PD-AAT-264 44263

CLASSIFICATION

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 615-0230
2. COUNTRY Kenya
3. CATEGORY Commodity Import Program
4. DATE August 30, 1984
5. TO: Charles L. Gladson, Director USAID/Kenya
6. OYB CHANGE NO. N/A
7. FROM: Raymond Rifenburg, Project Development Officer
8. OYB INCREASE NONE
TO BE TAKEN FROM: N/A
9. APPROVAL REQUESTED FOR COMMITMENT OF: $13,000,000
10. APPROPRIATION — ARDN: FY1984 BPC:GDAA-84-31615-AL13
11. TYPE FUNDING [X] LOAN [ ] GRANT
12. LOCAL CURRENCY ARRANGEMENT [ ] INFORMAL [X] FORMAL [ ] NONE
13. ESTIMATED DELIVERY PERIOD October 1984-Oct.1986
14. TRANSACTION ELIGIBILITY DATE
15. COMMODITIES FINANCED

Fertilizer: approximately 50,000 tons of Diammonium Phosphate (DAP)

16. PERMITTED SOURCE
U.S. only: $11,750,000
Limited F.W.: $1,250,000
Free World:
Cash:

17. ESTIMATED SOURCE
U.S.: $11,750,000
Industrialized Countries:
Local:
Other: Code 941 Shipping: $1,250,000

18. SUMMARY DESCRIPTION

The Agricultural Development Program will provide approximately $13 million in concessional loan funds to procure approximately 50,000 tons of Diammonium Phosphate for Kenya. Policy reform measures associated with the project will support improvements in the supply of agricultural inputs which were initiated as part of the U.S. structural adjustment program for Kenya. Local currency generated by sale of the imported fertilizer will be used in mutually agreed upon priority development projects in the 1984/85 and 1985/86 Kenyan development budgets.

A loan of not to exceed $13 million is hereby authorized for the purchase and shipment of fertilizer to Kenya.

19. CLEARANCES

		DATE
RLA:EDragon	EAD	9/13/84
RFMC:RHenrich		9-13-84
AGR:DLundberg		9/13/84
PROG:JStepanek		9/13/84

20. ACTION [X] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE

DATE 9-14-84

Director, USAID/Kenya

TITLE

CLASSIFICATION:

The Government of Kenya will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 5.5 of the Project Agreement) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement.

The Government of Kenya will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 2.1. of the Project Agreement. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the loan portion of the Assistance.

Food production in Kenya, particularly the hybrid maize which has been responsible for much of the increase in output over the past several years, relies heavily on imported fertilizer for its success. In the short-term this project will help ensure availability of this key input through direct financing of its importation. In the longer term, implementation of the policy reforms linked to this project will help ensure effective private sector distribution of fertilizer.

As with previous U.S. fertilizer programs, the fertilizer procurement will be accomplished by the Kenyan Embassy in Washington with AID assistance. Prior to or upon reaching Mombasa, the fertilizer will be sold directly to private sector distributors for sale to farmers.

The policy initiatives linked to this loan will emphasize full implementation of agricultural input supply reforms initiated under previous agreements. Specifically this loan will regularize the mechanics of private sector fertilizer distribution, and improve the price structure for such distribution.

The local currency generated by the sale of the fertilizer to private sector distributors will become available much sooner than in previous years since Kenya shilling deposits to government will either be made immediately through cash payments or will be made within 180 days of sale of fertilizer to private firms under bank guarantee. The proceeds of fertilizer sales will be used to defray the costs of priority development activities included in the 1984/85 and 1985/86 development budgets (especially those supported by other AID programs and projects) and, if necessary, by joint agreement to cover some local costs of drought assistance.

Conditions Precedent to Disbursement:

Prior to the first disbursement under this Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) Evidence of the establishment by the Borrower of a Fertilizer Committee to implement the private sector fertilizer distribution policy;

(b) Evidence of the publication by the Borrower of current fertilizer stock levels and donor fertilizer financing intentions known as of the date of signing of the Project Agreement. Publication of stock levels will be made by the Ministry of Agriculture and Livestock Development. Publication of donor intentions will be made by the Ministry of Finance;

(c) Evidence that the Borrower has published an up-to-date compilation of commercial fertilizer import applications received as of the date of the Project Agreement. Compilation of these commercial fertilizer import applications will be made by the Fertilizer Committee;

(d) A fertilizer import plan specifying types, quantities and timing of fertilizer imports as well as anticipated donor financing. This plan will be developed and published by the Fertilizer Committee.

Covenants:

1. Private Sector Fertilizer Distribution.

(a) The Borrower will announce wholesale and retail prices for fertilizer by November 1 of each year. Announcement of these prices will be made by the Fertilizer Committee on an annual basis beginning in 1984.

(b) The Borrower will publish fertilizer stock levels and known donor fertilizer financing intentions by June 1 of each year beginning in 1985. Publication of stock levels will be made by the Ministry of Agriculture and Livestock Development. Publication of donor intentions will be made by the Ministry of Finance.

(c) The Borrower will distribute a list of commercial fertilizer import applications compiled by the Fertilizer Committee by July 15 each year beginning in 1985.

(d) The Fertilizer Committee will develop a fertilizer import plan specifying types, quantities and timing of fertilizer imports as well as anticipated donor financing. This plan will be published by the Fertilizer Committee by July 30 each year beginning in 1985.

2. Fertilizer Pricing Structure.

The Borrower will complete a review and revision, as appropriate, of the current pricing structure for fertilizer in order to provide adequate compensation for and promote a wide distribution of fertilizer. The objectives of the Borrower's review and revision will be to:

(a) Establish wholesale and retail fertilizer prices on a timely basis so that farmers, distributors and importers can plan ahead;

(b) Implement a standardized price structure for fertilizer of the same type that arrives at different times. For example, a firm price for DAP should be established for a 6 month period, based on the international market;

(c) Establish price levels, both wholesale and retail, for various clients, i.e., authorized importers, large distributors, small distributors, village stockists, 1000 tons users, and small users.

3. Fertilizer Packing Policy.

The Borrower will establish a policy authorizing application of a surcharge on fertilizer sold in properly marked packages of 25 Kg. or less.

4. Deposit and Utilization of Local Currency.

(a) The Borrower agrees that all fertilizer purchases from Government by private distributors will be paid for in cash or via a bank guarantee not to exceed 180 days. These payments shall be made directly to the special account described in paragraph (b) of this Section.

(b) The Borrower will establish a separate interest-bearing special account with the Cereals and Sugar Finance Corporation for the deposit of Kenya Shillings generated from the sale of all USAID-financed fertilizer. Counterpart shillings generated from the sale of fertilizer will be used for mutually agreed upon development activities of the Government of Kenya in the areas of agriculture, health, nutrition and family planning, education, social services, water development, environment and natural resources, energy, and regional development. The annual rate of interest on deposits in the special account will be twelve and one-half (12.5) percent.

(c) On a quarterly basis, the Cereals and Sugar Finance Corporation will provide USAID a report detailing the status of the special account. The report will include: the account balance at the beginning of the quarter, the amount and provenance of individual payments made to the account during the quarter, the amount and purpose of disbursements from the account during the quarter, and the balance at the end of the quarter.

(d) Procedures to be followed by the Borrower in implementing and reporting on the special account will be amplified by A.I.D. in Implementation Letters.

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THE FY1984 AGRICULTURE DEVELOPMENT PROGRAM

PROJECT 615-0230

I. SUMMARY AND RECOMMENDATIONS

A. Title: Agricultural Development Program (Fertilizer)

B. Amount: $ 13,000,000

C. Type of Funding: $13,000,000 of DA Loan Designated Funds (FAA section 103) to finance the purchase and shipment of fertilizer to Kenya.

D. Loan Terms: $13,000,000 for 40 years, including a 10-year grace period on the repayment of principal with interest at 2% per year during the grace period and 3% per year for 30 years thereafter.

E. Period of the Program: Two (2) years - All US dollar funds under this program will be disbursed between approximately December 1984 and December 1986.

F. The GOK Executing Agency: The Ministry of Finance and Planning and The Ministry of Agriculture and Livestock Development

G. Brief Program Description: The purpose of the two-year Agricultural Development Program is to improve the agricultural input supply system. This will be achieved by providing $13 million of U.S. fertilizer and shipping on concessional loan terms for distribution through the private sector, and by effecting policy reform in the agricultural input supply system.

Food production in Kenya, particularly the hybrid maize which has been responsible for much of the increase in output over the past several years, relies heavily on imported fertilizer for its success. In the short-term this project will help ensure availability of this key input through direct financing of its importation. In the longer term, implementation of the policy reforms linked to this project will help ensure effective private sector distribution of fertilizer.

The $13 million dollars provided through this assistance will be used to procure and ship approximately 50,000 tons of diammonium phosphate. At worldwide market prices this quantity of fertilizer C&F Mombasa will cost $13 million. As with previous U.S. fertilizer programs, the fertilizer will be procured by the Kenyan Embassy in Washington with AID assistance. Prior to or upon reaching Mombasa, the fertilizer will be sold directly to private sector distributors for sale to farmers.

The policy initiative linked to this program will emphasize full implementation of agricultural input supply reforms initiated under previous agreements. Specifically this program will regularize the mechanics of private sector fertilizer distribution, and improve the price structure for such distribution.

The local currency generated by the sale of the fertilizer to private sector distributors will become available much sooner than in previous years since Kenya shilling deposits to Government will be made within 180 days of sale of fertilizer to private firms. The proceeds of fertilizer sales will be used to defray the costs of priority development activities included in the 1985/86 development budget (especially those supported by other AID programs and projects) and, if necessary, by joint agreement to cover some local costs of drought assistance.

H. Environmental Concerns: The Initial Environmental Examination (IEE) for this Program, which included a recommendation for a Negative Determination, was approved by the Africa Bureau Environmental Officer at the time of PAIP review (State 208705).

I. Program Analyses: As will be shown in subsequent Sections of this PAAD this program:

1. is justified in economic terms as it will ameliorate the GOK's balance of payments and severe budget situation;

2. is technically sound;

3. is expected to function more efficiently than earlier AID- financed fertilizer programs, especially with the Kenya private sector undertaking complete responsibility for fertilizer distribution; and

4. is consistent with GOK and USAID development strategies.

J. Source/Origin of Fertilizer and Shipping: The source/origin for all commodity procurement (i.e., fertilizer) and services under this Program will be from AID Geographic Code 000. The authorized nationality for shipping will be Code 941 although in accordance with the Cargo Preference Act at least 50% of the shipping will be on U.S. Flag vessels.

K. Issues: A major thrust of this Program is to shift the entire fertilizer distribution responsibility to the private sector to improve the efficiency and effectiveness of the marketing of this critical commodity. Consequently, the guiding policies and operating procedures must be in-place prior to the arrival of the first shipment of AID-financed fertilizer under this Program. Conditions Precedent (CP) to Disbursement will be included in the Project Agreement which ensure that AID review and approval of marketing policies and operating procedures will be required prior to the commitment to disburse any funds.

USAID/Kenya personnel are working with GOK counterparts in the development of satisfactory marketing policies and operating distribution procedures and it is expected that this undertaking will be reasonably completed to permit the first shipment of fertilizer under this Program to arrive in Kenya during the November/December 1984 period.

L. Use of Small, Disadvantaged, and Women Owned-Firms: Use of small disadvantaged and women-owned firms was considered during PAAD preparation. Although such firms will be eligible to provide fertilizer and shipping services during program implementation, the nature of the goods and services required does not justify limiting competition to such firms.

M. Conditions Precedent and Covenants:

1. The Project Agreement will include the following conditions precedent:

Prior to the first disbursement of this Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Borrower pursuant to Section 8.2. of the Project Agreement together with a specimen signature of each person certified as to its authenticity.

(c) Evidence of the establishment by the Borrower of a Fertilizer Committee to implement the private sector fertilizer distribution policy.

(d) Evidence of the publication by the Borrower of current fertilizer stock levels and donor fertilizer financing intentions known as of the date of signing of this Agreement. Publication of stock levels will be made by the Ministry of Agriculture and Livestock Development. Publication of donor intentions will be made by the Ministry of Finance.

(e) Evidence that the Borrower has published an up-to-date compilation of commercial fertilizer import applications received as of the date of this Agreement. Compilation of these commercial fertilizer import applications will be made by the Fertilizer Committee.

(f) A fertilizer import plan specifying types, quantities and timing of fertilizer imports as well as anticipated donor financing. This plan will be developed and published by the Fertilizer Committee.

2. The Project Agreement will include the following covenants:

2.1. Private Sector Fertilizer Distribution.

(a) The Borrower will announce wholesale and retail prices for fertilizer by November 1 of each year. Announcement of these prices will be made by the Fertilizer Committee on an annual basis beginning in 1984.

(b) The Borrower will publish fertilizer stock levels and known donor fertilizer financing intentions by June 1 of each year beginning in 1985. Publication of stock levels will be made by the Ministry of Agriculture and Livestock Development. Publication of donor intentions will be made by the Ministry of Finance.

(c) The Borrower will distribute a list of commercial fertilizer import applications compiled by the fertilizer committee by July 15 each year beginning in 1985.

(d) The Fertilizer Committee will develop a fertilizer import plan specifying types, quantities and timing of fertilizer imports as well as anticipated donor financing. This plan will be published by the Fertilizer Committee by July 30 each year beginning in 1985.

2.2. Fertilizer Pricing Structure.

(a) The Borrower will carry out a review and revision, as appropriate, of the current pricing structure for fertilizer in order to provide adequate compensation for and promote a wide distribution of fertilizer. The objective's of the Borrower's review and revision will be to:

(1) Establish wholesale and retail fertilizer prices on a timely basis so that farmers, distributors and importers can plan ahead.

(2) Implement a standardized price structure for fertilizer of the same type that arrives at different times. For example, a firm price for DAP should be established for a 6 month period, based on the international market.

(3) Establish price levels, both wholesale and retail, for various clients, i.e., authorized importers, large distributors, small distributors, village stockists, 1000 tons users, and small users.

2.3. Fertilizer Packing Policy. The Borrower will establish a policy authorizing application of a surcharge on fertilizer sold in properly marked packages of 25 Kg. or less.

2.4. Deposit and Utilization of Local Currency.

(a) The Borrower agrees that all fertilizer purchases from Government by private distributors will be paid for in cash or via a bank guarantee not to exceed 180 days. These payments shall be made directly to the special account described in paragraph (b) of this Section.

(b) The Borrower will establish a separate interest-bearing special account with the Cereals and Sugar Finance Corporation for the deposit of Kenya Shillings generated from the sale of all USAID-financed fertilizer. Counterpart shillings generated from the sale of fertilizer will be used for mutually agreed upon development activities of the Government of Kenya in the areas of agriculture, health, nutrition and family planning, education, social services, water development, environment and natural resources, energy, and regional development. The annual rate of interest on deposits in the special account will be twelve and one-half (12.5) percent.

(c) On a quarterly basis, the Cereals and Sugar Finance Corporation will provide USAID a report detailing the status of the special account. The report will include: the account balance at the beginning of the quarter, the amount and provenance of individual payments made to the account during the quarter, the amount and purpose of disbursements from the account during the quarter, and the balance at the end of the quarter.

(d) Procedures to be followed by the Borrower in implementing and reporting on the special account will be amplified by USAID in Implementation Letters.

2.5. Availability of Foreign Exchange

(a) The Borrower will provide access to one-hundred and twenty (120) percent of the amount of foreign exchange estimated as necessary to implement the fertilizer import plan called for in Section 6.1.(d) of this Agreement.

O. Project Team Members: Project design team members are:

John Thomas	Agricultural Project Officer
David Lundberg	Chief, Agricultural Officer
Richard Greene	Program Economist
Gordon Bertolin	Project Development Officer

P. Recommendation: USAID/Kenya recommends that loan funds in the amount of $13.0 million be approved in FY1984 for purchase and shipment to Kenya of 50,000 tons of diammonium phosphate fertilizer.

II. BACKGROUND

A. Political Update: The United States shares a number of political and strategic interests with Kenya. It is one of the few countries in Africa with democratic political institutions and an elected civilian government. The non-government share of the economy is based on free market principles with an active private sector. Continued political and economic well-being and development are important for the United States as a demonstration that progress and stability are possible in a third-world society with developing democratic institutions and a market-oriented economy.

Kenya's foreign policy follows a moderate course among third-world countries which the United States favors. Within the context of the Horn of Africa crisis and the Indian Ocean basin, Kenya and the United States share common strategic interests. An evolving program of mutual cooperation between Kenya and the United States has enhanced American interests in this part of the world over the past several years.

The United States firmly supports democratic institutions and the private sector in Kenya, both of which are developing in the direction that the United States encourages, while many of its neighbors are moving in the opposite direction. In order to provide such support the Kenya economy will need to be strengthened, the trade balance improved and population pressures contained. In the short run, the timely provision of foreign exchange for fertilizer importation will allow provision of a key input to Kenyan farmers. Ancillary benefits will be balance of payments and budget support for Kenya's structural adjustment program. In the longer term, the improved agricultural input supply system will strengthen the agricultural sector, the key sector for Kenya's future growth.

B. Government of Kenya Development Strategy

The major agricultural sector objectives of the Government of Kenya's Fifth Development Plan 1984 to 1988 include increased food production, growth in agricultural employment, expansion of agricultural exports, resource conservation, and poverty alleviation. Most of the nations food requirements must be met from domestic supply. Therefore, a major strategy of the Fifth Plan is to maintain broad self-sufficiency in basic foodstuffs.

Agricultural production is targetted to grow 4.5 per cent annually for the first four years of the Plan, rising to 5.0 per cent in 1988. Of the total planned increase in agricultural output, just over a third is expected to result from increased crop area. Much of this will come from grazing lands in the drier zones where yields are below the national average. The remaining two-thirds of the increase is expected to result from higher yields, reflecting the Government's emphasis on intensification of land use.

The major thrusts to facilitate the achievement of the Plan's objectives are:

(i) To establish a framework of policies that:

- optimize the allocation of resources to their most productive use through the setting of product price levels that reflect changes in import and export parities;

- enable markets to function as orderly and efficient channels for purchases and sales of inputs and products;

- channel credit where it is most needed and where it provides a high return; and

- guarantee reasonable security of tenure and access to land for those able to make the most efficient use of this resource.

(ii) To provide agricultural and livestock services that will:

- supply relevant new technologies for crop and livestock production through improved extension services;

- insure the timely availability of inputs at prices that make their use profitable;

- create efficient channels to market outputs at competitive prices with prompt payment to producers, depending upon the commercial sector to the maximum extent feasible;

- ensure that the farming community pays a fair share of costs whenever appropriate; and

- make more efficient use of existing levels of recurrent expenditures.

The proposed Agricultural Development Program directly supports the second objective in each of the above categories.

In addition to the agricultural objectives described above the Government of Kenya has macro-economic objectives to which the proposed program is directly relevant. Foreign exchange shortages and budgetary imbalances have, for several years acted to limit Kenya's growth to unacceptably low levels and have restricted Government's ability to carry out its development program. Periodic application of strict measures to control balance of payments deficits also resulted in reduced use of industrial capacity and shortfalls in tax revenues. The Government's ability to implement its long-range policies in both the industrial and agricultural sectors has, therefore, been limited. Basic structural changes in both sectors are essential to achievement of long-range improvements in the foreign exchange and budgetary situations and for long-term growth. In 1980, in response to this critical and unacceptable situation, the Government undertook, with donor encouragement and support, a major program to re-orient growth along patterns that make better use of local resources and conserve on foreign resources, including commercial imported energy, imported capital goods and imported intermediate inputs.

The Government identified in the 1979-83 and 1984-88 Development Plans the following as required to achieve structural adjustment:

-- restructuring of the trade regime and system of incentives to industry;

-- reforms in pricing, marketing, research and extension, and land utilization in agriculture;

-- fiscal and monetary policies that restrain the level of Government expenditures, narrow the deficit, limit the total expansion of credit and increase the share of credit available to the private sector;

-- more flexible and realistic interest rates and exchange rates; a wage policy that promotes expansion of employment;

-- an improved balance between recurrent and development expenditures; better planning and implementation of development projects; less direct Government participation in commercial investments, and improved analysis of such investments; more effective monitoring of debt;

-- a diminished role (at least relatively) for the public sector in production and distribution and greater reliance on the private sector; better monitoring and improved performance of public enterprise;

-- stronger efforts to lower the rate of population growth by reducing fertility.

The proposed Agriculture Development Program is consistent with and supports the GOK Development Plan 1984-88 and the FY 1984 A.I.D. Structural Adjustment Program Amendment (615-0213). The Structural Adjustment Program PAAD Amendment contains an in-depth analysis of the GOK's performance under its structral adjustment program and the reader is referred to that document (available from AFR/PD/EAP as Supplementary Annex C) and Section VIII of this PAAD for a broader understanding of the Kenya structural adjustment program.

The balance of payments and budget support provided by this FY1984 Agricultural Development Loan will assist the Government in achieving greater efficiency and increased agricultural production. It will help the GOK attain the first two of the above-mentioned goals in the 1984-88 Development Plan, namely: a) restructuring of the trade regime and system of incentives to the private sector, and to a lessor extent b) reforms in pricing, marketing, research and extension, and land utilization in agriculture.

C. USAID/Kenya Strategy

The proposed program strongly supports the USAID/Kenya FY 1986 Country Development Strategy Statement. By providing needed fertilizer, the program will foster growth in the high priority agricultural sector both through providing an input critical to increased agricultural output and by promoting policy changes needed to improve the efficiencies of the distribution system for that input. The attainment of increased fertilizer marketing efficiencies will be accomplished by transferring the fertilizer distribution responsibility in Kenya to the private sector. An increasing role for the private sector is an important pillar of A.I.D.'s development policy in Kenya, and this program strongly supports that development policy. In addition, by providing needed balance of payments and budget support, the proposed program will facilitate continued and improved implementation of Kenya's structural adjustment program, essential to Kenya's long-term economic growth.

Equity remains one of AID's priority developmental objectives. The program will contain conditions and covenants to improve fertilizer distribution procedures and to broaden fertilizer use among all groups including smallholders. Smallholders currently account for one-third of total fertilizer use in Kenya, but smallholders are in effect at the end of a long distribution chain where marketing margins are squeezed at every point.

From the Mission's perspective, as defined in its FY 86 CDSS, improved equity is defined largely in terms of improved opportunities for employment and income, brought about by the multiple processes of economic growth: enhanced production, improved resource efficiency, and technical change. For Kenya, with a burgeoning population on a narrow resource base, USAID believes it generally inadvisable to distort either input or output prices to cause other than a market-determined allocation of resources in any productive sector. Only with improved resource efficiency, brought about by market prices, and economic growth brought about by private investment, will Kenya's underemployed population find remunerative sources of income. (The exception to this general resource rule is the public provision of traditional public goods, and public responsibility for nutritional wellbeing among the very poor.)

The "equity" issue in the case of fertilizer must, therefore, be seen in a broad social and economic context where full regard is given to national and regional comparative advantage. Relative market prices determine crop priorities. Relative input costs should help determine sustainable crop production patterns by agroeconomic zone.

USAID proposes to utilize this Development Program (and other mechanisms) to foster policy and procedural changes that enhance efficiency and increase equitable access to fertilizer. Gradual Government decontrol of fertilizer wholesale and retail prices and marketing margins, in the context of increased competition, will be fostered, and dealers will be encouraged to sell fertilizer in smaller packages. By drawing on Dutch and USAID field assessments of fertilizer use, the Mission will continue to shape policies guiding the efficient, utilization of agricultural inputs.

D. Status of U.S. Fertilizer Assistance Programs in Kenya

The United States first provided fertilizer assistance to Kenya in 1974. In that year the GOK purchased some 24,000 tons of fertlizer under a $10 million Program Loan.

The Kenya Farmers Association, then the largest organization distributing agricultural inputs in Kenya, was originally designated as consignee by the Government. The Government subsequently changed the consignee to the Kenya National Federation of Cooperatives (KNFC), an apex organization for Kenya Cooperatives, which had no prior experience with fertilizer distribution, but which had recently established a Merchandizing Branch to handle agricultural inputs. Fertilizer was then to be sold to private firms by the KNFC.

The fertilizer arrived at Mombasa in four shipments: 10,500 metric tons of TSP)December, 1974), 5,250 metric tons of DAP (January, 1975), 5,000 metric tons of TSP February, 1975), and 2,950 tons of mixed fertilizers (after June, 1975).

Due to several complications described in Section III.E. below the fertilizer was not promptly distributed to farmers, and was not applied at spring planting as planned. Instead, the AID fertilizer was held in inventory for a substantial period, while commercial fertilizers filled farmers' needs. Ownership and accounting records became confused. At least five million shillings, representing amounts which should have been paid to the Treasury, according to the Government of Kenya, was never paid in. Treasury was ultimately required to make deposits of counterpart KShillings from its own account.

In 1980 and 1981 the United States provided balance of payments support through a $20 million Economic Support Fund grant (615-0200) to finance some 63,000 metric tons of fertilizer as follows:

Diammonium Phosphate (DAP)	31,924 mt
Monoammonium Phosphate (MAP)	10,216 mt
Triple Super Phosphate (TSP)	20,910 mt
Total	63,050 mt

42,000 mt of this fertilizer arrived between January 22, 1981 and March 29, 1981 and the balance, 21,000 tons, between October 29, 1981 and January 11, 1982. Importation and distribution of USAID fertilizers for the 1980-81 program was handled by the Kenya Farmers Association (KFA), a private and independent farmers association. KFA prepared tenders and conducted inspections, off loading, warehousing and final distribution. Fertilizer was distributed to KFA warehouses throughout the country on the basis of historical cropping patterns and the fertilizer requirements of individual crops.

The $20 million FY 1980/81 fertilizer grant resulted in local currency generations in the amount of KShs 164 million which were utilized to support priority development activities in the Government budgets of 1982/83 and 1983/84. The final sales of one originally overpriced fertilizer type (TSP) are taking place now and should be completed and generate the remaining local currency by December 1984. Programmed utilization of the funds generated by the FY1980/81 grants is as per Annex D.

In September 1982 the United States provided a $4.4 million Development Assistance grant for balance of payments and budgetary support that financed the importation of 14,200 tons of fertilizer as follows:

Diammonium Phosphate (DAP)	9,200 mt
Monoammonium Phosphate (MAP)	5,000 mt
Total	14,200 mt

Cost plus internationally competitive shipping rates for this amount of fertilizer equals $2.9 million. The balance of $1.5 million represents a subsidy to U.S. flag shippers.

The FY 1982 Agricultural Sector Grant (615-0228) resulted in fertilizer imports in December 1983. A portion of this fertilizer is currently being sold to private sector dealers. The grant will result in KShs 64.9 million deposits into the special account by December 1984. Utilization of those funds for priority development activities in the 1984/85 Kenya Fiscal year has been agreed upon as per Annex D.

III. PROGRAM RATIONALE

A. Program Strategy and Impact

From the foregoing description of past USAID fertilizer assistance programs and the nature of the agricultural sector in Kenya as described below, it is clear that:

1) the current pattern of agricultural production and input use in Kenya leaves untapped enormous potential for increased agricultural production through increased use of fertilizer; and

2) past and current systems of fertilizer distribution are not susceptible to dramatically increased levels of fertilizer distribution and use.

The basic program strategy is therefore to continue to develop a new fertilzer distribution system which, when fully operational, will permit increased distributution and use of fertilizer in Kenya. It is expected that this FY1984 Agricultural Development Program will in and of itself result in increased agricultural production during the life of the program directly from the use of the 50,000 tons of DAP. However, the principal indicator of project success will be a functioning private sector fertilizer distribution system. Achievement of this objective will permit growth in fertizer distribution which in turn will result in increased agricultural production in future years.

It is the Mission's view that increasing the number of private dealerships, improving competition among dealers, and decontrolling prices, will, when the new system is fully operational and permitted to grow, ensure a larger supply of fertilizer, more timely and reliable delivery, better mix, and provision in appropriate-sized bags. Private dealers with adequate profit margins will be able to supply fertilizer to more remote areas and to invest in the necessary storage, bagging and transport facilities. Fertilizer is already sold at a wholesale price based largely upon prevailing international fertilizer prices. USAID expects that full adoption of a market system will increased efficiency and competition so that many farmers will pay less per unit of fertilizer delivered, and many smallholders who are not currently served will be reached by an expanded distribution chain. With greater fertilizer use will come greater production, and greater income and employment on-farm and in related activities. Government does not have the resources or administrative capability to successfully subsidize or otherwise influence the provision of fertilizer to the most remote farmers (other than to construct required infrastructure such as roads and communications facilities).

B. Trends in Agricultural Production:

During most years of the past decade, food crop production and livestock output have barely kept pace with population growth. The result has been reduced supplies for export, particularly of grains and livestock products, and large imports in recent years of grains and vegetable oils and fats.

Agricultural production has varied greatly over the last few years. Output of grains, which dominate changes in the tonnage of food produced, has varied widely in the past decade in response to macro-economic policies, distribution and marketing systems, and weather. Output trended lower in the 1976/77 to 1980/81 period. Much of the decline was due to reduced area in grains. Partly as a result of the pricing policy, which did not maintain maize support prices in line with the general rate of inflation, hectares in maize declined from nearly 1.6 million in 1975/76 to around 1.35 million in 1979/80. Beginning in 1979/80 through 1983/84 support levels for maize have been sharply increased and have undoubtedly contributed to increased areas planted to maize even though drought in 1980 and 1983 probably reduced the hectares of maize harvested. Table 1 summarizes crop production, land area in production and yield per hectare for major crops for five of the most recent years. Of the three major grains -- maize, wheat and rice -- maize production has on average kept pace with consumption. Wheat imports have been about 100,000 tons per year, the difference between some 300,000 to 350,000 tons consumption and 200,000 to 250,000 tons annual production. Rice consumption is currently some 40,000 to 45,000 tons (milled rice) with production steady at about 25,000 tons milled.

Annex F provides a detailed overview of agricultural production in Kenya.

TABLE 1

CROP AND LIVESTOCK PRODUCTION
Selected Recent Years

Commodity	1978/79	1980/81	1981/82	1982/83	1983/84
Food Crops (1976=100)	108	101	133	129	115
Tonnage (1000) 1/	5540	5352	6503	6428	6000
Hectares (1000)	3295	3406	3671	3721	3711
Yield/Ha (kg)	1681	1571	1771	1727	1617
Grains 2/					
Tonnage (1000)	2129	1866	2775	2631	2190
Hectares (1000)	1527	1596	1802	1839	1804
Yield (kg)	1394	1169	1560	1431	1214
Coffee					
Tonnage (1000)	85	92	102	89	93
Hectares 1000)	88	102	118	131	130
Yield (kg)	971	897	869	682	715
Tea					
Tonnage (1000)	93	90	91	96	118
Hectares (1000)	72	77	79	81	83
Yield (kg)	1292	1169	1152	1185	1422
Non-Food Crop					
Tonnage (1000)	67	74	96	77	83
Hectares (1000)	189	201	181	185	190
Yield (kg)	355	368	530	416	437
All Crops					
Index (1976=100)	107	102	132	128	115
Hectares (1976=100)	99	103	110	112	112
Yield (1976=100)	108	99	120	114	103
Livestock Production					
Tonnage	1250	1272	1276	1293	1315
Index (1976=100)	112	118	118	120	122

1/ All crops except coffee, tea and non-foods.
2/ Maize, wheat and rice.

Efforts to increase food production have been constrained by the limited availability of high potential agricultural land and deficiencies in output marketing, input supply and extension of known and improved technologies in agriculture, as well as weather and macro-economic policies.

Conflicting information makes it difficult to assess the size of the cropland base and how intensively it is now being used. Data available suggest that virtually all the better agricultural land is already in use in farm crops, meadows and pastures, reserves and forests. Some additional cropland will come from permanent pastures, land outside farms, and possibly from the less intensively used larger holdings. The FAO Production Yearbook reports a land area of 56,925,000 hectares for Kenya. However, only 6 million hectares are classified as "agricultural areas". Of the agricultural land, only about 1.8 million hectares are reported as arable.

If the physical arable land in farms is only about 1.8 million hectares, effective areas in annual crops, including double and multiple cropping, suggest a cropping intensity of around 1.65. Statistical evidence and observation would suggest that there is not much idle land available for expanding crop production. This conclusion is supported by the data presented in Table I above in which it is clear that land area available for production has leveled off over the last three years.

The limited availability of high potential agricultural land constrains expansion of cropped areas. Increased production must therefore come from increased crop yields. To illustrate, the national average coffee yield is 662 kgs per hectare whereas the lower optimum potential is 1,800 kg/ha. Similarly, the national average yield of tea is 2615kg/ha whereas the potential is 7,000 kg/ha. In the case of maize and wheat, yields can be increased by 65% and 47%, respectively, by using hybrid seed, fertilizer, and minimum levels of recommended husbandry practices.

While sustained long-run efforts to improve agricultural technologies are important, policies designed for removing deficiencies in input supply systems and output marketing provide the principal choices for accelerating production in short and medium run contexts. Furthermore, when long-run technologies change is successfully evolved, its spread and acceptance will depend on well developed output marketing and input supply systems and related policies.

C. The Role of Fertilizer

Increased production of food and other farm products in Kenya will rely heavily on the use of commercial fertilizers. At present imported inputs account for approximately 3% of value added in agricultural production compared with much larger figures elsewhere in the developing world.

The critical need for fertilizer, if crop yield increases are to be accelerated, has been recognized by the government and by a number of donors. In the 4 years 1980 through 1983, donor nations provided 265,000 tons of fertilizers ranging from 55 to 75 thousand tons per year. Increased fertilizer use in those years contributed to a higher level of grain production and to further increases in the production of tea, coffee and a number of fruits and vegetables, the latter all major export crops. The combined donor fertilizer program has been important in maintaining and increasing fertilizer supplies during recent foreign exchange shortages and has contributed to the recovery in the agricultural sector and in food production in particular. Since the shortfalls of 1980-81 Kenya has been basically self-sufficient in maize and has had good wheat crops in all but the most recent year (due to weather).

Fertilizer imports vary widely from year to year due mainly to swings in world prices for fertilizer. However, accumulated stocks in some years and the relative tightness in available supplies of foreign exchange also influence the amount of fertilizer imported. Available stocks help to moderate swings in domestic use but annual variations in use also are wide. As a result, as indicated in Annex E, fertilizer use has not increased significantly since 1970, although there have been high variations among years. About 43% of total fertilizer used goes to cash crops, mainly coffee, tea, sugarcane and tobacco. Maize takes 41%, three-quarters of which goes to high rainfall areas and a quarter to low rainfall areas.

Studies by the FAO and World Bank substantially indicate that fertilizers, as a source of incremental production, bears the largest potential for accelerating agricultural production in the medium-run context. The use of fertilizer is made necessary by several factors, including the need:

1. to replenish soil nutrients depleted by continuous cropping;

2. to supplement nutrients lost from crop residues which are often removed as waste products; and

3. to replace nutrients which are leached or washed away from the soil during the rainy season.

The Farm Management Handbook of Kenya produced by the Ministry of Agriculture in 1982 presents the results of studies which demonstrate the average production of maize in Kenya can easily reach 2.500 metric tons per hectare(vs.1.360 currently) at the lowest optimum yield if grown on well suitable soils, with fertilizer and good husbandry practices. This level is achievable during a short to very short growing season (85-100 days) using a dry-land composite variety of maize. By using a High Altitude composite maize variety over a long growing season of 250-280 days, yields of 6.000 metric tons per hectare can be obtained. These figures demonstrate that yields per hectare can be nearly doubled through the proper application of fertilizer and husbandry practices. With this year's estimate of 1,680,000 hectares planted to maize, the total output can be increased from the expected total output of 2,284,800 metric tons to 4,200,000 metric tons, an increase of 84 percent.

These dramatic potential increases depend on a variety of improved practices, of which fertilizer application is only one. A small-farm survey conducted in 1977 on fertilizer trials and yields demonstrated the impact of the use of fertilizer alone on major crops. The study compared maize yield per hectare at three levels of fertilizer use: a control group in which no fertilizer was used; a second group which used a phosphorous fertilizer; and a third group which used a compound of nitrogen and phosphorous such as DAP. In the second and third groups, each incremental yield increased maize production by an average of 28 percent and 62 percent respectively per hectare.

The government realizes the need to encourage fertilizer use in order to increase food production to keep up with the rapid population increases. In the National Food Policy Paper, the GOK targets a 20% fertilizer use increase per year to achieve self-sufficiency in basic food crops. The target is unrealistic considering the past fertilizer use trend, the current distribution system, pricing structure, and lateness in paying farmers. In order to increase fertilizer use by a mere 4% (the current growth in population) policy changes are required.

D. The Fertilizer Importation and Distribution System

All of Kenya's fertilizer is imported and the entire industry is under rigid Government control. Government controls import authorizations and eligible firms, sets import levels by amount and type of fertilizer, establishes shipping and handling margins and retail prices by market area. Responsibility for these detailed controls is diffused, mainly among the Ministry of Agriculture and Livestock Development (import plans, stock reports), the Ministry of Finance and Planning (bilateral agreements, overall accounting, negotiations with donors), the Office of the President (national policy, price control review), and the Price Controller (price formulas and publication).

The distribution industry is made up of 3 major firms and several very small operators. Currently 92% of fertilizer used in Kenya is distributed by Kenya Farmers Association (KFA), MEA Ltd. and Devji Megji. Only 8% is handled by other small companies such as Elgon Chemicals, Roffee Chemicals and Bemont Chemicals. Prior to 1980, many large firms, such as Sapa Chemicals, Intag, Kenya Merchant Supply, Twiga Chemicals, and Mackenzie Dalgety were involved in fertilizer distribution.

This market concentration came about following the end of the coffee boom of 1977, when Kenya faced serious shortages of foreign exchange, making it difficult for many fertilizer importers to obtain foreign exchange allocations. On the domestic scene credit was tightened and interest rates increased. The international prices of fertilizer increased as a result of the general rise in oil prices. At the same time, the GOK squeezed prices of fertilizer leading to inadequate profit margins. As a result most of the firms previously in the fertilizer business discontinued involvement with fertilizer. KFA and MEA survived because of their long experience in the fertilizer trade and the fact that they traded in other farm inputs therefore spreading overhead costs among several product lines. At the end of 1983 KFA had a virtual monopoly control over fertilizer distribution controlling 75% of the market.

MEA, formerly Windmill Fertilizer, currently has 10% of the market share and mainly supplies fertilizer to large scale farmers. The firm has a fertilizer blending plant at Nakuru and utilizes the facility for bagging fertilizer imported in bulk. Devji Megji has 8% of the fertilizer market and sells its fertilizer mainly to cooperative unions and coffee estates. The other importers have a market share of 8% among them. About 55% of total fertilizer used in Kenya is sold directly to the users by the main importers, 20% is sold through stockists, 10% through cooperatives unions, and societies and 15% through industrial and marketing organizations. KFA has prospered in the fertilizer distribution business selling directly to the users, thereby maximizing volume and retaining the maximum profit margin allowed in the official pricing structure.

Market concentration was further increased by a Government shift to a sole agency relationship with KFA, made in part to overcome severe difficulties encountered in 1974-76 with accountability when many private sector firms were involved in distributing donor supplied fertilizer. KFA handled all GOK fertilizer as agent from then until the beginning of 1984.

E. Deficiencies of Past Systems

A review of what went wrong with the 1974 Program Loan was included in an AID Auditor General's Report written in October of 1975 (before the last and smallest shipment arrived). The report included the following findings:

> ...the GOK did not have an effective organization for distribution or marketing of the fertilizer. KNFC admittedly lacked knowledge and experience in the local retail fertilizer market which we believe is the major contributing factor to delay in utilizing the imported fertilizer... according to GOK officials, the fertilizer industry in Kenya has been monopolized by four private companies. Consequently, when the KNFC put their fertilizer on the market, these four companies quickly

> reacted by undercutting the KNFC price. By the time the GOK and KNFC reacted, by establishing a more competitive price, the planting season had passed. Most farmers had purchased the less expensive products, leaving the KNFC with 93 percent of their consignment unsold.

In addition, AID's PAAD the 1980 Kenya Commodity Import Program states:

> The fertilizer was sold to ten private firms by the Kenya National Federation of Cooperatives, consignee for the Government of Kenya. These vendors were responsible for the ultimate distribution of the fertilizer... The lack of a systematic procedure for accountability of various donor fertilizer that arrived at Mombasa about the same time, a drop in the price of fertilizer on the world market after USAID fertilizer was sold to private distributors, and the loss of identity of the fertilizer with the original consignment as it was transported up country contributed to difficulty in tracing distribution and sales. Additionally, distributors made large periodic payments to the Exchequer without reference to the type of fertilizer. While all the fertilizer was eventually sold or otherwise accounted for as distressed cargo, complete payment was never made to the Government.

As described above, the deficiences of the system used in 1974 for AID-provided fertilizer include: 1)the inablity of the system to get fertilzer to farmers in time for the planting season; and 2) the failure of the system to ensure payment to Government by distributors for fertilizer received. These problems can be largely ascribed to the inexperience of the intermediary used, the Kenya National Cooperative Association(KNFC), its inability to plan for or appropriately price donor-provided fertilizer and its inability to select experienced distributors or to set up and utilize apapropriate accounting controls.

The concentration of market power and decision-making authority which came about later in the 1970s had its own distinct set of deficiencies. The import planning and pricing decisions which were assumed by Government were not performed effectively or in a timely manner. Widespread vacillation in decision making resulted from Government's failure to understand the importance of fertilizer to the food and fiber industry and to the grossly inadequate information, statistical facts and analyses on which to base estimates of domestic demand and import needs. Government personnel controlling the industry did not have sufficient understanding, nor the necessary information or sound analyses to make the many detailed market decisions required of them.

The domination of the industry by a few firms, and the maze of controls which Government exercises with less than desired efficiency is a major problem of the industry. Incomplete data and analyses on demand for fertilizer, pricing and costs, packaging, import practices, and the distribution system make it impossible to demonstrate the gross inefficiencies of market controls quantitatively. However the problem is apparent.

Fertilizer use by the small scale farmers is not up to potential because it is often not available at the right time, in the proper types, and in appropriately sized bags at the village level. From Government's point of view the system fails because it does not generate revenue in a predictable or timely manner. Possibly the greatest failure of the current system, however, is that it does not permit expansion of the flow of fertilizer to farmers. It is so administratively cumbersome, and so costly to Government in terms of support to the principal distributor, KFA, that it can not be dramatically expanded given present Government resources and administrative capabilities. The only way to achieve the needed expansion is by tapping the substantial resources of the private sector by providing appropriate pricing incentives and an efficient and accurate importation system and allowing private sector importers to undertake the task.

Review of the system used in the FY1980/81 program yielded findings consistent with those described above. Although it was not Government's intent, the policy of using KFA as the sole agent for donor fertilizer has increased KFA's market share at the expense of other dealers to the point that only 2 or 3 dealers of relevance remain active. Second, the FY 80/81 system of selling the fertilizer to farmers on credit with extremely slow repayment rates resulted in an enormous backlog of local currency generations for the Budget making revenue projections and efforts to balance revenues and expenditures almost impossible. Finally, unilateral Government decisions concerning the amount and type of fertilizer to be imported resulted in inappropriate fertilizer orders in some cases.

The review demonstrated:

(a) the need to increase competition and expand the distribution systems;

b) the desirability of providing the GOK with local currency resources in a more timely manner; and

(c) the need to increase private sector participation in fertilizer import decisions.

To attain the first two objectives noted above USAID and the Government agreed via a covenant to the 1982 program agreement that if commercially viable mechanisms could be developed through the commercial banking system, other distributors in addition to KFA would be allowed to participate. The third objective listed above was addressed through the FY1983 Structural Adjustment Program Grant (615-0213) in which the Government established a Fertilizer Advisory Committee with private sector participation which makes recommendations to Government on such issues as amounts and types of fertilizer to be imported, wholesale and retail pricing, and distribution. (See Annex I for FAC membership and terms or reference). After nearly nine months of operation of the Committee there are indications that the Government is responsive to their recommendations.

In November 1983, following extensive USAID-Government dialogue, the Government dissolved its sole agency agreement with KFA. This has initiated a difficult period of transition from nearly monopolistic control of fertilizer distribution by KFA to the development of a system of more competitive marketing of fertilizer. 7,000 metric tons of the DAP provided under the 1982 program was sold directly to the private sector and the balance, 5,000 metric tons of MAP and 2,200 metric tons of DAP was distributed by the KFA under the "old" system. Private sector firms are receiving the fertilizer following submission of a 180 day bank guarantee to the GOK. In addition to increasing competition and effective private sector participation, the use of the bank guarantee system will make available Kenya Shillings generated from the sale of fertilizer to the GOK within 180 days of sale to the private sector. This timing contrasts sharply with the two to three years after arrival in-country required with the "old" system. In the future all donor provided fertilizer will be handled under the new system.

Although the decision and initial steps to expand the role of the private sector in the fertilizer distribution system has been made, the development of that system is still in the infant stage. The proposed Agricultural Development Program will assist the process of building a strong private fertilizer distribution system. Once this system is fully operational and allowed to expand (well beyond the life of this program), it will result in larger quantities of competitively priced and more appropriate fertilizer being made available to farmers and in more timely generation of shillings from fertilizer sales for GOK development programs.

The new system of private sector fertilizer distribution, to be implemented under this program, will avoid some of the difficulties encountered in the 1974 program. Only those private sector firms which have demonstrated knowledge and experience in the local retail fertilizer market will be given an allocation to distribute fertilizer. The Fertilzer Advisory Committee has prepared a list of approved distributors (Annex B) with a proven organization for distribution and marketing. The list of approved distributors will be modified as necessary to include additional firms that have not been regularly distributing fertilizer but have proven their interest in and commitment to establishing a distribution system.

Prices will be established quickly and on a timely basis in order that the distributors know their cost for the imported fertilizer and the maximum retail price they can charge. Policy measures to be included in the Project Agreement as Conditions Precedent and Covenants will require the Government to adhere to a schedule of actions designed to assure a coordinated schedule of analyzing and announcing fertilizer stock positions, donor and commercial import intentions, and import allocations for importers/distributors. These measures will be completed prior to the procurement of any imported fertilizer in order to enable the government to announce, by November 1 of each year, the wholesale and retail prices extended to authorized private distributors. The price of fertilizer for various types will be pegged to the international market and would be firm for all imports during a six month period.

To further assure that accountability will be established, monitoring of the fertilizer and record keeping will be enforced throughout. As described further in Section VI, monitoring will be reviewed by USAID and the GOK in three stages: first, arrival and offloading of the fertilizer at port; second, the distribution by private firms; and third, the deposit and utilization of local currency generated from fertilizer sales. The USAID project officer will be assisted in performing the monitoring function by a contractor employed under the Commodity Import Program, or by a local Kenyan firm under separate contract, who will develop report forms, assist the agent and private firms with completing reports, follow-up on delinquent reports, and keep an accounting of all arrivals.

F. Policy Implications

The history of previous U.S. fertilizer assistance to Kenya and of Government efforts to manage U.S. and other donor assistance imply certain policy changes with regard to future fertilizer assistance programs. The areas in which change is required are described below and reflected in the program conditions and covenants outlined in Section IV. B.

1. Distribution System

There is a need for greatly increased private sector involvement in the fertilizer distribution system. An increase in competition in fertilizer trade will create higher efficiency. Higher efficiency and competition should result in reducing the fertilizer prices paid by the farmers. A step has been made in this direction by allowing other private firms, in addition to KFA, to buy Government fertilizer. There is currently a limited list of registered fertilizer distributors, (see Annex B) eligible to import commercially or buy donor-provided fertilizer from Government. As noted previously there are a number of former distributors who probably would get back into the fertilizer business under the right conditions. Publication of information on fertilizer import plans, pricing, and conditions of participation by private sector firms will help these firms participate constructively in the fertilizer program.

2. Packaging in smaller units

Equity considerations and optimization of fertilizer use require that methods for wider and more efficient distribution of fertilizer to the smaller producer in remote areas be developed. One means of achieving this wider participation is to encourage packaging in smaller units: 5, 10 and 20 kilogram bags and making these available in remote areas through stockists or traders.

Currently, fertilizer of all types is sold in 50 kilo bags. The small farmer, under prevailing market conditions, cannot afford a whole bag of 50 kg of fertilizer, especially when during one season he may use less than half of it. Without proper storage conditions the farmer may have to discard the remainder, especially if it is nitrogenous. In addition to lessening fertilizer wastes, small packing units will ease transportation costs since a farmer can easily walk with a 5 to 10 kg bag of fertilizer. The ceiling price of DAP, for example, is 281.30 Kenya shillings. This price is established by the GOK Price Controller and is based on the cost of importing fertilizer in bags. Selling fertilizer in smaller units would increase costs per 50 kilos beyond the ceiling price due to increased handling costs and materials. Larger established fertilizer distributors in Kenya have not found it feasible to sell fertilizer in less than 50 kilo units due to this constraint on pricing. One large fertilizer distributor (MEA), however, is asking permission from the Price Controller to sell fertilizer in 10 and 25 kilo units, and to apply a surcharge on these units.

Despite the ceiling prices on 50 kilo sacks, a number of small-scale traders in the Central Province, Kisii, and Kakamega areas are breaking the 50 kilo units into smaller units for sale to smallholders farming on 2 acres or less. These smaller units are being sold for approximately 70 Kenya shillings for a 10 kilo bag, or Kenya shillings 350 for the equivalent of a 50 kilo bag. The demand for these smaller units is demonstrated by this practice and has been growing as small holders are adopting proper techniques of fertilizer application, and finding the smaller units to be compatible with other agricultural inputs already being sold in units appropriately sized for their use.

For example, during the last 4 years the Kenya Seed Company (KSC) has experimented with selling seeds in 2 kilo packages. KSC has traditionally sold its seed in 10 and 25 kilo bags. These smaller sized units are most appropriate for small holders farming on 1 - 2 acres. Sales of these units have steadily increased throughout the country, particularly in the areas of Kisii, Kakamega, Thika, and around Nairobi where there are large concentrations of smallholders. The demand for the 10 to 25 kilo bags of fertilizer being sold by small-scale traders in these areas is tied to the use of smaller units of seed.

A study conducted for the Government of Kenya revealed that the number of fertilizer bags (50 kg) used by farmers per season ranged from 0.5 to 5 bags, of which 73.6% of all farmers used less than two bags. There was strong evidence that farmers would favor smaller bags if available. From the study it was shown that 83% of the farmers preferred smaller packages of which 59% preferred 25 kg bags and the rest even smaller sizes. The reasons given by farmers for favoring smaller sizes were:

1. ease in transportation
2. economic for smaller farms
3. economic in smaller units: i.e., farmers did not want to tie their capital on large units which could not be fully used in one season.

It therefore appears both feasible and desireable to promote policy changes which will allow sale in smaller packaging units.

3. Government Role

Government exercises too much control over day-to-day market decisions without adequate economic facts and analyses on which to base such decisions. Government should withdraw from making detailed market decisions. The government's role should be one of assistance, support and monitoring and not firm control. Greater reliance on market forces and inputs from private sector representatives on the Fertilizer Advisory Committee can help achieve a lessening of Governmert's role.

4. Pricing

Pricing on a timely basis is essential in order that the distributors know their cost for the imported fertilizer and the retail price they can charge. No business can function without this information. Extreme price variations are hurting the current system. We believe a pricing system could be pegged to the international market for each fertilizer type and could be firm for all imports during a six month period. This would eliminate fluctuations and allow distributors and farmers to plan their actions.

Fertilizer distributors feel that the pricing structure does not allow reasonable profit margins needed to expand into the smallholder sector. The Government's continued use of KFA as the main distributor supports monopolistic tendencies and it is likely that KFA squeezes its stockists who are left with inadequate profit margins.

The Government role in price policy should at most be limited to establishing ceiling prices at final distribution points after recognition of transport accessibility and costs. Below such ceilings market competition could determine the structure of prices and price spreads. In order for the farmers to pay competitive prices the pricing structure must be streamlined and a higher degree of competition among fertilizer distributors must be encouraged.

Publication of wholesale and retail prices early in the crop year will allow private sector distributors to make reasonable judgments about their participation in the fertilizer program. Further study of the pricing structure and system will help rationalize both.

5. Demand Assessment

Demand assessment will always be an approximation, but major mistakes like buying at the wrong time or overbuying can be eliminated. Underbuying or overbuying can prove costly in terms of storage or shortages of fertilizer. Demand is heavily dependent on world prices (which require careful monitoring) and on world fertilizer supplies and shipping costs. The Government should move toward providing current information on the volume and cost of imports, stocks in the distribution channels, fertilizer prices at all levels, and estimates of use. Government's role is to provide facts and perhaps analyses of the industry that can be used by industry in making its own demand assessments.

6. Timing of Imports

The timetable must follow the farming calendar and be related to the timely allocations of foreign exchange for commercial imports. For the system to operate properly fertilizer stock positions must be known early -- probably by June 1 each year; donor intentions to provide fertilizer must be known; commercial import applications must be known; a basic import plan developed; import allocations made; distribution intentions and guarantees known; shipping and arrival schedules developed; and wholesale and retail prices of various fertilizer types developed and announced.

7. Bulk High-Nutrient Fertilizer

Fertilizer imports should be concentrated on the high-active-ingredient fertilizers that can be used for direct crop application or blended in the country. The Diammonium Phosphate (18-46-0), that will be imported under this program, can be used for direct crop application or blended in Kenya to make mixed fertilizer.

8. Donor Fertilizer

Donor fertilizer should be treated, as much as possible, like any other fertilizer. It should be priced and sold to the private sector buyers at the port. Prices will be based on world market costs. If the types of donor fertilizer are not precisely what the market demands, private auction should be used to establish a price that will move the fertilizer into commercial markets. Application of the system proposed under this program to other donor programs, as is intended, will achieve this objective.

9. Research

Government research is necessary on crop response to fertilizer, soils research, technical requirements for crop nutrients, marketing, pricing and cost efficiencies in getting fertilizer through the market distribution system to the farmers. Research on crop response to fertilizers (NPK) and other nutrients should provide guidance to producers and to the industry in order to avoid imports of costly nutrients, or perhaps bonding agents, that are not needed. Although such research will not be part of this program, it is intended that it be pursued under the upcoming Agricultural Technology Project No. 615-0229.

IV. PROGRAM DESCRIPTION

A. Fertilizer Types, Quantity and Timing

This program will finance the importation of 50,000 tons of Diammonium Phosphate (DAP) for which demand is currently high. Of this 40,000 will be bagged and 10,000 tons will be bulk. Although a greater volume of fertilizer could be procured if a larger proportion were to be shipped in bulk, bagging facilities in Kenya cannot handle more than 10,000 tons during the time period between expected arrival and sale to farmers.

For planning purposes the price for DAP, FOB Gulf, is estimated at $178 per ton bulk and $218 per ton bagged. Thus:

10,000 Ton bulk DAP @ $178	= $ 1,780,000
40,000 Ton bagged DAP @ $218	= $ 8,720,000
Total cost of fertilizer FOB Gulf	= $10,500,000

Shipping costs to Mombasa are estimated at $130 per ton on U.S. vessels and $50 per ton on foreign vessels. The last shipment of fertilizer which USAID brought into Kenya, 14,000 tons in December 1983, was shipped on a U.S. vessel at a cost of $127 per ton. Although none of the fertilizer was eligible for shipment on non-American vessels it is understood there were quotes as low as $22 per ton available on foreign ships. Under this program 50% of the expected 50,000 tons will be shipped on U.S. vessels and the other 50% on foreign vessels (code 941 or 935). On this basis the shipping costs are as follows:

25,000 ton @ $50	=	$1,250,000
25,000 ton @ $130	=	$3,250,000
Total cost of shipping	=	$4,500,000

B. Policy Changes (Conditions Precedent and Covenants)

In support of the interventions proposed under this program, the Government will implement four specific policy changes described below. These will be treated as Conditions Precedent and Covenants in the Agreement.

Private Sector Fertilizer Distribution

This program will bring about the full implementation of a system that will effectively distribute all donor-provided fertilizer by Kenya's private sector. Specific steps to implement the stated private sector distribution policy will include the Conditions Precedent and Covenants described below

1. Conditions Precedent to First Disbursement

a) The Government will establish a Fertilizer Committee to implement the private sector fertilizer distribution policy.

b) The Government will publish current fertilizer stock levels and donor fertilizer financing intentions known as of the date of signing of this Agreement. Publication of stock levels will be made by the Ministry of Agriculture and Livestock Development. Publication of donor intentions will be made by the Ministry of Finance.

c) The Government will publish an up-to-date compilation of commercial fertilizer import applications received as of the date of the Agreement. Compilation of these commercial fertilizer import applications will be made by the Fertilizer Committee.

d) The Government will develop a fertilizer import plan specifying types, quantities and timing of fertilizer imports as well as anticipated donor financing. This plan will be developed and published by the Fertilizer Committee.

2. <u>Covenants</u>

The Covenants a to d below will be fulfilled annually on the dates indicated. For items b-d, these actions will begin in 1985.

a) The Government will announce wholesale and retail prices for fertilizer by November 1 of each year. Announcement of these prices will be made by the Fertilizer Committee.

b) The Government will publish stock levels and known donor fertilizer financing intentions by June 1 each year. Publication of stock levels will be made by the Ministry of Agriculture and Livestock Development. Publication of donor intentions will be made by the Ministry of Finance.

c) The Government will distribute a list of commercial fertilizer import applications compiled by the Fertilizer Committee by July 15 each year.

d) The Government will develop a fertilizer import plan specifying types, quantities and timing of fertilizer imports as well as anticipated donor financing to be published by the Fertilizer Committee by July 30 each year.

<u>Fertilizer Pricing Structure</u>

This Agreement will initiate the development and implementation of a fertilizer pricing structure that better serves farmers, fertilizer distributors, and fertilizer importers.

The specific measures to implement the fertilizer pricing structure policy is outlined below. This will be treated as a Covenant to this Agreement.

The Government will carry out a review and revision, as appropriate, of the current pricing structure for fertilizer in order to provide adequate compensation for and promote a wide distribution of fertilizer. The objectives of the Borrower's review and revision will be to:

(1) Establish wholesale and retail fertilizer prices on a timely basis so that farmers, distributors and importers can plan ahead.

(2) Implement a standardized price structure for fertilizer of the same type that arrives at different times. For example, a firm price for DAP should be established for a 6 month period, based on the international market.

(3) Establish price levels, both wholesale and retail, for various clients, i.e., authorized importers, large distributors, small distributors, village stockists, 1000 ton users, and small users.

Fertilizer Packing Policy

This program will initiate the development of a fertilizer packing policy to better serve smallholders. Although vital to smallholder fertilizer utilization, the promotion of sale of smaller bags is inextricably bound to the pricing structure discussed in point B above. The development of a fertilizer packing policy will be treated as a Covenent to the Agreement. The Government will announce a policy authorizing application of a surcharge on fertilizer sold in properly marked packages of 25Kg or less.

Deposit and Utilization of Local Currency

All fertilizer purchases from Government by Distributors will be paid for in cash or via a bank guarantee not to exceed 180 days. The Government will establish a separate interest-bearing special account with the Cereals and Sugar Finance Corporation for the deposit of Kenya Shillings generated from the sale of all USAID-financed fertilizer. The annual rate of interest on deposits in the special account will be twelve and one-half (12.5) percent.

On a quarterly basis, the Cereals and Sugar Finance Corporation will provide USAID a report detailing the status of the special account. The report will include: the account balance at the beginning of the quarter, the amount and provenance of individual payments made to the account during the quarter, the amount and purpose of disbursements from the account during the quarter, and the balance at the end of the quarter.

Procedures to be followed by the Government in implementing and reporting on the special account will be amplified by USAID in implementation letters.

These two policy changes, payment in cash or a bank guarantee not to exceed 180 days, and establishment of a separate interest-bearing special account with the Cereals and Sugar Finance Corporation, will be treated as Covenants in the Agreement.

V. PROGRAM IMPLEMENTATION

A. Institutional Framework

1. Background

The Government of Kenya is interested in establishing a system that moves donor-provided fertilizer directly to the private sector quickly and efficiently. The Ministry of Finance and Planning desires to open opportunities for participation by importers and distributors as a means to obtain local currency early and a guarantee of payment for donor fertilizer. The Ministry of Agriculture and Livestock Development wants supplies to be adequate and timely to meet farmers' needs. Both want prices to be fair to distributors and farmers. The importers and distributors want an orderly development of the input supply system and the chance to distribute donor fertilizer with a reasonable profit. A system is evolving that meets the needs of all parties involved and can provide a sound basis for growth in fertilizer use in Kenya. There will, of course, be problems but with effort and the cooperation of all participants problems that arise can be solved.

Five entities will be directly involved in the system.

The Ministry of Finance and Planning will take the lead in developing and operating the system, selling to the private firms and recovering the Kenya Shillings generated from those sales.

The Ministry of Agriculture and Livestock Development will provide technical support including the fertilizer amounts and types required, stock information, and current farmer use trends.

The Fertilizer Advisory Committee will advise both ministries on the fertilizer requirements, qualified distributors, pricing, distribution issues and generally provide a forum for communication between the private sector and Government.

The Cereals and Sugar Finance Corporation will serve as the "accountant" for the fertilizer imported and sold and for the Kenya Shillings generated from those sales.

The donor community will remain interested in the operation of the system, the use of the fertilizer they have financed and the progress toward rational pricing of fertilizer.

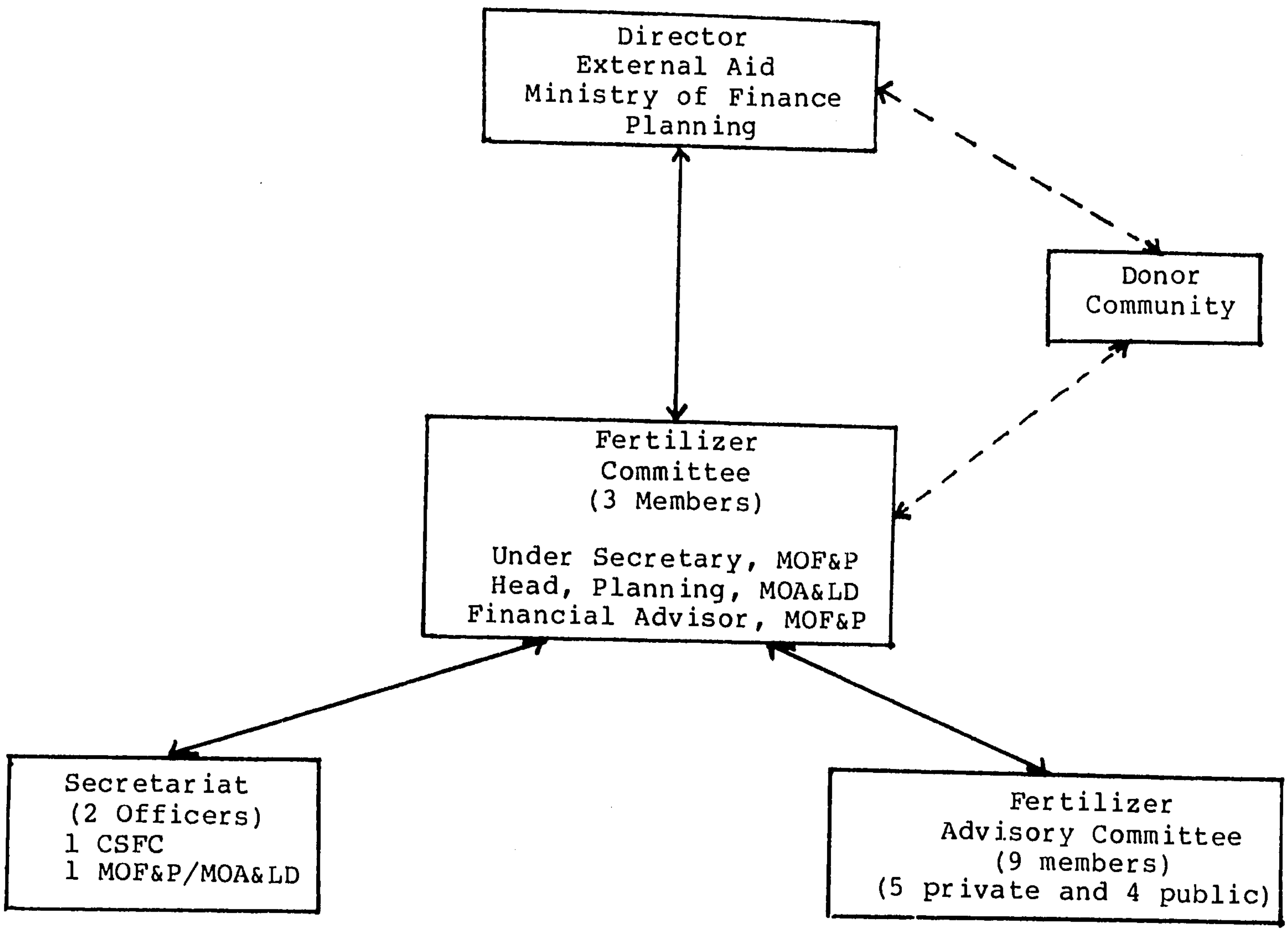
2. <u>The Organization</u> (see figure 1)

The Director of External Aid will have the responsibility and authority for all donor provided fertilizer that enters Kenya. He will be supported by the Fertilizer Committee that will be responsible for implementing the system. The Fertilizer Committee will have three active members: the Under Secretary (Agriculture) in the Ministry of Finance and Planning, the Head of Planning and concurrently Chairman of the Fertilizer Advisory Committee for the Ministry of Agriculture and Livestock Development, and the Financial Advisor, Ministry of Finance and Planning.

The Fertilizer Advisory Committee will, as the name suggests, advise the Fertilizer Committee. Their membership and role will remain as is described in Annex I. The Fertilizer Committee, in conjunction with the Director of External Aid and with advice from the Fertilizer Advisory Committee will make all major decisions regarding fertilizer imports to Kenya including such things as pricing, allocation to distributors, and engagement of clearing and forwarding agents. Only major policy issues will be raised to a higher level for decisions.

The Secretariat will have at least two officers, one seconded/nominated from the Cereals and Sugar Finance Corporation (CSFC) and one from either the Ministry of Agriculture and Livestock Development or Finance and Planning. As the workload is regularized the staffing level of the Secretariat will be adjusted. The Secretariat will be the "keeper of the numbers" for both the fertilizer imported and the Kenya Shillings generated from the sale of donor fertilizer. Thus, two types of information would be kept - fertilizer and financial information. Fertilizer information would include: arrival schedules, distributor allocations, sales to various distributors by quantity and type for each donor shipment, donor commitments, distributor stocks and ultimate destination of fertilizer by District. Financial information would include: bank guarantees, schedule of due dates for guarantees, value of fertilizer sold for each donor, Kenya Shillings deposited, Kenya Shillings used for what purposes, Kenya Shillings balances in various accounts and balance due based on established value.

Figure 1



MOF&P Ministry of Finance and Planning

MOA&LD Ministry of Agriculture and Livestock Development

B. Procurement and Contracting

1. Fertilizer Requirements

Based on estimates of current stocks, statements of donor intentions, and applications for commercial import licences, the Fertilizer Committee, with assistance and advice from the Fertilizer Advisory Committee, will develop a fertilizer import plan. Based on the best estimates of current prices and shipping costs, the Ministry of Finance and Planning and Ministry of Agriculture and Livestock Development in conjunction with the Fertilizer Committee and the Fertilizer Advisory Committee, will determine the quantity and type of fertilizer to be requested from each of the donor countries. The Director of External Aid will then communicate these requests to fertilizer donors. It is anticipated that the United States will supply one commodity only, probably DAP, for which U.S. suppliers have competitive prices.

2. IFB's and Contracting

The Government of Kenya will be the buyer. For AID-financed fertilizer, an Invitation for Bid (IFB) will be prepared in the Kenyan Embassy in the United States with SER/COM assistance as necessary and released in Washington, in accordance with the procedures of Section 201.22 "Formal Procurement" of AID Regulation 1. In order to assure timely arrival in Kenya, the date for opening the bids will be set no later than November 15 1984. Tenders for other donor fertilizer will be released in Nairobi for purchase in the donor country involved -- if the source and origin of the fertilizer must come from the donor country.

3. Shipping

A U.S. freight agent will be employed by the Kenya Embassy in Washington to arrange for the charter of vessels, Code 941 and code 000, to carry the fertilizer (subject to SER/COM/TS approval) and to obtain marine insurance.

4. Fertilizer Allocation

When quantities, types, and tentative arrival times of donor-provided fertilizer are known this information will be circulated to the distributors. They will signify their intent to take various quantities by providing a performance bond for that fertilizer desired. This statement of intent will then be followed by a bank guarantee that must be delivered two weeks prior to the arrival of the shipment. At such time that the distributor accepts possession of the donor fertilizer they accept the responsibility of providing a quarterly report indicating sales by type, amount, bag size, and district for each shipment accepted as well as the off-loading information noted in section VI.A.1. below to the monitoring contractor. They will also be required to report their estimated requirements for the following year.

C. Distribution System

1. Fertilizer Distributors

The list of approved distributors (Annex B) will be modified as necessary by the Fertilizer Committee in consultation with the Fertilizer Advisory Committee. Donor fertilizer will be first offered to the approved distributors. If all is not purchased by those on the approved list it will be offered to distributors on a subsidiary list. This list will include those firms that have not been regularly distributing fertilizer but wish to do so. As they prove their interest in and commitment to establishing a distribution system they will be considered for the approved list.

2. Clearing and Forwarding Agent

A clearing and forwarding agent will be engaged by the Secretariat as necessary to clear, forward, or store the fertilizer arriving. It is expected that most fertilizer will be sold prior to arrival and that the buyer will clear the shipments as they do with their commercial purchases. In cases when the clearing and forwarding agent is used the price to the distributor will reflect the additional costs of clearing, transport and storage.

3. Private Sector Distribution

Once purchased by a private sector firm, distribution will be the sole responsibility of that firm, subject to the reporting requirements described in section VI, A., 2. below.

Annex G provides the implementation schedule that Government expects to utilize to implement the private sector oriented distribution system.

D. Financing

1. U.S. Dollar Costs

Once the supply contract has been awarded to a U.S. supplier, the Ministry of Finance and Planning will request AID to issue a Direct letter of Commitment to the supplier. AID will issue the Letter of Commitment. Payment will be made to the fertilizer supplier under the Letter of Commitment upon presentation to A.I.D. of shipping and other required documents.

2. Kenya Shilling Payments

The Government will request from each of the private distributors submitting an application for fertilizer a 180 day bank guarantee or cash for the amount of the application. Payment or a guarantee must be given to the GOK prior to taking possession of the fertilizer and no later than December 1, 1984. Firms that take possession after December 1 will be subject to a shortened bank guarantee period to assure that Kenya shillings generated are available for use if necessary during the Kenya FY 1984/85 -- prior to June 30, 1985. The guaranteeing bank will pay the GOK the amount of the guarantee when the payment is due. The GOK will deposit these funds into the separate special account.

Some firms experienced difficulty in obtaining bank gurantees for fertilizer available to the private sector under the FY 1980 Agriculture Sector Grant (615-0228). The problem occurred because the firms utilized all available lines of credit for regular commercial purchases since it was not known that aid fertilizer would be available. This problem will be avoided by alerting eligible firms of import intentions by mid-August of each year (See Annex G, Implementation Schedule).

The Cereals and Sugar Finance Corporation will be the repository for Kenya Shillings generated from the sale of donor fertilizer. A separate special account for each donor and for each year of imports will be established. The account will receive deposits of the proceeds from the sale of the fertilizer. The account will be used to cover the cost of sales and other expenditures agreed upon by the Government and the donor.

3. Monitoring and Handling Costs

As described below program monitoring is the responsibility of the USAID project officer who will be assisted by a monitoring contractor. Handling and storage charges, as necessary, will be paid to a private freight forwarder/clearing agent who has been competively selected. The costs of these services will be met from existing local currency generations from previous program assistance currently held at the Cereals and Sugar Finance Corporation. Estimated costs are as follows:

Clearing and forwarding cost (based on 40% of imports -- balance cleared by purchaser)	KSh 322 X 20,000	KSh 6,440,000
Transport costs	20,000 tons X KSh 100	KSh 2,000,000
Storage costs (based on 40% of imports -- balance directly to purchaser)	KSh20/ton/mo. X 3 mos	KSh 600,000
Monitoring costs (1 year contract)		KSh 960,000
	Total	KSh10,000,000

VI. PROGRAM MONITORING AND EVALUATION

A. Monitoring

The Government's responsibilities with regard to accounting for CIP-financed commodities will be spelled out in the Agreement. In brief, these requirements include Kenya's responsibility to maintain, for at least three years, a system of records documenting the arrival and disposition of the fertilizer financed by AID, ensuring clearance by customs within 90 days, ensuring effective utilization within one year from arrival in Kenya, and ensuring that it is not exported from Kenya.

1. Analysis of GOK's present system

The Customs and Excise Department of the Ministry of Finance and Planning keeps statistics by SITC code of imports. The "Import Entry" form which is prepared in six copies has full details including the Import License number, the Foreign Exchange Allocation License number, the Bill of Lading number, and a full description of the goods. 5% to 10% of all imports are physically inspected by Customs. A copy of this form will need to be obtained for preparation of the arrival accounting reports. The form reflects short shipments, short landings, and partial deliveries. The Government will covenant supplying this form to USAID.

The Kenya Port Authority prepares ship out-turn reports, usually within 14 days after a ship's departure. This report will also be useful in determining short shipments and short landings. The Government will agree to supply this form to USAID as well. It is only rarely that goods remain in customs for anywhere near 90 days because port storage charges are substantial (presently 12 shillings per ton per day). No storage fee escalation charge is applied to imports. Instead, if clearance documents are not submitted to the port within 21 days after the vessel starts discharge, then the goods are to be sent to customs for auctioning.

This provides sufficient incentive to remove goods promptly from the port. The main reasons goods are not removed expeditiously from the port is improper or inadequate documentation, e.g., no original negotiable B/L has been presented, or the goods cannot be located in the port perhaps because the goods were shipped and manifested "break bulk" but are now in a container which has not yet been stripped. A port inspection has shown that it has more than adequate equipment to physically handle the imports, and has storage facilities reasonably secure from theft and weather.

From this description, it can be seen that the existing system of Government record keeping is not quite adaquate for AID's need to determine exactly how much fertilizer is received by each buyer. Therefore AID monitoring of this program will involve three additional stages: first, arrival and offloading of the fertilizer at port; second, the distribution by the private firms and end use; and third, the deposit and utilization of local currency generated from fertilizer sales. Monitoring procedures will be established for each of the three stages.

2. <u>Arrival Offloading Movement</u>

The private firm or the GOK's appointed clearing and forwarding agent, depending on which off-loads the fertilizer, will provide a report to AID and the Government for each shipment of fertilizer that arrives. The report will include (1) copies of the bills of lading, (2) copy of vessel's out-turn report showing actual quantity discharged, (3) an explanation of any shortages and copies of insurance claims, (4) copies of delivery receipts showing amount by type released to private firms, (5) copies of the relevant "Import Entry Forms", (6) names of firms receiving various types, (7) amount moved to storage and location of storage.

3. <u>Distribution by Private Firms and End-Use Checking</u>

Each firm that buys AID-provided fertilizer will be given a simple report form that when completed will indicate the initial disposition of the fertilizer.

The Government presently performs no end-use utilization accounting, although the purpose of such controls is primarily to discourage hoarding. AID's policy (HB 15, Chapter 12) requires consumption or use by the importer or sale or transfer by the importer for consumption or use within one year from the date the commodities are removed from customs, unless a longer period can be justified to AID by reason of force majeure, special market situations, or other circumstances.

A contractor will perform end-use checks on the fertilizer sales to ensure that this requirement is being met. The end-use check will follow the fertilizer to the point of first sale by each buyer. Thus, if the buyer is a wholesaler, the end-use check will determine whether or not the fertilizer was properly sold to retailers or sold to large end-users such as plantations. If the buyer operates retail outlets the end-use check will determine whether or not the retail outlets sold the fertilizer and not if the fertilizer was actually used on crops. End-use checks will be performed on a statistically valid sample of each buyer's sales.

4. Deposit and Utilization of Local Currency

A separate interest-bearing special account will be established with the Cereals and Sugar Finance Corporation. On a quarterly basis the Cereals and Sugar Finance Corporation will provide USAID a report indicating the account balance at the beginning of the quarter, deposits made during the quarter, payments made during the quarter, and the balance at the end of the quarter. A separate exchange of letters between the GOK and USAID will indicate the agreed upon uses of local currency generated by this program. The CPs and Covenants detailed in the introduction to this PAAD establish the ground rules for operation of this account. Further detail, as needed, will be provided through Project Implementation Letters.

5. Monitoring

Responsibility for program monitoring will rest with the Agricultural Office, USAID/Kenya, with advice and assistance from a Projects Office officer with substantial experience in commodity programs. The monitoring efforts of these officers will be augmented by assistance from a contract firm. This contractor will be either the same contractor employed under Project No. 615-0213, the Commodity Import Program, or a local Kenyan firm under separate contract. This contractor will develop simple report forms, assist the agent and private firms with completing reports to assure understanding, will follow-up on deliquent reports on behalf of the GOK and USAID, compile and verify information on all arrivals and distribution, and will monitor the USAID Special Account through semi-annual audits.

B. Evaluation

The program will be evaluated in June 1985 assuming fertilizer is imported in November/December 1984. PD&S funds ($20,000) will be requested to fund the evaluation. The evaluation will be based on the following criteria:

-degree of progress in development of a government system to move USAID-provided fertilizer directly to the private sector;

-degree of progress in establishing a price mechanism that serves the interests of the government, the fertilizer distribution and the farmer;

-progress in timely movement of local currency generated from fertilizer sales to the separate special account;

-management of local currency deposited in the separate special account;

-effectiveness of the Fertilizer Advisory Committee in helping ensure appropriate types, quantities, prices, timing of fertilizer imports and in bringing private sector fertilizer distributor interests to the attention of the Fertilizer Committee;

-extent to which fertilizer has been sold in small bags, by district, at what price. Information on size of bags and location of sales will come from distributor reports per VI.A.2 above. Price information will be per official prices. Impact on production of smallholders (the only farmers who will use small bags) will be calculated based on existing production functions, to the extent they are known.

VII. PROPOSED USE OF LOCAL CURRENCY

The $13.0 FY 1984 Agricultural Development Program will result in local currency deposits of approximately KShs 182 million. Upon arrival in Kenya the fertilizer will be sold to private sector distributors who will pay in cash or provide a bank guarantee of deposit of the Kenya shillings sale price into a separate special account within 180 days of sale. Since it is planned that the fertilizer will be sold to private sector distributors in time to be used during the spring 1985 long rains, all Kenya shillings will be deposited in the separate special account prior to the end of Kenya Fiscal Year 1984/85. Conditions and Covenants detailed in Section I of this PAAD describe the terms under which local currency is to be deposited and used.

The programming of utilization of the Kenya shilling equivalent of $13.0 million is part of a larger package of local currency programming which also includes local currency generations from the FY 1984 PL 480 and ESF agreements. It is anticipated that a total of $31 million of Kenya shilling will be available from these programs during Kenyan FYs 1984/85 and 1985/86. The proposed breakdown of utilization is as follows:

	U.S. million
Kenya budget	26.0
Private Sector Initiatives	5.0
Total	$31.0

The Kenya shillings resulting from the Agricultural Development Program will be used to support priority agricultural development activities in the Kenyan FY 1984/85 and FY1985/86 budgets. Possible activities to be supported include:

Agricultural Research
Arid and Semi Arid Lands Development
On-Farm Grain Storage
Higher Agricultural Education, etc.
Drought related costs such as transport of food, to drought areas.

The precise activities and amounts are subject to the Kenya budget process and negotiation with Government.

USAID/Kenya has a long-standing policy of supporting only those Government activities which are included in the budget since to do otherwise would undermine the developing budget discipline which USAID/Kenya and others are vigorously promoting through a variety of channels. The principal impact of USAID/Kenya identifying and financing specific budget line items with local currency available from program assistance is to facilitate protection of the full funding of these activities during periods of expenditure cutbacks. USAID/Kenya plans to vigorously and systematically monitor Government expenditures for agreed upon activities and intensively lobby to ensure full funding.

Deposits into and withdrawals from the separate special account will be monitored and verified by a contractor. The Government and the contractor will report regularly to USAID/Kenya on the status and operations of this Separate Special Account.

VIII. MACRO-ECONOMIC ANALYSIS

Although it is expected that the proposed changes in the fertilizer distribution system will ultimately have a positive impact on agricultural production in Kenya, the principal short-term economic impact of the program will be at the macro-economic level as described below.

A. Economic Trends

During 1982 and 1983, Government management of the economy showed definite improvement. Since the attempted coup of August 1982, the Government has achieved a period of stability and a return of business confidence. Public expenditures have been curtailed, foreign exchange reserves are up, imports flow more smoothly, and price inflation has subsided. Underlying these trends have been sharp adjustments in the prices of foreign exchange, food and imported oil. The Government has been given high marks by the IMF in early 1984 for meeting agreed-upon expenditure, domestic credit, and borrowing targets.

Further steps are required. The sharp curtailment of effective demand in the economy has compressed the level of economic activity in Kenya, and has brought the disadvantages of reduced employment and living standards, and even of a stall in the development process. The preferable alternative, to which the Government subcribes, is to encourage economic growth by changing patterns of production and demand along lines that will reduce Government's role and expand private investment, and at the same time to reduce the requirement for imports and increase the level of exports produced from Kenyan resources.

Successful demand management is not sufficient in itself because of the limited natural resources at Kenya's disposal in comparison to its population. Kenya does not have sufficient arable land or mineral wealth to allow its population to find employment opportunities within the economy's present policy structure. Both domestic and foreign private investment are required to effect prosperity.

The Government laid the foundation for its structural adjustment program in the Report and Recommendations of the Working Party (the "Ndegwa Report") of July 1982, in the KANU political manifesto of August 1983, in the new fifth Development Plan released in December of 1983, and in Consultative Group statements. However, Government has announced, but not implemented, policies to further decontrol selected domestic retail prices, to liberalize domestic market and trade controls, to divest interests in some public parastatal bodies and to expand credit for private investment. These are the underpinnings for a more active development role for the private sector.

B. The Budget Issue

Kenya's chief structural adjustment success to date has been a large scale shift of resources from the public to the private sector over a brief period of three fiscal years. Government expenditures were reduced from 35 percent of GDP in 1980/81 to 27 percent of GDP in 1982/83, sharply reversing an upward trend that had lasted for more than a decade. The Government has taken a substantial risk in reducing its relative share in the economy by more than a fifth in such a brief period of time. Between FY 1980/81 and FY 1982/83, total Government expenditures decreased by approximately 19 percent in real terms, and real development expenditures fell by some 29 percent. In the meantime, population has continued to grow by 4 percent per annum, along with the demand for jobs, services, and development activities.

Government's investment program has borne the brunt of the financial cutbacks of the past two years. Although an attempt was made to give priority to completing on-going development projects, implementation of projects inevitably suffered. During the course of FY 1982/83, the Government had to revise its budget three times as revenue estimates declined in line with faltering economic growth. Shortfalls in local matching funds caused donors and Government to reconsider priorities and to revise or reschedule individual projects. As a result development project disbursements, which should have been up in a time of crisis, instead declined. Since most externally financed development projects contribute more foreign exchange to the Kenyan economy than they absorb, budget austerity indirectly contributed to an increased need for austerity in the external accounts as well.

Despite the painful nature of recent budget cutbacks, Government intends to consolidate the gains of the past two years. Government will limit expenditure during the 1984-1988 Development Plan to an average of 28.6 percent of GDP -- below the 31.7 percent average of the previous five-year plan, and well below the level of 35 percent reached in 1980-81.

Table 1

Government Expenditures as a Share of GDP at Market Prices

Actual		Projected	
1978/79	32.3%	1983/84	27.5%
1979/80	32.2%	1984/85	28.7%
1980/81	35.0%	1985/86	28.7%
1981/82	32.2%	1986/87	28.9%
1982/83	27.0%	1987/88	28.9%

In recent years, expenditure cutbacks were combined with tax increases to produce significant reductions in the overall budget deficit from 9.6 percent of GDP in 1980/81 to 3.3 percent of GDP in 1982/83 (well below the IMF target of 4.7 percent). The average deficit to be financed during 1983/84 - 1987/88 will be held to just over 4 percent of GDP.

Table 2

Government Budget Deficit as a Share of GDP at Market Prices

Actual		Projected	
1978/79	7.4%	1983/84	4.4%
1979/80	5.7%	1984/85	4.2%
1980/81	9.6%	1985/86	4.0%
1981/82	6.5%	1986/87	3.9%
1982/83	3.3%	1987/88	3.6%

At the Consultative Group Meetings held in Paris in January and February, 1984, Government provided data required to define gross external resources required for the budget to finance the 1984-88 Development Plan ($1584 million, or approximately $317 million per annum).

Table 3

Kenya: Central Government Budget;
Gross External Resource Requirements, 1983/84-1987/88
(Millions of U.S. Dollars)

Total Expenditure		10,877
Less:	Recurrent Expenditure	8,111
Equals:	Development Expenditure	2,766
Less:	Current Surplus	761
Less:	Domestic Borrowing	788
Equals:	Net External Resources Required	1,217
Plus:	Estimated External Repayments and Start-up Funding for Projects at End of Plan	366
Equals:	Gross External Resources Required	1,584
Less:	External Commitments Outstanding	840
Equals:	Additional Gross External Resources Required	744
	Of Which: Additional Gross Project Assistance Required	388
	Additional Gross Program Assistance Required	356

Source: Speech by Hon. Prof George Saitoti, M.P., Ministry for Finance and Planning of the Republic of Kenya. Paris: Republic of Kenya for the Consultative Group Meeting, January 31, 1984. The proposed ESF Commodity Import Program of $13 million for FY 1984 would account for 4 percent of the $317 million annual gross external resources required. When the effective assistance portion of this Agricultural Development Program of $13 million and the PL 480 Title I Loan of $5 million are included, the U.S. contribution rises to 10 percent.

By Government's calculations, some $840 million of outstanding commitments from donors will be drawn down during the Plan period, leaving some $744 million of additional external resources to be found (or approximately $149 million per annum). According to Government estimates, new gross project assistance required is estimated at some $78 million annually.

New gross program assistance required is somewhat less at an estimated $71 million annually. The proposed U.S. Commodity Import Program of $13 million for FY 1984 would supply approximately 18 percent of the additional average annual program assistance required to support the five-year Development Plan. This $13 million from the Agricultural Development Program would provide an additional 18 percent of annual required program assistance. U.S. program assistance in all forms would contribute over 44 percent of requirements. It should be noted however, that only a small portion of the FY 1984 program assistance will reach the government budget in 1984/85. Most FY1984 program assistance will support the FY 1985/86 budget and it is proposed that 40% of the FY1984 ESF program assistance generated Kenya shillings be used in the private sector.

C. The Balance of Payment Issue

Since 1980, smaller Government deficits, higher interest rates, and slower growth have contributed to a strong overall trend toward improvement in Kenya's trade and current account balances. In the past year, slower growth in the monetary aggregates has contributed to the process as well. In addition, there were devaluations of 5 percent in February 1981, 15 percent in September 1981, and 15 percent in December 1982. These had the effect of reversing the 7 percent appreciation that had taken place in the real effective exchange rate between 1976 and 1978. By the end of 1982, the purchasing power parity of the Kenya shilling was back to its 1976 level. Government has now committed itself to periodic exchange rate adjustments as necessary to maintain the purchasing power parity of the shilling (exemplified by the 2.5 percent mini-devaluation of July 1983). A series of tariff adjustments have also been made. However, controls in the form of import and exchange licenses, which continue to be applied, contribute artificially to improvements in the trade and current account balance.

Kenya experienced a cummulative current account deficit of some $3.2 billion during 1978-82. Financing the deficit has resulted in an increase in Kenya's outstanding stock of medium and long-term public debt at the beginning of 1983 to a level of $2.8 billion (including IMF debt). However, most of this debt accumulation occurred in the first half of the period. The Kenya Government contracted two large Eurocurrency loans in 1979 and 1981 which have contributed to worsening of the average terms of official debt. The 1979 loan for $200 million began to be repaid in 1981 and is due to be repaid by the end of 1984. The second loan for $115 million will be amortized during 1984 - 89.

Kenya's debt service ratio more than doubled during the period 1979 to 1982 from about 12 percent to about 24 percent. As the Eurocurrency loans are repaid, the debt service ratio is expected to rise to 29 percent in 1985, and then to decrease to about 20 percent by the end of the decade.

Due to the large proportion of concessional and semi-concessional loans, Kenya's external portfolio at the beginning of 1983 had an average contracted maturity of over 24 years, with an average grace period of almost 6 years, and an average interest rate of just over 6 percent. The maturity, structure, and concessionality of Kenya's existing and projected external loan portfolio, together with a modest and potentially declining debt service ratio, make Kenya a sound credit risk for the type of lending proposed under the Agricultural Development Program (615-0230). It may be noted that the proposed terms of the Loan (at 2 percent interest during a grace period of 10 years, and at 3 percent interest during a subsequent amortization period of 30 years) will act to increase the average maturity and concessionality characteristics of the current Kenyan portfolio of public and publically-guaranteed medium and long-term loans.

Table 4

Kenya: Current Account and Trade Balances

	Trade Balance		Current Account Balance	
	m. U.S. $.	% of GDP	m. U.S. $	% of GDP
1979	-801	13.2%	-488	8.2%
1980	-1390	19.6%	-893	12.6%
1981	-1093	16.3%	-686	10.2%
1982	-836	13.4%	-512	8.2%
1983	-679	13.1%	-290	5.6%
1984	-673	10.3%	-293	4.5%
1985	-718	10.2%	-311	4.4%
1986	-782	9.9%	-348	4.4%
1987	-831	9.5%	-369	4.2%
1988	-913	9.4%	-417	4.3%

Despite continued deterioration in Kenya's external terms of trade, the country's merchandise trade deficit has been reduced by more than $700 million dollars in the past three years, falling from minus $1,390 million in 1980, to minus $679 million in 1983 (a reduction from 19.6 percent of GDP to 13.1 percent). Such improvements, however, have been more than accounted for by reductions in imports which fell by $987 million from $2632 million to $1645 million during the same period.

As Table 4 above indicates, Kenya's current account balance has also shown strong improvement, falling from 12.6 percent of GDP in 1980 to 5.6 percent of GDP in 1983. Reductions in the current account deficit, however, have been partially offset since 1980 by reductions in the surplus on capital account. Net private long-term capital fell by some $90 million between 1980 and 1983, and net public long-term capital flows fell by some $300 million (reflecting reduced willingness by Government to borrow externally on commercial terms, as well as some shift by external donors from loan to grant financing of development activities). The current account deficit for 1984 is now estimated at 4.5 percent of GDP, a level which would be sustainable in the long term, and which Government plans to maintain throughout the 1984-1988 Plan period. At the Consultative Group meetings in January and February, 1984, the Government for the most part held to its lower level projection of the current account deficit for calendar years 1984-88 ($1738 million U.S. dollars, or an average 4.4 percent of GDP). Given such a net current account deficit (plus required amortization payments and necessary reserve increases), gross donor and IMF balance of payments financing during calendar years 1984-88 would total $2413 million U.S. dollars. This is some 50 percent greater than the $1584 million U.S. dollars of budgetary assistance discussed above. Moreover, at higher levels of current account deficits, additional financing would be required from the IMF, the commercial banks, and donor sources. At the Consultative Group meetings, the World Bank reiterated its belief that the Government's upper level (or more pessimistic) projection of the balance of payments deficit ($3392 million U.S. dollars) is more likely to be realized. This would imply the need to find additional concessional financing of $1652 million U.S. dollars.

USAID believes that Government export projections for coffee, tea, and other non-petroleum export volumes are unduly high. In the case of coffee and tea, growth rates projected by Government would represent a widening of Kenya's overall share of world markets. An expansion of other non-petroleum exports by nearly 10 percent per annum also seems unlikely given the actual declines in total export volumes recorded over the past decade. In a similar fashion, a 10 percent annual increase in net travel receipts may also be too high without extraordinary efforts on the part of Government to promote tourism.

Given the large uncertainties regarding balance of payments projections for the entire period 1984-88, the World Bank presented its calculations of required gross balance of payments financing for the two calendar years 1984 and 1985 at $910 million U.S. dollars per annum (see Table 5). This figure includes capital required to finance the current account deficit, amortization, and increases in reserves. The Bank's financing projections for 1984-85 are consistent with its overall current account deficit projections for 1984-88 of 3.5 billion U.S. dollars. Of the $910 million U.S.

dollars required annually during 1984 and 1985, private non-guaranteed loans would account for $100 million. Of the remaining $810 million, the IMF could provide $100 million, and commercial loans to government and parastatal bodies would provide another $250 million. Gross financing required from donor sources, therefore, would amount to $460 million annually.

The Bank estimates that in order to provide disbursements of $460 million annually, new commitments of donor assistance will have to average about $520 million each year in 1984 and 1985. This would imply an increase of about 20 percent over the average level of donor commitments in 1981-83. The Bank estimates that approximately 25 percent of these new commitments (some $130 million annually in 1984 and 1985) would have to be in the form of quick disbursing assistance. The proposed U.S. Commodity Import Program of $13 million for FY 1984 would supply 10 percent of the average annual quick-disbursing assistance required during 1984-85 or 3 percent of the $520 million of annual gross commitments required from donors. This $13 million Agricultural Development Program would supply an additional 10 percent of quick-disbursing assistance and 3 percent of gross required commitments. In addition, the proposed $5 million of PL 480 Title I assistance would raise U.S. program assistance in FY 1984 to $31 million. This total would supply 24 percent of required quick-disbursing assistance or 6 percent of the annual gross commitments required from donors. However it should be noted that little, if any, of this amount will be supplied in CY 1984. The bulk of assistance will be effective in CY 1985 and 1986.

Table 5

Kenya: Balance of Payments
Average Annual Gross External Financing Requirements,
CY 1984 and 1985
(Million U.S. Dollars)

Gross Financing Requirements		910
Less:	Private Non-Guaranteed Loans	100
Equals:	Public and Publicly Guaranteed Loans and Grants	810
Less:	Commercial Loans	250
Less:	IMF Loans	100
Equals:	Gross Donor Financing required	460
Of Which:	Quick Disbursing	130
	Other	330

Source: Based on Statement on External Aid Requirements by World Bank Delegation, Paris, February 1, 1984.

D. Internal Financial Analysis

Imports of manufactured fertilizer financed under the $13 million Agricultural Development Program (615-0230) can be expected to have limited direct effects on Kenya's overall domestic money supply and rate of inflation during the period of program implementation. Flows of imports temporarily increase the overall supply of goods, and the collection of payments from importers by the Central Bank decreases the actual or potential supply of money. Kenya's overall money supply (money and quasi-money) as of December 31, 1983, however, stood at some $1.7 billion U.S. dollars. Overall disbursements for fertilizer imports under the Agricultural Development Program will total some $13 million. Such disbursement will amount to less than 0.8 percent of outstanding money supply. Deposits to the special account will occur late in GOK FY 1984/85. Given projected foreign exchange shortages, and the need for additional budget resources, it is likely that foreign exchange and local currency balances will be minimized by Government, thus further diluting any net effect, positive or negative, resulting from accumulation and subsequent expenditures of shilling counterpart balances. It should be noted that the Kenyan economy during most of the project disbursement period is likely to be under significant inflationary pressure as the result of the devaluations of December 1982, July 1983, and May 1984 and as a result of continuing further depreciation of the Kenya shilling. In consideration of this factor, it is proposed that the shilling counterpart generated under the Agricultural Development Program will be utilized for items already planned for inclusion in the Government of Kenya budget for 1985/86, thus further reducing any possible medium-term inflationary effects of the program.

ANNEX A

STATUTORY CHECKLISTS

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? Yes.	Yes. See Structural Adjustment Program (615-0213) PAAD Amendment.

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 82 Approp. Act Sec. 523, FAA Sec. 634A, Sec. 653(b); Second CR FY 83, Sec. 101(b)(1).

a. Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;	A congressional notification was sent to Congress on July 24. The 15 day waiting period expired on August 8 without congresional objection.
b. Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that amount)?	Yes.
c. If the proposed assistance is a new country program or will exceed or cause the total assistance level for the country to exceed amounts provided to such country in FY 83, has notification been provided to Congress?	Yes.

d. If proposed assistance is from the $85 million in ESF funds transferred to A.I.D. under the second CR for FY 83, for "economic development assistance projects", has the notification required by Sec. 101(b)(1) of the Second CR for FY 83 been made?

N/A

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required.

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral plans to the maximum extent appropriate?

No. The assistance is a country-specific activity.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country 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.

The assistance will increase the flow of inter national trade by directly financingf imports of fertilizer from the U.S. It will foster private initiative and competition and discourage monopolistic practices by moving fertilizer distribution to the private sector. The provision of fertilizer will increase the technical efficiency of agriculture. No adverse impact on cooperatives, credit unions, savings and loan associations or free labor unions is anticipated.

5.	FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	U.S. fertilizer suppliers and U.S. shippers will participate in the program by providing these goods and services.
6.	FAA Sec. 612(b), Sec. 636(h); FY 82. Approp. Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services in lieu of dollars.	Local currencies generated by previous program assistance activities will be utilized to conduct an audit of the previous fertilizer distributor and to help monitor the fertilizer import program.
7.	FAA Sec. 612(d). Does the United States own excess foreign currency of the recipient country and, if so, what arrangements have been made for its release?	No.
8.	Faa Sec. 601(e). Will the project utilize competitive selection procedures for the warding of contracts, except where applicable procurement rules allow otherwise?	Yes.
9.	FY 82 Approp. Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative and is such assistance likely to cause substantial injury to U.S. producers of the same or similar competing commodity?	This assistance is not specifically for the production of any commodity for export.
10.	FAA 118(c) and (d). Does the program comply with the environmental procedures set forth in AID Regulation 16? Does the program take into consideration the problem of the destruction of tropical rain forests?	Yes. The Africa Bureau environmental officer approved a negative determination per Regulation 16 on 17 July 1984 (State 208705).

11. FAA Sec. 128, Second CR FY 83, Sec. 101(b)(2) Has an attempt been made to finance productive facilities, goods and services which will expeditiously and directly benefit those living in absolute poverty under the standards adopted by the World Bank? — Yes.

12. FY 84 Continuing Resolution. Is comparable American private enterprise funding available for the proposed project. — No.

13. FY 84 Continuing Resolution. Has full consideration been given at each stage of design to the involvement of small minority (including women-owned businesses) enterprises, historically black colleges and universities, and minority PVO's? — Yes.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funds.

a. FAA Sec. 531(a). Will this assistance support and promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? — N/A

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? — N/A

c. FAA Sec. 534. Will ESF funds be used to finance the construction or the operation of maintanance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to non-proliferation objectives? — N/A

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d. Second CR FY 83, Sec. 101(b)(1). If ESF funds to be utilized are part of the $85 million transferred to A.I.D. under the Second CR for FY 83 for "economic development assistance projects", will such funds be used for such projects and not for non-development activities including balance of payments support, commodity imports, sector loans, and program loans?

N/A

2. Nonproject Criteria for Development Assistance.

a. FAA Secs. 102(c), 111, 113, Sec. 281(a). Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

Adoption of a private sector fertilizer distribution system with appropriate pricing policies will increase the access of smallholders to fertilizer. Private fertilizer distribution will be assisted by this activity. The activity will not directly affect cooperatives.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g, a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source].

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

The activity will increase the productivity of the rural poor by providing a key input to agricultural production and modifying the distribution system policy to allow better access by the rural poor to this input.

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, agriculture production, rural development, and assistance to urban poor? — N/A

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; — N/A

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: — N/A

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.	N/A
c. FAA Sec. 113. Extent to which assistance reflects appropriate emphasis on integrating women into the recipient country's national economy.	Since may small farms in Kenya and managed by women, increased agricultural production, made possible by the fertilizer provided under this activity, will improve the integration of women into the national economy.
d. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.
e. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.	The program recognizes and utilizes the capacities of Kenyans by moving the fertilizer distribution system to the private sector.

3. Nonproject Criteria for Development Assistance (Loans only).

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.	The project economic analysis concluded that the Government of Kenya could repay the loan.
b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?	N/A

c. Second CR FY 83, Sec. 134. If the recipient country has an annual per capita gross national product greater than $795 but less than $1285, will the loan be repayable within 25 years following the date on which funds are initially made available? If it has an annual per capita GNP greater than or equal to $1285 within 20 years?

N/A

3A(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?

   The procurement of fertilizer will be advertised in the U.S., thereby participation of U.S. small businesses in the furnishing of commodities.

2. FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?

   Yes.

3. FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?

   Yes.

4. FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?

   N/A

5. FAA Sec. 604(d). If the cooperating country discriminates against U.S marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed? — Yes

6. FAA Sec. 604(e) ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? — N/A

7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed? — Yes

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — N/A

9. MMA Sec. 901(b). Sec. 603, FAA. Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — Yes

10. International Air Transport and Fair Competitive Practices Act, 1974.

    If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? — Yes

11. FY 82 Approp. Act, Sec. 504. If the U.S. Government is a party to a contract for procurement, will the contract contain a provision authorizing termination of such contract for the convenience of the United States?. — Yes

12. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the acilities of other federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — N/A

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of communist-bloc countries contrary to the best interests of the United States? — Yes.

2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States? — Yes.

3. FAA Sec. 122(b). If development loan funds, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — Yes.

4. Will arrangements preclude use of financing:

   a. FAA Sec. 114, 104(f), FY 82 Approp Act Sec. 525. to pay for performance of abortions or involuntary sterilization or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? or to lobby for abortions? — Yes.

   b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? — Yes.

   c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs? — Yes.

   d. FAA Sec. 662. for CIA activities? — Yes.

   e. FY 82 Approp. Act. Sec. 503. to pay pensions, etc., for military personnel? — Yes.

   f. FY 82 Approp. Act. Sec. 505. to pay U.N. assessments? — Yes.

   g. FY 82 Approp. Act Sec. 506. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). — Yes.

   h. FY 82 Approp. Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes.

   i. FY 82 Approp. Act Sec. 511. To aid the efforts of the government to express the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes.

k. <u>FY 82 Approp. Act. Sec. 515.</u> To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes.

ANNEX B

AUTHORIZED COMMERCIAL IMPORTERS 1983/84

Kenya Farmers' Association	Continental Management Consultants
MEA Ltd.	Farmchem Ltd.
Devji Meghji	Kleenway
Agrimac Ltd.	Elgon Chemicals
Ciba Geigy	Kenya National Fed. Cooperatives
Twiga Chemicals	Muranga Coop Union

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Annex C

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

March 6, 1984

Mr. Harris M. Mule
Permanent Secretary
Ministry of Finance & Planning
P.O. Box 30007
Nairobi.

Subject: Fertilizer Program for Kenya

Dear Harris:

We are very pleased with the progress being made to rationalize the donor and commercial fertilizer import and distribution program. Mr. Worrick who was in charge of our program from 1980 to 1983 is in Kenya for three weeks assisting Government officials, private distributors and other donors in completing establishment of a system that will meet the needs of Government, the farmers and private distributors.

A joint review of progress to date indicates that the role of the Fertilizer Advisory Committee and the adherence to a timetable of actions by the Ministry of Agriculture and Livestock Development, Treasury, including the Price Controller are critical to any system. The timetable must follow the farming calendar and be related to the timely allocation of foreign exchange for commercial imports. The Fertilizer Advisory Committee should provide the knowledge and pressure to make the system work.

A workable timetable might be as follows:

A. Stock Position: The Ministry of Agriculture and Livestock Development should publish the National Fertilizer stock position (totals only) for all interested parties by 1st July each year.

B. Donor Supplies: The (External Aid) Division of Treasury should publish donor intentions also by 1st July each year.

C. Commercial import applications for the entire year should be received by Ministry of Agriculture and Livestock Development before 15th July each year.

D. Basic Import Plan: The Ministry should prepare a plan with the assistance of the Fertilizer Advisory Committee, taking account of stocks, donor intentions and private applications by 30th July each year. Foreign exchange requirement forwarded to Treasury, same date.

E. Import Allocations: On advice of the Fertilizer Advisory Committee, Ministry of Agriculture and Livestock Development notify each distributor of its potential share of both commercial and donor supplies, by 1st to 7th August each year. Final allocations and import plan would then be published by 15th August each year, and donor intentions reconciled with the plan, by the same date.

F. Guarantees: Since 75% of imports should arrive in January and February each year (commercial importers will follow this automatically) donor shipments must be carefully timed by Ministry of Agriculture and Livestock Development and Ministry of Finance and Planning. To obtain allocations of donor fertilizer each distributor should supply a letter of intent to guarantee by 1st October and the guarantee proper (180 days full payment) by 31st December each year. A small performance bond should also be required.

G. Shipping: Review and approval of schedules of arrival should be done by the Fertilizer Advisory Committee.

H. Pricing: Commercial shipments would be priced in accordance with the formula, C&F plus 30% plus Ksh 100-MT. Donor shipments would be similarly priced except as adjustments are needed to maintain competitiveness with commercial imports. Price schedules must be issued as soon as the data needed are in the hands of the Price Controller. For donor supplies this must be a few weeks prior to arrival in Mombasa to allow for disputes and reconciliation.

This basic timetable, which will offer all information needed on a timely basis can be started before 1st July but significant time slippage after this date will cause serious problems. The most important consideration is that the fertilizer system must perform the following functions: demand determination, allocation of commercial and donor supplies, tender, importation, pricing, distribution, remittance of proceeds on donor supplies, and provide accountibility to Government and donors.

a) <u>Demand</u>: Should be estimated by the Ministry of Agriculture and Livestock Development based on analysis of stocks, commercial and donor supplies by the Fertilizer Advisory Committee. Distributors who do not cooperate by supplying stock and import plans on time could be excluded from allocations of donor supplies.

b) <u>Allocation of Donor-supplied Imports</u>: Should be based on the expressed intentions of commercial importers adjusted to make the best utilization and fairest allocation of donor supplies. Those allocated donor supplies should have or prove they intend to establish commercial distribution systems. A one time, fixed date appeal mechanism for allocation should be established.

c) <u>Tender, Shipping and Insurance</u>: For the commercial imports there is no problem, for donor supplies there are a number of options, but given individual donor needs, the desire for competitive tenders and the price control system only one option seems feasible. Government should appoint an experienced agent to carry out these several functions for a competitive fee. The number of functions performed by the agent will depend on the point of transfer of ownership from the GOK to the distributor. This point could be either on board ship at Mombasa, free on rail in Mombasa, or in the case of bulk shipments, exit the bagging facility. In all cases the agent would tender for product, shipping and insurance with Bills of Lading in the name of the Government of Kenya. The following circumstances might be anticipated:

(1) Individual, separate shipment for distributors on one ship. Bills of Lading to Government endorsed over to distributor at arrival. All further responsibility for consignee.

(2) Large bagged shipment to be allocated among several distributors. Agent would offload ship and transfer of ownership would be free on rail in Mombasa. Agent would be responsible for claims for short landing damage on ship, etc. Distributor would bear all further responsibility.

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(3) Bulk shipments for several distributors. Currently bagging of bulk supplies takes place at Mombasa and Nakuru. The port does not have good equipment or system to determine the quantities of bulk cargoes until they are bagged. Although various security systems can be established, in the final analysis the integrity of the parties involved will dictate the accuracy of accounting. Therefore, with adequate security the final count of the particular bagging operator must be accepted. Transfer of ownership of the estimated quantity can be either on board ship or free on rail in Mombasa. Final accounting would be on quantity received by the distributor from the bagging facility.

(4) Any shipment unwanted or other unexpected problem. The Government needs to anticipate problems and provide its agent with authority to import and store until alternative arrangement can be put in place.

d) Importation: If the event of importation is defined as passing through the port and customs, it can be seen from the above that importation could be by Government's agent or by the final distributor. The major possible cost to Government (as importer) not clearly handled in the pricing formula would be demurrage and/or storage.

e) Pricing: The current formula pricing system is far from ideal but since it does not seem to cause importers great concern it probably can be accepted until an improvement can be developed. Two issues need attention. Special adjustments maybe needed to make donor supplies competitive (this has been done recently for USAID supplied fertilizer). The process needs to be speeded up to allow pricing decisions to be relfected in bank guarantees and allow time for possible negotiations if distributors do not accept the decisions.

f) Distribution and Storage: The timetable and information schedule described earlier are designed to reduce the incidence of incorrect demand analysis, overstocking, pricing problems and improper delivery dates which have caused problems in the past.

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g) Kenya Shilling Remittances: For donor supplied fertilizer the Government expects prompt and full payment of proceeds less costs and profits. There have been serious problems in all systems used to date. These problems result from cases of improper accounting, disputes over allowable costs, losses, claims and counter claims. They have also resulted from liquidity and management problems within CSFC and AFC. In a situation where the Import Plan reflects normal business and donor import levels and growth in the input delivery system the distributors should be able to provide fixed date bank guarantees to the Treasury. The current supply of USAID fertilizer at Nakuru, has been allocated to four distributors subject to providing such guarantees. This will hopefully provide a precedent for the future.

Unusual donor activity, a sharp drop in demand due to, say, inadequate prices or credit or some similar situation could result in problems. Should these be minor the fixed date guarantees could be adjusted or some other relief considered. Major problems would require separate consideration and would require flexability on the part of Government.

h) Government and Donor Accountability: This has been a problem at times due to mix-up of shipments, loss and damage not accounted for, excessive time in storage, etc. Government's concern is mainly with the question of full remittance. Donors have varying accountability needs to which importers have responded in varying degrees. A system based on bank fixed time deposit agreement should be followed to allow basic Government accountibility (exceptions considered). Importers will have to agree to specific donor monitoring and the degree of such should be made known at the time of allocation.

In outlining the above timetable and system the basic needs of the participating institutions and firms have been assessed. The Ministry of Finance and Planning desires open opportunities for participation by importers and distributors and a guarantee of payment for donor fertilizer. The Ministry of Agriculture and Livestock Development wants supplies to be adequate and timely to meet farmers needs. The Price Controller wishes prices to be fair. The importers and distributors want an

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orderly development of the input supply system and the chance to distribute donor fertilizer. We believe that the system outlined above meets these needs of all parties involved and can provide a sound basis for growth in fertilizer use in Kenya. There will, of course, be problems but with effort and the cooperation of all participants those that arise can be solved.

Mr. Worrick's stay in Kenya is limited, but he is available full time to discuss this important program with interested parties. USAID remains vitally interested and ready to assist at your convenience.

Sincerely,

Allison

Allison B. Herrick
Director

cc: Mr. Nyachae
Permanent Secretary
Office of the President
Nairobi.

Permanent Secretary
Ministry of Agriculture & Livestock
Development
Nairobi.

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Annex D

The attached letters deal with the programming of local currency generated from previous USAID fertilizer programs.

Letter D1 deals with the programming of local currency generated from project 615-0228, Agriculture Sector Grant.

Letters D2, D3, and D4 deal with the programming of local currency generated from project 615-0200, Fertilizer Grant.

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

UNITED STATES POSTAL ADDRESS
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DEPARTMENT OF STATE
WASHINGTON, D.C., 20520

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

21 FEB 1984

Permanent Secretary
Ministry of Finance and Planning
P.O. Box 30007
Nairobi

Attention: Mr. William P. Mayaka

SUBJECT: Project 615-0228 - Agriculture Sector Grant
Implementation Letter No. 6

Dear Sir:

This letter addresses the generation and programming of Kenya Shillings from the sale of fertilizer imported under the subject activity. The Agreement as amended on February 1984 stipulates "Section 5.1. Use of Local Currency. (a) Grantee will establish a Special Account with the Paymaster General and deposit therein currency of the Government of Kenya in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale or importation of the Eligible Items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee within 180 days after this agreement is signed." Implementation Letter No. 5 extended the date for agreement on disbursement to March 31, 1984.

We understand that the CIF Mombasa cost of the fertilizer, which includes a U.S. flag carrier freight cost of $127 per ton, results in a retail price, after adding Kenya handling charges, substantially above the cost of equivalent fertilizer types imported on non-U.S. flag carriers. In other words, Government cannot expect to recover the full shilling equivalent of the Grant value plus U.S. shipping. We, therefore, agree that the fertilizer be sold to the private sector and KFA at prices that are competitive in Kenya with equivalent types as follows:

MAP			
(bagged in Nakuru)	$325/ton X 4,980 Ton =	$1,618,500	Ksh 22,335,300
DAP			
(bagged in Nakuru)	$334/ton X 9,238 Ton =	$3,085,492	Ksh 42,579,789
	Total	$4,703,992	Ksh 64,915,089

(Ksh 13.8 = US$1)

This price adjustment, in order to ensure sales to the private sector, results in shillings earned by Government of Ksh 64,915,089.

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We further agree that up to $1 million of the proceeds (Ksh 13,800,000) may be used for costs incurred by Government to prepare the fertilizer for sale, i.e. unloading, cost of bagging and handling, etc.

The remaining funds, Ksh 51,115,089, as requested in your 8th November 1983 letter, should be used to fund Vote D-20, Sub-Vote 204, Self Help Water Supplies in 1983/84. We expect that shillings generated from fertilizer sold to the private sector be deposited in the Special Account within eight months from the date of sale and that you advise us of the amounts and timing of shillings deposited. We further request that you advise us of the amounts and dates these funds are disbursed for costs incurred in handling the project fertilizer and for the self-help water supplies program. Payments made against fertilizer handling should be supported by copies of invoices paid.

Please signify acceptance of the terms of this letter by signature below and return the original and one signed copy to USAID.

Sincerely,

Allison B Herrick

Allison B. Herrick
Director

Accepted____________________
Permanent Secretary

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Drafted:AGR:DLundberg:2/6/84
REDRAFT:PROG: 2/8/84

Clearances:
PRJ:GBertolin GB
PROG:JFStepanek
REDSO:EDragon EAD
D/D:BRiley

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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

13 MAR 1984

Permanent Secretary
Ministry of Finance and Planning
P.O. Box 30007
Nairobi

Attention: Mr. William P. Mayaka

Re: AID Project 615-0200 - Fertilizer Grant
Implementation Letter No. 9

Dear Sir:

This letter deals with Kenya Shillings generated under the fertilizer import program Project 615-0200 of Kenya FY1981/82. Project Agreement 615-K-601 and Amendments Number 1 and 2 indicated that proceeds from the sale of the fertilizer would be used to support Kenya economic development projects. We previously agreed, based on your letter, Reference No. EA/FA 9/03 dated 19 April 1982, to the use of KSh118,000,000 generated by the Project. The original total of Kenya Shillings expected to be generated from the Project was KSh173,515,315 however due to the necessary TSP price reduction the total will be reduced by KSh9,400,000. Therefore KSh46,115,315 (KSh173,515,315 - KSh118,000,000 programmed - KSh9,400,000 TSP price reduction = KSh46,115,315) are available for programming.

To complete the programming of Kenya Shillings generated under Project 615-0200 we agree that KSh6,964,440 be used for the development of the Kabarak Hatchery and the balance of funds available be used for the 1983/84 Development Budget as follows:

Vote D-10, Sub-Vote 103, Food and Farm Development	- KSh28,287,260
Vote D-20, Sub-vote 203, Rural Water Supplies	- KSh10,863,615

We request that you advise us by March 30, 1984 of the Kenya Shillings that have been deposited in the Special Account from the sale of fertilizer under Project 615-0200, the additional amount you expect to be deposited, the amount you have now disbursed and finally the additional amount you expect to disburse.

Sincerely,

Allison B. Herrick

Allison B. Herrick
Director

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April 3, 1984

Permanent Secretary
Ministry of Finance & Planning
P.O. Box 30007
Nairobi

Attention: Mr. William P. Mayaka

Re: AID Project 615-0200 - Fertilizer Grant
Implementation Letter No. 10

Dear Sir:

This letter responds to Mr. Ongalo's April 2, 1984 letter (BFN 740/05) regarding the need to reduce the price of USAID provided TSP from KSh.2326.95 to KSh.2156.25 per metric ton, an approximate 7% reduction.

In the interest of moving the stocks, in some cases over three years old, we agree to the reduction as indicated. We recognize that this price change will result in a reduction in the Kenya Shillings generated by fertilizer sales amounting to KSh.2,047,089. In Implementation Letter No.9 dated March 13, 1984 we agreed that KSh.10,863,615 generated from fertilizer sales would be used for the 1983/84 Development Budget, Vote D20, Sub-vote 203, Rural Water Supplies. Due to the TSP price reduction the amount now available for this purpose is KSh.8,816,526 (KSh.10,863,615 minus KSh.2,047,089).

Let me take this opportunity to remind you that Implementation Letter No.9 requested you to advise us by March 30, 1984 of the Kenya Shillings that have been deposited in the Special Account from the sale of fertilizer under Project 615-0200, the additional amount you expect to be deposited, the amount you have now disbursed and finally the additional amount you expect to disburse..

Sincerely,

Barry Riley
Acting Director

Clearance:PROG:JStepanek PRJ:NGreeley
Drafted:AGR:ADLundberg:gek:4/2/84

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ANNEX D

REPUBLIC OF KENYA

MINISTRY OF FINANCE

Telegraphic Address: FINANCE NAIROBI
Telephone: 335-11
When replying please quote
Ref. No. EA/FA 9/03
and date

THE TREASURY
P.O. Box 300
NAIROBI
KENYA

19th April 1982

Ms. Allison B. Herrick,
Director,
U.S.A.I.D.
NAIROBI.

USAID DISTR(4-21-82)JK
ACTION:AGR -W/atch
(DUE:4-29)
INFO:O/DIR;PROG;PRJ;RFMC;CHRON;RF.

Dear Allison,

KENYA SHILLING GENERATIONS FROM PL 480 TITLE I (1981) AND CIP FERTILIZER SALES (1980)

Thank you for your letter of 15th January, 1982 regarding the Generation and Plans for Utilization of Kenya Shilling from PL 480 Title I (1981) and CIP Fertilizer Sales (1980). Based on your discussions with Mr. Roy of the Treasury, I confirm the following:

PL 480 Title I (1981)

We will, as agreed with you, utilize the funds to support our Agricultural Credit Scheme during 1981/82 and 1982/83. The Self-Help Measures Report due as per the PL 480 Title I Agreement has been despatched to you by Mr. Mayaka on 6th April, 1982.

CIP Fertilizer 1980

As per our agreement of 30th September, 1980, these funds are to be placed in a Special Account to support programs agreed between us. The current position is shown in the attached Schedule from which you will notice that we expect a realization of approximately KShs. 110.6m. of which KShs. 83m. have already been received in the Special Account.

We intend to utilize the entire amount and to support the following programmes in 1981/82 which are already included in the budget and are being funded.

..../2

75

MINISTRY OF FINANCE

Telegraphic Address: FINANCE-NAIROBI
Telephone: 338111
When replying please quote
Ref. No. ....
and date

THE TREASURY
P.O. Box 30007
NAIROBI
KENYA
.... 19..

Program	Government of Kenya Contribution KShs.
1. Vote 14-Sub-vote 141-Head 465 Rural Roads	63
2. Vote 10-Sub-vote 104-Heads 241 and 244 Agriculture Extension	17
3. Vote 10-Sub-vote 104-Head 243 Soil Conservation	3
4. Vote 10-Sub-vote 105 Rural Development Fund	29
5. Vote 10-Sub-vote 108 Agriculture Research	6
Total	118

I believe the above is in conformity with our recent discussions and understanding in which case, it will be appreciated if you would confirm your agreement to the transfer of the present and future funds from the Special Account for application as above.

Yours ever,

(H. M. Mule)
PERMANENT SECRETARY

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Annex E

THE FERTILIZER SITUATION IN KENYA

Kenya's import and use of fertilizer has been low for a nation struggling to expand agricultural production. Output of food and other farm products has barely kept pace in the past decade with the rapidly growing domestic market for food and expanded potentials for export of commercial crops. (Fig.1) Fertilizer has no equal in priority for the use of scarce foreign exchange in the purchase of inputs needed to maintain economic activity and assure adequate supplies of foods. Kenya's policies and pricing have not accorded the necessary economic priority for fertilizer.

The result is output of food and fiber--the nation's dominant economic output--has not kept pace with the growing domestic market for food. A further result is limited exports and accompanying earnings of foreign exchange, increased imports of food, and slowed growth in Kenya's economic output. In addition it contributed to an increasing debt burden and the related depreciation in the value of the Kenyan shilling in world market.

The central role of agriculture in the economy and the heavy dependence of the agricultural and food industry on the use of commercial fertilizers must be recognized if Kenya's farmers are to increase production rapidly enough to supply the growing domestic markets and exploit the potential for export earnings, by expanding their share of the international market.

To do this limited foreign exchange earnings must be used for fertilizer imports. In addition incentives and earnings prospects in agriculture attractive enough to encourage and facilitate widespread use of fertilizer, disease and insect controls, and cultural practices will increase yields and thus accelerate agricultural production.

The phenomenal growth in population quickly absorbs gains in food production and has led to reduced export earnings and the use of scarce foreign exchange to pay for larger imports of food in recent years, particularly wheat. Yields also limit the potential for export earnings in growing world markets, particularly for tea, coffee, fruits and vegetables, and sisal.

Kenya's critical need for fertilizer has been recognized in recent years by a number of donor nations. In the 4 years 1980 through 1983, donor nations have provided 265,000 tons of fertilizer to Kenya. The aid fertilizer, which has ranged from 55 to 75 thousand tons per year, has increased fertilizer use in recent years. This increased fertilizer use has contributed to a higher level of grain yields and production increases of tea, coffee, fruits and vegetables, produced mainly for export.

Fertilizer Distribution System

All of Kenya's fertilizer is imported and the entire industry is under rigid Government control. Government controls import authorizations and eligible firms, sets demand levels by amount and type of fertilizer, establishes shipping and handling margins and retail prices by market area. Responsibility for these detailed controls is diffused, mainly among the Ministry of Agriculture and Livestock Development (import plans, stock reports), the Ministry of Finance and Planning (bilateral agreements, overall accounting, negotiations with donors), the Office of The President (national policy, price control review), and the Price Controller (price formulas and publication). Unfortunately these functions have not been performed in an effective and timely manner. Widespread vacillation in decision making may spring from a failure to understand the importance of fertilizer to the food and fiber industry and to the grossly inadequate information, statistical facts and analyses on which to base domestic demand and import needs. Government personnel controlling the industry do not have sufficient understanding, the necessary information or sound analyses to make the many detailed market decisions required of them. Moreover, the Fertilizer Advisory Committee does not currently have adequate industry facts or sufficient unanimity of interest to make the detailed market decisions required by the current Government system.

The industry is made up of 3 major firms and several very small importers. More than 90 percent of all Fertilizer is distributed by the Kenya Farmers Association (KFA), MEA Ltd. and Devji Meji. KFA has 75 percent of the market. Several distributors went out of existence in the 1977 period as foreign exchange became scarce and distributor profits were cut. As firms terminated their fertilizer operations, KFA's share of the market increased. Additionally KFA was delegated responsibility for some Government functions which have given them virtual monopoly control over the import and domestic sales of fertilizer. This one-firm domination of the industry and the maze of controls which Government exercises with less than desired efficiency is believed to be the major problem of the industry. Complete data and analyses on demand for fertilizer, pricing and costs, packaging, import practices, and the distribution system make it difficult to demonstrate the gross inefficiencies of market controls. The problem is apparent. And data are being assembled.

In a recent survey of farmers, they listed among major complaints/problems the high cost of fertilizer, inadequate supplies at the right time and in markets convenient to farmers, packaging (large bags) and transport problems (accessibility and cost).

Demand For Fertilizer

The domestic demand for fertilizer is determined by a number of powerful economic considerations, technical requirements, marketing practices and Government controls. Fertilizer costs, which often depend mainly on world prices, and prospective earnings will largely determine the amount and type of fertilizer farmers will buy. Any realistic assessment of demand will require careful monitoring and short-run forecasts of world supplies and price trends, domestic shipping and handling costs, domestic prices and prospective earnings, plantings of high-fertilizer-using crops, disease and insect damage, and the weather. Any demand assessment is an approximation, but the job could be done efficiently with more Government provided facts on imports, stocks, use , prices and greater freedom for industry to appraise demand in their own markets. (table 1)

DOMESTIC USE

Domestic use of fertilizer has varied widely from year-to-year during the past 15 years. There is hardly a discernable trend, but a simple least-square trend would be slightly upward, largely because of increased use in recent years due to donor aid. Still use per hectare of high-using crops trends slightly downward.

The wide annual swing in use demonstrates the large impact of fertilizer costs have on imports and use of fertilizer. (fig. 2)
Available fertilizer import, use and cost data demonstrate persuasively that fertilizer imports and the use of fertilizer are strongely influenced by cost of fertilizer. Prospective returns from major crops, area planted to high-fertilizer-using crops, financing, disease and insect damage and weather developments will also figure importantly in total fertilizer use. Overriding the principal economic considerations will be trade policy, the availability of foreign exchange and the level of donor aid.

Price Elasticity of Demand

The inverse use-price relationship is logical and significant especially up to the years of large donor aid. (Fig. 2)
Rough graphic analysis suggest a price elasticity of demand in the range of-0.7 to more than-1.0. This suggests that a 10-percent increase in the price (cost) of fertilizer would result in a 7 to 10 percent reduction in fertilizer use. Obviously, other forces could intercede to modify the effect of price on use.

Fig. 1

FOOD OUTPUT AND POPULATION
(Indexes 1976 = 100)

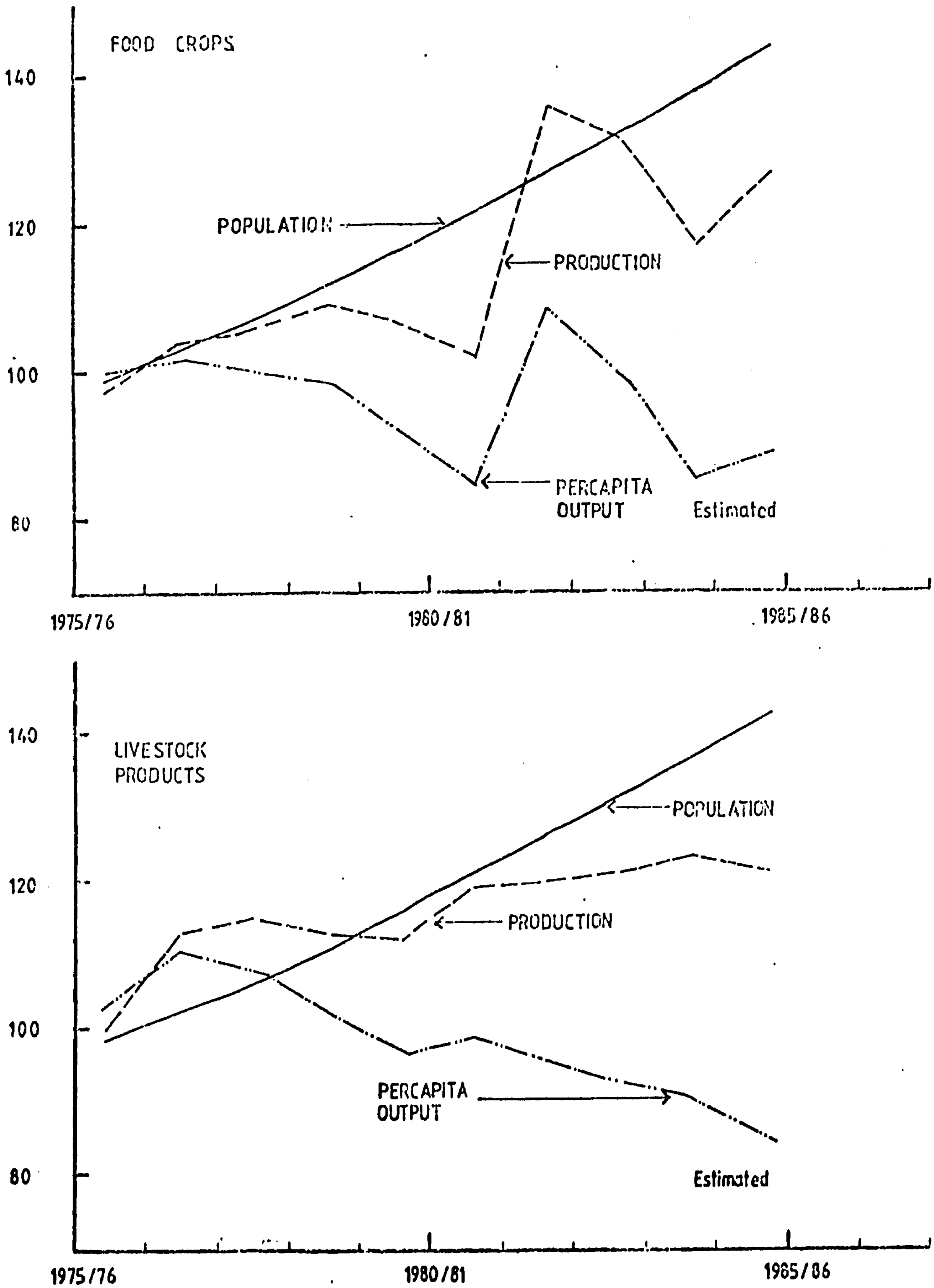


Table 1-FERTILIZER: SUMMARY FOR STOCKS, IMPORTS AND USE BY MAJOR TYPES

Year	Beginning Stocks 1/				Imports 2/				Domestic Use			
	Nitro-	Phos-	Mixed	Total	Nitro-	Phos-	Mixed	Total	Nitro-	Phos-	Mixed	Total
1969					31.1	37.0	36.3	104.4	31.1	37.0	36.3	104.4
1970					50.2	41.8	48.9	140.9	44.4	41.8	48.9	135.1
1971	5.8			5.8	41.0	41.3	47.6	129.9	16.8	41.3	47.6	135.7
1972					55.5	37.3	57.3	150.1	46.7	37.3	57.3	141.3
1973	8.8			8.8	77.4	31.0	33.1	141.5	77.4	31.0	33.1	141.5
1974	8.8			8.8	102.8	35.5	35.7	174.0	73.8	17.2	21.8	112.8
1975	37.8	18.3	13.9	70.0	43.5	14.1	47.5	105.1	44.4	16.4	34.1	94.9
1976	36.9	16.0	27.3	80.2	26.9	41.0	32.0	99.9	37.4	14.9	43.5	95.8
1977	26.4	42.1	15.8	84.3	51.2	52.1	41.6	144.9	54.7	47.5	34.9	137.1
1978	22.9	46.7	22.5	92.1	61.4	29.2	53.6	144.2	54.0	50.2	47.0	151.2
1979	30.3	25.7	29.1	85.1	19.6	10.0	42.3	71.9	42.0	25.3	45.8	113.1
1980	7.9	10.4	25.6	43.9	50.7	64.2	55.8	170.7 3/	45.8	57.8	51.3	154.9
1981	12.8	16.8	30.1	59.7	48.1	34.5	83.1	165.7 3/	53.9	32.8	105.4	192.1
1982	7.0	18.5	7.8	33.3	50.0	26.2	53.4	129.6 3/	20.5	38.2	60.6	119.3
1983	36.5	6.5	0.6	43.6				130				133.6
1984				40								140

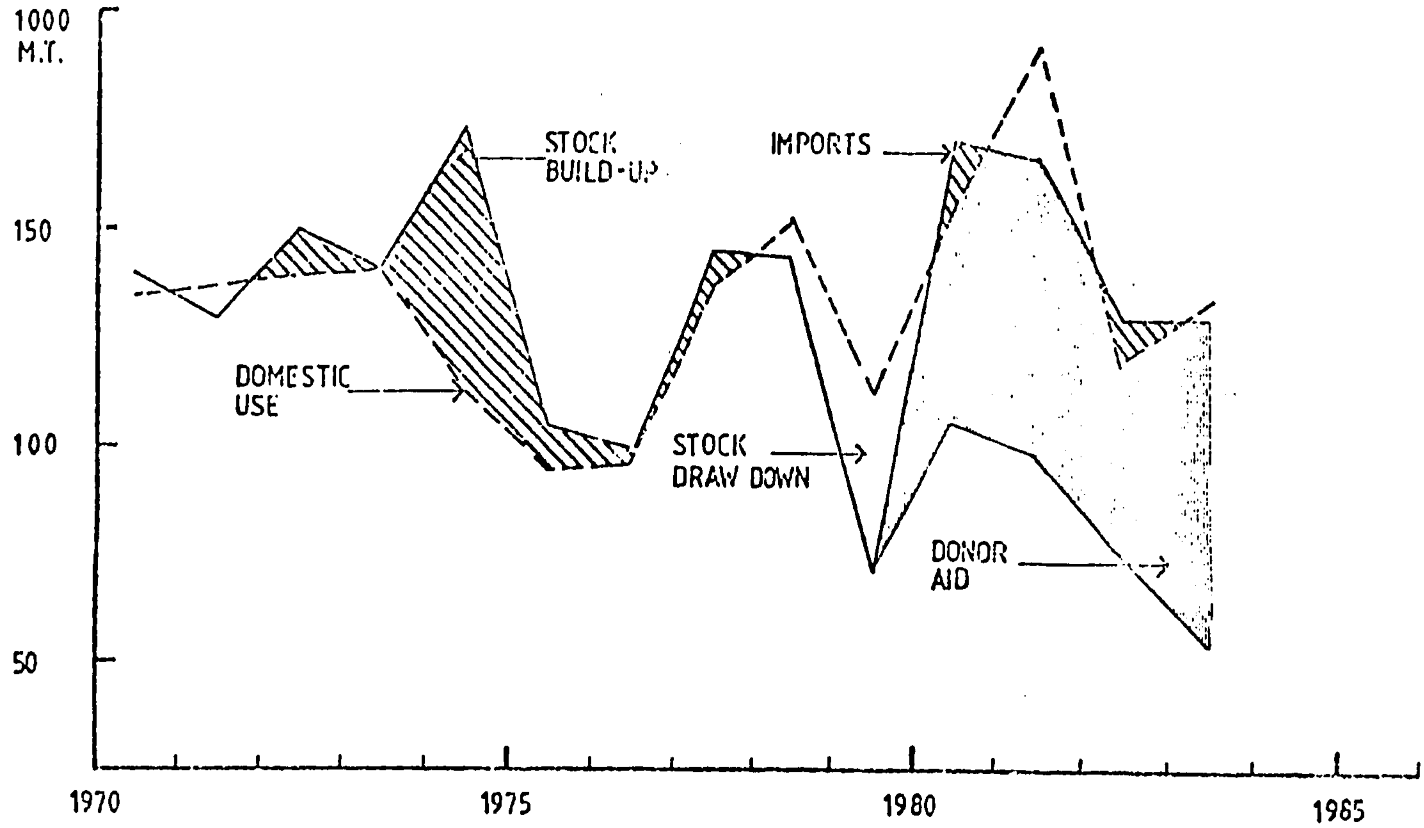
Source: USAID/ADO Compiled mainly from industry reports by industry to CBS as well as reports of Mm of Trade.

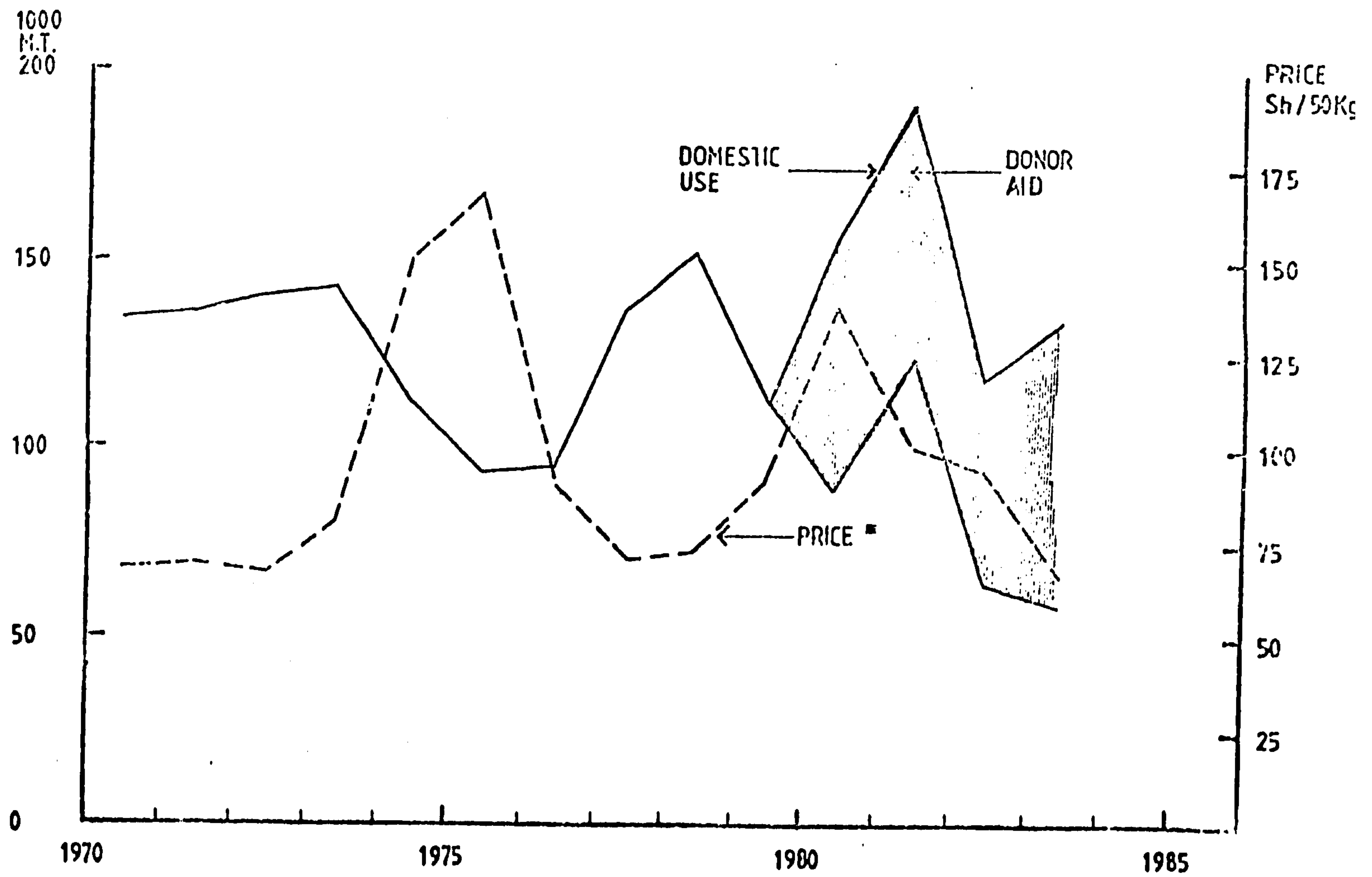
1/ Based on reports on indudtry to CBS

2/ Based mainly on industry reports to CBS, there are some year-to-year variations between CBS reports and Min of Trade, but sum of the two series 1970 to 1979 differ by around 20,000 tons only.

3/ Industry reports to CBS of imports in 1980-1982 are under-reported compared with Min of Trade. The MCT reports imports of 466,000 tons in those 3 years compared with data reported to CBS of 371,000 tons. It appears this under-reporting may pertain mainly to 1981. Accordingly, the 1980 CBS figure was used for 1980 and the Min of Trade import for 1982 and 1981 was adjusted to result in 466,000 tons for the 3 years. The difference affected mainly compounded fertilizers. The two years 1981-1982 imports for mixed fertilizers are about the same for both sources.

FERTILIZER IMPORTS, USE AND PRICES





* WHOLESALE MOMBASA ADJUSTED FOR INFLATION

The ratio of fertilizer costs to commodity prices is often used as an indicator of earnings prospects and the demand for fertilizer.
The cost of fertilizer (PFt) over the price of maize in the previous year (PMt-1) as a measure of prospective earnings is illustrated in (fig.3).
This relationship shows that at very high ratios--high fertilizer cost relative to prospective prices--fertilizer use is severely restricted. Ratios of 3.5 to 4.0 indicate that it would take 3.5 to 4 tons of maize to equal in value a ton of fertilizer.

Prospective Demand Trend

Available evidence suggests there was some increase in fertilizer use in 1983 over 1982. In 1982 use was sharply curtailed from record use in 1981/1982. Most world fertilizer prices averaged lower in 1983 than a year earlier and domestic prices for grains, coffee and tea showed gains over 1982. Prospects for increased fertilizer use in 1984 are somewhat less promising. Domestic prices may rise further in 1984 for grains and major export crops, but fertilizer costs also are increasing and may largely offset the effect of better commodity prices. This also depends on donor-aid of fertilizer and its cost to the producer. Moreover, planting delays may reduce the long-rains planting of grains and some vegetable crops, thus reducing fertilizer demand.

Over the longer-run, pressures to produce more using available agricultural resources will keep upward pressure on food prices and on the demand for fertilizer. Increased costs for fertilizer materials may force economies in fertilizer use and in turn the production, preservation and use of more organic fertilizer materials.

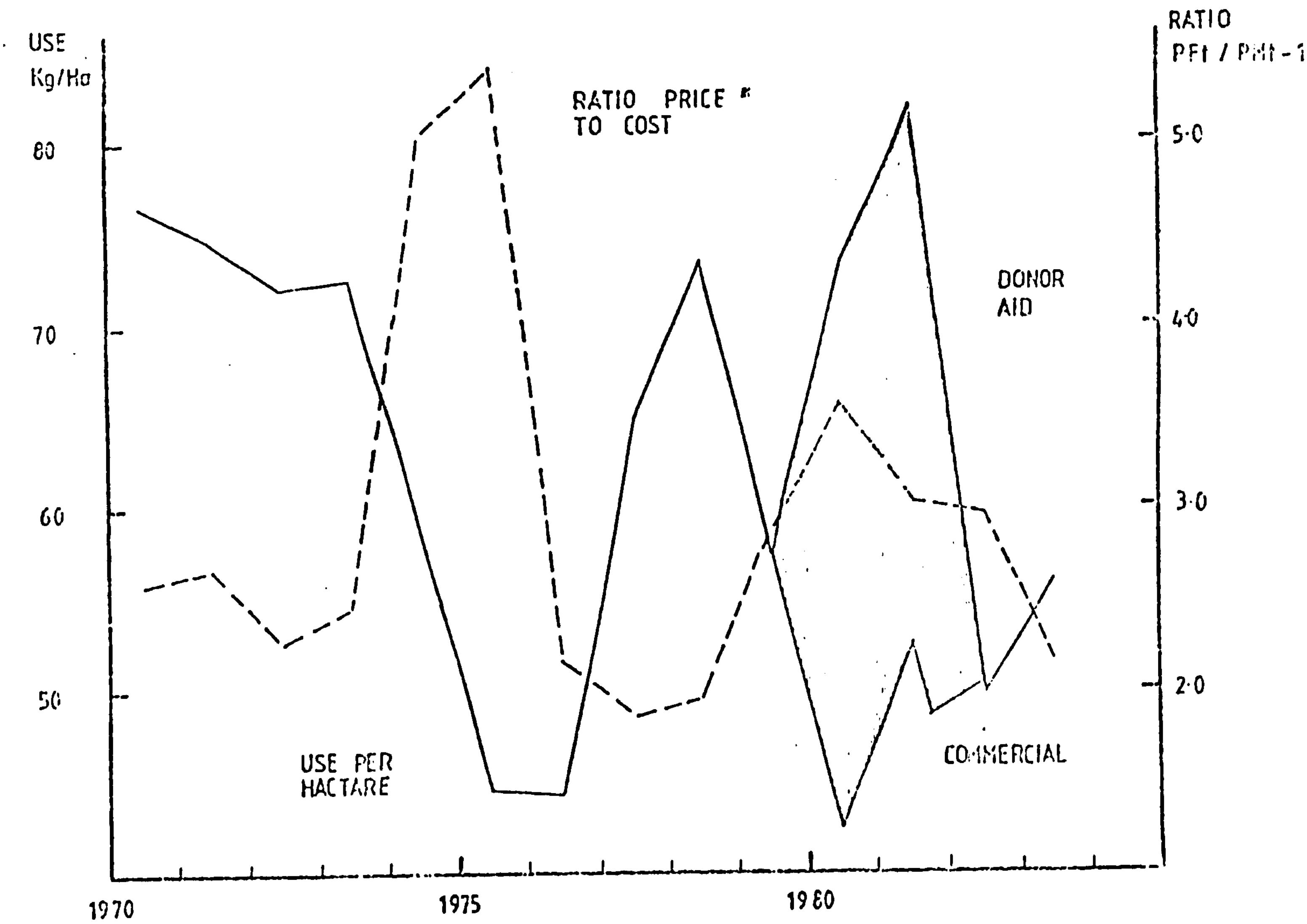
Fertilizer Imports

Kenya imports all fertilizer materials and compounded fertilizer used by farmers. An unsuccessful attempt was made some years ago to establish a fertilizer production plant based on imported non-materials. The failure could be considered a blessing since the plant probably not economically, viable and was a part of a national program that would have placed the fertilizer industry in a straight-jacket of economic controls--even more so than the current system.

The demand for fertilizer imports is subject to many of the same forces that determine domestic use. Except for Government control of imports and donor-aid, the volume and mix of commercial imports depends on domestic demand.

Fig. 3

USE OF FERTILIZER PER HECTARE RELATIVE TO PRICE AND COST



* RATIO OF COST TO FERTILIZER TO PRICE OF MAIZE
PFt / PMt - 1

84

Imports vary from year-to-year due mainly to swings in world market prices (the cost of fertilizer) which is the main determinant of domestic demand. In addition to demand for domestic use accumulated stocks or inadequate operating stocks as well as the relative tightness in available supplies of foreign exchange may under some conditions actually fix the volume of fertilizer imports. (table 2)

The annual variations in use are wide because of the very high response of producers to changes in product prices and fertilizer costs. In general commercial fertilizer imports will be a function of the cost of fertilizer, recent domestic stock levels or possibly a ratio of stocks-to-use, areas planted to high-fertilizer using crops, some measure of the availability of foreign exchange, and the levels of donor fertilizer aid. In recent years--1980 through 1983--donor fertilizer aid totaled 265,000 tons, varying from about 55,000 to 75,000 tons per year. (table 3)

Table 3-DONOR AID FERTILIZER 1979/80 TO 1983/84

Donor	1979/80	1980/81	1981/82	1982/83	Estimated 1983/84
		Metric Tons			
Norway	9,400	4,700	8,977	5,000	18,940
USA	-	42,513	20,900	-	14,218
Sweden	-	-	-	20,000	-
Japan	8,152	7,795	7,000	10,000	2,500
Netherlands	48,000	13,000	18,000	32,166	10,000
Denmark	-	-	-	10,000	5,000
FAO	-	-	-	450	-
Total	65,552	68,003	54,877	77,616	50,658

The aid fertilizer has been kept separate from commercial supplies and is accounted for separately. Although this may be required by the donors, the practice greatly complicates the sale and use of fertilizers and slows the generation of local currency from fertilizer sales which goes back into the Treasury. The proposed USAID Loan attempts to simplify and speed-up the import, pricing and transfer of title of the fertilizer as well as the return of local currency generated from its sale to the Government through the USAID Agriculture Development Loan.

Table 2-

Year	Nitrogenous			Phosphatic			Other (Mixed)			All Fertilizer		
	Quantity	Value	Unit Value	Quantity	Value	Unit Value	Quantity	Value	Unit Value	Quantity	Value	Unit Value
	M.T.	k11000	Ksh/ton	M.T.	K1/1000	Ksh/ton	M.T.	K1/1000	Ksh/ton	M.T.	K1/1000	Ksh/ton
1965												
1966												
1967												
1968												
1969	31115	534	343	36967	799	432	36283	1268	699	104.4	2601	498
1970	50170	906	361	41818	893	427	49900	1606	657	140.9	3405	483
1971	41025	706	344	41252	986	478	47612	1671	702	129.9	3363	518
1972	55520	1206	434	37331	801	429	62817	2116	674	155.7	4123	530
1973	77437	2779	718	30986	964	622	33145	1440	869	141.6	5183	732
1974	104538	8118	1553	49540	4761	1922	37995	3178	1673	192.1	16057	1672
1975	44394	4387	1976	30626	3280	2142	33884	3706	2187	108.9	11373	2089
1976	20194	1089	1079	30636	2016	1316	29474	2151	1460	60.3	5256	1309
1977	88201	5119	1161	33500	1929	1152	37338	2425	1299	159.0	9473	1192
1978	78170	4545	1163	19625	1039	1059	57384	4428	1543	155.2	10012	1290
1979	38375	2866	1494	11455	956	1669	10924	1522	2787	60.8	5344	1759
1980	61829	6253	2023	25460	3060	2404	42383	6530	3081	129.7	15843	2443
1981	62992	6008	1908	36157	4356	2409	107518	13710	2550	206.7	24074	2330
1982	76608	7344	2073	28200	3855	2734	30600	4409	2881	129.6	15605	2408
1983										130		2050
1984												

In addition to the regular import data from the Customs and Excise Department, industry reports to the Control Bureau of Statistics (CBS) on their imports, stocks and use. These data, despite some questions on accuracy and consistency, provide a basis for estimating use and the monitoring of stocks. (Fig. 4)

The differences between the Customs data and industry reports to CBS are minor for fertilizers as a whole. Annual totals differ only slightly due mainly to the time of recording the import. Over a period of years, the small differences balance out. Differences between the two series by major groups of fertilizer are larger and in some instances difficult to explain.

Fertilizer Imports and Use By Type of Fertilizer

Data by type of fertilizer is less reliable than data for all fertilizers. In addition to the timing of reporting imports, there are questions of classification, particularly between the high-nitrogen and the mixed fertilizer. To further confuse the issue phosphate fertilizers often are high in nitrogen. The potash fertilizers, a minor portion of the total, are reported with the mixed fertilizers. Thus, the data as it is reported has some limitations for analytical appraisals. A more thorough researching of the data may make it possible to break out imports in enough detail to roughly estimate nutrients (N, P and K) imported. It may, however, prove impossible to approximate stocks and use by nutrient.

The two sources of import data show wider variation by type of fertilizer than that observed for all fertilizers combined (Fig. 5) There appears to be offsetting differences that largely balance by year and between types of fertilizer. The differences for phosphate fertilizers, however, are not so easy to explain unless the industry reports to CBS include some mixed or high-nitrogen fertilizers in the high-phosphate group.

The data on use by type of fertilizer also are not so systematically related to prices as is the all-fertilizer total. (Fig. 6) Use by type of fertilizer in relation to prices wholesale Mombasa, adjusted for price inflation) is much more logical for mixed fertilizers and high-nitrogen than for the phosphate fertilizer.

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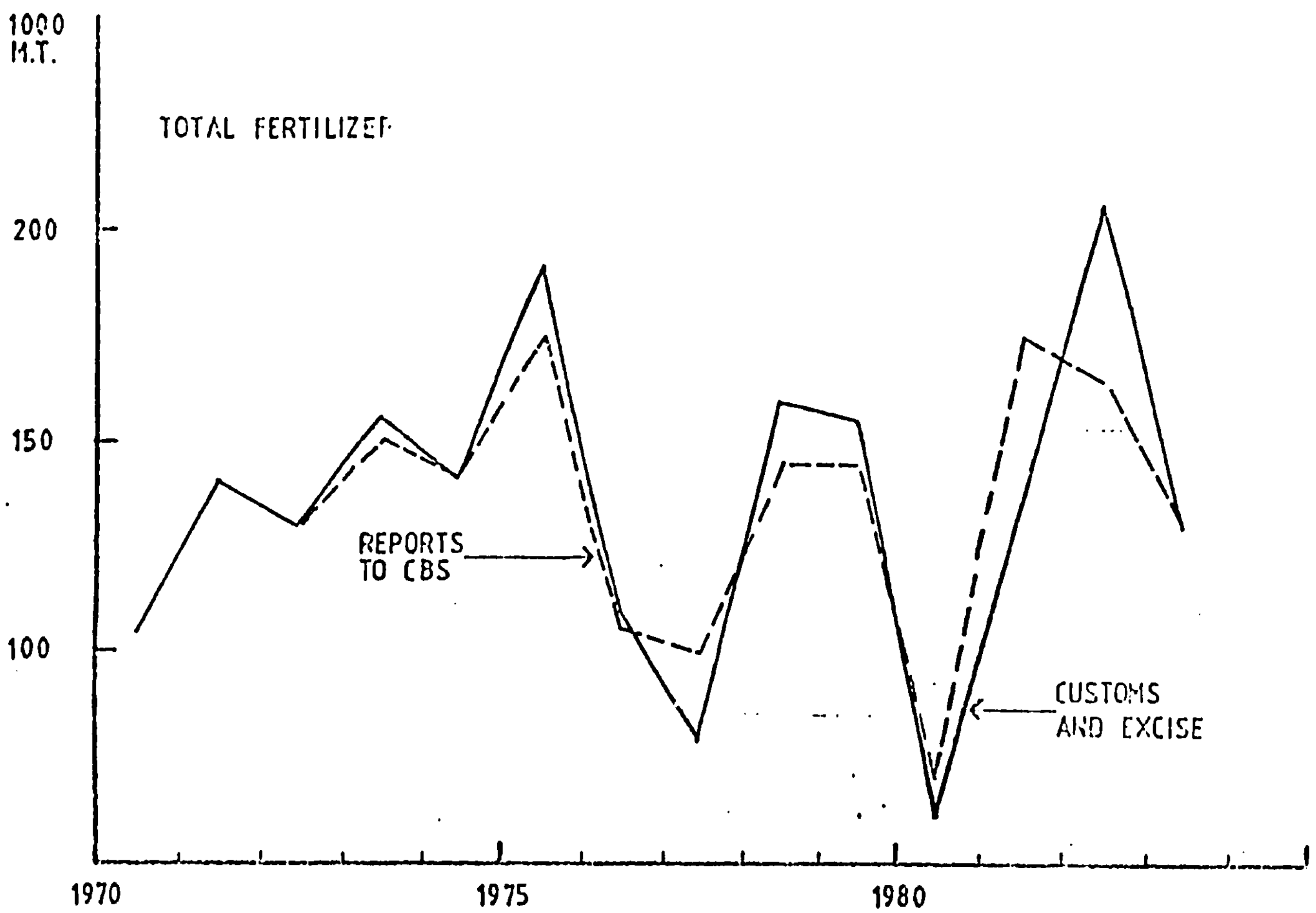
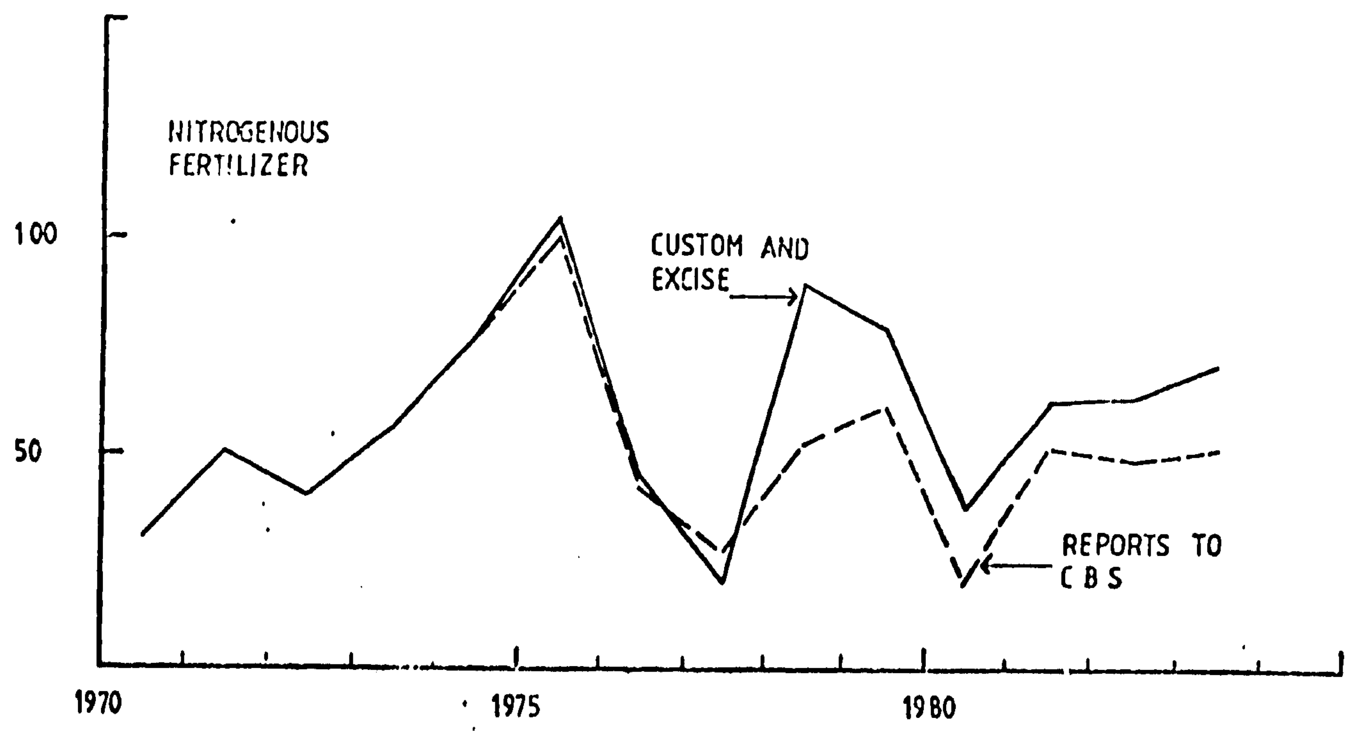
Fig. 4

FERTILIZER IMPORTS

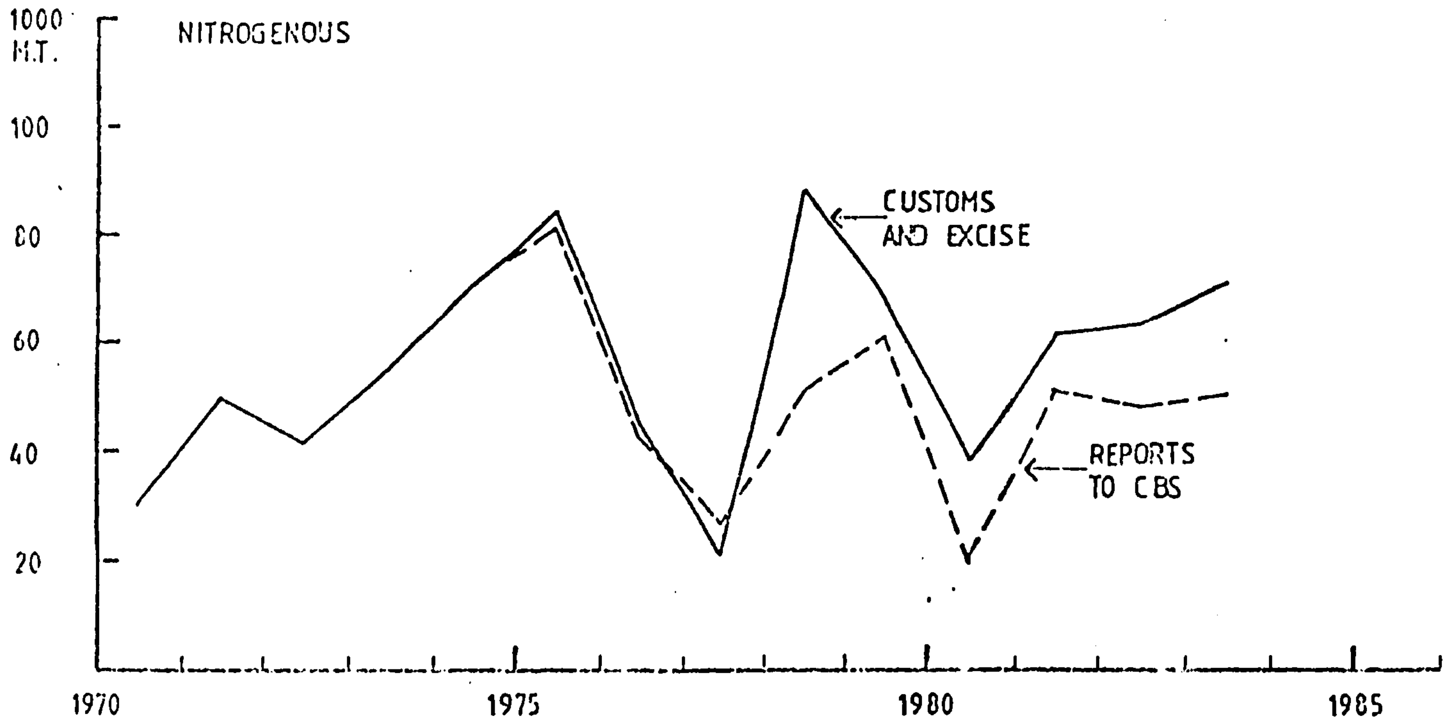




22

Fig. 5

IMPORTS OF FERTILIZER BY TYPE



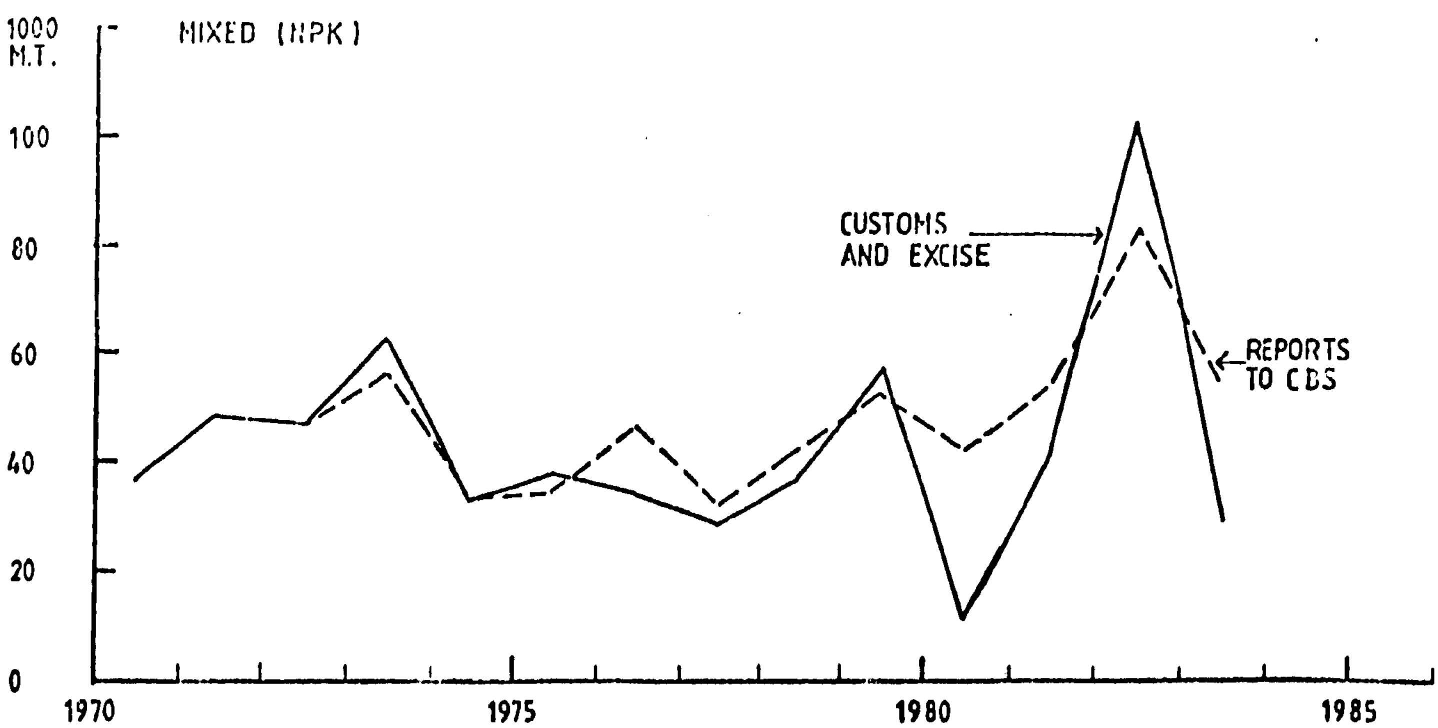


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Fig. 5

IMPORTS OF FERTILIZER BY TYPE (CONTINUED)

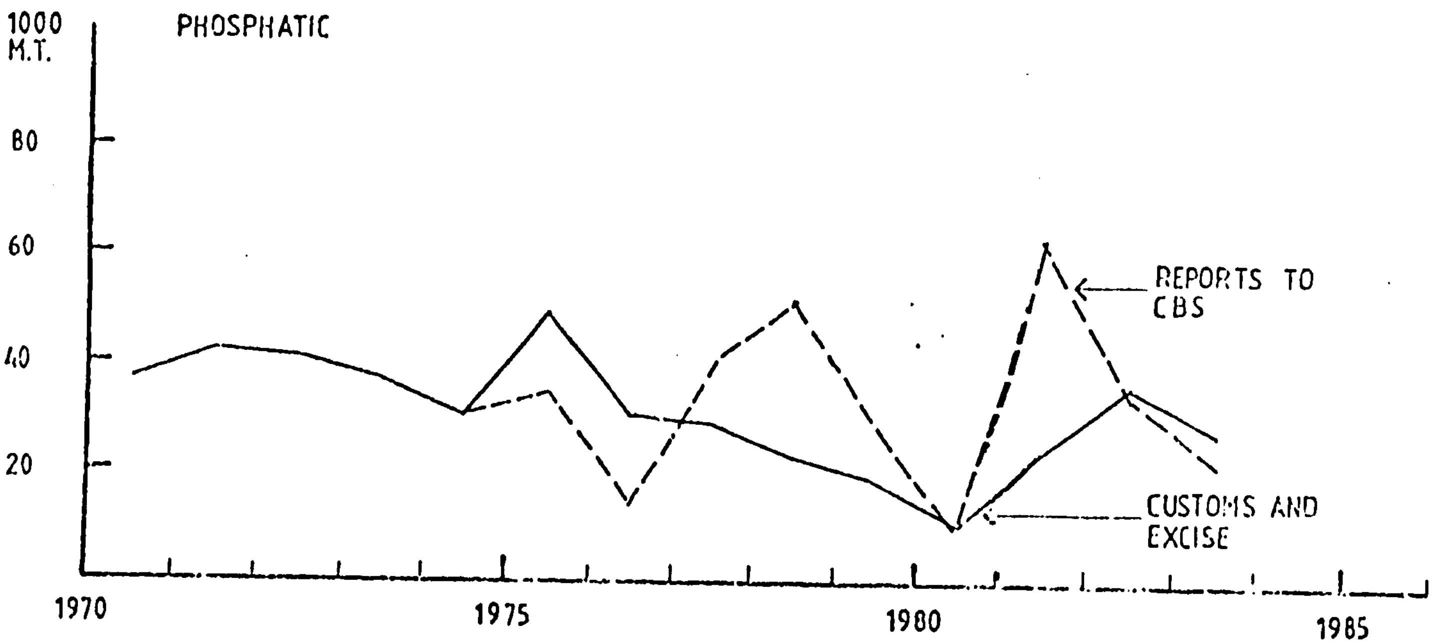
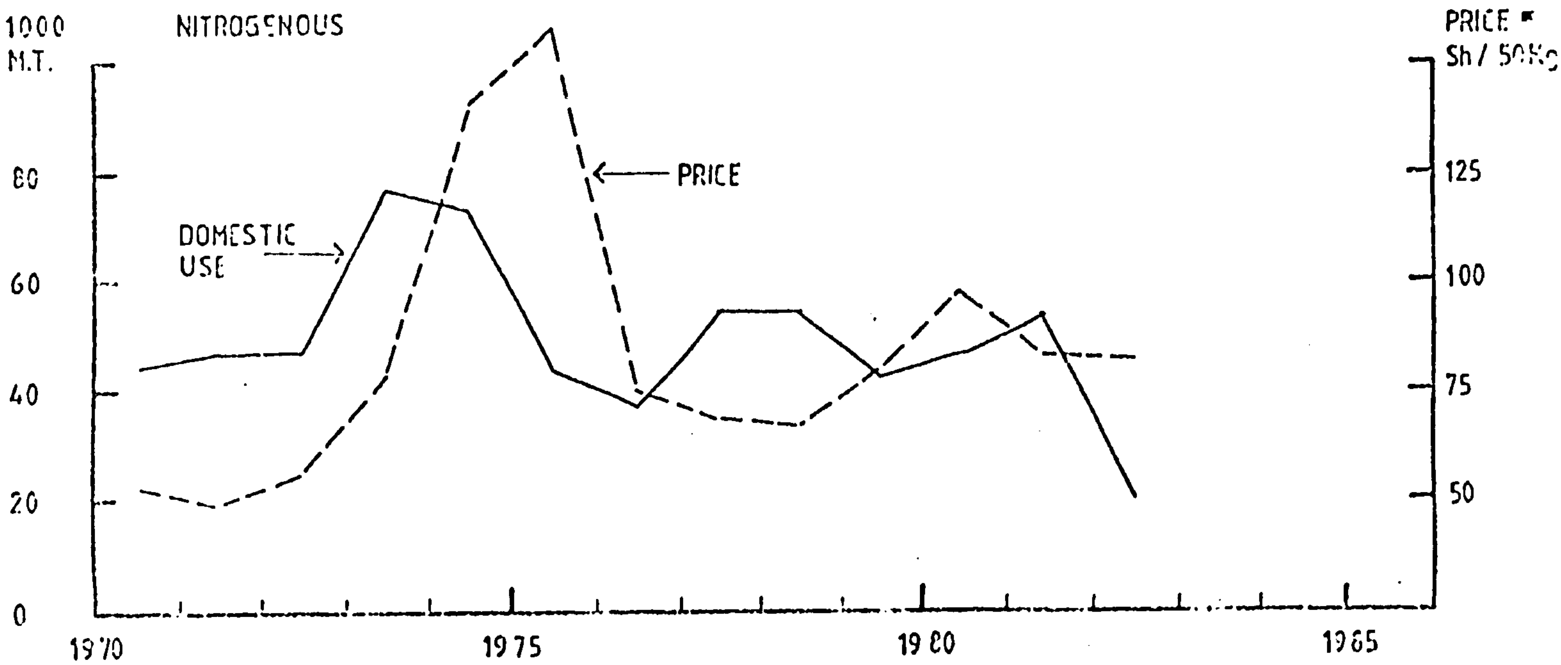


Fig. 6

FERTILIZER USE AND PRICES



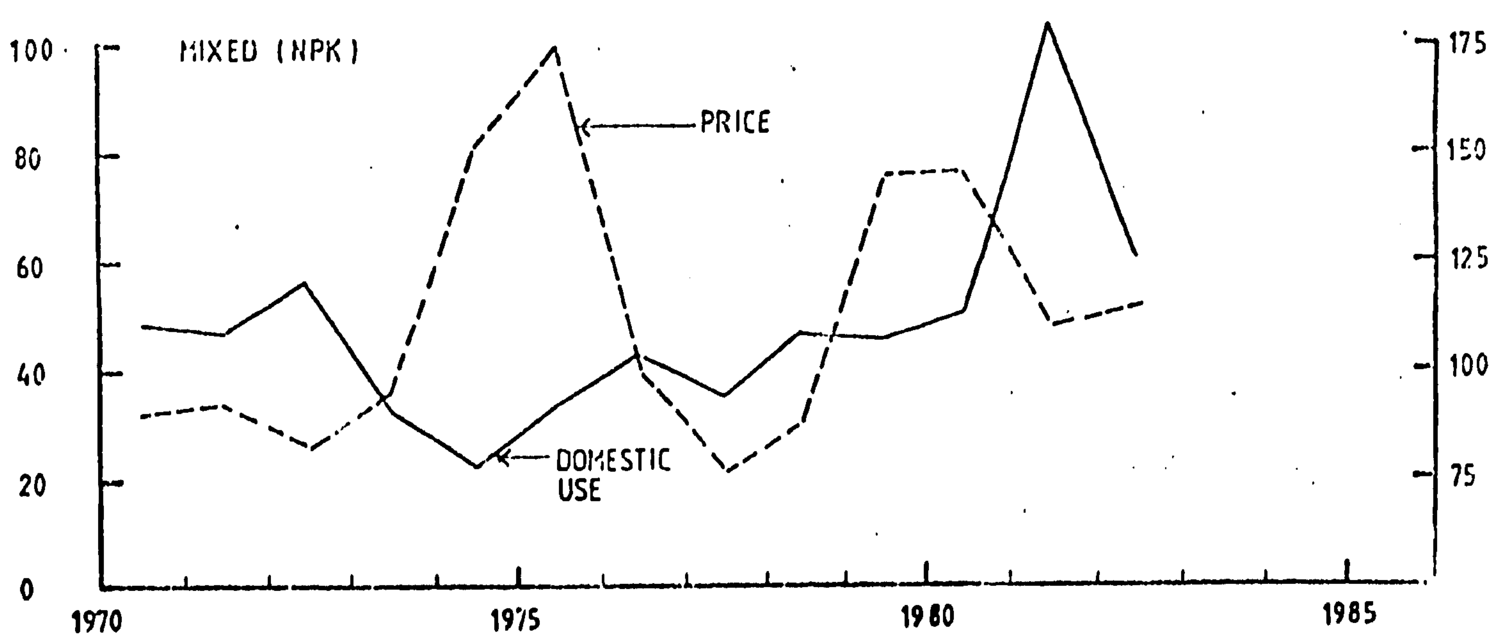
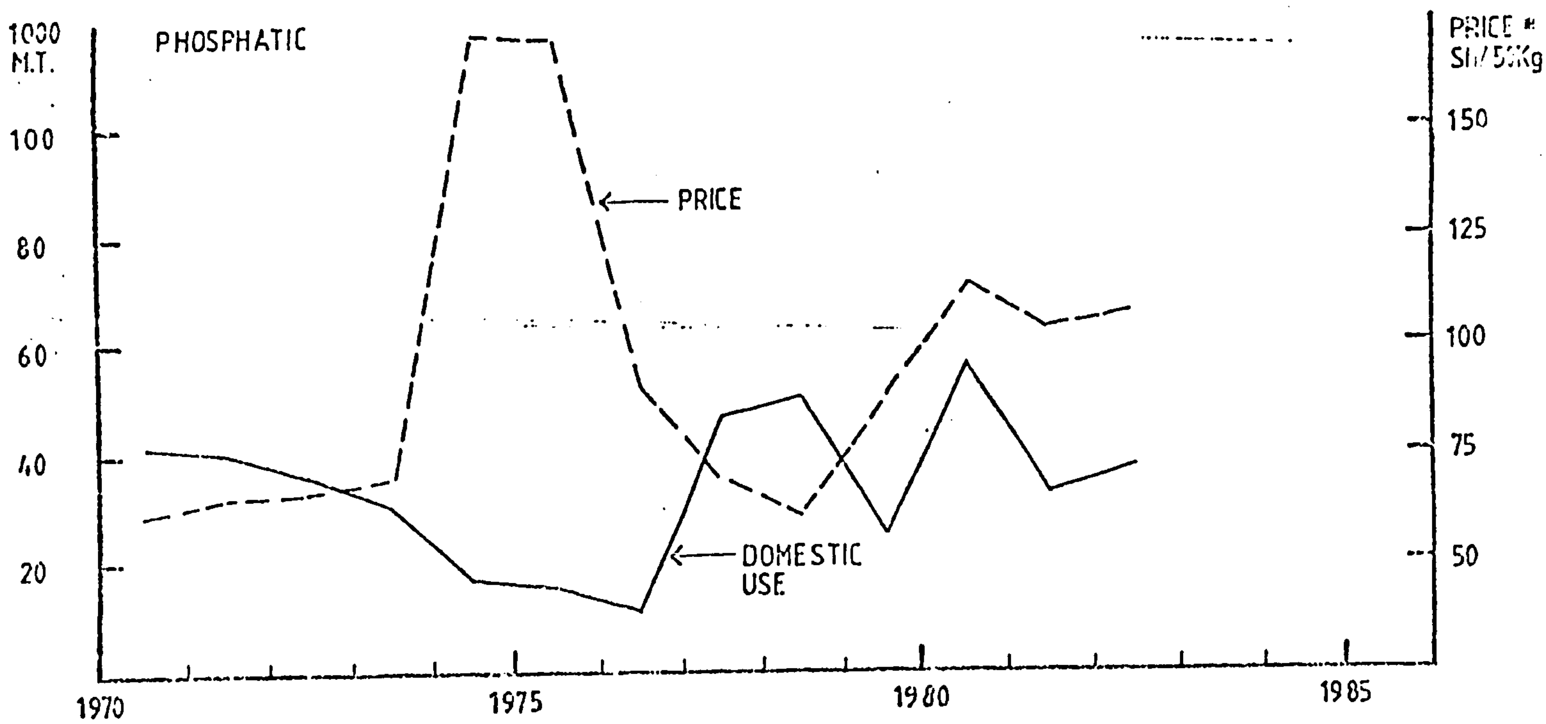


Fig. 6

FERTILIZER USE AND PRICES (CONTINUED)



* IMPORT PRICE ADJUSTED TO WHOLESALE, MOMBASA ADJUSTED FOR PRICE INFLATION (GDP DEFLATOR)

Table 4-Estimates of Fertilizer by type

	High Nitrogen	High Phosphate	Mix Fertilizer	Total
Domestic Use 1/				
(1000 ton)	46.6	30.9	41.1	118.6
Percent	39.3	26.1	34.6	100.0
Imports 2/				
(1000 ton)	40.5	29.3	43.4	113.2
Percent	35.8	25.9	38.3	100.0
Min of Agriculture 3/				
(1000 ton)	86.6	56.4	45.7	188.7
Percent	45.9	29.9	24.2	100.0
MEA Ltd. Est. 4/				
(1000 ton)	70.0	75.0	62.5	207.5
Percent	33.7	36.1	36.6	100

1/ Domestic use estimate, average per year 1975 through 1979.

2/ Imports (reports to CBS), average per year 1975 through 1979.

3/ Ministry of Agriculture estimate based on demand projection.

4/ MEA rough estimates for hypothetical year.

Table 4 provides some estimates of fertilizer use/imports by type (high nitrogen, high phosphate, and mixed). The sources of estimates indicate that the high-nitrogen fertilizers run 35 to 45 percent of total, high phosphates 25 to 30 percent, and mixed fertilizers 25 to 35 percent of the total. Estimates based on use and imports for the period 1975 to 1979 probably are closer to actual distribution during the years. These indicate 35 to 40 percent of total is high-nitrogen, around a fourth is high phosphate and around 35 to 40 percent in mixed fertilizer.

Use By Commodity

The use of fertilizer by specific crops is difficult. The Agriculture Ministry assessment may provide the most realistic picture of the percentage use of fertilizer by crop. MOA"s demand assessment that follows indicates the percent of fertilizer, use by crop and percent of the crop that is fertilized:

	Percent of Total Use	Percent of Crop Fertilized
Major Export Crops		
Coffee	15.7	33%
Tea	11.7	100
Tobacco	1.2	100
Pineapple	1.7	75
	30.3	
Other Crops		
Maize		
Low rainfall	10.3	25
High rainfall	30.8	25
Wheat	7.7	25
Rice	1.3	100
Potatoes	3.5	33
French Beans	0.1	100
Sugar Cane	12.1	50
Bananas	1.2	10
Citrus	2.7	75
TOTAL	69.7	
All Crops	100	

These estimates show the importance of maize, using some 41 percent of the total. Export crops utilize 30 percent. The export crops however, contribute much more to total value of agricultural production than do all the grains combined.

LIST OF ATTACHMENTS

1. Price of Fertilizer: Import Unit Value
2. Prices of Fertilizer and Crops-Current and Real
3. Area In High Fertilizer Using Crops
4. Fertilizer Data For Analyses
5. Price To Producers: High-Nitrogen Using Crops
6. Prices: Domestic High Fertilizer Using Crops
7. Crop Yields and Fertilizer Use

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PRICES OF FERTILIZER: IMPORT UNIT VALUE

Year	Nitrogen Sh/ton	Nitrogen sh/50kg *adj/whsl 1/	Phosphate sh/ton	Phosphate sh/50kg *adj/whsl 1/	Other Fertilizer sh/ton	Other Fertilizer sh/50kg *adj/whsl 1/	Real Deflated Prices Nitrogeneous	Real Deflated Prices Phosphate	Real Deflated Prices Mixed	All Fertilizer sh/50kg adj/whsl	All Fertilizer Real-deflated Price
1965											
1966											
1967											
1968											
1969	343.2	27.31	432.3	33.10	698.9	50.43	53.0	64.3	97.9	37.4	72.6
1970	361.2	28.48	427.1	32.76	656.9	47.70	68.9	62.0	90.3	36.4	68.9
1971	344.2	27.37	478.0	36.07	701.9	50.62	49.5	65.2	91.5	38.7	70.0
1972	434.4	33.24	429.0	32.88	674.0	48.81	56.5	65.9	83.0	39.5	67.2
1973	71.80	51.67	622.0	45.43	869.0	61.48	79.7	70.1	94.9	52.6	81.2
1974	1553	105.94	1922.0	129.93	1673	113.74	140.9	172.8	151.2	113.7	151.2
1975	1976	133.44	2142	144.23	2187	147.16	156.7	171.5	175.0	140.8	167.4
1976	1079	75.14	1316	90.54	1460	99.90	75.1	90.5	99.9	90.1	90.1
1977	1161	80.46	1152	79.88	1299	89.44	68.3	68.3	76.5	82.5	70.
1978	1153	80.60	1059	73.84	1543	105.30	66.9	61.3	87.4	88.85	73.
1979	1494	102.11	1669	113.48	2787	186.16	79.5	88.4	145.0	119.3	92.4
1980	2023	136.50	2404	161.26	3081	205.26	97.2	114.8	146.1	193.96	138.0
1981	1908	129.02	2400	161.00	2550	170.75	83.4	104.1	110.1	156.45	101.1
1982	2073	139.74	2734	182.71	2881	192.26	82.1	107.4	113.0	161.50	94.9
1983	1660	112.9									
1984											
1985											

1/ Sh/ton (1.3) + 100sh divided by 20. At Mombasa Port.

*Wholesale

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PRICES OF FERTILIZER AND CROPS-CURRENT AND REAL

Year	Fertilizer Price Current PF	Fertilizer Price Real	Crop Price Current	Crop Price Real	Maize Support Price Current	Maize Support Price	PF / PMS	PMt-1 Real	PFt / PMt-1	Hectare	4PF Real	4PMS Real	4H
	748	1452	38	75.8	322.2	625.6		535.9		1855			
1970	728	1379	37.7	71.4	333.3	631.2	2.18	522.7	2.57	1770.6	-5.03	-0.90	-4.55
1971	733	1393	34.5	62.4	388.9	703.3	1.99	605.5	2.67	1808.7	+1.38	11.42	+2.15
1972	789	1342	37.9	64.5	388.9	661.4	2.03	633.3	2.22	1953.1	-4.0	-5.96	+7.98
1973	1052	1623	51.4	79.3	388.9	600.2	2.70	601.9	2.45	1937.8	20.94	-9.25	-0.78
1974	2274	3024	47.5	63.2	500.0	664.9	4.55	617.4	5.01	1915.1	86.32	10.78	-1.17
1975	2315	3347	51.5	61.2	722.2	658.7	5.08	829.8	5.42	2085.8	10.68	-0.93	+8.91
1976	1802	1802	100.0	100.0	888.9	888.9	2.03	765.9	2.17	2104.2	-46.16	34.95	0.83
1977	1650	1411	165.1	141.2	888.9	760.4	1.86	760.4	1.84	2067.0	-21.70	-14.46	-1.77
1978	1777	1475	119.6	99.3	722.2	599.3	2.46	642.9	1.94	1996.8	1.04	-21.19	13.40
1979	2385	1857	116.1	90.4	722.2	562.5	3.30	692.3	2.89	1926.9	25.90	-6.14	-3.50
1980	3479	2476	115.9	82.5	1000	711.7		678.8	3.58	2077.5			
1981	3129	2023	115.6	74.7	1056	682.6		646.4	3.05	2319.4			
1982	3230	1898	128.3	75.4	1444	848.4		620.2	2.94	2376.4			
1983	2600	1319	139.9	71.0	1756	890.9		732.8	2.13	2349.0			
1984	3100	1372						777.0	1.87	2423.0			
1985													

AREA IN HIGH FERTILIZER USING CROPS
(1000 hectares)

Year	Maize Wheat Rice 1000/ha	Barley 1000/ha	Potatoes 1000/ha	Vegetables	Sugarcane	Domestic Crop/Total	Coffee	Tea	Total All/Crops 1000/ha	Fertilizer Total 1000/MT	Use Kg/Ha
1965/66	1354	8.9	27.5	87	17.1	1494.5	80	27	1601.5		
1966/67	1400	9.6	27.5	88	21.9	1547.0	85	27	1659.0		
1967/68	1554	10.9	27.5	89	26.5	1707.6	85	28	1820.6		
1968/69	1572	9.5	29.0	89	26.4	1725.9	85	28	1838.9		
1969/70	1570	11.0	30.5	91	31.5	1734.0	85	36	1855.0		
1970/71	1484	10.0	28.0	93	20.6	1645.6	85	40	1770.6	135.1	76.3
1971/72	1522	14.0	32.0	95	17.7	1680.7	84	44	1808.7	135.7	75.0
1972/73	1632	26.0	37.0	96	27.1	1818.1	85	50	1953.1	141.3	72.3
1973/74	1614	26.0	40.0	95	22.8	1797.8	85	55	1937.8	141.5	73.0
1974/75	1562	28.0	45.6	97	38.5	1771.1	85	59	1915.1	112.8	58.0
1975/76	1714	31.0	47.0	99	46.8	1937.8	86	62	2085.8	94.9	45.5
1976/77	1697	55.0	47.0	101	53.2	1953.2	85	66	2104.2	95.8	45.5
1977/78	1636	57.0	48.0	103	71.0	1915.0	84	68	2067.0	137.1	66.3
1978/79	1527	80.0	48.0	104	77.8	1836.8	88	72	1996.8	151.2	75.7
19798/80	1446	85.0	48.0	103	78.9	1760.9	92	74	1926.9	113.1	58.9
1980/81	1596	87.0	28.0	103	84.5	1898.5	102	77	2077.5	154.9	74.6
1981/82	1802	87.0	45.0	101	87.4	2122.4	118	79	2319.4	192.1	82.8
1982/83	1839	85.0	48.0	105	87.4	2164.4	131	81	2376.4	119.3	50.2
1983/84	1864	87.0	50	107	88.0	2136.0	130	83	2349.0	133.6	56.9
1984/85	1869	88.0	52	110	89.0	2208.0	130	85	2423.0		
1985/86											

FERTILIZER DATA FOR ANALYSES

ear	Domestic Use Du	Use Per Ha Dur	Price Computed wholesale Deflated PF	Price of Crops 1976=100 PC	Price of Maize PM	$\frac{PF}{PM}$	Area in High-use Crops HC	Area in Maize HM	World Price PWF	Imports M	Stock SFt +1	Export to external debt ratio E/D	Trend Trend T
970	135.1	76.5	728	38.0	276	2.64	1767	1350	483	140.9	5.8	1.51	70
971	135.7	74.8	773	34.5	333	2.32	1819	1400	518	129.9	0	1.51	71
972	141.3	72.0	789	37.9	390	2.02	1963	1520	530	150.1	8.8	1.51	72
973	141.5	72.5	1052	51.4	390	2.70	1952	1500	732	141.5	8.8	1.51	73
924	112.8	58.5	2274	47.5	464	4.90	1928	1450	1672	174.0	70.0	1.93	74
975	94.5	44.8	2815	51.5	698	4.03	2111	1590	2089	105.1	80.2	1.54	75
976	95.8	44.6	1802	100.0	766	2.35	2146	1570	1309	99.9	84.3	1.58	76
977	137.1	64.4	1650	165.1	889	1.86	2130	1490	1192	144.9	92.1	1.55	77
978	151.1	73.5	1777	119.6	775	2.29	2055	1400	1290	144.2	85.1	1.20	78
979	113.1	57.2	2385	116.2	889	2.68	1976	1350	1758	71.9	43.6	.94	79
980	154.9	73.2	2479	115.9	954	3.65	2116	1488	2443	170.7	59.7	.90	80
981	192.1	80.8	3129	115.6	1000	3.13	2348	1690	2330	165.7	33.3	.65	81
982	119.1	49.6	3230	128.3	1056	3.06	2412	1720	2408	129.6	43.6	.56	82
983	133.6	56.0	2600	139.9	1444	1.80	2186	1680	1940	130	40.0	.53	83
984													
985													

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PRICE TO PRODUCERS: HIGH NITROGEN CROPS
(Price KSh Per Ton)

Crop	Percent Usage 1/ Weight		1970 Price	1970 Pxwt	1971 Price	1971 Pxwt	1972 Price	1972 Pxwt	1973 Price	1973 Pxwt	1974 Price	1974 Pxwt	1975 Price	1975 Pxwt
Maize	41.1	49.2	276	135.8	333	163.8	390	191.9	390	191.9	464.3	288.4	497.9	245.0
Rice (paddy)	1.3	1.5	507	7.5	484	7.3	508	7.6	501	7.5	586.4	8.8	1044.9	15.7
Tea	11.7	14.0	6365	943.3	6506	920.8	6015	842.1	10570	1479.8	7206.2	1008.9	8078.4	2009.0
Coffee	15.7	18.8	7478	1405.9	6365	1196.6	7789	1464.3	9207	1730.9	10078.4	1894.7	10686.0	2009.0
Sugarcane	12.1	14.5	45	6.5	45	6.5	50	7.3	52	7.5	61.8	9.0	89.4	13.0
Pineapple	1.7	2.0	345	6.9	220	4.4	220	4.4	230	4.6	230	4.6	200.0	4.0
Total	83.6	100		2506		2289.4		2517.6		3422.2		3154.4		3417.7
Index	1976=100			37.7		34.5		37.9		51.4		47.5		51.5

Crop	Weight	(1976) Price	(1976) Pxwt	(1977) Price	(1977) Pxwt	(1978) Price	(1978) Pxwt	(1979) Price	(1979) Pxwt	(1980) Price	(1980) Pxwt	(1981) Price	(1981) Pxwt
Maize	49.2	765.9	376.8	883.9	437.3	774.7	381.2	888.9	437.3	953.7	469.2	1000.0	492.0
Rice	1.5	1368.8	20.5	1360.0	20.4	1448.5	21.7	1508.3	22.6	1504.4	22.6	1479.6	22.6
Tea	14.0	10569.3	1479.7	21492.0	3008.9	15832.0	2216.5	13566.9	1899.4	15911.0	2227.6	17723.4	2431.3
Coffee	18.8	25237.6	4794.7	39750.0	7473.0	28181.0	5298.0	28349.2	5329.6	26348.0	4953.4	24760.1	4655
Sugarcane	14.5	104.5	15.2	127.1	18.4	133.0	19.3	133.0	19.3	133.0	19.3	145.1	21.0
Pineapple	2.0	212.0	4.2	250.0	5.0	250	5.0	250	5.0	250	5.0	250	5.0
Total	100.0		6641.1		10963.0		7941.7		7713.2		7697.0		7676.5
Index			100.0		165.1				119.6		116.1		115.9
115.6													

Crop	Weight	(1982) Price	(1982) Pxwt	(1983) Price	(1983) Pxwt	(1984) Price	(1984) Pxwt	(1985) Price	(1985) Pxwt	(1986)	(1987)
Maize	49.2	1055.6	519.4			1444.4	710.6	1755.5	836.7		
Rice	1.5	2000	30.0			2000	30.0	2000	30.0		
Tea	14.0	19410	2717.4			23460	3284.4	27000	3780		
Coffee	18.8	27800	5226	27800	5226	27800	5226				
Sugarcane	14.5	145.1	21.0			227	32.9	250	36.2		
Pineapple	2.00	250	5.0			250	5.0	250			
Total	100.0		8518.9				9263.9				
Index			128.3				139.9				

1/ Based on recommended fertilizer applications for 1983/84 crops. From Technical staff Min. of Agr. Total probably overstated but percentage allocation by crop looks reasonable.

PRICES: DOMESTIC HIGH FERTILIZER USING CROPS

Crop	Weights Output 1/	1970		1971		1972		1973		1974		1975	
		Price	PSXQO	Price	PSXOO	Price	PSXQO	Price	PSXOO	Price	PSXQO	Price	PSXQO
	1000/ton	Sh/ton								Sh/ton	Mil/Sh		
Maize	1623	270	439.7	333	542.1	390	634.9	390	634.9	464.3	755.9	497.9	810.6
Wheat	166.8	451	75.2	506	84.4	506	84.4	567	94.6	803.6	134.0	1047.1	174.7
Rice	38.5	507	19.5	484	18.6	508	19.6	501	10.3	586.4	22.6	1044.9	40.2
Barley	38.3	390	14.9	440	16.9	440	16.9	500	19.5	700	26.8	950	36.4
Sugarcane	1085.8	45	48.9	45	48.9	50	54.3	52	56.5	61.8	67.1	89.4	97.1
Pineapple	99.3	345	34.3	220	21.8	220	21.8	230	22.8	230	22.8	200	19.9
Total			632.5		732.7		831.9		847.6		1029.2		1178.9
Index			37.7		44.6		49.5		50.4		61.3		70.2

	(1976)		(1977)		(1978)		(1979)		(1980)		(1981)	
Maize	765.9	1246.9	888.9	1447.1	774.7	1261.2	868.9	1667.1	953.7	1552.6	1000	1162.8
Wheat	1203.0	200.7	1333.3	222.4	1333.3	222.4	1436.4	239.6	1638.6	273.3	1667.7	278.2
Rice	1368.8	52.7	1360.0	52.4	1448.5	55.8	1508.3	58.1	1504.4	57.9	1479.6	57.0
Barley	1079	41.3	1100	42.1	1160	44.4	1160	44.4				
Sugarcane	104.5	113.5	127.1	138.0	133.0	144.4	133.0	144.4	133.0	144.4	145.1	157.0
Pineapple	212	21.1	250	24.8	250	24.8	250	24.8				
total		1679.2		1926.8		1753		1958.4				
Index		1000.0		114.7		104.4		116.6				

	(1982)		(1983)		(1984)	
Maize	1055.6	1718.5	1444.4	2351.5	1755.5	2858
Wheat	1736.0	289.6				
Rice	1479.6	57.0				
Barley						
Sugarcane	145.1	157.5				
Pineapple						
Total						
Index						

1/ 74/75, 75/76, 76/77.
Cal. 75,76,77.

CROP YIELDS AND FERTILIZER USE

Year	Crop Yields: Annual Food Crops	Crop Yields: PF/PM	Crop Yields: All Crops	Crop Yields: Grain	Fertilizer Use: Total	Fertilizer Use: Rate Per High Use Area	PFN/PM	Food Crops: Output	Food Crops: Area	Food Crops: Yield	Export Crops: Out put	Export Crops: Area	Export Crops: Yield
1970/71	1296	2.64	1264	935	135.1	76.3	2.07	3914	2941	2332			
1971/72	1399	2.32	1346	1131	135.7	75.0	1.64	4276	3028	1412			
1972/73	1316	2.02	1307	962.	141.3	72.3	1.71	4301	3177	1354			
1973/74	1282	2.70	1289	899	141.5	73.0	2.65	4220	3163	1334			
1974/75	1389	4.90	1377	1010	112.8	58.9	4.56	4523	3174	1425			
1975/76	1424	4.03	1389	1103	94.9	45.5	3.82	4899	3366	1455			
1976/77	1479	2.35	1459	1198	95.8	45.5	1.96	5184	3423	1514			
1977/78	1545	1.86	1517	1250	137.1	66.3	1.81	5370	3399	1580			
1978/79	1641	2.29	1586	1394	151.2	75.7	2.03	5540	3295	1681			
1979/80	1640	1.68	1628	1341	113.1	58.7	2.30	5545	3242	1710			
1980/81	1490	3.65	1484	1169	154.9	74.6	2.86	5352	3406	1571			
1981/82	1752	3.13	1676	1560	192.[illegible]	82.8	2.58	6503	3671	1771			
1982/83	1692	3.06	1631	1431	119.3	50.2	3.93	6428	3721	1727			
1983/84	1568	1.80	1531	1214	133.6	56.9	1.56	5999	3711	1617			
1984/85	1640	1.77	1588	1307			1.54	6363	3793	1678			
1985/86													

Annex F

Agriculture Overview

Kenya's economy continues in a severe liquidity bind despite prospects for some improvement in 1984. Even with export increases indicated this year, especially for tea and coffee, a large net import of food and non-agricultural products will continue to use available foreign exchange earnings in 1984. Exports as a percent of the debt will decline further making debt servicing payments ever more burdensome. (See Table 1).

Table 1-GROSS DOMESTIC PRODUCT: EXPENDITURES
Selected Recent Years

Item	1977	1979	1981	1982	1983
	(Current Prices Kl Million)				
Consumption					
Government	322.0	447.3	624.0	600	630
Private	1034.0	1449.5	1909.5	2000	2100
Gross Fixed Investment	390.0	540.5	682.6	510	570
Net Inventory Change	51.2	24.2	70.2	40	35
Exports Goods & Services	650.2	600.1	750.0	850	950
Imports Goods & Services	587.6	736.6	1013.1	1000	1050
Net Export Trade Balance	62.6	-136.5	-263.1	-150	-100
Gross Domestic Product	1859.9	2276.6	3023.3	3000	3360
Real GDP	1590.9	1773.1	1915.3	1765	1867
Price Level Deflator (GDP)	116.9	128.4	157.8	170	180
External Debt (Disbursed) (Mil US)1/	1056.2	1736.3	2251.1	2401.6	2600
Debt as Percent GDP (Percent)	23.5	28.5	33.7	46.4	53.0
Export/Debt Ratio	1.51	.94	.76	.56	.53

SOURCE: Kenya Stat. Abstract 1981/1982.
1/ External debt outstanding at end of year (mil US dollar).

Kenya will continue to seek foreign funding to limit domestic deficit financing and provide foreign exchange for such essential imports as ferttilizer, agricultural and industrial machinery, and materials needed to bolster domestic production activity. Although Government has succeeded in reducing its deficit, mainly through cutbacks in expenditures on investment projects, the world bank estimates a required gross balance-of-payments funding in 1984 and 1985 around $910 million U.S. dollars per year. Private loans, IMF loans and commercial loans to Government would pare the total down to around $460 million annually needed from donor sources.

Possibly a fourth of this ($130 million annually in 1984 and 1985) would have to be in a form for quick disbursing assistance. The macro problems of balance-of-payment stringency, related trade imbalances, the resulting slowdown in the economy, rising unemployment and currency devaluations originate in and impact mainly on Kenya's agriculture. The economic forces that contribute to developing problems in agriculture arise partly from faulty domestic policy and partly from world market forces--the petroleum crisis and the recent recession in world economic activity. In searching for insights as a basis for policy/program decisions, it is necessary to consider developments and needs in the agriculture and food sector which dominates the nation's economic activity.

Developments In Agriculture and Food

Understanding developments in the general economy requires insights into the economic and political forces that shape the nation's agriculture and food system.

There is much more to agriculture than farming--the sector usually measured by "GDP for agriculture" in the national accounts. The broad agriculture and food industry includes, in addition to farming, the service and input industries that supply agriculture with production inputs, hired labor, banking and credit services, machinery repairs, construction, etc. The broad industry also includes business activity that exists to transport, store, process and market farm products. In the Kenyan economy about two thirds of manufacturing is based on materials of agricultural origin.The service sectors, wholesale and retail trade, export trade, etc., all depend directly on agriculture. Thus the broad agriculture and food industry accounts in most years for 2/3 to 3/4 of Kenya's total economic activity, for 75 to 85 percent of employment and for 85 to 90 percent of total export trade. There are no macro problems and policies that do not relate directly to Kenya's agriculture and food industry. Thus, understanding major economic and policy issues requires insight into economic and political forces that shape Kenya's agriculture.

Agricultural Production

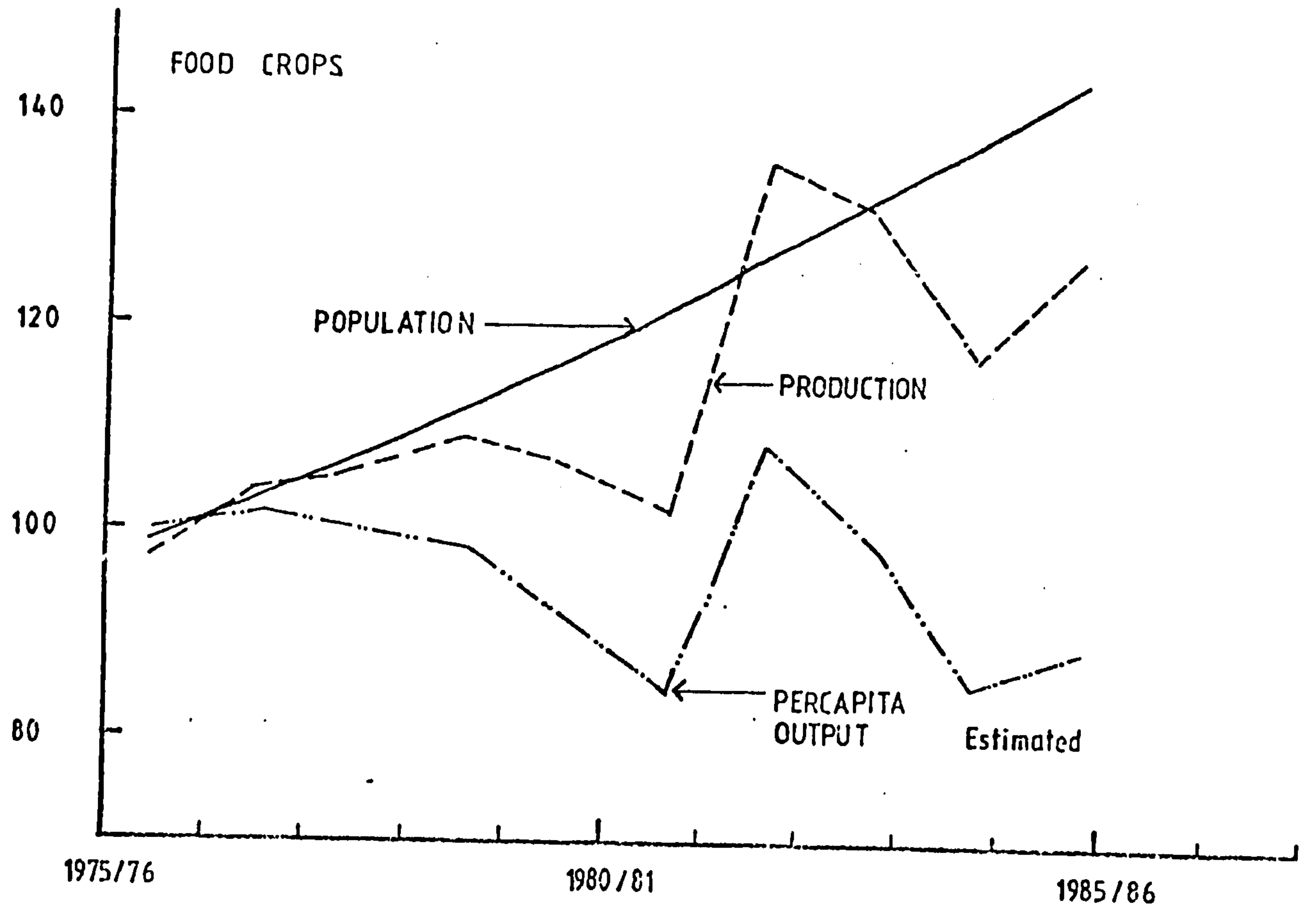
During most years of the past decade, food crop production and livestock output have barely kept pace with population growth. The result has been reduced supplies for export, particularly of grains and livestock products, and large imports in recent years of grains and vegetable oils and fats. (fig. 1)

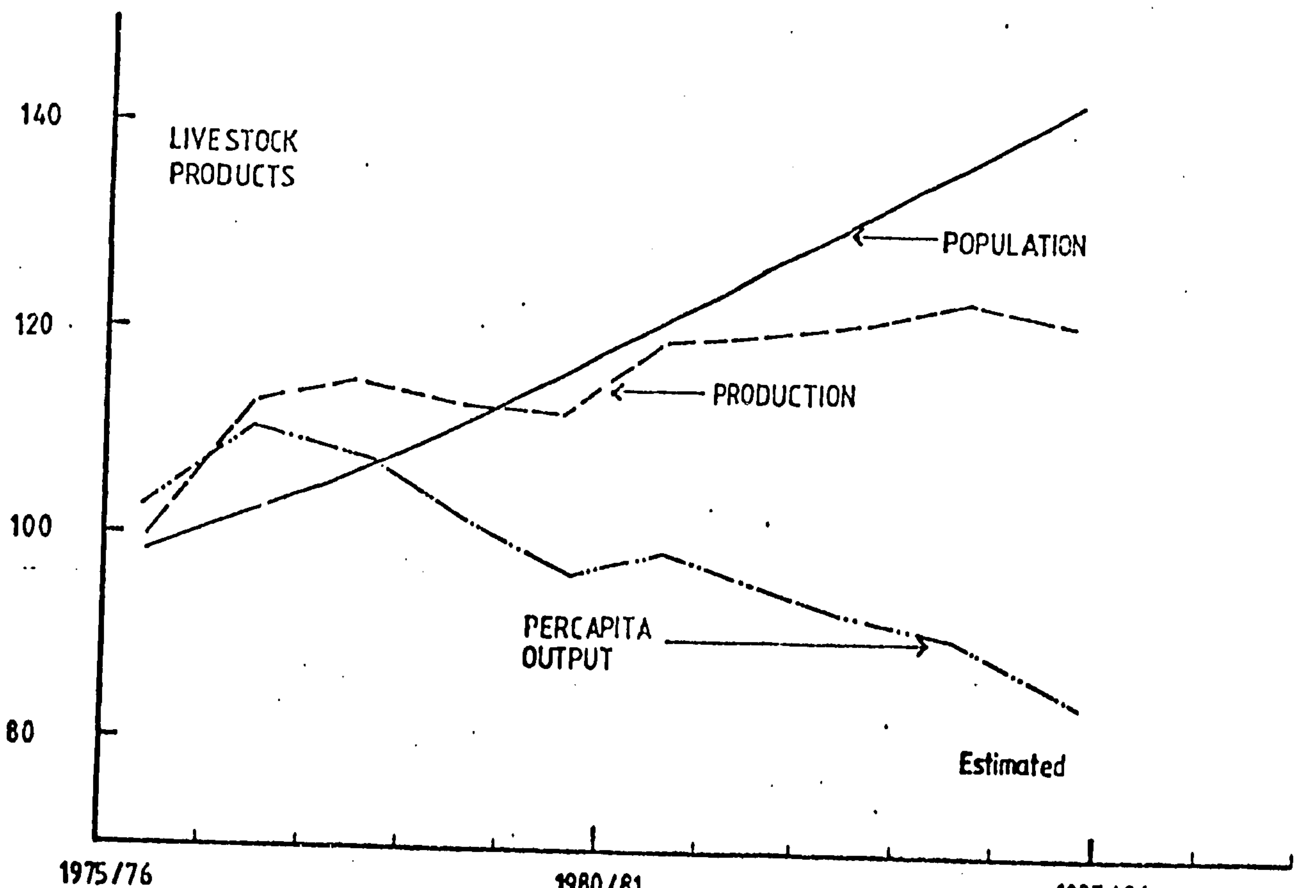
The production impacts on consumption were not as severe as indicated in (fig. 1) because of large imports of grain in the years of poorest harvest.

Agricultural production depends on an involved complex of forces, with weather variations playing a key role. But prospective returns on major crops provide both incentives for shifts in production, as well as the ability and willingness of producers to apply fertilizer, control disease and insects and provide the care and cultural practices necessary for more intensive use of available land.

Fig. 1

FOOD OUTPUT AND POPULATION
(Indexes 1976 = 100)





The support price for maize, adjusted for price inflation, declined from the mid-1970 decade to 1979/80. Fig.2) Although the announced support price was steady to rising gradually in most of 1976 to 1980 period; the increases were much less than rising costs and general inflation. As a result, hectares in maize declined from nearly 1.6 million in 1975/76 to around 1.35 million in 1979/80. The sharply increased support levels for maize from 1979/80 to the 1983/84 marketing year undoubtedly contributed to increased areas planted to maize even though drought in 1980 and 1983 probably reduced the hectares of maize harvested.

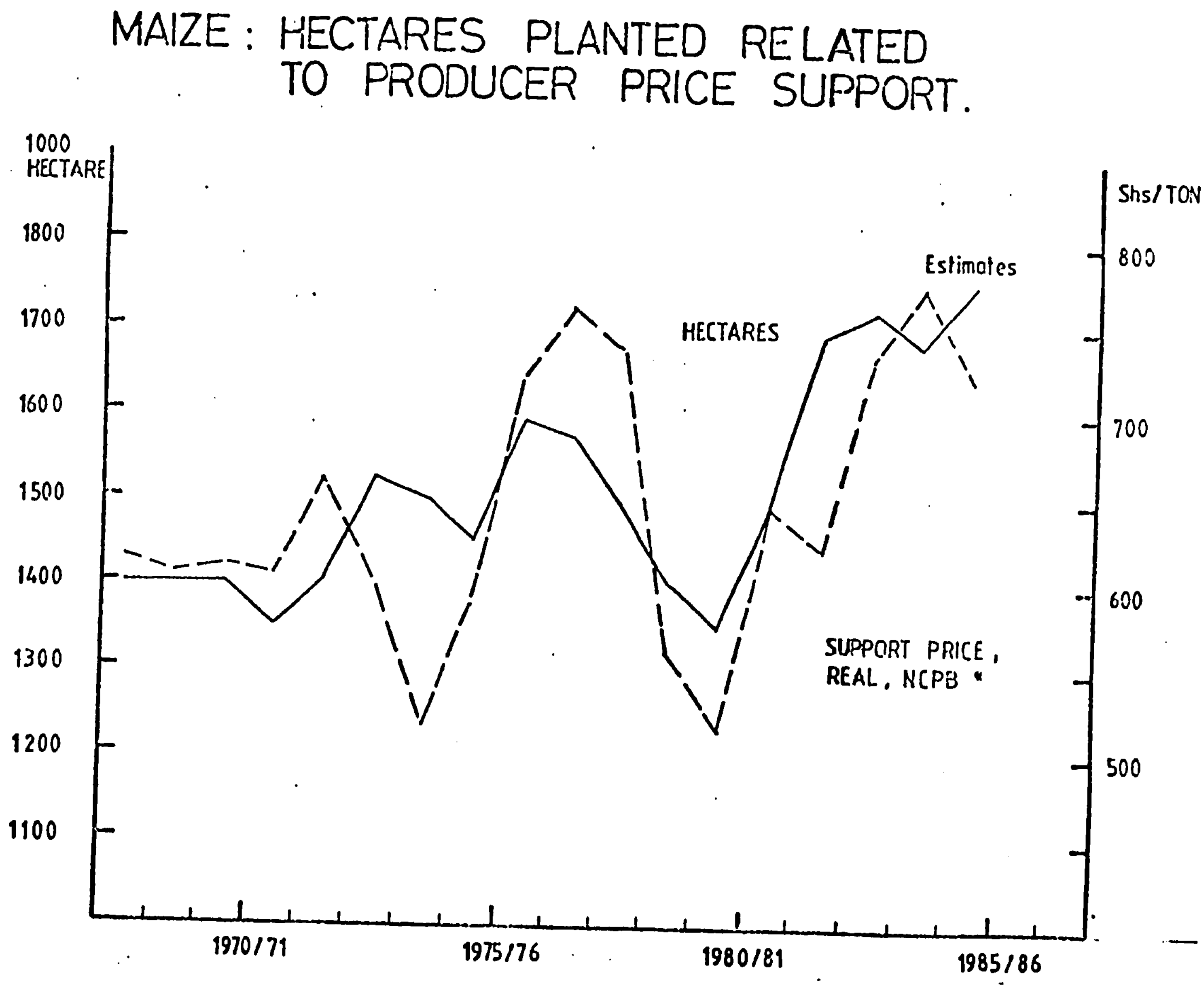
Most of these adjustments in area planted probably were in the short rains season as producers chose to plant crops other than maize or simply not to plant another crop at all. Even at the current higher support and market prices for maize for the 1983/84 season, Kenya producers received about the same level of prices as those reported for U.S. farmers. Rice prices were somewhat lower and wheat prices averaged above the depressed U.S. prices in 1983/84. However, for a nation that imports a substantial quantity of grains and other foods, domestic prices to producers are not high relative to world levels. Kenyan production costs probably are higher than costs per ton in major food exporting nations. In fact, the general terms of trade between farm prices and costs in Kenya have tightened materially in the past decade. This reduces earnings prospects and limits the use of fertilizers, insecticides and other production-increasing inputs.

PRICES RECEIVED AND PAID BY FARMERS
Select Recent Years

Commodity	1978	1980	1982	1983/Est.
	(Indexes 1976=100)			
Prices Received				
Cereals	113	130	143	195
All Crops	119	122	138	185
Livestock Products	129	141	167	194
All Commodities	121	126	145	180
Prices Paid				
Fertililzer	98	129	160	155
Rural Consumption	117	146	206	240
Prices Paid	118	144	200	230
Parity Ratio	103	88	73	78

10b

Fig. 2



* NICB SUPPORT PRICE ANNOUNCED FOR CROP, ADJUSTED FOR INFLATION BY GDP DEFLATOR.

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Output of grains, which dominate changes in the tonnage of food produced, has varied widely in the past decade in response to the forces outlined above. Output trended lower in the 1976/77 to 1980/81 period. Much of the decline was due to reduced area in grains. However, yields per hectare rose until 1978/79, then declined in 1979/80 as rising prices for fertilizer reduced domestic use. There appears no question that fertilizer use influenced yields although dry weather in 1980 and 1983 were responsible for much of the sharp decline in grain yields in those years. (fig. 3)

Crop production has not shown a steady rise over the years as is often assumed. In fact, available evidence suggests rather wide swings from year-to-year in the past decade. Poor growing conditions in 1980/81 were responsible for reduced yields even though donor aid fertilizer increased fertilizer use from the low rate in 1979/80. The sharply higher production level in 1981/82 reflects a recovery from dry weather in 1980, improved earnings prospects, and sharply increased use of fertilizer as donor aid supplies supplemented Kenya's commercial imports. But even under generally favorable conditions for high crop production, the poor long-rain and short-rain season in 1983 reduced yields and food production in the 1983/84 market year. The current delay in the onset of the long-rain season has led to the need for feeding programs in some areas, delayed plantings, and concerns over prospects for the 1984/85 season crops.

Producers of coffee and tea enjoy strong markets and relatively favorable world market prices. Favorable earnings prospects will stimulate continued expansion in plantings and production of coffee, and especially tea. These crops contribute materially to Kenya's agriculture despite the relatively small area used for them.

Land Base and Output Potentials

Conflicting information make it difficult to assess the size of the cropland base and how intensively it is now being used. Data available suggest that virtually all the better agricultural land is already in use in farm crops, meadows and pastures, reserves and forests. Some additional cropland will come from permanent pastures, land outside farms, and possibly from the less intensively used larger holdings.The FAO Production Yearbook reports a land area of 56,925,000 hectares for Kenya.

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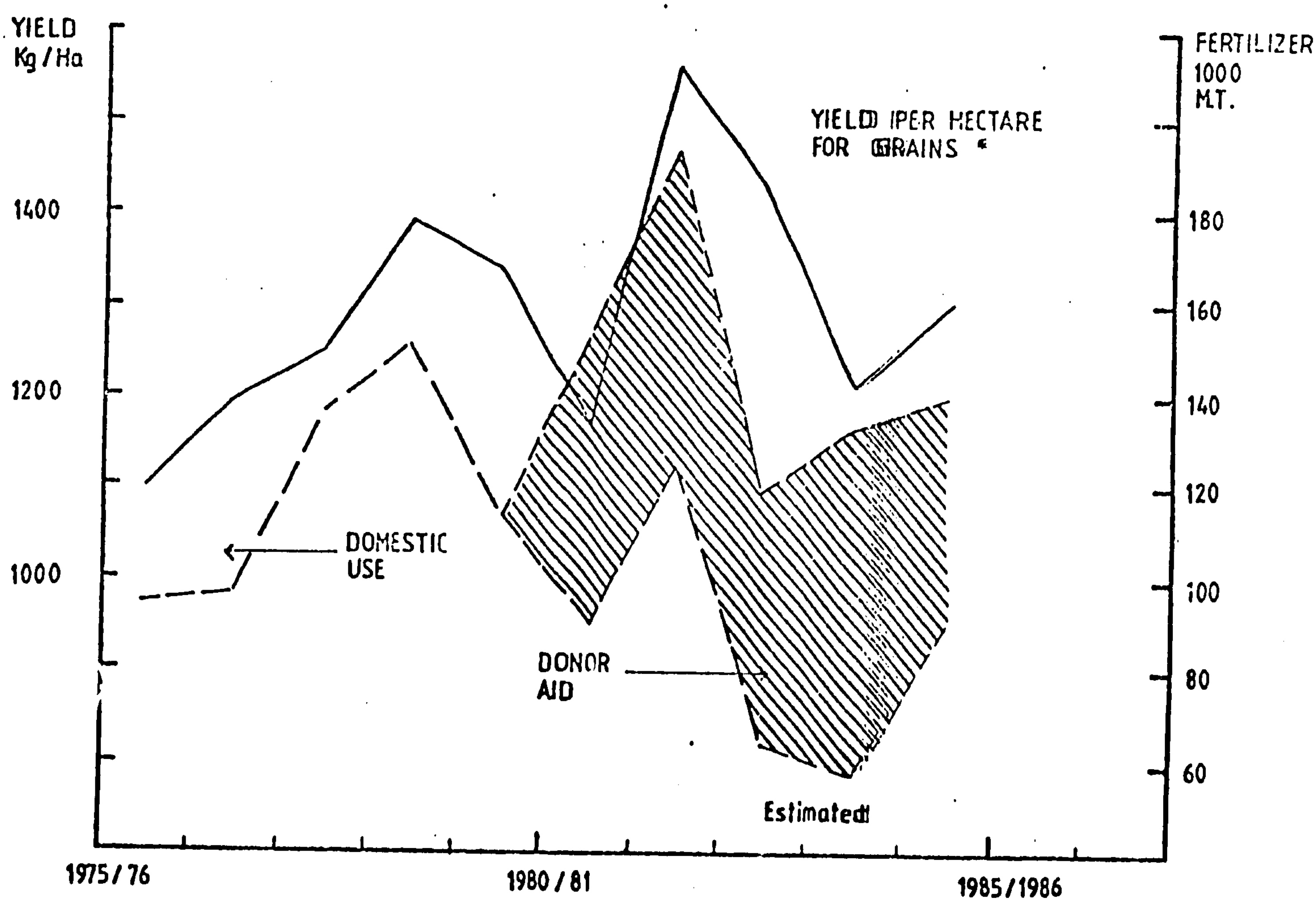
Fig. 3

CROP YIELDS AND FERTILIZER USE



* MAIZE, WHEAT AND RICE.

But only 6 million hectares are classified as "agricultural areas". Of the agricultural land, only about 1.8 million hectares are reported as arable. The following reports land in crops for 1980/81, including areas double cropped and inter cropped:

	1000 hectares
Annual Crops	2992
Permanent Crops	794
Total Effective Area	3786
Annual Crops	2992
Physical Land Area Annual Crops	1790
Cropping Intensity Index	1.66

If the physical arable land in farms is only about 1.8 million hectares, effective areas in annual crops including double and multiple cropping suggest a cropping intensity of around 1.65. Statistical evidence and observation would suggest that there is not much idle land available for expanding crop production.

With little slack in the potential land base for agriculture, the rapidly growing domestic market must be supplied by an accelerated increase in crop yields per hectare. Large fertilizer inputs and effective control of diseases and insects as well as incentives to encourage and facilitate large inputs, will be necessary to accelerate gains in crop yields.

CROP AND LIVESTOCK PRODUCTION
Selected Recent Years

Commodity	1978/79	1980/81	1981/82	1982/83	1983/84
Food Crops (1976=100)	108	101	133	129	115
Tonnage (1000) 1/	5540	5352	6503	6428	6000
Hectares (1000)	3295	3406	3671	3721	3711
Yield/Ha (kg)	1681	1571	1771	1727	1617
Grains 2/					
Tonnage (1000)	2129	1866	2775	2631	2190
Hectares (1000)	1527	1596	1802	1839	1804
Yield (kg)	1394	1169	1560	1431	1214
Coffee					
Tonnage (1000)	85	92	102	89	93
Hectares 1000)	88	102	118	131	130
Yield (kg)	971	897	869	682	715
Tea					
Tonnage (1000)	93	90	91	96	118
Hectares (1000)	72	77	79	81	83
Yield (kg)	1292	1169	1152	1185	1422
Non-Food Crop					
Tonnage (1000)	67	74	96	77	83
Hectares (1000)	189	201	181	185	190
Yield (kg)	355	368	530	416	437
All Crops					
Index (1976=100)	107	102	132	128	115
Hectares (1976=100)	99	103	110	112	112
Yield (1976=100)	108	99	120	114	103
Livestock Production					
Tonnage	1250	1272	1276	1293	1315
Index (1976=100)	112	118	118	120	122

1/ All crops except coffee, tea and non-foods.
2/ Maize, wheat and rice.

Export and Import Trade

In years of production short-fall, in order to moderate impacts on domestic food consumption, exports of food have been restricted and food imports increased. In the past decade food exports have declined, particularly for livestock products and grains. Exports of coffee, tea, fruit and vegetable products have increased.

Agricultural exports increased in 1982 and 1983, with substantial increases for tea, coffee and further gains for fruits and vegetables. Exports of agricultural origin continue around 85% of total exports (less the export of in-transit fuels). This ratio illustrates the dominant role of agricultural exports in Kenya's total trade.

AGRICULTURAL EXPORT TRADE
Selected Recent Years

	1977	1979	1981	1982	1983/EST.
EXPORTS-VALUE (Mil K£)					
Food	316	215	233	277	304
Coffee & Tea	276	173	170	222	235
Materials (Agr.)	29.6	37.8	37.9	49	44
Manufact. (Agr.)	9.8	12.9	9.7	10.9	10
Exports of Agriculture Origin (Mil K£)	335.4	265.6	280.6	336.7	358
Total Less Fuel	396.5	308.3	349.8	400.3	415
Percent Agr.	90	86	83	84	86
EXPORT-VOLUME (1000 tons)					
Major Foods	109.5	209	67	98	
Coffee & Tea	164.5	171	162	188	
Materials (Agr.)	47.8	56	62		
Agricultural Exports (1976=100)	106	99	102	108	104
Total Exports Less Fuel (1976=100)	107	107	104	117	117

Imports of grains and vegetable oils increased over the decade to supplement domestic food supplies. Imports of maize, wheat and rice in particular have supplemented domestic food supplies in recent years when drought reduced production.

Reduced exports and increased imports of food helped to maintain domestic market supplies, but at considerable cost in terms of scarce foreign exchange. This trade imbalance further aggrevated the developing shortage of foreign exchange and limited funds available for essential imports needed to maintain domestic industrial activity. The related chain reactions forced cuts in business investment, employment and Government expenditures as well as currency devaluations and a growing foreign debt.

AGRICULTURAL IMPORT TRADE
Select Recent Years

	1977	1979	1981	1982	1983/EST.
IMPORTS-VALUE (Mil K£)					
Food and Agr.	47.5	51.2	75.8	86.5	
Fertilizer and Chemicals	19.2	14.5	33.1		
Mineral fuels	118.2	147.9	347.5	334.5	
Manfg. Material Etc.	346.4	406.6	475.7		
Total Imports	531.4	620.2	932.4	900.3	
Imports Less Fuel	413.2	472.3	584.6	565.8	
IMPORTS-VOLUME (1000 tons)					
Foods	139	105	275		
Non-Food	22.7	20.3	21.9		
Fertilizer	159	61	207	130	
Total Import Less Fuels					
Vol. (1976=100)	125	118	104	89	79
Price (1976=100)	109	132	186	210	231

Domestic Market

Although trade adjustments helped to increase domestic food supplies, at the expense of short foreign exchange reserves, domestic consumption has not kept pace with rapid population growth. Percapita consumption of the important food grains has trended down since late in the 1970 decade. The result was reduced food energy supplies large enough to reduce average daily intake of food energy and a deterioration in the nutritional adequacy of the average diet.

FOOD CONSUMPTION AND NUTRITION

Commodity	Selected Recent Years 1978/79	1980/81	1981/82	1983/84
	Kg Per Capita			
CONSUMPTION				
Grains	150.5	146.4	162.9	138.8
Food Grain 1/	131.7	124.9	142.5	120.5
Pulses	11.4	11.6	11.9	14.0
Root Crops	73.1	60.2	65.4	61.8
Vegetables	24.1	23.2	23.3	22.6
Fruits	33.3	33.3	31.6	30.8
Total	292.4	274.7	295.1	268.0
NUTRITUTION (Cal/day)				
Grains	1160	1129	1257	1072
Food Grains 1/	1020	966	1101	933
Pulses	105	108	111	130
Root Crops	197	168	176	166
Vegetables	15	14	14	14
Fruits	41	41	39	38
Total	1518	1460	2597	1420

1/ Maize, wheat and rice.

Justification of Fertilizer Program

The acute shortage of foreign exchange and its dampening effect on investment (public and private), cuts in Government employment, slowdown in economic activity and the growing burden of servicing the debt underscore the nation's need for balance of payments support. The stringency in foreign exchange was aggrevated as world market developments restricted export earnings, particularly from tea and coffee. Still the root causes of the persistent problem over time arise mainly from inadequate increases in agricultural production--increases large enough to provide for exports and support a rapidly growing domestic market. Thus, additional supplies of fertilizer and measures to facilitate broader use of fertilizer and other inputs are positive actions to encourage increased agricultural production. Output gains will help to correct developing food shortages in many areas as well as arrest the deterioration underway in the average nutrition level of available to most Kenyans. Moreover, recovery in world markets will improve opportunities for larger export earnings, especially from tea, coffee, fruits and vegetables, pyrethrum and sisal.

ANNEX G
Implementation Schedule

ACTION	DATE	ACTION AGENT
Project Paper Authorized	9/13/84	USAID/Kenya
Project Agreement Signed	9/14/84	USAID & GOK
Fertilizer stock position published	Prior to disbursement and by June 1 of each year thereafter	FC 1/, FAC 2/ and MOA&LD 3/
Donor fertilizer import financing intentions published	Prior to disbursement and by June 1 of each year thereafter	MOFP/External Aid Division 4/
Commercial Import Applications received and reviewed by FC	Prior to disbursement and by July 15 of each year thereafter	Commercial Importers, FC
Import Plan Prepared and published	Prior to disbursement and by July 30 of each year thereafter	FC, FAC
Import allocation communicated to importers/distributors	To be done annually by August 15 each year.	FC
Specific fertilizer import requests communicated to AID and other donors	To be done annually by August 15 each year.	MOFP
Invitation for Bids (IFB) prepared for US financed fertilizer and transmitted to Kenya Embassy, Washington, D.C.	9/30/84	MOFP
IFB issued in United States	10/15/84	Kenya Embassy, SER/COM
Bids received, evaluated, and L/Comm issued	11/15/84	Kenya Embassy, SER/COM
		Kenya Embassy and Freight Agent.

1/ Fertilizer Committee
2/ Fertilizer Advisory Committee
3/ Ministry of Agriculture and Livestock Development
4/ Ministry of Finance and Planning

ACTION	DATE	ACTION AGENT
Fertilizer shipped	12/1/84	Suppliers
Wholesale & retail prices set, offer extended to authorized private distributors	12/1/84	MOA&LD, FAC, MOFP
Offers to buy (with performance bonds) submitted to Fertilizer Committee	12/15/84	Private Distributors
Allocations made and published	12/22/84	Fertilizer Committee (FC)
Sale to distributor when bank guarantee delivered to Fertilizer Committee	12/30/84	Private Distributors, Fertilizer Committee
Fertilizer arrives and is picked up by private sector buyers. Any balance to be off-loaded and stored by clearing agent pending sale to private sector5/	1/7/84	Supplier, private distributors, and forwarding agent
Fertilizer distributed and sold to farmers	1/85-5/85	Private Distributors
Agreement on budget use of 90% of generated shillings6/	2/28/84	MOFP/USAID
KShilling counterpart deposited in special account	4/31/85	Private Distributors and FC
Special Account audited	5/15/85	Program monitoring contractor
Withdrawal from special account to support agreed development budget activities	5/30/85	USAID/CSFC/MOFP/FC
Program Evaluation	7/85	PDS-funded evaluation contractor, USAID, MOALD, MOFP, Private Distributors

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5/ The price of any such "late" sales will include the cost of off-loading and storage.

6/ 10% balance to remain in CSFC to pay future year storage, handling, and to support arrival and end-use accounting costs.

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ANNEX H

Fertilizer Advisory Committee

The Terms of Reference for this committee are:

- development of annual estimates of national fertilizer requirements by types and quantities;

- establishing prices, sales and marketing systems for fertilizer; and

- setting up of a procedure by the Advisory Committee for the purpose of identifying private sector firms and organizations that may be authorized to improt and distribute fertilizer.

Members of the Committee are:

Two officials of the Ministry of Agriculture and Livestock
One official of the Office of the President
One official of the Ministry of Finance and Planning
The Managing Director of KFA
The Director of the Murang'a Cooperative Union
A representative of the Kenya National Farmers Union (KNFU)
A Kenyan businessman

The latter five are representatives of the private sector.

ANNEX I

REPUBLIC OF KENYA

MINISTRY OF FINANCE AND PLANNING

OFFICIAL FILE

Telegraphic Address: FINANCE-NAIROBI
Telephone: 338111
When replying please quote
Ref. No. EA/FA 9/03
and date

THE TREASURY
P.O. Box 30007
NAIROBI
KENYA

19th September 1984

Mr. Charles Gladson,
Director,
USAID,
P. O. Box 30261,
NAIROBI.

RECEIVED
25 SEP 1984

Dear Mr. Gladson, Chuck

As you know, beginning with the USAID financed 1982 Agricultural Sector Grant, the Government of Kenya has taken major steps to effect distribution of donor-financed fertilizer by private sector fertilizer distributors. These steps have included the termination of Government's sole agency agreement with the Kenya Farmers Association (KFA) and sale of 7,000 tons of fertilizer provided under the 1982 agreement to private sector distributors. Although substantial progress has been made, much remains to be done to ensure a fully operational system.

It is Government's intent to pursue vigorously development of a private sector fertilizer distribution system. To this end, the Government of Kenya requests that the United States provide $13 million of program loan assistance for the procurement of fertilizer from the United States.

ACTION COPY

Action taken: ______

No action necessary ______

(Initial) (Date)

Yours sincerely,

Mayaka

(W. P. MAYAKA)
For: PERMANENT SECRETARY

cc: Permanent Secretary,
Ministry of Agriculture
and Livestock Development,
P. O. Box 30028,
NAIROBI. (Att: Mr. R.L. Odupoy)

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UNITED STATES GOVERNMENT

memorandum

DATE: September 12, 1984

REPLY TO ATTN OF: Raymond Rifenburg, Projects Office

SUBJECT: Agricultural Development Program (615-0230) Program Documentation

TO: RLA, Edward Dragon
RFMC, Robert Henrich
AGR, David Lundberg
PROG, Joseph Stepanek

Attached you will find the following documents concerning the authorization and obligation of the subject program:

(1) the authorization package (Action Memo, PAAD facesheet and the PAAD)

(2) the Program Agreement (the Agreement and the Amplified Description)

You are requested to clear the Action Memo and the PAAD in the spaces provided on the documents. Please indicate your clearance of the Program Agreement by signing below. The Controller is also requested to indicate that funds are available for this program.

Clearance			Date
RLA:	EDragon	EAD	Sept. 13, 1984
RFMC:	RHenrich		Sept 13, 1984
AGR:	DLundberg		Sept 13, 1984
PROG:	JStepanek		Sept 13, 1984

FUNDS AVAILABLE
RFMC NAIROBI KENYA
DATE: 9-13-84

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

ACTION MEMORANDUM FOR THE DIRECTOR, USAID/Kenya

FROM: Mr. Raymond Riffenburg, Projects Office

SUBJECT: Agricultural Development Program (615-0230)

DATE: September 13, 1984

Action:

Your approval is requested for a loan of $13 million from the FAA Section 103 appropriation to Kenya for the Agricultural Development Program (No. 615-0230). It is planned that the full amount of the loan will be obligated in FY 1984.

Background:

Since 1980, the U.S. Government has made funding available for the purchase of fertilizer through program assistance activities designed to mitigate Kenya's balance of payments and budgetary problems. In 1980/1, an Economic Support Fund (ESF) Grant (615-0200) of $20 million was provided to finance some 63,000 metric tons of fertilizer imports. These imports were handled by a the Kenya Farmers Association (KFA). The generated local currency of some KShs. 164 million was designated to support priority development activities in the Government budget of 82/83 and 83/84. In 1982, the United States provided a $4.4 million Development Assistance (DA) funded grant for 14,200 metric tons of fertilizer. Proceeds from sale of the fertilizer, totalling some KShs. 64.9 million, are scheduled to support the Kenyan Fiscal Year 1984/85 budget requirements in such areas as rural roads development, agricultural extension and research and soil conservation.

During the implementation of these activities, several key problems have been noted. As a result of its exclusive agreement with the Kenya Government regarding fertilizer imports, the KFA developed a nearly monopolistic position in the industry restricting the play of free market forces in fertilizer importation and distribution. Sale of fertilizer to farmers on credit also created lengthy delays in repayment, defeating the objective of providing rapid support for the Kenya budget from local currency generated by the fertilizer projects. Finally, arbitrary decisions by the GOK on fertilizer ordering occasionally resulted in errors in the types and amounts of fertilizer brought into the country.

Many of these problems were first addressed in the 1982 fertilizer program. In November, 1983, after much negotiation, the GOK dissolved its exclusive agreement with the KFA and a period of transition is now taking place between the KFA near monopoly and more open competition. Of the 14,200 tons purchased under the grants 7,000 tons have been sold to private sector distributors. This action has opened the way for an improved system of fertilizer marketing which will support private sector initiative and ultimately aid the Kenyan farmer in obtaining an essential agricultural input in a timely fashion, in reasonable quantities, at a fair market price.

Discussion:

The proposed project will finance the importation of approximately 50,000 metric tons of diammonium phosphate (DAP) into Kenya over a two year period. The total project cost will be $13 million in Loan designated DA funds. Features of the new project include efforts to: support greater competition in the marketing of fertilizer, improve the fertilizer import planning process, and accelerate the flow of local currency proceeds to priority development projects.

Private competition will be fostered by requiring that all fertilizer provided through the program, as well as other donor projects, be moved through private sector companies on a free market basis. The import planning process will be aided by the establishment of a Fertilizer Committee, under GOK auspices, which will develop, with assistance from the Fertilizer Advisory Committee established in conjunction with the FY 1983 Structural Adjustment Program Grant, a fertilizer import plan on an annual basis and will assist in the development of a fertilizer pricing structure that better serves farmers, distributors and importers. Local currency proceeds will flow more rapidly through the system by requiring that all distributors provide cash payment or a 180 day bank guarantee prior to taking possession of any fertilizer.

(2)

Beneficiaries of these innovative arrangements will ultimately be those Kenyan farmers who will be able to acquire needed fertilizer at a reasonable price so that maximum output and productivity can be achieved. The private commercial sector will also benefit from a more openly competitive environment for this key import.

Conditions Precedent and Covenants to the Agreement

Conditions precedent to disbursement which are considered essential to achievement of project objectives are summarized below:

(1) Establishment of a Fertilizer Committee to implement the private sector fertilizer distribution policy;

(2) publication by the Government of current fertilizer stock levels and donor fertilizer financing intentions as of the date of project obligation;

(3) publication by the Government of an up-to-date compilation of commercial fertilizer import applications received as of the date of the project agreement;

(4) publication by the Fertilizer Committee of a fertilizer import plan specifying types, quantities and timing of fertilizer imports.

Covenants associated with the project cover reform measures in the following areas:

(1) Annual announcement of wholesale and retail fertilizer prices;

(2) annual publication of fertilizer stock levels and donor financing intentions;

(3) annual publication of a list of commercial fertilizer import applications;

(4) annual publication of a fertilizer import plan;

(5) review and revision of the fertilizer pricing structure;

(6) development of a policy on surcharges for fertilizer sold in small quantities (25 Kg. or less);

(7) payment for fertilizer by private distributors in cash or by bank quarantee not to exceed 180 days;

(8) establishment of an interest bearing account at the Cereals and Sugar Finance Corporation for deposit of all local currency proceeds from the project.

(9) evidence that the Government will make available the foreign exchange necessary to implement the annual fertilizer import plan.

Responsible AID Officer:

The officer in USAID/Kenya responsible for the project is John Thomas of the Office of Agriculture. The responsible officer in AID/W is Thomas Lofgren, AFR/PA/EA.

Waivers:

No waivers are included in this program.

Justification to the Congress and OMB:

A Congressional notification was sent to Congress on July 24, 1984. The 15 day waiting period expired on August 8, 1984 without Congressional objection

Authority:

Delegation of Authority No. 140 dated June 9, 1982 provides to Directors of Schedule A posts authority to authorize a project if the project: does not exceed $20 million in LOP funding, does not present significant policy issues, does not require waivers which can only be approved by AA/Africa or the Administrator (if waivers are required, they must be obtained prior to authorization), and does not have a project life in excess of 10 years. The PAIP for the Agricultural Development Loan was approved by the ECPR for the Africa Bureau on July 2, 1984 with the understanding that the PAAD would be approved and authorized in the field (State 208705, which forms attachment A to this memorandum).

Recommendation:

That you authorize the $13 million Agricultural Development Program Loan by approving this memorandum and signing the attached Program Assistance Approval Document.

APPROVED: ______________

DISAPPROVED: ______________

DATE: 9-14-84

Clearance: RLA:EDragon EAD
RFMC:RHenrich
AGR:DLundberg
PROG:JStepanek

Drafted:PRJ:BMacDonald:lh:08/12/84

Attachment A

FB UNCLASSIFIED STATE 208705/01

AID-3 ECON FAS AMB DCM ADM CHRON-9

Project 615-0230

~~CHRON COPY~~

VZCZCNAO023
PP RUEHNR
DE RUEHC #8705/01 1990530
ZNR UUUUU ZZH
P 170424Z JUL 84
FM SECSTATE WASHDC
TO AMEMBASSY NAIROBI PRIORITY 0897
BT
UNCLAS 01 OF 02 STATE 208705

LOC: 304 334
17 JUL 84 0548
CN: 57971
CHRG: AID
DIST: AID

PAAD being Prepared 7-17

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: ECPR GUIDANCE: KENYA AGRICULTURAL LOAN (615-0230)

1. AT THE JULY 2 ECPR, THE PAIP FOR THE AG. LOAN WAS APPROVED WITH THE UNDERSTANDING THAT THE PAAD WOULD BE APPROVED AND AUTHORIZED IN THE FIELD. THE ECPR ALSO MADE SEVERAL DECISIONS REGARDING PAAD DEVELOPMENT. THESE DECISIONS ARE AS FOLLOWS:

A. JUSTIFICATION: AT BOTH THE ISSUES REVIEW AND THE ECPR, IT WAS NOTED THAT DA FUNDS AUTHORIZED UNDER SECTION 103 MUST BE USED PRIMARILY FOR THE (DEVELOPMENT) PURPOSES CONTAINED IN THAT SECTION, NOT PRIMARILY FOR BALANCE OF PAYMENTS SUPPORT. FOR THIS REASON THE ECPR DIRECTS THE MISSION TO BASE THE PAAD JUSTIFICATION ON (1) POLICY REFORM, I.E., IMPLEMENTATION OF AN IMPROVED FERTILIZER DISTRIBUTION SYSTEM, (2) THE IMPACT ON FOOD PRODUCTION, AND (3) THE DEVELOPMENT USES OF THE LOAN GENERATED LOCAL CURRENCY. THE BALANCE OF PAYMENTS EFFECT SHOULD ALSO BE NOTED BUT NOT HIGHLIGHTED.

B. PAAD ANALYSIS: (1) IN SHIFTING THE EMPHASIS FROM BALANCE OF PAYMENTS SUPPORT TO POLICY REFORM AIMED AT IMPROVED FERTILIZER DISTRIBUTION, THE PAAD MUST PRESENT A STRENGTHENED ANALYSIS DEMONSTRATING THAT THE DEFICIENCIES OF THE CURRENT DISTRIBUTION SYSTEM CONSTITUTE MAJOR OBSTACLES TO IMPROVED PERFORMANCE OF THE AGRICULTURAL SECTOR AND THAT THE PROPOSED IMPROVEMENTS IN THE FERTILIZER DISTRIBUTION SYSTEM WILL RESULT IN SIGNIFICANTLY BETTER USE OF FERTILIZER AND BETTER PERFORMANCE OF THE AGRICULTURAL SECTOR. TO BE CONVINCING THE ANALYSIS SHOULD PROVIDE QUANTITATIVE EVIDENCE AND EXAMPLES OF INEFFICIENCIES IN THE PRESENT SYSTEM. RATHER THAN ASSERT, AS THE PAIP DOES, THAT SMALLHOLDERS HAVE TO PAY EXORBITANT PRICES FOR FERTILIZER OF UNRELIABLE QUALITY, THE PAAD SHOULD PROVIDE EXAMPLES AS TO THE ORDER OF MAGNITUDES INVOLVED COMPARED WITH WHAT WOULD BE POSSIBLE UNDER A LIBERALIZED SYSTEM IN WHICH FIRMS WOULD NOT BE DISCOURAGED BY RIGID PRICE CONTROLS FROM REBAGGING AND SELLING IN SMALL QUANTITIES.

DATE REC'D: 7-17	
REPLY DUE: 7-18	
ACTION TO: AGR	
	INFO
DIR	1
D/DIR	
REDSO	
REDSO	
RIG/A	
RIG/II	
RFMC	1
PROG	1
AGR	
HNP	
PRJ	1
EXO	
GSO	
PER	
RF	1
CHRON	1
C&R	
EMB	
	8

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(2) THE ANALYSIS SHOULD ALSO DEAL WITH THE FACT THAT THE SHIFT TO THE SOLE AGENCY RELATIONSHIP WITH THE KENYA FARMERS' ASSOCIATION WAS MADE IN PART TO OVERCOME SEVERE DIFFICULTIES ENCOUNTERED IN 1974-75 PROGRAMS WITH ACCOUNTABILITY WHEN MANY PRIVATE SECTOR FIRMS WERE INVOLVED IN DISTRIBUTING DONOR-SUPPLIED FERTILIZER, AND MUST EXPLAIN HOW THE NEW SYSTEM PROMOTED BY THE PROPOSED AGRICULTURAL DEVELOPMENT LOAN WILL AVOID SUCH DIFFICULTIES.

(3) GIVEN THE IMPORTANCE OF ESTABLISHING THE IMPACT THAT THE PROPOSED PROGRAM WILL HAVE ON THE PERFORMANCE OF THE KENYAN AGRICULTURAL SECTOR, THE PAAD SHOULD LAY OUT A MONITORING AND EVALUATION PLAN THAT FOCUSES ON MEASURING THE MAGNITUDE OF THE EFFICIENCY CHANGES. IDEALLY, THIS WOULD INCLUDE MEASUREMENT OF THE EXPANSION OF VOLUME OF FERTILIZER SOLD IN SMALL BAGS IN REMOTE DISTRICTS, PRICES PAID BY SMALLHOLDERS FOR FERTILIZER SOLD IN SMALL BAGS, THE ASSOCIATED IMPACT OF THIS ON SMALLHOLDERS' OUTPUT AND AGGREGATE OUTPUT OF FOOD AND EXPORT CROPS, AND ON SPEED OF TURNOVER OF LARGER DEALERS' STOCKS OF FERTILIZER.

C. CONTRACTOR MONITORING: THE ECPR FOUND THE SECTION ON CONTRACTOR MONITORING A BIT VAGUE AND REQUESTS A CLEAR DEFINITION IN THE PAAD OF CONTRACTOR AND USAID RESPONSIBILITIES. AS WITH THE ESF FUNDED CIP, THE CONCERN HERE IS THAT THE MISSION SHOULD NOT CONTRACT OUT FUNCTIONS AND RESPONSIBILITIES THAT AREINORMALLY HANDLED BY DIRECT HIRE EMPLOYEES, I.E., FUNCTIONS RELATED TO AID POLICIES, INTERPRETATION OF THOSE POLICIES, AND PRUDENT AID MANAGEMENT OVERSIGHT.

D. LOCAL CURRENCY GENERATIONS: THE PAIP INDICATES THAT LC GENERATIONS WILL BE DEPOSITED IN A SPECIAL ACCOUNT WITH THE CEREALS AND SUGAR FINANCE CORPORATION; THERE IS, HOWEVER, VERY LITTLE DETAIL AS TO HOW THIS ACCOUNT WILL WORK. FOR EXAMPLE: THE FY 84 CIP PAAD HAD NUMEROUS CPS AND COVENANTS RELATED TO THE LC SPECIAL ACCOUNT. WE ASSUME THE AG. LOAN PAAD WILL HAVE SIMILAR DETAILS (CPS, COVENANTS, ETC.) ON THE DEPOSIT AND USES FOR LC.

E. FREIGHT DIFFERENTIAL: AS INDICATED IN THE PAIP, ANNEX H, THE USE OF LOAN FUNDS ON A GRANT BASIS TO COVER THE U.S. SHIPPING COST DIFFERENTIAL IS SUBJECT TO CONSULTATION WITH OMB AND THE HILL. GC/AFR AND PD ARE WORKING TO OBTAIN THESE CLEARANCES AND WILL ADVISE MISSION BY SEPTEL ON THIS MATTER.

2. THE PAIP PROVIDES A CLEAR CUT GENERAL DISCUSSION ON THE POLICY CHANGES THAT WIGL BE SOUG T AS CONDITIONALITY FOR THE AG. LOAN. AID/W IS FULLY SUPPORTIVE OF THE

MISSION'S POSITION ON NEVOTIATIONS AND WOULD LIKE TO CONCUR ON THE TERMS PROPOSED FOR THE LOAN AGREEMENT. FOR THIS REASON THE ECPR REQUESTS THE MISSION CABLE AID/W THE CPS AND COVENANTS THAT WILL BE INCLUDED IN THE PAAD. AID/W WILL CONDUCT A QUICK REVIEW AND PROVIDE THE MISSION WITH COMMENTS ON THE PROPOSED CONDITIONALITY PRIOR TO SIGNING OF THE LOAN AGREEMENT. IN ADDITION, AID/W WOULD APPRECIATE A BRIEF SUMMARY OF HOW THE MISSION
NTENDS TO
APPROACH THE ECPR'S GUIDANCE (PARA 1 A-E) IN THE PAAD.

3. THE BUREAU ENVIRONMENTAL OFFICER HAS APPROVED THE NEGATIVE DETERMINATION RECOMMENDED IN THE PAIP, WITH APPROPRIATE MODIFICATIONS TO THE REFERENCES TO BALANCE OF PAYMENTS SUPPORT AS THE PROJECT'S JUSTIFICATION.

4. PLEASE KEEP US ADVISED OF THE TIMING FOR PAAD COMPLETION, RESULTS OF NEGOTIATIONS, AND ANTICIPATED OBLIGATION DATE. DAM
BT
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