PD-ACC-879

AGENCY FOR
INTERNATIONAL
DEVELOPMENT

ANNUAL BUDGET SUBMISSION
FY 1979

USAID KENYA

BEST AVAILABLE

DEPARTMENT
OF
STATE

MAY 1977

FY 1979

Annual Budget Submission

KENYA

June, 1977

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1/ The PID for Marginal/Semi-Arid Lands Development, 615-0172, shall be submitted in mid-June.

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SUMMARY NARRATIVE STATEMENT

I. Development Overview

Kenya's development situation has been analyzed and re-analyzed over the last five years. The reader is referred to the "Development Overview" section of the October 1974 USAID/Kenya DAP; to the October 15, 1976, IBRD Report No. 1284a-KE, "Current Economic Position and Prospects of Kenya", prepared for the Kenya Consultative Group meeting last November and reviewing Kenya's development performance to date, and to Annex A of the ABS, "Kenya's Economy at Mid-Year". To summarize, during 1964-1973 Kenya's achievements were, in a word, "impressive" -- a real increase in gross domestic product of 6.6 percent per year, growth in average annual real per capita income from $85 to $175, and particularly strong growth in agriculture, especially in the small-scale sector, as well as in industry and services.

Based upon achievements and problems of the previous ten years, the 1974-78 Development Plan set forth a pragmatic program to restructure the economy and utilize resources more efficiently in order to minimize income differentials and increase employment through developing rural areas. With accelerating world inflation, especially for energy (Kenya was one of the countries most seriously affected by oil price changes), with falling export prices and with drought in East Africa, Kenya was faced with sharply rising inflation, an unprecedented balance of payments deficit in 1974, and a significant slowing of economic growth. Consequently, in Sessional Paper No. 4 of 1975 the Government instituted a series of practical short- and medium-term policies, and proposed more fundamental medium- and long-term ones, all of which revised Plan targets. The objectives of the revision were to limit the loss of foreign exchange and to accelerate restructuring of the economy so that it could resume rapid growth in the 1980's under a permanently more severe balance of payments constraint. As part of this "Action Program" the GOK also appealed for increased foreign assistance -- an appeal to which donors have generally been sympathetic in large part due to the pragmatism and appropriateness of the Action Program as well as Kenya's past development performance.

Because of the time required for medium- and long-term policies to begin to show effects, actual performance in 1975 reflected the prevailing economic recession with real GDP growth being less than one percent and modern sector employment falling by two percent. Per capita income in current prices rose to $230 per the IBRD, but this figure masked an unprecendented loss in real income of three percent.

By contrast, the picture in 1976 has been exceedingly bright,and the prospects for 1977 are similarly positive due in large part to abnormally large earnings from coffee exports and recently improved prices for tea. There was a balance of payments surplus of K£27.8 million [1/] in 1976 with a smaller surplus predicted for 1977. GDP grew in 1976 by 5-6 percent, and the outlook for 1977 is slightly better (6-7 percent). Marketed agriculture output grew between 1975-76 by about 8 percent (in real terms), but more significantly the policy of internal self-sufficiency in agricultural production is approaching realization in the case of food grains with 1976 production of wheat and maize being sufficient to cover domestic demand. 1976 was also a good year for the manufacturing sector, the index of production rising six-to-eight percent, and for considerable recovery in receipts from tourism. Construction remained stagnant. Finally, the 1976 rate of inflation was only about 10 percent in contrast to the 16 percent and 20 percent of 1974 and 1975, respectively.

However, there are latent inflationary pressures within the economy at present due to the mushrooming of coffee revenues and larger than anticipated GOK borrowings from the Central Bank to finance GOK expenditures, including significantly increased defense spending. At the same time the inflated world market price of coffee is not expected to last beyond 1978, and declining coffee prices alone can cause severe BOP problems by 1979 and, certainly, by 1980. There are also some prospects for another world economic recession which would retard Kenya's growth. To prevent a serious decline in domestic investment and economic growth Kenya will require significantly higher amounts of foreign financing, estimated by the IBRD to approximate an average of $400 million annually during 1978-82, of which $320 million would come from public sector sources. New commitments prior to this period (1976-78) would only have to approximate $230 million, according to the Bank, $200 million of which might come from official sources.

The balance of payments is not the only basic constraint facing Kenya in the years ahead. Potentially productive land is becoming a scarce resource due to the fact that only 18 percent of Kenya's land area has high or medium agriculture potential under present technologies. Most of the remaining land is suitable at best only for livestock and wildlife. Consequently, increasing agriculture production and at the same time raising rural incomes will depend on increasing productivity on already cultivated land, on bringing the limited amount of idle, but potentially productive, land under cultivation, and on maximizing the agriculture potential of marginal/semi-arid lands. The latter, of course, is dependent on a rational process of allocating such areas among alternate uses.

1/ Exchange rate K£1.00=U.S.$2.40.

Kenya, too, suffers from a manpower constraint which, while different in some respects from other African LDC's, is nonetheless serious. The scarcity of skilled labor, including managerial talent, is regarded by the IBRD as being the most serious long-term problem. (At the same time due to its high population growth rate Kenya has abundant unskilled labor.) One means of addressing this problem is by education -- a long-term process.

Related to the two constraints above is the problem of insufficient land and capital to generate employment for a significant portion of Kenya's populace. While an effective, nationwide family planning program is one long-term approach to the unemployment problem, given the abundance of unskilled labor in the short- and medium-term, Kenya needs to use capital more efficiently. One solution may be raising interest rates although the efficacy of this may be less now than formerly due to the fall in world-wide interest rate levels.

These are basically the same macro-economic constraints to which Government directed the 1974-78 Development Plan. Most are long-term in nature and should carry over into the 1979-83 Plan period, although the USAID understands marginal lands development and preservation will receive more emphasis than previously. Therefore, through 1983 Kenya is expected to retain its current development goals of increased equity and employment and to seek to achieve these principally through emphasis on growth in the agriculture sector, particularly by smallholders and other low-income agriculture producers. This approach, in turn, will necessitate continued emphasis on investment in agriculture, adequate price incentives to producers, improved and expanded supporting agriculture services provided by Government, and efficient agriculture credit and marketing systems.

Such a development program will call forth significant GOK financing. The GOK forward budget through 1977-78 is consistent with this requirement. However, the budget is now being rolled forward to cover 1978-80, and the USAID understands it will show Government spending as an increasing portion of total GDP. It may also show budget levels for social services remaining stable (except for increases needed to offset inflation) with the savings derived therefrom and new resources being applied to the productive sectors. Lacking copies of the revised forward budget for review, the USAID can only indicate some issues which will need future attention:

(1) Adequacy of proposed GOK recurrent financing to meet requirements derived from new development activities.

(2) Impact on development spending of increased defense expenditure. (It is known that defense expenditures will greatly exceed the 1976-77 budget estimates, doubling the proportion of GDP attributed to this purpose.)

(3) Efficiency of use of increased budgetary resources and effectiveness of GOK control of spending in excess of budgeted amounts.

(4) Absorptive capacity of the ministries principally benefitting from increased development allocations, especially Agriculture and Water Development.

(5) Revenue generating capacity of new expenditures.

(6) Monetary implications of expenditure levels and needed revenues.

Another factor, which will underlie the total GOK development effort, is continued political stability. At this point one can only assume that Kenya under ensuing circumstances will remain pragmatic and Western-oriented. Further, Kenya will over the long-term pursue the same development approach which has proved so successful heretofore.

II. The AID Beneficiary Target Group

Almost ninety percent of Kenya's population derive their incomes from agriculture, and, according to AID criteria as reported to Congress, 86 percent of the total population are part of Africa's poor majority. This necessitates a GOK emphasis on continued growth and production combined with equity, or a strategy of redistribution from growth.

The GOK, further, classifies a "small farmer", of which there are an estimated 1.2 million, as one having 20 ha. or less of land. Depending on the province, between 19 percent and 27 percent of these households are headed by women. Because of differences in availability of land -- a reflection mainly of agriculture potential, population growth, and tribal landholding systems -- there is considerable variation in size of holdings and poverty although the directness of the relationship between size and poverty is limited. (For example, "larger" holdings are needed in marginal areas to produce the same amount as much smaller holdings in higher-potential areas and are more subject to rainfall variations which often make the difference between a surplus or no surplus at all in any given year.)

According to the 1972 ILO/UNDP report, Employment, Incomes and Equality, one could divide Kenya's 1.2 million smallholders into three groups:

(A) A group of farmers, mainly in high potential areas, who rapidly increased their incomes during the first decade of independence through participation in settlement or irrigation schemes, and production and sale of such crops as coffee, tea, pyrethrum, livestock and/or dairy products, and maize. Numbering about 250,000, they tend to hire full-time and seasonal labor and may also own off-farm businesses.

(B) Next, a similar number of smallholders having incomes of K£60-£110 per year who have been able to commercialize their operations in part, but with limited effect on incomes. They may hire seasonal labor but may also have problems of too little or poor land, inadequate capital, or lack of knowledge which prevent their joining the first group.

(C) The majority (620,000) of farming families in the medium-potential areas or having very small plots in high-potential areas. Incomes are usually less than K£60 per year, and this group generally is unable to raise the productivity of their land more than marginally. Such families either must exist in extreme poverty or supplement their incomes from off-farm sources.

The second and third group listed above plus 220,000 pastoralist households living in the marginal/semi-arid areas, squatters, and the landless, constitute the rural working poor who should be the beneficiaries of the AID program. This group constitutes approximately 1,800,000 (75 percent) of Kenya's 2,340,000 households per the ILO/UNDP Report, and its members have annual incomes below K£120 ($336 per family, or $56 per capita, at 1972 exchange rate).

As it has evolved since FY 1975, the Kenya AID program is, in the Mission's view, well directed toward the above target group. Agriculture Sector Loan I finances the first-ever program in Kenya for farmers having holdings of 20 acres or less, gross per capita real farm income of less than K£40 ($96), the potential to earn annual gross per capita real farm income of more than K£40, and who have not previously utilized credit or extension services. The beneficiaries of the two rural roads projects are physically isolated farmers, cultivating between 2.5-7.5 ha. in high and medium-potential areas, and earning on-farm cash income of $90-$300 per family. The livestock

activities benefit pastoralists and other livestock producers, most of whom fall in the target group, while the marginal/semi-arid lands study is anticipated to generate projects directed toward low-income agriculture producers residing in marginal agriculture areas.

Turning to the GOK side, Section 102 (d) of the Foreign Assistance Act sets out a series of socio-economic criteria for development. While a comprehensive assessment of Kenya's progress according to these criteria is beyond the scope of this overview, summary statements on each criteria are presented below. The absence of a statistically reliable and historically consistent data base precludes a simple inter-temporal comparison of data. New data-gathering efforts, such as the National Integrated Sample Survey, which includes the Rural Integrated Survey, and the 1980 census should provide Kenya with up-to-date information on important socio-economic trends throughout the country.

A. Small Farm Agricultural Production

Since independence the total marketed output of maize has increased at the annual rate of 8.3 percent, seed cotton at 10.1 percent, coffee at 4.5 percent, and tea at 12.3 percent. Historical data provides scant information on either total production (marketed and subsistence) or small-farm productivity (value-added) although Government estimates that unmarketed, or subsistence, production constitutes about half of total production (and assumes this amount is produced by smallholders). Also, there is some evidence that Gross Farm Revenue from marketed production attributable to smallholders rose from 26.5 percent to 51.6 percent during 1957-1962 and that estimated per capita GFR for smallholders increased from K.Shs. 42 to K.Shs. 111 during the same period. Major GOK efforts, supported with significant levels of donor assistance, are being made in order to increase small-farm production. Total productivity of small farmers is considered a superior development criterion to productivity per unit of land.

B. Infant Mortality

Infant mortality per the 1969 census is estimated to be approximately 126 per 1,000 live births for males and for females, 112 per 1,000 (see DAP, page 160). While comparable historical data is not available, life expectancy figures suggest an improving trend. In 1962 life expectancy was 40-45 years while in 1969 it stood at 47 for males and 51 for females.

C. Population Growth

In 1962 the population growth rate was estimated at 2.8 percent. Per the 1969 census it had risen to 3.3 percent, and today it is estimated to lie between 3.5 and 3.7 percent. The fertility rate, considered to be a more accurate guide to population growth trends, is estimated to be 7.6. The GOK recognizes the severity of the population problem and through a multi-donor family planning effort is seeking measures to develop a delivery system which ultimately will provide nation-wide FP services.

D. Income Distribution

Between 1964 and 1975 Gross Domestic Product per capita in current prices increased at approximately 7.4 percent per annum to $188. During the same time period GDP per capita in real prices increased 1.5 percent per annum. Kenya's relatively open economy has left the country susceptible to worldwide inflation and recession; consequently, real income in 1975 decreased by 3 percent.

Available income distribution data is drawn from urban income surveys while the principal source of national income disparity is attributed to the gap between modern sector urban and rural income levels. Preliminary data from the RIS indicates mean annual income by rural households of K.Shs. 3,900 ($488) while the median annual average income figure was between K.Shs. 2,000 and 3,000 ($250-$375). Consumption distribution, rather than income distribution, is generally recognized as the preferred equity criterion.

E. Employment and Underemployment

Wage employment in the formal sector increased at the rate of two percent per annum from independence until 1975 when for the first time it fell two percent. At the same time urban population growth has been approximately 10 percent per annum. With 90 percent of the population living in rural areas the fundamental issue is not urban jobs but rather the prospects for providing employment leading to improved incomes for the rural population. The GOK's two prime development goals are increased employment and improved income distribution. These objectives provide the foundation for the GOK's rural development efforts, including its stress on labor-intensive development programs for rural access roads and rural public works. A comprehensive discussion of the employment problem may be found in the ILO/UNDP report cited above.

Discussion of development progress in East Africa is hindered by both the unavailability of compatible data and the divergent political and economic systems found in the neighboring countries of Uganda, Tanzania, Somalia, Ethiopia, and Sudan.

III. The AID Program - FY 1979 - FY 1983

AID assistance to Kenya is limited to two sectors - agriculture and family planning. In accordance with the DAP and July 1975 DAP Supplement the former has expanded to include three sub-sectors of emphasis -- livestock, marginal/semi-arid lands development, and smallholder food production in medium- and high-potential areas. Family planning assistance is directed toward supporting Government's five-year family planning program. During FY 1975-FY 1977 AID obligations should total an estimated $53 million in grant and loan funds, averaging about $17 million per year, and up sharply from the $2-$5 million levels per annum which prevailed in the 1960's and most of the early 1970's. However, because of delays in new project approvals annual assistance has fluctuated sharply.

AID Assistance to Kenya, FY 1966 - FY 1977
($Millions)*

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976 1/	1977 2/
AID	3.3	2.8	2.6	2.3	5.8	2.1	2.1	12.2	11.7	16.2	4.9	32.1
Loans	0.1	0.4	-	-	3.5	-	-	10.0	9.6	13.5	-	24.3
Grants	3.1	2.5	2.6	2.3	2.3	2.1	2.1	2.2	2.1	2.7	4.9	7.8
P.L. 480	14.7	0.8	0.8	0.1	0.8	1.4	0.5	0.4	0.5	1.0	2.4	2.4
Title I	9.6	-	-	-	-	-	-	-	-	-	-	-
Title II	5.1	0.8	0.8	0.1	0.8	1.4	0.5	0.4	0.5	1.0	2.4	2.4
HIG	-	-	-	2.0	-	-	-	-	15.0	-	-	-

1/ Includes Transition Quarter.
2/ Proposed.

* Non-add figures due to rounding

The overall goal of the expanded program is to assist the GOK achieve its income and equity objectives. The agriculture sub-sector goal is improve smallholder and livestock producer access to agriculture institutions, services and infrastructure, which includes access to agriculture inputs (credit, seeds, pesticides, fertilizer, and animal health services), market and/or storage, rural roads and water. In family planning the sectoral objective as now stated is to reduce the population growth rate; however, during the 1974-79 period of the current GOK program and for a few years beyond, a more realistic project purpose would be to develop and extend the institutional capability to provide FP services throughout the rural areas.

Given the long-term nature of Kenya's development constraints, the above-stated orientation and goals of the Kenya aid program probably will not change substantially during the period of the next DAP, which should coincide with the next GOK Plan period, 1979-83. However, there are a number of efforts now underway which should flesh out more completely the existing approach to achieving the above program and sector goals:

1. A proposed outside review of the Kenya program which hopefully can begin late in the third quarter or early in the fourth quarter of FY 1977. The review will determine progress in reorienting the AID program toward GOK goals and consistency with FAA requirements and look toward new assistance areas, such as activities to develop rural market centers, to benefit squatters and the landless, and to address improved nutrition. It will also investigate the potential for an expanded role in nutrition for PL 480 assistance.

2. Studies now underway of agriculture credit and the agriculture potential of marginal/semi-arid lands out of which a second agriculture sector loan and marginal lands follow-on projects are expected to be initiated in FY 1979 or FY 1980.

3. Proposed studies of agriculture manpower, education, and smallholder research, hopefully to begin before this ABS reaches AID/W, the results of which should also contribute to design of the new activities mentioned above.

4. Assignment in late FY 1977 or early FY 1978 of two health planners to the Ministry of Health to develop the health section of the next GOK plan, a sector assessment for AID, and new AID assistance to support expanded national coverage and delivery of integrated rural health services, including MCH/FP. This new project or projects may be forthcoming in FY 1979.

5. A DAP revision to embody the results of the above but which must be completed in FY 1978 to spin off new projects needed for current assistance levels to be maintained and/or increased.

PIDs for ASL II, marginal lands follow-on, rural health delivery, and a proposed manpower training project are either included in this ABS or will be forwarded shortly to AID for review (see Nairobi 5362).

Additionally, drawing upon concepts from spatial integration theory, the Mission is considering assistance to develop rural market centers' capability to service their surrounding rural [illegible]

active in Kenya -- UK, West Germany, Canada, the Netherlands, Sweden, Denmark, Norway, the U.S., UNDP, ADB, EEC, BADEA, and the World Bank group, to name only the more significant -- poses opportunities for donor coordination and integration or joint funding of activities. It also creates problems. With so many donors now emphasizing agriculture, the absorptive capacity issue is more pressing. While donor coordination mechanisms and information exchange have been considerably strengthened over the last two-to-three years, due in part to efforts by USAID, the GOK still finds itself in the enviable position (for an LDC) of being able to pick and choose among potential donors so as to obtain what it desires in the shortest time possible. On the other hand, individual donors often cannot address a problem in as comprehensive a fashion as they might like, or use their preferred approach, or follow up on efforts they have initiated because of the GOK's recourse to alternative funding sources.

Lacking the results of the program evaluation and related endeavors, then, at this point the USAID believes its sectors of concentration will continue during the next Plan period although the scope of activities included in the sectors should expand. While the Mission does plan to submit a PID for a new training project, this activity will be limited in scope and directed toward the "new directions" categories with likely emphasis on agriculture and health/family planning. Expansion of family planning efforts into integrated rural health delivery should contribute to making the GOK FP Program more effective and extensive in its coverage and may provide a means for integration of PL 480 resources into GOK MCH programs. Proposed marginal lands follow-on will expand Mission involvement in an area in which it has previously taken the lead, but in which other donors clearly expect to participate, and to which the GOK will give more emphasis during 1979-83.

One might suggest that with the proposed market centers effort, the rural roads and health activities, and the ASL's, the Mission might focus on an integrated rural development program for Western and Nyanza Provinces instead of agriculture sector development. (This is an issue identified for consideration in the program evaluation.) There are both pro's and con's to such a change in direction. The agriculture sector goal of improved access is still a valid one and of crucial importance to Kenya's development in the coming years. Interestingly, improved access is an objective recently adopted by the IBRD in the previously mentioned report. Also, agriculture will continue to be the dominant sector of the economy and the principal source of income for AID's target group. Initiating a program of rural market center development will enable AID to address the access

constraint more comprehensively -- both at the market-center end of the farm-to-market network and, simultaneously, through the ASL's at the farmers' end while joining these two poles via improved road links and contributing indirectly to increased productivity through better health services. Achieving improved access in these two provinces and in the marginal areas through the follow-on and livestock activities will contribute to AID's income goal for rural Kenya as a whole.

Were the Mission to broaden its agriculture sector involvement into the more comprehensive area of rural development, the following should be considered:

1. For rural development efforts to be manageable they must be limited in area. Previously, Government has indicated its interest in assigning specific geographical areas to individual donors. While that approach has logic for both parties, it also has political and economic drawbacks needing further consideration, especially since political boundaries in Kenya are based on traditional tribal land rights.

2. Further, rural development to be effective needs to be comprehensive in scope and integrated. USAID is proposing to expand involvement in health/FP. The Mission through projects in its two sectors of concentration is addressing manpower constraints and supporting training institutions, but it is not directly assisting the more formal and traditional education sector. Other donors are involved in the education sector to a significant degree, and the Mission would prefer not to duplicate these efforts. Also, Kenya has not yet completed its review and decision-making on the revised approach to education recently proposed by a specially convened and widely based National Commission on Education. Without this report and the related GOK decisions flowing from it, it is currently difficult to judge whether AID should reconsider its existing position re education or whether it has anything to offer. Timing of the report's release is unknown.

3. If USAID were to limit its focus to rural development in one geographical area, what might be the consequences for its efforts to reach the range of the target beneficiary group which it now does through its three agriculture sub-sectors?

AID should note that the above issues are raised in the scope of work for the program review.

IV. Proposed Range of Resource Requirements

Subsequent to the 1974 DAP, the Mission has made concerted efforts to increase U.S. development assistance to Kenya. These efforts were in accord with DAP recommendations and agreements reached among donors at the 1974 CG meeting. We have achieved some success in raising the levels and at the same time providing such assistance as part of an integrated program rather than on an ad hoc basis.

The 1976 CG meeting of donors endorsed Kenya's development approach and concurred in the need for further increases in foreign assistance. The position taken by the U.S. delegation was in accord with the above for the following reasons:

1. Kenya as a stable and Western-oriented capitalist economy deserves U.S. support.

2. Kenya has since its independence followed well conceived, soundly based development policies.

3. Kenya's success to date justifies the belief that development resources will be well utilized.

4. Kenya's focus on developing rural areas so as to improve income distribution and increase employment is in accord with the objectives of the FAA.

5. Kenya will face a serious resource gap over the coming years, at least through 1982, which will have to be met by foreign donors if development is not to be seriously retarded.

AID assistance is now averaging $17 million per annum and there are new projects in view which could maintain and increase that level 1) to an estimated $24 million in FY 1978, assuming the advancing of approval of ASL II to that year instead of FY 1979, and 2) to about $38 million in FY 1979 if the first marginal lands follow-on project, the proposed rural health delivery, and the new training project are approved per the respective PID's. Looking beyond into the 1980's, the rural market centers ($25 million) and AID support for the anticipated next phase of the GOK's family planning project might result in a projected

FY 1980 assistance figure for Kenya of about $33 million. During FY 1981 - FY 1983 new assistance activities might involve new ASL's, further follow-on projects in the marginal lands sub-sector, and additional support for rural market center development as well as further involvement in rural health.

As can be seen from Table I the USAID envisages an annual AID level of about $25-$35 million in grant and loan financing, and possibly more, flowing from the DAP revision, assuming it is completed in early FY 1978. Lacking that document and the outside program determination, it would be premature to attempt to be more precise about the nature of new activities and their funding levels beyond 1980 than is suggested above and in the preceding section of this summary narrative.

Reaching the indicated target levels also assumes, first, that such an amount of financing from AID can be absorbed and utilized effectively by the GOK. The issue of absorptive capacity in the agriculture sector as it affects AID and other donors will need to be addressed in the DAP revision.

Secondly, the principal constraint facing Kenya during the next five years is foreign exchange availabilities. The traditional means aid donors have used for meeting an LDC's needs for financing a balance of payments resource gap, especially on the development budget side, has been program assistance. This is an avenue now closed to AID. Yet, the BOP problem has severely affected African LDCs, particularly since the 1973 revision to the FAA, due to the 1974 rise in the cost of energy and imports in general. With the proven utility of program lending and in the changed circumstances since 1973 one may ask whether in certain clearly specified cases and on a short-term basis AID should reconsider with the Congress the appropriateness of program assistance to meet development objectives or, at least, a review of sector lending content, specifically provision of budget support.

Thirdly, achieving annually the proposed magnitude of resources depends on resolution within AID itself of several problems:

1. The cumbersome nature of AID's project design process and the two years-plus now required to design and obtain final approval of new activities.

2. AID's dearth in the field and AID/W of technical expertise needed both for project design and management.

3. Problems of project backstopping -- from the contracting process to gaining AID/W's attention to, and action on, specific implementation actions.

4. Problems of a too narrow or rigid interpretation of AID's new directions, examples being questions of suitability of AID's financing rural infrastructure in Africa, the above comments on program assistance,and the fragility of African institutions through which many AID programs must operate.

The above impinge upon AID's ability to be an effective donor in Africa as well as Kenya and are of concern to field Missions, witness Nairobi 5162 and other Missions' cables proposing agenda items for the recent Africa Bureau Director's Conference. Also, they contribute to AID's possible image in host countries' eyes as an unresponsive donor, to whom these governments consequently will turn for assistance projects of less immediate urgency and lower priority. The GOK openly admits that while AID knows more about new projects than other donors and that AID's in-depth analysis has some merit, Government will turn first for high-priority projects to other donors whose systems for project design and approval give greater assurance that aid will be forthcoming and whose procedures require less time.

Finally, the related issues of concessional assistance and donor financing of local costs were raised at the CG meeting. Many of the donors - UK and the Scandinavian countries, for example,- had previously converted their assistance to an all grant basis or otherwise increased the concessional element of their support. AID now provides all technical assistance on a grant basis, and Kenya qualifies for the most favorable loan terms AID can offer. These practices should continue.

The GOK made a particular plea for increased donor support for local costs in addition to financing of foreign exchange requirements of development activities. The Mission in recently proposed projects has been responsive to local costs considerations, albeit on a declining basis over the life-of-project period. This approach, too, should continue and, possibly, be widened to cover a larger share of recurrent budget financing.

Turning to AID's human resource requirements, the currently approved U.S. direct-hire ceiling for the Mission is 32 plus two IDI's. The MOB submitted with this ABS spells out additional personnel needs as now envisaged into 1983. The increase is all for Project Managers for

new projects. These new Project Mangers will need to have appropriate technical qualifications to be able successfully to direct proposed new project activities and to participate in their design.

For further details on monetary and human resource requirements, see Table V and its narrative addendum.

Conclusion

The above discussion is an attempt to address the requirement for this narrative in the ABS guidance within the context of earlier directions given for DAP Summary Strategy Statements (75 AIDTO Circ A-286) and AID/W's request for Section 102(d) information. Given prescribed space limitations, it has been necessary to refer the reader to other materials, and it has been impossible to address all suggested topics as comprehensively as the USAID might wish. Being near the end of the current DAP period and poised to begin the next go-round, it was felt most appropriate to point out the directions in which we seem to be heading and to raise here some of the issues which we believe should be addressed by the Mission and AID/W as part of the DAP revision and other exercises.

Assistance to Kenya, Excl. AID

($ Millions)

	1973	1974	1975	1976	1977	1978	1979	1980
Bilateral Donors	86.1	99.5	108.6	104.3	133.8	N/A	N/A	N/A
United Kingdom	28.6	32.5	21.0	27.6	27.6	27.6		
West Germany	11.4	17.1	21.9	27.9	27.9			
Sweden	12.1	17.5	18.6	14.0	18.6	18.6	18.6	
Netherlands	9.7	9.4	10.7	7.9	20.1			
Denmark	N/A	5.1	9.1	5.6	7.2	7.0	19.6	10.0
Norway	N/A	6.0	9.3	9.5	12.4	12.3	12.3	12.3
Canada	6.7	4.6	6.7	10.8	10.0	10.0	10.0	10.0
Other	17.6	7.3	11.3	N/A	N/A			
Int'l Agencies	10.8	84.0	104.8	213.2	N/A	N/A	N/A	N/A
IBRD	-	44.4	75.5	149.0				
IDA	6.0	33.5	25.5	14.0				
IFC	2.9	2.8	-	9.1				
AFDB	-	3.0	3.0	3.0	11.6	11.6		
UNDP	1.9	0.3	0.3	0.3	0.3			
Other UN	-	-	0.5	0.8				
BADEA	-	-	-	5.0				
EEC	-	-	-	35.0	35.0	35.0	35.0	35.0

The above information is taken from the AID FY 1977 and FY 1978 Congressional Presentations(data for 1973-75) and for subsequent years from information supplied to USAID by various donors. Data on bilateral donor programs in 1976 and beyond

reflects commitments agreed with the GOK or now included in indicative planning figures for the years indicated above. For international agencies during the same period the figures given reflect USAID's knowledge gained from donor representatives of the magnitude of their programs - for example, the EEC plans to expend $175 million over the next four-to-five years in Kenya - or our own knowledge of signed aid agreements - BADEA's $5 million for IADP.

Given the variety of sources, the above data is not internally consistent since some figures represent commitments and others, disbursements, and time periods vary among calendar and fiscal years. Even so, the above table should present a fairly clear picture of gross order magnitudes of assistance now available to Kenya. Similarly, given the November CG meeting agreements, levels should increase, but certainly, there will be no significant diminution in total, or individual donor, assistance amounts over the coming years. The latter assumption from all current indicators is certainly true for the World Bank, the largest donor, which expects to provide $400-$500 million over the next four years or so.

TABLE 1

Long Range Program Plan

($ Millions)

	1978 2/	1979 Request	Planning Period 1980	1981	1982	1983
Food/Nutrition	22.6	22.4	27.0	33.0	33.0	33.0
Grants	7.6	1.4	2.0	3.0	3.0	3.0
Loans	15.0	21.0	25.0	30.0	30.0	30.0
Population	1.1	0.6	5.6	0.5	0.5	0.5
Grants	1.1	0.6	0.6	0.5	0.5	0.5
Loans	-	-	5.0	-	-	-
Health	0.4	15.0	-	-	15.0	-
Grants	0.4	6.0	-	-	6.0	-
Loans	-	9.0	-	-	9.0	-
Education	-	0.2	0.2	0.2	0.2	0.2
Grants	-	0.2	0.2	0.2	0.2	0.2
Total Funcational Accounts	24.0	38.2	32.8	33.7	48.7	33.7
Grants	9.0	8.2	2.8	3.7	9.7	3.7
Loans	15.0	30.0	30.0	30.0	39.0	30.0
Pl 480 (non-add)	2.7	2.8	3.0	3.1	3.2	3.4
Title I	-	-	-	-	-	-
Title II 1/	2.7	2.8	3.0	3.1	3.2	3.4
Housing Investment Guarantees (non-add)	-	-	-	13.5	-	-

1/ Assumes same level recipients, with 5 percent inflation per year in commodity costs.

2/ Difference due to rounding.

DAP Documentation Schedule

Program Year	Documents to Be Used as Basis for Program Planning	Date Approved or Sent to AID/W
FY 1976	Original DAP and DAP Supplement, 1974-1978	October 1975
	DAP Revision, 1979-1983	
FY 1977	1. Outside Program Determination and Review	September 1977
FY 1978	2. Analytical Description of Poor Majority	December 1977
	3. Summary Narrative Statement	December 1977
	4. Sector Assessments	December 1977
	a. Agriculture and/or Rural Development	
	b. Health/Family Planning	

Note: The above does not comply exactly with the format prescribed by AIDTO Circ A-86 because the USAID anticipates completion of a DAP Revision in FY 1978. The original DAP documents covered the period of the Government of Kenya's third Development Plan, and the revision is proposed to cover 1979-83, the period of the fourth Plan on which Government is already at work.

As the first step in the revision process, the USAID has undertaken to initiate a comprehensive review of its existing program (see Mission Evaluation Schedule and Narrative). This is to be followed by actual work on the DAP revision, which given the timing must rely on current GOK policy statements and prognostications of Kenyan policy makers rather than awaiting actual Plan publication. This is feasible because of the long-term nature of most of Kenya's major development constraints, and it is appropriate if AID is to be responsive to the new Plan's proposals in a prompt and timely fashion once that document becomes available.

When the first revision is completed, and assuming no drastic reorientation in Kenya's so-far pragmatic development approach and policies, there should be no need for a major DAP exercise during FY 1979-FY 1981.

Table II

Funding Levels for FY 1977, FY 1978, FY 1979

(in $000)

	FY 1977 1/	1978	1979
Food Nutrition	30,816	22,600	22,423
Grants	6,516	7,600	1,423
Loans	24,300	15,000	21,000
Population/Health	1,297	1,422	15,583
Grants	1,297	1,422	6,583
Loans	-	-	9,000
(Population)	(1,017)	(1,060)	(583)
(Grants)	(1,017)	(1,060)	(583)
(Loans)	-	-	-
(Health)	(280)	(362)	(15,000)
(Grants)	(280)	(362)	(6,000)
(Loans)	-	-	(9,000)
Education	-	-	250
Grants	-	-	250
Loans	-	-	-
Sub-Total	32,113	24,022	38,256
Grants	7,813	9,022	8,256
Loans	24,300	15,000	30,000
Disaster Relief	289	-	-
Grants	289	-	-
Loans	-	-	-
Total	32,402	24,022	38,256
PL 480	2,551	2,679	2,812
Title I	-	-	-
Title II 2/	2,551	2,679	2,812

1/ See Table III for changes from previous OYB levels.
2/ Assumes same level recipients, with 5 percent inflation per year in commodity costs.

AGENCY FOR INTERNATIONAL DEVELOPMENT

ABS/CP SUMMARY - TABLE III

1. TRANSACTION CODE: A (A = ADD, C = CHANGE, D = DELETE)

2. ABS/CP — DOCUMENT CODE 6

3. COUNTRY/ENTITY: KENYA

4. DOCUMENT REVISION NO.:

5. OPERATIONAL YEAR FY: 78

6. BUREAU/OFFICE: A. SYMBOL AFR; B. CODE 06

7. GEOGRAPHIC CODE: 615

8. TYPE DATA: 1 (1 = ABS, 2 = ABS REVISION, 3 = CP, 4 = CP NOTIFICATION)

9. TYPE ASSISTANCE: 1 (1 = PROJECT, 2 = PROGRAM)

10. PROJECT SEQUENCE NO.	11. PROJECT TITLE (40 CHARACTERS MAXIMUM)	12. QTR. FOR OBLIG	13. EST. FY AUTH. OBLIG FINAL	14. APPROPRIATION	15. PRIMARY PURPOSE CODE	16. LOAN/GRANT INDICATOR	17. BUDGETS (IN $ 000) AY	OY	BY	LOP
	Food and Nutrition									
	Grant									
0148	Agriculture Credit	N/A	77	FN	140	GC	393	1/		2,094
0157	National Range and Ranch Development	1	81	FN	130	GC	1,180	2/ 3/ 901	681	8,174
0158	Univ. of Nairobi Vet Faculty	N/A	77	FN	110	GC	618	-	-	2,921
0162	Rural Planning	1	80	FN	180	GC	367	699	742	2,648
0168	Rural Roads Systems	N/A	77	FN	133	L/GC	1,748	-	-	15,100
0169	Agriculture Sector Loan II	N/A	79	FN	210	L/GC	-	6,000 4/	-	21,000
0170	Roads Gravelling	N/A	77	FN	133	L/GC	1,400	-	-	9,100
0174	PfP Rural Enterprise Development(OPG)	N/A	77	FN	279	GC	360	-	-	360
0176	CARE Water Development II (OPG)	N/A	77	FN	100	GC	450	-	-	450
	Loan									
0160	Livestock Loan Amdt.	N/A	77	FN	113	L	3,250	-	-	12,850
0168	Rural Roads Systems	N/A	77	FN	133	L/GC	13,350	-	-	15,100
0169	Agriculture Sector Loan II	N/A	79	FN	210	L/GC	-	15,000 4/	-	21,000
0170	Roads Gravelling	N/A	77	FN	133	L/GC	7,700	-	-	9,100
0172	Marginal/Semi-Arid Land Development	N/A	79	FN	100	L	-	-	21,000 5/	21,000
	(Program Development and Support) Total						(280)	(205)	(100)	
	MinAg Studies(incl. design)						(200)	-	-	
	Program Determination						(80) 6/	-	-	
0172	Marginal Semi-Arid Lands Development						-	(100)	(100)	
0162	Rural Planning (evaluation)						-	(25)	-	
	DAP							(80) 6/		
	Grant						6,516	7,600	1,423	
	Loan						24,300	15,000	21,000	
	F&N Total						30,816	22,600	22,423	

18. DATE DOCUMENT RECEIVED IN AID/W: MM DD YY

AID 1330-7 (2-77)

AGENCY FOR INTERNATIONAL DEVELOPMENT

ABS/CP SUMMARY - TABLE III

1. TRANSACTION CODE: A = ADD, C = CHANGE, D = DELETE

2. ABS/CP DOCUMENT CODE 6

3. COUNTRY/ENTITY

4. DOCUMENT REVISION NO.

5. OPERATIONAL YEAR FY

6. BUREAU/OFFICE A. SYMBOL B. CODE

7. GEOGRAPHIC CODE

8. TYPE DATA: 1 = ABS, 2 = ABS REVISION, 3 = CP, 4 = CP NOTIFICATION

9. TYPE ASSISTANCE: 1 = PROJECT, 2 = PROGRAM

10. PROJECT SEQUENCE NO.	11. PROJECT TITLE (40 CHARACTERS MAXIMUM)	12. QTR. FOR OBLIG	13. EST. FY AUTH. OBLIG FINAL	14. APPROPRIATION	15. PRIMARY PURPOSE CODE	16. LOAN/GRANT INDICATOR	17. BUDGETS (IN $ 000) AY	OY	BY	LOP
	Disaster Relief									
0164	Marginal/Semi-Arid Lands Pre-Investment Study	NA	77	DR	120	GC	289	-	-	1,034
	DR Total						289	-	-	
	Population/Health									
	Grant									
0161	Family Planning	2	79	PH	440	GC	777	490	117	2,030
0165	Pop. Studies & Research Center	1	80	PH	410	GC	240	570	466	1,976
0173	IEF Rural Eye Care (OPG)	1	78	PH	523	GC	280	362	-	1,005
0177	Rural Health Assist.	NA	83	PH	500	L/GN	-	-	6,000	15,000
	Loan									
0177	Rural Health Delivery	NA	83	PH	500	L/GN	-	-	9,000	15,000
	(Program Development Support Total)						(455)	(20)	-	
0177	Rural Health Delivery						(435)	-	-	
	Program Determination						(20)6/	-	-	
	DAP						-	(20)6/	-	
	Grant						1,297	1,422	6,853	
	Loan						-	-	9,000	
	P/H Total						1,297	1,422	15,583	

18. DATE DOCUMENT RECEIVED IN AID/W MM DD YY

AID 1330-7 (2-77)

AGENCY FOR INTERNATIONAL DEVELOPMENT

ABS/CP SUMMARY - TABLE III

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	Education/Human Resources Development									
	Grant									
0178	Human Resources Development	NA	83	EH	600	GN	-	-	250	1,275
	(Program Development Support)						(6)	(6)	-	
	Grant						-	-	250	
	Loan						-	-	-	
	Total								250	
	Total Grant						8,102	9,022	8,256	
	Total Loan						24,300	15,000	30,000	
	Total Program						32,402	24,022	38,256	

18. DATE DOCUMENT RECEIVED IN AID/W — MM DD YY

AID 1330-7 (2-77)

Footnotes for Table III

1/ OYB increase requested Nairobi 16321, 5/20/77.

2/ Estimated total FY 77 requirements. OYB increase request pending.

3/ OYB increase requested Nairobi 4722, 4/15/77.

4/ Year of obligation varies from CP; see PID.

5/ Estimate - PID to be submitted subsequent to ABS per Nairobi 5362 and STATE 110879.

6/ Total estimated cost $100,000 - split F&N $80,000, PH $20,000.

COUNTRY/PROGRAM	PROJECT TITLE			AS APPROVED	REVISION	DATE PP/REVISION
Kenya	National Range-Ranch Development Page 1 of 2		INITIAL OBLIGATION ▶	FY 1973	FY 1973	May 1976
ONGOING PROJECT BUDGET DATA - TABLE IV			FINAL OBLIGATION ▶	FY 1982	FY 1981	DATE LAST PAR April 1976
	PROJECT NUMBER 615-0157	APPROPRIATION FN	TOTAL COST ▶	5,250	8,174	DATE NEXT PAR June 1977

U. S. DOLLAR COST ($ 000)

PROJECT INPUTS	ESTIMATED FY 1977 1/			ESTIMATED FY 1978				ESTIMATED FY 1979			
	OBLIGATION	EXPENDITURES	PIPELINE	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)
PROJECT TOTAL	1180	989	662	901	1,000	563	-	681	990	281	-
1. U.S. Direct Hire	-	-	-	-	-	-	-	-	-	-	-
2. USGS PASA	65	50	15	-	15	-	-	-	-	-	-
3. USDA PASA	301	498	84	338	338	84	1/78-12/78	315	338	61	1/79-12/79
4. PASA Support	203	202	9	130	130	9	10/77-9/78	195	194	10	10/78-9/79
5. Long-Term Technical Assistance (OPEX)	265	-	265	-	109	156	-	-	107	49	-
6. Short-Term TA (Consultants)	60	-	60	40	60	40	10/78-12/78	-	40	-	-
7. Commodities	64	67	42	62	64	40	8/78-N/A	52	62	57	7/79-N/A
								(continued)			
HOST COUNTRY INPUT											

PERSONNEL ON BOARD AS OF	9/30/77	9/30/78	9/30/79
DH			
PASA	10	7	7
CONTRACT		2	2

PARTICIPANTS PROGRAMMED 2/		FY 1977	FY 1978	FY 1979
NON-CONTRACT: LONG-TERM	US	14	23	8
SHORT-TERM		6	3	3
CONTRACT: LONG-TERM				
SHORT-TERM				

1/ Proposed increase subject to justification to be cabled to AID/W following completion of negotiations underway with GOK. Approved OYB data for FY 1977 shown on narrative page.

2/ In addition to U.S. training, project will finance local training for 18, 36 and 23 Kenyans in FY 1977, FY 1978 and FY 1979, respectively.

AID 1330-8 (2-77)

COUNTRY/PROGRAM	PROJECT TITLE			AS APPROVED	REVISION	DATE PP/REVISION
ONGOING PROJECT BUDGET DATA - TABLE IV	National Range-Ranch Development Page 2 of 2		INITIAL OBLIGATION ▶	FY 1973	FY 1973	
			FINAL OBLIGATION ▶	FY 1982	FY 1981	DATE LAST PAR
	PROJECT NUMBER 615-0157	APPROPRIATION FN	TOTAL COST ▶	5,250	8,174	DATE NEXT PAR

U. S. DOLLAR COST ($ 000)

PROJECT INPUTS	ESTIMATED FY 1977			ESTIMATED FY 1978				ESTIMATED FY 1979			
	OBLIGATION	EXPENDITURES	PIPELINE	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)
PROJECT TOTAL											
8. U.S. Training-Long-Term	163	144	134	269	220	183	12/78-8/79	72	191	64	9/79-7/80
9. U.S. Training - Short-Term	37	23	37	19	37	19	10/78-1/79	19	19	19	10/79-7/80
10. Local Training	22	5	16	43	27	32	7/78-6/79	28	39	21	7/79-6/80
HOST COUNTRY INPUT	346			352				361			

PERSONNEL ON BOARD AS OF	9/30/77	9/30/78	9/30/79
DH			
PASA			
CONTRACT			

PARTICIPANTS PROGRAMMED	FY 1977	FY 1978	FY 1979
NON-CONTRACT: LONG-TERM			
SHORT-TERM			
CONTRACT: LONG-TERM			
SHORT-TERM			

AID 1330-8 (2-77)

NATIONAL RANGE AND RANCH DEVELOPMENT

PROJECT NO. 615-0157

Progress to Date

The Project Paper Revision approved January 1977 increased life-of-project obligations from $5.2 million to $8.1 million in order to provide additional technical assistance and to finance inflated costs of ongoing inputs. Assistance is being provided for (1) the planning and implementation of ranch and range management practices, (2) the development of ground and surface water in balance with available forage, and (3) the training of professional range management, civil engineering, and hydrogeology personnel. This project provides the technical assistance component to the livestock development activities financed under AID's Livestock Development loan, and together the two activities form an integral part of the $60 million multi-donor Phase II Livestock Development Program.

End-of-project indicators are the same for both the AID grant and loan projects. These are to be monitored and reported by the International Livestock Center of Africa (ILCA) in conjunction with ILCA's responsibility for monitoring the entire multi-donor Phase II Program. The indicators are quite technical in nature, including marketed off-take rates, value of livestock, quality of beef and herd composition. ILCA has only recently begun its program monitoring functions; therefore, no information is yet available on end-of-project indicators. The highly technical nature of these indicators precludes any indicator's assessment without ILCA's input.

Indicators of general progress to date include: (a) 50,000 cattle marketed through project marketing channels from the North Eastern Province range development area, 41,000 head from the Masai group ranch development, and 11,000 finished animals from the company ranches; (b) 65 group ranches, belonging to 3,250 families, adjudicated and titles issued; (c) 30 company and cooperative ranches, having 1,500 members, receiving long-term leases; (d) 20 company and cooperative ranches and 15 group ranches with approved loans for ranch development totaling $21,800,000 from the Agriculture Finance Corporation; (e) 25 commercial ranches having 2,500 stockholders, receiving ranch development loans; (f) seven range grazing blocks totaling 7,000,000 acres developed and operational, and (g) to date, 20 participants having entered U.S. long-term training and 14 in U.S. short-term training.

National Range and Ranch Development

Approved OYB Level

		FY 1977
1.	U.S. Direct Hire	
2.	USGS PASA	65
3.	USDA PASA	301
4.	PASA Support	203
5.	Long-Term TA	-
6.	Short-Term TA	60
7.	Commodities	74
8.	U.S. Training-Long Term	195
9.	U.S. Training-Short-Term	37
10.	Local Training	22
Total		957

COUNTRY/PROGRAM	PROJECT TITLE			AS APPROVED	REVISION	DATE PP/REVISION
KENYA	FAMILY PLANNING Page 1 of 2		INITIAL OBLIGATION ▶	FY 75	FY	6/16/75
ONGOING PROJECT BUDGET DATA - TABLE IV			FINAL OBLIGATION ▶	FY 1979	FY	DATE LAST PAR June 1976
	PROJECT NUMBER 615-0161	APPROPRIATION PH	TOTAL COST ▶	3,530		DATE NEXT PAR June 1977

U. S. DOLLAR COST ($ 000)

PROJECT INPUTS	ESTIMATED FY 1977			ESTIMATED FY 1978				ESTIMATED FY 1979			
	OBLIGATION	EXPENDITURES	PIPELINE	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)
PROJECT TOTAL	777	568	554	490	774	258		117	375	-	-
1. U.S. Personnel Costs	21 1/	135	12 2/	-	-	-	-	12 3/	12	-	3/79-4/79
2. MOH Long-Term Training	128	83	165	97	162	100	9/78-8/79	-	100	-	-
3. MOH Short-Term Training	57 -	50 -	48 -	58 -	77 -	25 -	3/78-12/78	29 -	58 -	- -	3/79-5/79
4. CBS Training	-	23	-	-	-	-	-	-	-	-	-
5. Contraceptive Supplies	-	-	-	-	-	-	-	-	-	-	-
6. HEU Commodities	407 -	78 -	329 -	200 -	400 -	129 -	1/78-6/78	- -	129 -	- -	- -
7. MOH-NFWC Commodities	- -	35 -	- -	10 -	10 -	- -	3/78-4/78	10 -	10 -	- -	2/79-3/79
HOST COUNTRY INPUT	550			535				580			

PERSONNEL ON BOARD AS OF	9/30/77	9/30/78	9/30/79
DH			
PASA			
CONTRACT			

PARTICIPANTS PROGRAMMED	FY 1977	FY 1978	FY 1979
NON-CONTRACT: LONG-TERM	11	5	
SHORT-TERM	9	10	5
CONTRACT: LONG-TERM			
SHORT-TERM			

1/ US DH 10, Contract or PASA 11.

2/ Prior year funds to be deobligated.

3/ Contract or PASA personnel for final project evaluation.

AID 1330-8 (2-77)

COUNTRY/PROGRAM	PROJECT TITLE					
KENYA	FAMILY PLANNING Page 2 of 2		INITIAL OBLIGATION ▶	AS APPROVED FY 75	REVISION FY	DATE PP/REVISION
ONGOING PROJECT BUDGET DATA - TABLE IV			FINAL OBLIGATION ▶	AS APPROVED FY 1979	REVISION FY	DATE LAST PAR
	PROJECT NUMBER	APPROPRIATION	TOTAL COST ▶	AS APPROVED 3,530	REVISION	DATE NEXT PAR

U. S. DOLLAR COST ($ 000)

PROJECT INPUTS	ESTIMATED FY 1977			ESTIMATED FY 1978				ESTIMATED FY 1979			
	OBLIGATION	EXPENDITURES	PIPELINE	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)
PROJECT TOTAL											
8. MOH Salary Support	164 -	164 -	- -	125 -	125 -	- -	10/77- 9/78	66 -	66 -	- -	10/78- 6/79
HOST COUNTRY INPUT											

PERSONNEL ON BOARD AS OF	9/30/77	9/30/78	9/30/79
DH			
PASA			
CONTRACT			

PARTICIPANTS PROGRAMMED	FY 1977	FY 1978	FY 1979
NON-CONTRACT: LONG-TERM			
SHORT-TERM			
CONTRACT: LONG-TERM			
SHORT-TERM			

AID 1330-8 (2-77)

FAMILY PLANNING

PROJECT NO. 615-0161

Progress to Date

This multi-donor project assists the Government of Kenya to establish, implement and make operational a national five-year MCH/FP program. In March-April 1977 an 11-member, five donor Technical Review was undertaken in cooperation with the GOK. As a result of that review a number of previously established targets are in the process of being revised, although the review found that certain targets (e.g., training of nurses, delivery points operational, program reporting, supervision offices staffed) were at or ahead of schedule. In the most serious short-fall areas (motivational activities and contraceptive acceptors), new plans and accelerated activities are being implemented.

AID has provided: approximately two and one-half worker years of long-term technical assistance in the area of information/education and computerization and reporting of client service statistics; short-term advisory services (planned) for the information/education activities; training for 20 participants with another 15 participants formally nominated and awaiting placement; 10,000 gross of condoms, with an additional 5,000 gross to be ordered; small scale office equipment such as typewriters, adding machines, small desk calculators; partial local cost financing for salaries of new persons brought into the program; and aduio-visual equipment and commodities for the new Health Education Unit building in support of MCH/FP information/education activities.

COUNTRY/PROGRAM	PROJECT TITLE		INITIAL OBLIGATION	AS APPROVED FY 1976	REVISION FY	DATE PP/REVISION
Kenya	Rural Planning		FINAL OBLIGATION	AS APPROVED FY 1980	REVISION FY	DATE LAST PAR
ONGOING PROJECT BUDGET DATA - TABLE IV	PROJECT NUMBER 615-0162	APPROPRIATION FN	TOTAL COST	AS APPROVED 2,648	REVISION	DATE NEXT PAR 12/77

U. S. DOLLAR COST ($ 000)

PROJECT INPUTS	ESTIMATED FY 1977 1/			ESTIMATED FY 1978				ESTIMATED FY 1979			
	OBLIGATION	EXPENDITURES	PIPELINE	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)
PROJECT TOTAL	367	702	117	699	650	166		742	677	231	
1. Technical Assistance Pool - MOA (Host country contract)	93	356	2	342	342	2	10/77-9/78	369	369	2	10/76-9/79
2. Technical Services - MOFP/RPU (Host country contract)	274	346	115	357	308	164	2/78-1/79	373	308	229	2/79-1/80
HOST COUNTRY INPUT	235			235				235			

PERSONNEL ON BOARD AS OF 1/	9/30/77	9/30/78	9/30/79
DH			
PASA			
CONTRACT	13	15	15

PARTICIPANTS PROGRAMMED 1/	FY 1977	FY 1978	FY 1979
NON-CONTRACT: LONG-TERM			
SHORT-TERM			
CONTRACT: LONG-TERM	3	4	4
SHORT-TERM	8	16	16

1/ Financed under host-country contract.

AID 1330-8 (2-77)

RURAL PLANNING

PROJECT NO. 615-0162

Progress to Date

The project finances two related host country contracts with the Harvard Institute for International Development (HIID). Both activities concentrate on developing policies, systems and procedures for agricultural and rural development planning, implementation and monitoring. The first provides assistance to the Ministry of Agriculture (MOA) as part of a multi-donor effort whereby the U.S. will contribute up to 37.6 percent ($1,383,500) of the total cost of the contract. Under this contract seven long-term advisors have been assigned to date to the Economic Planning Division and the Management Systems and Evaluation Unit in the MOA. In the short time that the advisors have been on board they have been involved in such activities as designing a system of monitoring and evaluation of small farmer development programs, initiating reviews of pricing policies for maize, wheat, and cotton, and work has been started on an MOA-wide program review and budgetting system.

The second contract with HIID will be fully funded by AID. The contract was signed April 1, 1977. Two long-term advisors are now on board, and a third is expected momentarily.

COUNTRY/PROGRAM	PROJECT TITLE		INITIAL OBLIGATION	AS APPROVED FY 1976	REVISION FY	DATE PP/REVISION
KENYA	Population Studies and Research Center		FINAL OBLIGATION	AS APPROVED FY 1980	REVISION FY	DATE LAST PAR
ONGOING PROJECT BUDGET DATA - TABLE IV	PROJECT NUMBER 615-0165	APPROPRIATION PH	TOTAL COST	AS APPROVED 1,976	REVISION	DATE NEXT PAR July 1978

U. S. DOLLAR COST ($ 000)

PROJECT INPUTS	ESTIMATED FY 1977			ESTIMATED FY 1978				ESTIMATED FY 1979			
	OBLIGATION	EXPENDITURES	PIPELINE	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)	OBLIGATION	EXPENDITURES	PIPELINE	FUND PERIOD (FR-TO)
PROJECT TOTAL	240	129	591	570 1/	458	703	-	466	523	620	-
1. Technical Assistance	-	129	351	328	198	481	3/79-6/80	220	244	429	7/80-1/82
2. Participants	45	-	45	132	60	117	3/78-7/79	147	134	132	3/79-12/80
3. Research Funds	165	-	165	75	150	90	9/78-8/79	79	120	49	9/79-8/80
4. Seminars/Workshops/	-	-	-	15	5	10	2/78-1/79	15	15	10	2/79,10/79
5. Commodities	30	-	30	20	45	5	1/78-11/78	5	10	-	1/79
HOST COUNTRY INPUT	212			300				300			

PERSONNEL ON BOARD AS OF	9/30/77	9/30/78	9/30/79
DH			
PASA			
CONTRACT	3	3	3

PARTICIPANTS PROGRAMMED	FY 1977	FY 1978	FY 1979
NON-CONTRACT: LONG-TERM	4	9	10
SHORT-TERM	-	3	4
CONTRACT: LONG-TERM			
SHORT-TERM			

1/ Estimated FY 1978 obligations are lower than shown in the FY 1978 Congressional Presentation due to the delayed initiation of project activities.

AID 1330-8 (2-77)

POPULATION STUDIES AND RESEARCH CENTER

PROJECT NO. 615-0165

Progress to Date

This project is designed to develop an indigenous capacity to provide: the supporting services required for the successful implementation of a national family planning program; the population awareness of an enlightened leadership, and academically trained personnel to support multiple population and population-related activities in the public and private sectors. A contract was signed March 28, 1977, with the Population Council, Inc., and contract personnel are due to begin arriving in Kenya by May 30, 1977. The three-person contractor team should be fully in place in time to begin classes in September 1977 with the first four long-term participants to leave by January 1978. Through April 1977 the University had appointed the director of the Center; formally established the Governing Council, provided modern, adequate offices and equipment for staff; hired a secretary, administrative assistant and a project manager as support staff; identified students for future graduate training, and provided approximately $212,000 for office space, office equipment, research, travel, furniture and salaries.

TABLE V - FY 1979 PROPOSED PROGRAM RANKING

DECISION UNIT: KENYA | REVISED BY | CONSOLIDATED BY

RANK	DECISION PACKAGES/PROGRAM ACTIVITY/SUPPORT ITEM: DESCRIPTION	APPROP ACCT	RESOURCE REQUIREMENTS: CUMULATIVE MISSION OPERATING EXPENSES (000)	WORKFORCE (OH ONLY): INCREMENT US	INCREMENT FN	CUMULATIVE US	CUMULATIVE FN	PROGRAM FUNDING (000): INCREMENT	CUMULATIVE
	Decision Package - Minimum:								
	Workforce and Operating Expenses (Assuming no FY 1979 Obligations)	-	878	34	56	34	56	-	-
1	0169 Agricultural Sector Loan II 1/ (L/GN)	FN	894	1	-	35	56	21,000	21,000
1	0172 Marginal Lands Development (L/GN)	FN		1	-	36	56	21,000	42,000
2	0162 Rural Planning (GO)	FN		-	-	36	56	742	42,742
3	0157 National Range-Ranch Development(Range) (GO)	FN		-	-	36	56	397	43,139
4	0177 Rural Health Delivery (L/GN)	H		-	-	36	56	15,000	58,139
5	0161 Family Planning (GO)	P		-	-	36	56	88	58,227
6	0165 Population Studies and Research Center (GO)	P		-	-	36	56	220	58,447
7	PL 480 Title II			-	-	36	56	1,600	60,047
	Decision Package - Current:		894						
8	Workforce Increment - Executive Office			-	2	36	58	-	60,047
9	0161 Family Planning (GO)	P		-	-	36	58	29	60,076
10	0165 Population Studies and Research Center (GO)	P		-	-	36	58	246	60,322
11	0157 National Range-Ranch Development (Ranch) (GO)	FN		-	-	36	58	284	60,606
12	PL 480 Title II			-	-	36	58	1,200	61,806
	Decision Package - Proposed:		910						
13	Workforce Increment - Technical Services Staff	-		2	-	38	58	-	61,806
14	0178 Human Resources Development (GN)	EHR		-	-	38	58	250	62,056

1/ Included here as a contingency if approval delayed to FY 79. Mission's preferred approach is for ASL-II to be approved in FY 78.

TABLE V. FY 1979 PROPOSED PROGRAM RANKING:

NARRATIVE ADDENDUM

The FY 1978 Annual Budget Submission for Kenya proposed FY 1978 funding of $35.3 million. The subsequent FY 1978 Congressional Presentation, by contrast, included an aid level for the same year of only $5.2 million, of which $1.6 million was for P.L. 480, Title II. The drastic reduction was because AID/W did not approve the PID's for ASL II and Marginal/Semi-Arid Lands Development. Also, AID/W did not then foresee the institution of zero base budgeting.

Adoption of a minimum program level for FY 1979 of $4.2 million, using the AID/W 80 percent criterion set in AIDTO Circ A-172 and including Title II, would be totally unfeasible in the Mission's view. Such a drastic reduction from actual funding levels achieved in the immediately preceding years would, in effect, return AID to the program levels of the Sixties and early Seventies and stand in sharp contrast to other donor programs. It would not be consistent with the U.S. position at the 1976 Consultative Group meeting in Kenya nor with Kenya's requirements for foreign assistance. Finally, such a level would allow only for continuation at a much reduced pace of existing grant funded activities, thereby making only a marginal contribution to achievement of the USAID sectoral goals stated in the "Summary Narrative Statement" (page 9). At that level AID would not be able to make a constructive contribution to Kenya's development.

For these reasons the USAID has proposed a minimum decision package of $60 million based on the OMB criterion above. This level includes $21 million for ASL II if approval of that proposed activity should slip from FY 1978. In such an event ASL II would need to be the highest priority project given its content, import and past history. If ASL II is funded in FY 1978, the minimum FY 1979 program would total $39 million and would represent a mix of continuing and new activities chosen for their impact on sector goals, for maintaining AID's credibility as a donor in Kenya, for their consistency with U.S. policy, and for their support of Kenya's development efforts. Such a minimum program package, too, would be more consistent with the current thrust of AID toward Africa as a whole as well as Kenya. Within the core group of projects is full funding for three new projects - ASL II per the above, Semi-Arid/Marginal Lands Development, and Rural Health

Delivery - full funding for the Rural Planning grant project, which underlies the entire USAID agriculture program, and partial funding for ongoing technical assistance for the two family planning projects and for the National Range-Ranch Development project to cover range development activities in the North Eastern Province.

To implement this minimum program would require the addition of two new project implementation personnel to the USAID's FY 1977 staff level of 34 (33 direct-hires and one roads engineer serving under a personal services contract). One would be assigned to ASL II and one to the new/initial marginal lands follow-on activity. These must be additive to current project personnel since current staff are responsible for minimum package activities and for other projects not shown above which will not require incremental financing in FY 1979 but which will still be active. Examples of such ongoing projects are Agriculture Credit, the Livestock Loan, and the two rural roads efforts. With regard to other USAID personnel - for program direction. administrative and financial management, and overall executive leadership - the Executive and Controller Offices in Kenya serve many more AID entities than USAID/Kenya; therefore, their staffing is largely related to factors other than the size of the Kenya aid program. The Program and Director's offices, it is believed, would remain unchanged for the same reason project staff could not be reduced

The current decision package represents a small addition to the minimum package. This increase would enable full funding of the on-going projects being only partially funded under the minimum program. It would also restore the Title II program to the $2.8 million level proposed by Catholic Relief Services for FY 1979 instead of continuing it at an arbitrary minimum level coinciding with the FY 1977 financing amount ($1.6 million). Operating the Title II program at the lower level would mean deferring the proposed program expansion for FY 1978 until FY 1980 and, given the effects of inflation, would probably also mean reducing the 90,000 recipients in FY 1977 to some smaller number. As can be seen from Table V the current level program could be operated with the same number of staff as the minimum decision package.

The benefits of the current level program would be that the USAID could carry out all existing projects at the pace originally designed, thereby facilitating achievement of project objectives in the original time frame. This would particularly affect participant training (all projects), project-financed research and seminars (PSRC), and ranch design and development (NRRD and the Livestock Loan).

The total FY 1979 proposed decision package would add only the new Human Resources Development grant activity and two additional project staff - a rural development specialist and an equipment advisor. The program increment is quite small, and given the long-term nature of Kenya's manpower constraint and the nature of the project, deferral of implementation by a year might be less serious, all things considered, than would be the case for any of the other new projects.

Deferral of the manpower increments would have more serious impact since it would delay design of the proposed rural market centers project. It might also interrupt equipment procurement and delivery actions under the FY 1977 roads projects and the Livestock Loan Amendment.

The USAID has carefully reviewed various alternatives to the above decision package set. One alternative would be to propose a minimum program totalling about $4.2 million and consisting only of those components of ongoing activities necessary to maintain the bare minimum of project operations. This is considered unrealistic and inappropriate for the reasons indicated earlier. Another alternative would be to shift either the new marginal lands, or rural health activity, or both to the current level package. This, too, the Mission judges would be impractical since the loss of momentum now existing and carefully built up over the last two years for these projects would have serious adverse consequences for the FY 1979 assistance program and for subsequent years as well. It would also be inconsistent with U.S. assistance policy toward Kenya. Finally, it would certainly underscore the GOK's concerns, reported in the "Summary Narrative Statement", about the duration and uncertainty of AID's project design process and their conviction that for AID to be an effective donor it must be less bureaucratic in its procedures. For these reasons the Mission does not accept these alternatives as feasible.

The impact on operating expenses of the increments to the work force is small - a total increase of only $32,000 - in relation to the program funding increments. This change, in the Mission's view, is needed to ensure effective operation and design of the new and ongoing programs specified above and in Table V. For reasons given earlier cutting back the core staff of 34 needed to administer ongoing projects, assuming no FY 1979 obligations at all, would be inappropriate in terms of management of existing activities operating with prior year funds in their pipelines. To contemplate zero new

obligations in FY 1979, with or without staff changes, would be as unrealistic as proposing a $4.2 million minimum level.

The above narrative should be read in conjunction with the "Summary Narrative Statement" and the PID's for new activities included in this budget submission.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE: C (A = ADD, C = CHANGE, D = DELETE)

PID

2. DOCUMENT CODE: 1

3. COUNTRY/ENTITY: KENYA

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 DIGITS): 615-0169

6. BUREAU/OFFICE: A. SYMBOL: AFR; B. CODE: 6

7. PROJECT TITLE (MAXIMUM 40 CHARACTERS): Agricultural Sector Loan II

8. PROPOSED NEXT DOCUMENT: A. 2 (2 = PRP, 3 = PP); B. DATE MM YY: 12 77

9. ESTIMATED FY OF AUTHORIZATION/OBLIGATION: a. INITIAL FY 79; b. FINAL FY 79

10. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 = KSh 8.31)

FUNDING SOURCE		DATE OF DOC
A. AID APPROPRIATED		21,000
B. OTHER U.S.	1.	
	2.	
C. HOST COUNTRY		7,000
D. OTHER DONOR(S)		
	TOTAL	28,000

11. PROPOSED BUDGET AID APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. FIRST FY 79 F. GRANT	E. FIRST FY 79 G. LOAN	LIFE OF PROJECT H. GRANT	LIFE OF PROJECT I. LOAN
(1) FN	111	080	080	1,500	2,300	1,500	2,300
(2) FN	600	070	070	2,600	2,500	2,600	2,500
(3) FN	210	040	040	1,900	10,200	1,900	10,200
(4)							
			TOTAL	6,000	15,000	6,000	15,000

12. SECONDARY TECHNICAL CODES (maximum six codes of three positions each)

13. SPECIAL CONCERNS CODES (MAXIMUM SIX CODES OF FOUR POSITIONS EACH)

14. SECONDARY PURPOSE CODE

15. PROJECT GOAL (MAXIMUM 240 CHARACTERS)

Increase smallholder access to agriculture institutions, services and infrastructure.

16. PROJECT PURPOSE (MAXIMUM 480 CHARACTERS)

Development and improved delivery of new agriculture production technologies supported by improved and expanded agricultural credit delivery systems.

17. PLANNING RESOURCE REQUIREMENTS (staff/funds)

None per Section III

18. ORIGINATING OFFICE CLEARANCE

Signature: Charles Gladson

Title: Director, USAID/Kenya

Date Signed: MM 05 DD 27 YY 77

19. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-2 (3-76)

PROJECT IDENTIFICATION DOCUMENT

Agriculture Sector Loan II [1/]

615-0169

I. Summary of Problem to be Addressed and Proposed Response

Agriculture is the most important single economic activity in Kenya, accounting for 30 percent of the 1975 gross domestic product, providing a livelihood for 85 percent of the population, and contributing 45 percent of 1975 exports. Between 1968 and 1976 the value of marketed agricultural output rose at an average annual rate of 22 percent. During the same time period the volume of marketed agricultural output rose 4.8 percent per annum for maize, 8.4 percent for coffee, and 11 percent per annum for tea. A significant portion of this output is attributable to smallholders, yet even so the median per capita rural income is approximately $50 per annum and the median holding is 2.3 hectares. [2/]

The GOK's Third Development Plan (1974-78) and subsequent policy papers, such as Sessional Paper No. 4 of 1975, "On Economic Prospects and Policies", have outlined a strategy which emphasizes increased food production and higher incomes in the rural areas in order to achieve the goals of increased employment and improved income distribution. Combining the GOK development goals with analytical technical studies, the DAP Supplement identified four sectoral constraints critical to the successful achievement of the GOK's equity objectives:

1. Trained manpower
2. Macro-economic policies
3. Small producer access to agriculture institutions, services, and infrastructure
4. Research

1/ This PID is a revision to that submitted in the FY 1978 Annual Budget Submission.

2/ For further background information refer to: World Bank. Kenya: Into the Second Decade. Johns Hopkins University Press. 1975.
World Bank. Current Economic Position and Prospects of Kenya. Report No. 1284a-KE. October 1976.
International Labor Office. Employment Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya. ILO. Geneva 1972.

The first constraint was viewed as the most serious, underlying all others. Kenya's macro-economic policies were judged at the time of the DAP to be appropriate - a judgement reaffirmed at the November 1976 Consultative Group meeting. Consequently, the USAID has chosen to focus in its agriculture sector program on the third constraint, but realizing that all four overlap and are interrelated - for example, extension services need to be staffed with appropriately trained personnel and to be linked with well-conceived research efforts to serve farmers well. These interlocking relationships will most likely become of more concern as the GOK continues to redirect its sector focus toward "non-progressive" smallholders and pastoralists, who make up most of Kenya's rural poor, and particularly as agriculture programs are accelerated in medium- and marginal-potential areas.

Kenya already has a fairly large extension service with estimated extension staff numbering 6,300, but there is evidence which seems to indicate that figure is incorrect. The majority of extension personnel dealing directly with farmers (Junior Agriculture Assistants) had limited basic training when first hired and, subsequently, have had few opportunities for regular, in-service training to up-date and expand their technical knowledge. Further, extension advice, with a few notable exceptions such as the Kenya Tea Development Authority, is seldom integrated with a delivery system for inputs, credit and marketing, and because of the narrow focus of research efforts (see below), extension advice given to farmers often is of little practical utility. As a consequence, communication with farmers is poor and is further limited by the extension staff's reaching a relatively small number of mainly already progressive small farmers. This central GOK extension system is supplemented by similar, but separate, networks operated by parastatals and commercial firms generally focused on one cash crop.

Research efforts similarly are dispersed among a large number of organizations of the Kenya Government, including several units in the Ministry of Agriculture and statutory boards, and the East African Community. Coordination is lacking. Further, food crops, excepting maize, and dry lands research have generally been neglected in favor of research on cash crops. However, research which has been done has been very narrow in scope, usually directed only to solving specific technical problems, and has not met the needs of smallholders.

Much has been written about agriculture credit in Kenya and whether or not it is a constraint. Over the last several years the GOK h

not been fully used - see the annex to the ABS.) However, the IBRD estimated in 1974 that fewer than 200,000 of Kenya's 1.2 million smallholders had access to, or used, credit. Some reasons for this include requirements for security, i.e. land titles, the comparatively small coverage and moderate pace of expansion of coverage of smallholders by AFC and the coops, management difficulties of both institutions, and the high risk inherent in dealing with this particular group of credit recipients.

To obtain a more complete picture of the above problems the USAID has initiated studies of agriculture credit, AFC management, agriculture manpower, agriculture education and training, and research. At the time of this writing only the credit and management studies are actually in process with the latter nearest to conclusion. All studies should be completed or in their final months by the beginning of FY 1978. Therefore, to maintain design momentum and GOK interest and to enter the AID budget cycle this PID is being submitted prior to the studies' completion.

The final form of ASL II will, of course, depend upon the conclusions of the studies, further in-depth discussions with the GOK, and additional design elaboration. Basically, however, the USAID believes the project will entail both loan and grant financing and will address the sector goal of improving smallholder access to inputs and services, specifically credit, extension advice and research. The project's purpose will be multi-faceted:

A. Development of new agriculture production technologies appropriate to the smallholder through strengthening of the Ministry of Agriculture's research capabilities and contributing to formulation of national agriculture research priorities.

B. Improvement in delivery of new production technologies to smallholders by increasing the quantity and increasing the quality of trained extension personnel as well as other professional staff of the Ministry of Agriculture and other agriculture bodies in Kenya.

C. Improvements and expansion of credit delivery systems directed toward smallholders.

ASL II will, thus, be divided into three main components: agricultural manpower training, agricultural research, and agricultural credit.

1. Agricultural Manpower Training

The manpower and education studies are to examine both the demand for trained professional and sub-professional staff, especially for research and extension, within the agricultural sector as well as the supply of such manpower through education and training at the post-graduate, graduate, diploma, certificate, and in-service levels as well as farmer training. They will also look at actual job requirements in comparison to available training programs and specific skill needs. From the studies should come recommendations for establishment of new or revised training programs and expansion or addition of facilities. It is expected that significant technical assistance will be provided to existing and/or newly established facilities in order to synchronize manpower needs with training programs along with the capital assistance needed for expansion of the MOA's various training institutes. (These institutes provide certificate-level training for Technical Assistants, the personnel category slated to replace the JAA's) Depending on actual construction needs and experience with the Fixed Amount Reimbursement technique under the proposed Rural Roads Systems project, the Mission may consider use of FAR for this capital component.

The USAID also hopes to be able to address directly farmer training needs through this project component. This might be achieved through technical assistance and budget support for farmer training centers or through an effort to reorient extension from its current one-on-one, agent-to-farmer, approach to more reliance on group extension techniques. Doing this, however, will be a difficult task and may not be achievable.

In summary, then, final project design is likely to focus on rationalizing extension and other training programs, improving the training capacity of a range of existing institutions, as well as supporting improved farmer training.

2. Agricultural Research

In addition to questions of manpower, the Ministry of Agriculture studies will focus on the organization and administration of agricultural research, national research programs and regulatory services, and will recommend foreign assistance activities supportive of future research programs. It is anticipated that a component of ASL II will include technical and capital assistance to the Ministry of Agriculture in order to improve the administration, staffing and organization of agricultural research and to carry out specific research programs relevant to smallholder production. Specific project design is complicated by the possible dissolution in the near-term of the East African Community, under whose umbrella numerous regional research activities were undertaken. Some of the former Community research activities will undoubtedly be incorporated into the Kenyan research program.

One aspect which must be addressed is developing linkages between research efforts and extension training as well as with practising extension staff so that research can be disseminated to farmers, directed toward problems as perceived by farmers, and presented in a way which makes utilization easy for farmers and extension staff.

3. Agricultural Credit and Credit Institutions

The presently on-going credit study, financed under the Agricultural Credit Project, will, in all probability, recommend support to one or more existing credit institutions in order to improve the flow of credit to agriculture and particularly to the small farmer. In addition to strengthening the management and operations of the credit institution (s) selected, it is likely that significant levels of loan financing will be provided for disbursement through the selected institution (s) to the small farmer. These institutions may be AFC, the cooperatives, and possibly others. Details will be refined with experience gained under ASL I and the GOK's Integrated Agricultural Development Project (IADP).

Target beneficiaries, ultimately, of ASL II are smallholder farmers, cultivating on average between 1 and 2 hectares, and earning around $300 per household per annum (less than $50 per capita). With approximately 87 percent of Kenya's population living in the rural areas and 70 percent of that population cultivating less than 3 hectares, the plight of the smallholder farmer is central to Kenya's future development. This particular group should include farmers residing in the high-, medium, and marginal-potential agriculture areas, affecting as it should national systems for extension and research. For more data on this group see also Section II of the "Summary Narrative Statement" of this ABS.

More immediately, however, the direct beneficiaries will be the research, extension and training programs of the Ministry of Agriculture and the credit providing mechanisms in Kenya. In large part, this project reflects an attempt to build up and/or redirect existing institutions so that they can implement effectively the GOK's policy of increasing smallholder production and incomes.

The USAID believes the sector-wide, loan-grant package described above is the best approach toward implementing this assistance. This is particularly so with the training and research components since dealing with them together during the design, negotiation, and implementation stages will make it possible to focus with the GOK on training-extension-research linkages at the same time as on policy and substantive questions of manpower needs. For example, Kenya's research establishment is critically short of

appropriately trained staff and has difficulty in retaining personnel once they are hired. These are problems which should be resolved at the same time research priorities are being revised and new research proposed or undertaken. A similar case could be made for extension training.

Once could also pose the alternative of providing the above assistance through separate projects. This is not feasible in the Mission's view for the reasons given above and because of the workload involved in designing three projects in place of one. Also, it is the USAID's experience that the more assistance to inter-related and mutually reinforcing activities is compartmentalized into small, discrete "projects", the greater is the chance that these special qualities and linkages are lost sight of and the opportunities presented, lost. This may be especially true when dealing with "systems" as ASL II will attempt to do.

The above description of the three individual components and general indication of EOP's and outputs does not imply, however, that these are the only, or even the correct ones. A similar statement can be made for the implied or indicated inputs. These are dependent on the fuller identification of the problem which is to result from completion of the various studies as well as future collaborative design work by the Mission and GOK.

II. Financial Requirements and Plans

As indicated ASL II will entail both loan and grant financing. An illustrative budget figure at this time is $21 million for obligation in FY 1979, preferably early in the fiscal year. Gross order of magnitudes are $13-$15 million in lending and $6-$8 million in grants. The DG financing is for technical assistance - experts and participant training for Kenyan research and training personnel as well as site visits to appropriate research, extension and training programs in other countries. Possibly, there will be a grant commodity component for the research and training in connection with the TA. Loan funds should be divided among a) capital construction and equipment ($5 million), b) credit funds ($8 million) to be on-lent by Kenyan institutions with reflows to be recirculated through the credit system, and c) a declining share over time of new recurrent costs added to the GOK budget as a result of ASL II ($2 million). To repeat, these are illustrative figures only. A summary of estimated financing is as follows:

	($000)
Loan Funds	$ 15,000
1. Capital facilities and equipment	$ 5,000
2. Credit	8,000
3. Recurrent Costs	2,000
Grant Funds	$ 5,700
1. Training	$ 2,550
a) 28 worker years of experts	2,000
b) 48 student years - participants	450
c) Commodities	100
2. Research	$ 1,450
a) 14 worker years of experts	1,000
b) 28 student years - participants	350
c) Commodities	100
3. Credit	$ 1,700
a) 18 worker years	1,300
b) 36 student years	400
Total AID (rounded)	$ 21,000
GOK Contribution	7,000
Total Project	$ 28,000

The GOK contribution estimated above represents 25 percent of total project cost. Measured in cash and in-kind contributions, it may include such things as Kenya's share of new recurrent costs generated by the project, existing costs for staff, facilities, and so on of training, research, and credit programs to be affected by ASL II.

Life of the project should approximate five years from project approval to conclusion of TA services. To the degree possible loan disbursements will be completed during the first three years of ASL II. Preferably, all grant funds will be obligated during the first year of the activity simultaneously with signing of the Project Agreement covering loan financing.

III. Development of the Project

The various studies referred to previously, hopefully, should be completed o/a the end of October, assuming the three agriculture studies begin in late May as scheduled at the time of this writing. With the studies in hand it is expected about three months will be needed to develop a PRP in accordance with Handbook 3 requirements. It is assumed at present that the PRP will be prepared by USAID staff from the Program, Technical Services, and Controller's offices relying on the studies' findings and recommendations and that no additional expertise will be required. Tentative target date for submission of the PRP, therefore, is February.

PP design should begin promptly after AID/W review and approval of the PRP, hopefully in April. This might lead to submission of a PP in about July-August if no additional outside (the Mission) expertise is needed and if issues or questions posed by AID/W are those which can readily be resolved with the GOK and AID/W. PP approval, then might come in October.

Program Design and Support funding has financed the three agriculture studies while Mission project funds covered the credit and AFC management studies. Based on the assumptions indicated above, the USAID contemplates no additional PDS financing may be needed, pending the outcome of all the studies and further design work. Also, as indicated elsewhere in this ABS and in the MOB the USAID proposes to establish in FY 1978 two direct-hire positions for Assistant Agriculture Development Officers, one of whom is to have a background in Agronomy, who should be able to contribute to design and be responsible for management of ASL II.

IV. Policy or Program Issues

1. Scope of project-assisted research. To date the GOK has developed research assistance requests for donors around specific crops or

technical problems. To some degree the tentative AID inputs listed above may reflect the same approach. To achieve the aims indicated for ASL II the assistance must be much broader and directed more toward the entire research system. Based on past experience, whether or not this broader approach will be accepted by the GOK is questionable and AID may well have to adopt a more restricted, pilot demonstration effort as a means to make the same point,but doing so will take a longer time for the revised research strategy to be accepted and implemented.

2. Inclusion of farmer training. The Mission would hope to address directly farmer training needs as well as extension and other staff training. As indicated above, this may not be acceptable to the MOA, and AID may have to rely on extension training as a means to reach small farmer needs more indirectly.

3. Recurrent Costs - USAID believes AID should provide a larger share than it has previously of GOK recurrent costs, particularly for activities such as those included in ASL II. In this particular case such financing might cover items like logistics support - POL for extension, research, and farmer training staff - salaries of new staff, and increased allowances, particularly for local travel, and so on, to enable extension and research programs to operate more effectively. (FYI, farmer training centers have chronically been short of operating funds, and extension personnel short of travel and logistics support, which have severely curtailed their operations.) How big a share of such costs and for how long AID financing might continue are issues requiring close attention during the design stage. The issue, too, is related to the state of Kenya's economy in FY 1979, the start of ASL II's implementation beyond.

4. Timing of project approval. The PP for ASL II might be ready for authorization in late FY 1978 if design proceeds smoothly and as suggested in III. above. If so, the USAID would prefer approval then rather than in FY 1979 in order to help keep AID assistance at comparable annual levels rather than experiencing the fluctuations of prior years. As AID/W is aware, this PID was submitted in the FY 1978 ABS.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE: A (A = ADD, C = CHANGE, D = DELETE)

PID

2. DOCUMENT CODE: 1

3. COUNTRY/ENTITY: KENYA

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 DIGITS): 615-0177

6. BUREAU/OFFICE: A. SYMBOL: AFR; B. CODE: 6

7. PROJECT TITLE (MAXIMUM 40 CHARACTERS): Rural Health Delivery

8. PROPOSED NEXT DOCUMENT

A. 2 (2 = PRP, 3 = PP)

B. DATE: MM 04, YY 78

9. ESTIMATED FY OF AUTHORIZATION/OBLIGATION

a. INITIAL FY 79 b. FINAL FY 79

10. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 = KSh 8.31)

FUNDING SOURCE		LIFE OF PROJECT
A. AID APPROPRIATED		
B. OTHER U.S.	1.	15,000
	2.	
C. HOST COUNTRY		5,000
D. OTHER DONOR(S)		
TOTAL		20,000

11. PROPOSED BUDGET AID APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. FIRST FY 79 F. GRANT	E. FIRST FY 79 G. LOAN	LIFE OF PROJECT H. GRANT	LIFE OF PROJECT I. LOAN
(1) PH	530	510	510	6,000	9,000	6,000	9,000
(2)							
(3)							
(4)							
			TOTAL				

12. SECONDARY TECHNICAL CODES (maximum six codes of three positions each)

520 | 560 | 540 | 550 | 570 | 580

13. SPECIAL CONCERNS CODES (MAXIMUM SIX CODES OF FOUR POSITIONS EACH): BR | BWW

14. SECONDARY PURPOSE CODE:

15. PROJECT GOAL (MAXIMUM 240 CHARACTERS)

To improve the health, well-being and quality of life of the rural poor as a means of facilitating economic development.

16. PROJECT PURPOSE (MAXIMUM 480 CHARACTERS)

To increase Ministry of Health capability to successfully implement its ten year Rural Health Program.

17. PLANNING RESOURCE REQUIREMENTS (staff/funds)

Planning consultant services being provided under the Program Development Support Project, 698-0135, in FY 1977.

18. ORIGINATING OFFICE CLEARANCE

Signature: Charles Gulson

Title: Director, USAID/Kenya

Date Signed: MM 05, DD 27, YY 77

19. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

AID 1330-2 (3-76)

PROJECT IDENTIFICATION DOCUMENT

Rural Health Delivery

615-0177

I. Summary of Problem to be Addressed and Proposed Response

The health conditions extant in Kenya are well documented in various references. However, a summary of the country's more serious health problems would include the following:

Health Problems	Percent of All Illnesses (1969)
Upper Respiratory/Gastroenteritis	39
Environmentally Caused	30
Communicable Diseases	17
Nutritional	9
Pregnancy and Delivery	5

The DAP states that the above health conditions accounted for nearly half of all out-patient consultations in 1969, and by 1984, if health conditions do not change, it is projected that these conditions may account for almost three-quarters of the use of the country's carrying capacity for health services.

Another summary view of health conditions in Kenya is contained in the USAID/Kenya Staff Paper entitled Rural Health/Maternal and Child Health/Family Planning:

> Of the eight leading causes of death in Kenya, five are generally associated with infant and childhood disorders. The leading causes of death of infants and under-fives are: gastroenteritis and colitis; kwashiorkor; measles; tetanus (neonatorum), and pertussis (whooping cough). It is believed that in the under-fives group, 20 percent of all deaths are due to measles, 15 percent due to gastroenteritis and 15 percent due to whooping cough.

The Staff Paper further points out that the majority of the conditions affecting the rural population of the country are preventable. Should effective prevention and control take place, two important benefits

would accrue: (1) The health of the total population would immeasurably improve, and (2) the current drain and load on diagnostic and curative care facilities would be greatly reduced.

An IBRD/IDA document of 1974 summarizes the problem: 1/

> It is estimated that the present conditions in the rural sector are responsible for some 10 million cases of disease annually. With a fast growing population and without major improvements the figure may grow as high as 16 million cases of diseases in 1984, which would mainly be concentrated around maternal and child health problems; communicable diseases such as measles and whooping cough; water-borne and vector-borne diseases originating in the physical environment; nutritional problems such as protein-calorie deficiencies, and digestive and respiratory diseases.

Prior to 1970 the responsibility for the development and management of basic health service in the country was in the hands of local authorities (mainly County Councils), which were thus responsible for health care for about 90 percent of the country's population. In 1970, however, the Government of Kenya (GOK) shifted the responsibility for health care to the Ministry of Health (MOH), thereby placing considerable strain on MOH resources. (The municipalities of Nairobi and Mombasa retained the responsibility for health care through their respective City Councils.) Subsequently, in 1972 in cooperation with the World Health Organization (WHO), the MOH, the Ministry of Finance and Planning and the Ministry of Social Services undertook a massive health sector assessment which resulted in a Proposal for the Improvement of Rural Health Services and the Development of Rural Health Training Centers in Kenya. This proposal was adopted later that year by the GOK as the Government's Rural Health Program.

The Rural Health Program essentially groups the country's health problems into four major emphasis categories: (1) Maternal and Child Health/ Family Planning (MCH/FP); (2) Nutrition; (3) Environmental Health Problems, and (4) Communicable Diseases. In concept, and to some degree in practice, services directed toward the four program emphases are totally integrated from headquarters to the remotest point of service care and are designed to attack all problems simultaneously.

Soon after the Program was adopted by the GOK, the MOH with the assistance of a team of advisors supplied by the IBRD (World Bank) designed a National Five-Year MCH/FP Program, which as noted above was one of the

1/ Kenya: Population Sector Survey Report, IBRD Report Nos. 266a-Ke and 267a-Ke, February 1974.

four major emphasis areas making up the Rural Health Program. The MCH/FP Program officially began in mid-1974, and AID is one of five international donors supporting the program.

In January 1976 a two-physician team of outside consultants evaluated the FP project for USAID at the Mission's request. One of their major conclusions was that USAID should consider additional assistance beyond MCH/FP to the MOH in the total rural health area. In making that judgement the team pointed out three major constraints that stand in the way of successful rural health and family planning programs: (1) shortage of manpower; (2) unsatisfactory levels of service in rural areas due to insufficient service delivery points, and (3) inadequate resources and organization.

Partially as a result of this evaluation and following upon DAP initiatives, the Mission prepared the Staff Paper referred to earlier which was sent to the MOH in April 1976. After receipt of this paper there followed a long series of discussions throughout 1976 between the MOH and USAID which resulted in agreement that long-term planning assistance might be called for to design the potential wider involvement of USAID in the Government's rural health program.

Subsequently, two public health physicians, recruited by the American Public Health Association (APHA) with the assistance of TAB, worked with MOH officials in February 1977 to develop an agreed scope of work for the long-term planners. The draft report of these physicians was adopted by the MOH and USAID in February 1977. By April 1977 the MOH and USAID had formally agreed that USAID would provide to the Ministry two long-term advisors and various short-term advisors who would, inter alia, identify, design and advise in the implementation of discrete rural health assistance which would be mutually agreed to between MOH and USAID.

The report submitted by these consultants (Haynes/Gipson) recognized and approved the validity of the Government's rural health program, but also pointed out that it was far behind schedule. The report said in part:

> The resources to accomplish this job are inadequate. There is a need for a massive training program in order to develop staff to perform these duties and an institute for the training of trainers has been identified as a high priority. Even if staff are trained, they cannot be deployed unless there are facilities, and the entire capital development plan is far behind schedule. Funds for the construction of facilities are considered to be also a high priority.

The immunization program is being aggressively pursued but is only partially effective because of certain logistic problems, and the solution of these problems constitutes an urgent challenge.

While the MOH has set ambitious targets for its rural health program (some examples are: 46 percent reduction in maternal problems; 26 percent reduction in communicable diseases; 56 percent reduction in nutritional problems; 50 percent reduction in infant mortality, etc.) the January 1976 evaluation implies, and the February 1977 report makes explicit, that Government's rural health system simply is not reaching the rural population adequately. The reasons for this situation are the same constraints identified in the 1972 MOH/WHO study, in the USAID 1976 evaluation, in the Haynes/Gipson report of 1977, and in some measure in the March/April 1977 Mid-Project Review of the National MCH/FP Program:

- inadequate personnel and training capability,
- inadequate facilities in the rural areas,
- lack of funds,
- inadequate impact in prevention and control of communicable diseases.

The project proposed in this PID must be viewed as a partial solution to a complex, integrated set of health problems facing Kenya today. The project will, however, because it is exclusively rural health, public health and preventive health oriented, impact directly on the lives of inhabitants of rural areas, most of whom comprise the poorest segment of Kenya's population. Women and children, as the most frequent, users of rural health facilities will particularly benefit.

The project proposed in this PID is divided into two phases: Phase I - Planning and Design, and Phase II - Implementation.

Phase I

With FY 1977 Program Development and Support (698-0135) funds, beginning o/a July, AID will provide the services of two long-term health planners to the MOH whose major tasks will be three-fold: (1) to prepare a sector assessment for the proposed 1978 DAP; (2) to draft the health section of the next GOK Development Plan, and (3) to identify and design the various elements of a rural health assistance package suitable for USAID funding. The planners will be assigned to the MOH for a period of 12-to-18 months

and will be assisted by the services of up to five short-term consultants who may be called upon over time to assist in the preparation of AID documentation. A worksheet PIO/T covering these services was issued by the Mission and sent to AID/W on May 3.

Phase II

First, it must be recognized that the exact parameters of the rural health assistance package in this phase will be the result of the work of the long-term advisors and the short-term consultants during Phase I.

Second, it must be accepted that what follows is illustrative of the kinds of rural health project which in the Mission's view and experience is most likely to emerge from Phase I.

Third, while this project is broken into four basic elements, it has to be recognized the elements make up an integrated, sector-wide package, which addresses the major constraints facing Kenya today in the solution of its health problems.

Finally, all elements and sub-elements mentioned below fit within and support the basic emphasis areas of the ten-year rural health program.

It seems quite unlikely, therefore, that planning and design of Phase I will result in something radically different from what is described below although it must be recognized that until the PRP stage, the elements of this project are illustrative only.

It is anticipated that the proposed project will have four basic elements, which will be grant and loan funded:

1. Health Personnel and Manpower Development.
2. Development of Rural Health Care Facilities.
3. Preventive Health Information Systems.
4. Communicable Disease Prevention and Control.

Each of these is discussed below.

1. Health Personnel and Manpower Development

It is well documented (and clearly understood in the MOH) that health care in Kenya suffers most from a shortage of trained health personnel. This shortage is not confined to one part of the total delivery system but permeates the entire system. However, there are certain areas where the

shortage is more acute and/or important to health care improvement: rural health planning personnel and supervisory staff overseeeing actual delivery of services. This acute deficiency exists throughout the entire system.

It is proposed that three initial steps be taken with USAID-provided technical assistance: (1) An up-dating of the 1972 health manpower survey of human resources required to fully implement the Rural Health Program nationwide, (2) an assessment of those existing in-country institutions which could be more fully utilized in the long-term training of health personnel (e.g., Medical Training Center, School of Nursing, Department of Community Medicine, Kenya Institute of Administration, Karen College, etc.).

Following these initial assessments, AID might provide grant assistance for the training of students in these institutions, including but not limited to, curriculum development, resource materials, faculty training and development, on-the-job training, and a limited amount of participant training support for short and long-term training in the United States.

While this development of health personnel will be broad-based, emphasis will be on such areas as training of trainers, supervision of personnel, health care implementation, logistic supply and budget management. Further, the overwhelming emphasis will be on creating a critical mass of Kenyan expertise through existing Kenyan institutions (such as those mentioned above) rather than sending participants to the U.S., although as noted above, this will not be precluded.

2. Development of Rural Health Care Facilities

The development of physical facilities at the point of patient contact within the Rural Health Program has not taken place as rapidly as the development of other physical facilities, such as rural health training centers. Part of this slowness of development is due to lack of funds, lack of complete knowledge about the adequacy of existing structures, and the lack of a long-range building-renovation plan. Part of these problems will be overcome when the MOH completes (sometime in mid-1977) its physical inventory survey, but it is already known that even partial utilization of inadequate facilities will not bring the needed services to the majority of the rural people. New, renovated and extended facilities are absolutely necessary if health care is to be brought within a reasonable distance of the majority of the people. Further,

it is a well understood concept in public health that proximity of health care is exceedingly important in successful preventive medicine and health education.

It is believed that loan funds might be made available for capital development of rural health care delivery points (clinics, health centers, health sub-centers and dispensaries) based upon a rational health facilities distribution plan designed to reach the largest rural population possible. These loan funds would also be available for equipping the buildings (e.g., benches, cabinets, examination tables, refrigerators, and other basic non-medical commodities and supplies) and, possibly, for some basic limited medical items absolutely necessary to carry out an effective rural health program. Such items might include, for example, vaccines, antibiotics, syringes, disposable needles, and medicines. The one-time only purchase of expendable medical commodities under loan funds, if made, would be dependent upon the existence of an up-dated medical commodities logistical/monitoring/supply system.

3. Development of Preventive Health Information Systems

A great amount of success or failure in preventive health is dependent upon the degree to which the target population is effectively educated/informed and/or motivated to accept concepts or change behavior which in turn will have an immediate and rapid effect on communal and individual health. A workable plan, trained staff and adequate facilities are all necessary, but not sufficient, conditions to the improved health of 14 million Kenyans.

Information/motivation strategies must be carefully planned, implemented and evaluated. These strategies must effectively utilize every means of communication which are economically, socially and politically acceptable and which are accessible to the majority of rural people. Strategies would be designed to educate the optimal number of people in ways by which they can increase their well-being through better health. These strategies would likewise include motivation aspects which would bring patients into contact with health workers, health messages, and health facilities. Such information strategies might also seek innovative methods of utilizing (for health purposes) already existing cadres of organized persons who are not now involved in health care; e.g., agricultural extension workers, teachers, church leaders and church groups, etc.

The development of information health strategies would emphasize the three areas of nutrition, environmental health problems and sanitation, and communicable diseases (with emphasis on prevention of these diseases), all of which would be integrated with the national information/education/motivation

plan currently being developed and implemented for the MCH/FP Program. Thus, there would be in place a total, integrated information system, which would involve all four emphasis areas of the rural health program. Further, the implementation of preventive health information systems would utilize facilities, commodities, equipment and personnel developed under the MCH/FP Program. Using grant funds, AID would provide limited technical advisory services, and limited training.

4. Communicable Disease Prevention and Control

The Government has shown a strong commitment to communicable disease prevention and control but has not been able to make the maximum desired impact perhaps due to a combination of: lack of accurate data on incidence and prevalence of certain diseases, lack of funds, the need for additional personnel, and the need for vaccine potency control, among others. It is proposed that with AID assistance the MOH might undertake highly visible, emphasis projects in the prevention and control of, for example, measles, cholera, malaria, and smallpox. Such activities would be integrated fully with the activities undertaken through two and three above, and would be coordinated with other ministries who have responsibilities in the areas of sanitation and water supply. AID funds would be limited to the transfer of technology, the purchase of special equipment and some technical advisory services. It is recognized that professional health personnel in Kenya are fully aware of what needs to be done in the area of communicable disease prevention and control and, therefore, need limited assistance in making these efforts optimally useful.

It should be obvious that taken together the above four elements are totally compatible with the Government's rural health objectives, meet head on the major problems facing the MOH in achieving these objectives, and clearly bring advanced preventive health care to a larger number of rural people. In a word, these four basic elements address the major constraints to the successful implementation of the GOK's rural health programs.

At this stage in project development it is believed that the major achievements will consist of: (1) an increased number of critical skills available to the program through the development of human resources; (2) a broad based indigenous capacity to keep the program supplied on a continuing basis with personnel requirements; (3) an in-place delivery capacity that will substantially increase the population's access to basic preventive health care; (4) an increase in the health of the rural population through a decrease in the incidence of preventable health problems.

Among the major assumptions are: (1) An increasing capacity and willingness on the part of the GOK/MOH to absorb additional inputs and to assume the long-term, increased costs and financial commitments which will accrue to Government as a result of both loan and grant infusions; (2) AID can manage and mobilize grant inputs in a coordinated fashion and can make loan funds available in a timely manner; (3) the Planning Unit management assistance provided to the MOH by DANIDA will bring about the necessary administrative changes in the MOH to permit the effective mobilization of increased inputs, and (4) there would be continuing willingness on the part of other GOK entities (e.g., Treasury, Office of Personnel Management) to be highly supportive of MOH efforts.

Alternatives to this project have been looked at and discussed by the MOH, USAID and others for several years. Four independent consultants in a period of one year have recommended to AID the need for additional assistance in Kenya's rural health efforts. It is felt that the major alternatives facing AID at this moment are: (1) To continue grant assistance to only one of the four emphasis areas of rural health, namely, MCH/FP, and at the same time to (2) encourage Government to work out its additional assistance requirements for health with other donors. Both the Ministry of Health and the Ministry of Finance and Planning have encouraged USAID to become a more forceful donor with respect to health care and have indicated a willingness to work with USAID in the development of USG inputs. Should AID not respond to Government's encouragement, it will not be able to improve the health of Kenya's people, thereby contributing to increased productivity and to improvement in the quality of life of rural inhabitants.

The beneficiaries of these proposed efforts will be in the first instance, the country's rural poor. Among this cohort approximately 80 percent of the daily patient load at rural health clinics are women and children. The major elements of this project are designed to impact directly and rapidly on people at the point where they spend their lives and by bringing improved health care and information as close to the people as possible.

II. Financial Requirements and Plans

The USAID proposes a $20 million program, $15 million (75 percent)of which would be financed by a combination AID loan and grant funds and $5 million (25 percent) by a GOK contribution. It is expected that the program would be disbursed over a five-year period. The Ministry of Health would be the executing agency of the program. The Ministry of Works will be in charge of construction. AID grant funds could assist in the financing of the technical assistance and participant training components of the program and AID loan funds would finance construction, the procurement of equipment,

and recurrent salary costs. The Fixed Amount Reimbursement (FAR) system would be considered to determine if it is an appropriate mechanism for financing the construction activities. (The Ministry of Finance and Plannig has agreed to use the FAR procedure for financing rural access road construction under USAID's Rural Roads System Project.)

The GOK contribution would cover administrative support, salaries, participant training support, commodities not eligible for AID financing, and miscellaneous costs incidental to construction, such as land acquisition, etc.

AID

Loan	$ 9,000,000
Grant	$ 6,000,000
	$15,000,000
GOK Contribution	$ 5,000,000
Total Program	$20,000,000

The sharing of costs has not to date been discussed in any detail with Government and donor participation has not been fully analyzed. Such discussion should quite logically await the working out of specific details for each major component and sub-component by the Phase I health planners. It is understood, however, that these will be part of the overall project design.

III. Development of the Project

Phase I planning services to the Ministry of Health financed by the Program Development and Support project should begin o/a July 1977 if (1) these services are to have an input in the development of the Health Chapter for the next National Development Plan, and (2) if the total project can be designed in accordance with AID's programing timetable. The effective utilization of both long and short-term advisors envisaged in the USAID's worksheet PIO/T will include continuing assistance in the development of the Project Review Paper (PRP) and the Project Paper (PP). Therefore, no funds beyond those proposed for FY 1977 obligations under PD&S are foreseen in the development of project documentation through the PP stage.

Assuming the advisory services called for can be made available no later than July 1977, the following documentation schedule is possible:

a. PRP - March-April 1978.

b. PP - October-November 1978

USAID will commit sufficient technical, Program and Controller staff to work with the consultants and to take overall responsibility for documentation preparation. These include the existing Family Planning Development Officer and a new Health Development Officer who is proposed for arrival in early FY 1978. The latter in addition to project design responsibilities will also be responsible for project management.

IV. Issues of a Policy or Programmatic Nature

Several issues are attendant to this project at its current stage of development. The most important are:

A. The quality and timing of the project's development has a direct correlation to the qualities and skills of the Phase I planners provided under Program Development and Support. At the moment these individuals' qualities and skills are unknown. Should analytical, interpersonal and professional skills of the various consultants not meet the expectations of the MOH and USAID, project development and design may suffer. This issue can be settled only by the most vigorous recruitment of the highest skilled persons available.

B. It is not known at this time whether the GOK is capable and/or willing to make the financial and human resource commitment necessary to a viable project. USAID will proceed in the development of this project on the assumption that the MOH will receive adequate budgetary resources, that the GOK will continue to show interest and encouragement for a larger AID health assistance input, that the GOK will cooperate to the fullest in a collaborative way in the development of the project, and that when the time comes this interest will be translated into a meaningful commitment. USAID will, of course, give attention to these issues, and to any important peripheral issues which can affect those previously mentioned.

C. It must be recognized now and throughout the development and life of this project, by officials of both the GOK and the USG, that it is known and anticipated this project will exacerbate the rapid population growth problems facing Kenya today unless more vigorous steps are taken in the area of voluntary fertility regulation. This is a mortality/morbidity control project; if successful it will reduce infant and general mortality, increase the life expectancy of the general population, decrease maternal morbidity thereby decreasing foetal mortality, and through general improved health will likely decrease the incidence of sub-fertility and secondary infertility. These are considered desirable and necessary contributing factors if the quality of rural life and productivity are to increase. At the same time it is assumed that with more children surviving there may be counter economic and social pressures developing which will support wider voluntary adoption and continued use of a range of fertility regulation techniques.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT FACESHEET

TO BE COMPLETED BY ORIGINATING OFFICE

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

PID

2. DOCUMENT CODE: 1

3. COUNTRY/ENTITY: KENYA

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 DIGITS): 615-0178

6. BUREAU/OFFICE: A. SYMBOL: AFR; B. CODE: 6

7. PROJECT TITLE (MAXIMUM 40 CHARACTERS): Human Resources Development

8. PROPOSED NEXT DOCUMENT: A. 2 (2 = PRP, 3 = PP); B. DATE: MM 10, YY 77

9. ESTIMATED FY OF AUTHORIZATION/OBLIGATION: a. INITIAL FY 79; b. FINAL FY 83

10. ESTIMATED COSTS ($000 OR EQUIVALENT, $1 = KShs 8.31)

FUNDING SOURCE	LIFE OF PROJECT
A. AID APPROPRIATED	1,275
B. OTHER U.S. 1.	
B. OTHER U.S. 2.	
C. HOST COUNTRY	425
D. OTHER DONOR(S)	
TOTAL	1,700

11. PROPOSED BUDGET AID APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. FIRST FY 1979 F. GRANT	E. FIRST FY 1979 G. LOAN	LIFE OF PROJECT H. GRANT	LIFE OF PROJECT I. LOAN
(1) EH	660	720		250		1,275	
(2)							
(3)							
(4)							
			TOTAL	250		1,275	

12. SECONDARY TECHNICAL CODES (maximum six codes of three positions each): 690

13. SPECIAL CONCERNS CODES (MAXIMUM SIX CODES OF FOUR POSITIONS EACH): BR

14. SECONDARY PURPOSE CODE:

15. PROJECT GOAL (MAXIMUM 240 CHARACTERS)

To improve GOK ability to implement development programs, including the delivery of public services to rural areas.

16. PROJECT PURPOSE (MAXIMUM 480 CHARACTERS)

To improve the quality of job skills among GOK mid-level management personnel.

17. PLANNING RESOURCE REQUIREMENTS (staff/funds) Two person-months' technical assistance by management or public administration specialist - one month each at PRP and PP stage. Estimated PDS funds required - $12,000.

18. ORIGINATING OFFICE CLEARANCE

Signature: Charles Nelson

Title: Director, USAID/Kenya

Date Signed: MM 5, DD 27, YY 77

19. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM, DD, YY

AID 1330-2 (3-76)

PROJECT IDENTIFICATION DOCUMENT

Human Resources Development

615-0178

I. Summary of the Problem to be Addressed and the Proposed Response

The Kenya Development Assistance Plan points out that within the context of a continuing shortage of human resources, the problem for Kenya is now more qualitative than quantitative, both in terms of job skills and on-the-job experience. This statement supports the findings outlined in the Government of Kenya "Report of the Training Review Committee (1971-1972)" which recommended that during the decade of the 70's, with the exception of addressing certain scarcities in technical and professional fields, emphasis in training should be on the development of effective job performance in all sectors. This need is particularly evident in areas of Government which have most recently been Kenyanized. While the transition from expatriate to Kenyan mid- and upper-level personnel in Government agencies generally has been effected smoothly, in many cases it has resulted in a relatively thin layer of expertise. The GOK Development Plan for 1974-1978 states that the Kenyanization of the economy is indirectly supported through education and training for high and middle-level manpower. The proposed activity would contribute to this clearly stated GOK goal while enabling the USAID to be responsive to training needs related to AID's mandate.

The GOK is involved in a major effort to improve the quantity and quality of its public services to the rural areas. To this end it is engaged in development activities in all sectors, with the assistance of many international donors including AID. A serious constraint in all these efforts is the low quality of management of the public institutions, particularly in the middle level of the GOK bureaucracy. The problem is well recognized, and there are activities under various sector projects which address narrow pieces of it. These efforts often suffer severe limitations due to lack of coordination and/or flexibility and/or scope.

The Mission's goal in this area will be to improve GOK ability to implement more effectively development programs, particularly in the sectors of concentration having the highest priority for the USAID/Kenya program - agriculture and health/family planning. Towards this end, it is proposed

that assistance be provided not only to specific operating ministries with whom the USAID is already involved, but also to other central GOK agencies and facilities which should be supportive of the operational institutions' efforts or which may have some existing responsibilities for developmental programs. The purpose of this activity would be to improve the quality of job skills among GOK mid-level management personnel.

Target ministries and/or agencies might include Agriculture, Water Development, Cooperatives Development, Health, Works, Labor, the Central Bureau of Statistics, Finance and Planning, the Registrar General's Department, the trade unions, and so on. For example, both CBS and the Ministry of Cooperatives Development have within the last few months contacted USAID regarding training for staff - requests 1) which the USAID cannot itself accommodate within the Family Planning Project or Agriculture Sector Loan I, but 2) which have merit and bear on these two projects. Seeking AID/W funding, which has been the only alternative to saying, "No", has proven to be a time consuming, frustrating and uncertain process.

The project will provide long-term training for 18-20 participants per year. About 25 percent of the funding will be made available for short-term courses (See Section II). A schedule of proposed/approved training would be developed annually by the USAID and the GOK Directorate of Personnel Management. Criteria for selection of participants will include the requirement for a direct relationship between the proposed training and both GOK priority development needs and USAID's areas of concentration and mandate.

Major assumptions pertinent to project success are: 1) That the GOK will be able to select appropriate candidates for training, and further, will be able and willing to release them for the length of time necessary to complete the desired training; 2) that the individuals trained will return to the jobs for which they receive training and effectively utilize the skills gained.

One alternative to the above approach would be to limit AID involvement in training to areas immediately related to and appropriate for inclusion under on-going bilateral project activities. The Mission judges that approach to be inadequate. It provides the Mission and GOK with limited flexibility to address priority training needs in areas of immediate relevance to the USAID's areas of concentration but which may not be appropriate for inclusion within the parameters of specific projects. These limitations were recognized by the Administrator in his recent statement (State 080342) that "Participant training need not be rigidly tied to specific projects but can...be provided in the form of general programs, so long as the participants are trained and will work in fields demonstrably related to AID's mandated objectives."

Another alternative would be to rely solely on the African Manpower Development Project (AMDP) to provide for more general training needs. While this project was expected to be useful in providing for a portion of the GOK's training needs, it is deemed insufficient to respond appropriately to the critical need for human resources development. Because Kenya is but one country competing for AMDP funds available on an Africa-wide basis, it is not possible for the USAID and the GOK to develop annual training plans with the assurance that the total funds required will actually be available to Kenya. The implementation under AMDP of all academic training through AAI, with the requirement that participants be selected on a competitive basis, does not provide a practical method for obtaining the type of job-specific training that is of particular interest and importance to the GOK. Further, the AMDP does not permit USAID/Kenya to be fully responsive to requests for short-term training for which other Mission funding may not be available. Announcements for short-term, non-academic training programs (labor or trade union courses being one example) are frequently received with short lead times, and it is often neither practical nor possible to obtain AID/W funding in such cases. The proposed project would provide the USAID with an assured source of funds which would, in turn, enable us to encourage greater GOK utilization of such training opportunities as they arise.

The major beneficiaries of the proposed activity would be GOK ministries and agencies working in fields related to AID's mandated objectives. The indirect beneficiaries will be those Kenyans whom GOK development programs are supposed to reach, but who have benefitted in very limited ways because of the constraints on those programs resulting from human resource requirements.

The spread effect of the project will principally result from the Government's strengthened capabilities for implementing and managing its programs.

II. Financial Requirements and Plans

The USAID proposes a $1,700,000 program, $1,275,000 (75 percent) of which would be financed by an A.I.D. grant and $425,000 (25 percent) by a GOK contribution. The program funds would be disbursed over a five-year period. The Directorate of Personnel Management in the Office of the President would be the executing agency of the program, and will coordinate with the various ministries and related agencies of the GOK the allocation of funding and training opportunities in the U.S. and third countries of middle management personnel in fields

demonstrably related to A.I.D.'s mandated objectives. It is expected that a minimum of 25 percent of the grant funds would be made available for short-term (less than one year) specialized courses, seminars and workshops in the U.S. and third countries. The GOK contribution would cover one-way international travel expenses of the participants, their salaries and allowances while they are in training, in accordance with established GOK policy and an existing AID waiver.

A.I.D. Grant	$ 1,275,000
GOK Contribution	425,000
Total Program	$ 1,700,000

III. Development of Project

The USAID will make appropriate staff available and be responsible for most project design requirements. It is anticipated, however, that some specialized assistance may be required. During the initial intensive review and PRP preparation, up to one month's TDY by a management specialist or public administrator experienced with mid-level staff training programs may be desirable. Prior to completion of the PP, an additional thirty days of consultant services may be required to assist with the final technical design and analysis of the program. The Mission has included $6,000 each in its projected FY 1977 and FY 1978 requirements for Project Development and Support funds to cover these TDY services.

During the initial intensive review of the project (prior to submission of the Project Review Paper) responsible USAID staff and the TDY consultant would do the following:

1. Study specific GOK public service training needs and the desirability of strengthening GOK coordination of management training among the ministries and agencies, and the GOK responsiveness thereto.

2. Determine whether any current GOK training plans or projections exist, and, if so, assess their degree of comprehensiveness and probable relationship to the proposed activity.

3. Evaluate the availability of funds for training middle-level personnel in the areas of A.I.D.'s major emphasis - strengthening the capacity of the GOK to service the rural poor. The evaluation would include Kenya resources that are available for training at the University of Nairobi and other local institutions, but, primarily, it would focus on the quantity and quality of external donor resources that would be available for management training and improving public administration and how such resources relate to the proposed activity.

A PRP could be prepared and submitted to AID/W by October 1977. The PP could be submitted by the third or fourth quarter of FY 1978.

IV. Issues

A. African Manpower Development Project (AMDP)

The USAID believes that the qualitative manpower constraint to Kenya's development warrants priority, a special AID program supported by a sizeable amount of funding and that is tailor-made to Kenya's mid-level personnel training needs. While there may be some cases where AMDP could complement the proposed project, as discussed under alternatives to the proposed activities, we do not believe its decision-making process, which requires competitive selection for degree-level training programs, and the limited funding available to any one country can provide the flexibility, the responsiveness or the timely resources that are required under the proposed program, and which Kenya must have if there is to be any improvement in its public administration.

B. Salaries

It is clear that low government salaries compared to those in the private sector are an important part of the problem of poor public sector management performance, and the problems caused by the discrepancies in salary levels have been exacerbated by continuing high rates of inflation. The difficulty in raising salaries to a level more in line with those of the private sector is, of course, that the resources required to do this are simply not available. There appears to be no real solution to the salary problem and it would be rather a fruitless exercise to pursue the matter in connection with the proposed project. Furthermore, GOK personnel are bonded to work for the Government for a three-year period after return from training so immediate loss to the private sector does not pose a serious problem. It is the USAID's view that by focusing management training on key middle-management

personnel; by continually supplying middle-management levels with young, well-trained professionals; by providing this group with the best long-term training and to encourage high standards of job performance; by focusing skills on improvements in key functional areas; and, in general, by creating an incentive to remain in the government and encouraging an attitude of change, the performance of the public sector can be improved.

C. Other Donors

Kenya receives generous sums of money from many donors. Yet, how much is really earmarked for training at the middle-management level through a systematic approach may not be sizeable. The potential impact of funds that are coming into Kenya for this purpose is possibly not being maximized. Training tends to be sporadic and academic, rather than based on identified practical needs. Even with the donor contributions that are coming into Kenya, the fact remains that a significant constraint to the GOK development effort is the poor management capability of its institutions which manifests itself by inefficiencies and delays in project implementation. A key aspect of the intensive review of the proposed project will be to evaluate carefully the resources that can be expected from other donors for middle-management training. The evaluation will be essential in designing the A.I.D. project, and useful to the GOK as a management device in coordinating its overall training programs.

D. AID financing of General Training Projects

The Africa Bureau has in the past withheld approval of general Mission training projects. In part this decision reflected limited funding availabilities as much as concern about the nature of the training provided. Approval of AMDP itself testifies to AID's perception of a need for training in African countries to supplement project-specific training. The significantly increased levels of AID resources now becoming available combined with the severity of the manpower constraint in African countries argue for a re-look at AID's previous position. This review is supported by the Administrator's statement quoted above as well as the Mission's experiences indicated above. For these reasons, the USAID is submitting this PID.

E. Kenya's Manpower Constraint

Kenya might be considered by some to be relatively less affected than other LDC's by manpower concerns. Every in-depth study done of Kenya has stressed the importance of the manpower constraint - the DAP Supplement identifies it as the highest priority problem for the agriculture sector and the IBRD for the 1976 Consultative Group meeting rated the scarcity of skilled labor

to be the most serious long-term constraint. The USAID believes the severity of the problem has been increased, not decreased, as a result 1) of Kenya's development to date and 2) of the reorientation of development activities to focus on rural dwellers. The proposed project offers a means by which the impact of the constraint on AID's program might be alleviated.

PL 480 TITLE II

The FY 1979 PL 480 Title II program in Kenya is administered by the Catholic Relief Services (CRS). The attached FY 1979 Program Plan prepared by CRS proposes a significant increase in FY 1978 in the recipient levels from that set forth in earlier plans. As stated in TOAID A-42 (May 5, 1977), the Mission does not at the present time endorse this proposal, but may do so in August following a review of CRS staffing and records. The attached table, therefore, shows the higher levels.

The recipient levels as submitted in the Program Plan, and as presently approved by the Mission in the FY 1978 plan, are detailed below:

	Proposed Program Plan	FY 78 Approved
MCH-Mother	35,000	-
MCH-Child	70,000	75,000
Preschool Child	11,000*	-
Other Child-Nurseries	-	5,000*
Other Child-Institutions	9,000	6,000
	125,000	86,000

*Following the recent reclassification of recipient categories, CRS has placed the children formerly included in the Other Child-Nurseries category in the Preschool Child Feeding category.

CRS's ability to manage the Title II program has been a concern to the Mission. Past audits have criticized many aspects of program operations with most criticisms traceable to management problems caused by under-staffing and an inefficient reporting system. CRS has recently taken action to address these problems. The staff has been expanded to include, in addition to the American Director, an American Assistant Director, another American on a half-time basis, a full-time expatriate (British) and a Peace Corps Volunteer, as well as an additional Kenyan. A new

record-keeping system has also been instituted, which should enable CRS to monitor more accurately shipment and distribution of commodities and the performance of the various stations.

The termination at the end of FY 1977 of the school feeding program, which in the past resulted in many of the management problems, should provide an opportunity for CRS to address more effectively any remaining problems with its records system and to allow its new staff to gain experience with a less complex program. The Mission believes it is important for CRS to have a settling-in period for staff and the records system prior to initiating a substantial expansion of the program. It is proposed that the Mission review CRS operations in August in order to assess their capability for handling an expanded program. At that time concurrence or non-concurrence will be given for the expanded FY 1978 program which is the basis for the FY 1979 activity set forth in CRS' program plan.

The Mission's failure to endorse the CRS Program Plan also stems in part from the lack of justification for all elements of the program. The proposal requests the addition of a new category, MCH-Mother, and the near doubling of recipients in the Other Child (institutions) and Preschool (formerly Other Child-Nurseries) categories. CRS has been asked to submit a list of feeding sites (old and new) as well as a justification based on nutritional/health grounds. This is particularly important in respect to other child and preschool feeding as a portion of the increase in these categories comes from a reduction of 5,000 in the high-priority MCH-Child account. (The balance of the total increase from 11,000 to 20,000 in these two categories comes from an absolute increase over the FY 1978 program plan levels. This increase of 4,000 may, however, be viewed as replacing the FY 1977 school feeding program which in its last year operated at the 4,000 level.)

Following the new recipient catgories and definitions thereof which were a part of the AER instructions this year, CRS has included recipients formerly classified under Other Child Feeding-Nurseries in the Preschool Child category. These children fall within the same age group as those under the MCH-Child category, and can be assumed to have the same nutritional needs and requirements. As indicated on the accompanying table, CRS has, therefore, included bulgur as a commodity and doubled the ration of vegetable oil received by the Preschool Child group in order to match the commodities provided the MCH Child category. USAID accepts the rationale for this approach.

Multi-Year Program Planning

The FY 1978 Planning and Budget guidance message indicated that Multi-Year Program Plans were optional; with no previous notification of the change, this year's guidance states that they are now required. USAID/Kenya believes it would be premature to develop a long-range program plan for the Kenya Title II program at this time. The Mission has scheduled an outside program review (of the entire USAID program in Kenya) to take place in the fourth quarter of FY 1977. A DAP revision will be prepared in early FY 1978. The nutrition sector, including Title II programs, will be one item for consideration under both of these exercises. Furthermore, there is the possibility that Kenya will be included in an AID/W project as one of three countries in Africa for a demonstration of alternative means of growth surveillance. Pending completion of the Mission review activities and the resolution of issues related to the proposed project, the Mission has elected to defer the development of a Multi-Year Program Plan.

GOK Nutrition Policy and Title II

Following the FAO World Food conference in Rome, there was some interest expressed within the GOK in formulating a national nutrition policy. The Government subsequently decided that it would address nutritional problems within the context of existing programs in the agriculture sector. In agriculture, the GOK's major goal is to increase production by smallholders. Later, this "flurry of interest" died down, and senior GOK planning officials have told the USAID that nutrition per se has a low priority.

Also, following a survey of feeding habits and the national nutritional status, a school lunch program was instituted in 1968. Supervised by the National School Feeding Council, in 1976 the program reached approximately 43,000 children. Parents are required to make a minimal contribution of about $.02 per day, but even this payment is beyond the means of many parents; consequently the program does not yet cover many areas of Kenya where malnutrition can be assumed to be prevalent.

The GOK provides additional, more specific, nutrition services through the health sector. Nutrition is among the four major emphasis categories of health problems established by the Ministry of Health: (1) Maternal and Child Health/Family Planning; (2) Nutrition; (3) Environmental Health Problems, and (4) Communicable Disease. Nutrition services are provided at Service Delivery Points (SDP's) as a part of the MOH's integrated rural health, maternal/child health programs. Many of the SDP's have trained nutritionists assigned on a full-time basis. Where such personnel are not

available, nutrition lectures are given by the Family Health Field Educators. All large clinics and hospitals have nutritionists on their staffs, and most of the clinics do some nutrition education. Nurses' training programs include nutrition, especially child nutrition, as well as MCH/FP.

There is minimal coordination by the GOK or any one body of the above described variety of programs. More specific action by the GOK in relation to nutrition is not foreseen in the near future. Given the number of GOK agencies dealing with nutrition, and the fact that CRS operates outside of these agencies, the ability of the Title II program to influence Government nutrition policy is minimal. The prospects for the development of a formal nutrition policy will be governed by the pace at which the GOK is able to assign a higher priority to nutrition and focus both human and financial resources upon the problem.

CRS-GOK Written Agreement

There is no written, formal agreement between CRS and the GOK governing Title II operations. Although USAID approached the Ministry of Finance and Planning on numerous occasions in the past about such an agreement, the GOK refused to conclude an agreement with CRS. In large part this was a result of their reluctance to set a precedent by negotiating a blanket agreement with the voluntary agency when no such agreements existed or seemed to be required with any other volag operating in Kenya. The GOK saw nothing to be gained by such an agreement and, further, noted that CRS continued to operate effectively without an agreement. There has been no change in this position. USAID hereby certifies that the CRS program can operate effectively in the absence of a formal, written agreement, and that the criteria specified in HB 9, Chapter 41.2.a, including duty-free entry of commodities, sales tax remission, and assistance in implementing the program, are being met by the GOK.

PL 480 Title II FY 1979

Country: Kenya

Spnsor: Catholic Relief Services

(Recipients, Quantities, Dollars all expressed in thousands)

A. Maternal and Child Health-Mothers — Total Recipients: 35

No. of Recipients by Commodity	Name of Commodity	Kilograms	Value
35	CSM	756	$ 418
35	Bulgur	486	79
35	Veg Oil	162	110
		1404	$ 607

B. Maternal and Child Health-Child — Total Recipients: 70

No. of Recipients by Commodity	Name of Commodity	Kilograms	Value
70	CSM	1,764	$ 976
70	Bulgur	1,134	185
70	Veg Oil	378	258
		3,276	$ 1,419

C. Preschool Child Feeding — Total Recipients: 11

No. of Recipients by Commodity	Name of Commodity	Kilograms	Value
11	CSM	277	$ 153
11	Bulgur	178	29
11	Veg Oil	59	41
		514	$ 223

D. Other Child Feeding-Institutions — Total Recipients: 9

No. of Recipients by Commodity	Name of Commodity	Kilograms	Value
9	CSM	486	$ 269
9	Veg Oil	49	33
		535	$ 302

Total Recipients: 125
Total Value: $ 2,551

PLAN OF OPERATION - FISCAL YEAR 1979

A. IDENTIFICATION:

1. Name of Distribution Agency: Catholic Relief Services

2. Country: Republic of Kenya

3. Date Submitted: April 28, 1977

4. Name and Address of Agency Counterparts in Foreign Country:

   a. Ministry of Health
   b. Ministry of Housing and Social Services, P.O. Box 45958, Nairobi, Kenya
   c. Eight C.R.S. "Area Coordinators" and 28 Sub-Area Coordinators.

5. American Citizen Representatives:

   Mr. Robert E. Dugas, Director
   Mr. Christopher Schmitt, Assistant Director
   Catholic Relief Services
   P.O. Box 49675
   Nairobi, Kenya

B. AGENCY AGREEMENTS:

1. Catholic Relief Services does not operate under a "blanket" agreement negotiated between the Kenya Government and the U.S. Government.

2. Catholic Relief Services' written agreement with the Kenya Government relating to Title II food distribution has expired. However, the provisions of the original agreement are still fully honored through normal Government of Kenya administrative procedures and regulations which:

   a. Provide for duty-free entry of P.L. 480 foods and other relief supplies per Customs Tariff (Remission) Order 1968.

   b. Provide that the Kenya Government through an annual grant-in-aid pays a modest portion of the cost of food handling at the port and inland transportation. Receiving agencies bear other costs that exceed the Kenya Government's grant-in-aid.

c. Grant Sales Tax exemption on all P.L. 480 foods, and other goods imported by CRS for the needy (Legal Notice No. 1632 of 1974,)

d. Give CRS and its counterpart agencies freedom of action and permit close supervision.

e. Enable CRS to confiscate foods found in unauthorized channels.

f. Exempt CRS from taxation under the Income Tax Act of 1973.

g. Provide U.S. Government and CRS inspectors authority at all times to control and inspect foods at any stage of the distribution process.

h. Allow appropriate publicity to inform people that the foods are a gift from the American people to the people of Kenya.

3. Recent public statements by a Kenya government minister included the following comments which can be taken as elements of a national nutrition policy:

a. "Expanded food production must be supplemented by other policies and programs. Such policies include measures to improve the economic well-being of the lower-income groups; food fortification, distribution and marketing; educational programs on family planning and family life; changes in dietary habits; preventative and curative health strategies; and direct intervention measures to protect the groups at greater risks".

b. "A major need at the moment is to increase the major sources of protein in our traditional diets. (We have) embarked on a program of promoting production of beans and other sources of protein in order to assist families in improving the quality of their diet when purchasing power restricts the consumption of milk and other expensive animal protein foods."

c. "There are several voluntary organizations involved in nutrition activities in this country whose existence is recognized and appreciated by the Government."

4. The CRS/Kenya operation, as detailed herein, is complementary and supportive of GOK policy in general and specifically as follows:

   a) It is targeted to lower income groups.

   b) It provides them nutritious, low-cost food.

   c) It encourages curative and preventative health strategies.

   d) It aims to change dietary habits.

   e) Through demonstration (kitchen) gardens (maintained at 40 pre-school clinics) it stimulates the production of local high protein foods as well as the raising of chickens and rabbits for home consumption.

C. AREA - SCOPE - CONDITIONS OF OPERATIONS:

1. The program is nation-wide.

2. Distribution:

   a. Mothers/Pre-School Aged Children:

   This category of recipients is served through selected voluntary agency and government sponsored centers who conduct a specialized program in pre-school health and nutrition education.

   CRS/Kenya's present emphasis is on the above named group. An essential part of the program is the education and training, especially of the mothers, to make them better able to utilize locally available food resources to the best advantage of each member of the family, particularly its under-five children. This program, therefore, is directed to mothers who will attend organized clinic sessions together with all of their children up to the age of five years. The following methods of operation have been adopted:-

   -- Registration of children in the 0-5 age group and mothers.

-- Weighing of each child, and recording the weight on a weight chart which is kept by the mother and returned at each monthly visit.

-- Interpretation of the data to the mothers. The chart serves as an educational device, indicating to the mother whether or not the growth of her child is satisfactory; she is given relevant individual advice accordingly.

-- The general appearance of the child is checked; minor ailments are treated and, if necessary, the child is referred to a hospital or dispensary for further examination or treatment. Illnesses and diseases are recorded on the charts.

-- Innoculations and immunizations are administered and anti-malarials provided to the children in accordance with the recommendations of medical authorities. These are also recorded on the charts.

-- Education of mothers is given through lessons in nutrition, hygiene and child-care and through practical demonstrations in preparing food that is particularly valuable for young children. Emphasis is placed on local foods, supplemented by foods made available through CRS, which might best be used for this age group. Mothers are encouraged to participate in this preparation and serving of food; they are also encouraged to grow more of the nutritionally valuable foods for their families' use.

-- Distribution of P.L. 480 foods (CSM, bulgur wheat and oil) to serve as a supplement to the common diet of the children and mothers.

-- Mothers and their pre-school aged children are expected to attend these clinic sessions at monthly intervals.

-- Each participating mother contributes U.S. $0.36 per recipient, per visit; these funds are used to pay transport charges from the port of entry to the respective center; they are also used to defray the cost of personnel engaged in the pre-school program.

PRIMARY JUSTIFICATIONS FOR INCLUDING WOMEN OF CHILD-BEARING AGE IN THE FOOD-AND-NUTRITION PROGRAM

-- Next to young children, pregnant and lactating women are nutritionally the most vulnerable group, especially in developing regions of the world.

-- In some areas, women are in a constant state of nutritional stress from the time of an early marriage, before growth has ceased, until a premature death in their thirties.

Nutritional needs are high, particularly since, in some cultures, women may be responsible for much heavy work carried out with inefficient, clumsy tools. This work is continued throughout pregnancy.

-- Furthermore, nutritional status of women is frequently aggravated by food customs specifically applying to women, especially during pregnancy and puerperium... It is rare for any dietary improvement to be made during pregnancy.

-- In such circumstances of continuous, cumulative nutritional drain, various types of "maternal depletion syndrome" occur. Probably the most common is protein-calorie malnutrition. This is usually insidious and undramatic...Specific maternal depletion syndromes can also occur, e.g., osteomalacia, anaemia, etc.

(from Jelliffe's WHO Monograph: The Assessment of the Nutritional Status of the Community)

-- A woman needs 5.5 g. of extra protein per day when she is pregnant and 17.0 g of extra protein per day when she is lactating. If her source of protein is maize or some other cereal, she would need almost double the amounts mentioned above.

A woman needs approximately 300 extra calories per day during pregnancy and 550 extra calories per day when breastfeeding.

(from King, et al, Nutrition for Developing Countries)

-- "Guidelines to Young Child Nutrition Program Principles" (from the report on the Zagreb Conference)

Guideline 6 - Comprehensive in Aim, "At Risk" in Focus

Programs should aim at comprehensiveness, including promotive, preventive, and curative measures for all pregnant and lactating mothers and young children in all geographical locations, but with limited resources the programs will need to define "at risk" districts, families, others and children requiring special supervision and care.

b. Other Child Feeding:

i. Nurseries

It has become an accepted practice, especially in areas of high concentration of population, that a child should have attended a nursery school as a condition for acceptance into a primary school. Further, other nursery schools have been established so that working mothers can leave their children in proper day-care centers. CRS/Kenya encourages and supports these activities which, as yet, have received no government assistance, by providing one nutritious meal per child per day.

ii. Institutions

There are a number of specialized boarding institutions throughout Kenya that care for the medical, social and educational needs of the younger child. Of particular interest to CRS are the orphanages and homes for the physically disabled including the deaf, dumb and blind. Most receive a minimum vote of government funds annually and must supplement their budgets with grants and donations from various voluntary agencies. The P.L. 480 food which they receive through CRS is often the single factor responsible for their remaining in operation.

3. By means of a quarterly review of all feeding categories with the eight area co-ordinators and 28 sub-area co-ordinators, not only is the entire listing of the various centers adjusted as necessary, but also measures taken to improve the actual flow of supplies.

4. The Government of Kenya indirectly pays inland transportation and port handling costs to the extent of funds voted by Parliament. These funds are then allocated to many recipient centers as "operational grants". Most hospitals, maternity centers, orphanages, homes for the handicapped, etc. receive such annual grants.

EVALUATION OF PROGRESS AND MAJOR INNOVATIONS OF THE KENYA TITLE II PROGRAM

1. The integration of all Title II activities in Kenya with a new nutrition surveillance system. All recipients between the ages of birth and adult age will be given a growth surveillance chart which will replace the Ilesha chart used in previous years. The new chart offers several significant advantages:

   (a) versatility in that the identical chart design can be used for any child from birth to adult age (unlike the Ilesha chart which was restricted to children between the ages of 0 to 5 years);

   (b) growth data can be entered on the new chart as often as one wants (the former chart could only be used once a month);

   (c) it provides flexibility in the types of measurements made - either weight against age, or height against age, or weight against height; furthermore, any kind of weight system or height system can be used;

   (d) this simply-designed chart will also be printed locally, thus eliminating dependence on overseas erratic supplies.

2. Each recipient center will utilize the new master chart, which will provide on the spot a complete administrative record and a nutrition assessment/evaluation tool. Whereas in the past evaluations were undertaken by CRS/Kenya and CRS/Regional office staff at infrequent intervals, now the master chart will provide an ongoing evaluation at the recipient center itself, which will be made by local staff for on-the-spot guidance. The information the master chart will provide is as follows:

- how many children were treated by the program
- what age group the children belong to
- what village or location the children come from
- how many are new enrollees
- how many have been attending the program regularly
- how many have been attending the program irregularly
- the nutritional status of the whole group in terms of weight for age or weight for height.

3. CRS/Regional and Kenya staff will serve mainly in monitoring and interpreting the data constantly being gathered by all centers. Also they will collate the data throughout the country for a national evaluation.

   Further clarifications are contained in C. Capone's Integrating Title II Program with Locally Operated Nutrition, Socio-Economic and Humanitarian Activities, February 1977.

D. CONTROL RECORDS - RECEIPTING PROCEDURE/AUDITING:

1. Prior to actual arrival of foods at port, each receiving agency receives an advance notice of the foods he can shortly expect to receive.

2. CRS forwards distribution instruction with other shipping documents to the forwarding agent for filing with the customs at least four days prior to the notified date of arrival of foods at port.

3. When foods arrive the forwarding agent moves the food inland according to CRS distribution. He sends duplicate copies of the waybill to the CRS office in Nairobi and on receiving these CRS mails the copy of the waybill to the receiving agent along with a receipt form to be completed and signed upon the actual receipt of food and returned to the CRS office in Nairobi. It is thereby assured that the foods are sent according to CRS instructions and in proper quantities. Copy of the waybill sent to the receiving agent is intended to assist him in making inquiries at his receiving end in case of delay in receiving his supplies.

4. CRS maintains the right to audit the food program at any agency at any level at any time with or without notice. This right is also reserved for United States Government inspectors.

5. Losses during and after discharge are handled in the following manner:

   a. Short-landed units. These are recorded on the survey.

   b. Units landed in defective or damaged condition are taken to a "breakage room" for resewing or rebagging. After these have been weighed and recorded on the survey, port examination vouchers, copies of which CRS/Kenya forwards to CRS/New York for the purpose of claims against the carriers are issued.

   c. Railroad Delivery - Differences between quantities railed and received are settled with the railways.

   d. Area Warehouses - A monthly "Central Warehouse Control Record" is sent to the CRS office by each area coordinator.

   e. Individual Center - "Monthly Inventory Report: by each pre-school center and a "Quarterly Inventory Report" by all other recipient centers is sent to CRS Nairobi.

   f. End-Use Checking.

   In case of "a" the clearing agent, on CRS' behalf follows up queries in the first instance and lodges claims with the port authority. Finally, when the port authority officially declares short-landing, CRS files non-receipt declaration with the carriers' agents.

   In the case of "c" claims control record is maintained for follow-up. Any funds accruing from the settlement of these inland claims are transferred to USAID/Kenya in accordance with the M.O. instruction.

E. <u>PORT FACILITIES - PRACTICES</u>:

1. Off-loading facilities at Mombasa are adequate to handle food required.

2. Cargo surveys are conducted on all Title II shipments.

F. STORAGE FACILITIES:

1. Storage will only be done at the major distribution centers. No foods will be stored at the port. There is adequate storage available at central warehouses in all areas.

2. C.R.S. retains control of all foods in storage.

G. INLAND TRANSPORTATION:

1. Rail and trucking facilities are available for inland distribution.

2. As in most African countries, inland transportation costs are high.

H. PROCESSING:

No foods are used to produce a new end-product.

I. FINANCING:

It is important to note the cash and kind contribution of agencies which make possible the implementation of CRS/Kenya's PL 480 program. A comparison between the value of the food and the local input is presented below:

- PL 480 commodities (Est. CCC full reimbursement value)	$ 2,668,415
- Ocean freight (USA/Mombasa for 4,032 metric tons)	726,570
Total USG Inputs:	$ 3,394,985
- Volagency - General Administration:	78,000
- Volagency - Preschool Administration:	42,000
- Inland Transport of Foods:	329,000
- Preschool Clinics: supervisory staff	147,000
- OCF - Food preparers:	46,000
- Additional Food Inputs:	344,000
- Additional Medical Inputs:	283,000
- Storage & Security:	41,000
Total Local Inputs:	$1,320,000

J. ACCEPTABILITY OF AVAILABLE FOODS & RATION LEVELS:

Bulgur, Corn Soya Milk (CSM) and Vegetable Oil have been used extensively in former CRS/Kenya programs and have been found to be quite acceptable.

The following ration level has been requested for each of the following recipient categories:

Maternal Child Health - Mothers and Children

Commodity	Kilos @ Month	Grams @ Day	Calories @ Day	Days @ Month
C.S.M.	2.1	70	261	30
Bulgur	1.35	45	161	30
Veg. Oil	.45	15	134	30
Daily Total		130	566	

Preschool Child Feeding -

Commodity	Kilos @ Month	Grams @ Day	Calories @ Day	Days @ Month
C.S.M.	2.1	70	261	25
Bulgur	1.35	45	161	25
Veg. Oil	.45	15	134	25
Daily Total		130	556	

Other Child Feeding -

Commodity	Kilos @ Month	Grams @ Day	Calories @ Day	Days @ Month
C.S.M.	4.5	150	559	30
Veg. Oil	.45	15	134	30
Daily Total		165	693	

K. PROGRAM PUBLICITY:

Recipients are informed of the source of foods through periodical issuance by CRS of information bulletins and through personal visits by CRS field representatives. News releases in the local press also serve to inform recipients of the origin of the U.S. donated food.

STATISTICAL SUPPLEMENT FOR

VOLUNTARY AGENCIES AND INTERGOVERNMENTAL ORGANIZATIONS

FY 1979 TITLE II PROGRAMS

1. Maternal/Child Health

   A. Number of mothers participating - 35,000

   B. Number of children participating (age 5 and under) - 70,000

   C. Number of persons served prepared foods through health clinics and nutritional education centers - NONE.

   D. Number of persons served bulk commodities for home consumption through clinics and nutrition education centers - 105,000.

2. Preschool Child Feeding and Other Child Feeding

   List the outlets by type and cite the number of participants in each age group (i.e. preschool, primary, secondary school age):

	Preschool Age	Primary/ Age	Secondary/ Age	Total
1. Nurseries	11,000			11,000
2. Orphanages	3,750	1,125		4,875
Home for Disabled	450	1,200	1,125	2,775
Training Centers			1,350	1,350
				20,000

The breakdown in paragraph 2 above is an estimate as CRS records do not show actual division of age groups.

Technical Assistance to Cooperatives

($000)

	FY 1977	FY 1978	FY 1979
Grants	-	-	-
Loans			
Agricultural Sector Loan - I (615-0171)			
a. Peace Corps Volunteers 1/	48	48	48
b. Technical Assistance to Ministries of Cooperative Development and Agriculture 2/	113	28	-
Subtotal	161	76	48
TOTAL	161	76	48

1/ Financed by local currency generated by loan reflows.

2/ Technical assistance supplied by American Technical Assistance Corporation (ATAC) financed by dollar loan funds.

Table 1

Program Analysis for the Oral and Condom Supplies Needed to Achieve Full Availability

(all numbers in 1,000's)

	1976	1977	1978	1979	1980	1981
A. "Full Supply Analysis						
1. Married women of reproductive age - (See Annex A)	2,076	2,145	2,216	2,289	2,364	2,442
2. 65% of line A1 (Contracepting women required to achieve replacement fertility)	1,349	1,394	1,440	1,488	1,537	1,587
3. 50% of line A1 (Contracepting women utilizing orals and condoms)	1,038	1,072	1,108	1,144	1,182	1,221
4. Annual stock requirements for "full availability"						
a. Orals-(90%) of line A3 x 13 monthly cycles	12,145	12,542	12,964	13,385	13,829	14,286
b. Condoms-(10%) of line A3 x 100 units	10,380	10,720	11,080	11,440	11,820	12,210
B. Annual New Supply From Non-AID Bilateral Sources						
1. Private Commercial Sector						
a. Orals	85	94	103	113	124	137
b. Condoms	156	864	1,037	1,244	1,493	1,792
2. Other Donors						
a. Orals	2,011	1,662	1,282	1,552	1,821	2,091
b. Condoms	50	285	61	67	73	81
3. Host Country Government Procurement						
a. Orals	-	-	-	-	-	-
b. Condoms	-	-	-	-	-	-
4. Total In-Country new supply						
a. Orals	2,096	1,756	1,385	1,665	1,945	2,228
b. Condoms	206	1,149	1,098	1,311	1,566	1,873
C. Gap to be filled to Achieve "Full Availability"						
1. Orals (line A4a less line B4a)	10,049	10,786	11,579	11,720	11,884	12,058
2. Condoms (line A4b less line B4b)	10,174	9,571	9,982	10,129	10,264	10,337
D. AID Bilateral Supply Objectives						
1. Orals	0	0	0	0	0	0
2. Condoms	720	0	230	237	244	251
E. Total New Supply						
1. Orals (line B4a plus line D1)	2,096	1,756	1,385	1,665	1,945	2,228
2. Condoms (line B4b plus line D2)	926	1,149	1,328	1,548	1,810	2,124
F. Remaining Supply Gap						
1. Orals (line A4a less line E1)	10,049	10,786	11,579	11,720	11,884	12,058
2. Condoms (line 4Ab less line E2)	9,454	9,571	9,752	9,892	10,010	10,086
G. People Gap						
1. Orals (line F1 divided by 13)	773	830	891	901	914	928
2. Condoms (line F2 divided by 100)	95	96	97	99	100	101
3. Total (line G1 plus line G2)	868	926	988	1,000	1,014	1,029

Table 2

AID Bilateral Logistic and Financial Analysis of Orals 1/

A. AID Inventory Analysis	Calendar Year				
	1977	1978	1979	1980	1981
1. Beginning of year stock					
2. Add: Scheduled deliveries (See Annex B)					
3. Less: Expected Use					
4. End of Year Stock					

To be completed by AID/Washington

B. Financial Analysis (FY 78)

1. CY 1979 deliveries (Line A 2 above)
2. Estimated cost per unit in FY of purchase
3. Estimated total cost for FY 78 (to be determined by AID/W)

C. Financial Analysis (FY 79)

1. CY 1980 deliveries (Line A 2 above)
2. Estimated cost per unit in FY of purchase (To be determined by AID/W)
3. Estimated total cost for FY 1979 (To be determined by AID/W)

1/ Not required for Kenya.

Table 3

AID Bilateral Logistic and Financial Analysis of Condoms

(numbers in 1,000's)

A. AID Inventory Analysis	Calendar Year				
	1977	1978	1979	1980	1981
1. Beginning of year stock	0	0	230	237	244
2. Add: Scheduled deliveries	0	230	237	244	251
3. Less: Expected Use	0	0	230	237	244
4. End of year stock	0	230	237	244	251

To be completed by AID/Washington

B. Financial Analysis (FY 78)

1. CY 1978 deliveries (Line A 2 above)

2. Estimated cost per unit in FY of purchase

3. Estimated total cost for FY 78 (to be determined by AID/W)

C. Financial Analysis (FY 79)

1. CY 1979 deliveries (Line A 2 above)

2. Estimated cost per unit in FY of purchase (to be determined by AID/W)

3. Estimated total cost for FY 1979 (to be determined by AID/W)

Country/Program Kenya

MISSION EVALUATION PLAN FOR FY 1978 AND FY 1979

(1) Project / Title & Number / Subject	(2) Date of Last Evaluation	(3) Number of Last PAR (if applicable)	(4) Date of Submission FY 1978 and/or FY 1979 Evaluation	(5) Period Covered Next Evaluation	(6) Remarks
Food & Nutrition					
Vihiga Rural Development (615-0147)	5/77	75-2	-	-	Terminal PAR in May 1977
Agriculture Credit (615-0148)	8/77	76-8	7/78, 4/79	11	Special Evaluation in FY 1977
NRRD (615-0157)	5/77	76-6	5/78	12	-
University of Nairobi Veterinary Faculty (615-0148)	6/77	76-3	6/78	12	Terminal Evaluation in FY 1978
Livestock Loan (615-0160)	5/77	76-6	5/78	12	-
Rural Planning (615-0162)	-	-	12/77, 7/78	18	Special Evaluation in July 1978
Rural Roads Systems (615-0168)	-	-	12/78	-	Per PP
Roads Gravelling (615-0170)	-	-	11/77, 11/78	-	Evaluation per PP
Agriculture Sector Loan I (615-0171)	5/77	-	5/78, 5/79	12	-
PfP Rural Enterprise Dev. (615-0174)	-	-	6/78, 6/79	12	Grant Agreement signed 6/77
CARE Water Development II (615-0176)	-	-	10/78	11	Assume signing o/a 10/77
Population Planning/Health					
POPLABS (141.2)	3/77	-	-	-	Terminal PAR to be submitted from 3/77 evaluation

Country/Program Kenya

MISSION EVALUATION PLAN FOR FY 1978 AND FY 1979

(1) Project / Title & Number / Subject	(2) Date of Last Evaluation	(3) Number of Last PAR (if applicable)	(4) Date of Submission FY 1978 and/or FY 1979 Evaluation	(5) Period Covered Next Evaluation	(6) Remarks
Family Planning (615-0161)	3/77	76-4	3/78,3/79	12	Special Evaluation in March 1977
Population Studies and Research Center (615-0165)	-	-	7/78, 7/79	12	-
IEF Rural Eye Care (615-0173)	7/77	-	8/78, 8/79	13	Special Evaluation
Disaster Relief					
Marginal/Semi-Arid Lands Pre-Investment Study (615-0164)	-	-	10/77	8	-
Other Activities					
PL 480, Title II	-	-	8/77	-	-
Housing Investment Guarantees	-	-	9/77	-	-
Program Review	-	-	9/77	-	Special Review of USAID/Kenya Program prior to preparation of revised DAP.

MISSION EVALUATION PLAN

The Mission has not at the time of this writing submitted any FY 1977 PAR's and has conducted only three evaluations - of the Family Planning project as part of a special, joint, mid-project technical review in March; of the AID/W-Mission financed Poplabs project, and on the two related National Range-Ranch Development and Livestock Loan activities. The PAR facesheet on the first will be completed and sent to AID/W transmitting copies of the final version of the report when these are received from the IBRD editor. The PAR's on the other two shall be completed and submitted shortly after this ABS is completed. The remainder of FY 1977 evaluations have been rescheduled according to the schedule included in the ABS.

Reasons for this performance lag are varied. In two cases - the FP project and Agriculture Sector Loan I - delays resulted from later than anticipated start-up by the GOK-donors and by the contract evaluators, respectively. (The team to evaluate ASL I is just beginning its work at the time of this writing.) Some new projects did not begin when anticipated, thereby deferring the timing of the first evaluations. Regrettably, however, three completed or on-going technical assistance projects - Rural Development-Vihiga, University of Nairobi Veterinary Faculty, and Agriculture Credit - the P.L. 480 Title II and HIG programs have not yet been evaluated in FY 1977. The delays in these cases are due to a combination of heavy workload and absence of key personnel on home leave; however, the needed evaluations will be done shortly.

Despite the above the USAID did carry out in August-September and, again, in January-February two separate sets of project reviews covering each active project or program. Purpose of these sessions was to assess current status and problems with senior Mission management and to determine needed actions or solutions. As such, they principally focussed on implementation questions without examining in much detail broader design concepts. Each project meeting centered on an issues paper prepared by the responsible Project Manager and the decision taken recorded for future follow-up and reference. While not formal evaluations in the strictest sense, these reviews did address many of the points covered in a formal project evaluation and thereby meet that requirement to a considerable degree.

The Population Dynamics-Poplabs evaluation (Project 615-11-580-141.2) reflects experiences typical of Mission evaluations carried out so far. This final evaluation of activities under a centrally funded project confirmed the successful delivery of all project inputs in support of the Demographic Studies Unit (DSU) while at the same time highlighting

certain weaknesses in project design - chiefly too little training planned and training's being initiated very late in the project's life. It was concluded by both GOK and AID evaluation participants that some additional technical training for DSU staffers was warranted and that various AID/W funding avenues might be explored. The evaluation offered AID and GOK representatives an opportunity to mutually review project purposes, project achievements, and possible future actions needed in light of past experience.

The above, as is the case with other USAID evaluations, was conducted in accordance with the relevant USAID/Kenya Mission Order of March 21, 1975 (copy attached). The Order provides comprehensive guidelines on evaluation procedures, substance and administration. Any necessary revision will be made as part of a Mission-wide review of all such Orders, currently in process, to revise and update these as needed and appropriate. This particular Order requires no major substantive changes.

Finally, AID/W's attention is specifically directed to the proposed outside determination of the USAID/Kenya program 1) which is to determine its appropriateness and effectiveness in addressing Kenya's development problems and concerns and its compliance with AID's new directions, and 2) which is to make recommendations for future program development. The results of the review are to be utilized in a pending revision to the Development Assistance Plan (DAP). In fact, the determination is really the first step in the DAP revision process and is viewed as an essential part of that effort since the review is to recommend new areas for possible AID financing - such areas to be further considered and refined in the DAP revision - and to propose means of strengthening the existing program.

The program determination has previously been discussed with Government which has asked that the outside team members be pragmatic and practically oriented, rather than theoretical, in their approach. The GOK will not only participate in developing the final plan of work, but will also consult frequently with the review team so as to achieve the fullest possible coordination re development priorities and program direction and so as to assure an end result coinciding closely with Kenya's development objectives. At the same time a fruitful interchange between AID and Government could make a positive input into the GOK's preparation of the 1979-83 Development Plan.

The draft scope of work for the determination was sent to AID/W March 1 along with the Mission's proposals for appropriate implementing agents. The Mission believes the best period for the review to be carried out is during the fourth quarter of FY 1977, preferably beginning in June. Adhering to this schedule would facilitate proceeding with the DAP

revision in early FY 1978, subsequent to which project design work can be initiated in a timely fashion for the next GOK development plan period, 1979-83.

The program determination as well as the DAP have both been included in the budget for Program Design and Support. Of immediate concern is the need to proceed with obligation of funds and contracting for the review for which, as indicated above, the scope of work has been in AID/W for several months.

MISSION ORDER
US AID Mission to Kenya

SUBJECT: Evaluation

ORDER NO. 10-3 CHRON No.

DATE ISSUED 3/21/75 (Revised) DATE EFFECTIVE 3/21/75

SUPERSEDES M.O. 10-3 d/d 2/22/75

AUTHORITY: M.O. 1026.1, AIDTO Circ A-603 (8/28/74)

I. Purpose:

The purpose of this Mission Order is to establish revised procedures for both regular and special evaluation of Mission loan and grant assistance projects. Evaluation is viewed by USAID/Kenya as being a means not only for reviewing progress to date in reaching targets for delivery of inputs and production of outputs, but also a means for reassessing the validity and appropriateness of a project and its design. In carrying out the entire evaluation process information should be generated that can contribute to project redesign, if necessary, as well as to problem-solving so as to result in improved implementation and greater assurance that the project purpose and output targets can be achieved. Underlying this approach are three basic principles:

A. Evaluation results should be utilized in planning for future project implementation actions, including budgetting, as well as for redesign.

B. Government of Kenya participation in the evaluation process is an essential part of the Mission's collaborative approach to providing development assistance to Kenya.

C. Evaluation generates information on positive project achievements as well as identifying problems of implementation or design. It does not seek to place blame on individuals, offices or agencies for problems that may arise, but instead seeks to develop solutionsto problems.

II. Responsibilities:

A. The Mission Evaluation Officer has the overall responsibility for overseeing the Mission's evaluation program. In so doing he/she will develop annual evaluation plans; schedule Project Appraisal Reports (PAR's) and special evaluations and follow-up to ensure these are done; assist responsible Mission technical specialists to conduct both annual

and special evaluations; assist Mission and REDSO staff carrying out evaluations of loan activities, and draft memoranda summarizing the discussions and decisions of the Senior Evaluation Committee. He/She also chairs the Senior Evaluation Committee.

B. USAID/Kenya technical specialists will carry out evaluations of the bilateral grant projects for which they have been assigned responsibility, including actual review of project progress against Project Paper or other planning targets, review of the performance of implementation agents, and assessment of the validity of project design; drafting of memoranda summarizing their findings, conclusions and recommendations to be used by the Senior Evaluation Committee as the basis of its meetings,and preparations of PAR's.

C. USAID/Kenya Project Backstop Officers for AID/W-managed activities will, in accord with the provisions of Mission Order 13-2, carry out such evaluation responsibilities as requested by the responsible AID/W officer. When USAID/Kenya is asked to evaluate a centrally funded project, the process to be followed will be the same as that for a Mission-funded bilateral activity.

D. For special evaluations the evaluators, selected from an outside source, have full responsibility for carrying out the review, for formulating recommendations and for preparing their reports to be presented to the USAID and the GOK. The responsible Mission technical specialist should provide information and other kinds of assistance as needed and prepare a PAR utilizing the special evaluation findings for submission to AID/W simultaneously with distribution of the special evaluation report.

E. In evaluating loan projects the chairman of the Mission loan committee charged with the responsibility for overseeing implementation should take the lead in carrying out the evaluation. He should seek the assistance of the other committee members from USAID/Kenya and REDSO/EA and the Mission Evaluation Officer.

III. <u>USAID/Kenya Evaluation System</u>:

A. <u>Timing</u>

1. Regular evaluations of both grant and loan financed activities ideally are to be conducted annually, and evaluations will be so scheduled to the degree workload and personnel availabilities (as affected by such things as home leave, reassignments, etc.) permit. When possible, evaluations shall be scheduled so as to ccincide with project audits and/or submission of contractor performance evaluations.

2. Special evaluations will generally be scheduled as needed although these may occur about once every three years. Generally, such evaluations will be scheduled for projects which are identified as having particular problems of implementation or design, or which are of longer than usual duration ("usual duration" being defined for the purpose of this Mission Order as three-to-five years in length), or which in the Mission's judgement have important lessons to offer AID, Government and other donors in Kenya or for AID activities elsewhere in Africa or the world.

B. Senior Evaluation Committee

1. Composition - The Senior Evaluation Committee will consist of the Director, Assistant Director, Program Officer, the technical specialist for the project being reviewed, General Development Officer, Project Support Officer, Evaluation Officer and Controller. Additional Mission personnel, having expertise of particular relevance to the project being evaluated, will be added to the Committee as appropriate. GOK officials may be asked to participate, as appropriate, in Committee meetings on specific evaluations.

2. Function - The Senior Evaluation Committee will review each evaluation to discuss issues raised by the review, the need for project redesign, follow-up actions to address implementation problems, and to make decisions on proposed actions to be taken by the USAID, GOK, U.S. implementing agent, or AID/W. The basis for the Committee review will be a memorandum to the Director prepared by the responsible technical specialist summarizing the findings of his/her evaluation regarding project status, appropriateness of its design, and the continuing validity of key assumptions made in the PP; identifying specific problems/ issues to be addressed, and recommending actions to be considered by the Committee. Attached as back-up materials will be copies of evaluation worksheets and/or other materials developed in the course of the technical specialist's evaluation. The results of the Committe meeting shall be included in a memorandum to the files to be drafted by the Mission Evaluation Officer.

3. Chairman - The Mission Evaluation Officer shall act as chairman of the Committee and shall be responsible for calling all meetings, and distributing in advance of each meeting the technical specialist's memorandum mentioned above.

4. Special Evaluations - As necessary and appropriate the Committee shall review special evaluations. In such instances the responsible technical specialist need not prepare a memorandum for the Committee but should ensure that the evaluation report is distributed to Committee members sufficiently in advance of the meeting for them to have read the report before the session.

C. PAR's - PAR's will be prepared by the responsible technical specialist after the Senior Evaluation Committee has met so as to incorporate its decisions.

D. Loan Projects - Evaluations of Kenyan loan activities shall also be reviewed by the Senior Evaluation Committee although the composition of the group shall be revised to include REDSO/EA, the Director, or his designee, and the responsible loan officer, and from USAID/Kenya, the Director, Assistant Director, Program Officer, Evaluation Officer, Controller, and Mission members of the loan committee, all of whom are to contribute to the reviews, discussions, conclusions and recommendations. Where differences of opinion may arise, these differences should be recorded in the memorandum summarizing the meeting. PAR's for loan activities shall be approved by the Director, USAID/Kenya.

E. Grant Project Budget Reviews - While not strictly a part of the Mission evaluation system, annual project budget reviews do touch upon it. Annually during the fourth quarter of the fiscal year, the Mission shall hold a series of individual project reviews to develop guidelines for actions which must be undertaken in the following year and to focus on requirements for personnel, participants, commodities, and other project inputs which must be included in the budget for the following fiscal year and, consequently, in the annual Field Budget Submissions. Evaluation results and recommendations will need to be fed into these reviews and, therefore, evaluations, to the degree possible, should be scheduled to be completed prior to the project review meetings.

IV. Government of Kenya Role

Government of Kenya participation in, and contribution to, the evaluation process is considered desirable and, in most circumstances, necessary. GOK inputs may be obtained through one or both of the following procedures:

A. Attendance at Senior Evaluation Committee meetings by representatives of the participating GOK technical ministry and the External Aid Division (EAD), Ministry of Finance and Planning. Copies of evaluation materials prepared for the Committee should be sent to the GOK representatives in advance of the meeting along with the request that they attend the review session.

B. Presentation of copies of completed evaluation reports to officials of the involved GOK ministry and the EAD followed by a meeting or meetings to review the evaluation findings, to discuss the resulting recommendations, and to reach agreement on follow-up actions and/or project redesign.

V. Designation of Mission Evaluation Officer

The Assistant Program Officer, not serving as Program/Operations Officer and Deputy to the Program Officer, shall serve as Mission Evaluation Officer.

VI. Training

Mission personnel having evaluation responsibilities shall be trainined in AID evaluation techniques at Mission expense when they have not previously received such training. Attendance at training courses held either in AID/W or other African Missions shall be scheduled in accord with consideration for workload, timing, and priority of the individual's training needs.

Similar training may be provided to appropriate GOK personnel to the degree funding availabilities and mechanisms exist.

Henry Rosenbaum
Acting Executive Officer

Distribution: A & H

KENYA'S ECONOMY AT MIDYEAR [1/]

I. Introduction and Summary

The ultimate objective of this mid-year economic review is the identification of macroeconomic trends which can guide the implementation and forward planning of the development assistance program for Kenya. Sectoral analysis and a project specific development strategy are the domain of the Development Assistance Plan.

The economic picture at the mid-point in Kenya's 1976/77 fiscal year was strongly positive with a surplus in the 1976 balance of payments, Gross Domestic Product increasing at the rate of six percent per annum and, thanks to good short rains, food stocks running at record levels. Ironically, one of Kenya's most serious short-term problems at present is a direct result of its abnormally large coffee export revenues. These revenues have mushroomed during 1976, generating a considerable increase in the domestic money supply. Sterilization of the coffee-generated foreign exchange inflows should be undertaken to prevent a massive and detrimental increase in the domestic money supply. 1976/77 budget revenues are generally within planned limits but some slippage in revenues and some excesses in expenditures have resulted in larger-than-planned Government borrowings from the Central Bank. The 1977/78 development budget may mirror the general expenditure distributions prevailing during 1976/77 with the notable exception of defense expenditures which are expected to increase considerably during the upcoming fiscal year. A supplementary budget for 1976/77 was approved in April mainly covering increased expenditures for defense and former East African Community corporations now being operated by the GOK.

The economic prospects for the remainder of the 1976/77 fiscal year are quite bright, but the economic outlook for the end of the decade is clouded by an expected drop in coffee prices and the possibility of another worldwide recession. Declining coffee prices alone are expected to cause severe balance of payments problems for Kenya by 1979 and certainly by 1980. In order to prevent a significant decline in domestic investment and economic growth, substantial increases in foreign assistance will be required.

The World Bank and the International Monetary Fund have prepared excellent and highly current studies and reviews of the Kenyan

1/ Originally prepared in March for USAID by IDI-Program Economist to review economic developments during July-December 1976 or first half of 1976/77 budget year. Paper included here with some updating to provide further background to Summary Narrative Statement's "Development Overview".

economy. [1/] This mid-year review does not attempt either to duplicate the existing material or to provide the same level of in-depth analysis undertaken by the World Bank.

II. Present Economic Trends

A. The Economy in General

After several years of sustained growth at 7 percent per annum, real growth or real Gross Domestic Product fell to less than 0.8 percent in 1975, attributable to the cumulative effects of the 1973 oil price increase and the 1974/75 world recession. Significant improvements in the outputs of agriculture, manufacturing, distribution, and the service sectors have increased the growth of real Gross Domestic Product to between 5 and 6 percent during 1976. The consensus estimate is that real Gross Domestic Product will increase between 6 and 7 percent in 1977.

B. Coffee

The short-run impact of the current high world coffee prices on national production, on the balance of payments, and on the money supply is of such significance that coffee prices have become the central variable in explaining Kenya's present economic phenomena.

Kenya is both the beneficiary and perhaps, in the longer run, the victim of external events. As a result of, first, the Brazilian frost and then, the Angolan civil war, world coffee stocks began seriously declining, to the extent that total world stocks are estimated to meet only three months' consumption by 1978. Not until 1979 is it expected that world coffee production will again equal world coffee demand. World coffee prices have risen three- and four-fold over the last two years as coffee-importing countries increased their stockpiles to hedge against expected price increases.

Recent State Department testimony to Congress [2/] indicates that the 1976 International Coffee Agreement will be the basis for the establishment of future national export quotas. These quotas may be globally set at levels

1/ For example, see: World Bank - Current Economic Position and Prospects of Kenya, October 1976.
International Monetary Fund-Kenya-Use of Fund Resources: Extended Fund Facility. Mission Reports, July 1976 and February 1977.

2/ STATE 039357 and STATE 039356.

necessary to ensure the stability of coffee prices to around the price levels prevailing in 1975. In general, and where they do not conflict with global price targets, national coffee export quotas are to be set at those levels existing when quotas were suspended in late 1975.

Table 1

KENYAN COFFEE PRODUCTION AND PRICE LEVELS

	1974/75	1975/76	1976/77
Coffee Exports During Coffee Year (October-September) (MT)	70,103	73,810	74-76,000
Average Gross Farm Price During Period Oct.-Jan (KShs/100 kgs)	1,011	1,460	3,502*

*The average Kenyan auction price on May 4, 1977, was KShs 5,386 per 100 kgs. ($649/100 kgs.) and since October the overall average has been KShs 4,812/100 kg.

Source: Central Bureau of Statistics and the Standard, May 6, 1977.

While predicting coffee price levels in 1977 and 1978 falls into the arena dominated by forward market speculators, the informed consensus is that coffee prices will remain at the current high levels during 1977, but that during the latter half of 1978 prices should begin weakening with a return to the 1974/75 price levels by late 1979 or early 1980. 1/ Until then, however, only minimal price reductions are expected.

C. Tea

As a result of soaring coffee prices and consumer substitution of tea for coffee, tea prices began rising in late 1976 and by May 1977 tea prices are two and one-half times the price levels of the previous year. 2/ The value of tea exports has historically been about one-half the value of coffee exports and a sudden surge in tea prices, therefore,

1/ Federal Reserve Bank of San Francisco, Business & Financial Letter, February 11, 1977.

2/ FOB prices: May 1976, KShs 8.70 per Kilo; May 1977, KShs 30.40 per kilo.

represents a significant further increase in foreign exchange earnings. It is expected that tea prices will closely follow coffee prices and that a significant down turn of prices can be expcted by 1979.

D. Agricultural Production

Through a combination of increased producer prices and adequate rainfall in the major farming zones, the value of marketed agricultural production is expected to increase 33 percent from the 1975 level of KShs 3.16 million to KShs 4.2 million in 1976. In real terms, marketed output is expected to climb only 8 percent between 1975 and 1976.

The GOK objective of internal self-sufficiency in agricultural production is clearly approaching realization. In 1976 maize and wheat production were sufficient to meet domestic demand. The expansion of sugar production and the construction of appropriate domestic refining facilities is another example of efforts toward self-sufficiency in a processed agricultural product.

Of particular concern at the moment is the current shift of agricultural resources into coffee production, given the fall in coffee prices expected by the end of the decade. A similar situation arose in the early Fifties when coffee prices rose during the Korean Emergency only to steadily fall until the first Coffee Agreements were signed in the early Sixties. During that period of high coffee prices there was a significant increase in coffee trees planted. The micro-economic implications of the present coffee price levels, both on the allocation of resources and on the expenditure pattern of coffee producers is not well understood although the doubling and tripling of coffee prices must be sending very strong price signals to the producer. This particular topic needs to be thoroughly researched in order to determine what coffee's secondary impact on the GOK's overall agricultural development strategy might be and in order to examine policy options which might counteract or correct for the present distortions.

E. Manufacturing and Construction

During 1976 the manufacturing sector turned in a respectable performance as against 1975, with the index of production rising between 6 and 8 percent. The most active subsectors were food processing, with considerable production increases noted in wheat flour processing.

The construction sector remained stagnant during 1976, and, in real terms, the value of output in the sector declined for the second year in a row.

Of particular note is the severe depression which has gripped the private housing construction market. With ample commercial credit now available and relatively stable input prices, the continued lack of interest in private house construction is attributed to capital gains tax laws which are a disincentive for such longer-term investments as housing. The media has highlighted this problem and carried stories quoting industry spokesmen advocating repeal of the 1975 Capital Gains Tax.[1/]

F. Tourism

1976 has been a year of considerable recovery in the tourist business; receipts from tourism have risen to KShs 80 million, up 50 percent from 1975 levels.

G. Price Levels

During 1976 the rate of increase in the two consumer price levels (Middle Income and Lower Income) was around 10 percent, down from the 16 and 20 percent rates of increase experienced in 1974 and 1975, respectively. While Kenyan monetary policy can take some credit for the restraint in price increases, the principal cause for the decline in inflation most likely rests with the general decline in the international rate of price increase. [2/]

III. Balance of Payments

Over the last four years the Kenyan economy has been subjected to a series of severe, externally generated shocks: the 1973 oil price increase, the 1974/75 world recession, and the 1976 skyrocketing coffee prices. Given the continuing instability of the world economy in general and coffee prices in particular, as well as the prospect of regular OPEC-decreed oil price increases, Kenya's balance of payments reflects an exceedingly variable and dynamic phenomenon.

Extraordinarily high coffee prices have pushed the 1976 capital accounts balance into a surplus of KShs 600-700 million ($72-$84 million); the 1977 capital accounts balance is projected to reach a surplus of between KShs 100-400 million ($12-$48 million). Table 2 details the present position and the 1977 forecast. [3/] Coffee receipts and tourism are two

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1/ "Capital Tax Should be Suspended", The Standard, March 9, 1977.

2/ K. Brunner and A. Meltzer, "The Explanation of Inflation: Some International Evidence", American Economic Review, February 1977, pp. 148-154.

3/ Sources: Central Bank and IMF. Divergent projections result from differing estimates of tourism and import levels.

TABLE 2

KENYA'S BALANCE OF PAYMENTS

(K.SHS. MILLIONS)

	CY 1975 (PROVISIONAL)	CY 1976* (PRELIMINARY) ESTIMATES)	CY 1977 (IBRD/IMF)	CY 1977 (CENTRAL BANK)
Imports	- 7760	- 8383	- 10,367	- 10,367
Exports	4756	5889	7,259	7,259
Trade Balance	- 3004	- 2494	- 3,108	- 3,108
Net Invisibles	1029	1360	1,308	1,008
Goods & Services Balance	- 1975	- 1134	- 1,800	- 2,100
Transfer Payments	257	290	400	400
Current Account Balance	- 1718	- 844	- 1,400	- 1,700
Capital Movements	1386	1400	1,800	1,800
Overall Balance	- 332	± 556	± 400	± 100
Trade Balance/Imports	.39	.30	.30	.30

*1976 Figures represent an amalgam of preliminary estimates and projections.

Source: Central Bank of Kenya, International Monetary Fund, World Bank.

balance of payment variables which are not subject to direct GOK control but which exert a substantial impact on the overall balance.[1] Table 2 also indicates the variance in tourism projections made by the IMF during its January 1977 Extended Funds Facility review mission as against those made by the Central Bank of Kenya.

GOK management of external resources is already beginning to take into account the anticipated return in coffee receipts to the levels experienced during the early Seventies. [2]

In order to assess the impact that lower coffee receipts would exert on Kenya's balance of payments and to examine the balance of payments structure without the temporary "distortions" introduced by the present coffee price levels, Table 3 recalculates the 1976 and 1977 balance of payments with coffee prices at 1974 levels. This analysis is an exercise in comparative statics and does not consider stricter import controls which might be imposed if the world coffee prices were to suddenly plunge from their present heights. It is unlikely that the present volume of Kenyan coffee exports could be sustained at lower export prices. There is sufficient evidence to show that coffee export volume is price sensitive, that extra care is now being paid to virtually every coffee tree, and that thorough coffee harvesting techniques are being employed.

If the 1970-1974 trade balance/import structure (.36) were to be maintained with 1974 rather than 1977 coffee prices, 1977 imports would have to be reduced 23 percent (KShs 2,383 million), from KShs 10,367 million to 7,984 million. [3] Were 1978/79 coffee prices to fall to the 1974/75 price levels, Kenya could seek to implement one or a combination of the following policies:

1. Decrease imports by 20-25 percent.
2. Increase external borrowing.
3. Increase foreign assistance inflows.

IV. 1976/77 Budget

Obtaining a reasonably accurate picture of current GOK expenditure levels is hindered by serious reporting lags attributable to deficiencies in GOK accounting capabilities and the accounting system itself. The mid-year FY 1976/77 picture appears to be as follows:

1/ Tourism is recorded as a non-factor service payment under the "invisibles" account.

2/ Consultative Group for East Africa, Kenya - Opening statement by Minister for Finance and Planning, November 22, 1976.

3/ While the historical balance of payments structure is by no means the only structure possible, it does provide a useful point of reference.

TABLE 3

KENYA'S BALANCE OF PAYMENTS

(ADJUSTED TO 1974 COFFEE PRICES)

(K.SHS. MILLION)

	CY 1976		CY 1977	
Imports		- 8383		- 10,367
Exports	5889		7259	
Less Coffee Export Adjustment	1322		2181	
Export (Adj.)		4557		5,078
Trade Balance		- 3826		- 5,289
Trade Balance/Imports		.46		.51

		IMF	CENTRAL BANK
Adjusted Overall Balance (From Table 2)	- 766	-1781	- 2081
Unadjusted Overall Balance (Table 2)	+ 556	+ 400	+ 100

* EXPORT ADJUSTMENT

Coffee Exports	CY 1975	CY 1976	CY 1977
Quantity ('000 MT)	66	74 (est)	76 (est)
Average Annual FOB Price (K. Shs. '000/MT)	10.68	27.86	38.70 2/
Value of Exports (K. Shs. Millions)	705	2062	2941
Value at 1974 Prices 1/	660	740	760
Export Adjustment	45	1322	2181

Sources: Central Bank, Central Bureau of Statistics.

1/ At K. Shs. 10,000/MT

2/ Average price during first 5 months of 1976/77 coffee year.

A. Revenue

Revenues are generally in line with projected levels with only a curious drop in customs revenue clouding the picture. With the apparent gradual dissolution of the East African Community it is probable that customs tax records are merely in disorder, thereby explaining the discrepancy between recorded customs receipts and import levels.

Per the 1976/77 budget speech delivered in June 1976, the following additional revenue is being sought during 1976/77:

Revenue Item	1976/77 Increase Over 1975/76 (KShs Million)
1. Increase in General Revenue Receipts	397
2. New Revenue (primarily removal of the sugar manufacturing subsidy and increased import tariffs)	240
3. Fertilizer Sales	200
4. Total Incremental GOK Revenues: FY 1976/77	837
Percent of Total 1976/77 Revenues	13

B. Expenditure

Recurrent expenditures appear to be running higher than projected (despite the IBRD's October 1976 estimates which are detailed in Table 4), and by January 1977 Government domestic borrowing was pressing against IMF set ceilings. Across-the-board Ministries were exceeding budget-set recurrent expenditure levels. Monitoring the current budget flows is hindered by an accounting system which is based more on cash flows than accruals, thereby introducing a significant lag between the incurring and recording of expenditures.

Development expenditures are running below target for most ministries, but this is an annual finding during the first part of the budget year. The Ministry of Defense is exceeding budget-set development expenditure levels as a result of increased arms purchases.

The recently approved supplementary budget estimates for 1976/77 total approximately $90 million (recurrent and development), representing a 12 percent increase over originally approved levels. The largest

TABLE 4

BUDGET FY 76/77

(KShs. MILLION)

Items	Budget Speech		IBRD
Expenditures			
1. Recurrent	5420		5160
2. Development	2560		2560
3. TOTAL		7980	
4. Plus 1975/76 Carryover		340	
		8320	7720
Revenue			
1. General Revenue	5300		6140
2. Foreign Assistance			
a) Grant	400		
b) Loan	680		940
3. Domestic Borrowing			
a) Long Term: Non-Bank	500		420
b) Short Term: Banking System	540		220
4. Fertilizer Sales	200		
5. Grant-in-Aid	460		
		8080	
6. New Revenue Sources		240	
		8320	7720

Sources: Minister of Finance. Budget Speech. June 1976. World Bank. Current Economic Position and Prospects of Kenya. October 1976.

TABLE 5

G.O.K. BUDGET AND FINANCE
(KSHS. MILLION)

	FY 1975/76 (PROV)	FY 1976/77 BUDGET	FY 1976/77 IBRD
Revenue	5520	6260	6140
Recurrent Expenditure	- 4740	- 5420	- 5160
Development Expenditure	- 2280	- 2560	- 2560
Budget Deficit	- 1500	- 1720	- 1580
Deficit/Revenue	.27	.27	.26
Financing			
Foreign Financing	520	740	940
Domestic Long Term	400	500	420
Domestic Short Term	580	480	220
Total Financing	1500	1720	1580
Foreign/Total Financing	.35	.43	.60

Sources: Ibid.

increases are for defense ($55 million), share purchases in the new Kenya Airways ($12 million) and rolling stock for the new Kenya Railways ($18 million). The bulk of the budget increases, thus, can be linked to recent developments in the East African Community and to defense concerns.

Foreign financing is expected to cover an increasing proportion of the budget deficit, rising from 35 percent in FY 1975/76 to between 43 and 60 percent in FY 1976/77.

V. FY 1977/78 Budget

The FY 1977/78 Budget is expected to reflect a significant increase in defense expenditures, particularly development expenditures for major military hardware. Most ministries will probably retain their present relative share of total recurrent and development expenditures with the only minor exceptions (not including the defense budget) being the Ministry of Natural Resources and the Ministry of Finance and Planning, both of which are expected to receive a larger share of the development budget. The Ministry of Finance and Planning will be one of the Government's principal avenues for pumping financial support into the recently established Kenya Airways.

VI. Financing and the Money Supply

A. Commercial Banking

Kenyan commercial bank lending tends to concentrate on short maturity paper with a heavy bias towards trade finance. Given the historical and operating nature of commercial banking in Kenya, this sector can only be expected to support rather than fuel the development effort.

Table 6 illustrates the recent pattern of commercial bank liquidity with the liquidity ratio standing at 27 percent by September 30, 1976. Excess liquidity represents 13 percent of outstanding bills, advances, and loans at commercial banks. 1/ There is, therefore, some flexibility available for future loan expansion should demand materialize.

The Central Bank has requested commercial banks to increase their level of agricultural lending to at least 17 percent of net deposit liabilities. Table 7, line item 5, indicates the overall failure of commercial banks to achieve this rate, with the September 1976 data indicating an average ratio of 12.5 percent.

1/ Where excess liquidity is defined as the difference between actual liquidity and legally required liquidity.

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TABLE 6

COMMERCIAL BANK LIQUIDITY RATIO

LIQUID ASSETS/DEPOSIT LIABILITIES *

1972	-	December	22%
1973	-	"	25%
1974	-	"	21%
1975	-	June	21%
	-	December	19%
1976	-	June	23%
	-	September	27%

Source: Central Bank of Kenya.

* Liquid Assets: Notes and coin, deposits at Central Bank, net inter- bank balances in Kenya and overseas, Treasury Bills.

N.B. Under the Banking Act of 1968, A liquidity ratio of 15 percent was prescribed in October 1972. As a basis of comparison, liquidity ratios between 20 percent and 35 percent were the 1974 norm at non-money market member banks in the Second Reserve District. Federal Reserve Bank. 1974 Operating Ratios of Second District Member Banks April 1975

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TABLE 7
AGRICULTURAL CREDIT: COMMERCIAL BANKS
(K.SHS. MILLION)

1. Advances by Type	Dec. 1973		Dec. 1974		Dec. 1975		Sept. 1976	
	AMT	%	AMT	%	AMT	%	AMT	%
Small Scale Farmers	76.5	24	103.8	23	167.0	23	197.3	24
Large Scale Farmers	172.0	54	235.3	51	363.3	51	402.6	49
Coop Societies	66.2	21	62.8	14	94.2	13	78.3	9
Agricultural Boards	4.4	1	54.7	12	88.7	13	149.6	18
2. Total	319.1		456.6		713.2		827.8	
3. Total Commercial Bank Advances	3228.1		4163.2		4681.8		4892.1	
4. Agricultural Advances as % Total Advances	10.1		11.0		15.2		16.9	
5. Agricultural Advances as % of Net Deposit Liabilities *	8.4		13.4		14.4		12.5	

Source: Central Bank

* Note that the Central Bank requested commercial banks to increase their lending to agriculture to 17 percent of net deposit liabilities by June 1976.

Commercial banks' inability to expand agricultural lending to the levels recommended by the Central Bank results from a combination of commercial bank credit standards and insufficient demand for "bankable" loans. The commercial banks are quite naturally unwilling to write loans when the nominal interest rate allowable by law does not cover both the cost of funds and the perceived credit risk. Furthermore, prudent banking requires a conservative lending policy when venturing into a relatively new area of financing. At the same time, there is a limited supply of "bankable" agricultural loans, loans of sufficient size and acceptable risk, being brought to the attention of the commercial banking community. Commercial banking has been slow in its search for bankable agricultural loans, and commercial farmers have been slow in presenting their plans to the commercial banking community. As a result of the guidelines set forth by the Central Bank and the inability of commercial bankers to find sufficient agricultural loan recipients, loans to agricultural boards have increased from one percent of total agricultural loans in 1973 to 12 percent by December 1974 and 18 percent in September 1976. The soon-to-be-completed agricultural credit study being undertaken as part of the Agricultural Credit Project (615-0148) should provide considerably more analysis of the relationship between commercial banking and agricultural credit.

Relative to total advances, however, loans to agriculture now stand at 16.9 percent. It is recognized that the banking system cannot and should not be forced into making too rapid an entry into agricultural lending.

B. International Monetary Fund

In the first years of the oil price increase Kenya drew heavily on IMF credits and special facilities (SDR 59.5 million in 1974 and SDR 34.9 million in 1975). 1/ As the country's foreign reserve position has improved, Kenya has entered into repurchase agreements to repay IMF drawings. The Extended Fund Facility has provided Kenya with a credit line of SDR 67.2 million to be drawn between July 1975 and June 1978. To date, however, Kenya has drawn only SDR 7.7 million, and no drawdowns were made in 1976, see Table 8.

With rising coffee receipts Kenya is able to relax its demand for short-term balance of payments financing. Although Kenya is accepting a loan from the IMF Trust Fund, the rate and terms (10 years at 0.5 percent per annum) are too good to be passed by, and it is expected that over time the GOK will restructure its official external debt by replacing short maturities with long-term, more attractively priced borrowings.

1/ 1 SDR = U.S. $1.48 as of January 1977.

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TABLE 8

KENYA TRANSACTIONS WITH IMF (SDR MILLION) 1/

	1974 2/	1975	1976
Special Drawing Rights	15.2	- 1.9	-
Gold Tranche	12.3	-12.0	-10.6
First Credit Tranche		12.3	-
Oil Facilities	32.0	28.8	24.0
Extended Fund Facility	N/A	7.7	-
Trust Fund 3/	N/A	N/A	N/A
Total	59.5	34.9	13.4
Of which: Reserve Movements	(27.5)	(13.9)	(10.6)
IMF Facilities	(32.0)	(48.8)	(24.0)

Sources: Central Bank, of Kenya IMF.

1. 1 SDR = US $1.148 as of January 1977.
2. As of the beginning of 1974, Kenya had used a portion of her SDR 48 million IMF quota, but had no drawings against IMF facilities.
3. In February 1977 it was announced that Kenya would receive a loan from the IMF's Trust Fund (financed by IMF gold sales) totalling SDR 2.5 million, repayable over ten years at 0.5 percent per annum.

Table 11 (continued)

	Jun 75	Dec 75	Jun 76	Sept 76	Dec 76	Mar 77
Monthly Base						
1. Member Bank Resources at Central Bank	291	124	285	319*	336*	640
2. Currency in Circulation	1183	1408	1383	1598	1830	2,010
Total	1474	1422	1668	1917	2166	2,650
M_2	5408	6219	6645	7668*	8664*	10,600*
M_2/Monetary Base	.367	.437	.398	N/A	N/A	N/A
* Estimated from Historical Data						
M_2: Annual Rate of Increase (Percent)	-	26	14	61	52	89

Source: Central Bank.

M_2: Currency in circulation plus non-bank owned time and demand deposits.

1/ As of May 1, 1977, reserves increased to 4034 million shillings, a 79 percent increase!

VII. GOK Development Strategy - Some Implications of Identified Economic Trends

A. Background

Kenya's development strategy contains two principal objectives: (1) to increase employment and (2) to improve income distribution. Following a model of a relatively open and mixed economy, GOK economic policy is geared to guiding private and public investments into the "productive" sectors where the investments are most likely to contribute toward achievement of Kenya's development objectives.

In 1974, the GOK set development targets which were intended to yield a GDP growth of 6-7 percent per annum. The oil crisis raised crude petroleum imports from 351 million shillings in 1973 to 1,736 million by 1975. The middle-income consumer price index jumped from 118.4 in 1973 to 159.6 in 1975. Development project costs leaped at annual rates of 20 to 30 percent. Internationally, OECD countries saw their industrial production fall between 4 and 13 percent from 1974 to 1975. As a result, Kenya experienced a GDP growth of less than one percent in 1975. The revised development strategy announced in 1975 is focused on returning Kenya to a 6 percent growth path for the remainder of the decade.

GDP grew between 5 and 6 percent in CY 1976 and projections are for a growth rate of up to 7 percent in CY 1977.

B. International Economic Trends

As recent events have demonstrated, Kenya's economy is quite vulnerable to external events over which the GOK has no control. It is, therefore, imperative that the GOK closely monitor international economic trends so that domestic monetary and fiscal policies which are appropriate to the internal effects anticipated from external events can be considered.

Table 12 illustrates the structure of Kenya's exports, indicating the predominance of non-industrial products whose demand is only marginally linked with GNP levels in the OECD countries. Table 13 illustrates the importance of OECD countries as buyers of Kenya's exports.

Trade invisibles are crucial to bridging Kenya's external resources gap, and tourism is the dominant variable. Table 13 illustrates the distribution of the source of tourists. Tourism is a luxury item and is closely linked with disposable income levels.

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TABLE 12

EXPORT STRUCTURE

PRODUCT	PERCENT OF TOTAL EXPORTS		
	1970	1975	1976 (8 Months)
Coffee	31	21	40
Tea	18	13	10
Petroleum	11	22	12
Sisal	3	4	2
Meat	4	3	3
Pyrethrum	2	2	2
Hide/Skins	2	3	4
Soda Ash	2	2	1
Other	27	30	26

Source: Central Bureau of Statistics.

TABLE 13

KENYA'S TRADING PARTNERS

EXPORTS - PERCENT OF TOTAL

Country	1974	1975
U.K.	11.4	13.2
W. Germany	11.1	11.3
U.S.A.	4.9	4.8
Netherlands	7.0	4.3
Canada	1.9	2.9
Sweden	2.6	2.4
Japan	3.3	2.7
Italy	2.7	3.4
Zambia	5.3	3.8
Others	49.7	50.0

TOURIST TRAFFIC

PERCENT OF TOTAL

Country	1974	1975	1976
France	5	5	6
Holland	3	3	3
Italy	8	8	10
Scandinavia	4	5	6
Switzerland	8	9	9
U.K.	22	22	21
W. Germany	16	18	19
Other Europe	6	7	8
U.S.A.	25	20	16
Canada	3	3	2
Other	1/	1/	1/

Source: Central Bureau of Statistics.

1/ Less than 1%

Forecasts of the OECD combined growth paths are about as numerous as forecasters. The OECD itself projects the combined GDP growth for 1977 at 1.5 percent: U.S. at 5 percent, Germany at 3.5 percent, France at 3 percent, and Italy at 0.5 percent.

There is one school of forecasters led by Chase Econometrics, which predicts another major world recession in 1978/79 while the optimists point out that for the U.S. at least the current economic recovery through the end of CY 1976 is in step with the postwar recovery pattern of previous recessions. At best, however, the European "miracle" growth has ended with most economies attempting to correct serious internal structural imbalances. The implications for Kenya are clear, Kenya cannot expect to be pulled along in a general worldwide economic expansion. Kenya's export expansion will depend on aggressive entry of new products into new markets and the market-share expansion of existing export products. Furthermore, Kenya may need to brace herself against a major international economic slow-down as the decade draws to a close.

C. Implications for Kenya of Expected Economic Trends

1. Balance of Payments

(a) Import Reductions

Data presented in Table 3 illustrate the importance of coffee in the present export structure as well as the balance of payments effect of pricing present coffee export quantities at pre-boom (1974) prices. The analysis indicates that to maintain the historical balance of payments structure, imports would have to decline by 23 percent!

It is projected that by late 1978 coffee and tea prices may begin a major decline which must presumably result in price levels close to those experienced in the early 1970's. While a revised International Coffee Agreement or UNCTAD-level primary products agreement may prevent part of the price decline from occuring, it is quite certain that 1976/77 coffee and tea prices are an abnormality.

Tourism is quite sensitive to income levels and an international recession in late 70's or early 80's could seriously reduce the flow of trade invisibles generated from the tourist trade. Furthermore, should the Tanzanian border remain closed to Kenyan tourists then some as yet unpredictable percentage of tourist traffic expenditures may be lost to Kenya. Although the ramifications of the border-closing are not yet well understood, this sector needs to be watched closely.

Of the remaining foreign revenue earners, sisal, and livestock products, no dramatic price increases are anticipated in the next few years.

In summary, there is evidence pointing to the expected decline in certain exports (visible and invisible) while there is little indication that significant export increases can be expected. Kenya is faced with three options or a combination thereof:

(1) Reduce imports (through either stricter and higher license restrictions or higher tariffs or some combination of the two);

(2) Increase external borrowing; 1/

(3) Increase foreign assistance inflows.

While all three options could be simultaneously pursued, import restrictions could be in the order of 10-20 percent of the present import levels. However, most recently the GOK seems to be considering partial removal at least of import licensing requirements so as to subject the affected goods to market mechanisms.

(b) Monetary Implications

The Central Bank analysis presented in Tables 10 and 11 indicates that Kenya is having a serious domestic money supply problem arising from the massive foreign exchange inflows being experienced. At the end of CY 1976 M_2 (currency in circulation plus deposits - time and savings) were increasing at the annual reate of 50 percent and during the period January to March 1977 M2 rose at the annual rate of 89 percent!

The GOK could consider foreign exchange sterilization procedures which would at least delay the payment of a portion of present coffee price bonus. Some implications of such a move might well prohibit the introduction of sterilization procedures or limit the measures to be taken. In that case, other measures to reduce money growth might be considered, including a dramatic reduction of GOK debt held by the Central Bank.

2. Development Strategy

Analysis of economic trends leads to the conclusion that Kenya is presently in the eye of an economic hurricane, having weathered the oil crisis and 1975/76 recession but still having to face a major decline in export earnings and possibly another international recession.

1/ The debt service ratio presently stands at 5 percent of exports and is expected to rise to 7 percent by 1980. This ratio is modest by LDC standards.

In order to keep Kenya's GDP close to the 6-7 percent growth path over the next two years, the GOK may consider the following deviations from our revisions to current growth strategy.

(a) GOK Fiscal Policy

Stimulation of investment cannot be accomplished by increased levels of government spending in order to raise consumption. Kenya's problem is not insufficient consumption, but rather insufficient productive investment. Stimulating consumption is a reasonable policy if there is idle productive capacity while a central theme of economic development theory is the stimulation of productive investment.

GOK fiscal policy will need to account for domestic and foreign resource gaps: the constraints around which the GOK's development strategy is built. Section III identified the very serious constraint which can be expected to develop in the foreign trade sector when coffee prices take their plunge towards the end of this decade. While foreign assistance and borrowings can be expected to take up some of the shortfall, it is expected that imports will need to be restrained without damaging essential production.

In light of the foregoing, Kenya might consider the following policies:

(1) A serious effort to promote and encourage export-oriented production. There is sufficient evidence available to allow analysis of various industries and products in order to select those sectors and products which offer the best prospect for net foreign exchange earnings. The processing of agricultural products appears to be a natural starting point. From input-output analysis it should be a relatively simple matter to determine the net foreign exchange anticipated per dollar of investment.

(2) Import substitution for those sectors and industries which demonstrate a net gain in foreign exchange saved. (Although import substitution is a tempting policy to promote, general experience over the last twenty years indicates that in many cases import substitution results in a net loss of social benefits through inefficient production and inferior-quality products.)

(3) Import tariffs raised for selected items and licensing measures tightened up. The basic aim of these measures would be to limit

imports of luxury goods and to optimize imports of production inputs. Careful analysis is required in order to determine the import restriction measures appropriate to the GOK's production and export promotion policies and which can be effectively managed. Efficient administration of a licensing system is of particular concern.

(4) No further devaluation considered. Most of Kenya's exports are price insensitive; the export price is a function of world market prices and therefore lowering the foreign exchange cost of one shilling's worth of coffee, for example, will not result in increased coffee exports. For primary products (coffee, tea, sisal), Kenya is a price taker, not a price maker. Devaluation would increase the shilling inflow from coffee (more shillings for every dollar of foreign exchange earnings) and cause further money-creation problems. On the other side of devaluation, selective import restrictions would be more effective in terms of achieving national investment objectives than the across-the-board restrictions resulting from a devaluation.

(5) Development and recurrent expenditures directed toward the stimulation of real production as opposed to social services and defense.

(6) Coordination of GOK expenditures and the tax structure to give revenue-generating activities a high priority. While a great deal is written about socio-economic benefits generated by development activities, little attention has been paid to the revenue-creating/draining aspects of development instruments. In addition to the first round of analysis of net receipts, there is the further question of tax incidence and the implications of raising taxes of funding deficits. "Robbing-Peter-to-pay-Paul" situations are not uncommon when the budget implications of new development expenditures are not fully worked out.

(b) GOK Monetary Policy

Based on the preceding monetary analysis, the following GOK policy options emerge:

(1) Foreign Exchange Sterilization. Sterilization of the foreign exchange inflows is the most efficient instrument for dealing with the significant increase in the monetary base which is being generated by coffee export receipts. Coffee receipts could be

delayed with only a portion immediately passed on to the producer. Uganda established a coffee equalization fund in the early Fifties which served a range of purposes. In the longer run, the fund was designed to stabilize prices paid to producers by retaining all earnings above a certain level in boom years and paying out to producers the difference between the established "fund" price and the world price in bad years. This approach encouraged inefficient investment and should not be repeated in Kenya. However, the Uganda fund also used its resources for development project investments.

Kenya might well consider a development-oriented coffee fund. Such a fund might not aim at price stabilization over a long period but might serve as a short-run forced savings plan. The IMF and certain sections of the GOK are advocating the establishment of a coffee fund combined with an export tax on coffee, but these recommendations are not likely to be accepted.

If the foreign exchange inflows cannot be sterilized, then some other policy could be employed to reduce the increase in the monetary base. The GOK could actively reduce its Central Bank borrowings, but this becomes very difficult when there is a budget deficit which must be financed.

(2) Increase Commercial Bank Borrowing. As long as there is still considerable bank liquidity, the GOK could maximize borrowings from the banking system. Since these borrowings represent real claims on resources (unlike Central Bank borrowings which simply result in the creation of more money), the money-creation problems are greatly minimized.

(3) Raise Commercial Bank Lending Rates. Flexibility in lending rates might allow commercial banks to raise interest rates on agricultural loans to the point where the banks feel that the rate of interest properly reflects the risks involved. It is not expected, however, that commercial banks will have a significant impact on lending to the smallholder farmer.

(4) Restructure Foreign Debt. Kenya is actively seeking to restructure its external borrowings in order to improve the terms and maturities of its debt portfolio. This trend should be encouraged. Although by LDC standards the debt service ratio is manageable now, there is no reason why the country should not be in the best possible borrowing position when the decade ends and the foreign-resource gap widens with falling coffee prices.

C. Central Bank and the Money Supply

The Central Bank performs two functions important to an understanding of current economic trends in Kenya: (1) providing advances to the GOK, and (2) exchanging foreign currency coffee export receipts into Kenyan shillings. Both functions have significant monetary consequences.

Table 9 illustrates net GOK borrowings from the Central Bank (borrowings less deposits) in order to assess the monetary implications of GOK borrowings. During the first half of FY 1976/77 such net borrowings increased 46 percent. Without the benefit of a more sophisticated monetary analysis, it appears that at the current rate of GOK borrowing from the Central Bank significant increases in the money supply can be expected. Although no detailed monetary model of Kenya has been developed, it can be assumed, based on monetary experiences of other countries, that significant increases in the money supply will be reflected in general price increases after a period of six months to a year.

Of immediate importance and cause for significant concern is the monetary implication of coffee revenues and the recently surging tea revenues. Under the existing system export revenues are converted into shillings and passed directly (minus handling charges by the Coffee Board and Cooperatives) to the producer. During the 1975/76 coffee year KShs 164.6 million were paid directly to the growers by the Coffee Board. Table 10 illustrates the influx of foreign exchange on the "sources" side of the ledger and the resultant changes on the "uses" side. If Kenya were to be encountering serious balance of payments deficits, then this effect would, in part, be mitigated by the demand for foreign exchange by importers. The present situation, however, is akin to a money machine, with the inflow of foreign exchange resulting in massive increases of Kenyan currency in circulation. Clearly, some foreign exchange sterilization measures need to be considered.

Table 11 summarizes recent Central Bank of Kenya balance sheets as well as documenting the growth of the monetary base and the money supply. Combining GOK borrowing levels with coffee receipts, the money supply, measured by M_2 (currency in circulation plus time and demand deposits) began to accelerate during the first six months of FY 1976/77 to a growth rate of over 50 percent per annum. This rate of increase cannot continue very long before domestic prices also begin to increase considerably. The money supply is now growing at annual rates of up to 89 percent. It is estimated that during CY 1977 M_2 could increase by 40-50 percent. With a lag of six to nine months between changes in the money supply and visible changes in price levels, domestic inflation could become a severe problem by late CY 1977.[1/] Recently proposed general wage increases will add to this problem.

1/ R.J. Gordon, "The Theory of Domestic Inflation", American Economic Review, February 1977.

TABLE 9

GOVERNMENT BORROWING (KShs. Million)

	Jun. 75	Dec. 75	Jun. 76	Sept. 76	Dec. 76	Mar. 77
Advances to GOK: Central Bank						
1. GOK Securities Notes	575	978	1161	819	717	609
Less 2. GOK Deposits	-	-	707	313	55	98
3. Net Borrowing	575	978	454	506	662	511
4. Change From Last Period	-	+ 403	- 524	+ 52	+ 156 *	- 151
5. % Change From Last Period	-	+ 70%	- 53%	+ 11%	+ 30% **	- 23%
Advances to GOK: Commercial Banks						
1. Tres. Bills	424	498	815	847		
2. Advances	6	4	3	4	N/A	N/A
3. Deposits	94	81	120	73		
4. Net GOK Advances	336	421	698	778		
5. Change From Last Period	-	85	277	80	N/A	
6. % Change From Last Period	-	25%	66%	11%		
Advances to Local Governments: Commercial Banks						
1. Notes	14	25	18	16	N/A	
2. Less Deposits	161	153	155	128		
3. Net Advances	- 147	- 128	- 137	- 112		

Source: Central Bank of Kenya.

* June-December 1976: + 208

** June-December 1976: + 46%

TABLE 10

CENTRAL BANK: BALANCE SHEET ANALYSIS

(K.SHS. MILLION)

Sources Assets: Change from Previous Period	Jun 75 to Dec 75	Dec 75 to Jun 76	Jun 76 to Sept 76	Jun 76 to Dec 76	Dec 75 to Dec 76	Dec 76 to Mar 77
1. Foreign Exchange	+ 55	+ 434	+ 603	+ 434	+ 868	+ 942
2. GOK Securities & GOK Guaranteed Notes	+ 403	+ 183	- 342	- 444	- 261	- 108
3. Other	- 305	+ 166	- 144	- 133	+ 33	- 8
Total:	+ 153	+ 783	+ 117	- 143	+ 640	+ 826
Uses **Liabilities**: Change from Previous Period						
1. Currency	+ 225	- 25	+ 127	+ 447	+ 422	+ 180
2. Deposits	+ 101	+ 778	+ 260	- 594	+ 184	+ 608
3. Other	- 173	+ 30	- 70	+ 4	+ 34	+ 38
	+ 153	+ 783	+ 117	- 143	+ 640	+ 826

Source: Computed from Central Bank Statements.

N.B. Publically available Central Bank statements do not permit thorough analysis and disagregation of accounting entries.

TABLE 11

CENTRAL BANK OF KENYA
(KSHS. MILLION)

	Jun 75	Dec 75	Jun 76	Sept 76	Dec 76	Mar 77
Assets						
1. Foreign Exchange	1325	1383	1848	2415	2258	N/A
2. SDR	39	36	5	41	28	"
Total Foreign Exchange	1364	1419	1853	2456	2287	3,229 1/
3. GOK Securities and Notes	575	978	1161	819	717	609
4. Advances and Discounts	286	34	42	-	8	-
5. Other	100	97	205	103	106	106
Total Assets	2325	2478	3261	3378	3118	3,944
Liabilities						
1. Currency	1183	1408	1383	1510	1830	2,010
2. Deposits - GOK	-	-	707	313	55	98
3. Deposits - Banks External	12	15	16	10	23	119
4. Deposits - IMF	425	668	592	823	823	823
5. Deposits - Other	350	204	351	580	171	639
Total Deposits	787	888	1666	1726	1072	1,680
6. Other	303	115	118	75	122	161
7. Reserves	522	67	94	67	94	94
Total Liabilities	2325	2478	3261	3378	3118	3,944