areas. Informal contacts have already been made. The field extension service will be particularly involved in the proposed production system, organizing the farmer training courses, assisting in the selection of prospective participants, and subsequently continuing field contact with farmers to advise them on the use of cash inputs.

One-crop cooperatives will be converted to multipurpose societies. Many of the one-crop societies in the seven districts have by action of the membership declared themselves multipurpose cooperatives, thus making it possible to handle supplies and to market a wide range of crops. This development was precipated by the announcement last November of the availability of credit to small farmers for food crop production (supported by Part B of this Loan).

b. Supplies and Marketing

Cooperative unions and societies involved in the program plan are to develop dependable supply sources. They will work with all relevant organizations beginning with the Kenya National Federation of Cooperatives (KNFC) which can provide inputs, but will not exclude KFA and their appointed stockists who cover many of the more remote areas of the western provinces. Table I lists the KFA stockists.

It is of interest to note at this point that the Danish International Development Agency (DANIDA) has recently received a request for cooperative assistance from the GOK which is presently under consideration. This is a request for assistance in financing a $1.3 million cooperative farm input supply scheme. Of this amount, $440,000 is planned for five expatriate technical experts in farm supply utilization and distribution to be assigned to five of the so-called weaker cooperative unions, three of which are in the areas designated for the Part C program. The remaining $860,000 is to provide soft credit terms to a number of selected "weaker" cooperative unions for procuring and stocking farm inputs for re-sale to small-holder cooperative members. Thirteen cooperative unions have been chosen to receive this assistance, seven are within the two Western provinces in which the Part C program is also involved. Approval and implementation of this proposal will add important support to the development of multi-service cooperatives in areas of smallholder agriculture.

Equitable food crop marketing by smallholder producers has faced serious obstacles which have tended to discourage increased smallholder food production. The food producer with limited marketable quantities faces storage and transportation problems in addition to sharp trading practices which reduce his net return on sales. The Maize and Produce Board (MPB) has legal monopoly buying rights for all the food crops traditionally grown by the smallholder. At present the MPB operates its buying rights through a network of licensed traders or dealers who are the usual marketing agents for the smallholder. The problems created for the small producer by this system have been documented in several recent reports.2/ These recommend changes in the system to provide him with a more equitable and regularized market. Action is being taken with the MPB to designate the interested cooperative societies as licensed food crop buyers. This will provide the food grower a regular dependable sales outlet and also make it possible to establish for farmers needing credit, a formal loan repayment system similar to the successful non-food cash crop systems. The cooperative societies or unions designated as purchasing agents will have cash on hand for immediate payment to the producers and then provide the storage necessary to properly handle and market the cooperator's food crops. Finally, the multipurpose cooperative will assist the food producer with his transportation problems since supply and marketing cooperatives will have the year-round volume of business to justify operating or renting transportation equipment.

C. Credit

To complete a fully integrated system of cooperative services a smallholder credit plan will be necessary for farmers desiring food crop production inputs. The established farm credit systems, though operating

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2/ Experimental Maize Marketing Scheme/Hanrahan August 1974
Maize Storage and Handling/Barber and Hesselmark 1974

quite effectively in most areas of the country with both large and small scale progressive producers, do not at present offer credit opportunities for smaller higher risk food crop growers. As cited above, the scheme closest to this group is the C.P.C.S. whose relatively conservative philosophy prevents expansion of the system into food crop cooperatives.

A credit system for this neglected group must be carefully structured, however, so as not to create a casual attitude towards loan repayment which in the long run could undermine the successful efforts of the creators of C.P.C.S. to develop a business-like attitude towards credit use. The credit plan proposed for Part C, therefore, will substitute certain qualifications for prospective borrowers, replacing the somewhat strict requirements of C.P.C.S. but not totally eliminating a selection process.

Careful review of the Special Rural Development Projects (SRDP's), particularly the Tetu and Vihiga schemes, has provided important guidance in developing this credit plan. Because of the experimental nature of both schemes, there has been thorough documentation of the results through several complete evaluations.3/ The target farmer groups for the schemes were similar to the smallholder subsistence farmer with which Part C is concerned. Food crop production was also stressed in SRDP. An effort has been made to utilize the more successful methods employed in both schemes in formulating this credit plan.

The most important single element in the Part C credit portion of the production scheme will be the requirement for all loan applicants to complete a farmer training course. It is through this device that the traditional smallholder, who heretofore has had little extension support and has been either an inactive cooperator or a non-member, can be educated in both the use of cash production inputs and the value of cooperative production credit.

Regular farmer training courses are the MOA Extension Service's favorite method of educating interested farmers in improved agricultural practices. Farmer Training Centers with complete physical facilities for boarding 60 to 100 participants exist in each of the districts assigned to Part C. Unfortunately, budgetary limitations have restricted normal training activity to much below full capacity. Funding assistance described in Table II for Farmer Training Center staffing, staff training and conducting the proposed courses will be provided from Part C funds.

The farmer training course will be conducted jointly by the regular training staff and members of the MOCD's Educational Division. The latter will cover cooperative education and conduct the credit part of the seminar which proved to be one of the most effective communication devices developed in the Vihiga project.

3/ Extension and the Forgotten Farmer/I.D.S. Bulletin 37/1973 - Ascroft, Roling, Kariuki and Chege.

The selection process of applicants for the training courses has been designed to encourage participation by farmers who usually have been the last to receive direct extension and cooperative support. At Tetu, farmers were visited in the field by Junior Agricultural Assistants and sub-chiefs, informed about the course and invited to attend. This method can be used in regions of high concentration of smallholders but it will be supplemented by a cooperative publicity campaign advising members and non-members of the availability of credit and the F.T.C. requirement. Cooperative leadership will join with extension staff and, where practical, sub-chiefs in reviewing eligibility of applicants. The prime requirement is for the applicant to be truly a smallholder. A single definition based on size of holding will not be practical since district by district a typical smallholding varies in size depending upon general soil fertility and/or density of population. A basis which can be loosely applied and will provide the necessary yardstick is an estimate of potential net per capita farm income including home consumption of between $50.00 and $150.00. 4/ This definition of a target group should not be employed in such a manner that it excludes farm families which do not have this potential but rather to clearly define that group of farmers which should receive the greatest emphasis and attention by the program. Farm families with net per capita farm income that exceed this amount should be excluded since they are assumed to be already part of the commercialized farm sector. Credit for food crop production will be seasonal; that is, repayment will be due at the close of the crop year. All credit will be furnished in kind through cooperative suppliers, K.F.A. and stockists, whichever best serves the particular location. Credit applicants will not be required to be cooperative members. During the F.T.C., however, he will be encouraged to join since societies seldom charge more than a K.Shs. 5/00 membership fee and some are as low as K.Shs. 1/00. Applicants will decide whether they wish to accept a loan at the conclusion of the course since the course will be structured as much for farmer technical education as for credit understanding. Thus, the course will also be a method of reaching farmers with extension information who have heretofore not taken full advantage of existing services.

3. Recommended Food Crop Production Packages

Several common food crops are traditionally grown in all seven program areas. Maize is the most popular and provides the basic cereal for rural diets. In addition, several varieties of pulses or small edible beans, potatoes and cassava make up the typical farm family subsistence diet. Of this group, maize has the potential in all districts to yield profitable returns with improved cultivation, hybrid seed, fertilizer and insect control. In recent years a higher yielding commercially marketable bean, Mexican 142, has been introduced to East Africa and has yielded profitable returns when

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4/ For more complete discussion of this target group, see Annex A and Part II.B.4 of the Loan Paper.

treated with cash inputs. Likewise, sunflower production for sale has become more widespread with an improved price structure and a ready market for its vegetable oil content.

Groundnuts, traditionally a widely grown East African food usually produced for home consumption, has become a good source of cash income when grown with improved practices. F.A.O. fertilizer trials conducted in Western Kenya have yielded as high as 1,500 kg./ha. with average yields of 1,000 kg./ha. over all 120 trial plots. A groundnut processing plant has been established in Kisumu for preparing peanuts for confectionary use and peanut butter production with inferior grade nuts. The plant can process 12,000 tons per annum, more than twice present estimated production in the surrounding area. A nearby market and an attractive price make this food an important potential source of cash income for the smallholder. Labor is the major constraint to rapid expansion of growing area since hand shelling is slow and time-consuming. It is estimated that it requires one man day to shell 14 kg. of peanuts.

The four food crops shown in Table III, maize, Mexican 142 beans, groundnuts and sunflower provide the elements for the recommended packages. They are maize/Mexican 142 beans; maize/groundnuts; and maize/sunflower. The size of plots for the two crops combinations are well within a smallholder's family labor capability and are used to form the basis for calculating each unit's cash return potential. Individual growers can increase or reduce field size according to their capability. Maize with groundnuts and Mexican 142 each total 0.7 of a hectare while maize with sunflower calls for 0.8 hectare, the latter crop requiring less labor.

Below is a summary of the total returns and the incremental returns over plantings without cash inputs for the three packages taken from Table III:

	Incremental Cash Costs	Total Net Return	Incremental Return	Benefit/Cost Ratio
Maize/Mexican beans 142	$ 69	$ 143	$ 74	2.1:1
Maize/Groundnuts	$ 61	$198	$ 104	3.2:1
Maize/Sunflower	$ 65	$132	$ 75	2.1:1

All packages return better than one hundred percent over input costs with the maize/groundnut unit showing an outstanding profit.

4. Projected Returns from Program

Table IV projects the use of the $702,000 earmarked in first first year of the Part C Program for Food Production Credit. The average size of a loan for each package (Table III) is approximately $90[1] (K.Shs. 642/60) permitting 7,800 loans. Table IV shows the dispersal of credit by district and type of loan. Use of the three recommended packages in each district is related to ecological conditions best suited for the crop combination and existing markets. The total number of loans by district is related to the smallholder populations of each district. (These figures relate to year 1 only. Figures for years 2 and 3 can be obtained by extrapolation.)

A total net return valued at $1,233,000 is projected from the production of 15,815 tons of food crops. It is estimated that the incremental amount of food resulting from the use of cash inputs will total 8,[illegible]7 tons. The total net cash increment after allowance for cash inputs of $595,000 comes to $638,000, a cost benefit ratio of 1:2.1.

5. Relationship of the Integrated Agricultural Development (IADP) Program and to the Part C Program

The IADP is presently being prepared by the Ministry of Agriculture staff. It contemplates funding support from the IBRD on the order of $26 million. An integrated approach to agricultural development addressing problems of input supply, marketing, infrastructure, extension support and credit is being used in order to improve production throughout the major high potential agricultural areas.

Although the goals of IADP are similar to the Part C program, the plans differ in scope and the range of smallholders they are designed to service. IADP will operate in Central, Eastern, Western and Nyanza Provinces, and though it is primarily concerned with the small farmers, a fairly large proportion of the credit is planned to be channeled through established farm credit programs -- AFC and CPCS. These organizations do deal with small farmers, most of whom can be considered good credit risks because of their cash crop resource. The program, however, also makes specific mention of the smallholder group not presently able to obtain credit and poorly supported with input supply and marketing assistance.

IADP will have a significant impact upon the agricultural credit system. Present estimates indicate credit assistance will reach 56,700 farm families over a 4-5 year period. In addition, there will be funding to support the improvement of farm input supply systems, marketing systems, and rural communication -- roads, telephones and field staff mobility.

The general similarity of IADP and the Part C smallholder program has been recognized in planning for Part C and there has been continuing contact and close coordination between planners for both projects. Program activity areas assigned to Part C by the Ministry of Agriculture are adjacent to some of the IADP targets. There will not be any duplication of effort and overlapping authority since IADP's credit plan will not address the low income smallholder until the third year of its operation. It is assumed that at that time the Part C credit program will be fully operative

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1/ The actual average loan for cash inputs alone would be $76, however an allowance of Ksh. 100 ($14.00) has been included for labor in the average loan amount should this be required.

and IADP funds will flow through this same system. IADP plans for developing agricultural support services will complement similar Part C plans, hence the possibility of accelerating the rate of development of this important adjunct to the Part C smallholder credit program.

D. Program Costs

1. Technical Assistance

In addition to the evaluation, the program will require the following technical assistance. Costs over a three year period are shown in Table No. II below.

A project administrative advisor will be required for a three year period to supervise the implementation and development of a fully integrated system. He will also be responsible for training a Kenya counterpart who will assume the supervisor's role at the completion of his tour. Ten Peace Corps Volunteers will be required to be assigned to cooperative unions. Volunteers with accounting and business administration skills will be responsible for assisting the management staff of the unions and their affiliated societies in establishing an effective bookkeeping and accounting system. The volunteers' primary objective, however, will be to train Kenyan staff in the above systems. Cooperative unions have as many as eight to ten affiliated societies, hence a volunteer assigned to a union will have a full workload assisting and training society and union staff. Table No. II shows the estimated costs of equipment and supplies necessary for office management and volunteers' mobility. Volunteers will recieve cooperative training in addition to their regular Peace Corps training at the Cooperative Training College.

2. Administration and Development

Ministry of Agriculture/Farmer Training Courses

The cost of providing the F.T.C. to loan applicants has been calculated (Table No. II) for approximately 8,000 participants in year one. The funding represents the incremental amount required over the average annual budget allocated to the training centers to train 1,200 applicants at each center.

b. F.T.C. Costs Attributed to Cooperative Training Staff

Funding is provided (Table II) to support the training input of the MOCD educational staff who will be assigned to the training centers to present cooperative and credit seminars.

c. F.T.C. Staff Training

Funds are provided (Table No. II) for the special staff training necessary to prepare extension and cooperative trainers.

d. MOCD Staff Additions to District Cooperative Offices

Funding is provided (Table No. II) to hire two cooperative field assistants and one manager/trainer for each district. These positions are MOCD assignments needed to increase field staff who will work directly with cooperative membership and in an advisory role to unions and societies. Cooperative field assistants also will coordinate their activity with extension agricultural assistants and junior agricultural assistants.

e. Participant Training for Cooperative Officers

A cooperative officer with the appropriate academic background will be selected from each district to be sent to the U.S. for a six month intensive general cooperative educational course. Candidates will be selected each year for three years.

3. Food Storage Facilities

Funds (Table No. II) are provided for capital investment in food storage facilities to accommodate the anticipated increase in food crop production resulting from the use of production inputs. Total estimated annual production increment will be 8,500 tons. The estimated additional storage capacity required will be 7,000 tons distributed among the seven districts.

E. Implementation Schedule

The anticipated overall implementation schedule for Part C of the loan is as follows:

1.	Loan Authorization	June, 1975
2.	Completion of detailed Part C plan and establishment of administrative structure	July, 1975
3.	Assignment of field staff	August, 1975
4.	Arrival of U.S. operations advisor	September, 1975
5.	Arrival Peace Corps Volunteers, evaluation consultants; staff training for farmer training courses begins. GOK submits first reimbursement request.	October, 1975
6.	Farmer training courses begin, input packages finalized	November, 1975

7.	**First planting season begins; plans for storage construction prepared and construction begins.**	January 1976 January, 1976
8.	Input supply assessment	March, 1976
9.	First participants depart for training	April, 1976
10.	Part C program evaluation	September, 1976
11.	Second year farmer training cycle begins; first reprogramming of credit reflows from Parts A, B and C.	October, 1976
12.	Third farmer training cycle begins	October, 1977
13.	GOK submits final reimbursement request	October, 1978
14.	Loan terminal date	December, 1978
15.	Final reprogramming of credit reflows	June, 1979

Further details of the implementation schedule for year 1 (1975/1976) are as follows:

1. June, 1975

a. Obtain approval from concerned GOK ministries of Part C program design, including participating unions and societies.

b. Inter-agency Coordinating Committee established. Obtain final concurrence of committee on plans for program activities.

c. MOA officially informs Provincial and District Agricultural Officers in program areas of their responsibilities vis-a-vis Part C program.

d. Peace Corps/Kenya submits request for volunteers to Peace Corps/Washington with appropriate documentation.

e. USAID/Kenya requests AID/W to identify candidates for operations advisor and evaluation team for GOK approval.

2. July/August, 1975

a. MOCD assigns additional cooperative staff where required. Designated unions begin planning for input supply systems, product handling and credit extension.

b. MOA assigns required staff for agricultural extension and Farmer Training Centers to be used for small farmer food production and credit training.

c. Operations advisor begins activity September 1.

3. <u>September, 1975</u>

a. District Agricultural Officers prepare farmer training course budget.

b. Operations Advisor working with MOA and MOCD develops curriculum for staff training courses.

c. Progress by cooperative unions in preparation for input supply handling is reviewed and where required appropriate action is taken.

d. Cooperative and extension staff work out details of farmer selection process and obtain Inter-Agency Coordinating Committee concurrence.

e. Evaluation contractor arrives to prepare evaluation plans, train staff and assist in introducing system.

4. <u>October, 1975</u>

a. Peace Corps Volunteers arrive and begin cooperative training at the Cooperative College.

b. Staff training begins and include final development of farmer training curriculum along with training in evaluation procedures.

5. <u>November/December, 1975 and January, 1976</u>

a. Farmer training courses begin, Western Province courses will be trained first since planting season is usually one month to six weeks earlier than Eastern and Central Provinces. Courses will continue into January if the additional time is necessary.

b. Cooperative union and society staff will prepare required input packages and distribution system based upon number of participants in farmer training courses.

6. <u>January/February, 1976</u>

a. Farmers begin planting with the use of input packages they acquire following training courses. Acquisition by credit in kind and/or purchase with farmer's own resources.

b. MOA and MOCD field personnel cooperate to follow up and assist farmers in proper land preparation and use of cash inputs.

c. Plan storage requirements on basis of program participation.

d. Begin construction of storage facilities.

7. March/April, 1976

a. Participant trainees selected and depart for 6 month U.S. training period. (April - September period will permit trainees to return following course in time for second year training cycle).

b. Input supply assessment by MOCD staff and Operations Advisor.

8. July/August, 1976

a. Harvest period and start of loan repayment

9. September, 1976

Evaluation of first year's program by evaluation consultant, Operations Advisor and GOK ministries.

10. October, 1976

Staff training for second year begins.

F. Monitoring and Evaluation

The program will be closely monitored by the GOK and AID through the Inter-agency Coordinating Committee, assisted by the Operations Advisor provided under the technical assistance portion of the loan. The major relevant documentation will be the GOK quarterly reimbursement requests and the quarterly reports of the Operations Advisor (whose reports will incorporate reporting from the cooperative union managers). The details of the monitoring system will be set forth in the Part C plan submitted pursuant to the relevant Condition Precedent of the Loan Agreement, and will be refined further by the evaluation consultants.

The Condition Precedent submission noted above will also include a detailed evaluation by evaluation consultants. Since all farmer participants under the Part C program will go through farmer training courses, these courses should provide a low-cost vehicle for gathering most of the data needed for evaluation of the program. Under this approach, evaluation consultants would participate in the first farmer training courses as well as in a staff training course programmed for extension and cooperative trainers. This will provide the means to educate field personnel in evaluation methods and the record keeping designed to monitor the project. The team will remain through several succeeding farmer training courses in order to cover all seven centers to instruct and assist the trainers in the establishment of the required data base. Approximately two man-months will be necessary to set up the program with one man-month required at the close of the crop year to evaluate the results based on the organized record keeping of the extension and cooperatives staff. At an appropriate point following planting, there will also be a staff review of the effectiveness of the input system. This will be necessary if adjustments to the system are required prior to the short rain season which can be the next input demand period.

Although this production scheme is planned to offer a service previously not available to the smallholder, it should not be classified as experimental nor should it be considered a pilot project. The SRDP projects were experiments in smallholder credit for food production and as such provided much of the structure planned here. This does not mean, however, that the system has been perfected, and therefore the evaluation will include an analysis of the effectiveness of the SRDP ideas employed in this scheme.

Table I - Characteristics of Part C Areas

District/Province	Total Farm Families	Av. Size Holding (Hectores)	Co.op Members	Co.op Unions	Active Cooperative Societies By Type: Total No. Societies	Cereal Grains	Coffee	Cotton	Sugar Cane	Dairy	Poultry	Supply	Mixed Crop	K.F.A. Stockists 1/
Kisumu (Nyanza)	22,600	2.0	7,600	2	41	4	10	1	21	1	-	2	2	31
S. Nyanza (Nyanza)	16,200	2.5	6,500	4	36	3	17	3	2	5	-	1	5	38
Siaya (Nyanza)	17,900	2.5	5,600	2	11	2	3	3	-	2	-	1	-	51
Kakamega (Western)	13,070 2/	2.0	14,600	3	46	23	10	1	5	2	1	1	3	281
Busia (Western)	25,900	6.0	7,800	3	30	-	11	15	-	1	-	2	1	30
Embu (Eastern)	18,750	3.0	4,000	1	15	-	10	1	-	2	1	-	1	45
Machakos (Eastern)	14,356	3.0	11,000	2	26	2	13	-	-	5	-	-	6	93
Total	136,976		59,600	17	205	34	74	24	28	18	2	7	18	570

1/ K.F.A. is a large farmer (more than 20 acres) Cooperative which sells agricultural inputs through its own outlets as well as through affiliated retailers (stockists).

2/ Cover Central Division of Kakamega District only.

TABLE II - PART C BUDGET PLAN

Item	1975/76 $000	1975/76 Ksh.000	1976/77 $000	1976/77 Ksh.000	1977/78 $000	1977/78 Ksh.000	TOTAL $000	TOTAL Ksh.000
Operations Advisor	50.0	357.0	50.0	357.0	50.0	357.0	150.0	1,071.0
Evaluation Consultants (9 m/m @ $6,000)	18.0	128.5	18.0	128.5	18.0	128.5	54.0	385.5
Equipment & Supplies	50.0	357.0	20.0	142.8	10.0	71.4	80.0	571.2
Participant Training (21 @ $8,500)	59.5	424.8	59.5	424.8	59.5	424.8	178.5	1,274.4
Farmer Training Costs (MOA)	8,000 Trainees		9,000 Trainees		10,000 Trainees			
(@ $700/Trainee)	56.0	399.8	64.0	457.0	70.0	499.8	190.0	1,356.6
Farmer Training Costs (MOCD) (@ $300/Trainee)	24.0	171.4	26.0	185.6	30.0	214.2	80.0	571.2
F.T.C. Staff Training & Maintenance	5.0	35.7	5.0	35.7	5.0	35.7	15.0	107.1
New Coop. Staff	66.0	471.2	67.0	478.4	67.0	478.4	200.0	1,428.0
Storage Construction	66.0	471.2	67.0	478.4	67.0	478.4	200.0	1,428.0
SUB-TOTAL	394.5	2,816.6	376.5	2,688.2	376.5	2,688.2	1147.5	8,193.0
15% Contingency	59.5	424.8	56.5	403.4	56.5	403.4	172.5	1,231.7
SUB-TOTAL	454.0	3,241.4	433.0	3,091.6	433.0	3,091.6	1,320.0	9,424.7
Credit	702.0 1/	5,012.2	1378.0 2/	9,838.9	- 3/	-	2,080.0	14,851.2
TOTAL	1,156.0	8,253.6	1811.0	12,930.5	433.0	3,091.6	3,400.0	24,276.0

N.B. Ksh. Totals may not add due to rounding.

1/ Average loan of $90 X 7,800 participants. (Assume 2.5 percent drop out of trainees).

2/ Average loan of $90 X 7,800 new participants X 7,510 returned participants.

3/ New participants for 1977/78 will receive credit from reflows of Parts A and B. Returned participants covered by reflows of Part C funds.

TABLE III

Part 3 - Estimated Net and Incremental Returns by Crop

	Maize		Mexican Beans		Groundnuts		Sunflower		Return on Packages Using Cash Inputs		
	With Inputs	Without Inputs	With Inputs	Without Inputs	With Inputs	Without Inputs	With Inputs	Without Inputs	Maize/ Mex.Beans	Maize/ Gr.Nuts	Maize/ Sunflow.
Production Unit (Hectares)	0.4	0.4	0.3	0.3	0.3	0.3	0.4	0.4	0.7	0.7	0.8
Av. Yield/Hectare (Kg.)	4,050	1,620	1,350	675	1,200	600	1,200	500	--	--	--
Unit Yield (Kg.)	1,620	675	405	203	365	180	480	200	--	--	--
Av. Return (Ksh./Kg.)	0.72	0.72	1.67	1.67	2.75	2.75	1.13	1.13	--	--	--
Gross Return - Ksh.	1,170.00	486.00	675.00	338.00	1,000.00	500.00	542.00	226.00	1,845.00	2,170.00	1,712.00
Production Costs											
Fertilizer 1/	270.00	--	108.00	--	90.00	--	128.00	--	378.00	360.00	[illegible]
Seed	25.00	18.00	54.00	54.00	24.00	24.00	12.00	12.00	79.00	49.00	37.00
Land Preparation	100.00	100.00	100.00	100.00	74.00	74.00	120.00	110.00	200.00	174.00	[illegible]
Other Costs 2/	68.00	68.00	48.00	--	56.00	37.00	--	--	116.00	124.00	[illegible]
Credit 3/	36.00	--	21.00	--	16.00	--	14.00	--	57.00	52.00	[illegible]
Total Costs - Ksh.	499.00	186.00	331.00	154.00	260.00	135.00	274.00	122.00	830.00	[illegible]	773.00
Net Return - Ksh.	671.00	302.00	344.00	184.00	740.00	365.00	268.00	104.00	1,015.00	1,411.00	[illegible]
$	93.98	42.30	48.18	25.77	103.64	51.12	37.54	14.57	142.16	197.62	[illegible]
Incremental Return - Ksh.	369.00	--	160.00	--	375.00	--	164.00	--	529.00	744.00	533.00
$	51.68	--	22.40	--	52.52	--	22.97	--	74.09	104.20	74.65

1/ Fertilizer Rates per Hectare:
- Maize - 75 Kg. TSP + 165 Kg. ASN-CAN
- Mexican Beans - 120 Kg. TSP
- Groundnuts - 100 Kg. TSP
- Sunflower - 100 Kg. TSP

2/ Includes insecticides and cost of spraying.

3/ 10% of cash costs (excludes land preparation).

Table IV - Part C - Net and Incremental Return by District and Crop in First Year

District	Maize/Mexican Beans					Maize/Ground Nuts					Maize/Sunflower					Total Loans	Total Return			
	No. of Loans	Net Return $000	Net Return KSh000	Incre.Return $000	Incre.Return KSh000	No. of Loans	Net Return $000	Net Return KSh000	Incre.Return $000	Incre.Return KSh000	No. of Loans	Net Return $000	Net Return KSh000	Incre.Return $000	Incre.Return KSh000		Net $000	Net KSh000	Incre. $[illegible]	[illegible]
Machakos	700	100	710	52	373	-	-	-	-	-	200	26	188	14	104	900	126	898	66	[illegible]
Embu	700	[illegible]	710	52	37[illegible]	-	-	-	-	-	200	26	188	14	104	900	126	898	66	[illegible]
Kakamega	600	[illegible]	608	44	317	300	5[illegible]	423	31	223	300	40	281	22	155	1,200	164	1,312	97	[illegible]
Busia	400	[illegible]	406	30	211	400	79	564	42	297	400	53	375	29	207	1,200	189	1,345	101	[illegible]
S. Nyanza	300	43	304	22	158	700	138	987	73	520	200	26	188	15	104	1,200	207	1,479	[illegible]	[illegible]
Kisumu	300	43	304	22	156	600	118	846	62	446	300	39	281	22	155	1,200	200	1,431	106	759
Siaya	400	[illegible]	406	30	211	600	118	846	62	446	200	26	188	15	104	1,200	201	1,440	107	[illegible]
Total	3,400	[illegible]	3,448	252	1,795	2,600	512	3,866	270	1,932	1,800	236	1,689	131	933	7,800	1,233	8,803	653	4,[illegible]

Table V

Part C - Food Produced in First Year

(Metric Tons)

District	Maize	Ground Nuts	Mexican Beans	Sun-flower	Total
Machakos	1,458	-	284	96	1,838
Embu	1,458	-	284	96	1,838
Kakamega	1,944	108	243	144	2,439
Busia	1,944	144	162	192	2,442
S. Nyanza	1,944	252	122	96	2,414
Kisumu	1,944	216	122	144	2,426
Siaya	1,944	216	162	96	2,418
Net Total	12,636	936	1,379	864	15,815
Incremental Total	7,371	414	566	336	8,687

AID 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Annex D

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 1975 to FY 1978
Total U.S. Funding $13.5 million
Date Prepared: May 12, 1975

Project Title & Number: Kenya Agricultural Sector Loan I

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal. The broader objective to which this project contributes:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
1. The long term goal of Part C is to improve the welfare of small farmers.	1. Net incomes of small-scale farmers. Production data.	1. Sample surveys of small farmers. GDP data on agricultural sector.	1. Improvement in general welfare will be reflected in increased food availability for sale and home consumption.
2. The short term goal of Parts A & B is to relieve balance of payments pressures by reducing wheat imports and producing an exportable surplus of maize.	2. Food production and balance of payments data.	2. MOA statistics on food production. Central Bank of Kenya statistics on balance of payments.	2. Increased agricultural production will result in reduced food imports and increased exports.

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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Project Title & Number: Kenya Agricultural Sector Loan I

Annex D

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	Conditions that will indicate purpose has been achieved: End of project status.		Assumptions for achieving purpose:
1. Under Part C the long term purpose is, in selected areas, to improve the infrastructure serving small farmers, particularly cooperative credit, training and education, input supply, marketing and storage facilities. 2. Under Parts A and B the short term purpose is to increase food crop production.	1. Small farmers in project areas are being reached and serviced by agricultural institutions (specific targets by area are to be developed). 2. Quantities of major grain crops produced and marketed have increased.	1. Reports of participating agencies. Site inspection by qualified GOK and A.I.D. staff. Annual joint evaluations. 2. Sample surveys of small farmers. 3. Agricultural production and marketing statistics of GOK.	1. Needed manpower, equipment, vehicles, etc. to improve agricultural services are available. 2. GOK plans and programs are well designed -- aimed at eliminating production constraints and meeting defects or gaps in agricultural services. 3. Improved physical infrastructure facilities allow agriculture manpower to perform more efficiently. 4. No major drought or adverse weather conditions. 5. Prices of major farm products continue favorable and price increases for farm products at least offset increases in cost of production [illegible]s.

AID 1020-28 (7-71)
SUPPLEMENT I

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:		Assumptions for achieving outputs:
1. New programs or expansions of existing programs which improve agricultural services for less-progressive small farmers in selected areas. **2. Increased credit available for food crop production.**	1. GOK agricultural development budget for Fiscal Years 1976-1978 includes items specifically earmarked for small farmer development programs. 2. New programs providing comprehensive production and marketing services to small farmers operating in at least seven districts and serving 7,800 new farmer participants each year for FYs 1976, 77 and 78. **3. Programs operating with personnel assigned by end - 1976.** **4. An additional $3.4 million of agricultural credit reaches small farmers in 1975/1976.** **5. Loans totalling $6.7 million are made to larger farmers in 1975/1976.**	1. GOK budget plans. 2. GOK reports. Annual joint GOK/A.I.D. evaluations. 3. GOK development budget for FY 1976 - 1978. 4. Records and reports of participating organizations.	1. GOK has the ability to plan expansion of existing and development of new agricultural production programs and improvement of agricultural services. 2. Ministry of Finance and Planning and Parliament will approve increases in the Development Budget.

AID 1020-28 (7-71)
SUPPLEMENT I

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Annex D

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. Funds will be provided by A.I.D. and GOK to expand the FY 1976 to 1978 agricultural development budgets to include new credit and small farmer service programs.	1. A.I.D. provision of $13.5 million in agricultural sector loan funds.	1. A.I.D. financial records.	1. Funds will be provided in time for effective utilization.
2. Other necessary inputs will be provided or made available by GOK.	2. Land, equipment, manpower and administrative talent to support programs will be provided for in GOK budget and furnished in a timely manner.	2. GOK financial and program records.	2. A.I.D. loan will be signed by July 15, 1975 and all disbursements completed by December 31, 1978.
			3. GOK will provide adequate quantities and quality of land, equipment, manpower and administrative talent.

ANNEX E

EFFECT OF THE LOAN ON THE ROLE OF WOMEN IN KENYA'S DEVELOPMENT

Women in Kenya are steadily increasing their participation in government and business as the country progresses towards full development. In agriculture, however, particularly in the small subsistence level farms, they are faced with the traditional attitude of the women's place in the rural home. Although most of the farm field work is done by women, the husband practically always is the cooperative member and the land title-holder. He usually insists on exercising his voting rights in the cooperative and receiving payment for whatever products are sold, leaving little opportunity for his wife to do more than work the land and run the household.

There are changes taking place, however, in these rural patterns and women are playing increasingly larger roles in agricultural decision-making. Due to high rates of labor migration, a decline in the frequency of widow inheritance, and the recent direction of male attention towards export crop production, women are taking over the responsibilities of husbands and sons for technical decisions in regard to food production. Although specification of the level of farm expenditure is usually the responsibility of the male farm head, female farm managers often are faced with such critical decisions as which inputs to purchase, how much labor to use and when it should be applied, which husbandry practices to incorporate, and when, where, and how much of the crop to sell.

In locations that offer alternative employment for the males the farm women are assuming the full role of farm management and decision making. One example of the impact of nearby urban employment opportunities was revealed in the records of the farmer training sessions of the Tetu S.R.D.P. scheme where thirty percent of the trainees were women. The Tetu area is north of Nairobi and accessible to several urban centers where many Tetu area men hold jobs. Other instances of women assuming an increasingly important role in agricultural production were observed in field visits. In Western Kenya several of the milk producer cooperatives have a high percentage of women members who milk their cows, deliver the milk and insist on receiving payment for sales. The same holds true for poultry production. A number of multi-purpose unions include consumer cooperative societies organized and run by women.

These evidences of the increasing activity of smallholder's wives are encouraging, but more formal support is needed to develop the rural women's position in the economy. At present, the Ministry of Agriculture Extension Service trains women for home demonstration instruction. Women with their knowledge of practical farming can make excellent agricultural field officers and should be accepted for training. By the same token the Ministry of Cooperative Development should train women in cooperative management, record keeping, etc. for assignment to unions.

The Part C program will establish an extensive series of farmer training sessions at which undoubtedly many farm women will attend. The two ministries concerned with developing this program are urged to take this opportunity to assign, whenever possible, women trainers and women field staff. If too few qualified women are available for the first series there is ample time to train staff for the successive crop years projected in the program and project plans will provide for selection and training of women for these jobs.

For direct participation in Part C credit no restrictions because of sex will be included in the borrower's qualification. Women will be actively encouraged by cooperative and extension staff to attend F.T.C. and obtain credit if cash production purchases are desired. Title deeds traditionally in the male's name except for widows with legalized inheritance will not be a loan security requirement in Part C credit.

ENVIRONMENTAL IMPACT

The impact of this program on the environment is likely to be slight. No resettlement of population, construction of irrigation systems or ponds, or activities that will disturb wildlife are planned in the project. The use of pesticides and fertilizers on the bulk of the acreage affected by the project should not substantially exceed present levels since 75 percent of the loan is to meet the credit needs of farmers who normally use credit to purchase inputs. It is possible some of these farmers will expand present acreages, but for the most part AID funds will allow maintenance of present acreages by increasing the credit pool to meet input costs which have tripled in the past two years.

The less-progressive small farmer component of the loan will put a number of farmers not now using pesticides and fertilizers in a position to purchase them. Such farmers will, at the same time, receive training and assistance from extension services, hence there should be the necessary educational and supervisional activities to prevent, or at least minimize, the use of pesticides and fertilizers in ways that have an adverse impact on the environment.

A substantial portion of the funds from this loan will be used to purchase fertilizer. Nitrogenous and phosphate fertilizers, when applied to crops, are potentially capable of causing changes (which may be adverse, beneficial, or of no significant consequence) in the existing conditions or characteristics of the environment of Kenya. There is also the possibility that fertilizer will be mismanaged by some inexperienced handlers and farmers and may result in the improper use of limited quantities of fertilizer. For the most part, however, fertilizer will be obtained by established farmers who have used them previously and there is no indicatation that cases of negative impact would be extensive or permanent. For less progressive farmers under Part C of the project the application of fertilizer will increase the yields per acre, which are very low. The use of fertilizer will thus have a significant beneficial effect on their welfare with a low probability of adverse effects on the land. There are no adverse effects on the air environment from the use of fertilizer. Nitrates and phosphates contribute to the overgrowth of objectionable plant forms in lakes and other standing bodies of water. The permissible criterion for nitrates (determined as nitrogen) in public drinking water is 10 milligrams per liter. Satisfactory records are not available on the nitrate content of drinking waters, nor are we aware of any evidence of the incidence of hemglobinemia, the disease caused by high nitrates. The beneficial effects of the application of fertilizer to the crops of Kenya far outweigh the potential and unproved adverse effects. However, specific environment effects will be reviewed further during the annual program evaluation.

All of Kenya is drought prone and certain areas of the country have suffered from varying degrees of drought for the past three years. This program will operate in areas of Western, Central, Eastern and Rift Valley Provinces which are considered high and medium potential agricultural areas and where drought conditions do not now prevail. The Mission, therefore, believes the project will not affect Kenya's drought susceptibility.

CHECKLIST OF STATUTORY CRITERIA

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended

FAA, 1973 - Foreign Assistance Act of 1973

App. - Foreign Assistance and Related Program Appropriation Act, 1974

MMA - Merchant Marine Act of 1936, as amended.

I. FULFILLMENT OF STATUTORY OBJECTIVES

A. Needs Which the Loan is Addressing

1. FAA Section 103. Discuss the extent to which the loan will alleviate starvation, hunger and malnutrition, and will provide basic services to poor people enhancing their capacity for self-help.

Kenya does not have a starvation problem and the loan therefore does not address this issue. However, the loan is designed to assist substantial elements of the rural farm population in need of agricultural goods and services to enable them to improve their performance and thereby their social and economic status.

2. FAA Section 104. Discuss the extent to which the loan will increase the opportunities and motivation for family planning; will reduce the rate of population growth; will prevent and combat disease; and will help provide health services for the great majority of the population.

Not applicable.

3. FAA Section 105. Discuss the extent to which the loan will reduce illiteracy, extend basic education, and increase manpower training in skills related to development.

Not applicable.

4. FAA Section 106. Discuss the extent to which the loan will help solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development.

Not applicable.

5. FAA Section 107. Discuss the extent to which the loan will support the general economy of the recipient country: or will support development programs conducted by private or international organizations.	The loan will be used to increase food production by providing agricultural inputs and credit to small and large farmers, thereby decreasing the dependency on imported food grain.

B. Use of Loan Funds

1. FAA Section 110. What assurances have been or will be made that the recipient country will provide at least 25% of the costs of the entire program, project or activity with respect to which such assistance is to be furnished under Sections 103-107 of the FAA?	The Kenya Government is providing $4.5 million for seasonal production credit.
2. FAA Section 111. Discuss the extent to which the loan will strengthen the participation of the urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.	A part of the loan funds will be used to assist the GOK in channelling agricultural inputs into rural areas through established farmer-owned co-ops and associations. In addition components of this assistance will focus directly on less progressive and heretofore unreached farmers.
3. FAA Section 112. Will any part of the loan be used to conduct any police training or related program (other than assistance rendered under Section 515(c) of the Omnibus Crime Control and Safe Streets Act of 1968 or with respect to any authroity of the Drug Enforcement Administration of the FBI) in a foreign country?	No.
4. FAA Section 113. Describe the extent to which the programs, projects or activities to be financed under the loan give particular attention to the integration of women into the national economy of the recipient country.	The loan will make assistance available to both men and women farmers alike. See ANNEX E of the loan paper.

5. FAA Section 114. Will any part of the loan be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

II. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§201(b)(5), 201(b)(7), 201(b)(8), 208. Discuss the extent to which the country is:

(a) Making appropriate efforts to increase food production and improve means for food storage and distribution.

The GOK has reaffirmed its commitment to increased food crop production in the 1974-1978 Development Plan. Current budget allocations reflect that commitment. To stimulate agricultural production Kenya recently increased food crop prices including an 11% increase in wheat prices and a 30% increase in corn prices. The Wheat Marketing Board of Kenya has steadily increased the storage and handling capacity of its facilities.

(b) Creating a favorable climate for foreign and domestic private enterprise and investment;

Kenya has a growing economy and investment policies that are conducive to foreign investment. U.S. business investment in Kenya by more than 125 companies has doubled in the last two years and now represents an investment in excess of $170 million. The GOK has signed an Investment Guaranteed Agreement.

(c) Increasing the people's role in the developmental process:	A part of the funds provided under the loan will be used to assist small less progressive farmers who have not received such assistance in the past.
(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs;	Kenya's budget for development projects and activities continues to increase. In FY 1975 development expenditures were $88.3 Million, and defense recurrent and development expenditures $16 Million. Kenya maintains a foreign policy which emphasizes regional cooperation.
(e) Willing to contribute funds to the project or program:	The GOK will contribute $ 4.5 million, 25 percent of program costs.
(f) Making economic, social and political reforms such as tax collection improvements and changes in land tenure arrangement; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise;	GOK recurrent revenues have increased from 13.9% of GDP in FY 1964 to 18.5% in FY 1973. Since 1963 the GOK has operated a series of settlement schemes whereby large expatriate holdings have passed to African settlers. As of the end of 1973, 616,914 acres had been developed for 57,174 families

(g) Responding to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The Government has and is continuing in its policy and actions to direct resources toward improving the social and economic condition of its people.

B. Relations with the United States

1. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's or a predecessor's unconditional guarantee?

No.

2. FAA Sec. 620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprises annual production during the life of the loan?

N/A

3. FAA Sec. 620(e)(1). If assistance is to a government, has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate, or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps, if any, has it taken to discharge its obligations?

3. Mr. John Saul, a U.S. citizen, in April 1974 obtained a permit from the GOK for the mining of rubies. On June 18, 1974 he was expelled from Kenya and a mining permit for the same locations was issued to a Kenyan national. In Aug. 1974 Mr. Saul obtained injunctive relief in regard to the establishment of the competing claim. However, the GOK, which has cancelled the competing claim of record, prohibits Mr. Saul from entering Kenya and from carrying on mining operations. In Nov. 1974 the GOK began to negotiate with Mr. Saul's representatives on the compensation to be paid for the impairment of his mining rights. In view of the complexity of the matter, the time used to obtain independent opinion on the value of the Saul claim, and the potentially large sums involved, the length of the negotiations cannot be considered unreasonable.

4. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

There have been no instances in which it has been necessary for the GOK to take action in this connection.

5. FAA Sec. 620(l). Has the government instituted an investment guaranty program under FAA Sec. 221(b)(1) 234(a)(1) for the specific risks of inconvertibility and expropriation or confiscation?

Yes.

6. FAA §620(o). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? If, as a result of a seizure, the U.S.G. has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.

No.

7. FAA Sec. 620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?

No.

8. FAA Sec. 620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?

No.

C. Relations with Other Nations and the U.N.

1. FAA Sec. 620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?

No, as far as is known.

2. FAA Secs. 620(a), 620(n). Has the country sold, furnished, or permitted ships or aircraft under its registry to carry to Cuba or North Vietnam, items of economic, military or other assistance?

No, as far as is known.

3. FAA Sec. 620(u); App. Sec. 107. What is the status of the country's U.N. dues, assessments or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues or arrearages?

Kenya has not been delinquent in any obligations to the U.N. The Loan Agreement limits the use of funds to the agricultural pursuits of the program.

D. Military Situation

1. FAA Sec. 620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance

No.

2. FAA Sec. 620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment, and (c) has the country spent money for sophisticated weapons systems purchased since the statutory limitation became effective?

Approximately 6% of Kenya's budget (including the Development Budget) was to be spent for military purposes during FY 1975. A negligible amount of foreign exchange has been spent for purchase of military equipment, none of which would fall into the classification of "sophisticated weapons".

2. (2) Is the country diverting U.S. development assistance or PL 480 sales to military expenditures?

No.

2. (3) Is the country diverting its own resources to unnecessary military expenditures? (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant information.)

No.

III. CONDITION OF THE LOAN

A. General Soundness

Interest and Repayment

1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest.

The loan terms are concessional and within the country's capacity to repay. The interest rate is 2% during the grace period and 3% thereafter which is below the applicable rate in Kenya.

Financing

1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

Kenya has received development financing on reasonable terms from the United Kingdom, the Federal Republic of Germany, Canada, Italy, etc. However, additional resources are required. Private U.S. sources do not provide financing of this type.

Economic and Technical Soundness

1. FAA §§201(b)(2), 201(e). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?

Yes .

2. FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonable firm estimate of the cost of assistance to the U.S., been completed?	Yes.
3. FAA §611(b); App. §101. If the loan or grant is for a water or related land-resources construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?	The loan is not related to water or land resources construction.
4. FAA §611(c). If this is a Capital Assistance Project with U.S. financing in excess of $1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?	Yes. See ANNEX H of Project Paper.

B. Relation to Achievement of Country and Regional Goals

Country Goals

1. FAA §§207, 281(a). What is this loan's relation to:	
(a) Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development?	The loan addresses problems in the agricultural sector working through financial institutions and government agencies in assisting the farm community in developing the economy.
(b) Enabling the country to meet its food needs both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity?	This assistance is directly focused on food production increases and will greatly assist other GOK efforts toward making Kenya self-sufficient in basic food requirements.
(c) Meeting increasing need for trained manpower?	Not applicable.
(d) Developing programs to meet public health needs?	Not applicable.

(e) Assisting other important economic, political, and social development activities, including industrial development, growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development; and modernization of existing laws?

Farmer cooperative societies, farmer associations and agricultural banks will be the implementing agencies for this loan. Their capacity to provide additional services to the agricultural community will be strengthened.

2. FAA §201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to relizable long-range objectives.

Although Kenya has a moderate but growing industrial base and an important tourist industry, agriculture is and will remain for some time as the main economic activity of the economy. Government planning and programs reflect this reality. This loan is accordingly consistent with those plans and programs.

3. FAA §201(b)(9). How will the activity to be financed contribute to the achievement of self-sustaining growth?

By providing some of the prerequisites to an expanded and viable agricultural sector.

4. FAA §201(f). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.

This is not a project loan.

5. FAA §201(b)(3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

By assisting in the provision of identified agricultural goods and services to farmers and farm areas with potential for increased production.

6. FAA §281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.

By supporting agricultural development the loan is aimed at those institutions most directly affecting the welfare of the majority of Kenyan people.

7. FAA §601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

By (a) increasing agricultural output of some of the crops that have export market or potential; (b & c) helping to develop capable and successful farmers through established co-op; (d) not applicable; (e) the extension services to be included under the program; (f) not applicable.

8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.

No loan funds will go directly to private enterprise; 75% of the loan will go to intermediate credit institutions which will relend the funds to private large and small farmers for procurement of both domestic and imported commodities.

9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

No legislative action required.

Regional Goals

1. FAA §619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?

Not applicable.

2. FAA §209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?

The loan does not address a regional problem. The U.N., World Bank, W.H.O. and FAO provide assistance to Kenya.

C. Relation to U.S. Economy

Employment, Balance of Payments, Private Enterprise.

1. FAA §§201(b)(6); 102. What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.	Not applicable. Loan consists of direct local currency purchases.
2. FAA §§612(b); 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign owned currencies are utilized in lieu of dollars?	U.S.-owned local currencies are not available. Kenya Government Agricultural Budget expenditures in FY-1975 were $68 million in local currency.
3. FAA §601(d); App. §108. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?	Not applicable.

4. FAA §608(a). Provide information measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.	Not applicable.
5. FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?	Not applicable.
6. FAA §621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they particularly suitable; are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?	Contracts for technical services will be signed with U.S. private institutions. It is not anticipated that Federal Agencies will be utilized.
7. FAA §611(c). If this loan involves a contract for construction that obligates in excess of $100,000, will it be on a competitive basis? If not, are there factors which make it impracticable.	Not applicable.
8. FAA §601(b). Describe the efforts made in connection with this loan to encourage and facilitate participation of private enterprise in achieving the purposes of the Act.	Not applicable.

Procurement

1. FAA §604(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President?	Not applicable.
2. FAA §604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase?	Not applicable.

3. FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?	No.
4. FAA §604(f). Will the agency receive the necessary pre-payment certification from suppliers under a commodity import program agreement as to description and condition of commodoties, and on the basis of such, determine eligibility and suitability for financing?	Not applicable.

D. Other Requirements

1. FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?	Yes.
2. App. §105. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?	Not applicable.
3. FAA §620(k). If the loan is for construction of a production enterprise, with respect to which the aggregate value of assistance to be furnished will exceed $100 million, what preparation has been made to obtain the express approval of the congress?	Not applicable.
4. FAA §620(b), 620(f); Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (includin but not limited to, the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) and App. §109(b) been made and reported to the Congress?	Kenya is not a part of or controlled by the international communist movement.

5. FAA Section 620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?	The standard A.I.D. loan provision will prohibit the comingling of communist block aid.
6. FAA Section 636(i). Will any part of this loan be used in financing non-U.S. manufactured automobiles? If so, has the required waiver been obtained?	No.
7. FAA Section 620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?	No.
8. FAA Section 201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?	Not applicable.
9. App. Section 103. Will any funds under the loan be used to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?	No.
10. FAA Section 901.b. Does the loan agreement provide for compliance with U.S. shipping requirements that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately-owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels and that at least 50% of the gross freight revenue generated by all shipments financed with funds made available under this loan and transported on dry cargo liners be paid to or for the benefit of privately-owned U.S. flag commercial vessels?	Not applicable.

11. FAA Section 481. Has the President determined that the recipient country has failed to take adequate steps to prevent narcotic drugs produced or procured in, or transported through, such country from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the United States unlawfully?

12. App. Section 110. Is the loan being used to transfer funds to world lending institutions under FAA Sec. 209(d) and Sec. 251(h)?

13 App. Section 601. Are any of these funds being used for publicity or propaganda within the United States?

14. FAA Section 612(d) and Section 40 of PL 93 189 (FAA of 1973). Does the United States own host country excess foreign currency and, if so, what arrangements have been made for its release in compliance with Section 40 (FAA of 1973)?

15. FAA Section 604(d). Will provisions be made for placing marine insurance in the U.S. if the recipient country discriminates against any marine insurance company authorized to do business in the U.S.?

Not applicable.

16. Section 29 of PL 93 - 189 (FAA of 1973). Is there a military base located in the recipient country which base was constructed or is being maintained or operated with funds furnished by the U.S., and in which U.S. personnel carry our military operations? If so, has a determination been made that the government of such recipient country has, consistent with security, authorized access to such military base on a regular basis to bona fide news media correspondents of the U.S.

Not applicable.

17. FAA Section 640(c). Will a grant be made to the recipient country to pay all or part of such shipping differential as is determined by the Secretary of Commerce to exist between U.S. foreign flag vessel charter or freight rates?

Not applicable.

18. App. Section 113. Will any of the loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?	No.
19. App. Section 114. Have the House and Senate Committees on Appropriations been notified 15 days in advance of the availability for obligation of funds for the purposes of this project?	Such notification will be made.

ANNEX H

KENYA AGRICULTURAL SECTOR LOAN I

Certification Pursuant to FAA Section 611(e)

I, Charles J. Nelson, the principal officer of the Agency for International Development in Kenya, having taken into account, among other things, the maintenance and utilization of projects in Kenya previously financed or assisted by the United States, the adequate financial and manpower support given to the Phase I and now the Phase II Livestock Development Projects, the continued support for agricultural education programs and the demonstration of sound fiscal planning on a national scale, do hereby certify that in my judgment Kenya has shown both the financial and human resources capability to effectively maintain and utilize the assistance provided under the Kenya Agricultural Sector Loan I.

Signed Charles J. Nelson

Charles J. Nelson
Director

Date 19 May 1975

DRAFT Annex I

LOAN AUTHORIZATION

A.I.D. Loan No.:

Provided under:: FAA Section 103, Food and Nutrition

For : Kenya - Agriculture Sector Loan

Pursuant to the authority vested in the Administrator of the Agency for International Development (A.I.D.) by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Section 103 of said Act to the Government of Kenya ("Borrower") of not to exceed thirteen million five hundred thousand United States dollars ($13,500,000) to assist in financing the United States dollar and local currency costs of activities in support of the development of the agricultural sector of the Kenyan economy. The loan funds will be apportioned among the following activities: Part A, $6.7 million will be reloaned by the Borrower to the Agricultural Finance Corporation (AFC) and the Kenyan Farmers Association (KFA) to provide seasonal credit to commercial farmers; Part B, $3.4 million will be reloaned by the Borrower to the AFC, KFA and the Cooperative Bank of Kenya to provide seasonal credit to small progressive farmers; Part C, $3.4 million will be used by the Borrower to provide comprehensive production and marketing services and production credit to less progressive small farmers. The foregoing activity allocations may be adjusted in order to permit excess Part A funds to be utilized for purposes of Parts B and C and excess Part B funds to be utilized for purposes of Part C. The loan shall be subject to the following terms and conditions:

1. Interest Rates and Terms of Repayment.

   (a) The Borrower shall, in United States dollars;

      (i) Repay the loan to AID within forty (40) years from the date of the first disbursement under the loan, including a grace period of not to exceed ten (10) years.

      (ii) Pay to A.I.D. interest on the unrepaid principal and on any interest accrued thereon, at the rate of two (2%) percent per annum during the grace period and three (3%) percent per annum thereafter.

(b) For purposes of Part A, AFC and KFA shall, in legal tender of Kenya:

(i) Repay to the Borrower the amount of the reloans within a period not to exceed ________ from the date of the first disbursement under the loan.

(ii) Pay to the Borrower interest on the balance payable under subparagraph (b)(i) above, at a rate of not less than six percent (6%) per annum.

(c) For purpose of Part B, AFC, KFA, and the Cooperative Bank, shall, in legal tender of Kenya:

(i) Repay to the Borrower the amount of the reloans with a period not to exceed ________ from the date of the first disbursement under the reloan.

(ii) Pay to the Borrower interest on the balance payable under subparagraph (c)(i) above, at a rate of not less than six percent (6%) per annum.

(d) For purposes of Part C, to the extent of any reloan of funds allocated to this Part to an intermediate credit institution(s), such intermediate credit institution(s) shall in legal tender of Kenya, repay the Borrower under such terms and conditions as shall be agreed upon by AID under implementation letters.

2. Utilization of Local Currency Accruing to Borrower under Repayment of Reloans.

Local currencies accruing to the Borrower as the result of repayment of reloans shall be devoted to development of the agricultural sector and maintained in such accounts as may be agreed upon by AID and the Borrower.

3. Procurement.

Commodities and services financed under the loan shall have their source in A.I.D. Geographic Code 941 countries or from Kenya. Fertilizers, other agricultural chemicals, and motorcycles financed under the loan shall have been manufactured or produced in countries included in A.I.D. Geographic Code 935.

4. Other Terms and Conditions.

The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Daniel Parker
Administrator

Date

AIRGRAM

DEPARTMENT OF STATE

UNCLASSIFIED

CLASSIFICATION

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DATE REC'D. Ø164
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For each address check one ACTION | INFO

4
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TO - AID/W TOAID A 18 X

1977 FEB 23 PM 3 41

DATE SENT 2/18/77

FROM - NAIROBI
E.O. 11652: N/A

SUBJECT - Project Performance Tracking System - USAID/Kenya January CPI Report

REFERENCE -

see page 3

A) POP Studies Center (0165)

1. CPI Number 5 - missed (AID/W)

Event: Contract team leader arrives to assist in organization of PRSC and later to assure research and training responsibility.

Problem: Although ProAg and PIO/T were signed June 29, 1976 and sent to AID/W, RFP was not issued until October 26, 1976. Technical review of proposals completed December 17, 1976 in AID/W. To date contractor has not been selected. Reason unknown.

Assessment: If Chief of Party (contractor team leader) can arrive by mid-February, work can be speeded up to achieve most tasks Chief of Party involved in.

Action: Contract must be signed ASAP and firm early date of arrival of Chief of Party must be established.

B) NRRD (0157) and Livestock Loan (615-T-008)

1. CPI Number 9 - missed (GOK)

Event: Meat processing study required by Livestock Loan completed.

Problem: Contractor has requested, and been granted additional 30 days to complete study report.

DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY:
NKanyua:rma	PROG	230	2-11-77	Charles J. Nelson Director, USAID/K

AID AND OTHER CLEARANCES

PROG:CHPenndorf (Draft)
" :LRichards (")
A/D:WASigler

UNCLASSIFIED

CLASSIFICATION

Assessment: A one month delay will not seriously affect project.

Action: None.

2. CPI Number 10 - missed (USAID-AID/W)

Event: Land capability study for high potential ranching areas underway.

Problem: Delay of Revised project paper approval.

Assessment: This will further delay effective development on 14 small ranches in areas which seriously need assistance.

Action: Recruit team of specialist from USAID to carry out study with the least possible delay. USAID drafting PIO/T.

3. CPI Number 11 - missed (USAID-AID/W)

Event: Contract signed for consultants to range management training institutions.

Problem: Delay in PP approval and resulting delays in new project components.

Assessment: Will not affect present on-going project activity but affect future training programs for Kenyan personnel.

Action: Recruit consultants with least possible delay after PP approval. USAID drafting PIO/T.

4. CPI Number 12 - missed (USAID-AID/W)

Event: ILCA to have all elements of project monitoring program started.

Problem: ILCA Recruitment of staff delayed, presently Team leader and one team member on board out of five member-team.

Assessment: Further delays in monitoring will reduce effectiveness as much baseline data for start up will not be available.

Action: Through GOK urge ILCA to increase recruitment efforts.

C) Vet. Faculty (0158)

CPI Number 8, 9 and 10 - achieved.

D) Marginal/Semi-Arid Lands (0164)

achieved

1. CPI Number 2 - /[illegible] (USAID-AID/W)

2. CPI Number 3 - missed (USAID/GOK)

Event: All logistic support in place, administrative, arrangements made, implementation plan developed and GOK counterparts named and in place. All preparations made for initiation of field work.

Problem: USAID and GOK cannot complete until firm ETA of US team established.

Assessment: Project already delayed in initiation. XXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

Action; Mission continues to make what preparations it can for arrival of team. (With the February arrival Project XXXXXXXXXX Coordinator these actions are now moving ahead.)

E) Rural Planning (0162)

1. CPI Number 6 and 8. No change.

2. CPI Number 7 - missed (GOK/HIID).

Event: MSEU established and operational.

Problem: MSEU not established. Detailed workplan for MSEU being developed by Chief Advisor of HIID/MOA group. USAID expects GOK approval of workplan and establishment and staffing of MSEU will proceed shortly.

Action: Mission will continue monitoring and encouraging GOK to properly establish and staff MSEU.

F) ASL I (0171)

1. CPI Number 16 - missed (GOK)

Event: Support staffs of unions, societies, MOA and MOCD required to carry out expanded programs, XXXXXXX trained and in place.

Problem: Union support staffs only partly in place.

Assessment: Project has been unable to fill all of 134 field supervisor positions. Recruitment continues but quality of program may suffer if positions not substantially filled by March 15.

Action: Efforts to hire additional field supervisors will continue.

2. CPI Number 19 - missed USAID.

Event: First crop year evaluation underway.

Problem: Evaluation not undertaken.

Assessment: Evaluation will probably commence March. Delays in generation of evaluation information will result in delays in finalizing program plans for CY 1977.

Action: Press contractor to identify and field evaluation team ASAP.

3. CPI Number 20 - missed (GOK)

Event: Agricultural inputs in place for CY 1977.

Problem: Cereals and Sugar Finance Corporation has not released funds for purchase of inputs.

Assessment: Believe funds will be released shortly. Impact on program is negligable as bulk of inputs are reported to have been moved to project areas by ~~EX~~ KGFC and will be released to farmers immediately upon release of funds to Co-operative Bank.

Action: Will monitor progress of fund release and if release not made by February 7, will take up this issue with appropriate GOK officials.

4. CPI Number ~~XXX~~ 21 - missed - USAID.

Event: Baseline survey II commences.

Problem: Baseline survey ~~X~~ II not initiated.

Assessment: Mission has not yet received and evaluated result of Baseline I. Project planning and evaluation will be delayed and quality may be impaired by lack of baseline information.

Action: Baseline I scheduled to be delivered within next ten days. Upon receipt, will discuss with contractor and determine when it most appropriate to undertake Baseline II.

MARSHALL

615-0171

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

UNITED STATES POSTAL ADDRESS
NAIROBI (ID)
DEPARTMENT OF STATE
WASHINGTON, D.C. 20520

Office of the Director,
INTERNATIONAL POSTAL ADDRESS
POST OFFICE BOX 30261
NAIROBI, KENYA

Mr. James G. Karuga
Chairman
Cereals and Sugar Finance
Corporation
P.O. Box 38250
Nairobi

September 12, 1980

Dear Mr. Karuga:

Re: ASL-I Aid Loan No. 615-T-009
Agriculture Sector Loan I
Implementation Letter No. 21

In Implementation Letter No. 20 of June 3, 1980, we outlined procedures for approval of disbursements from the ASL-I Reflow Account. The procedure therein outlined was essentially one in which proposed reflow expenditures would be embodied in annual work plans and supplementary budget proposals. USAID would be consulted during the drafting stage to expedite approval of the final documents.

Subsequent to that letter, various officers of the Ministry of Agriculture have approached USAID to seek reflow fund support for small projects and for studies where important small farmer information was required on a priority basis. It is our intention that the reflow fund be utilized as a flexible, responsive, tool to stimulate small farmer development activities. We wish, therefore, to modify the guidelines of Implementation Letter No. 20 to allow consideration and funding of activities outside of the work plan structure. We are, therefore, willing to review individual study/project proposals for reflow fund financing. We suggest that such proposals be forwarded to CSFC by either the Commissioner of Cooperative Development or the Director of Agriculture with a carbon copy to USAID. We shall review each proposal and then, upon receipt of an official request from CSFC, will provide our concurrence through the issuance of an Implementation Letter.

We hope that you will find this mechanism satisfactory. If any further clarification is required, do not hesitate to communicate with us.

Sincerely,

William Lefes
Acting Director

cc: Mr. L. Muchemi, Commissioner of Cooperative Development, MCCD

Mr. J.K. Muthama, Director of Agriculture, MOA

Mr. A. Vienna, Director of External Aid, MOF

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

U

Office of the Director,
P. O. Box 30261,
Nairobi, Kenya.

April 5, 1978

Mr. J.M. Gachui
Deputy Secretary
Ministry of Finance and Planning
P.O. Box 30007
Nairobi

Subject: AID Loan No. 615-T-009 - Kenya
Agricultural Sector Loan I
Implementation Letter No. 10

Dear Mr. Gachui:

The purpose of this letter is to extend the Terminal Disbursement Date (TDD) for Part B of subject loan for an additional period of six months to April 23, 1978. This follows upon Implementation Letter No. 8 of August 17, 1977, in which the TDD was extended by six months from April 23, 1977 to October 23, 1977, and responds to your letter of March 6, 1978 requesting a further TDD extension.

For your information, at the time that we initiated Implementation Letter No. 8, the maximum period of time by which a Mission was authorized to extend TDD's was six months. Subsequently, this authority was extended to one year, enabling us to grant the herein authorized extension. Given the extensions cited in the preceding, the USAID cannot therefore, on its own authority extend the TDD beyond next April 23. Further extensions would require strong justification to AID/Washington. We feel it would be difficult to develop a sufficiently compelling case to obtain such approval and would, in any case, further delay possible disbursement. We strongly urge, therefore, that Government file its claim for final disbursement under the Part B account as soon as possible so that disbursement can be accomplished by April 23, 1978.

The basis for the final disbursement request should be the findings of the Bureau of Educational Research "Part B Utilization Survey". Our calculations (please refer to our letter to you of February 10, 1978) indicate that the final disbursement request should be for the sum of K.Shs. 3,615,565.30. If you agree with this figure, please forward your reimbursement request as soon as possible. If, however, you disagree with our calculations, please contact us immediately so that we can discuss these differences.

Sincerely,

Ernest Wilson

Ernest Wilson
Acting Director

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P. O. Box 30261,
Nairobi, Kenya.

August 22, 1977

Mr. Japheth M. Gachui
Deputy Secretary
Ministry of Finance and Planning
P.O. Box 30007
Nairobi

Re: A.I.D. Loan No. 615-T-009
Agricultural Sector Loan I
Implementation Letter No. 9

Dear Mr. Gachui:

By letter to you of June 27, 1977, we advised of USAID's position with respect to the programming of reflow funds generated pursuant to the subject loan. That letter also furnished guidance as to the types of Part C activities which USAID would, in principle, be prepared to approve for reflow financing.

The purpose of this letter is to set forth A.I.D.'s requirements with respect to a different but related problem. I refer to the need for the Program Management Unit (PMU) to develop, on behalf of Government, an acceptable overall budget for the Kenyan fiscal year which commenced July 1, 1977--and, on an annual basis, for each subsequent fiscal year--for total Part C programming during the remainder of the project. This budget should cover in appropriate supporting and explanatory detail estimated financial requirements in the areas of (a) non-reflow expenditures, for both credit and non-credit activities, for which reimbursement will be sought under the subject loan; and (b) reflow expenditures. Specifically, the budget should address, in a comprehensive manner, all projected SPSCP needs, both capital and operational, for the year. All major budget components--e.g., the needs of the Ministries of Agriculture and Cooperative Development in terms of support operations--should be treated. Proposed allocations should be demonstrably reasonable, and credit allocations should not be excessive to anticipated repayment capabilities. Where explanation or justification for particular items is not clear, supplementary information should be included in the presentation.

A.I.D. had expected to receive a budget of this type pursuant to the Operations Plan which was submitted to us in satisfaction of Section 4.01(d) of the Loan Agreement. Such a budget is also the type of document for which A.I.D. can, and hereby does, make explicit request pursuant to Sections 5.01(a) and 5.06 of the Loan Agreement. You will appreciate that, based on normal principles of prudent loan management, USAID will be unable to approve any future Part C financing, either under loan reimbursement procedures or for reflow financing, in the absence of a satisfactory budget of the type outlined above.

Finally, in stating A.I.D.'s requirement for the submission of a budget as indicated, I am aware that a budget document was recently prepared by the PMU and submitted to your Ministry. A copy of that document was forwarded to USAID. We have examined it and, regrettably, find it inadequate. By separate letter, I am furnishing you with a statement of the specific deficiencies in that document.

We will be pleased to work with Government on this matter and we continue to look forward to the early development of an acceptable budget.

Sincerely,

"Original Signed"

Charles J. Nelson

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P. O. Box 30261,
Nairobi, Kenya.

August 17, 1977

Mr. J.M. Gachui
Deputy Secretary
Ministry of Finance & Planning
P.O. Box 30007
Nairobi

Subject: AID Loan No. 615-T-009 - Kenya
Agricultural Sector Loan I
Implementation Letter No. 8

Dear Mr. Gachui:

The purpose of this letter is to extend the Terminal Disbursement Date for Part B of subject loan for a period of six months and to revise Implementation Letter No. 5 in which AID specifies documentation required to effect Part B disbursements. Background and details follow:

1. For various technical reasons, Government has been unable to provide documentation specified by AID in Letters of Implementation Nos. 1 and 5 of subject Loan Agreement, for major amounts of credit extended under the ASL-I Part B Program. Discussion between AID and Government have revealed that Government is satisfied that monies sufficient to form the basis for a reimbursement claim for the balance of the Part B loan fund have passed from CSFC to the Cooperative Bank of Kenya and on to specific Cooperative Unions and Societies where it was onlent to eligible farmers for purposes designated in this Loan Agreement. These funds, however, cannot be readily identified at the farmer level and thus documentation required under the Loan Agreement cannot be provided.

2. AID desires to reimburse the Government for production credit advanced to eligible farmers for food crop production; however, prudent management principles dictate that evidence be presented to clearly establish the magnitude of resources provided to eligible farmers for food crops. To this end, USAID and Government have agreed to hire an independent firm which will, through a scientifically chosen sample survey procedure, develop a reliable estimate of the magnitude of food crop loans provided to eligible farmers under the Part B Program.

3. AID, with Government concurrence, has solicited a proposal from the Bureau of Educational Research (BER), University of Nairobi, to conduct the random survey discussed in 2 above. The BER proposed to conduct the survey in two phases: In Phase I, which is already under way, BER will (a) determine the availability of information in all proposed survey sites, (b) select the study sample (specific farmers to be interviewed), (c) develop the required survey questionnaire, and (d) develop a budget and plan of action for Phase II. In Phase II, the actual information on Part B loans will be generated and, from this information, an estimate of the magnitude of loans provided eligible farmers for food crop production will be developed.

4. AID has agreed to fund Phase I of the study from its own resources. Further, AID and Government have agreed to finance Phase II from ASL-I reflow funds. In support of this agreement, USAID hereby provides its formal concurrence in the proposal to utilize reflow funds for the Part B sample survey herein described.

5. USAID hereby agrees to waive the requirements for documentation set down in Letters of Implementation No.1, dated November 28, 1975, and No.5 dated August 2, 1976, for reimbursement under the Part B loan program only and, in lieu thereof, shall agree to accept findings of the above referenced sample survey as the basis for reimbursement. The survey finding will be reported by BER in the following fashion: "We estimate, with 95 percent statistical reliability, that not less than K.Shs.   of credit resources have been utilized by eligible Part B farmers for food crop production in 1975 and 1976." If the Kenya Shilling figure equals or exceeds the unliquidated balance of dollar resources allocated for the Part B Program, then AID will disburse the full balance. If the estimated Kenya Shilling figure is less than the unliquidated balance of dollar resources allocated for Part B Program, then AID will disburse only the dollar equivalent of the estimated figure. After a disbursement claim based on the survey findings has been processed and funds disbursed, the Part B loan program shall be terminated. The unliquidated balance, if any, will be transferred to the Part C credit program account.

6. CBK certification of eligible source and origin of agricultural inputs purchased with credit funds will continue to be a requirement.

7. In order to accomplish the above procedures, the Terminal Disbursement Date (TDD) for the Part B credit program is hereby extended by six months. The original TDD of April 23, 1977, is now changed to October 23, 1977.

8. With the extension of the TDD for the Part B program, USAID will consider any other outstanding claims for Part B loans

made on or before April 30, 1977, but which, because documentation had not been submitted before April 23, 1977, had not previously been eligible for reimbursement under the program.

Sincerely,

"Original Signed"

Charles J. Nelson

cc: Mr. L.O. Kibinge
Permanent Secretary, MOFP

Mr. Simon D. Gathiuni
Permanent Secretary, MOA

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director.
P. O. Box 30261.
Nairobi, Kenya.

August 17, 1977

Mr. J.M. Gachui
Deputy Secretary
Ministry of Finance and Planning
P.O. Box 30007
Nairobi, Kenya

Subject: **A.I.D. Loan No. 615-T-009**
Kenya Agricultural Sector Loan I
Implementation Letter No. 7

Dear Mr. Gachui:

The purpose of this letter is to formalize our concurrence in the utilization of reflow funds for certain specified purposes. On December 14, 1976, the Cereals and Sugar Finance Corporation requested USAID to concur in the utilization of reflow funds as follows:

1.	Short-rain crop financing of Part C farmers in Machakos and Embu Districts	K.Shs. 5 Million
2.	Purchase of vehicles and furniture for the SPSCP	K.Shs. 218,420
3.	Inclusion of the Kenya Farmer Association in the Part B program	K.Shs.20 Million
	TOTAL	K.Shs.25,218,420

We responded positively to these requests in our letter of February 11, 1977. That concurrence, however, lacked the requisite formality since Section 3.06a of the Loan Agreement specifies that credit reflows "shall be reprogrammed, apportioned and utilized by the Borrower, in compliance with plans to be approved by A.I.D. in Implementation Letters" for certain specified purposes. This Implementation Letter, therefore, provides formal concurrence in the use of K.Shs.25,218,420.00 of reflow funds for activities one, two and three outlined above.

Sincerely,

"Original Signed"

Charles J. Nelson

cc: Mr. L.O. Kibinge
Permanent Secretary, MOFP

Mr. Simon D. Gathiuni
Permanent Secretary, MOA

6150171

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P.O. Box 30261,
Nairobi, Kenya.

March 23, 1979

Mr. J. M. Gachui
Chairman
Cereals and Sugar Finance Corporation
P. O. Box 30007
Nairobi

Dear Mr. Gachui:

Subject: AID Loan No. 615-T-009-Kenya
Agricultural Sector Loan I
Implementation Letter No. 12

A Memorandum of Understanding regarding subject project was signed by Government on January 25 and by USAID on January 29. A copy of this memorandum is attached to this letter. The purpose of this letter is to formally incorporate the provisions of that memorandum, by Implementation Letter, into loan documentation.

With the reestablishment of project activity, the first necessary formal action is for Government to write to us requesting an extension, for not more than one year, of the terminal date for requesting disbursements under Part C of the loan (currently October 23, 1978) and for completing disbursements (currently April 23, 1979). The request should provide justification for the requested extension, e.g., that loan disbursements were suspended by USAID from October 1977 to February 1979, precluding the possibility of meeting the established disbursement schedule.

We would like to draw your attention to several points in the Memorandum of Understanding and to actions agreed to in that document.

1) Per Section II(a) Release of Reflow Funds and Approval of Crop Year 1978 SPSCP Budget, release of reflow funds for credit financing for Crop Year 1978 will be from the Reflow Account rather than from the Part C Account. In this regard, we shall expect to receive a request from you for the specific amount of credit resources required for such financing, if still required.

2) Also per Section II(a), USAID is now prepared to accept requests for other proposed reflow fund financing.

3) Per Section II(b) ASL-I Societies, Government should submit within 30 days of the date of the memorandum (January 29, 1979) a list of specific societies which, commencing with the current planting season, will receive credit financing from ASL-I, either from reflow funds or Part C dollar disbursements as appropriate.

4) Per Section II(c) Project Coordination Unit, please advise us whom you have appointed to serve as the PCU Credit Coordinator. We shall in the near future draft terms of reference for the project Program Advisor for your review and comments.

5) Per Section II(d) Program Targets, we shall expect to hear from you in the near future regarding the proposed targets for the current crop year.

6) Per Section II(e) Evaluations, we shall contact the American Technical Assistance Corporation (ATAC) to determine if they could send an officer to Kenya in the near future to discuss with Government and assist in designing terms of reference for the ongoing evaluation program.

7) Per Section II(f) Consultations, we request that you propose a schedule for agreed-upon quarterly meetings. Hopefully, these could commence in April.

We are pleased that outstanding project issues now have been resolved and look forward to a continued fruitful working relationship.

Sincerely,

Robert J. Muscat
Acting Director

Attachment: Memorandum of Understanding

MEMORANDUM OF UNDERSTANDING

In Re: Agricultural Sector Loan I ("ASL I"), Loan No. 615-T-009 between the Government of Kenya ("GOK") and the Government of the United States of America, acting through the United States Agency for International Development ("USAID").

Reference: USAID/GOK letter of October 28, 1977.

I. Purpose

This Memorandum records that the issues and problems identified in the attachment to the referenced letter have been discussed between the GOK and USAID during the latter half of February 1978, and have now - as specified below - been resolved to mutual satisfaction.

II. Understanding Reached

The GOK and USAID agree, specifically, that the ASL I program will henceforth proceed on the following bases, which are all understood to be integral parts of the overall agreement embodied in this Memorandum:

(a) Release of Reflow Funds and Approval of Crop Year 1978 SPSCP Budget

The ASL I-generated Reflow Account will, immediately upon the date of execution of this Memorandum*, be available in principle for the financing, on a one-time basis and for the current planting season only, of the SPSCP portion of the ongoing program in Eastern, Western and Nyanza Provinces. Such Financing will be consistent with the Revised Budget of October 1, 1977, as transmitted to USAID by Cereals and Sugar Finance Corporation letter of November 23, 1977. Also, such financing from the Reflow Account will be available in support of a total CY 1978 program serving no more than 18,000 beneficiaries. Activities currently eligible for reflow funding are those identified in the USAID/MOFP letters dated June 6, 1977 and August 22, 1977

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* This Memorandum is considered executed as of the date of the last signature below.

(Implementation letter No. 9). Immediate reflow funding is available for those eligible activities, within MOCD's jurisdiction, which have been supported by project descriptions in the aforementioned Revised Budget. In addition, activities within MOA's jurisdiction may be funded from reflows, conditional upon submission to USAID of an MOA plan of action consistent with the requirements set forth in the USAID/MOA letter (to Head, Land and Farm Management Division) of October 7, 1977). Immediately upon execution of this Memorandum, the GOK may present USAID with a request for a specific drawdown from the Reflow Account: and such request, to the extent consistent with the foregoing, will be promptly honoured.

For purposes of this Memorandum of Understanding, the "current planting season" refers to the period August 1 - December 31, 1977 for Eastern Province and January 1 - July 15, 1978 for other program areas. All drawdowns requested shall cover expenses, both actual and proposed, during this period and shall be honoured (to the extent consistent with the foregoing) even though in whole or in part they predate the date of execution of the Memorandum.

(b) ASL I Societies

Within 30 days of the date of this Memorandum, the GOK will submit to USAID for concurrence a list of specific societies which, commencing with the next planting season*, and thereafter for that period specified in Section 3.06(f) of the Loan Agreement, will be expected, within the constraint of ASL I resource availability, to meet their total credit requirements from ASL I funds - i.e., either for expenditures for

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*i.e., for Eastern Province, approximately August of 1978 and for Western and Nyanza Provinces, approximately January of 1979.

which part C dollar disbursements will be possible; or from the Reflow Account; or a combination of both sources.

These societies shall be chosen with the objective of allocating ASL I funding predominantly to Class C farmers engaging in the production of food crops (i.e., those crops grown for consumption, including coffee, tea, sunflower oil and similar products), livestock and, when used as a security crop, cotton. It is recognized, however, that a relatively small percentage of Part B farmers will likely also be served through the designated ASL I societies; and that a relatively small percentage of non-food activities, such as pyrethrum, will likely be financed by these societies. Also, should the GOK believe that, on an exceptional basis, a particular ASL I society should appropriately meet a relatively small portion of its credit requirements from _other_ than ASL I sources, USAID would consult with the GOK toward the end of mutual _ad hoc_ agreement on such proposals. Finally, it is agreed that, within the ASL I societies, emphasis shall be placed on development of cooperatives as institutions - i.e., on the provision of appropriate supporting services (e.g., marketing, input supply, technical services and advice) as well as credit _per se_ to participating farmers.

(c) Project Coordination Unit

The parties agree on the desirability of maintaining, within the GOK's overall organizational approach to integrated agricultural development, a distinct Project Coordination Unit (PCU) for the purpose of ensuring sound planning and implementation of the "ASL I Society" arrangement outlined in Section II(b) above. In particular, the PCU shall be responsible, in coordination with MOA and MOCD, for the preparation of

(1) the Annual Work Plans and budgets, as called for in the SPSCP Operations Plan, but with reference to ASL Society future year funding; and

(2) monitoring project progress and reporting same in quarterly progress reports as called for in the SPSCP Operations Plan.

The PCU will be headed by a Credit Coordinator, appointed by and reporting to the Chairman, Cereals and Sugar Finance Corporation. The Coordinator will liaise closely with the Program Advisor, who will be an American recruited by USAID under ASL I dollar funding.* The Program Advisor's primary and major responsibility will be ASL I Society operations, with particular emphasis on the development of cooperatives as institutions. He will, however, be under the direction of the Permanent Secretary, Ministry of Agriculture and will be available for any other related duties assigned to him by the Permanent Secretary.

In meeting its above-referenced responsibilitiies, the PCU through the Credit Coordinator shall liaise closely with the Program Advisor and two Project Officers, one from MOA and one from MOCD. On behalf of their respective Ministries, these Project Officers will be working on a full-time (or nearly full-time) basis on ASL I Society related matters, and their salaries and other costs will therefore be eligible for ASL I, Part C, non-credit funding.

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* ~~Subject to AID/W concurrence~~.

Reports and other documents pertinent to "ASL I Society" operations will be furnished by the PCU to CSFC for onward transmittal to USAID. The CSFC shall make available to the PCU the necessary staff and facilities through Part "C", non-credit and Reflow Funds.

(d) Program Targets

It is agreed that, commencing with the next planting season, ASL I societies, as identified above, should administer programs of a size and nature commensurate with their administrative capabilities, as well as those of the unions through which they operate, and commensurate with the objective of avoiding excessive and inappropriate default rates. Toward these ends, the ASL I Societies will recommend to the GOK, reasonably in advance of each planting season, appropriate beneficiary targets for each planting season. Each society shall concur in writing, with PCU endorsement, that targets decided upon are reasonable and manageable and otherwise consistent with ASL I project objectives.

(e) Evaluations

The parties agree on the desirability of timely and appropriate evaluations of progress under the "ASL I Society" arrangement outlined above. Toward this end, the parties will cooperate toward implementation by the Ministry of Agriculture's Management Evaluation Unit (MEU), in consultation with the American Technical Assistance Corporation (ATAC) or other suitable firm, of the SPSCP Baseline II Survey (previously agreed to by USAID/GOK document of December 19, 1975) which, in essence, will document progress prior to the transition to the "ASL I Society" arrangement outlined in II (b) above, which survey will be carried out in accordance with methodology outlined in the SPSCP Operations Plan and to be implemented early in 1979. USAID will be furnished ten copies of the Survey Report when available. The parties will also cooperate toward agreement on, and implementation of, annual joint GOK/USAID evaluations (as specified in the Operations Plan) of the "ASL I Society" arrangement, once in effect.

Concerning implementation arrangements as to the above-outlined evaluations, it is recognized that both the USAID/GOK document of December 19, 1975 and the SPSCP Operations Plan anticipate external evaluations through ASL I dollar funding. It is further recognized, however, that within the MOA a Management Evaluation Unit (MEU) has recently been established, whose capabilities the GOK wishes to utilize fully. Therefore, the MEU will be fully involved in ASL I evaluations.

(f) Consultation

The parties agree on the desirability of regular consultation concerning ASL I matters generally, toward the end of early identification and timely resolution of problems. Therefore, on a quarterly basis regularly, and more frequently when and if particular issues need urgent discussion, appropriate representatives of the parties shall convene at the scheduling of the MOF. In the event of unavailability for quarterly meetings of the representatives named above appropriate alternative representatives authorized to speak for their principals, shall attend. The representatives shall normally include, at a minimum:

USAID - Assistant Director and Project Manager (Technician)
- GOK - Assistant Commissioner, MOCD: Head Land and

Farm Management, MOA: and appropriate representatives of MOF and the PCU. The quarterly meetings shall normally be scheduled following receipt and review of the PCU's quarterly progress reports.

III. Effect of ASL I Documentation

The subject Loan Agreement and all related documents remain in full force and effect. For procedural purposes, USAID will shortly hereafter issue an Implementation Letter, embodying the terms of this Memorandum as part of Loan documentation. It is agreed that the terms of this Memorandum will thereupon be considered undertakings and obligations for purposes of Section 5.01(b) of the Loan Agreement.

Accepted for:

Government of Kenya:	Government of United States of America:
J.M. GACHUI DEPUTY SECRETARY - TREASURY CHAIRMAN - CEREALS AND SUGAR FINANCE CORPORATION	DIRECTOR, USAID/KENYA
Date: 25/1/79	Date: 1/29/79

Concur:

J.K. MUTHAMA
DIRECTOR OF AGRICULTURE

L.N. MUCEMI
COMMISSIONER FOR COOPERATIVE DEVELOPMENT

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P.O. Box 30261,
Nairobi, Kenya.

July 5, 1979

Mr. J. M. Gachui
Chairman
Cereals and Sugar Finance Corporation
P.O. Box 30007
Nairobi

Dear Mr. Gachui:

Subject: ASL I - AID Loan No. 615-T-009
Agricultural Sector Loan I
Implementation Letter No. 13

This is in response to your letter of June 11, 1979 in which you request an extension of the terminal date for requesting disbursements under Part C of subject loan (currently October 23, 1978) and for completing disbursements (currently April 23, 1979).

USAID recognizes that disbursement of funds was suspended for over one year, precluding the possibility of meeting the established disbursement schedule. USAID is authorized to grant extensions of TDD's for periods not exceeding one year. Utilizing that authority, we hereby extend the terminal date for requesting disbursement under Part C of the loan to October 23, 1979 and for completing disbursement to April 23, 1980.

We urge Government to submit claims for reimbursement under Part C as soon as possible to allow sufficient time to deal with any issues which may arise well in advance of the new TDD.

Sincerely,

Glenwood P. Roane

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P. O. Box 30261,
Nairobi, Kenya.

July 5, 1979

Mr. J. M. Gachui
Chairman
Cereals and Sugar Finance Corporation
P.O. Box 30007
Nairobi

Dear Mr. Gachui:

Subject: ASL I - AID Loan No. 615-T-009
Agricultural Sector Loan I
Implementation Letter No. 13

This is in response to your letter of June 11, 1979 in which you request an extension of the terminal date for requesting disbursements under Part C of subject loan (currently October 23, 1978) and for completing disbursements (currently April 23, 1979).

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We urge Government to submit claims for reimbursement under Part C as soon as possible to allow sufficient time to deal with any issues which may arise well in advance of the new TDD.

Sincerely,

Glenwood P. Roane

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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P.O. Box 30261,
Nairobi, Kenya.

July 5, 1979

Mr. J. M. Gachui
Chairman
Cereals and Sugar Finance Corporation
P. O. Box 30007
Nairobi

Dear Mr. Gachui:

Subject: ASL I - AID Loan No. 615-T-009
Agricultural Sector Loan I
Implementation Letter No. 14

This is in response to your letter of June 11, 1979 in which you request an extension of the terminal date for requesting disbursements under Part C of subject loan (currently October 23, 1978) and for completing disbursements (currently April 23, 1979).

USAID recognizes that disbursement of funds was suspended for over one year, precluding the possibility of meeting the established disbursement schedule. USAID is authorized to grant extension of TDD's for periods not exceeding one year. Utilizing that authority, we hereby extend the terminal date for requesting disbursement under Part C of the loan to October 23, 1979 and for completing disbursement to April 23, 1980.

We urge Government to submit claims for reimbursement under Part C as soon as possible to allow sufficient time to deal with any issues which may arise well in advance of the new TDD.

Sincerely,

Glenwood P. Roane

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P.O. Box 30261,
Nairobi, Kenya.

Permanent Secretary
Office of the Vice-President and
Ministry of Finance
P.O. Box 30007
Nairobi, Kenya

July 20, 1979

Attention: Mr. Z.N. Nyarango, External Aid Division

Dear Sir:

Subject: AID Loans Nos. 615-T-008 and 615-T-008A
Kenya Livestock Development
Implementation Letter No. 25

Implementation Letters Nos. 23 and 24 for AID Loan 615-T-008 extended the Terminal Date for Requesting Disbursement Authorizations (TDRDA) for Project Parts A and C of the loan to March 31, 1980 and the Terminal Disbursement Date (TDD) for Project Parts A and C of the loan to September 30, 1980.

The purpose of this Implementation Letter (No. 25) is to advise you that USAID hereby also extends the TDRDA and TDD of the Loan Program Amendment (615-T-008A) to March 31, 1980 and September 30, 1980, respectively.

Sincerely,

Glenwood P. Roane

cc: Mr. J.K. Muthama, MOA
Mr. L. Ayuko, MOA
Mr. D.K.M. Njama, Treasury

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P.O. Box 30261,
Nairobi, Kenya.

July 17, 1979

Mr. J. M. Gachui
Chairman
Cereals and Sugar Finance Corporation
P. O. Box 30007
Nairobi

Dear Mr. Gachui:

Re: ASL I - AID Loan No. 615-T-009
Agricultural Section Loan I
Implementation Letter No. 15

Before attempting to respond to your letter of June 27th, 1979, two members of our agricultural staff met with Mr. Boniface Kang'ela, the newly appointed Credit Coordinator, for subject loan to discuss some of the issues relating to this loan in an attempt to resolve them on a less formal basis. This should facilitate communication and allow us to complete the activities under the loan within the extended terminal dates (ref. my letter of July 5, 1979).

The proposal for reflow funds to be used to finance the purchase of vehicles by the Unions appears to be appropriate, but we need details on the number and type of vehicles to be provided, security arrangements, and the mechanisms to be used to affect replenishment and growth of the sinking fund, in short an overall activity proposal. This is of particular importance considering that the weaker unions are likely to be the principal users of the funds provided by the sinking fund. We have a strong desire for this program to continue to provide appropriate vehicles in the future when both demand and prices are likely to be higher.

We have received copies of the 1979/80 work plans and these are presently being reviewed. The targets for the SPSCP seem reasonable, (but have the societies concurred in their reasonableness?). We are, however, unable to regard the work plan as a request for reflow funds at this time believing that it would be wise to await the field audit which we have discussed with Mr. Kang'ela.

In reference to the last paragraph of your letter, we have conferred with the Ministry of Agriculture and with their permission have contacted ATAC to participate in the evaluation. So far however, we have not received confirmation of an arrival date for a consultant.

Sincerely,

Glenwood P. Roane

cc: Mr. J. K. Muthama
Director
Ministry of Agriculture
P. O. Box 30028
Nairobi

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S.A.I.D. MISSION TO KENYA

Office of the Director,
P.O. Box 30261,
Nairobi, Kenya.

July 19, 1979

Mr Boniface B.C Kang'ela
Secretary
Cereals and Sugar Finance Corporation
P O. BOX 30007
Nairobi

Dear Mr Kang'ela·

RE: AID Loan No 615-T-009 Kenya
Agricultural Sector Loan I
Implementation Letter No. 16

Thank you for your letter of 11 July, 1979 regarding the audit of the on-lending institutions and participating cooperatives under this loan

We also are not interested in yet another audit of CSFC, but only of the on-lending institutions and participating cooperatives

We are in full agreement with the views expressed in your letter and are most anxious to assist where possible in getting the audit under way.

Sincerely,

Glenwood P Roane