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PD-ABC-660
71079

Kenya P.L. 480 Title III

and

Market Development Program

615-0242/0250

Date: 05-14-91

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Title III Proposal

Summary

A four year program--Kenya Market Development Program (KMDP)--to support market reform in Kenya was approved in May, 1990. This program includes $ 10 million DFA and $ 40 million worth of PL 480 grant commodities (and ocean freight costs). In FY 1990, the proposed program broke new ground in integrating food aid with DFA resources and using food for development in direct support of USAID development strategies. The Conditions Precedent were met and the initial tranche of wheat was called forward in June 1990.

Note: At that time, the appropriate PL 480 modality was Food for Progress. Given the change in PL 480 legislation in the intervening year, beginning in FY 91, the Mission proposes that this PL 480 program be transformed to Title III. End Note.

Planned food assistance through a multi-year, grant-funded PL 480 program--now proposed as Title III--is an integral component of the KMDP program which supports agricultural sector policy reform. In tandem with DFA resources, the Title III mechanism will provide food assistance for policy changes intended to produce a supportive policy climate in which more efficient maize and bean markets will be stimulated in Kenya.

The Mission proposes in Nairobi 11150 (see Annex B) to convert the multi-year Food for Progress (FFPr) program into a multi-year Title III program, beginning in FY 91, the second year of the program. The conditionality and the generation and use of local currency will be identical in the new Title III program to that approved in the FFPr proposal. For these reasons, the Mission believes that no new negotiations will be necessary with the Government of Kenya.

As indicated in the attached Mission Assessment of Performance (Annex C), the first year of implementation of the program has been largely successful. In view of this progress on Conditions Precedent/Performance Indicators and the continuing need for grant commodity, USAID/Kenya recommends that the multi-year food for development program be continued as Title III. The Mission requests that the second tranche of wheat be called forward justified on food need and achievement of performance indicators.

For details of the underlying analysis of the market development program please see program documents, Kenya Market Development Program Assistance Approval Document and Project Paper 4/24/90 (615-0242/0250) as well as unattached annexes as indicated in this document.

The following is a summary of the key components of the approved program.

I. DEVELOPMENT PLANS

A. USAID/Nairobi Development Strategy and Relationship to Title III Program

The goal of KMDP/Title III is to assist Kenya in achieving increased agricultural productivity and increased net farm incomes. This is consistent with and directly related to the overall goal of sustained and broad-based economic growth as stated in the Country Program Strategic Plan (1990). KMDP/Title III is directly supportive of USAID's sub-goal related to the agricultural sector--increasing production, employment, income and foreign exchange--and with the GOK's strategy for the sector as outlined in the Sixth Development Plan (1989-1993).

USAID's strategy emphasizes actions required to address major constraints to significant growth in productivity and farm incomes. A major target of this strategy is to improve the efficiency of agricultural markets and post-farm activities which continue to adversely affect the incentive structure for producers, private traders and processors. KMDP/Title III, with its emphasis on policy reform, investments in inter-market roads and institutional improvements in public policy making and management, will directly address these constraints.

KMDP/Title III is consistent with the Mission's long-term interests in that USAID/Kenya is promoting agricultural marketing rationalization. This process will be key for maximizing the impact that agriculture can have on the overall growth performance of Kenya as well as enhancing the incomes and quality of life of its rural inhabitants. The activities to be undertaken in KMDP/Title III, in coordination with the World Bank's Agricultural Sector Adjustment Operation (ASAO) II and EEC's Cereal Sector Reform Program (CSRP), are only the beginnings of a medium-term process of overall cereal sector reform. And cereal sector reform is itself only the first stage in the process of reforming the overall agricultural marketing system.

While the GOK and the donors are agreed on the general direction of reform, only in the context of implementing the various reform activities to be undertaken in the next several years will specific guidelines for difficult policy issues emerge. For instance, the GOK still tends to see food security issues as being wholly addressed by the public sector. The experience of enhancing the private sector role through KMDP/Title III will, hopefully, broaden their perspective. Only in that context can the question of the appropriate relationship between NCPB and the private sector intermediaries in a food security strategy be addressed.

Similarly, the possibility of utilizing more sophisticated financial instruments, such as futures markets, as part of a food security strategy needs to be examined. USAID intends to continue to be an active collaborator in the process of identifying policy problems and solutions in the broad area of agricultural marketing.

The present USAID portfolio supports initiatives that share similar objectives to those of KMDP/Title III. The Fertilizer Pricing and Marketing Reform Program (FPMRP) is designed to increase fertilizer use by smallholders while strengthening the domestic distribution system. An underlying theme in both KMDP/Title III and FPMRP is to support much broader private sector participation in marketing and trade activities and to improve efficiencies in services provided to the smallholder.

The Agricultural Management Project is strengthening the capacity of private (and public) agribusiness enterprises to serve their clientele, and the Rural Private Enterprise Project has made loans to private rural agribusinesses in Kenya. These market development and agribusiness support efforts represent one set of activities aimed at increasing productivity and income growth in the near-term.

A second major program area involves USAID support to agricultural research and to technology development and transfer to small-to-medium-scale producers.

Thus, KMDP/Title III is a central component of USAID's strategy for increasing agricultural marketing efficiency and promoting improved agribusiness services to smallholders. The Program is directly supportive of the broader USAID and GOK objectives of accelerating agricultural growth in Kenya.

B. GOK Agricultural Market Development Strategy

The GOK 1989-1993 Development Plan makes the following statement regarding agricultural market development:

> To overcome limitations in the present agricultural marketing system, major restructuring involving gradual liberalization will be carried out over the next five years. In this respect, the functions of the NCPB will be limited to the maintenance of the strategic reserve and buyer of last resort, thus leaving over 75% of the market to private traders, millers and cooperative societies. This will be accomplished through the removal of inter-district movement permits and the operation of buying centers. (P. 114) ... with liberalization, current restrictions on inter-district movement of maize and other produce which increase marketing costs and consumer prices will be gradually removed to allow for free movement of produce throughout the country. (P.117)

As the above illustrates, the GOK strategy for agricultural market development calls for precisely what KMDP/Title III program proposes.

II. PROGRAM PROPOSAL

A. Program Goal and Purpose

The Program **goal** is to assist Kenya in achieving increased agricultural productivity and increased net farm incomes. The Program **purpose** is to develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and beans producers.

B. Program Description

In order to achieve the purpose, the four-year program is intended to provide $10 million in DFA Non-Project Sector Assistance Grants, $5 million in DFA technical assistance and $40 million in PL 480 commodities. The program will provide overall support and specific assistance to:

- Eliminate movement of restrictions on selected agricultural commodities;
- Disseminate information concerning market regulations and prices on a regular basis;
- Identify, plan for, finance and undertake investments in road infrastructure and maintenance; and
- Increase the Ministry of Agriculture's and Ministry of Public Work's capacity to analyze design, monitor and implement investment and policy decisions.

The $5 million DFA project funds will finance the technical assistance and training necessary to institutionalize policy analysis capability in relevant GOK agencies.

The $38 million GOK budget support will be used to address infrastructure constraints to market efficiency by financing the rehabilitation and maintenance of approximately 1,500 kilometers (kms) of inter-market roads in the following districts: 1) Kakamega; 2) Kisii; 3) Kitui; 4) Nakuru; 5) Nyeri; 6) Uasin Gishu; and 7) Narok.

The GOK counter-deposit equivalent to the $10 million grant will be programmed in support of the sector program objectives. It is in addition to, and will be programmed for uses separate from, the GOK $38 million-equivalent budget support.

The first year of the PL 480 program (FY 1991) was provided under the authority of the 1985 Farm Bill, Food for Progress. Because the legislation changed in January 1991, the outyears of the program (FY 1991 through FY 1993) will be provided under the new Title III authority.

By 1994, the end of the four year program period, USAID/Kenya expects to see an environment where informal sector maize and bean marketing are no longer constrained by administrative controls on inter or intra-district commodity movements.

Analysis indicates that the elimination of maize and bean controls currently in force will result in an approximate 25-30% reduction in marketing costs. Marketing cost reductions will result in an approximate 7-10% increase in farmgate maize prices. Marketing costs will be further enhanced by a 45-55% reduction in transporter operating costs resulting from rehabilitation of inter-market roads.

To sustain the improvement, the government will increase non-salary recurrent budget support for road maintenance by 10% in each of the four years, beginning with the second disbursement. Finally, the capacity of the government institutions responsible for market information dissemination and analysis will be improved.

C. Program Resources

The proposed Program is a four-year (FY90-93) activity. Subject to the availability of funds, the Program is composed of the following funding sources, amounts and disbursement categories.

Table 1
Illustrative Budget
($000)

Source	Amount	Disbursement
1) PL 480	$40,000	Performance
2) DFA	$10,000	Performance
3) DFA	$ 5,000	TA contract
4) GOK	($38,000)	(equivalent) Kenya shillings for road rehab & maintenance
Total	$93,000	

III. ISSUES AND CONSTRAINTS

A. Macro-Economic Background:

Since gaining independence in 1963, Kenya has been among the best economic performers in sub-Saharan Africa. In the past five years, Kenya's economy has achieved an annual growth rate of close to 5% per year, following a period of sluggish growth in the early eighties. Recent high levels of economic growth have been fueled by: 1) strong agriculture growth made possible by highly favorable weather conditions, increased fertilizer utilization, and policy reforms that have improved farmer incentives; 2) increased imports that have been financed by lower oil prices and increased foreign assistance; increased government spending (nearly 20% average annual increases in the past five years) to "prime the pump" of the economy, also funded by donor assistance; and 3) strong performance in tourism and horticulture. Also significant is the fact that Kenya's population growth rate has begun to slow, decreasing from 4.1% in 1984 to 3.8% in 1989.

As Kenya enters the new decade, however, there are signs that the growth spurt of the late 1980's is weakening while inflation is re-emerging as a major problem. After averaging under 10% for the past five years, the annual inflation rate is now estimated at over 15 %. Export returns from coffee are down and tourism has decreased recently. Beginning in 1988, official grants, loans, and International Monetary Fund (IMF) lending combined to become the largest source of foreign exchange, exceeding coffee, tea and tourism levels combined. But it is uncertain whether the high levels of foreign assistance that Kenya has received over the past few years will be maintained.

The growth and development of the Kenyan economy over the next several decades will depend largely on the agricultural sector. The food and agricultural industry, which includes farming and supporting services and input industries, accounts for approximately 67% of gross domestic product. The sector employs over 70% of the population, contributes approximately 60% of foreign exchange earnings, and provides nearly all the country's food supplies. The average annual growth rate in agricultural GDP for 1963-72 was 4.6%, but declined to 2.8% during 1973-87. With a population growth rate of 3.8%, Kenya's agricultural sector must achieve a sustainable growth rate over 4.0% if Kenya is to achieve its development objectives. This growth must be achieved through increased productivity (i.e., value-added per hectare) due to the limited supply of arable land.

B. The Agricultural Marketing Sub-Sector

The maize production and marketing systems in Kenya are complex. Understanding the potential impact of major system reforms requires a basic analysis of production and marketing patterns across the country. An analysis of the spatial and agro-ecological dimensions of Kenyan maize production and consumption helps both in identifying the varied roles played by the major marketing system actors, and also in understanding how Kenya's potential for internal agricultural trade is severely constrained by current policy, leading to sizeable economic losses. The issues can be grouped as follows:

* The structure, conduct and performance of the "formal" and "informal" parts of the national marketing system;

* The role of the private sector;

* The spatial and temporal dimensions of maize and bean production and marketing; and

* The varied roles played by transport and information in the vertical marketing channels.

1. Specific Characteristics of Formal and Informal Agricultural Marketing in Kenya

It is estimated that between 40 and 50% of annual maize production is marketed and the remainder consumed by the producer. The marketed surplus is handled by two marketing sub-systems, each of which handles about 50% of the total:

* the "formal" or "official" sub-system, dominated by the state agency, the National Cereals and Produce Board (NCPB), and the privately owned but heavily regulated sifted flour mills; and

* the "informal" sub-system (or "parallel market") dominated by smaller scale farm to market or inter-market private trade, supplying maize directly to consumers or to much smaller posho millers, and heavily constrained by GOK rules restricting the free movement of maize and beans.

a. The Formal System

Kenya's official marketing system has a 50 year history of rigid government price and distribution control. The NCPB is the implementation vehicle by which the Government's distributional and price control objectives are pursued. NCPB is unique among cereals boards in African countries in that it controls a significant portion of the annual marketed surplus. The monopoly and monopsony powers of the NCPB that underpin this market share have their foundation in national law. There are several fairly extreme aspects to these laws, including legal provisions which essentially make harvested maize the property of the state. However, these legal foundations for extensive GOK participation as the dominant wholesaler would be totally ineffectual if it were not for two other key supporting policies: movement controls and the cereals pricing policy.

NCPB activities are supposed to assist the GOK in achieving the following policy objectives:

* To ensure the availability of adequate food supplies to meet domestic demand and prevent malnutrition;

* To stabilize maize supplies in both surplus and deficit areas;

* To stabilize incomes through control of producer and consumer prices;

* To provide a secure outlet for smallholder production and prevent possible exploitation of smallholders by private traders;

* To maintain strategic maize reserves; and

* To control grain smuggling to neighboring deficit countries.

Critics of NCPB have pointed out that the board has had limited success in achieving these objectives because the current forms of market controls were designed for different purposes, because specific implementation plans for specific measures have never been formulated, and because there are inherent conflicts between the policy objectives and government responsibility to maintain fiscal restraint. As a result, the movement and price controls on which the official market system is based have resulted in significant efficiency losses and resource misallocations.

Movement controls on agricultural commodities are enforced through the use of movement permits that must accompany any shipment of an "officially scheduled" commodity being moved. The economic and social analyses for the PAAD reached several conclusions regarding the operation of the permit system:

* Obtaining permits can be very time-consuming and costly for private sector traders;

* Obtaining permits to move maize on contract within the "formal channels" (i.e., to the Board, the mills, or from the Board for resale in certain deficit areas) is not particularly difficult. However, obtaining a general permit authorizing market-to-market private wholesale trade is much more difficult and, when accomplished, is often subject to the payment of some type of "rent" or similar, unauthorized transaction cost; and

* Not having a movement permit subjects traders to arrest and seizure of merchandise, and also presents opportunities to collect "rent" at the numerous roadblock control points.

Official prices for maize regulate each phase of the formal marketing system from farm to mill to consumer. Prices apply within one July-June crop year and are largely undifferentiated seasonally or spatially. The policy of fixed prices has resulted in the burden of stock adjustment being placed on NCPB management, with heavy reliance on importing and exporting. Decisions regarding when to import and when to export require efficient and effective NCPB management, and good overall economic management by the critical decision-makers in the central government.

The analysis and the setting of prices are carried our in annual price reviews. In recent years, border prices have been a key determinant of gazetted producer prices; i.e., prices have more clearly reflected import/export parity than was the case in the past. Potential incentives resulting from reasonably high producer prices have been offset by late payments to farmers for commodities that are marketed through parastatals. This situation has resulted in serious liquidity problems, especially for small scale farmers.

While the GOK has consistently increased gazetted prices to more closely reflect production costs and import/export parity, the review process has resulted in an official price structure which does not permit temporal or spacial price variation for most commodities. This policy has had the effect of discouraging private storage and increasing marketing costs. It has also contributed to the misallocation of scarce resources since prices do not reflect local market conditions.

The result of these policies has been a growing loss of GOK budget resources which, as much as anything, has served as a spur to looking at system reform. Indeed, rising NCPB operating losses were estimated (EEC, 1988) at KShs 1.8 billion (about $120 million) in the 1986/87 season, added to the cumulative losses in the previous five years of KShs 3.5 billion (about $240 million). Of this amount, KShs 2.5 billion has been attributed to external trade deficits arising from maize stock management (NCPB, 1989). In summary, critics of the formal maize market believe that the system of controls adversely affects marketing efficiency. The conclusion is that the control legislation has resulted in a market characterized by:

* Low operational efficiency and resulting high per unit marketing costs; and

* Low pricing efficiency as reflected by poor regional and seasonal market integration and instability in market conditions.

b. <u>The Informal System</u>

Kenya's informal maize marketing system thrives in parallel with the formal system. The existence of the NCPB has not guaranteed a secure market outlet to all farmers, especially smallholders and particularly those in many western districts. About 70% of all small scale producers market some maize through the informal system. It is further estimated that between 30 and 50% of smallholder producers do not have access to the NCPB system. NCPB has also failed to provide adequate consumer outlets in many of Kenya's rural areas. Thus, although smallholders do participate in the formal marketing system, the informal system network of local market places and traders remains by far the most important outlet for farmer sales and for rural consumer purchases, particularly later in the crop year.

Informal maize marketing channels handle about 50-60% of maize traded and are directly affected by policies that underpin the formal market. As informal trade has been legally limited to operations within a given district, informal maize marketing takes place intensively within districts but to a lesser extent inter-regionally. The movement of maize in sizeable quantities across district boundaries other than through NCPB channels requires a movement permit, increased transaction cost outlays, or both. The informal marketing system consists of two major types of traders, the smaller-scale market traders and larger-scale wholesalers, including lorry traders. These two categories of intermediaries are distinguished by their size of operation. The smaller market traders generally deal in lots of one to five (90 kg) bags and rely on rented donkey, bus or matatu (minibus) transport. Lorry traders generally own their own transport and trade at the lorry load (or 100 to 120 bags) level.

Previous analysis has shown that the degree of market concentration varies according to point of transaction. Although the informal maize market counteracts movement control impact on free exchange between surplus and deficit areas, the result is spatial price differentiation higher than would prevail in an open market. It is this exaggerated differentiation that provides incentives for small scale trade, with its excessively high per unit transport and handling costs, and the illegal lorry trade, with its excessively high transaction costs.

Although informal systems prices vary among market places, regions and seasons of the year, traders' price knowledge tends to be limited to conditions in local markets in which they operate. Currently there is no official government price information available in a timely manner.

There are few barriers to a trader wishing to join the small-scale trade. More barriers exist for entry into large-scale trade because of movement restrictions and limited access to working capital. A key finding of the economic and social analyses was that, at the wholesale level, the informal marketing system is far from efficient. Operational efficiency is very low as reflected by high costs and lack of economies of scale. Movement controls discourage the use of economic modes of transport and reduce the volumes involved in each transaction. Pricing efficiency is also affected by movement controls resulting in low market integration. These facts are confirmed by very low correlations between maize prices in different markets and by the fact that temporal and inter-regional price differentials greatly exceed storage and transport costs.

c. Conclusion

The stated objectives of movement and price controls are not being achieved. Instead they are creating market inefficiencies which impede the growth of the agricultural sector. The controls have created a market system characterized by unnecessarily high marketing costs, uneven spatial and temporal integration, a high degree of market instability, and potentially increased food insecurity, particularly in the marginal arid and semi-arid areas which do not fully benefit from NCPB inter-regional transfers. The lack of a well-developed marketing system is a disincentive to increased agricultural productivity. Of the various constraints to market development, the economic analysis carried out by USAID demonstrates that poor roads and inappropriate market policies produce the largest single set of constraints to market development. Better inter-market roads would allow faster movement of goods and lower costs for vehicle maintenance. This reduction in marketing costs, in turn, would lead to an increase in farm profits as reduced marketing costs cause a rise in on-farm commodity prices and a fall in on-farm costs of purchased inputs.

2. The Role of the Private Sector in Agricultural Marketing

a. Current Trade Patterns and Market Behavior

Whereas a number of Kenya's principal agricultural commodities are marketed entirely through private channels, (examples include bananas, potatoes, and horticultural crops) private commerce in maize and beans operates in the shadow of the formal NCPB system. Most traders who engage in this business do so without official government sanction, and to a varying extent, in deliberate avoidance of stated policies. Yet they account for roughly half of the total quantity of maize and 90% of the dry beans that are bought and sold each year in Kenya. Much of their activity is concentrated in market channels, especially between regional surplus and deficit areas, that are poorly serviced by the formal system. Key characteristics of the private trade include:

* Spatial price differentials for maize and beans that are much greater than can be explained by normal transport and handling charges alone.

* Seasonal price differentials that far exceed storage costs. The implication is that movement controls serve to constrain arbitrage activity; and

* Institutionalized collection of rents at police roadblocks and in the granting of movement permits. By raising marketing costs, it creates disadvantages for both consumers and producers.

Overall, the performance of informal trade can be characterized as vigorous but inefficient and costly. Official policies with respect to movement controls are interpreted unevenly In this uncertain and unpredictable context, most entrepreneurial energies are directed toward maneuvering around the formal system, rather than toward minimizing handling and transaction costs and maximizing turnover to ensure profitability. Two important consequences of the current regulatory system are:

* The repression of market-to-market wholesaling functions in that the trading environment is characterized by many small-scale traders who are blocked from reaching the critical trading volume that can engender significant economies of scale; and

* Absorption in the trading margin of extra costs associated with inefficient techniques of transport and handling, and with manipulations of the formal system to obtain movement permits, and/or payment of extra transaction costs along the route to the point of sale.

b. <u>The Prospects for Private Sector Expansion</u>

In theory, near-term efficiency gains in private marketing channels for maize and beans should stimulate additional investment and expansion by enterprises at various points in the commodity system, including input suppliers, traders, transporters, and millers. Yet a realistic view of current economic prospects shows several factors that may constrain rural investment in Kenya even if marketing constraints are removed:

* An inconsistent, unpredictable policy environment which tends to make entrepreneurs risk-averse and favors short-term profit maximization;

* Export of capital from rural areas through transfers of deposits (averaging 60-75%) from rural branches to head offices of commercial banks; and

* Disincentives for rural branch banks to extend credit, including low loan authorization limits, limited contact with borrowers due to frequent transfer of branch managers, and a

lack of bankable projects reflecting low purchasing power and insufficient market demand in the rural areas.

Several factors suggest that in the short-term, private traders and firms will be able to exploit those niches that are opened to them as a result of policy reform, by incrementally expanding their present activities. Their involvement in existing informal trade networks, as well as their direct, officially sanctioned transactions with the NCPB system, give cause for optimism.

The private sector already handles all transport functions--both official and unofficial--and the larger mills (licensed by the NCPB to mill 12 million bags a year) have ready access to working capital through bank overdrafts. In addition, agents currently trading for the Board (and also on their own account) have been able to obtain loans for working capital from commercial sources. Excess storage capacity is present at all levels in the system, from large bag and bulk warehouses in urban centers (often rented to the NCPB), to numerous vacant shops in most of the rural market centers surveyed during PAAD design. All of the larger millers who were interviewed expressed interest in building their own storage in the event that they were free to purchase maize from whatever source they chose, and had discretion in the timing and destination of sale.

Longer-term decisions calling for sizeable investment, given the history and context of grain marketing policy in Kenya, will probably be deferred until entrepreneurs are convinced that the direction of future policy has been clearly mapped out, and that sudden reversals (e.g. reinstitution of movement controls) have little chance of occurring. Once such assurances are received, however, it is expected that those firms which are most efficient will expand, enabling a progressive increase in the ability of the private sector to meet the marketing requirements.

3. Production Parameters - Spatial and Temporal Characteristics of Maize and Bean Production and Marketing

A number of characteristics of Kenyan food crop production and marketing help to define the opportunities for economic gain which flow from KMDP's policy agenda. Highlights are given here with substantial supporting detail in Unattached Annex A (Economic Analysis) to the KMDP PAAD.

Kenyan maize production occupies about 1.6 million hectares during two rainy seasons and results in an estimated average annual production of 31 million 90 kg bags of maize grain (or 2.8 million metric tons). A very large portion of the maize is grown with hybrid seed, and mechanical land preparation is used extensively on medium and larger-scale farms.

Maize production in Kenya is characterized by the contiguous existence of small and large-scale farms and production technologies. Small and medium size farms (those under 8 ha) account for at least 75% of Kenya's total annual maize production. Because most small-scale producers are primarily subsistence farmers, a majority of their maize production is for home consumption. Nonetheless, in non-drought years these farmers trade small amounts of maize to satisfy their immediate cash needs.

Rainfall in Kenya comes in two distinct seasons, the long rainy season between February and June and the less reliable short rainy season between September and December. Because of the two seasons, and because at most middle elevations maize can be grown twice a year, maize is harvested almost year round in some parts of Kenya. Maize planted during the long rains accounts for about 70-80% of annual production. Thus, failure of the long rains spells disaster for Kenyan maize production.

The economic significance of this spatial and temporal pattern of maize production lies in its effect on the spatial and temporal concentration of NCPB marketing activities. The larger farms that produce the majority of Kenya's marketable surplus of maize supply 55-60% of total NCPB maize purchases during the October to December period. Reflecting the importance of these purchases, approximately 80% of NCPB facilities are on or near main branches of rail lines servicing large farm areas.

The key pattern demonstrated above is that the higher elevation, larger farm districts (former areas of predominant European settlements) produce most of the marketable maize surplus which makes up a disproportionate percentage of maize purchased by NCPB.

Compared to other countries in Africa, Kenyan maize production and food security have the following unique characteristics:

* Because Kenya's harvest takes place in a wide range of agro-ecological conditions, it occurs over a greater part of the year than cereals harvest in other African countries. This pattern results in relatively greater security from crop failure;

* The geography of the country's maize production and consumption provides ideal conditions for internal trade in agricultural goods based on regional comparative advantage.

* The potential for efficient production and trade that this diversity represents is being hampered by GOK restrictions; and

* Kenya's commercially oriented, larger-scale farm zones provide the potential for significant production and marketing efficiency gains that could flow from a successful market reform program.

4. Transport and Information Infrastructure In Market Development

a. Transport

The transportation system can facilitate the marketing of commodities even though some parts are not operating efficiently. There is ample evidence that Kenya's existing maize and beans road transport system is functioning at high cost and that other components of the transport sector contribute to inefficiencies in the system. Poor road conditions reduce access to markets and slow the movement between markets, thereby raising transport costs. Thus, the ability of transport providers to efficiently serve their marketing function is reduced. Such inefficiencies are further exacerbated by movement controls which hinder efficient transport operations, resulting in added transport costs to producers and consumers.

Liberalized marketing of agricultural commodities is expected to result in more efficient operations in the transport sector. However, these possibilities will be substantially diluted if infrastructure investments are not made a component part of the policy reform effort. Investments in roads that integrate markets must accompany the policy reforms in order to sustain and to garner the full impact of a rationalized agricultural marketing system.

Institutional barriers also impede efficient transport operations. Control of entry into the commercial transport industry can unnecessarily restrict supply and provide opportunities for monopolistic pricing, even in an industry that does not exhibit any natural monopoly characteristics. Entry control does not impede agricultural marketing in Kenya. However, other artificial impediments in the transport industry have arisen. The volume of agricultural commodities that can be transported at any one time is restricted by permits. GOK policy at the beginning of the Program restricted movement of more than ten bags of maize between districts unless authorized by a movement permit. Such a restriction lead to the use of smaller, higher unit cost vehicles which leads to an overall higher marketing cost of cereals.

Current marketing practices in Kenya such as movement restrictions tend to discourage consolidation of cereals shipments. In addition, poor road conditions between production areas and market centers also inhibit the consolidation of maize and beans shipments into full truck loads. These two factors are also reflected in higher marketing costs for maize and beans.

The potential for added storage facilities under a regime of liberalized cereals marketing would be more promising if consolidation could be achieved. The storage function can contribute to price stabilization in open markets as well as long-range security of food supply. Consolidating shipments into economical loads may involve the need for short-term storage while full loads are being assembled. As the demand for storage facilities increases, opportunities for private sector involvement in storage operations may develop.

b. Market Information

Communication systems are good in Kenya, with generally good telephone/telex/fax linkages. There is a relatively strong written and electronic press that has the capability of providing news and information in English, Kiswahili, and the local languages.

In spite of good dissemination capabilities, market information systems currently remain very much in the developmental stage, with most information being passed by word of mouth. The GOK has indicated a strong desire to expand current market price reporting of agricultural commodities and a keen interest in improving its crop forecasting abilities.

The shortcomings of private information networks in Kenya, which do produce very accurate information, include the delay in turnaround time which may become critical in a rapidly changing market, and the lack of integration among markets in close geographical proximity. The fundamental problem with private information networks, however, is precisely that accurate information on real prices, commodity flows, expected harvests, and other market conditions results in significant market power. Given the potential excess profits derived from such information, there are strong pressures to share market intelligence only among trusted members. A critical area of agricultural market development in Kenya, therefore, is the improvement in public information networks capable of reporting both current market prices and information relevant to the determination of future prices in order that all market actors (producers, consumers and traders) may have equal access to information as a means for strengthening competitive markets and ensuring the expected reduced market costs are translated into higher producer prices.

IV. PROGRAM STRATEGY AND RATIONALE

As a result of government policies and the deteriorating state of inter-market roads, Kenya's grain marketing is excessively costly. Unnecessary marketing costs result from inefficiencies in the consolidation and transportation of maize beans and minor grains. Some of these costs result from the impact of poor roads on grain trader vehicle, fuel, spare parts, and time expenditures. Other costs are due to the effect movement controls have on discouraging the exploitation of economies of size and increasing average unit handling costs. By lowering or eliminating these costs, and by reducing the trader uncertainty regarding the impact government policies might have on investment returns, market efficiency will be increased and market entry stimulated. The resulting market competition will help to pass cost savings along to the producers and consumers.

By linking policy changes with investments in transportation and information infrastructure, KMDP fits well with the GOK's development strategy for the current National Development Plan (1989-93). Through policy leverage and dialogue, USAID intends to improve maize, beans, and minor grain marketing by eliminating policies that constrain commodity movement from surplus to deficit areas.

Concurrently, the program will reduce transportation costs by providing inter-market road improvement, and by redirecting government resources toward improving roads carrying significant but overly costly market to market agricultural supply flows. To enhance market transparency, and underpin the private trader confidence essential to increased cereals market investment, KMDP will also assist in the dissemination of market regulation and price information. The identified policy reform, road improvement and information activities have the potential to significantly increase maize and beans market efficiency and overall agricultural sector productivity.

To support and highlight the policy dialogue concerning maize beans movement decontrol, market transparency, and inter-market road improvement, sector grants and food aid assistance will be provided to the government on the basis of performance-based conditionality. To further enhance marketing efficiency, GOK budget support will be used for road rehabilitation and maintenance, as well as to support market information dissemination. Government resources will also support technical assistance and short-term in-country training for the Ministry of Agriculture and Ministry of Public Works. These two institutions will be responsible for (1) planning and implementing components of the policy reform agenda; (2) monitoring and evaluating the impact of reforms; (3) carrying out the physical investments in road infrastructure development; and (4) further defining a long-term agenda.

KMDP/Title III is designed as one component in a multi-donor effort to develop a more efficient maize and beans marketing system, An efficient marketing system will direct marketing and production resources to their most productive uses. It will help the government in ensuring stable maize and beans prices and food security without creating excessive and unnecessary burdens for the national budget. The World Bank, the EEC and USAID have reached a consensus with the GOK on a near-term policy reform agenda for the maize and beans marketing system. The remaining three years of the four-year KMDP will support the implementation of reforms in the informal cereals sector and help the GOK and other donors define a much broader reform program expected to be implemented over the next ten years.

Rationale for Program Assistance

While not all weaknesses in Kenya's agricultural sector can be addressed through market policy reform and road investments, planned policy reforms and targeted road rehabilitation and maintenance investments hold real potential for effecting cereals marketing and production efficiency gains. Effective marketing and road maintenance policy adjustments will contribute to sectoral objectives as well as overall economic growth because of the central role agriculture plays in the Kenyan economy. The GOK recognizes these potential contributions and is committed to implementing a reform program, but focused program resources are needed to stimulate the rate of change as well as to stimulate investments in road maintenance that will enhance and sustain the impact of the policy reforms. USAID program assistance, although relatively small, provides the needed focus on both market policy reform and transport sector improvements, reinforced by its linkage to a valued PL 480 food aid activity. It is further reinforced by its integration with the policy reform resources of the EEC and IBRD.

Program funding at this stage of the reform process is particularly important to support an environment in which private traders assume an active role in the cereals sector as formal and informal market liberalization is accomplished. The ability of the GOK to sustain any cereals sector liberalization will rest upon the response of these private traders. Without KMDP, the EEC and IBRD sector reform approach would be at best only partially successful because those programs address policy and administrative reforms of the formal sector. KMDP takes the reform process one important step further by focussing on the critical requirements for reform in the informal sector.

In general, other donor road assistance focuses on the financing of inter-market road improvement. KMDP policy-based assistance focuses on both financing and policy reforms to improve inter-market supply flows. In addition, KMDP's policy agenda addresses inter-market road maintenance recurrent cost financing policy concerns and seeks to stimulate progress in their resolution.

In summary, KMDP/Title III Program Assistance (Non-project Assistance [NPA]) is needed to support a policy reform process that is critical to ensuring that agricultural market efficiency and productivity gains take place. The Program/NPA impact is heightened by the proposed combination of policy, food, institutional strengthening and road improvement investments, as well as the role the NPA plays in the policy reform process by combining GOK, IBRD, EEC and USAID resources.

District Selection Rationale

Selection of districts to be included in the Program was based on the likelihood that they would contribute to improved market efficiency in the national system. The districts were chosen on the basis of the potential program impact in the following areas: 1) maize and bean production levels; 2) marketing characteristics; 3) geographical locations and resultant trading routes; and 4) representation of both large and small farms. Based on the above criteria, the following seven districts were chosen: Kakamega, Kisii, Kitui, Uasin Gishu, Nakuru, Nyeri, and Narok.

V. Other Donor Assistance

A. Cereals Sector Policy Reform

Kenya is presently paying a high cost for the gross economic inefficiencies resulting from restricted informal sector trade and the substantial budgetary outlays needed to support the National Cereals and Produce Board's operations in the formal sector. The GOK is committed to increasing the role of the private sector in the cereals market while retaining a substantial role for the NCPB in securing the nation's food security needs and stabilizing the movement of both wholesale and retail prices in order to protect the interests of both producers and consumers. The cereals marketing sector presents a complex array of policy issues. In addressing these issues it is important for the GOK and the three major donors involved in the sector--USAID, the EEC, and the World Bank--to pursue a coordinated program of gradual but effective reform.

The GOK and the donors all agree that the goals of cereals sector reform are to maintain and strengthen food security while increasing the efficiency of cereals marketing by improving the signals sent to the various market actors, providing opportunities for the expansion of the private sector, and reestablishing the financial viability and operating efficiency of the NCPB. In this effort, the EEC and the World Bank are concentrating on the formal side of the market, while USAID is focussing on the informal side. KMDP is designed to complement and reinforce the efforts of the EEC and the Bank in assisting the GOK in meeting its reform goals.

In recent years, the EEC has held the leadership role among donors in cereals sector policy through its CSRP. The CSRP was based upon the findings of the 1987 NCPB Reorganization Study which called for financial and managerial restructuring of NCPB, a large reduction in the NCPB field network, a normalization of the financial relations between the Government and the NCPB, and modifying the role of NCPB in the maize market to one of supporting floor and ceiling market prices. The aim was to develop a lower cost marketing system relying more on the private sector within a national food security system for maize regulated by the NCPB.

In support of CSRP, the World Bank funded complementary investments and a series of studies under its ASAO I. While the CSRP was in theory destined to address both the formal and informal sides of the cereals market, its practical focus was on improving the operational efficiency of the NCPB. With varying degrees of success, the CSRP has promoted: 1) a restructuring of NCPB departments and the establishment of more efficient management systems; 2) the financial rehabilitation of the NCPB through a capital financing program that wrote-off the Board's accumulated debts; and 3) a reduction in the number of NCPB buying centers.

Recently, both USAID and the World Bank have moved into a more active role in support of cereals sector reform. Through KMDP, USAID will be addressing problems of improving the efficiency of the informal side of the market. The Bank is in the final stages of designing its Agricultural Sector Assistance Operation II ASAO II, in which it will take a more active role in enhancing the efficiency of formal sector maize marketing by deepening the rehabilitation and restructuring of NCPB. USAID, the World Bank, the EEC and the GOK are closely coordinating their efforts in cereals sector reform. The institutional arrangements in the two different marketing channels dictate a different strategy of reform in each sector. Nonetheless, the broad goals of each of the donors, and of the GOK, are the same.

The purpose of ASAO II is to create the conditions whereby an efficient NCPB will fulfill a price stabilization and strategic reserve maintenance role without exercising monopsonistic powers or running up large operating deficits. Enhanced operational efficiency will lessen the gap between in-depot and ex-depot prices which will lead to a reduction in consumer prices for sifted maize meal. In addition, the more confidently NCPB is able to predict future cereals sector supply and demand relationships, the more rapidly rational decisions to import or export maize can be implemented and the lower the required strategic stocks and budgetary costs will be. The eventual goal will be for the Government to set the ex-mill wholesale and retail maximum price to protect consumer interests but to allow market forces to operate below that maximum.* This will lead to a gradual merging of the formal and informal marketing channels, especially if the GOK view of the optimum reserve stock size decreases as a result of its increased confidence in crop forecasting.

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* USAID does not embrace this objective. During KMDP implementation, analysis and dialogue with the IBRD and GOK will focus on developing an effective maize flour pricing policy.

KMDP is related to, but significantly different from, the IBRD and EEC programs. The overall cereals sector reform program involves both improving the efficiency of the NCPB and increasing the role of the private sector. The IBRD and EEC efforts focus on problems in the formal side of the market: how to make NCPB a more efficient organization, less of a drain on government revenues and more capable of fulfilling its food security role. KMDP focuses on efforts to rationalize the private sector's role in informal cereal marketing, where the cost effects of outdated regulations are most visible and easy to remedy. KMDP will not directly affect NCPB or substantially shift the balance between the volume of maize handled by the two marketing channels. But it will provide the market knowledge and confidence necessary for increased private trader investment in the informal grain marketing and processing subsector. In the longer-term, as NCPB gradually reduces its role and GOK confidence in the private sector increases as a result of monitoring informal sector performance, the results of KMDP will be that private traders will be able to assume a larger and larger role in Kenya's entire grain market.

One lesson of the CSRP has been that, given the important food security role of the NCPB, formal sector market liberalization can only be confidently undertaken in the context of improved operational efficiency in NCPB. Similarly, the GOK's willingness to remove controls on the inter-district movement of maize--the key policy reform in KMDP--can only be undertaken if it does not threaten the viability of NCPB or increase the financial burden placed upon the Government. The overriding concern here is NCPB's ability to maintain sufficient wholesale market share in its position as primary supplier to the large-scale millers. The Board's ability to liquidate stocks through sales to the millers underpins its ability to turn over the strategic reserve stock supplies and thus maintain grain quality. A too rapid opening up of the formal market channel to the private sector, before NCPB regains efficiency, would lead to a substantial loss of market share unless additional government subsidies were provided to the Board to allow it to compete on prices. Similarly, ending movement controls in the context of formal sector market liberalization would further endanger NCPB viability by providing incentives for informal sector traders, who now sell to small mills and posho millers, to shift their sales to the larger mills.

In response to these difficulties, USAID and the World Bank have agreed on a system of mill delivery monitoring and financial incentives (fines) that will encourage the large mills to continue to rely on NCPB for the vast majority (80% in 1989/90; decreasing over time) of their supplies. These controls will protect the viability of the Board during the process of restructuring and will allow the gradual elimination of movement controls, culminating in the complete removal of controls for the 1992-93 market year. By protecting the access of NCPB to the large-scale millers, movement decontrol no longer threatens the legitimate interests of NCPB.

The timetable for the gradual ending of movement controls is set out both in the ASAO II Program and in KMDP. Thus, while the World Bank/EEC Program and KMDP address different parts of the cereals market, they complement and support one another and respond to the overall need for cereal sector marketing reform.

B. Transport Sector

In the past fifteen years, the GOK has undertaken three large donor-funded projects to construct, rehabilitate and maintain the non-paved road network. The three projects are the Rural Access Roads Project (RARP), the Minor Roads Project (MRP) and the Graveling, Bridging and Culverting Project (GBCP). In addition, donor assistance has been vital to the rehabilitation and maintenance of the international and trunk road network.

The RARP was started in 1974 as a multi-donor effort to construct 14,000 kms of unclassified rural access roads in 26 districts. After construction of 8,500 kms of roads, the project has almost been phased out due to concerns about the GOK's ability to cover the recurrent cost of maintaining additions to the network. There was also concern that the impact of the road construction was diminished by the poor quality of the classified network, particularly the Class E roads. Only one donor, the Canadian International Development Agency (CIDA), is still involved in the RARP.

The MRP, started in 1987, is the successor to the RARP. The MRP is a five-year, multi-donor commitment. The project is funded by seven donors: CIDA; the Swedish International Development Agency (SIDA); the Danish International Development Agency (DANIDA); the Norwegian Development Agency (NORAD); the Governments of the Netherlands and Switzerland; and the International Labor Organization (ILO). The donors, most of whom were involved in RARP, are funding the rehabilitation of 30 kms per year of Class E and D roads in 23 districts over five years. The rehabilitation activities raise the quality of each road to a gravel standard.

In addition to funding rehabilitation, donors provide 40-90% of the funds needed for routine and periodic maintenance of the roads they improve. The Swiss Government has been funding the development of a training facility for labor-based methods of road maintenance and rehabilitation. The Swiss have been asked by the GOK to expand the training program and to fund studies of mixed technology methods of maintenance for roads with higher traffic volumes.

Six donors are involved in the rehabilitation and upgrading of the trunk road network. The EEC is funding work on three sections of the Northern Corridor (part of the Pan-African Highway), portions of the Trans East African Highway (Gaborone to Cairo), a series of roads along the Tanzanian border and feasibility studies for two other roads. The Japanese are funding the construction and rehabilitation of two trunk roads to open up access to the North Eastern Province capital of Garissa. The British Overseas Development Agency (ODA) has reduced its support for trunk roads but is planning a new project to upgrade the roads between Molo and Litein in the Rift Valley and is considering a request from the GOK to rehabilitate tea access roads. The German Government, the African Development Bank and the World Bank are also involved in large projects to rehabilitate or upgrade segments of the trunk road network.

Donors are giving increasing attention to maintenance of the network. Enforcement of axle load limits, which was reintroduced in August 1989, and increased efficiency of the Road Maintenance Branch of the Ministry of Public Works (MOPW) have been high on the policy agenda for various donors. Evidence to date indicates that enforcement of the load limits has successfully reduced the number of overweight vehicles on the roads. The recent installation of the World Bank's Highway Maintenance Model is improving the MOPW's ability to plan and track the cost of road maintenance. The Japanese are funding studies and technical assistance on equipment maintenance and will be providing road graders, inspection vehicles and tanker trucks. The Finnish Government plans to conduct a feasibility study on the use of oil refinery waste products for sealing minor and secondary road surfaces.

VI PROGRAM POLICY CONDITIONALITY

A. Program Conditionality and Negotiating Status

The principal policy issues and proposed reform measures outlined in this document have been discussed and reviewed at the Permanent Secretary level in the Ministries of Finance, Agriculture, and Public Works. The analysis on which the policy agenda is based was directed by the Minister of Planning and National Development Sectoral Planning Division whose chief was the chairperson of the original KMDP Development Committee. This committee was composed of technical representatives from the Ministries of Agriculture, Planning and National Development (MPND), Public Works, Supplies and Marketing, and the National Cereals and Produce Board. The MPND representative also chaired the committee's review of the analyses, findings and recommendations. Within these fora, GOK representatives agreed with the goals outlined in the reform agenda, although questions remain as to the timing and specific indicators. Finally, the market structure policy reforms are in complete accordance with the GOK Five Year Development Plan and Sessional Paper No.1 1986.

The following is the substance of the non-routine conditions upon satisfaction of which disbursements will be made. It is anticipated that during the course of negotiations there may be non-substantive refinements in the language of the conditionality and the covenants. As specifically noted, for each condition presented, the condition may apply to the project and/or the program and/or the PL 480 assistance. The language of the conditionality will be designed to reflect the mode of assistance against which it is written. The underlying principle has been to link policy-based program and PL 480 conditionality. Yearly implementation plans for the institutions involved in carrying out and analyzing the impact of the policy reforms will help to adjust and refine the reform agenda. Likewise, the variability of agro-ecological conditions within Kenya, fluctuating international agricultural commodity markets, the impact of the cereals sector has on GOK budget deficits, and the important role that agriculture plays in the Kenyan economy also demand the flexibility that has been designed into the conditionality.

The Program purpose will be achieved through conditionality (with supporting covenants) focused on three basic policy changes:

(1) the removal of movement controls on maize and beans and broad public dissemination of this information;

(2) regular public announcements of market price information via the print and broadcast media;

(3) a 10% annual increase in the non-personnel portion of the operations and maintenance budget of the Ministry of Public Works/Roads Maintenance Branch.

1. Movement Restrictions on Maize, Beans, Maize Products, Sorghum and Millet Eliminated

The elimination of administrative limitations on the movement of maize, beans, maize products and minor grains in the informal sector forms the core of KMDP's policy agenda. Commodity movement decontrol has two aspects: 1) removing the commodity from the list of "scheduled" commodities under the National Cereals and Produce Board's mandate; and 2) eliminating inter and intra-district "movement controls" affecting that commodity. A phased approach to informal sector movement decontrol allows room for decision maker and private trader learning of market signals. Public decision maker understanding of these signals will underpin future and consistent market liberalization decisions. Private trader learning will underpin investment decisions important to the success of liberalization.

The Government will announce the descheduling and movement decontrol of beans, millet and sorghum by April, 1991. [Note. During negotiations for ASAO II, the World Bank agreed to a bean decontrol date of the end of CY 1991, eight months later than called for under KMDP. The Mission has informed the GOK that release of the next sector grant will be delayed until the decontrol conditionality is met. At this time the GOK has not achieved consensus on which date they will chose. End Note.] The announcement regarding the other commodities will be undertaken as part of the market information activities described above. By April 1992, the Government will announce the elimination of movement controls on maize and maize products.

a. <u>Bean, Sorghum, and Millet Movement Decontrol</u>

The NCPB markets relatively insignificant quantities of beans, sorghum and millet. In the case of beans it is estimated that NCPB markets only 10% of total marketings. Nonetheless, as beans are one of several minor crops under NCPB's schedule, bean traders incur transaction costs either in acquiring movement permits or in avoiding administrative control points.

To eliminate unnecessary bean, sorghum, and millet marketing transaction costs and to allow minor grain traders to exploit economies of scale in transport and handling, the Government will decontrol the movement of these commodities. This will entail amending the relevant legislation; eliminating these commodities from NCPB schedules; and announcing the new regulations to market actors, producers and district administrators. Decontrol will in no way limit NCPB's authority to purchase bean, millet and sorghum stocks. However, the substantial informal sector bean and minor grain marketing will no longer be illegal and subject to administrative control.

Program-assisted data gathering and analysis units in the Ministry of Agriculture will monitor the impact of bean, millet and sorghum decontrol on commodity movements, load sizes, transport distances, and farmgate prices. Working papers will be published that assess the efficiency and welfare implications of decontrol as well as identify areas for additional policy intervention or analysis. These working papers will constitute the basis for dialogue concerning further decontrol of the cereals sector.

b. <u>Maize Decontrol</u>

To gain the complete range of efficiency increases envisaged under KMDP, the GOK will eliminate restrictions on the inter- and intra-district movement of maize. This will primarily affect traders and producers active in the informal market where an estimated 50% of total maize marketings take place. Movement decontrol will mean that traders will no longer need movement permits to market maize and that moving maize without such a permit will not subject the trader or transporter to administrative sanctions. Movement decontrol will not affect the NCPB's authority to purchase maize. Decontrolling maize movement will entail the amendment of existing legislation and the announcement of new regulations. The MOA's Market Information System will be responsible for announcing maize movement decontrol.

The Ministry of Agriculture will establish the Applied Research Monitoring and Evaluation System (ARMES is described in Section IV.F). ARMES will combine the Farm Management Division (FMD) data collection and compilation activities with the Development Planning Division's (DPD) policy analysis and planning activities. These MOA data gathering and analysis units will have established the necessary baseline data and monitoring structures to assess the impact of decontrol on commodity flows between surplus and deficit areas, load sizes and transport distances, marketing and trader margins, market entry, district level compliance, and impact on farmgate prices. Within three months after decontrol, ARMES will publish a working paper with some preliminary indications of movement decontrol impact. This paper will provide the basis for further dialogue concerning additional interventions or policy changes.

2. <u>Campaigns to Announce Commodity Prices and Regulations Affecting Commodity Movement Implemented</u>

To increase producer and trader understanding of administrative and economic parameters affecting their production and marketing decisions, the Government will announce commodity movement and marketing regulations and commodity price information on a regular and timely basis. It is assumed that greater government commitment to market transparency, as evidenced by dissemination of regular and timely market information, will underpin increased private trader confidence in the predictability of conditions affecting returns to marketing investments.

a. <u>Commodity Prices</u>

To enhance market transparency resulting from the announcement of existing regulations, the MOA will resume dissemination of commodity market price information. Based on experience gained, the MOA's Farm Management Division (FMD) will develop extension messages letting farmers know how they can use price information in their production decisions. The MOA will also begin developing the necessary budget structures to establish FMD's Market Information System as on integral part of their market support program.

b. <u>Movement Controls</u>

Information on existing regulations affecting inter-district and intra-district maize and beans movement will be widely disseminated in order that informal market actors and district administrators more fully understand what activities are legal. At present, regulations allow the inter and intra-district transport of ten bags of maize without requiring a movement permit. This regulation is enforced with great variability across districts. In some districts ten bags can be moved without a permit while in others the movement of only two bags is allowed. The Ministry of Agriculture will compile written descriptions of all laws affecting the movement of maize and beans. Based on this information, and in accordance with maize and bean marketing calendars, a schedule of public media announcements and extension messages will be established and implemented. A follow-up letter from the Ministry of Planning and National Development (MPND) will be addressed to all district level authorities to ensure compliance. MOA extension agents and marketing officers will monitor district level administrative compliance and how effectively information is reaching traders and producers. In addition, MOA activities under ARMES will assess the impact of this information on maize and bean supply flows within and across KMDP districts as well as the impact on farmgate prices.

3. <u>Road Conditions Improved and Maize and Bean Transportation Costs Reduced</u>

The elimination of movement controls and the dissemination of market information will have a greater economic impact if transport costs are concurrently reduced. At present, the deteriorating state of inter-market roads increases transport costs significantly. Inter-market roads (classified as C and D roads under the Ministry of Public Works road classification system) are those roads that link production areas and smaller marketplaces with trunk roads and larger marketplaces. KMDP will rehabilitate and maintain 1,500 kms of these roads beginning in the second program year. As a result, maize and bean trader operating costs will be reduced by between 45% and 55% on rehabilitated and maintained roads.

The Ministry of Public Works will monitor the impact of road rehabilitation and maintenance. Impact monitoring will be based on data indicating traffic volumes; types of vehicles; distances traveled; types and volumes of commodities transported; and fuel, spare, tire and lubricant costs. For each set of roads to be rehabilitated, a baseline survey will be conducted prior to the commencement of rehabilitation activities.

4. <u>Ministry of Public Works Capacity to Maintain Inter-Market Roads Increased</u>

If long-term road maintenance is assured, road improvements can have maximum economic impact. At present, the Ministry of Public Works' non-paved road maintenance resources decline annually as personnel costs absorb increasing proportions of the MOPW's total budget. Under KMDP the GOK will undertake a study to determine how best to increase road maintenance financing. Possible sources of funding include user fees licenses, and fuel taxes The MOPW may also increase road maintenance funding by realigning recurrent budget expenditures in favor of road maintenance. Whatever the source of funding, the GOK is required by the conditions precedent to disbursement to increase recurrent budget support for non-personnel expenditures in the MOPW's Roads Maintenance Branch by no less than 10% in "real terms" each year for four years beginning in 1990/91. The GOK also covenants to seek to institutionalize a level of budget allocation for road maintenance commensurate with requirements to maintain efficient inter-market transportation of agricultural commodities. Progress in this effort will be tracked by annual consultations with and reports from the Ministry of Public Works.

5. Government Policy Analysis, Policy Implementation Investment Planning and Market Information Dissemination Capacity Improved

Through the training and technical assistance provided by the Program, the capacity of the Ministry of Agriculture's Farm Management and Development Planning Divisions will be improved. These divisions will demonstrate improved organizational ability to collect and compile data, conduct policy analysis, monitor and evaluate the impact of reforms, and identify policy revisions or new areas for reform. In this way, the Government's data gathering and analysis capacity will be upgraded in a cost-effective and sustainable manner.

The key assumptions linking the outputs and purpose are that:
1) the Government has the will to implement the information campaign and ensure district administrative compliance;
2) the Government will develop confidence in its ability to manage drought after maize market liberalization and will not reinstate movement controls once eliminated;
3) the Ministry of Public Works and the District Development Committees will use the agreed upon criteria in selecting roads for rehabilitation;
4) adequate fuel, equipment, road material and counterpart funds will be available to support the planned roadwork;
5) increasing resources for road maintenance will not run counter to future World Bank and IMF budget rationalization programs;
6) the Ministry of Agriculture will be able to retain competent staff and appropriate technical assistance can be obtained;
7) the Government will base policy decisions on supporting analyses; and
8) drought will not overly disrupt implementation of the research and monitoring plan.

VII. Institutional Analysis

The principal institutions involved in the implementation of KMDP will be the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Public Works. The Ministry of Finance will serve as the program coordinator and will chair the inter-ministerial KMDP policy committee. The Management Information System (MIS) sub-component will be located in the Ministry of Agriculture, Farm Management Division. The Ministry of Public Works will implement the Roads Improvement Component.

A. Office of the Vice President and Ministry of Finance (OVP&MOF)

The Office of the Vice-President and Ministry of Finance is well-suited to serve as the coordinating ministry in the GOK for KMDP. The OVP and MOF has the requisite stature to guide high level decision making in achievement of the policy changes which are planned. The Ministry is clearly in the best position to influence budget decisions that will be critical to implementation and achievement of policy objectives. The Ministry is already the coordinating body for the World Bank's ASAO II, the EEC's CRSP and the GOK-USAID PL 480 Steering Committee.

The GOK coordinator for KMDP will be an Under-Secretary in the MOF. USAID/Kenya has had extensive contact with the individual proposed in his capacity as the Mission's principal contact in the GOK and as the chairman of the PL 480 Steering Committee.

The OVP and MOF has sufficient capacity and expertise to fulfill its role in the KMDP. Therefore, no KMDP resources are planned for this institution.

B. Ministry of Agriculture (MOA)

The Ministry of Agriculture has the mandate for development and management of the Kenyan agricultural sector. The Ministry's span of control has diminished over the years as some functions have been transferred to new ministries. Nonetheless, the MOA remains the dominant ministry in the management of the agricultural sector.

The MOA has considerable capability and experience in policy development and implementation of programs. Its organization and operations span the full range of technical and professional activities necessary for the effective management of the sector.

1. The Development Planning Division (DPD)

The DPD is divided into four sections: Commodity analysis, inputs, project preparation and strategy. This is the unit explicitly mandated to undertake strategic and policy analysis in the agricultural sector. It is well-positioned present policy issues to Senior decision-makers, as will as to obtain data and information form the technical divisions in the MOA. With strong formal and informal linkages with other GOK institutions in policy development, the DPD has the respect of these other institutions. This division will be enhanced under the proposed World Bank Monitoring and Evaluation Project.

However, the technical capacity of DPD is not currently sufficient to undertake the analysis required under KMDP. There is a shortage of adequately trained personnel and a lack of reliable data bases to support comprehensive and timely analysis. Therefore, assistance will be provided to DPD under KMDP to increase the division's access and capacity to analyze high quality farm-level data. Short-term advisors and commodities will be provided as needed to increase the capacity. KMDP will also provide short-term training to increase the analytical and planning capacity of the staff.

2. The Farm Management Division (FMD)

The FMD will be responsible for implementation of the Market Information System. Two FMD initiatives are of particular importance to its role in KMDP, i.e., the development of its data bases and its market information system.

The FMD data bases are the most expansive and organized in Kenya. Under KMDP, these data will be verified and updated and a data base system for strategic planning and policy making will be institutionalized. A long-term advisor will be provided to assist with this work and to assist in the development of a system to monitor factors that influence farmgate prices.

A well-functioning MIS has been and remains an important goal for FMD. Data on rural market prices are gathered and compiled into monthly reports. However, the FMD's organizational capacity and recurrent resources are inadequate to systematically manage and process the data collected.

KMDP will assist FMD upgrade its ability to collect, process and manage market price information. The program will provide a long-term advisor in market information systems development, short-term training, commodities and local currency funds for operating expenses.

C. Ministry of Public Works: Road Maintenance Branch

The Ministry of Public Works has the responsibility for development, maintenance and improvement of the country's road network. This Ministry will be responsible for implementation of the road component of the KMDP.

The KMDP will not be implemented by the Special Projects Branch, which is customary, but instead by the Maintenance Branch which is country-wide in scope and has excess capacity which can be utilized by the program. Also the Engineers under this branch are better trained and placed than those in Special Projects. In addition, Maintenance has considerable experience in employment of private contractors. The introduction of the "Road Toll Fund" and the use of private road contractors have provided Maintenance with full and sustainable capacity to maintain the country's trunk roads.

However, the branch remains operationally weak in the routine maintenance of gravel roads. The main constraints are the lack of funds to purchase, maintain and operate equipment, and weak management in the maintenance camps. The branch is taking steps to relieve these constraints.

The funds from KMDP will help the Ministry clear some of the backlog of non-paved roads requiring rehabilitation. KMDP emphasis on the use of private contractors will reduce the Ministry's dependence on donor assistance for procurement and maintenance of equipment.

Through policy conditionality as well as covenants, as well as the GOK local currency contribution, the Program will increase the level of resources available to the Ministry for routine and periodic maintenance. Short-term technical assistance will be provided to address issues related to increasing the Branch's efficiency, with specific focus on the constraints to appropriate budgetary allocations for maintenance.

VIII. Program Monitoring and Evaluation (M&E) Plan

The M&E plan is driven by the need to define the performance and impact of KMDP during the initial four years of implementation. The plan lays out specific indicators of performance at all stages of the Program. It includes a methodology and time frame for obtaining the different types of information required for evaluating performance and impact. Several agencies will be involved in collecting and evaluating the information. This mainly involves GOK institutions which deal with agricultural, transportation and marketing data. Universities will undertake related economic analyses. USAID program staff, local contractors and external evaluation teams will also be involved. By developing a system of verifiable indicators, program management will be able to evaluate success at each level of KMDP implementation. The assumptions concerning those factors necessary for success, but beyond program management control, are included in the logical framework. Once KMDP begins, these assumptions will be monitored regularly to assess their continuing validity.

a. Input Indicators

Program inputs comprise the resources used and activities undertaken under KMDP and Title III. Continuous monitoring of selected input indicators will tell us whether and how efficiently the program inputs are being delivered.

Input indicators will include the following:

- Amount of dollars disbursed to GOK;
- Amount of GOK funds committed and used for agreed upon activities;
- Tons and value of Title III commodities supplied;
- Number and level of technical assistants hired;
- Value and type of equipment and machines delivered;
- Additional policy and institutional reforms defined;
- Number and level of Kenyan staff trained;
- Monitoring and Evaluation System developed.

b. Output Indicators

Program outputs are the policy and physical changes that are produced as a result of the program.

Output indicators will include the following:

- Elimination of movement restrictions on maize beans, sorghum and millet;
- Written descriptions, campaigns and public announcements of specific laws, regulations and policies affecting maize and bean trade;
- Evidence of announcements concerning market prices;
- A road improvement plan that is based on economic criteria for selection;
- A study of the means to increase road maintenance;
- A plan for increased reliance on private sector contractors in road maintenance;
- Increased GOK non-salary recurrent budget for road maintenance;
- Kms of rehabilitated roads.
- Improved capacity for government policy analysis, policy implementation and investment planning;
- Improved capacity for market information collection and dissemination.

IX. BENFICIARY IMPACT

KMDP economic analysis shows that the net benefits from the proposed marketing policy reforms and from the inter-market roads program amounts to $73.3 million at the end of ten years. The road improvement program will result in immediate benefits as producers and consumers gain better access to markets, and traders experience less transport costs. The most important benefit stream, both in terms of policy reform and in terms of size of annual benefits to the Kenyan economy is that associated with the elimination of movement controls for maize. This summary points out the expected impact of reform on beneficiaries and losers among the Kenyan maize producers, traders, millers, and consumers, and the potential effect of resultant changes on agricultural productivity.

The broad categories of beneficiary groups include producers, traders, millers and consumers of maize and beans. In general, farmers producing on 8-20 hectares (ha) of land, traders who trade in eight ton or greater lots, small millers (posho), and low-income urban consumers are expected to receive the most significant benefits as a result of KMDP-sponsored reforms. Those who are less disadvantaged under the current system (viz., very small farmers in high potential agricultural areas, farmers producing on more than 20 ha in all areas, large millers and high-income urban consumers) will receive fewer benefits under KMDP. A detailed analysis of each group, including relative magnitudes and sources of benefits, can be found in KMDP PAAD Unattached Annex A - Economic Analysis and Unattached Annex B - Social Soundness Analysis, and is summarized in Section V. C. of the PAAD, Beneficiary Impact Analysis of Program document.

A. Beneficiaries

Elimination of movement controls will result in significant gains in income for those medium scale (8-20 ha) farmers who concentrate on maize production. These farmers have a sizeable market surplus. Smallholders in grain producing areas will experience relatively modest gains in income because, typically, they sell small amounts as soon after the harvest when prices are low. In a free market, however, this category of farmers, because they are less prone to drought, would get higher incomes during deficit years as prices rise due to scarcity in other areas. In good years large scale farmers will get higher prices created by competition, but even larger financial benefits would accrue in deficit years as they market large quantities to drought affected areas.

Among the traders, large scale wholesalers would see a big improvement in business. Lifting of movement controls would make their operations more profitable and allow expanded wholesaling operations with greater efficiencies. These large benefits would attract new entrants causing effective competition and higher producer prices. Major marketing cost savings will be a result of this improvement in operational efficiency which is currently impeded by trade restrictions.

Analysis based on field data describes marketing savings of approximately KShs 65 a bag of maize as it moves form the farmgate or first handler level to the mills, wholesalers, or retailers. Under reform, small-scale traders using donkeys and moving small loads on matatus will retain their niches as strictly local retailers and first handler assemblers.

The posho milling industry would continue to grow in both urban and rural areas, with areas currently experiencing grain shortage due to seasonal deficits seeing the highest growth. Posho millers would save costs currently incurred due to maize movement restrictions and would have no difficulties in obtaining grain to deal with the unmet posho demand, especially in the large urban centers.

Maize consumers in all income groups would benefit under reform. The biggest impact would be on consumers in seasonal deficit areas such as the Lake Basin, Central and Eastern provinces, and urban consumers in the low-income category. Price distortions due to restrictions on trade cause unfavorable seasonal price swings in seasonal deficit regions. This situation would change as supplies move more freely, and hungry season maize and bean prices fall. Low income consumers who spent approximately 40% of food expenditure on maize would be better off as grain and posho flour become available for purchase. Normally, this group prefers unsifted posho which costs KShs 4.20 per kg. as opposed to KShs 5.60 per kg. for sifted flour, a 30% difference. Apart from access, this group would actually reduce expenditure on food by an estimated 13% by eating more of the preferred cheaper posho flour. Consumers in chronic deficit areas like Kitui and Marsabit would see a smaller impact as NCPB is likely to remain the main supplier. NCPB has a well-developed supply network following recent food security concerns over these areas. At the same time, these areas are not currently served by competitive private trader.

B. LOSERS

With reform, medium to small-scale wholesalers are likely to be squeezed out unless they shift to more cost-effective means of transport. Currently, they move small loads on matatus or on top of buses packed in less than one bag loads to escape institutional transaction costs and the police, and do not make much money on their operations. A day's turnover is about one 90 kg bag, making about KSh 0.30-0.50 per kg and, therefore, approximately KShs 27.00-45.00 per day. Permitting large trading volumes and lorry load shipments of 8 tons and over would mean that some small scale and medium scale traders would be out of business. A few large milling companies represent the second group that would see reduced advantages in a less protected situation where they would need to compete for their supply with private traders and the smaller posho millers.

C. Long-run Impact

The longer-run effect of undertaking the reforms on the growth of agricultural productivity will more than off-set the short run losses. First, under freer marketing, small-scale maize producers can be assured of marketing their surplus produce. Consumers of maize, the country's food staple, can be assured of supply. Given more confidence in the ability to buy and sell, many subsistence farmers will be willing to shift to commercial production, producing more maize because they can sell it and improve their income level--a supply response to availability of effective maize market and higher prices from trader competition.

Second, as subsistence maize producers become more commercialized and see a reliable supply of maize during drought and off-season periods, they will shift to higher value enterprises to earn higher incomes. They will increasingly depend on purchased maize for their food. This is a slow and continuous process of change that is already evident in some parts of Kenya. These shifts will force people to consider comparative advantage positions in choosing new enterprises. Under such circumstances, farmers will earn higher incomes making agriculture a more attractive industry and a major source of growth. With agriculture becoming a more profitable enterprise, there will be less need for farmers to be partly engaged in inefficient low paying small scale maize trade. At that point, the group that is initially displaced by more efficient traders may choose to concentrate on farming.

At the same time, increase in commercial agriculture will create more trading activities at local levels and create employment for extra first handlers, who can assemble, produce and make more than the KShs 27.00-45.00 that this group makes today. There is existing evidence that indicates that the unprotected large scale farmers and millers have the ingenuity and the resources required to adjust and reap benefits from a growing economy.

X. Local Currency and GOK Budget Support

The Food for Progress legislation under which this multi-year program was authorized and approved, explicitly excluded local currency generation. Consequently, under the program and program agreement, there have been no local currency deposits. The commodity has been, and continues to be, the quid pro quo for policy reform. Under the FY 1991 incremental funding, therefore, the terms and conditions of the original approved agreement (i.e., no local currency generation) will be continued.

Nonetheless, the overall program conditionality does require additionality of resources from the GOK. As called for in the conditions precedent, the GOK has established a Kenya Market Development Program Budget line item in the budgets of the

Ministries of Public Works and Agriculture. The line items, as additional budgetary resources for the Program, are assisting the two ministries to: 1) meet the costs of implementing both the policy reform agenda and the market information system and analyzing the impact of these activities; and 2) provide GOK resources for targeted road improvements. The two line items will be used for a local accounting firm to monitor this host country contribution.

Since the multi-year program was approved, the economic situation in Kenya has significantly worsened. As a result, the International Monetary Fund (IMF) and World Bank have insisted that the GOK undertake severe austerity measures. The measure with the greatest potential impact on this program is the across the board 15% budget cut. This has had the impact of revising downward the Kenyan FY 1990/91 budget from the announced forward budget. Although the base budget has been unexpectedly reduced, the Mission expects the subsequent years' conditionality will effectively remain the same, i.e., the Public Works and Agriculture budgets will not decrease below the revised FY 1990/1991 budget and that the Ministry of Public Works will increase support to non-salary recurrent costs by 10%, in real terms, each year. In consultation with the World Bank and IMF, the GOK and the USAID have agreed to use off-budget resources where budget resources would conflict with the across the board austerity measures.

a. <u>Ministry of Public Works Local Currency Use (Local Currencies from PL 480)</u>

The MOPW will use approximately $30 million in GOK-provided local currency to finance private contractor improvement and maintenance of approximately 1,500 kms of inter-market roads and to monitor the impact of those improvements. Road rehabilitation work will be done over three years beginning in the second year of the Program.

Roads will be selected according to criteria combining assessments of present and potential maize and bean supply flows, the capacity to link marketplaces, types and volumes of traffic, environmental factors and their potential impact on maintenance costs, and the costs of road improvement.

Road selection will be carried out on an annual basis. Initial identification will be by District Development Committees (DDC) based on guidelines from the Ministry of Public Works. The roads identified must be, unless the parties otherwise agree in writing, those that:

(1) currently carry significant volumes of maize and beans;

(2) are used by 50 - 70 vehicles per day and primarily by small trucks, vans and buses;

(3) require rehabilitation, rather than routine or periodic maintenance;

(4) link directly, or through connecting road networks, primary and intermediate marketplaces; and

(5) are classified as C, D (or on an exceptional basis E) roads.

A list of roads identified will be submitted to the MOPW and will be ranked based on their Internal Rate of Return (IRR), with those below a minimum IRR being eliminated. A list of roads proposed for funding will be submitted to the KMDP Steering Committee for concurrence. The approved list will be forwarded to the DDC's for implementation. Roads will be restored or improved to gravel standards. In some areas, due to climatic and topographical factors, roads may need paving and the installation of small bridges or culverts.

The road rehabilitation work will be performed by private contractors. Contracts are expected to be tendered competitively at the district level, unless the size of the contract exceeds the district authority. Supervision of the contracts will rest primarily with the District's Works Officers. Prior to the award of contracts, district officers, as necessary, will receive training in contract tendering, contract management and road selection criteria.

During the Program, the equivalent of $2 million in Kenyan Shillings will be allocated by the GOK to maintenance for the roads rehabilitated under KMDP. This amount shall be additive to and not in substitution of the GOK's required annual increased allocation for road maintenance. Routine maintenance will be performed by MOPW's Road Maintenance Branch using modified labor-based or mixed technology methods.

Two types of monitoring will take place under this component: implementation monitoring (budgeting, expenditures, and contractor performance) and impact monitoring. On a quarterly basis the MOPW will report to USAID on the overall progress of the road program. In addition, a local firm will be hired by the GOK to monitor MOPW use of the GOK contribution and private contractor performance and will provide copies of its reports to USAID.

MOPW staff will collect data on transport costs, volumes, and distances traveled in order to assess the impact of road improvements. District data will be analyzed by national level MOPW technicians to inform decisions concerning increased road maintenance resources and market reform. This will call for upgrading the existing system of data collection and analysis through training in computer skills and analytical approaches (including the Policy Analysis Matrix - described in detail in Section IV.F of the PAAD), the provision of computer hardware and software, per diem for in-country travel, transport capacity (fuel, vehicles), and short-term technical assistance.

b. Ministry of Agriculture Budget

The MOA will use $2.6 million in GOK budgetary support in supporting the market information system and in undertaking data collection and analysis regarding program impact and policy reform.

DPD will be the lead government agency in conducting applied research, monitoring and evaluation to underpin USAID/GOK discussions concerning program conditionality. This division will require short-term technical assistance for topical analysis, seminars, and training in the PAM methodology.

DPD will also take the lead role in organizing and implementing workshops and seminars intended to educate government officials as to the role of competitive markets in the Kenyan economy in general, and KMDP policy reforms and investments specifically. Participants at these meetings will include representatives from the ministries represented on the KMDP Policy Committee, policy analysts from the universities implementing the PAM, and other high level representatives.

Table 4

GOK Contribution-KSh Budget
($000 equivalent)

Road Rehabilitation	25,000
Road Structures (i.e. bridges)	3,000
Road Maintenance	2,000
District Road Eng. Travel	25
Road Inspection Visits	10
Data Collection (MOPW)	1,500
Data Collection (MOA)	1,585
Training	300
Seminars/Workshops	135
Media Costs - Market Info.	75
Local Currency Monitoring	500
Technical Assistance (short-term)	500
Facility Development (MOA)	28
Data Gathering Equipment (MOPW)	125
Contingency (@ 9%)	3,130
Total	38,000

There is an established process for budgeting and monitoring local currency contributed by the GOK for road maintenance. The process is as follows:

- The GOK, in form and substance satisfactory to A.I.D., will show that the conditions precedent have been met by inclusion in the GOK budget or from off-budget sources. To verify the inclusion, USAID will analyze the GOK's Development Estimates which is printed every June.

- The Ministries of Finance, Agriculture and Public Works representatives are responsible for the review of budget (and off-budget) support programming proposals. (See above and the KMDP PAAD for details.) Written recommendations from these representatives will be forwarded to the MOF and copied to USAID. The Auditor General's Office (AG) of the GOK has repsonsibility for audits of GOK finance and will periodically audit the use of the funds to ensure compliance with program intent and GOK procedures. Any reports or audits performed by the AG on funds expended will be made available for USAID review. In addition, as mentioned above, a local firm will be hired by the GOK to monitor MOPW use of line item and private contractor performance and will provide copies of its reports to USAID.

- Expenditures of local currency will be based on the GOK budget timeframe. The USAID Program Monitoring Committee will verify that contributions are for the jointly agreed upon purposes. The FSN Program Specialist will monitor the GOK contributions, both budget and off-budget.

XI. FOOD NEEDS ASSESSMENT

The Bellmon Assessment is attached as Annex D.

XII. COMMODITY AMOUNT AND SPECIFICATIONS

A. Amount

$40 million of US wheat over four years:

FY 1990 $10 million
FY 1991 $10 million
FY 1992 $10 million
FY 1993 $10 million

B. Type and Specifications

US No. 2 hard red winter wheat in bulk:
13.5% maximum moisture content.
Minimum 11.5% protein. A higher protein level is requested for blending purposes.

XIII. TIMING OF NEGOTIATIONS, SIGNING AND DELIVERY SCHEDULE

A. Negotiations: Country Team will enter into formal negotiations with Host Government as AID/W issues negotiating instructions.

B. Signing: As this Title III program dces not have to be renegotiated, we anticipate that the program agreement will be signed by June 15, 1991.

C. Delivery Schedule: Commodity delivery schedule will be subject to GOK meeting conditions precedent (performance indicators), the need for wheat, and requirement that commodity be lifted before the end of the fiscal year.

D. Packaging and marketing: Not required. Bulk shipment. No BNT required.

E. Port of discharge: Mombasa

F. Consignee: National Cereals and Produce Board
(NCPB)
PO Box 30586
Nairobi, Kenya

G. Ocean Transport Costs:

All ocean transport costs will be paid by the US Government.

ANNEX A: Conditions Precedent/Performance Indicators

1. Condition Precedent to Initial Disbursement/Assistance (Applicable to KMDP Project and PL 480 assistance)

a. For initial tranche (FY 90) of PL 480 assistance only

Prior to the provision by AID of the initial US $10 million of PL 480 food assistance, or to the issuance by AID of documentation pursuant to which such assistance will be provided, the GOK shall provide, in form and substance satisfactory to AID:

Documentation confirming that the GOK, through its Ministry of Finance, has formally proposed a Kenya Market Development Program line item for inclusion in the budgets of the Ministries of Agriculture and Public Works which shall not be less than Kenya Shilling equivalent of US dollars 38 million over the life of the program. The schedule for inclusion of said funds shall be the subject of future Project Implementation Letters (PILS) to be issued by AID.

Projected date of compliance April 1, 1990.

b. For Initial US $ 4 million KMDP Project Disbursement Only

Prior to the disbursement by AID of any funds made available under the KMDP Project for technical assistance, training or commodities, or to the issuance by AID of documentation pursuant to which such disbursements will be made, the GOK shall provide, in form and substance satisfactory to AID.

Documentation confirming that the GOK, through its Ministry of Finance, has formally concurred in writing with the Request for Proposal (RFP) for technical assistance, training and commodity procurement to be financed under the KMDP Project Agreement.

Project Date for Compliance with CP: September 1, 1990

2. Conditions Precedent to Each Subsequent Disbursement/Assistance (Applicable to KMDP Program and PL 480 Assistance)

Prior to the disbursement /provision by AID of any sector dollar grant and/or PL 480 assistance, or to the issuance by AID of documentation pursuant to which such disbursement/assistance will be made, the GOK, through its Ministry of Finance, shall provide, in form and substance satisfactory to AID, documentation confirming that:

a. The budget allocations for the Ministries of Public Works and Agriculture have not been reduced below the levels for such institutions established in the GOK's Forward Budget for 1990/91. GOK Kenya Shillings provided to such institutions as otherwise required by this Program are to be additive resources for such institutions and shall not be included for purposes of this Condition Precedent.

b. The Ministry of Public Works has increased the recurrent budget support for non-salary items for the Roads Maintenance Branch by not less than 10 % in "real" terms (incremental percentage increase less the prevailing inflation rate) for the year previous to the year in which the disbursement is sought, and has not decreased allocations to the Roads Maintenance Branch below the budget allocation for the Kenyan FY 1990/91. In no case, shall resources be made available for non-personnel items in the Road Maintenance Branch's budget by reducing other road maintenance related budget allocations.

c. The Ministry of Agriculture (MOA) has planned and conducted a publicity campaign via the press, radio and administrative services to inform consumers, producers, and the relevant public and private sector parties of the most current laws, regulations and policies affecting the movement and marketing of maize, processed maize, beans, millet and sorghum within and between administrative districts.

The specific requirement for compliance with this condition shall be the subject of a PIL to be issued by AID, but at a minimum shall include:

1) For each year for which disbursements is sought, a written description of legislation affecting the movement of maize, processed maize commodities, beans and minor grains within Kenya.

2) For each year for which disbursement is sought, a schedule of public announcements for removal of controls on specified agricultural commodities for that year. The specific requirements for compliance with this condition shall be the subject of future PILS to be issued by AID.

3) For each year for which disbursement is sought, written confirmation that the publicity campaign set forth in (c) above has been conducted by the MOA in a timely manner prior to that year's marketing seasons.

4) For each year for which disbursement is sought, written confirmation that district and provincial authorities have been informed of the regulations described in (c) above and

that their compliance with these current laws, regulations, and policies is required.

3. Conditions Precedent to Specific Disbursements/Assistance (Applicable to KMDP and PL 480 Programs only)

a. Initial Tranche Sector Dollar Grant Disbursement (US $2 million Sector Grant)

Documentation, in form and substance satisfactory to AID, that the GOK has:

1) Through its Ministry of Finance, instructed the MOA that the MOA's Farm Management Division is mandated to collect, compile, and disseminate, via the media, the MOA extension service, and other administrative channels, unofficial and official market price information on grain and horticultural commodities, to begin with the 1990/91 market season; and

2) Through the Ministry of Agriculture, developed and is implementing a plan for increasing the accuracy, timeliness, reliability and use of the MOA's disseminated market price information.

Project date for compliance with CP: December 1990.

b. Second Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (US $3 million Sector Grant; US $10 million PL 480 Food Assistance)

Documentation, in form and substance satisfactory to AID, that the GOK, through the Ministry of Finance, has:

1) Gazetted and announced via the public media and government administrative channels the elimination of all movement controls on beans and has informed the district and other administrative authorities that their compliance with these reforms is required; and

2) Has removed beans, millet and sorghum from the list of scheduled commodities.

Projected date for compliance with CP: April 1, 1991.

c. Third Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (US $ 5 million Sector Grant and US $ 10 million PL 480 food assistance.)

Documentation, in form and substance satisfactory to AID, that GOK, through the Ministry of Finance, has gazetted and announced via the public media and government administration channels the elimination of movement controls on maize and maize products and has instructed district and other administrative authorities that their compliance with these reforms is required.

Projected date for compliance with CP: April 1, 1992.

4. Covenants

a. The Government of Kenya does hereby covenant to undertake and assessment of the environmental consequences of its road rehabilitation activities financed by its contribution to the Kenya Market Development Program, which assessment shall include:

(1) a review of adverse environmental impacts for each said GOK road rehabilitation design and execution; and

(2) a plan for mitigation of identified adverse environmental impacts, if any.

b. The Government of Kenya shall provide to USAID, on a no less than annual basis, a report setting forth for each completed road rehabilitation activity financed by the GOK contribution to the Kenya Market Development Program to include:

(1) a description of each road rehabilitation activity;
(2) a statement of the adverse environmental impacts, if any, of said activity;
(3) a description of steps taken to mitigate said adverse environmental impacts; and
(4) an evaluation of the success or failure of said mitigations.

c. The GOK does hereby covenant that, in addition to specific requirements of the Conditions Precedent set forth under KMDP, it will seek to increase real road maintenance budgets, allocations and expenditures to a level commensurate with requirements to maintain efficient inter-market transportation of agricultural commodities. During program implementation, the required increases shall be the subject of annual consultation between USAID and the Ministry of Public Works, the first such consultation to be held no later than May 1, 1990. No less than 30 days after each such consultation, the GOK shall provide a report describing its proposal for compliance with this covenant.

d. The GOK does hereby covenant to maintain the legislative and administrative reforms established under this program.

File: PL480 Title III

INCOMING TELEGRAM

AGENCY FOR INT'L DEV.
TELECOMMUNICATIONS CENTER

ANNEX B

PAGE 01 NAIROB 11150 031100Z 5933 030477 AID7630
ACTION AID-00

ACTION OFFICE AFDP-06
INFO AFEA-04 AFPD-04 AFCO-02 AFTR-05 PPDC-01 SAST-01 PDPR-01
PPPB-02 GC-01 GCAF-02 FVA-01 FVPP-01 STN-01 STFA-01
STAG-02 SEOP-01 SETN-01 SEOS-02 FFP-09 SERP-01 SECS-02
AMAD-01 TELE-01 AGRI-01 COM-02 AAAF-03
/059 A0 03/1105Z

INFO LOG-00 AF-00 AGRE-00 CIAE-00 DODE-00 EB-00 P-02
SS-00 TRSE-00 /006W
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FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC IMMEDIATE 0056

UNCLAS NAIROBI 11150

AIDAC

FOR AFR/DP, E. SIMMONS AND P. RADIER

AID ALSO FOR AFR/EA/K, C. MCCARTHY AND D. BERNIUS

E.O. 12356: N/A
SUBJECT: PL480 TITLE III PROGRAM

1. USAID/KENYA PROCEEDING QUICKLY TO FINALIZE TITLE III PACKAGE. MISSION IS CONVERTING OUR ALREADY APPROVED AND SIGNED MULTIYEAR FOOD FOR PROGRESS (FFP) PROGRAM TO TITLE III IN RESPONSE TO AID/W REQUEST. USAID/KENYA ASSUMES THE FOLLOWING, BASED ON GUIDANCE AND CONVERSATIONS WITH AID/W:

A. NO NEW NEGOTIATIONS WITH GOK ARE NECESSARY FOR CONVERSION FROM SIGNED FFP TO NEW MULTIYEAR TITLE III PROGRAM.

B. NO CHANGE IN LOCAL CURRENCY (LC) GENERATION OR PROGRAMMING IS REQUIRED. PRESENT FFP PROGRAM USES HOST COUNTRY CONTRIBUTIONS WITHOUT SPECIFIC LC GENERATION FROM SALES PROCEEDS. THE HOST COUNTRY CONTRIBUTIONS ARE FOR BUDGET SUPPORT ACTIVITIES. PLEASE REFER TO KENYA FFP AGREEMENT FOR DETAILS.

C. SAME CONDITIONS PRECEDENT AND TIMING AS PREVIOUS FFP.

D. CONVERSION FROM FFP TO TITLE III REPRESENTS NO CHANGE IN THE SUBSTANCE OF THE ALREADY SIGNED PROGRAM.

2. MISSION REQUESTS WASHINGTON APPROVAL OF OUR CONVERSION OF FFP PROGRAM TO TITLE III BASED ON ASSUMPTIONS ABOVE AS SOON AS POSSIBLE SO THAT USAID CAN SIGN TITLE III CONVERSION WITH GOVERNMENT AT THE EARLIEST OPPORTUNITY IN JUNE.

3. MISSION IS WORKING CLOSELY WITH AID/W COUNTERPARTS IN AFR/DP AND AFR/EA/K. PLEASE CONTACT GARY MOSER OR DAVID SOROKO FOR FURTHER INFORMATION: PHONE 254-2-331160. MOSER'S HOME NUMBER IS 254-2-520953 AND SOROKO'S HOME NUMBER IS 254-2-720214. HEMPSTONE

UNCLASSIFIED

INCOMING TELEGRAM

ANNEX C

AGENCY FOR INT'L DEV. TELECOMMUNICATIONS CENTER

ACTION AID-00

ACTION OFFICE AFDP-06
INFO AFEA-04 AFPD-04 AFTR-05 BIFA-01 SAST-01 PPCE-01 PPPB-02
GC-01 GCAF-02 GCCM-01 FVA-01 FVPP-01 STFA-01 STAG-02
SEOP-01 SEOS-02 FMAO-02 FFP-09 SERP-01 AGRI-01 COM-02
/051 A5 HL 09/1356Z

INFO LOG-00 AF-00 CIAE-00 DODE-00 EB-00 /003W
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FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC IMMEDIATE 0355

Kenya fd. 2id

UNCLAS NAIROBI 11767

AIDAC

AID FOR ~~AFR/DP~~, PAT RADER ~~AND AFR/EA, DEAN BERNIUS~~

E.O. 12356: N/A
SUBJECT: EVALUATION OF FY 1990 FOOD FOR PROGRESS

1. SUMMARY. KMDP HAS CHALKED UP SIGNIFICANT PROGRESS OVER THE FIRST YEAR OF THE PROGRAM IN 1) DECONTROLLING MAIZE MOVEMENT, 2) PUBLICIZING MAIZE AND MINOR CROP MARKETING REGULATIONS, 3) CONTRIBUTING TO THE "DESCHEDULING" OF MINOR CROPS, AND 4) OBTAINING GOVERNMENT AGREEMENT THAT MARKET DETERMINED CEREALS PRICES, AS OPPOSED TO OFFICIAL PRICES, CAN BE ANNOUNCED ON A ROUTINE BASIS. KMDP PROGRESS IN FOSTERING INCREASES IN CENTRAL BUDGET FUNDING FOR ROAD MAINTENANCE HAS BEEN CONSTRAINED BY GOK AUSTERITY MEASURES IMPLEMENTED IN ACCORDANCE WITH IMF AND WORLD BANK PROGRAMS. NONETHELESS, KMDP CONDITIONALITY AND COVENANTS HAVE FOSTERED GOK IDENTIFICATION OF OFF-BUDGET

ROAD MAINTENANCE FINANCING SOURCES AS WELL AS WAYS TO INCREASE ROAD MAINTENANCE COST EFFECTIVENESS THROUGH RELIANCE ON PRIVATE CONTRACTORS. END SUMMARY.

ASSESSMENT OF SPECIFIC KMDP FIRST-YEAR CONDITIONALITY

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2. PUBLICITY CAMPAIGNS TO ANNOUNCE EXISTING MARKET REGULATIONS:

A. ACCORDING TO THE PROGRAM AGREEMENT, THE GOK WAS TO HAVE IMPLEMENTED A MARKET REGULATION PUBLICITY CAMPAIGN BY DECEMBER 31, 1990. CONDITIONALITY ACHIEVEMENT REQUIRED THE IDENTIFICATION OF REGULATIONS AFFECTING MAIZE, BEANS, MILLET AND SORGHUM MARKETING; THE DEVELOPMENT OF A SCHEDULE FOR THE ROUTINE PUBLIC ANNOUNCEMENT OF THESE REGULATIONS; THE INITIATION OF THIS PUBLICITY CAMPAIGN; AND THE TRANSMISSION OF INSTRUCTIONS TO PROVINCIAL ADMINISTRATION CONCERNING THEIR RESPONSIBILITIES IN EXPLAINING THESE REGULATIONS TO CONSUMERS, PRODUCERS AND OTHER PUBLIC AND PRIVATE SECTOR PARTIES.

B. INITIATION OF THIS PUBLICITY CAMPAIGN, AND THUS CONDITIONALITY ACHIEVEMENT, WAS DELAYED BY THE WORLD BANK AND GOK'S FINALIZATION OF THE WORLD BANK'S SECOND AGRICULTURE SECTOR ADJUSTMENT OPERATION (ASDA II). A PRE-WORLD BANK BOARD PRESENTATION CONDITION OF ASAO II WAS THAT THE LIMIT ON THE NUMBER OF MAIZE SACKS THAT COULD BE MOVED BETWEEN DISTRICTS WITHOUT A NATIONAL CEREALS AND PRODUCE BOARD (NCPB) PERMIT BE RAISED FROM

10 BAGS (900 KGS.) TO 44 BAGS (4 TONS). FYI. UNDER

THE EEC SUPPORTED CEREALS SECTOR REFORM PROGRAM, THE 10 BAG LIMIT WAS ESTABLISHED IN 1986. HOWEVER, THIS LEGISLATION WAS NEVER PUBLICIZED AND THE EFFECTIVE LIMIT ON MAIZE MOVEMENT WAS ONE BAG. END FYI. MISSION AND GOK REPRESENTATIVES FELT THAT ANNOUNCING THE QUOTE TEN BAG RULE UNQUOTE WHEN IT WAS SOON TO BECOME THE QUOTE 44 BAG RULE UNQUOTE WOULD CONFUSE THE TARGETS OF THE PUBLICITY CAMPAIGN. THE 44 BAG RULE WAS FINALIZED IN FEBRUARY, AND THE PUBLICITY CAMPAIGN WAS INITIATED AT THAT TIME.

C. THE PUBLICITY CAMPAIGN WAS KICKED OFF WITH FRONT PAGE ANNOUNCEMENTS IN THE THREE ENGLISH AND TWO SWAHILI DAILIES CONCERNING THE NEW 44 BAG LIMIT AS WELL AS THE QUOTE DESCHEDULING UNQUOTE OF MILLET, SORGHUM AND OTHER MINOR COMMODITIES. FYI, DESCHEDULING A COMMODITY MEANS THAT FARMERS CAN MOVE THAT CROP FREELY WITHOUT AN NCPB PERMIT, AND THAT THEY CAN SELL THEIR CROP TO BUYERS OF THEIR CHOICE, IN ADDITION TO NCPB. END FYI.

D. GIVEN KENYA'S PAST PERFORMANCE IN ANNOUNCING MARKET REGULATIONS, AS WELL AS INITIAL RESISTANCE BY NCPB AND THE MINISTRY OF SUPPLIES AND MARKETING, THE IMPACT OF THE PUBLICITY CAMPAIGN'S INITIAL PHASE HAS BEEN IMPRESSIVE. FYI, THE MISSION HAS JUST COMPLETED AN INTENSE IMPACT MONITORING EXERCISE. THE OBJECTIVE OF THIS EXERCISE WAS TO ASSESS THE IMPACT OF THE KMDP PUBLICITY CAMPAIGN AND THE LAST IMPORTATION OF FERTILIZER UNDER THE FERTILIZER PRICING AND MARKETING REFORM PROGRAM. IN ADDITION, CURRENT MAIZE AND WHEAT CROP CONDITIONS WERE ASSESSED IN PREPARATION FOR THE

TITLE III BELLMON ASSESSMENT. INTERVIEWS WERE CONDUCTED WITH OVER 50 GOVERNMENT OFFICIALS, FERTILIZER TRADERS, MARKET WOMEN, AND FARMERS IN 10 DISTRICTS. END FYI.

E. ALL GOVERNMENT OFFICIALS INTERVIEWED WERE AWARE OF THE NEW MARKET REGULATIONS. BASED ON THEIR OWN EXPERIENCES WITH MOVEMENT CONTROLS, DISTRICT LEVEL AGRICULTURE MINISTRY OFFICIALS WERE UNANIMOUS IN THEIR SUPPORT FOR THESE CHANGES . ASIDE FROM NEWSPAPER AND RADIO COVERAGE, THESE OFFICIALS ARE INSTRUMENTAL IN GETTING THE WORD OUT. THE LEVEL OF AWARENESS OF FERTILIZER RETAILERS WAS MIXED, WITH ABOUT HALF BEING AWARE OF THE REGULATION CHANGES. HOWEVER, IN KENYA'S WESTERN DISTRICTS, WHERE MAIZE IS BEING HARVESTED, AND WHERE MOVING LESS THAN 44 BAGS DIRECTLY FROM FARM TO MARKET IS MOST FEASIBLE FOR SMALL FARMERS AND TRADERS, THE LEVEL OF AWARENESS WAS EVIDENT. LARGE AMOUNTS OF MAIZE, IN LOTS OF BETWEEN 5 AND 15 SACKS, WERE MOVING OPENLY ABOARD MATATUS, BICYCLES, DONKEYS, PICK-UP TRUCKS, ETC. FROM FARMS TO PRIMARY MARKETS, AND FROM PRIMARY MARKETS TO THE LARGER URBAN MARKETS. WOMEN FARMERS STATED THAT THEY WERE RECEIVING A [illegible] PRICE INCREASE BY MARKETING THEIR OWN MAIZE. FINALLY, ILLUSTRATING KNOWLEDGE IF NOT COMPLETE UNDERSTANDING OF THE NEW REGULATIONS, MARKET WOMEN IN KISUMU STATED THAT NOW, THIRTY TO 100 BAGS COULD BE MOVED FREELY. DISTRICT MINISTRY OF AGRICULTURE (MOA) OFFICIALS EXPLAINED THAT THEY WERE USING EXTENSION MESSAGES, PUBLIC MEETINGS, AND MEETINGS WITH POLICE OFFICIALS TO EXPLAIN THE NEW REGULATIONS.

3. ANNOUNCEMENT OF MARKET DETERMINED PRICES FOR GRAIN AND HORTICULTURAL CROPS

A. IN ACCORDANCE WITH KMDP CONDITIONALITY, THE GOK INSTRUCTED THE MINISTRY OF AGRICULTURE (MOA) THAT IT WAS MANDATED TO COLLECT, COMPILE AND DISTRIBUTE OFFICIAL AND MARKET DETERMINED GRAIN AND HORTICULTURAL CROP PRICES.

THIS IS A SIGNIFICANT POLICY CHANGE, AS THE GOK PREVIOUSLY ANNOUNCED ONLY OFFICIAL PRICES. THE INTENT OF THIS CHANGE IS TO PROVIDE TRADERS AND FARMERS WITH INFORMATION USEFUL IN INCREASING THE RETURNS TO THEIR PRODUCTION AND MARKETING DECISIONS. IT WILL ALSO ILLUSTRATE TO TRADERS AND FARMERS THAT THE GOVERNMENT IS COMMITED TO CEREALS SECTOR LIBERALIZATION.

B. IN ADDITION, AND IN ACCORDANCE WITH KMDP CONDITIONALITY, THE MINISTRY OF AGRICULTURE HAS DEVELOPED A PLAN TO INCREASE THE ACCURACY, TIMELINESS AND RELIABILITY OF THIS MARKET PRICE INFORMATION. THE MOA PLAN INCORPORATED THE RESULTS OF A MARKET INFORMATION PLANNING EXERCISE IMPLEMENTED BY THE AGRICULTURAL MARKETING IMPROVENT STRATEGIES PROJECT (AMIS) (PROJECT NO. 936-5477). THE MOA'S PLAN INCLUDES ENUMERATOR TRAINING, PRICE DATA AND DISTRIBUTION STRATEGY DEVELOPMENT, END USER SURVEYS, IMPACT MONITORING, ETC. THE PLAN IS IN ITS INITIAL STAGES OF IMPLEMENTATION, WITH MOA DISTRICT MARKETING OFFICERS PROVIDING LIMITED INFORMATION ON MAIZE AND BEAN MARKET PRICES TO FARMERS. UNDER THE KMDP PROJECT'S TECHNICAL ASSISTANCE COMPONENT, THE ACCURACY AND TIMELINESS OF MARKET PRICE DISTRIBUTION WILL BE IMPROVED. FYI, THE PIO/T PROVIDING THE BASIS AND INITIAL FINANCING FOR THE REQUEST FOR TECHNICAL PROPOSALS HAS BEEN AUTHORIZED BY THE GOK AND THE MISSION AND IS CURRENTLY WITH THE REGIONAL CONTRACTING OFFICE FOR ADVERTISEMENT. END FYI.

4. ROAD MAINTENANCE FINANCING INCREASES

A. ALTHOUGH THIS CONDITION TO FIRST TRANCHE DISBURSEMENT HAS BEEN WAIVED BECAUSE OF CROSS-THE-BOARD GOK BUDGET CUTS MANDATED BY THE IMF, THE GOK HAS MADE SIGNIFICANT PROGRESS IN IDENTIFYING OFF-BUDGET SOURCES OF ROAD MAINTENANCE FINANCING AND UNDERTAKING BUDGET RATIONALIZATION AND COST REDUCTION MEASURES. THE GOK HAS SHIFTED BUDGET EMPHASIS FROM NEW ROAD CONSTRUCTION TO MAINTENANCE AND INTRODUCED A CROP CESS FOR THE FINANCING OF MARKET TO MARKET ROADS. EIGHTY PER CENT OF CROP CESS REVENUES WILL BE EARMARKED FOR ROAD MAINTENANCE. THE GOK HAS INSTITUTED MEASURES TO ENHANCE MOPW COST EFFECTIVENESS THROUGH RELIANCE ON PRIVATE ROAD CONTRACTORS AND LABOR-BASED MAINTENANCE, THE REDUCTION OF REDUNDANT MINISTRY OF PUBLIC WORKS PERMANENT STAFF, AND USE OF A COMPUTERIZED HIGHWAY MAINTENANCE MANAGEMENT SYSTEM TO IDENTIFY AND PROGRAM ROAD MAINTENANCE INVESTMENTS PROMISING THE HIGHEST RETURN. THESE MEASURES ARE DETAILED IN A REPORT SUBMITTED BY THE MOPW IN ACCORDANCE WITH KMDP COVENANTS.

5. FIRST TRANCHE CONDITIONALITY ACHIEVEMENT, AND BEAN DECONTROL

A. AS DESCRIBED ABOVE, THE GOK HAS ACHIEVED FIRST TRANCHE CONDITIONALITY, WITH THE NOTED EXCEPTIONS, AND HAS QUALIFIED FOR THE FIRST KMDP SECTOR CASH GRANT TRANCHE OF $2 MILLION. MISSION IS CURRENTLY PROCESSING THIS DISBURSEMENT.

B. SECOND TRANCHE CASH GRANT AND FOOD AID DISBURSEMENT IS CONDITIONED UPON THE TOTAL DECONTROL OF BEAN MOVEMENT; THE DESCHEDULING OF MILLET AND SORGHUM; CONTINUED ANNOUNCEMENT OF MARKET REGULATIONS AFFECTING MAIZE, BEANS, MILLET AND SORGHUM; AND ADDITIONAL INCREASES IN ROAD MAINTENANCE FINANCING. ALTHOUGH THE CONDITIONALITY ACHIEVEMENT TARGET DATE OF APRIL 30 HAS PASSED WITHOUT FULL IMPLEMENTATION, MISSION HAS HAD DISCUSSIONS AT THE MISSION DIRECTOR-PERMANENT SECRETARY OF FINANCE LEVEL REGARDING BEAN DECONTROL. DUE TO THE

LARGE NUMBER OF INFLUENTIAL INTERESTS INVOLVED IN BEAN PRODUCTION AND MARKETING IN KENYA, THE MISSION HAS ALWAYS BEEN AWARE THAT DECONTROLLING BEAN MOVEMENT WOULD BE THE MOST DIFFICULT POLICY REFORM UNDER KMDP. NONETHELESS, THE CONTRIBUTION THAT INCREASED BEAN PRICES CAN MAKE TO SMALL FARMER AGRICULTURAL PRODUCTIVITY, AND THE FACT THAT NCPB MARKETS LESS THAN 10% OF TOTAL BEAN MARKETINGS, JUSTIFY THE RISKS OF THIS INITIATIVE. ANOTHER KEY ISSUE/PROBLEM IS THAT THE WORLD BANK NEGOTIATED BEAN DECONTROL WITH THE GOK FOR SEPTEMBER 1991 INSTEAD OF OUR TARGET DATE OF APRIL 1991.

C. THE GOK HAS ALREADY ACHIEVED SECOND TRANCHE CONDITIONALITY CONCERNING THE DESCHEDULING OF MILLET AND SORGHUM. DESCHEDULING IS BEING ANNOUNCED UNDER THE ONGOING PUBLICITY CAMPAIGN. AS A RESULT OF MARKET COMPETITION STRENGTHENED BY THIS DESCHEDULING, AND NCPB'S NEED FOR MILLET AND SORGHUM TO SATISFY OUTSTANDING COUNTERTRADE COMMITMENTS, MILLET AND SORGHUM PRODUCER PRICES HAVE INCREASED AS MUCH AS 25% IN THE SEMI-ARID AREAS OF EASTERN KENYA. THESE CROPS ARE ESPECIALLY ATTRACTIVE TO MARGINAL AREA PRODUCERS DUE TO THEIR LOW PRODUCTION COSTS AND DROUGHT RESISTANCE.

6. GOK PERFORMANCE UNDER KMDP HAS BEEN GOOD OVERALL. ACHIEVEMENTS TO DATE RESULT FROM GOK REALIZATION THAT 1) PREVIOUS CEREALS MARKET STRUCTURES WERE TOO FINANCIALLY AND ECONOMICALLY COSTLY TO MAINTAIN, AND 2) CLOSE WORLD BANK-USAID COLLABORATION IN POLICY AGENDA DEVELOPMENT AND IMPLEMENTATION. PRESENTLY, THE ONE OUTSTANDING ISSUE WITH THE GOK IS THE TIMING OF BEAN DECONTROL.
HEMPSTONE