PD-BBR-638

CLASSIFICATION:

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 615-0243
2. COUNTRY: Kenya
3. CATEGORY: Commodity Import Program (CIP)
4. DATE:
5. TO: Steven W. Sinding, Director
6. OYB CHANGE NO. N/A
7. FROM:
8. OYB INCREASE: None
TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 15,000,000
10. APPROPRIATION –
11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD: 01 Jul 89 – 30 Jun 90
14. TRANSACTION ELIGIBILITY DATE:
15. COMMODITIES FINANCED:

$15,000,000 - Fertilizer

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	10,000,000 (ESF)	U.S.:	15,000,000
Limited F.W.:		Industrialized Countries:	
Free World:	5,000,000 (DFA)	Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION

The purpose of this Fertilizer Pricing and Marketing Reform program (615-0243) is to increase fertilizer use by smallholder farmers in rural areas. This is to be accomplished by strengthening and promoting a fertilizer market network at prices that reflect costs including adequate profits to importers and distributors. Foreign exchange will be provided for the import of fertilizer and counterpart Kenya Shilling generations will be used for mutually agreed development purposes and for a trust fund to cover operating expenses of USAID/Kenya.

This PAAD outlines a three year, $45 million program supporting pricing, import allocation and promotion policy reforms for fertilizer market development. The proposed Grant will be made in three equal tranches of $15 million in FYs 89, 90 and 91. Each tranche will be composed of $10 million in Economic Support Fund resources and $5 million from the Development Fund for Africa. This PAAD facesheet authorizes $15 million for fertilizer in FY 1989. The PAAD contains a full analysis supporting the three year program. FY90 and 91 funding will be authorized by PAAD facesheet amendments. (See Attached)

19. CLEARANCES		DATE
PRJ	S Baker	7/3/89
AGR	[illegible]	7/3/89
RLA	[illegible]	7/12/89
CONT	[illegible]	7/21/89
PROG	C Steele	7/7/89

20. ACTION: ☒ APPROVED ☐ DISAPPROVED

SW Sinding (AUTHORIZED SIGNATURE) — DATE: 7/21/89

TITLE: Steven W. Sinding, Director

CLASSIFICATION:

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Fertilizer from U.S. (ESF) and Code 935 (DFA) source/origin is authorized, but all procurement is planned from U.S. source/origin except as A.I.D. may otherwise agree in writing. Counterpart local currency will be deposited in separate accounts for ESF and DFA sources. Technical assistance for studies to support the policy reforms and for monitoring, evaluation and audit is authorized separately based on the justification included in the PAAD.

Conditions Precedent to disbursement of program funds for fertilizer procurement and major Covenants are as follows:

Conditions Precedent to Disbursement of Funds

1. To First Disbursement

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

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

b. A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each person certified as to its authenticity; and

c. Documentation that the Grantee has established a separate, numbered Special Account entitled "1989 A.I.D. CIP Account" and two subsidiary accounts thereunder, "A" and "B," or made equivalent arrangements, for deposit of currency of the Cooperating Country in amounts equal to all proceeds accruing to the Cooperating Country or any authorized agent thereof as a result of the sale or importation of the Eligible Items. Funds in the Special Accounts shall be deposited in accordance with the Covenant on Deposit of Local Currency and be utilized in accordance with the Covenant on Utilization of Local Currency Deposits.

2. Third Tranche

Except as the Parties may otherwise agree in writing, prior to the disbursement under the Grant of funds for the third tranche of fertilizer, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Government of Kenya, shall furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. By no later than August 31, 1989, undertaken the allocation of the first tranche of A.I.D.-financed fertilizer to recipients in accordance with selection criteria set forth in PILs issued by A.I.D.

b. By no later than September 30, 1989, developed the methodology and statistical requirements for determining official fertilizer prices utilizing technical assistance based upon terms of reference jointly developed by the Government of Kenya and USAID.

c. By no later than September 30, 1989, published official fertilizer prices as of that date, which prices were based on the Benchmark International Price (BIP) formula, as more specifically set forth in PILs issued by A.I.D.

d. By no later than September 30, 1989, made available to A.I.D. the list of recipients of the fertilizer allocation approved by the Government of Kenya as of that date.

e. By no later than October 31, 1989, undertaken the allocation of the second tranche of A.I.D.-financed fertilizer to recipients in accordance with selection criteria set forth in PILs issued by A.I.D.

f. By no later than October 31, 1989, made available to A.I.D. the list of recipients of fertilizer allocations approved by the Government of Kenya as of that date.

g. By no later than December 31, 1989, reviewed official fertilizer prices previously established, made necessary revisions therein and published any changes in official prices, said prices to be based upon on the Benchmark International Price (BIP) formula, as more specifically set forth in PILs issued by A.I.D.

h. By no later than June 1, 1990, published official fertilizer prices as of that date, which prices were based upon the BIP formula, as more specifically set forth in PILs issued by A.I.D.

i. Continued to apply the methodology and statistical requirements developed pursuant to Condition Precedent A.1.b. of the Agreement for determining official fertilizer prices, utilizing technical assistance based upon terms of reference jointly developed by the Government of Kenya and USAID.

j. Instituted and will utilize the A.I.D. Commodity Import Program (CIP) mechanism for importing and allocating the third tranche of A.I.D.-financed fertilizer. The A.I.D. CIP allocation system shall be specifically described by PILs to be issued by A.I.D.

3. Fourth Tranche

Except as the Parties may otherwise agree in writing, prior to disbursement under the Grant of funds for the fourth tranche of fertilizer, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. Continued the A.I.D. CIP mechanism for importing and allocating the fourth tranche of A.I.D.-financed fertilizer provided, however, that said CIP mechanism in the judgment of A.I.D., has not caused significant delays in making fertilizer available to farmers.

b. By no later than September 30, 1990, reviewed official fertilizer prices previously established, made necessary revisions therein and published any changes in official prices, said prices to be based on the BIP formula as more specifically set forth in PILs issued by A.I.D.

4. Fifth Tranche

Except as the parties may otherwise agree in writing, prior to disbursement under the Grant of funds for the fifth tranche of fertilizer or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. Continued the A.I.D. CIP mechanism for importing and allocating the fifth tranche of A.I.D.-financed fertilizer, provided, however, that said CIP mechanism in the judgment of A.I.D., has not caused any significant delays in making fertilizer available to farmers.

b. By no later than June 1, 1991, reviewed official fertilizer prices previously established, made necessary revisions therein and published any changes in official prices, said prices to be based on the BIP formula as more specifically set forth in PILs issued by A.I.D.

c. Continued to apply the methodology and statistical requirements developed pursuant to Condition Precedent A.1.b. of this Agreement for determining official fertilizer prices, utilizing technical assistance based on terms of references developed by the Government of Kenya and USAID.

5. Sixth Tranche

Except as A.I.D. may otherwise agree in writing, prior to disbursement under the Grant of funds for the sixth tranche of fertilizer or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be, the Grantee shall, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. Continued the A.I.D. CIP mechanism for importing and allocating the sixth tranche of A.I.D.-financed fertilizer provided, however, that said mechanism in the judgment of A.I.D., has not caused any significant delays in making fertilizer available to farmers.

b. By no later than September 30, 1991, reviewed official fertilizer prices previously established, made necessarily revisions therein and then published any changes in official prices, said prices to be based on the BIP formula as more specifically set forth in PILs issued by A.I.D.

Major Covenants

1. Deposits of Local Currency

Except as A.I.D. may otherwise agree in writing, the Cooperating Country shall deposit in the Special Account entitled "1989 A.I.D. CIP Account," subsidiary Accounts "A" or "B," pursuant to the Conditions Precedent to the First Disbursement, all currency of the Cooperating Country accruing as a result of the sale or importation of Eligible Items under the Agreement. For all private sector importers and for public sector importers who do not resell the imported commodity, the amount of local currency to be deposited shall be the local currency equivalent of the A.I.D. dollar disbursement(s) under the Grant, calculated at the highest rate per U.S. dollar not unlawful that is available to anyone in the Cooperating Country at the time that A.I.D. effects payment to the correspondent bank in the U.S. of the participant's commercial bank in Kenya. For public importers who resell the imported commodity, the amount of local currency to be deposited shall be the proceeds of the resale. A.I.D. shall, by Project Implementation Letter, advise the Cooperating Country as to the distribution of the Local Currency deposits between the "A" and "B" subsidiary accounts. Except as A.I.D. may otherwise specify in writing, deposits to the Special Accounts shall become due and payable within 120 days of advice from A.I.D. as to disbursements made under the Agreement.

2. <u>Utilization of Local Currency Deposits</u>

Local currency deposits in the two sub-accounts shall be utilized as follows:

a. Except as A.I.D. may otherwise agree in writing, Kenya Shillings equivalent at the time of deposit to United States dollars two million two hundred thousand ($2,200,000) shall be entrusted to A.I.D. for deposit into a Trust Account to meet the requirements of A.I.D., according to a schedule to be agreed upon by A.I.D. and the Government of Kenya. These funds shall be used for the administrative costs related to operation of USAID/Kenya. Funds transferred under the Agreement shall be held in trust for the Government of Kenya and interest earnings, if any, on funds so held shall be added to the Trust Account. Title to any tangible assets purchased from the Trust Account shall be vested in the Government of Kenya. Any such assets on hand as of the date of termination of this Agreement shall accordingly be returned to the Government of Kenya. An accounting of the Trust Account by categories shall be rendered annually, upon request of the GOK. Any balance remaining in the Trust Account upon termination of the Agreement or the United States assistance program in Kenya, whichever is earlier, shall be returned to the Government of Kenya. A.I.D. will advise the GOK by project implementation letter whether such funds will be withdrawn from sub-account "A" or "B," referenced in Section 5.6 of the Grant Agreement.

b. Except as A.I.D. may otherwise specify in writing, approximately Kenya Shillings equivalent at the time of deposit to United States dollars twelve million eight hundred thousand ($12,800,000) in the sub-accounts shall be utilized for mutually agreed upon purposes as follows: (i) Financing local cost host country contributions (except salaries and personnel costs) to USAID-assisted projects in the agricultural sector; (ii) Support of line items within the Government of Kenya's Agricultural Development budget, in which A.I.D. has particular interest and which are supportive of the general objectives of USAID's Country Development Strategy Statement; and (iii) Support of line items within the Government of Kenya's Development budget other than Agriculture, in which A.I.D. has particular interest and which are supportive of the general objectives of USAID's Country Development Strategy Statement.

c. The Grantee will provide A.I.D. with a detailed accounting of the use of such local currency; the timing and format for such reports will be specified in an Implementation Letter.

d. Any unencumbered balances of funds which remain in the Special Accounts upon termination of assistance hereunder shall be disbursed for such purposes as may, subject to applicable law, be agreed to between the Grantee and A.I.D.

3. Fertilizer Pricing. Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees as follows:

a. By no later than February 28, 1990, to undertake and complete a study in collaboration with A.I.D. to assess the potential for decontrol of fertilizer prices, providing USAID with a copy of said study. The terms of reference for the study to be jointly developed by the Kenya Government and USAID.

b. By no later than August 31, 1990, to incorporate the results of said study on the decontrol of fertilizer prices into a fertilizer pricing policy, subject to assessment of administrative and economic feasibility.

4. Fertilizer Importing. Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees as follows:

a. To prepare annual import plans to maximize adequate and timely fertilizer imports by the private sector.

b. To expedite the issuance of fertilizer import licenses and to make available adequate foreign exchange for fertilizer imports to achieve a minimum 5% growth per year of total fertilizer imports.

c. By no later than June 30, 1990, to introduce import performance bonding to minimize the duplication of import licensing applications.

5. Fertilizer Promotion. Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees as follows:

a. By no later than February 28, 1990, to publish and distribute and/or encourage private fertilizer distributors to publish and distribute educational materials to farmers to promote appropriate use of fertilizer.

b. To continue to pack fertilizer in ten and twenty-five kilogramme bags as consumer demand warrants.

c. To continue to maintain adequate pricing incentives for agricultural output prices consistent with the promotion of fertilizer use at cost price.

6. Fertilizer Monitoring. Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees to develop, by no later than March 31, 1990, a plan of action to strengthen the Fertilizer inputs Unit of the Ministry of Agriculture, particularly in the areas of price analysis and monitoring of fertilizer market developments.

7. Environmental Studies. The GOK covenants to undertake and complete or cause to be undertaken and completed, as of the dates shown below, studies to address the following environmental concerns, copies to be provided to USAID/K:

a. In consultation with USAID/K, develop a protocol (the SOW) for a study which investigates the changes in soil pH and consequent effects on agricultural productivity, to be completed not later than December 31, 1989.

b. Baseline studies relating to acid soils, fertilizer usage and effects of DAP fertilizer on soil pH, to be completed not later than June 30, 1990.

c. To begin, no later than the midpoint of the program and to complete, by the end of the program, the study called for by the SOW, including recommendations for mitigating environmental concerns, if any.

8. Additional Representation and Covenant. The Government of Kenya hereby reaffirms its commitment to eventual elimination of price controls and quantitative restrictions on fertilizer imports, and in furtherance of that objective, covenants (a) to take appropriate steps to achieve the eventual elimination of price controls and quantitative restrictions on fertilizer imports, and (b) on a periodic basis, to consult with A.I.D. as to its plans, projections and progress in furtherance of the liberalization of fertilizer importation.

0187G

PROGRAM ASSISTANCE APPROVAL DOCUMENT

Kenya

Fertilizer Pricing and Marketing Reform Program
(615-0243)

TABLE OF CONTENTS

I. EXECUTIVE SUMMARY

Kenya's economy is fundamentally based on agriculture. The agricultural sector must continue to play a leading role in Kenya's economic growth and development. During the period 1985 - 1988, the average agricultural growth accounted for almost one-third of the total average Gross Domestic Product (GDP) growth of 4.8 percent. The sector employed 3.6 million people (both in the formal and informal agricultural sector) or 45 percent of the estimated labor force in 1988. Kenya's agricultural sector is also the leading export sector, accounting for 68 percent of total export earnings during 1984 - 1987.

Fertilizer use is a critical element in Kenya's medium-term (3 to 5 years) strategy to raise agricultural productivity, output, employment and farm income. Fertilizer consumption has been much below estimated potential demand and is volatile. Actual consumption averaged 260,000 tons per year over the past three years, while the estimated potential requirement is 650,000 tons. Since actual consumption is much below potential demand and Kenya does not manufacture fertilizer domestically, its consumption depends entirely on imports. Fertilizer is imported either through donor-financed programs or by private commercial importers. The extent of commercial imports is largely determined by availability of foreign exchange and by government pricing policy. The need for fertilizer support will continue in the near term.

Several donors besides A.I.D. (for example, the World Bank and the Netherlands) have supported reforms in the fertilizer subsector. These past reform efforts, though less fully implemented than the Government has expressed in policy statements, have increased fertilizer availability and use. Reforms have taken place in fertilizer pricing and marketing. There have been improvements in the price setting process. Prices are now reviewed and changed annually. Official price ceilings do allow some flexibility and take into consideration transport costs. The reform has helped stabilize the market, making supply of fertilizer imports more reliable and increasing fertilizer availability to smallholder farmers. A study financed by A.I.D. on the impact of fertilizer marketing development concludes that farmers have benefited from the reform to date. Fertilizer is more readily available in rural areas. The distance that farmers have to travel to buy fertilizer has been reduced significantly. More rural stockists have fertilizer available in small packages (10 and 25 kilogram packages), which were not available previously.

Program Purpose and Goal

The purpose of the Fertilizer Pricing and Marketing Reform program is to increase fertilizer use by smallholder farmers in rural areas. This is to be accomplished by strengthening and promoting a fertilizer market network at prices that reflect costs including adequate profits to importers and distributors. The program intends to facilitate policy and institutional changes in fertilizer pricing and marketing.

The increased availability of fertilizer on a timely basis together with the policy of promoting appropriate use of fertilizer will result in increased use of fertilizer by smallholder farmers. This will contribute to the goal of raising agricultural productivity, farmer income and general growth and development. The program will be a continuation of past reform efforts as well as encouragement for further progress in the areas of price liberalization, import allocation and marketing. The program will provide foreign exchange in the form of fertilizer imports from the United States. Sales of these imports will generate counterpart shillings, which will be used primarily as budgetary resources for support of agricultural sector investment.

Program Resources

The proposed program is for a three-year period (FY 1989-91) with a total funding of $46.1 million, subject to availability of funding. $45 million is proposed to support fertilizer imports. The remaining $1.1 million will be used for short-term technical assistance, policy studies, training, evaluation and monitoring. The funding sources will be both ESF and DFA ($30 million ESF and $16.1 million DFA).

For the first year the program will finance $15 million worth of DAP fertilizer imported from the United States. In subsequent years, subject to the availability of funds, the same level of funding will be provided ($15 million each year, $10 million from ESF and $5.0 million from DFA). In general, the logistics and management systems under previous A.I.D. fertilizer and commodity import programs will be used. An implementation and procurement plan is described in the Program Implementation Section.

Over the life of the program, the equivalent of $45 million in Kenyan shillings will be generated from the sales of fertilizer. The equivalent of $6.6 million in these counterpart shillings over a three-year period ($2.2 million each year) will be deposited in a Trust Fund for operational support of the USAID/Kenya Mission. Counterpart shillings deposited in the Trust Fund will be generations from the ESF source. Counterpart shillings, other than those in the Trust Fund, will be jointly programmed by the Government and USAID. Detailed criteria for counterpart shilling programming will be negotiated annually to be included in the Government Forward Budget and prior to the issuance of the Annual Budget. These counterpart shillings will be deposited in separate accounts for ESF and DFA generations. The primary objective of the programming of counterpart shillings is to support the development of the agricultural sector, especially in the area of sectoral policy and institutional reforms within the context of the Government's budget rationalization program. The general criteria in rank order to guide the local currency programming are listed in the Program Description Section.

Summary of A.I.D. Inputs Costs

The proposed $46.1 million will be allocated as follows:

($000)

Component	FY-89	FY-90	FY-91	Total
Fertilizer imports	15,000	15,000	15,000	45,000
Technical assistance:				
Fertilizer price decontrol study	(50)	...	...	(050)
Program impact evaluation and monitoring	(70)	(150)	...	(220)
Fertilizer import monitoring	(50)	(150)	(100)	(300)
Short-term consultancies	(130)	(50)	(50)	(230)
Other studies, training, seminars and audit	...	(150)	(150)	(300)
TA Subtotal	300	500	300	1,100
Total	15,300	15,500	15,300	46,100

Policy Conditionality

In order to achieve the program purpose, a set of policy conditions have been developed jointly with the Government of Kenya. The commitment of funds for fertilizer imports will be conditioned upon satisfaction of policy performance as detailed in Section VI of this PAAD. Two annual policy reviews are planned under this program. They are intended to assess the performance of the policy reform program as well as for making any necessary changes in the program. The policy conditions are developed to support the following policy objectives:

(1) moving away from the government administrative allocation system for fertilizer toward a more market-oriented approach, such as the commodity import program;

(2) adopting a more realistic and timely fertilizer pricing policy (i.e. prices which reflect adequate costs and profit) as an incentive for stimulating the development of a sustainable fertilizer market;

(3) initiating the discussion and possible adoption of measures to decontrol fertilizer prices;

(4) strengthening the Fertilizer Inputs Unit in the Ministry of Agriculture in order to make it more effective in planning, monitoring and policy analysis;

(5) increasing the effectiveness of fertilizer use at the farm level by encouraging both the government and the private sector to supply relevant educational materials and advisory services; and

(6) assisting the private sector in developing a marketing network through reforms in the allocation system and in fertilizer pricing policy.

The policy changes emphasized in this program are consistent with the Government of Kenya's development objectives in the agricultural sector, as outlined in the Sixth Development Plan and the 1989 Policy Framework Paper. They are also consistent with other donors' reform efforts, notably those of the World Bank and the IMF.

II. BACKGROUND

A. Macroeconomic Framework

1. Highlights of Current Macroeconomic Situation[1/]

The overall performance of the economy has been relatively strong since the recovery in 1985. Gross Domestic Product (GDP) was estimated to grow by 5 percent in 1988, following 5.5 percent and 4.8 percent growth rates in 1986 and 1987. The agricultural sector is estimated to have grown by more than 4 percent in 1988. Investment recovered in 1987 and 1988, reversing the past declining trend. The recovery of investment in the manufacturing sector together with strong domestic demand fueled the growth of the manufacturing sector in 1987-1988, especially in agro-based industries. The services sector also performed well, averaging more than 6 percent growth per year over the last three years. The tourism sector continues to experience remarkable growth, 8 percent in 1987. The construction sector leveled off in 1988.

The overall strong economic performance has been accompanied by rising aggregate demand and inflationary pressures. Inflation was estimated at about 10 percent in 1988. Large budget deficit and balance of payments difficulties emerged following terms of trade deterioration and expansionary fiscal and monetary policies. Economic stabilization was necessary as the effects of expansionary fiscal and monetary policies took hold in 1987. In early 1988, the Government received IMF assistance in the form of an 18-month stand-by arrangement and a three-year Structural Adjustment Facility (SAF). In May 1989, the SAF program was replaced by the Enhanced Structural Adjustment Facility (ESAF), which provides more resources than the SAF.

2. Implementation of Stabilization and Adjustment Measures

Since early 1988, the Government has been pursuing IMF-sponsored stabilization and adjustment measures. The overall budget deficit was reduced from 7.6 percent of GDP in fiscal 1987 to 4.2 percent of GDP in 1988, within the IMF program target. However, the 1988 deficit reduction was accomplished partly by delaying payments to the next fiscal year. If these arrears were included, the deficit would be 5.6 percent of GDP.

The lower budget deficit has made it possible for monetary policies to be less expansionary. The annual growth rates for money supply and domestic credit were reduced respectively from 12 percent to 8

1/For a more detailed analytical summary of recent macroeconomic developments, see Kenya Structural Adjustment Assistance Program PAAD Amendments (615-0240) for fiscal 1987 and 1988. See also IBRD, Kenya Recent Economic Developments and Selected Policy Issues, September 1988.

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percent and from 20 percent to 9 percent. Government borrowing from the banking system has been controlled, making more credit available to the private sector.

Provisional estimates indicate that the current account deficit of the balance of payments in 1988 was reduced by $71 million (from $409 million in 1987 to $338 million in 1988). About half of the deficit reduction came from government imports and another one-third from lower oil imports. Other categories of imports increased by almost 9 percent. Exports, services and official transfers also increased significantly (see Table 1 of Statistical Appendix).

In the capital account, net capital inflows were estimated to be $100 million lower in 1988. This was entirely due to the reversal of short-term capital flows. Net outflows of short-term capital were estimated at more than $20 million in 1988. This was in contrast to net short-term capital inflows of more than $90 million in 1987. Consequently, the overall balance of payments in 1988 did not improve to the extent indicated by the reduction in the current account deficit.

While demand management policies were carried out to address the financial imbalances, progress was made in the implementation of structural measures. In the agricultural sector, the Government continued to maintain producer price incentives for most commodities, including a reduction of consumer subsidies on tea. A program to reorganize the grain marketing board was initiated. A fertilizer policy strategy for pricing and marketing arrangements is being discussed by the cabinet and is likely to be adopted.

In the industrial sector, the Government concluded an agreement with the World Bank to implement reforms to promote investment, exports and industrial development. The program includes price liberalization, reduction of effective rates of corporate taxation, revision of the Foreign Investment Protection Act, widening of the coverage of the export compensation scheme and some changes in import tariffs and licensing. The Government continues to maintain a managed flexible exchange rate regime. According to the IMF, the real effective exchange rate declined by 9.1 percent during 1987-88.

Structural measures were implemented to complement the austere fiscal policy in 1988. The Government has been making efforts to address the imbalance between wage and non-wage operating and maintenance (OM) expenditures. Provisions for increasing OM expenditures in selected ministries and ceilings on personnel expenditures were included in fiscal 1988/89 and in the forward budget.

In the financial sector, the Central Bank liberalized interest rate policy by widening the band between the maximum lending rate and the minimum savings rate and by ensuring positive real interest rates. The Central Bank also reactivated its rediscount facility, established an informal Open Market Committee and strengthened its supervisory capacity.

Kenya's macroeconomic policy framework is generally sound, especially in economic stabilization policies.2/ The macroeconomic imbalances were reduced to a manageable level in 1988. Although recent developments in the international coffee market may provide some balance of payments relief, the need to continue prudent fiscal and financial policies remains. The achievement of economic stabilization objectives is a prerequisite for moving forward and sustaining progress made in structural adjustment.

B. Agricultural Sector Analysis

1. The Role of Agriculture in Kenya's Development

Kenya's economy is fundamentally based on agriculture. The sector's contributions to the overall development of the country include:

- generating growth, employment and farm incomes;
- providing foreign exchange through crop exports; and
- providing food security for a growing population.

The sector has contributed significantly to economic growth. During the current five-year plan (1984 - 1988), the growth of GDP averaged 4.8 percent per year. For the same period, with the exception of the 1984 drought year, the average agricultural growth accounted for about 1.3 percent of the total GDP growth rate. It is conservatively estimated that the sector employed 3.6 million people (both in the formal and informal agricultural sector) or 45 percent of the estimated labor force in 1988.

The sector provides important forward and backward linkages to the manufacturing sector. Kenya's manufacturing sector is mostly agriculturally based, depending on the agricultural sector for inputs. Agro-industries (food processing, beverages, tobacco, textiles, and wood products) account for approximately 50 percent of the value added in the manufacturing sector. For forward linkages, the agricultural sector is a major consumer of manufactured inputs, such as fertilizers, seeds, fuel, bags, livestock feeds, chemicals and drugs and medicine. The sector also provides forward linkages to the services sector, which includes transportation, power, trade and commerce. From official statistics, it is estimated that these linkages have contributed close to 1.5 million jobs.

Agriculture is the leading export sector. During 1984 - 1987, agricultural products accounted for 68 percent of total export earnings from commodity exports. About 60 to 80 percent of

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2/However, the implementation of the policy framework has often been uneven and there is a "stop-go" tendency, particularly in the areas of import liberalization, investment and export promotion, grain marketing, and privatization. Thus there exists, to many observers, a credibility and confidence gap.

agricultural exports come from coffee and tea. It is clear that Kenya's comparative advantage lies in agriculture and agriculturally derived products.

The sector is important if the food security objective is to be achieved. Kenya has been self-sufficient in maize, beans, potatoes, vegetables, milk, beef, and meat products for the most part of the 1980s. The country imports wheat, vegetable oil and rice. The food security strategy has two related elements. First, it requires the growth of export crops to pay for the import gap of the above-mentioned commodities. Second, it needs growth in rural cash income so that rural households can purchase food when necessary.

A rapidly growing population and rising urban unemployment has made it necessary for the Kenyan Government to pursue a development approach which emphasizes rural employment opportunities for the next decade. The next Development Plan (1989-1993) emphasizes the agricultural sector as a leading sector for the development strategy. The sector is expected to contribute to the stimulation of off-farm productive activities and employment in rural areas, thereby slowing the migration from rural areas. The agricultural sector must continue to play a leading role in Kenya's economic growth and development if the country is to accommodate the increasing work force and meet the needs of its population.

2. Major Constraints to Accelerated Agricultural Growth

To maintain constant per capita production will require an annual rate of growth of 3.7 to 4 percent. The annual growth rate of agriculture since 1980 has averaged 3.7 percent, but the uneven agricultural growth since the early 1970s has been of concern. While production of traditional export crops (coffee and tea) has been strong, production of other crops, such as maize, wheat and sugar has lagged behind population growth.

The Sixth National Development Plan (1989-1993) has set a target growth rate in agriculture of 3.8 percent per year over the plan period. This target growth rate is not likely to be realized unless the Government of Kenya addresses the major constraints in the sector. Some of these constraints are externally imposed, such as weather conditions and droughts and fluctuating and worsening terms of trade; others are long-term in nature and have to do with the country's natural endowments and technology; and some are short and medium-term. The latter involve, in particular, government policies and regulations.

The USAID/Kenya Agricultural Sector Strategy Statement, the Government of Kenya and other sector analyses such as the World Bank agricultural sector report for Kenya, have identified a number of sectoral constraints including: (a) limited supplies of arable land and distribution of land ownership; (b) inadequate research and extension services; (c) distorted marketing and pricing policies; and (d) inefficient agricultural input supply systems.

In addition to the above-mentioned constraints, the unfavorable terms of trade developments, the consequent weak balance of payments and its implications on government finance have also imposed macroeconomic constraints on the sector. This, together with misallocation of budgetary resources in the sector, has magnified the sectoral problems.

a. Limited Supply of Potentially Arable Land Supply

The limited supply of arable land (about 19 percent of total land area) together with a high population growth rate is an important factor in limiting agricultural growth. The squeeze on land, in some areas resulting in soil erosion and reduced use of fallow, has contributed to declining productivity.

The near-term outlook for increasing land use under cultivation is not promising. In the short and medium-terms, land use intensification, mainly with existing crops, offers the most promising strategy for increasing productivity, output and employment. As yields are already relatively high on most large farms, it is likely that further increases in yields will come from smallholders.

The land constraint is further complicated by land distribution and tenure problems. Land distribution in Kenya is very unequal. Small farms average two hectares in size and make up about two-thirds of cropped area, while large farms range in size from 20 to 1,000 hectares and account for 34 percent of cropped area.

Land tenure systems have been changing over the past three decades from communal to freehold individual or group-based systems. The slow pace of land tenure reform is due to complex bureaucratic procedures, increased litigation, and lack of personnel and financial support. The Kenyan Government has recognized the complex and sensitive land policy issues and intends to develop a framework to address these issues during the next Plan period.

b. Research and Extension

Kenya's agricultural research system includes a diverse body of institutions. Prior to independence, the research system focused largely on the needs of large commercial farms where operations were mechanized and regular inputs were used. While increased importance has been given to smallholder production in recent years, research has not responded adequately to specific smallholder problems, such as the availability and cost of labor, and proper intercropping and input use.[3/] Appropriate improved technologies for smallholders have not been developed.

3/There are a few important exceptions, such as the introduction of hybrid maize varieties in the 1960s.

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From a survey of Kenya's agricultural research carried out in 1986, a number of constraints have been identified. They include: (1) the need for a systematic approach to setting research priorities based on projected demand and food security requirements; (2) development of an effective evaluation and monitoring system for research programs; (3) substantial enhancement of research skills and rational staffing assignments across research stations; and (4) adequate and timely funding, especially of recurrent costs of research programs.

Reform measures to develop a more systematic and coordinated approach to agricultural research resulted in the establishment of the Kenya Agricultural Research Institute (KARI) in 1986. While the reform program is well designed, its implementation has been uneven. Three of the key donors in this effort (A.I.D., the World Bank and the EEC) have closely coordinated their support of KARI. They expect program implementation to accelerate in 1989.

In Kenya, as in many developing countries, there is a considerable gap between yields achieved at research stations and yields realized by farmers, especially smallholder farmers. There are three basic reasons for this gap: poor dissemination of information due to weak linkages among research, extension and farmers; lack of appropriate technologies to extend; and poor management and supervision of extension activities. There is also a concern that a large number of extension personnel has resulted in substantial increases in personnel expenditures and recurrent costs.

In order to address these constraints, the Ministries of Agriculture and Livestock introduced, with the assistance of the World Bank, the Training and Visitation (T & V) program in 1983. The effort was to: develop more effective supervision of extension staff, disseminate appropriate technologies specific to geographic areas, introduce a farmer feedback mechanism in order to make research and extension more relevant, and carry out extensive staff training.

c. Agricultural Output Pricing and Marketing Policies

Intensification of production is closely associated with the structure of economic incentives, of which output pricing and marketing policies, together with marketing services, are a major part. The extent of government intervention in Kenya is high. Official prices are set through marketing boards for most major crops. Price and market controls apply more for domestically consumed food and industrial crops than for export crops.

The analysis and setting of prices is carried out in annual price reviews. Border prices are key indicators for price setting. In recent years, official producer price levels have been set to reflect closely these international prices. Table 8 in the Statistical Appendix summarizes official price developments of major crops (see also Tables 3 and 6). The Government continues to emphasize this price setting in the next Development Plan.

Reasonable price incentives have been offset by late payment problems for commodities that are marketed through the parastatals. Producers of seven major commodities (coffee, tea, maize, milk, cotton, sugar and pyrethrum) have had to wait from two to fifteen months to receive full payments. This has resulted in serious liquidity problems, especially for small-scale farmers.

The marketing policy constraint not only effectively reduces economic incentives to farmers but also creates a financial burden on the national budget because of the operational losses incurred by these marketing parastatals. The subsidies and transfers given to them reduce resources that would otherwise be available for investments to raise agricultural productivity. There are indications that the Government will attempt to address some of these agricultural parastatal issues, notably those involving the National Cereals and Produce Board (NCPB). The EEC has put in place a program intended to address some of the NCPB management problems.

d. Agricultural Input Supply

The most critical element in the land use intensification strategy is the availability of agricultural inputs. Important productivity enhancing inputs include fertilizer, improved seed varieties, pest and disease control chemicals, animal feeds, and farm machinery and implements. In contrast to the output marketing system in Kenya (dominated by NCPB) and in many other sub-Saharan African countries, the structure of Kenya's input delivery system is characterized by a wide range of participants, including parastatals, cooperatives and private traders.

Kenya has created a successful seed multiplication enterprise, the Kenya Seed Company (KSC), with government and private participation. The KSC provides hybrid seeds for maize, beans, wheat and a variety of other crops. It also exports small volumes of seeds to other East African countries. The seed distribution network functions well. A healthy rural distribution system, based on a large number of small rural stockists, has been established. Hybrid maize seed is widely used by small-scale farmers partly because of the packaging of seeds in small bags (2 kg. bags) and partly because of adequate margins in the pricing structure. Agricultural machinery is mainly used by large and medium scale farmers, although there is a growing demand among smallholders for land preparation services. An estimated 1,000 to 1,500 private contractors provide tractors and land preparation services. The Government offers a tractor hire service.

Fertilizer is the dominant farm input and has particular importance for intensification of production. The fertilizer subsector also has the most serious problems among all the agricultural input supply systems. Of particular importance are fertilizer pricing, import allocation and marketing policies.

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C. Constraints in the Fertilizer Subsector

1. Fertilizer Use

Fertilizer use is a critical element in Kenya's medium-term (3 to 5 years) strategy to raise agricultural productivity, output, employment and farm income. Fertilizer consumption has been much below estimated potential demand and is volatile. According to the World Bank and Government estimates, the potential requirement for all types of fertilizer is 650,000 tons, though effective demand for fertilizer is probably lower. Actual consumption averaged 260,000 tons per year over the past three years.

Since actual consumption is much below potential demand and Kenya does not manufacture fertilizer domestically, its consumption depends entirely on imports. Fertilizer is imported either through donor-financed programs or by private commercial importers. The extent of commercial imports is determined largely by government pricing policy and general foreign exchange availability. Commercial imports have declined by more than half between 1985/86 and 1987/88. During the last two years, donor-financed imports accounted for 50 percent of total imports. In absolute terms, annual donor-financed imports have averaged about 120,000 tons in recent years. The need for fertilizer support will continue in the near term.

Tables 13 and 14 in the Statistical Appendix show the patterns of fertilizer imports and consumption by crop and by farm size. According to the World Bank Kenya Agricultural Inputs Review (1985), total nutrient use was about 51 percent nitrogen, 44 percent phosphate and 5 percent potash. Major crops using nitrogen are coffee, tea and sugar, while maize, wheat and barley make up over 60 percent of the use of phosphate. Potash is used mainly on tea, coffee and tobacco. In commercial terms the following are major types of fertilizer used in Kenya: DAP (20:20:0, nitrogen, phosphate and potash respectively); CAN, ASN (20:10:10); SSP, Urea, TSP & SA, TSP & MAP, and DSP.

On average, fertilizer consumption grew by 8 percent per year over the 1980-87 period, but there were wide fluctuations. Fertilizer consumption reached a peak level in 1986 (Table 13 of the Appendix). In 1985/86, the two main export crops (coffee and tea) accounted for 43 percent of fertilizer consumption. Of this 43 percent, about two-thirds were used by smallholder coffee and tea farmers. Major nonexport and food crops (maize, wheat and sugarcane) accounted for another 44 percent of fertilizer consumption. Smallholder farmers (both in export and nonexport crops) accounted for 43 percent of the total consumption.

Table 15 in the Appendix provides estimates of financial returns to fertilizer use for major crops. The financial returns for coffee and tea are the highest, 7 to 10 times the cost of fertilizer. For the major food crops (maize and wheat), the returns are lower but still quite high. The use of fertilizer for sugarcane appears to be unprofitable. These estimates have pricing policy implications, notably for output pricing, since fertilizer costs are largely determined by international market conditions. Section IV.D. below attempts to update these earlier estimates with more recent prices of both fertilizer and output.

2. Constraints to Increased Fertilizer Use

In the near term (3 to 5 years), there are three major constraints to increased fertilizer use:

- official fertilizer price setting and controls;
- inadequate and untimely imports due to foreign exchange constraints and cumbersome import quota and allocation procedures; and
- lack of technical knowledge on proper use of fertilizer and uncertainty of its financial returns.

The government price and import controls are major constraints to the development of an effective fertilizer marketing and distribution network.

a. Official Price Setting and Controls

Under the Price Control Act, the Ministry of Finance sets official prices for different types of fertilizer. The Inspectorate Section of the Controller's Office enforces price controls. Inspectors are stationed in all of the provinces as part of the general price control system. They are helped by District Commissioners, District Officers, the Police and Revenue Officers. In recent years, official prices have been changed annually.4/

Until 1979, panterritorial pricing was followed without consideration for different transport costs. The present formula was adopted in 1982 and is based on C and F (Cost and Freight) costs at the port of entry (Mombasa), plus a 30 percent margin, plus a fixed sum of 100 shillings, plus the cost of transport from Mombasa to each district distribution center. From this formula, ceiling prices are established for each distribution center and its vicinity. There are a total of 42 centers in the country, each with its set of official prices. The official ceiling prices as of September 1988 are included in Annex B.

In recent years, there have been improvements in the price setting process. Prices are reviewed and changed annually. The official ceiling prices do allow some flexibility and take into consideration transport costs. The use of C and F costs as "benchmark

4/The "long rain" lasts approximately from March to June, while the "short rain" season is about October-November. The fertilizer year is from July 1 of one year to June 30 of the next.

international prices" (BIP) reflects more closely international market conditions. Since 1986, the Government has adopted the BIP as a basis from which official ceiling prices are derived. They are generally close to cost pricing. However, the procedures for using the pricing formula and for reviewing and announcing prices are two key issues regarding fertilizer pricing policy.

Calculations using the pricing formula can be improved, particularly with respect to three variables--the C and F base price or BIP, the exchange rate used to convert the C and F price into shilling price, and the markup margins. The BIP is a critical variable in the formula, but it is derived from a small sample of a few C and F prices and does not capture adequately international price movements. The exchange rate used during 1988 was not realistic, resulting in a shilling price lower than the actual price paid by importers by as much as 10 to 25 percent. Markup margins are not revised often enough to reflect changes in distribution and other indirect costs. Greater margins are required for retail stockists in order to encourage the development of a fertilizer distribution network in rural areas closer to farmers.

The process of price review and announcement can also be improved. In addition to setting prices that provide adequate incentives for importers and traders, these prices ought to be publicized well ahead of the planting seasons to ensure timely arrivals of imports. Late announcements of prices impede the supply of fertilizer. Importers wait to place their orders until they know the prices. Traders hold back sales until prices are announced. Delays in price announcements have caused shortages of fertilizer at planting time. Because fertilizer prices on the international market fluctuate constantly, official prices should be changed more than once a year. A minimum of two changes in a year, corresponding to the two planting seasons, would be desirable.

b. Import Controls and the Government Allocation System

Commercial imports of fertilizer are subject to import quotas and licensing as part of general import controls in response to the foreign exchange constraint and the need to rationalize the foreign exchange supply and manage overall balance of payments. Fertilizer imports are considered special imports and are classified under a priority import category.[5/] License applications are reviewed and approved by an Interministerial Committee, comprising the Ministries of Finance and Agriculture and the Office of the President. Commercial importers consist of large end-users, cooperatives and private firms. The level of commercial imports depends on the country's foreign exchange situation and the Government's pricing policy. Commercial imports account for about one-half of total imports, while donor-financed imports account for the rest.

5/In the present Kenyan import regime, fertilizer is grouped under Import Schedule 2, which is supposedly unrestricted. It is, however, subject to special ministerial approval by a Fertilizer Advisory Committee.

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In addition to commercial import licensing, fertilizer financed by donors and imported on behalf of the Government is subject to an allocation system through tendering procedures. Major donors channelling assistance through the government allocation arrangement are the United States, the Netherlands, Sweden, Norway, Finland, Italy and Japan. The government rationing system is guided by a set of allocation criteria which include applicants' past performance, their handling and distribution network, their financial viability and their capability to provide technical advisory assistance to farmers.

Import control (together with price controls and the government rationing system) has impeded the development of the fertilizer market and may have contributed to market instability. Quantitative import restrictions on fertilizer generate economic rents arising from a combination of limited competition and access to import licenses and foreign exchange. Import controls and pricing policy (especially with respect to official price announcements) have also contributed to uncertainty, disrupted the timely flows of imports, and destabilized the supply of fertilizer. While import controls and government rationing of donor-financed fertilizer have resulted in a larger number of new firms, many of these new firms do not have adequate distribution networks; nor do they have the capacity and intention to invest in the development of such a network. Many of these firms are set up simply to garner the economic rents generated by the system. Because of the distortion and inefficiency generated by import controls and government rationing, the opportunity costs of fertilizer for the country are higher than they would otherwise be.

3. Recent Reforms in Fertilizer Pricing and Marketing

In recent years, with strong support from A.I.D. and the World Bank, the Government has attempted to address the policy constraints described above. There has been some liberalization in the pricing structure and marketing. Following the establishment of the Fertilizer Inputs Unit in the Ministry of Agriculture, the Government partially implemented the BIP-based pricing policy recommendation. A set of criteria for allocating donor-financed fertilizer has been developed. However, reform has been uneven, particularly in the area of import liberalization and government rationing.

Despite uneven implementation, there have been noticeable improvements and positive effects. The reforms have helped stabilize the market, making supply of fertilizer imports more reliable and increasing fertilizer availability to smallholder farmers. The oligopolistic market structure which existed prior to 1984 has been eliminated. There are now a larger number of firms in the market.[6]

6/See USAID/Kenya, Fertilizer Marketing Development Program Impact Study for more detailed discussion of the impact of the reform.

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D. Macroeconomic Constraints

Macroeconomic constraints affect the agricultural sector in two areas: foreign exchange availability and the national budget. Kenya has experienced worsening terms of trade,7/ stagnant exports and rising imports for most of the 1980s. With lower capital inflows, dim prospects for sustained higher coffee and tea prices, and high levels of indebtedness, balance of payments constraints and low foreign exchange reserves are likely to remain for the next three years. The foreign exchange constraint limits the level of commercial imports of fertilizer and other agricultural inputs. Since Kenya depends entirely on imports for fertilizer supply, the foreign exchange constraint becomes a binding constraint to the promotion of fertilizer use.

The budgetary constraint, which in part reflected unfavorable macroeconomic developments, notably in the balance of payments, has adversely affected and magnified sectoral problems by limiting the resource level allocated to the sector. Budgetary resources allocated to the agricultural sector declined considerably in real terms in the 1980s. According to the latest actual spending figures, the budget share going to agriculture fell by 5.5 percent in real terms in fiscal 1986. The estimates for 1987 showed significant increases, primarily in the recurrent budget, due to the creation of two new ministries in the sector (Livestock and Supplies and Marketing).8/ The sector's budget share of total spending declined from almost 9 percent in fiscal 1982 to less than 6 percent in 1984 and went back up to 8.5 percent in fiscal 1985 and 1986. The budget share fluctuated considerably, largely because of unpredictable transfers to parastatals.

The budgetary constraint is further aggravated by the sector's limited absorptive capacity and the large number of projects funded by donors in the sector. The absorption of donor-financed projects, for example, averaged less than 40 percent of planned disbursement prior to 1986. It has risen to about two-thirds in recent years partly because of more emphasis on program or sector assistance. According to the World Bank's latest inventory, there are about 136 projects in the agricultural sector.9/

7/With the exception of 1986, in which Kenya's terms of trade improved because of unusually high coffee and tea prices and low oil prices.

8/For our purpose, the sector's budget consists of budgets in four ministries: Agriculture, Livestock, Cooperatives, and Supplies and Marketing.

9/This includes projects in four ministries: Agriculture, Livestock, Cooperative Development, and Supplies and Marketing. The 136 projects are broken down as follows: 72 projects in Agriculture, 42 in Livestock, 14 in Cooperative Development, and 8 in Supplies and Marketing.

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The low absorptive capacity is partly due to the shortage of recurrent cost funding in the development budget to complement donor funding, particularly in capital spending. It is also due to institutional weakness and resource misallocation in the sector. A major source of misallocation is the large transfers to more than 100 parastatals in the sector. During the 1985-87 period, transfers to parastatals averaged about 30 percent of the agricultural budget. Another source of budget misallocation is in personnel spending, which accounts for about 30 percent of total spending in the sector. This has left little for investment and non-wage operational and maintenance spending. Clearly there is a need to rationalize and set priorities for spending in the budget. Although the budget rationalization policy has been adopted since 1985, the anticipated expenditure restructuring and priority setting has yet to take place.

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III. JUSTIFICATION FOR FERTILIZER PROGRAM ASSISTANCE

A. Program Strategy

USAID has chosen the constraints of inadequate supply of fertilizer and its inefficient distribution system to be addressed in this program. Notwithstanding the progress made in reforming the fertilizer subsector, further refinements and improvements are needed. A more rigorous implementation of the reform in pricing policy is a prerequisite for improving the fertilizer import and marketing environment. More progress in government rationing and import policies is called for. The government allocation system should be replaced by a less restrictive import policy through normal commercial practices. The government roles should be to: facilitate the dissemination of the proper use of fertilizer; provide necessary public infrastructure in support of the development of the fertilizer distribution network; promote a competitive market environment and prevent any monopolistic pricing; and ensure that the proper types of fertilizer are imported.

Addressing these constraints will support the Government and USAID's agricultural development objective of raising agricultural productivity through land intensification. It will also complement other activities in the sector, particularly in agricultural research and extension. According to World Bank analysis and other studies on agricultural inputs, fertilizer is the most important input, especially in the near term. Moreover, other input supply systems, such as seed multiplication, chemicals, and agricultural machinery, function relatively well and are not binding constraints.

There are four key assumptions underlying the above strategy. These assumptions have been verified by various studies cited in the References and are considered to reflect the actual situation in Kenya. These assumptions are:

- extensive farming technology through land expansion is not a viable option in the near term; intensive farming through increasing productivity is, therefore, a preferred option;

- modern agricultural inputs are important to intensive farming;

- fertilizer is the most important input to complement existing technical packages and natural endowments; other agricultural inputs are not binding constraints for Kenya at present;

- financial and economic returns to fertilizer use are greater than its cost.

B. Program Rationale

Given the present macroeconomic and financial constraints, program sector assistance not tied to projects can play a significant role in both mitigating the financial constraint and in improving the policy environment. Based on previous A.I.D. and other donor programs, it is evident that there is an element of additionality associated with donor-assisted fertilizer programs. The supply of fertilizer available to smallholder farmers in rural areas has increased (see Tables 13 and 16 in the Appendix) and the fertilizer marketing and distribution systems have improved.

As discussed above, agricultural and livestock production are employment and income generating activities supporting the livelihood of more than 70 percent of the population in Kenya. Fertilizer is a necessary input in sustaining and accelerating agricultural production, especially in the near term. Given limited arable land, fertilizer appears to us to be the best means for intensified production and for raising agricultural productivity. It is an important input in supporting agricultural research and technological development in the longer term. A more efficient fertilizer supply system is also important for diversifying agricultural exports and promoting viable import substitution in foodstuffs. Kenya has, for example, the potential for expanding horticultural exports.

Policy reform of the fertilizer subsector has been selected from among the various sectoral constraints for many reasons. Some constraints in the sector (such as research and extension and output pricing policies) are already being addressed either by A.I.D. or other donors.10/ Other sectoral constraints, for example land reform, were not chosen either because they have not been adequately analyzed or because a politically acceptable approach to addressing the problem has yet to be identified.

If the reform program is implemented fully, the purpose of the program can be accomplished independent of the other constraints. However, the impact of this program can be enhanced if other project activities in the sector are fully carried out. This is particularly true in the case of agricultural research, extension, training, institutional development, and incentive policies related to agricultural product marketing.

Moreover, the fertilizer subsector has been chosen because there has been demonstrated commitment (clearly shown in A.I.D.'s earlier fertilizer program) on the part of the Kenyan Government to work toward liberalizing and improving the efficiency of the fertilizer supply and distribution network. For example, the National Policy for Fertilizer Pricing and Marketing paper, prepared by the Ministry of Agriculture, states that the main objective of the policy will be

10/A.I.D.'s National Agricultural Research and Institutional Development for Agricultural Training projects and the PL-480 program address constraints in agricultural research and extension and grain marketing policy. The latter in particular is being addressed by the World Bank Agricultural Sector Operations program and by the EEC policy-based program.

to ensure that fertilizer is always available to the farmer when needed and at prices which they can afford. The policy paper highlights the need to continue the present benchmark international pricing system, assure the profitability centers, increase the frequency of price reviews, and closely monitor retail prices. More significantly, the policy states that in the long term, fertilizer importation should be liberalized with the role of government limited to monitoring the types and quantities imported. To date, the reform efforts, though less fully implemented than the Government has expressed in its policy statements, have nonetheless had a favorable impact on the objective of increased fertilizer availability and use.

Because the number of projects in the agricultural sector relative to its absorptive capacity is a constraint to the sector's performance, the counterpart funds generated from fertilizer imports can be significant budgetary resources. They can help increase the level of absorptive capacity by financing reasonable operating costs of existing projects, and supporting the rationalization of public investment in the sector. However, the use of counterpart shillings from sector assistance to finance operating (recurrent) costs can be counter-productive to the extent that it relieves pressure for expenditure control and supports continuation of inappropriate policies. In order to avoid these possible undesirable effects, it is necessary that the Kenyan Government commit itself more fully to the implementation of its budget rationalization program.

The sustainability of the program and the eventual phasing out of A.I.D. support will depend on the implementation of the reform program, as well as on the response by the private sector and its ability to meet the logistic requirements for importation. If the proposed reform program, particularly with respect to the fertilizer price liberalization (such as the adoption of measures toward fertilizer price decontrol), is implemented fully, the private sector involvement will increase. This increased private sector involvement should allow A.I.D. to gradually phase out commodity support by relying on private sector direct importation.

Provided that the foreign exchange contraint does not worsen, the rationalization of import licensing allocation is carried out (presently a condition of the World Bank Industrial Sector Loan and the IMF Enhanced Structural Adjustment Program), and adequate foreign exchange is alloted to fertilizer imports, the purpose of this program is sustainable.

C. Program Beneficiaries

The targetted beneficiaries of the program are smallholder farmers. Other beneficiaries of the program include rural stockists, participating fertilizer importers and the Government of Kenya. The program, in addition to helping to raise agricultural productivity and growth, will also have equity- enhancing effects. These will come about by: reducing absolute poverty--i.e., lowering the percentage of families with incomes below some poverty line; and reducing relative poverty--i.e., providing a more even distribution of income and widening the access to goods, services or new opportunities.

The majority of the poor in Kenya are smallholder farmers, a large proportion of whom are women. In the late 1970s, there were 1.7 million smallholdings accounting for 56.1 percent of the total area farmed. (WB, P. 19, table 2.8) Based on several surveys between 1974 and 1982, the World Bank estimated that 86 percent of smallholders grow maize and that they contribute 43 percent of the marketed production. (WB, p. 18, table 2.7) Women manage two-fifths of all smallholdings and provide three-fourths of the labor used on them. (Women in Development: Kenya's Experience", In Finance and Development, June 1989) A 1989 A.I.D. sponsored impact study found that men dominate the decision-making on what fertilizer to purchase, but that women apply more fertilizer than men do.

The reform program, by supporting a policy of flexible cost pricing and timely announcements of these prices, will ensure steady flows and larger supplies of fertilizer. A larger supply of fertilizer generally means more fertilizer available to smallholder farmers, and hence more output, income and lower absolute poverty. When the supply of fertilizer is tight, it is smallholder farmers who have been squeezed out of the market.

Empirical evidence from the impact study supports the above assertion. According to the survey conducted under this study, availability of fertilizer to smallholders has improved. Some 39 percent of farmers interviewed stated that fertilizer was more available, and 53 percent responded that they were able to use as much fertilizer as they would like. Three-fourths of the respondents indicated that timeliness of fertilizer supply has improved.

The improved availability of fertilizer is also reflected in the shorter distance that farmers have to travel to buy fertilizer and the number of local retailers who sell in small quantities. About 43 percent of all farms are located within five kilometers of a fertilizer dealer and 41 percent have four or more fertilizer vendors located in the vicinity of their farms.

Almost all farmers interviewed (90.7 percent) stated that fertilizer use has increased their yields. In addition, over 95 percent of farmers stated that they used fertilizer regularly and well over 50 percent indicated that their use of fertilizer has been increasing. For example, 90 percent of maize and potato crops, traditionally managed by women farmers, received some fertilizer.

In summary, fertilizer use by farmers, in particular by women and other small holder farmers, has increased significantly over the past five years. According to the survey, over 60 percent of farmers indicated increased use of fertilizer. This increase has resulted mainly from increased and more timely availability of fertilizer and from increased awareness of the benefits of fertilizer use.

D. Relationship to A.I.D. Country Development Strategy

The primary USAID goals for assistance to Kenya are to promote broadly based economic growth and to reduce the rate of population growth. They were first expressed in USAID/Kenya's 1984 CDSS and have been reiterated in Action Plans for FY 1986-88 and 1989-90. One of the important means for achieving broadly based economic growth in Kenya is through the development of the agricultural sector.

The A.I.D. agricultural development strategy, as detailed in the USAID/Kenya Agricultural Sector Strategy Statement (1986), identifies the following agricultural development goals for USAID/Kenya assistance:

- food security to ensure an adequate level of food consumption for the population;
- maximization of foreign exchange earnings (savings) from the sector in order to raise the country's import capacity necessary for accelerating economic growth; and
- increased employment opportunities.

These goals are identical to those emphasized by the Government of Kenya as described in its Sixth Development Plan (1989-1993), as well as in previous Plans and other policy and strategy documents. To achieve the above goals, intensification of production will have to play an important role given Kenya's limited potential for land area expansion. This production intensification strategy is consistent with the Government's development strategy. The A.I.D. agricultural program focuses on:

- improving the Government of Kenya's policies which affect investment decisions in the sector;
- strengthening human resources and institutional capabilities with emphasis on administration, science and technology; and
- facilitating the development of the Kenyan private sector.

A production intensification strategy places emphasis on the adoption of new technologies and the use of productivity enhancing agricultural inputs such as fertilizer. The proposed fertilizer program is thus closely linked to USAID's agricultural development strategy, particularly with respect to improving the Government of Kenya's agricultural policies and development of the private sector fertilizer market. Moreover, an efficient fertilizer market network, by increasing the use of fertilizer, can facilitate the adoption and transfer of new technologies.

E. Other Donor Assistance

1. IMF Stabilization and Adjustment Program

To address its difficult economic and financial situation, the Kenyan Government adopted a stabilization and adjustment program and sought IMF assistance in early 1987. The IMF program was put in place in February 1988. The program includes both stand-by arrangements and structural adjustment facilities. Kenya also received SDR 40 million from the IMF compensatory financing facilities in November 1988. According to the IMF review in August 1988, all performance criteria through the end of June were observed.

The existence of an operational IMF program is important not only for financial stabilization and in addressing macroeconomic constraints, but also for a rational macroeconomics framework within which a more focused sectoral reform, such as the proposed fertilizer program, can be more effective. This is especially notable with respect to resource allocation and public investment in the sector.

The proposed A.I.D. fertilizer reform program contributes to and is complemented by the agricultural reform measures emphasized by the IMF. For example, the IMF program promotes adequate producer price incentives and limits the roles of agricultural marketing parastatals (especially the National Cereals and Produce Board) to reduce the financial burden on the national budget and to improve delivery of services to farmers.

2. The World Bank Agricultural Sector Lending Program

The World Bank is the lead donor in agricultural sector reform. Among the major components of its program are: (a) measures to increase the availability and distribution of agricultural inputs, especially fertilizer; (b) measures toward price liberalization and deregulation; (c) rationalization of government spending in the sector; (d) reforms of major agricultural parastatals; and (e) strengthening agricultural credit programs. Specific reform measures include:

- maintaining production incentives such as floor producer prices for grains (maize, wheat and rice), timely payments to producers, and decontrol of certain prices (e.g. beef producer prices);

- reforming major agricultural parastatals, such as the cereals marketing board, a sugar company (South Nyanza Sugar Company), the cotton board, the milk marketing enterprises, and agricultural finance companies;

- improving agricultural input supply which includes revising fertilizer pricing, preparing annual import plans, assuring proper and timely allocation of import licenses, and increasing the numbers of legitimate importers and distributors; and

- providing adequate funding for agricultural research and extension as well as consolidating and setting priorities for agricultural research efforts.

On balance, the World Bank has been satisfied with the implementation of its agricultural sector program. Under the program, it has disbursed a total of $66 million, with co-financing from several other donors totaling more than $100 million (such as Japan for $70 million, EEC for up to $60 million, West Germany for $15 million, and the Saudi Fund for $4 million). The assistance has been in the form of balance of payments support for imports of agricultural inputs. The World Bank is planning its future assistance to the sector with the objective of consolidating a policy framework that is conducive to stimulating and sustaining agricultural growth.

3. Other Donors

In addition to the World Bank and A.I.D. programs, there are other donors involved in financing fertilizer imports including in 1987/88, Norway, Sweden, the Netherlands, Japan, and West Germany. The Netherlands and West Germany are the next largest bilateral donors following the United States (see Table 16 in Statistical Appendix). Denmark, Finland and Italy have also provided fertilizer assistance in the past, but not for the last two years.

Total donor assisted fertilizer accounted for 34 to 67 percent of total fertilizer imported in recent years. U.S. assistance in fertilizer since 1983/84 has ranged from 20 percent to as high as 56 percent of total donor-assisted fertilizer. In 1987/88, U.S. fertilizer assistance accounted for 36 percent of total aid fertilizer, while the rest was provided by the other five donors. Other donors' programs also emphasize necessary reforms in fertilizer pricing and marketing, but not as prominently as the USAID and World Bank programs. However, the other bilateral donors are eagerly awaiting the outcome of USAID's efforts to negotiate significant reforms in the pricing and allocation of fertilizer. Some of these donors (e.g., the Netherlands) have committed themselves to reinforcing these reforms in their own assistance programs should the A.I.D. initiative succeed.

IV. PROGRAM DESCRIPTION

A. Program Purpose and Goal

The purpose of the Fertilizer Pricing and Marketing Reform program is to increase fertilizer use by smallholder farmers in rural areas. This is to be accomplished by strengthening and promoting a fertilizer market network at prices that reflect costs, including adequate profits to importers and distributors. The program intends to facilitate policy and institutional changes in fertilizer pricing and marketing.

The increased availability of fertilizer on a timely basis together with the policy of promoting appropriate use of fertilizer will result in increased use of fertilizer by smallholder farmers. This will contribute to the goal of raising agricultural productivity, farmer income and general growth and development. The program will be a continuation of past reform efforts as well as encouragement for further progress in the areas of price liberalization, import allocation and marketing. The program will provide foreign exchange in the form of fertilizer imports from the United States. In addition, some of the resources will be used for technical assistance, policy studies, short-term training, and evaluation and monitoring. Sales of imported fertiliizer will generate counterpart shillings, which will be used primarily as budgetary resources for support of agricultural sector investment.

B. Program Components

The program has four components: (1) policy reform; (2) fertilizer imports; (3) technical assistance, policy studies, program evaluation and monitoring, seminars and in-service training; and (4) local currency generated by the sales of fertilizer imports.

1. Policy Reform

The policy reform program is summarized in the Policy Reform Matrix in Annex A. It is largely based on progress made under the 1986-1988 A.I.D. Structural Adjustment Assistance Program (SAAP, 615-0240) with three major modifications. First, the program will be more focused. It will concentrate on the agricultural sector, with emphasis on fertilizer pricing and marketing reforms and to a lesser extent on sectoral budget allocation. This is a departure from the previous SAAP reform program which addressed macroeconomic, financial, trade and industrial policies. These policy reforms are now being pursued by the IMF and under the World Bank Industrial Sector Loan (and currently under discussion, a proposed Financial Sector Loan). Second, the program will be a three year effort. A multi-year approach is considered more appropriate in demonstrating to the Government A.I.D.'s commitment to help ensure that the reform will be sustained. Finally, the reform agenda is based on a closer policy dialogue and cooperation with the Kenyan Government. The proposed reform is the Government's own agenda. This policy framework did not exist when the SAAP was developed in 1985. The change, in USAID's assessment, makes the program more realistic and is likely to increase the chances that reforms will be sustained.

The program proposes to support reforms in three areas, fertilizer pricing, liberalization of fertilizer imports and the government allocation system, and promotion of fertilizer use. These are, as discussed in Section II above, the major constraints to increased fertilizer use by smallholder farmers. Addressing these constraints will improve market incentives and create an environment conducive to private sector development of a fertilizer market network which will ensure a reliable and increased supply of fertilizer.

Fertilizer Pricing. The program proposes to support reforms in fertilizer pricing to permit a more realistic determination and setting of official fertilizer prices as well as to move toward price liberalization. The pricing reform over the life of this program includes: official prices which reflect more accurately changes in the fertilizer market conditions by using border prices as a basis for official price setting,[11/]; adequate distribution margin to the border prices by widening the margin if necessary, and study and action toward the deregulation of price controls. Actions which will indicate implementation of pricing reforms include:

- more realistic estimates of the "benchmark international prices" formula which takes into account transport, handling, storage, finance, exchange rate risk, and profits;
- more timely announcements of official prices to reduce some of the risk and uncertainty to importers and to allow them to plan their procurements in a more efficient manner;
- stengthening the Fertilizer Inputs Unit of Ministry of Agriculture with short-term technical assistance, particularly in the methodology and statistical requirements for determining official fertilizer prices;
- undertaking an in-depth study to assess the potential for decontrolling fertilizer prices; and
- developing an action plan for implementing certain recommendations from the above study.

Import Quotas and Government Allocation. The program proposes to support the Government in liberalizing commercial imports of fertilizer and in enforcing the government allocation criteria in rationing its donor-financed fertilizer. Actions which will indicate

11/These border prices (C & F import prices) are known in the Kenyan context as "Benchmark International Prices" (BIP).

the implementation of the reforms include:

- o phasing out the government allocation system for fertilizer financed under this program beginning in the second year; and in its place adopting a private sector commodity import program for allocating fertilizer financed by the program; and

- o adopting the eligibility criteria for fertilizer allocation (both under the government allocation system and commodity import program) as detailed in the Implementation Section.

Under the private sector commodity import mechanism, if commercial importers do not respond adequately and in a timely way, the private sector commodity import allocation system will be replaced by government allocation. This is to ensure that fertilizer will be made available to farmers in a timely manner.

Promotion of Fertilizer Use. The program proposes to encourage extension services to actively disseminate information on proper use of fertilizer and its benefits, and to ensure that agricultural output pricing does not create any disincentives to fertilizer use. Actions which will indicate the implementation of the reforms include:

- o publishing and distributing promotional and educational materials for fertilizer use as well as encouraging private fertilizer distributors to do likewise;

- o continuing the bagging of fertilizer in small bags (10 and 25 kilogram bags) as preferred by many smallholder farmers; and

- o revising agricultural output pricing (especially for crops such as maize, wheat, and sugarcane) to ensure that agricultural terms of trade do not deteriorate.

By the end of this three-year program, it is expected that a significant degree of price liberalization will have taken place. A study to assess the extent of fertilizer price decontrols will be undertaken during the first year of the program. Following the study, a plan of action including specific price liberalization measures will become part of the reform program during the second and third years. As a result of the reform in fertilizer pricing, it is expected that private sector involvement and the share of commercial imports in the supply of fertilizer will increase. Some of these commercial imports are expected to be financed by donors as the policy of replacing aid in kind by a more general form of foreign exchange support is adopted by more donors. As the fertilizer market network is more firmly established, A.I.D. support can be phased out.

The means of verification for the output indicators in the Program Policy Matrix will include government's statistical publications and reports, occasional studies and analyses funded by the Government, USAID and other donors. These will be supplemented by discussions and interviews as necessary.

2. Fertilizer Imports

The program proposes to support fertilizer imports for a total of $45 million over a three-year period (FY 1989-91), subject to the availability of funds. For the first year the program will finance $15 million worth of DAP fertilizer imported from the United States. In the first year of the program, fertilizer will be imported on behalf of the Kenyan Government and distributed through its allocation system. The Government will determine its allocations to different distributors based on the criteria described in Section V.C. Fertilizer provided in years 2 and 3 will be allocated under a more market-oriented private sector commodity import program. The commodity import program is an intial step toward changing donor assistance from fertilizer aid in kind to foreign exchange support.

USAID considered a cash transfer mechanism as an alternative to the CIP, but decided against it at this time for the following reasons. The present foreign exchange allocation system is not adequately liberalized and transparent. Needed foreign exchange for fertilizer imports is not always made available on a timely basis. Under the present cash disbursement approach (such as the one under the World Bank Agricultural Sector Loan), foreign exchange is made available to the Government on a reimbursement basis. This means that the Government uses its own foreign exchange first. Given the present and near-term foreign exchange constraint, foreign exchange may not be made available in sufficient quantity or early enough for real agricultural development to occur.

3. Technical Assistance

Technical assistance has been a key component in the previous A.I.D. policy-based programs. It has supported numerous policy related consultancies, studies, seminars and in-service training. In the past the technical assistance component has provided funding in support of five major areas: (a) sectoral planning, policy formulation and implementation; (b) short-term consultancies for policy studies and evaluations; (c) seminars and training; (d) commodity import program monitoring; and (e) microcomputers.

This program proposes to limit technical assistance support to activities related to fertilizer pricing and marketing reforms and their monitoring and evaluation. A total of $1.1 million over a three year period is proposed for technical assistance specifically related to this reform program. The technical assistance will be used for evaluation and monitoring of the program, and for policy studies and training in areas related to fertilizer pricing and marketing. The technical assistance is intended to facilitate policy dialogue and program modifications as necessary.

The proposed budget for fertilizer-related technical assistance is as follows (detailed cost estimates are in Annex C):

($000)

Technical Assistance	FY-89	FY-90	FY-91	Total
Fertilizer price decontrol study	(50)	...	...	(050)
Program impact evaluation and monitoring	(70)	(150)	...	(220)
Fertilizer import monitoring	(50)	(150)	(100)	(300)
Short-term consultancies	(130)	(50)	(50)	(230)
Other studies, training, seminars and audit	...	(150)	(150)	(300)
Total	300	500	300	1,100

4. Local Currency

Over the life of the program, the equivalent of $45 million in Kenyan shillings will be generated from the sales of fertilizer. The equivalent of $6.6 million in these counterpart shillings generated from the ESF funding will be deposited in a Trust Fund. The deposits in the Trust Fund are to be used for costs associated with operating USAID/Kenya.

Counterpart shillings will be deposited in separate accounts for ESF and DFA generations. These counterpart shillings, other than those transferred to the Trust Fund, will be jointly programmed by the Government and USAID. Detailed criteria for counterpart shilling programming will be negotiated annually to be included in the Forward Budget and reaffirmed prior to the issuance of the Annual Budget Estimates. The primary objective of the programming of counterpart shillings is to support the development of the agricultural sector, especially in the area of sectoral policy and institutional reforms within the context of the Government's budget rationalization program. Counterpart funds generated from DFA resources will be used exclusively for support of the agricultural sector.

The following criteria, in rank order, will serve as a general guide to programming local currency generated from both ESF and DFA sources.

a. Financing local cost host country contributions (except salaries and personnel costs) to USAID-assisted projects in the agricultural sector. The local cost host country contribution will be monitored as part of the general monitoring under the USAID-assisted projects.

b. Support of line items within the Government of Kenya's Agricultural Development budget, in which A.I.D. has particular interest and which are supportive of the general objectives of USAID's Country Development Strategy Statement.

In addition, the following criteria will also apply to the programming of ESF local currency generations.

c. Support of line items within the Government of Kenya's Development budget, in which A.I.D. has particular interest and which are supportive of the general objectives of USAID's Country Development Strategy Statement.

C. Program Output and Performance Criteria

The anticipated output of this program will be the implementation of the policy reform program as outlined in the Policy Reform Matrix (Annex A). Specific policy actions are described below. The disbursement of funds for fertilizer imports are scheduled in tranches in order to support the reform program. The performance criteria described provide the basis for the specific conditions precedent and covenants as detailed in Section V.

Over the life of this three-year program, there will be six tranches of fertilizer imports. Two tranches of fertilizer imports will be made available each year, corresponding to the long and short rain planting seasons. The former lasts approximately from March to June and the latter from October to November. As it is necessary to order the first tranche of fertilizer for the October to November 1989 planting season now, and the second tranche for the March to June 1990 planting season in August, specific conditionality will apply to the third through sixth tranches only.

The policy performance criteria have been developed jointly with the Government of Kenya. They are intended to support the following policy objectives:

- o moving away from the government administrative allocation system for fertilizer toward a more market-oriented approach, through a commodity import program beginning with the third tranche;
- o adopting a realistic and timely fertilizer pricing policy (i.e. prices which reflect adequate costs and profit) by improving the use of the Benchmark International Pricing formula (BIP) as an incentive for the development of a sustainable fertilizer market;
- o initiating the analysis and eventual adoption of measures to decontrol fertilizer prices;
- o strengthening the Fertilizer Inputs Unit in the Ministry of Agriculture in order to make it more effective in planning, monitoring and policy analysis;

- increasing the effectiveness of fertilizer use at the farm level by encouraging both the government and the private sector to supply relevant educational materials and advisory services; and

- assisting the private sector in developing a marketing network through reforms in the allocation system and in fertilizer pricing policy.

The use by the Government of Kenya of the CIP mechanism for this program is, to some extent, experimental. It is therefore necessary to have some safeguard to avoid any disruption and shortage of fertilizer supply. In the event that commercial importers do not respond adequately and timely to the commodity import program (by July and November of each year, respectively the short and long rain season), A.I.D. will import the fertilizer on behalf of the Kenyan Government, and the Government allocation mechanism will be used.

D. Economics of Fertilizer Use

1. Financial Return to Fertilizer Use at Farm Level

The financial return to DAP use can be measured by estimating the return per shilling spent on DAP using the marginal response rate of maize to DAP. A return of KSh. 2 per one shilling spent on DAP (or a value-cost ratio of 2.0) is the minimum return that would make DAP attractive to farmers. Table I presents Value-Cost Ratios (VCRs) for maize production in different districts.

The analysis focuses on maize for several reasons. First, DAP is used primarily on maize. Second, maize is the largest food crop in Kenya, particularly among smallholder farmers, the program's target population. Third, fertilizer use in maize production lags far behind its use in production of other crops. Fourth, response rates of maize to fertilizer and related VCRs calculated for the early 1980s have been found to be lower than for many of the other major crops. It is safe to assume that these other crops will continue to have higher response rates and VCRs than maize.

The cost of DAP is based on maximum retail prices established by the government. These prices are not subsidized, and they vary from district to district based on a formula that takes into account transport costs. The average cost of DAP in 1988, weighted by the district production levels, was KSh. 354.8 per 50 kilograms.

The physical response rates of maize to DAP (kilograms of increased maize ouput per one kilogram of DAP applied) in the various districts were derived from on-farm fertilizer field trials. They are based on normal rainfall patterns and farmers practicing the recommended package of agronomic management practices. These response rates range from less than 7 to 16 kilograms, with a weighted average of 10.6 kilograms.

TABLE I

Value-Cost Ratio (VCR) Analysis for Maize
for Selected Districts in Kenya

Region	District	Maize Production 1989 (MT)	Price of DAP (50 kg.)	Kg Maize Output per kg Nitrogen	Kg Maize Output per kg Potash	Kg Maize Output per kg DAP (2)	VCR @ Maize price of KShs. 1.8	VCR @ Maize price of KShs. 3.3
Central	Kiambu	37,306	345.3	25.0	25.0	16.0	4.2	7.6
	Muranga	64,462	344.6	28.0	24.0	16.1	4.2	7.7
	Nyeri	34,128	350.8	32.0	18.0	14.0	3.6	6.6
Eastern	Embu	41,844	354.6	23.0	20.0	13.3	3.4	6.2
	Machakos (1)	89,305	347.4	3.0	15.0	7.4	1.9	3.5
	Meru	177,597	360.2	19.0	19.0	12.2	3.0	5.6
Nyanza	Kisii	67,523	367.2	15.0	10.0	7.3	1.8	3.3
	Kisumu	24,693	352.3	14.0	15.0	9.4	2.4	4.4
	Siaya	85,398	360.7	17.0	13.0	9.0	2.3	4.1
Rift	Kericho	239,328	353.6	17.0	14.0	9.5	2.4	4.4
	Nakuru	194,603	347.6	14.0	14.0	9.0	2.3	4.3
	Narok	58,421	364.8	20.0	7.0	6.8	1.7	3.1
Western	Bungoma	118,131	354.7	15.0	15.0	9.6	2.4	4.5
	Busia	55,415	353.5	22.0	15.0	10.9	2.8	5.1
	Kakamega	245,162	358.2	18.0	20.0	12.4	3.1	5.7
Average (weighted)			354.8	17.4	16.2	10.6	2.7	4.9

1. Katumani Maize

2. DAP formula: 18% Nitrogen, 46% Potash, 0% Potassium

Sources:

1. DAP Prices: Government of Kenya, 1988/89 Fertilizer Price Schedules, Sept. 1988.

2. Response rates to nutrients: Jaetzold, Ralph and Helmut Schmidt, Farm Management Handbook of Kenya, Vol. IIA, Kenya Ministry of Agriculture, 1982. pp. 58-60.

The price of maize varies considerably by location and temporally. A low price for maize of Ksh. 1.8 per kilogram and a high price of Ksh. 3.3 per kilograms were used. The official gazetted price for maize is KSh. 2.5 per kilogram.

At a maize price of KSh. 3.3 per kg., VCRs ranged from 3.1 to 7.7, with a weighted average of almost 5. At a maize price of Ksh. 1.8 per kg., VCRs for the districts considered ranged from 1.7 to 4.2 with a weighted average of 2.7. However, at a maize price of KSh. 2 per kilogram, in three districts, Narok, Kisii and Machakos, the VCR is below 2.0. DAP use in those areas is therefore not financially viable. Farmers in those districts may still find the use of DAP to be attractive because of the relatively high returns to labor and land, two constrained resources. In no case were there negative returns.

Figure I shows the relationship between the VCR and the price of DAP at various combinations of response rates and prices of maize. At a high response rate of 10.6 (the weighted average response rate for the selected districts) and a maize price of KSh. 3.3 per kg., VCRs range from 5.5 to 4.0 as the price of DAP (50 kg. bag) rises from KSh. 300 to KSh. 410. If the maize price drops as low as KSh. 1.8 per kilogram, the VCR range drops to 3.0 to 2.3. With a low response rate of 6.8, the lowest response rate for any of the districts, and a high maize price of KSh. 3.3 per kg., VCRs range from 3.6 to 2.7. Only with a maize price of Ksh. 1.8 per kilogram, a response rate of 6.8, and fertilizer prices over KSh. 330 per 50kg do the corresponding VCRs drop below 2.0.

The above analysis shows that the use of fertilizer is likely to be profitable to individual farmers given present farming technologies and resource endowments, provided that changes in agricultural product prices are in line with changes in fertilizer prices. The above analysis is based on fertilizer use on maize, whose financial returns are not the highest. Given the generally adequate output pricing policy (though there is room for improvement, particularly with respect to timely payments to farmers), the anticipated financial return to farmers can be realized.

The estimate from the above analysis can be considered as the lower bounds of probable financial returns to fertilizer use at the farm level. To the extent that the fertilizer from the program is used for crops whose value-cost ratios are higher than maize, such as coffee and tea, the financial returns will likely be higher.

2. Estimated Program Economic Impact

Table II below shows the estimated total program impact. The estimates are based on a number of plausible assumptions about fertilizer prices, maize prices, marginal productivity increase in maize production, value-cost ratios, the quantity of fertilizer provided by the program and recommended crop management practices.

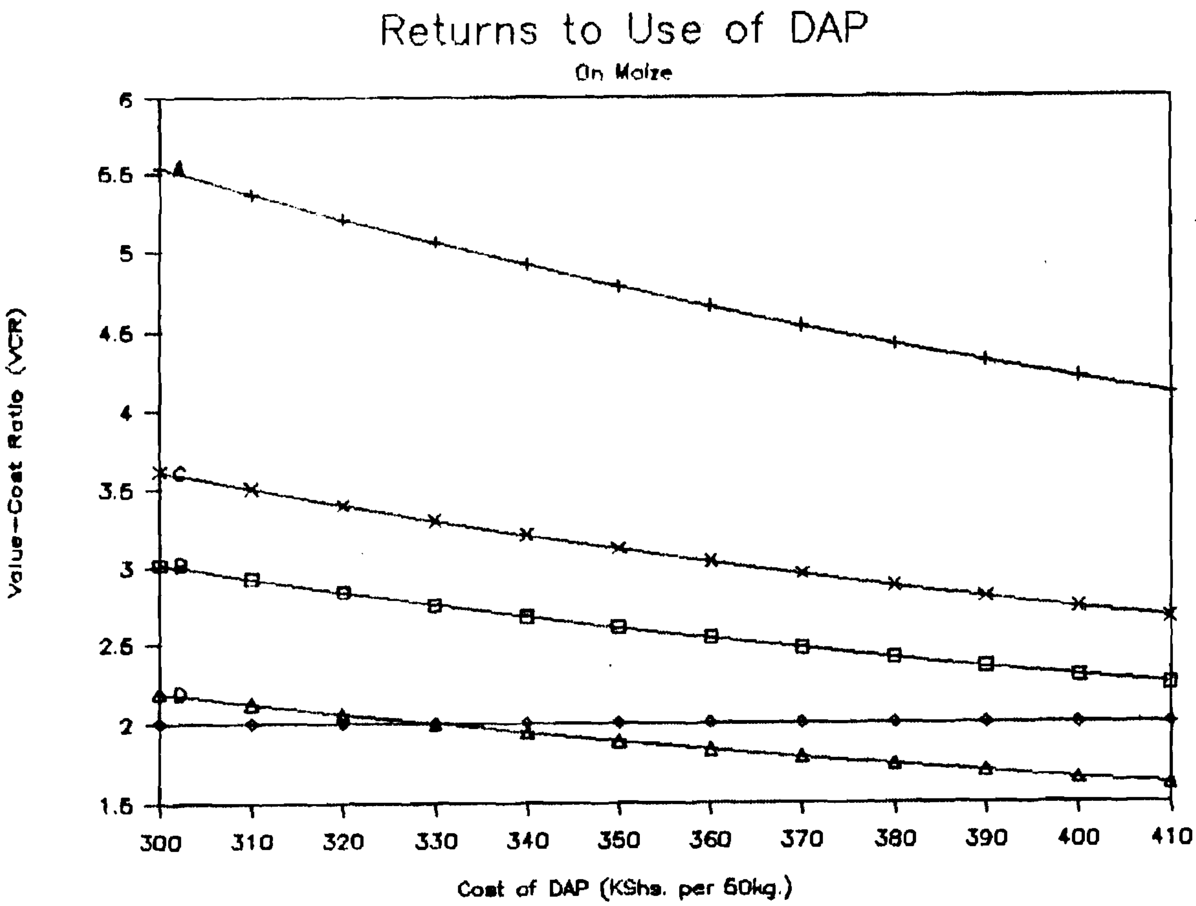

Figure I

Key:

A: Maize price per Kg = Kshs. 3.3
Response rate = 10.6

B: Maize price per Kg = Kshs. 1.8
Response rate = 10.6

C: Maize price per Kg = Kshs. 3.3
Response rate = 6.8

D: Maize price per Kg = Kshs. 1.8
Response rate = 6.8

TABLE II

ESTIMATED IMPACT OF FERTILIZER IMPORTATION PROGRAM

Discounted at 10% per annum

Year	Imported DAP (MT)	Price of DAP (50 kg.)	Value of DAP (KShs.)	Kg Maize Output per kg DAP (2)	VCR @ Maize price of KShs. 1.8	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Net Maize Value
1	50,000	354.8	354,800,000	10.6	2.7	957,960,000	1.00	957,960,000
2	50,000	354.8	354,800,000	10.6	2.7	957,960,000	0.91	870,872,727
3	50,000	354.8	354,800,000	10.6	2.7	957,960,000	0.83	791,702,479
							KShs.	2,620,535,207
								$ 137,922,906

VCR @ Maize price of KShs. 3.3	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Maize Value
4.9	1,738,520,000	1.00	1,738,520,000
4.9	1,738,520,000	0.91	1,580,472,727
4.9	1,738,520,000	0.83	1,436,793,388
		KShs.	4,755,786,116
			$ 250,304,532

Discounted at 15% per annum

Year	Imported DAP (MT)	Price of DAP (50 kg.)	Value of DAP (KShs.)	Kg Maize Output per kg DAP (2)	VCR @ Maize price of KShs. 1.8	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Net Maize Value
1	50,000	354.8	354,800,000	10.6	2.7	957,960,000	1.00	957,960,000
2	50,000	354.8	354,800,000	10.6	2.7	957,960,000	0.91	833,008,696
3	50,000	354.8	354,800,000	10.6	2.7	957,960,000	0.76	724,355,388
							KShs.	2,515,324,083
								$ 132,385,478

VCR @ Maize price of KShs. 3.3	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Net Maize Value
4.9	1,738,520,000	1.00	1,738,520,000
4.9	1,738,520,000	0.87	1,511,756,522
4.9	1,738,520,000	0.76	1,314,570,888
		KShs.	4,564,847,410
			$ 240,255,127

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TABLE III

ESTIMATED IMPACT OF FERTILIZER IMPORTATION PROGRAM
Scenario: Poor Crop Management Practices — 20% less output per kg of DAP

Discounted at 10% per annum

Year	Imported DAP (MT)	Price of DAP (50 kg.)	Value of DAP (KShs.)	Kg Maize Output per kg DAP (2)	VCR @ Maize price of KShs. 1.8	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Net Maize Value
1	50,000	354.8	354,800,000	8.48	2.15	763,200,000	1.00	763,200,000
2	50,000	354.8	354,800,000	8.48	2.15	763,200,000	0.91	693,818,182
3	50,000	354.8	354,800,000	8.48	2.15	763,200,000	0.83	630,743,802
							KShs.	2,087,761,983
								$ 109,882,210

VCR @ Maize price of KShs. 3.3	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Maize Value
3.94	1,399,200,000	1.00	1,399,200,000
3.94	1,399,200,000	0.91	1,272,000,000
3.94	1,394,200,000	0.83	1,156,363,636
		KShs.	3,827,563,636
			$ 201,450,718

Discounted at 15% per annum

Year	Imported DAP (MT)	Price of DAP (50 kg.)	Value of DAP (KShs.)	Kg Maize Output per kg DAP (2)	VCR @ Maize price of KShs. 1.8	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Net Maize Value
1	50,000	354.8	354,800,000	8.48	2.15	763,200,000	1.00	763,200,000
2	50,000	354.8	354,800,000	8.48	2.15	763,200,000	0.87	663,652,174
3	50,000	354.8	354,800,000	8.48	2.15	763,200,000	0.76	577,088,847
							KShs.	2,003,941,021
								$ 105,470,580

VCR @ Maize price of KShs. 3.3	Net Value of Maize Output (KShs.)	Discount Factor	Discounted Net Maize Value
3.94	1,399,200,000	1.00	1,399,200,000
3.94	1,399,200,000	0.87	1,216,695,652
3.94	1,399,200,000	0.76	1,057,996,219
		KShs.	3,673,891,871
			$ 193,362,730

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Assuming 50,000 metric tons of fertilizer is imported each year for three years under the program, at an average price of KSh. 354.8 per 50 kg., the fertilizer is worth KShs 354.8 million annually. At a VCR of 2.7, the weighted average at a maize price of KSh. 1.8 per kilogram, the fertilizer program, at a discount rate of 10 percent, will generate KSh. 2.6 billion (or about $138 million) in additional maize production. At a VCR of 4.9, the weighted average at a maize price of KSh. 3.3 per kilogram, the additional maize production is valued at KSh. 4.7 billion (or about $250 million).[12/]

Table III shows the situation in which farmers fail to adopt fully recommended crop management practices (e.g. weeding, timing of sowing and harvesting) and assumes that this results in a decline of productivity by 20 percent. Under this assumption, the average VCR is 2.15. At a discount rate of 15 percent, the present value is reduced from Ksh. 2.6 billion to 2.0 billion (or about $105 million). The net present value of the program even under this more realistic assumption remains high (more than Ksh. 1.0 billion). However, it should be noted that this has not included any labor or other capital or input costs. It is likely that the net present value will still remain positive even if other costs are added under normal conditions.

D. End of Program Status

By the end of the program, the following results from policy and institutional reforms are anticipated.

1. To the extent that official prices (based on the "benchmark international price" formula) exist, they will have reflected actual market cost for each of the cost components in the formula. Each of the cost components will have been determined by a reasonably large sample, realistic exchange rates and adequate profit margin. These official prices will have been reviewed and announced twice yearly, each with adequate lead time for the corresponding planting season.

2. An assessment of the feasibility of fertilizer price decontrols will have been completed, together with the development of an action plan to phase out fertilizer price controls. Implementation of partial price decontrols will have begun in, for example, specific market locations where the threat of monopolistic exploitation and other market failures have not been significant.

3. The Government administrative allocation of donor-financed fertilizer will have been reduced in order to minimize *ad hoc* decisions and to allow a more market-oriented approach in fertilizer import allocation. In the case of A.I.D.-financed fertilizer, the administrative allocation by the Government will have been eliminated.

12/At a discount rate of 15% and a VCR of 2.7, the present value of the additional maize is Ksh. 2.5 billion (or about $132 million).

4. Fertilizer import quotas and foreign exchange allocation for fertilizer imports will have increased. Total fertilizer imports will have grown by a minimum of 10 percent per year. The increased availability of fertilizer will have resulted in increased fertilizer use by farmers in general, and smallholder farmers in particular. The proportion of fertilizer consumed by smallholder farmers will have increased from 43 percent toward 50 percent of total consumption.

5. Both the public and private sectors will have begun making promotional and educational materials for appropriate fertilizer use more readily available to farmers, and fertilizer will continue to be sold in 10 and 25 kilogram bags in response to demand from smallholder farmers.

E. Environmental Concerns

The IEE originally submitted with the PAIP concluded that, on the whole, fertilizer use was environmentally beneficial. While that overall judgement has not changed, USAID/Kenya's recent IFDC study on fertilizer in Kenya indicated that, for certain soil types, long-term use of DAP fertilizer could exacerbate problems with soil acidity. Based on world-wide experience with DAP, it is felt that the rate of change in soil PH would be slow. Furthermore, the specific soils in question are better suited for crops other than maize, which are likely to be grown with fertilizers other than DAP. Nevertheless, USAID has decided to respond to this concern with a requirement that the Government Covenant to:

a. Perform a baseline study relating to acid soils, fertilizer usage and affect of DAP fertilizer on soil PH;

b. In consultation with USAID, develop a protocol (SOW) for investigation of changes in soil pH and consequent affect on agricultural productivity; and

c. At no later than the midpoint undertake and by the end of the project complete the study called for by the protocol.

A revised IEE reflecting this concern and covenant has been approved by the Africa Bureau Environmental Officer.

V. PROGRAM IMPLEMENTATION

A. Institutional and Administrative Capacity

The principal institutions involved in the implementation of the policy reform and fertilizer import and distribution are the Ministry of Agriculture and the private sector fertilizer importers and distributors. Other institutions involved include the Ministry of Finance, the Port Authority and, to a lesser extent, the University of Nairobi and Egerton University. The latter two institutions will be involved mainly in the data collection, analysis and research related to monitoring and evaluation of program impact, including any environmental side effects from fertilizer use. These institutions have implemented USAID's past fertilizer programs as well as similar programs supported by other donors. They have the demonstrated capacity to carry out the required responsibilities.

The Fertilizer Inputs Unit of the Ministry of Agriculture, together with Ministry of Finance, supported by specific short-term assistance as needed, will take a leading role in providing necessary inputs in policy formulation including advising on the setting of official prices and import allocations. The Ministry of Finance is responsible for reviewing pricing guidelines and approving import licensing and allocation. The Ministry has demonstrated the capacity to satisfactorily perform this function in the past. The Fertilizer Inputs Unit will also determine national fertilizer needs and uses, design importation plans and monitor the importers and their distribution efficiency. The Port Authority has the required infrastructure to handle the imports although with additional staff training, their operations can be further strengthened.

The University of Nairobi and Egerton University have sufficient capacity to conduct the required research, evaluation and monitoring of the program. The Agricultural Extension Service of the MOA will collect on-farm data in support of the monitoring activities of the universities and the Fertilizer Inputs Unit.

The private sector will be the main vehicle for the delivery of fertilizer to farmers. The private sector has shown in the past that it can effectively carry out this function. Private sector fertilizer importers will be extensively involved in the program, from determination of their import requirements through distribution to rural stockists. The selection criteria for participating firms will require that each company have or develop experience in both importation and distribution of agricultural inputs. In addition, the program will encourage those firms that have a high probability of being commercially viable over the life of the program to improve their distribution networks and systems for educating farmers about the use of fertilizer.

B. Implementation Responsibilities

The program will be managed mainly by the Agriculture Office of USAID/Kenya, with support from the Program and Projects Offices. The

Agriculture Office is presently fully staffed with five U.S. Direct Hire (USDH) staff and two Foreign Service National employees (FSN). It is anticipated that 50 percent of one USDH's time will be required to provide overall management of the fertilizer imports and policy components. The same procedures used under the the most recent A.I.D. fertilizer program (SAAP) will be applied as far as the processing of fertilizer imports on behalf of the Government is concerned. A major portion of the USDH's time will be devoted to policy dialogue, implementation and review.

The private sector CIP portion of the program will be assisted by the Projects Office, which is currently managing the CIP program under the SAAP. The present private sector CIP procedures and guidance will be applied, beginning in the second year of the program. Approximately 25 percent of one FSN's time in the Projects Office will be required to manage this portion of the program. The FSN will coordinate with the program manager within the Office of Agriculture.

As in the present arrangement, the local currency generated from the program grant will not be directly managed by USAID. However, the Program Office together with the Office of the Controller will maintain oversight responsibilities. The Program Office will also coordinate the joint programming of local currency with the Government of Kenya in accordance with the priorities outlined in Section IV.B.4 above.

For the Government, the Department of Budget Supply of the Ministry of Finance, in coordination with the Planning Section of the Ministry of Agriculture, will be responsible for the implementation of the program. Their responsibilities will include:

- monitoring and ensuring that agreed policy measures are implemented;
- carrying out necessary policy studies, assessments and seminars for intended policy reforms;
- overseeing the proper use of the technical assistance component of the program, identifying specific short-term consultancies as the need arises;
- ensuring counterpart funds from the sales of fertilizer imports are deposited in a timely manner and properly programmed with USAID;
- ensuring proper disbursements and accounting of counterpart funds; and
- coordinating inter-ministerial reviews and evaluation of the program as needed.

C. The Commodity Import Program

1. General Responsibilities

Although the overall responsibility for carrying out the Kenyan side of the Agreement rests with the Ministry of Finance, the success of the CIP depends on the involvement of several Kenyan commercial banks through which the funds will be channelled. The cooperating commercial banks will open letters of credit and make payments of the required counterpart funds into special accounts (separate accounts for ESF and DFA counterpart generations). The Central Bank's role is one that differs little from its role in ordinary foreign exchange operations.

USAID/Kenya's role will generally be one of day to day program monitoring. An experienced senior FSN who has had primary responsibility for implementation of USAID/Kenya's current CIP will be assigned management responsibility for the fertilizer CIP to ensure attainment of its objectives and to safeguard A.I.D.'s interest and investment. A contract firm will assist in arrival accounting and performing monthly verification of deposits into and withdrawals from the special accounts. Further, as under the current CIP, the Mission will review each import license application for commodity eligibility and evidence of competition, or evidence of a special supplier relationship. The Procurement Division of the Projects Office will explain CIP procedures to importers and assist in locating U.S. suppliers when necessary.

AID/W's involvement will include issuance by FM/PAFD/BPCD of Letters of Commitment to the U.S. correspondent banks. SER/OP will be involved in approving Form 11 applications and in reviewing payment documents for compliance with A.I.D. Regulation One (form 11 approval checks for commodity eligibility, source/origin, and reasonableness of price.) SER/OP/COMS/M will be responsible for performing post-payment audit of prices (including review of Form 282 and follow-up with suppliers concerning claims for over-pricing, as required). SER/OP/TRANS will monitor compliance with cargo preference and grant ad hoc transportation source waivers as needed. A.I.D.'s certifying office in New York will process disbursements to correspondent banks.

2. Governing Regulations

A.I.D.'s standard financing and procurement procedures (A.I.D. Regulation One), will be applicable to all foreign exchange transactions under the grant. Fertilizers as described in "A.I.D. Commodity Eligibility Listing - 1986 Edition Schedule 4, Part II," as from time to time amended, are the only eligible commodity for financing under the grant.

All procurement undertaken by the private sector may be carried out using the negotiated procurement procedures described in A.I.D. Reg. One, section 201.23. In recognition of the initiative under this program and the bulky nature of fertilizer imports, USAID will assist importers in pooling individual import orders to increase the size of each import order so that each is economically feasible. If a given importer, or group of importers, wishes to use formal competitive bid procedures, USAID will assist. The minimum size of transactions under the grant will be set initially at $300,000. The maximum size will be $1,500,000. Both the minimum and maximum sizes may be waived by the written consent of A.I.D. In order to proceed with negotiated procurement as described in Regulation One, USAID will publicize the CIP in the United States.

The eligible source of fertilizer for ESF financing is A.I.D. Geographic Code 000 - the United States, and for DFA financing, Code 935 - the special free world. Under the DFA, however, A.I.D. has determined that large volume fertilizer procurements should generally be restricted to U.S. sources. Exceptions to this policy may be approved by principal A.I.D. officers in writing on an ad hoc basis in the interests of effective and expeditious implementation of the DFA program. USAID/Kenya does not consider such a case to be warranted under this program and plans to procure all fertilizer from U.S. sources.

Eligible shipping is restricted to U.S. flag vessels for ESF financing, but the DFA or Kenya importers may finance transportation on Code 935 carriers, provided that at least 50% of the total CIP cargo financed under this agreement is shipped on U.S. flag vessels. Under no circumstances will A.I.D. finance commodities shipped on a vessel of other than Code 935 flag.

Certain commodity related services are eligible for program funding. USAID will require that importers be informed that CIP funds may be used to finance marine insurance for CIP-financed goods but that any A.I.D.-financed insurance must be placed in the U.S. A.I.D. will finance 100% of the ocean freight of eligible commodities if importers so desire, subject to the source conditions contained in section 2 above. The program will also finance, in dollars, eligible commissions of sales and service agents including Kenyan and third country agents. Commissions to importers' purchasing agents in connection with a sale by a supplier to his dealer, distributor or established agent are not, however, eligible for financing. A.I.D. will finance the banking charges of the banks to which Letters of Commitment pertaining to this grant are addressed. No counterpart shillings will accrue from these charges.

The current Kenyan practice is that all imports are checked for price reasonableness and inspected on a sample basis by Societe General Surveillance (SGS). This requirement will not be applicable to CIP goods because the price check function will be performed by AID/W in its Form 11 and Form 282 reviews. If an importer desires to have CIP goods physically inspected, then CIP funds will be available for the importer to hire a U.S. or established Kenyan inspection firm.

3. Implementation Procedures

The A.I.D. Letter of Commitment/bank Letter of Credit method of financing will be used. The Government is expected to utilize the same commercial banks in Kenya which are participating in the current CIP. Letters of Commitment, initially in the amount of $2 million, will be opened in favor of each participating commercial bank. This amount will be increased as funds are utilized.

Many of the special features of A.I.D. commodity import program assistance (A.I.D. marking requirements, requirement of proof of competition or special importer/supplier relationship, cargo preference rules, A.I.D.'s right to audit or inspect commodities for end-use, A.I.D.'s ability to only finance shipment on Code 000 flag vessels, longer delivery time from the U.S. than from many traditional markets, etc.) serve as disincentives for importers and commercial banks to take advantage of this type of assistance. The program will attempt to ameliorate these A.I.D.-imposed and Government of Kenya disincentives. First, to expedite ordering, the Government will covenant that import license applications will be reviewed and approved or rejected within ten working days, and further that the Central bank will issue a Foreign Exchange Allocation License number within five working days. Second, deposits of Kenyan Shillings will be made by the cooperating commercial banks to the special account within 120 days after the "sight" L/C is paid in the U.S. In effect, this provides use of the Kenyan Shillings for 120 days interest free in lieu of credit through usual channels. The benefits of the delayed payments will accrue mainly to the importers. A further incentive will be the GOK covenant that since no SGS inspection will be performed, the importer will pay only a 0.5% application fee to the Central Bank (one-third of the usual charge of 1.5%).

It is expected that 100 percent of the proceeds of the grant will be disbursed within the 36 month period after the grant is signed. The terminal disbursement date will therefore be set 36 months from the grant agreement date and the terminal date for requesting disbursement authorizations at 30 months from the grant agreement date.

The Government's system and records for tracking imports was evaluated when the FY'84 CIP was designed (see the FY'84 PAAD for a description of the Government's system). It was found inadequate for A.I.D.'s purposes. It has remained unchanged. Thus, as in the FY'84 and FY'85 and FY'88 CIP, a private contractor will be hired by USAID/Kenya with program funds to prepare reports on commodity arrival and utilization.

4. Technical Assistance for CIP Monitoring

A number of tasks, over and above those which will be fulfilled by A.I.D. staff, are envisioned under this CIP to effect smooth implementation and monitoring. The scope of the majority of these tasks is expected to be the same as those under the present contract with Price Waterhouse (contract number 615-0213-C-00-5021).

The GOK has agreed that the Ministry of Commerce will give a copy of each approved import license to USAID, and will require cooperating commercial banks to give USAID a copy of each L/C issued under the program. In addition, when payment documents are received by the participating banks, a copy of each B/L will be given to USAID. These records will be used by the monitoring contractor to compare with ship out-turn reports to determine when A.I.D.-financed goods are landed and with customs' "Import Entry" forms to determine when the A.I.D.-financed goods have left each Kenyan port. The contractor will submit reports every two weeks to USAID showing which goods have cleared the ports, which ones have resulted in partial deliveries and therefore, for which insurance claims should result, and which ones have been in the port for more than 30, 60 and 90 days. This system will enable USAID to following up with importers and the GOK to facilitate port clearance and to ensure that, when CIP funds were used to purchase marine insurance, any marine insurance proceeds are used to procure other eligible CIP commodities.

The Government presently performs no end-use utilization accounting, although the Ministry of Commerce will not issue licenses which, in its opinion, would result in imports of more than 18 months' supply of goods by any one importer. The purpose of such controls is primarily to discourage hoarding. A.I.D.'s policy (HB 15, Chapter 10) requires consumption or use by the importer, or sale or transfer by the importer for consumption or use, within one year from the date the commodities are removed from customs, unless a longer period can be justified to A.I.D. by reason of force majeure, special market situations, or other circumstances. USAID proposes a deviation from A.I.D.'s usual policy in this regard to coincide with Government policy. Thus the relevant period will continue to be 18 months for fertilizer financed under this agreement.

The contractor will perform end-use checks on CIP fertilizer imports to ensure that this requirement is being met. Twenty-five per cent of the imports financed under this agreement will be checked for utilization within the stipulated time period. The twenty-five per cent will be calculated separately for the value of goods, for the number of transactions, and for the number of transactions outside of the metropolitan Nairobi area. The same contractor will perform a monthly verification of cooperating Kenya Commercial bank deposits into the CIP special account.

5. Eligibility Criteria for Fertilizer Allocations

The following eligibility criteria are intended to guide the fertilizer allocation process both under the government allocation system and the commodity import program.

- The applicant for allocation must be a fertilizer dealer with an established place of business and be registered with the Government of Kenya.

- The applicant must have in place, or be in the process of developing, a distribution network capable of channeling 30 to 40 percent of fertilizer sales to retailers. The network will include branches, depots, appointed stockists/dealers or retailers, stores and vehicles capable of providing services to remote rural areas. The applicant must agree not to sell to other allottees of fertilizer unless specifically authorized.

- The applicant for allocation must have technical staff capable of providing advisory services to farmers, including producing and supplying leaflets for fertilizer use.

- The applicant for allocation must have access to storage capacity for at least 50 percent of the quantity of fertilizer to be sold in any one season.

- The applicant, in cooperation with relevant government entities (such as extension services and farmer training centers) must be able to provide and must undertake a commitment or cause to be provided: a minimum of two farmer educational meetings on fertilizer use and crop production annually and at least one fertilizer field demonstration.

D. Implementation and Procurement Schedule

The implementation schedule is provided below with the assumption that the program will have been authorized by July 1989.

ACTION	TIMING	ACTION AGENT
FY89-91 PAAD Authorized.	7-89	USAID
Project Agreements Signed.	7-89	USAID/GOK
Request for A.I.D.- financed DAP for short rains (1989).	7-89	GOK
IFP issued for short rains (89) requirement.	7-89	AID/W & Kenya Emb.
Develop Action Plan for strengthening the Fertilizer Inputs Unit	7-89	USAID/GOK
Short rains (89) import requirements shipped from U.S. Port. Bags to be shipped at same time.	8-89	Fertilizer supplier, freight agent
Announce short rain wholesale and retail prices based on a realistic BIP formula.	8-89	GOK

ACTION	TIMING	ACTION AGENT
Request for A.I.D.- financed DAP for long rains (1990).	9-89	GOK
IFP issued for long rains (1990).	9-89	AID/W & Kenya Embassy
Long rains import requirements and bags shipped from U.S. port.	11-89	U.S. fertilizer supplier and freight agent
Undertake Price Decontrol Study	11-89	USAID/GOK
Review official fertilizer prices, make necessary revisions and publish changes, if necessary.	12-89	GOK
Deadline for importers to apply for CIP for short rains (90).	3-90	Importers
Deadline for AID approval of applicants.	4-90	USAID
Fertilizer Import Plan for 1990/91.	4-90	GOK
Deadline for Importers to place firm orders.	4-90	Importers
IFB issued for short rain (90) fertilizer requirements.	5-90	USAID
Publish fertilizer prices based on realistic BIP formula.	6-90	GOK
Deadline for importers to apply for CIP.	9-90	Importers
Review fertilizer prices previously set, make any necesary revisions and any changes in prices.	9-90	GOK
Deadline for importers to place firm order.	9-90	Importers
IFB issued for long rain (91).	10-90	AID
Mid-term evaluation.	12-90	USAID/GOK
Deadline for importers to apply for CIP for short rains (1991).	3-91	Importers
Deadline for AID approval of applicants.	4-91	AID

ACTION	TIMING	ACTION AGENT
Fertilizer Import Plan for 1991/92.	4-91	GOK
Deadline for importers to place firm order for short rains season (1991).	4-91	Importers
Annual review of progress to date.	5-91	USAID/GOK
IFB issued for short rains (91).	5-91	USAID
Publish fertilizer prices based on realistic BIP formula.	6-91	GOK
Deadline for importers to apply for CIP.	9-91	Importers
Deadline for AID to approve applicants.	9-91	USAID
Deadline for importers to place firm order.	9-91	Importers
IFB issued for long rains (92).	10-91	USAID
Final evaluation.	3-92	USAID/GOK

E. Financial/Procurement Plan

The proposed program is for a three-year period (FY 1989-91) with a total funding of $46.1 million, subject to availability of funding. The funding sources will be both ESF and DFA ($30 million ESF and $16.1 million DFA). Each year the program will finance $15 million worth of DAP fertilizer imported from the United States ($10 million ESF and $5 million DFA). In general, the logistics and management systems under previous fertilizer and Commodity Import Program will be used. These systems are described in more detail in Section V.C. of the PAAD. The A.I.D Letter of Commitment/bank Letter of Credit method of financing will be used.

The funds for fertilizer imports will be made available to the Government of Kenya in six tranches, two tranches each fiscal year, corresponding to the planting seasons in Kenya. For each of the three fiscal years a total of $15 million will be disbursed subject to the availability of funds and conditional to the satisfaction of Conditions Precedent as listed in Section VI below.

A total of $1.1 million will be provided for technical assistance directly in support of monitoring, evaluations, studies, short-term training, seminars and audit for the fertilizer reform program. Procurement will generally be by direct A.I.D. contract. Approximately half of the procurement is expected from the U.S., 40% from Kenya and 10% from Code 935.

Method of Implementation	Method of Financing	Amount ($000)
Commodity Procurement	Bank L/Comm	45,000
Technical Assistance Contract	Direct Payment	1,100
Total		46,100

F. Monitoring and Evaluation Plan

Program interventions to develop a Monitoring and Evaluation (M&E) System will largely involve strengthening and coordinating various institutions that already attempt to monitor availability and use of fertilizer in Kenya. What is lacking is coordinated data collection activities, analytical capacity or a form of systematic approach to data collection and analysis which would provide answers to the critical questions on the performance of the fertilizer program. Current efforts are found mainly within the Ministry of Agriculture (MOA), interested organizations such as the Kenya National Farmers Union (KNFU), the Kenya Grain Growers Cooperative Union (KGGCU), USAID and other donor agencies. Strengthening and streamlining of a fertilizer program M&E system as part of this program will mainly focus on the Fertilizer Inputs Unit in the Development Planning Department of the Ministry of Agriculture (DPD/MOA).

The planned M&E system will, throughout the life of the program, assess operational performance at every stage from budget allocation to farmer use levels, as well as impact on productivity, environment and incomes to both traders and farmers. In addition, the M&E system will provide management information to determine whether the program is still on course, and direct follow-up corrective measures. It will also attempt to measure benefits accruing to women as a result of program implemention.

The ultimate aim is that responsibility for gathering and recording data will primarily lie within the already established Marketing and Input Supply Branch of the Farm Management Division of MOA. This Branch will be guided and supported to provide the data required by the Fertilizer Inputs Unit in its analysis of field level fertilizer marketing and use.

Initially, data collection and analysis activities will concentrate on a few priority areas as follows:

- Continue to monitor prices, costs, logistics of importation and transportation, through USAID audit firm and USAID staff, as well as resource allocation and price setting dialogue with the GOK and private distributors.

- Support the development of an efficient pricing formula and a methodology for price data collection within the central Fertilizer Inputs Unit in DPD/MOA. Technical Assistance will be provided to direct the revision of the current fertilizer formula. The new formula should reflect accurate market conditions with the aim of eventually decontrolling fertilizer prices. This process will require an in-depth assessment of likely impact of changing fertilizer prices on all actors along the marketing chain, as well as farmers.

- Undertake a study on the impact of fertilizer use on the physical environment. It is important to undertake a special study to gather baseline information on the current effects and magnitudes of fertilizer use on the environment. Monitoring of the long-term effects of DAP will benefit from data generated by the GTZ funded fertilizer Research Project. The project runs a network of field trials to study response rates and soil PH values, and the effects of different types of fertilizers on Kenya soils as well as on yield levels. During the life of the program, data on environmental aspects will be obtained from the GTZ project, with additional studies of impact undertaken in collaboration with the University of Nairobi. Complementary land use data will be made available from the Ministry of Planning and National Development's Department of Resource Surveys and Remote Sensing.

- Initiate actions to strengthen the capacity of the Fertilizer Inputs Unit to analyse program purpose level indicators. Purpose level indicators include marketing and distribution efficiency as well as fertilizer use at farm level. Assessment of performance of these indicators underlies the need to strengthen the Fertilizer Inputs Unit to undertake competent analysis, and to involve the Farm Management division of the MOA to generate the necessary data. In this regard, in the first year of the program, field level operations and performance monitoring will be tried in a few high DAP-use districts. The data generated by extension staff will be analysed using the existing capabilities in the fertilizer monitoring unit. This will indicate existing strengths and weaknesses in these key institutions, and that way direct specific strengthening actions. The unit's function has been defined since its formation in 1986. Currently, staffing is weak and the need to develop the capacity necessary to undertake the planned data management and analysis is evident and encouraged by the Government of Kenya.

For a full national M&E program, short-term technical assistance will be necessary to:

- Design data collection and recording formats, set up efficient data management systems to cope with the frequency, disaggregation, and level of analysis required; appraise the institutional capacity of the unit to do this; recommend strengthening measures which may include equipment, further technical assistance, and local university support.

- Develop an action plan for monitoring potential environmental impact of fertilizer use and the coordination between the central unit, University of Nairobi support and the GTZ Fertilizer Research Project.

1. Program Impact Evaluation

Impact Evaluation will establish, in objective terms, what the the program's impact has been on its goal objectives, i.e. food production and yield levels, agricultural productivity, incomes and food security. By addressing these aspects, the program contributes to the overall goal of the USAID Agricultural Sector Strategy. A system to monitor changes in productivity, incomes and food security, forms part of the Agricultural Sector Strategy M&E System which is designed to include fertilizer impact. This system includes research on strategy goal indicators such as per capita food availability and agricultural Gross Domestic Product. More significant to the fertilizer program evaluation is the sectoral purpose indicators which include monitoring value added as a result of fertilizer use, and effects on income at household and national levels. The data generated in this system will provide the type of household level information which, when studied together with fertilizer use and price data, allows an on-going assessment of the impact of the fertilizer program on productivity and incomes.

The research methodology to generate this farm level economic data is based on the Policy Analysis Matrix (PAM) principles. It generates data in the form of commodity budgets, value added and private and social profits, and shows the effects of policy change on the these values. The PAM Research project based at Egerton University has been in place for one year, and has already generated net revenues for various commodities, showing fertilizer use and costs. This research project and the PAM methodology will be expanded under the Kenya Market Development Program.

2. Special Studies

Short-term consultancies together with USAID agriculture staff will provide further analyses, assessment and detailed action plans for baseline studies. If necessary, the consultancies will make recommendations for special follow up studies in the areas of policy reform and use of counterpart funds, end of project status, effects on women, and any mid-term evaluations that may be called for.

3. Annual Reviews

A high level committee comprising senior officials in the Ministry of Finance, Ministry of Agriculture, private sector and USAID will annually review the results produced by the Monitoring and Evaluation System and decide on remedial actions. This committee will review progress and performance in all areas, from budget allocation to importation, prices, distribution and use. It will review implementation of all program activities including the M&E

system, based on the reports which will be presented by Central Unit at each annual review session. Summarized results of any studies undertaken during the year will also be brought up in the annual review meeting and taken account of in reaching conclusions and designing any corrective management actions. This review will provide the forum for systematically summarising the needed management information, and a regular assessment of whether the program is still on course, and whether it is achieving or likely to achieve the intended impact in Kenya.

VI. CONDITIONALITY AND NEGOTIATING STATUS

The following conditions precedent to disbursement and covenants have been negotiated and agreed to in principle over the past six months between USAID and, for the Government of Kenya, the Head of the Planning and Development Division of the Ministry of Agriculture, and the Director of Budget, the Financial Secretary and the USAID Desk Officer of the Ministry of Finance.

A. Conditions Precedent to Disbursement of Funds

1. To First Disbursement

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

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

b. A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee, together with a specimen signature of each person certified as to its authenticity; and

c. Documentation that the Grantee has established a separate, numbered Special Account entitled "1989 A.I.D. CIP Account" and two subsidiary accounts thereunder, "A" and "B," or made equivalent arrangements, for deposit of currency of the Cooperating Country in amounts equal to all proceeds accruing to the Cooperating Country or any authorized agent thereof as a result of the sale or importation of the Eligible Items. Funds in the Special Accounts shall be deposited in accordance with the Covenant on Deposit of Local Currency and be utilized in accordance with the Covenant on Utilization of Local Currency Deposits.

2. Third Tranche

Except as the Parties may otherwise agree in writing, prior to the disbursement under the Grant of funds for the third tranche of fertilizer, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Government of Kenya, shall furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. By no later than August 31, 1989, undertaken the allocation of the first tranche of A.I.D.-financed fertilizer to recipients in accordance with selection criteria set forth in PILs issued by A.I.D.

b. By no later than September 30, 1989, developed the methodology and statistical requirements for determining official fertilizer prices utilizing technical assistance based upon terms of reference jointly developed by the Government of Kenya and USAID.

c. By no later than September 30, 1989, published official fertilizer prices as of that date, which prices were based on the Benchmark International Price (BIP) formula, as more specifically set forth in PILs issued by A.I.D.

d. By no later than September 30, 1989, made available to A.I.D. the list of recipients of the fertilizer allocation approved by the Government of Kenya as of that date.

e. By no later than October 31, 1989, undertaken the allocation of the second tranche of A.I.D.-financed fertilizer to recipients in accordance with selection criteria set forth in PILs issued by A.I.D.

f. By no later than October 31, 1989, made available to A.I.D. the list of recipients of fertilizer allocations approved by the Government of Kenya as of that date.

g. By no later than December 31, 1989, reviewed official fertilizer prices previously established, made necessary revisions therein and published any changes in official prices, said prices to be based upon on the Benchmark International Price (BIP) formula, as more specifically set forth in PILs issued by A.I.D.

h. By no later than June 1, 1990, published official fertilizer prices as of that date, which prices were based upon the BIP formula, as more specifically set forth in PILs issued by A.I.D.

i. Continued to apply the methodology and statistical requirements developed pursuant to Condition Precedent 2.2 of the Agreement for determining official fertilizer prices, utilizing technical assistance based upon terms of reference jointly developed by the Government of Kenya and USAID.

j. Instituted and will utilize the A.I.D. Commodity Import Program (CIP) mechanism for importing and allocating the third tranche of A.I.D.-financed fertilizer. The A.I.D. CIP allocation system shall be specifically described by PILs to be issued by A.I.D.

3. Fourth Tranche

Except as the Parties may otherwise agree in writing, prior to disbursement under the Grant of funds for the fourth tranche of fertilizer, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. Continued the A.I.D. CIP mechanism for importing and allocating the fourth tranche of A.I.D.-financed fertilizer provided, however, that said CIP mechanism in the judgment of A.I.D., has not caused significant delays in making fertilizer available to farmers.

b. By no later than September 30, 1990, reviewed official fertilizer prices previously established, made necessary revisions therein and published any changes in official prices, said prices to be based on the BIP formula as more specifically set forth in PILs issued by A.I.D.

4. Fifth Tranche

Except as the parties may otherwise agree in writing, prior to disbursement under the Grant of funds for the fifth tranche of fertilizer or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. Continued the A.I.D. CIP mechanism for importing and allocating the fifth tranche of A.I.D.-financed fertilizer, provided, however, that said CIP mechanism in the judgment of A.I.D., has not caused any significant delays in making fertilizer available to farmers.

b. By no later than June 1, 1991, reviewed official fertilizer prices previously established, made necessary revisions therein and published any changes in official prices, said prices to be based on the BIP formula as more specifically set forth in PILs issued by A.I.D.

c. Continued to apply the methodology and statistical requirements developed pursuant to Condition Precedent 2.2 of this Agreement for determining official fertilizer prices, utilizing technical assistance based on terms of references developed by the Government of Kenya and USAID.

5. Sixth Tranche

Except as A.I.D. may otherwise agree in writing, prior to disbursement under the Grant of funds for the sixth tranche of fertilizer or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be, the Grantee shall, furnish to A.I.D., in form and substance satisfactory to A.I.D., documentation establishing that the Government of Kenya has undertaken the following actions:

a. Continued the A.I.D. CIP mechanism for importing and allocating the sixth tranche of A.I.D.-financed fertilizer provided, however, that said mechanism in the judgment of A.I.D., has not caused any significant delays in making fertilizer available to farmers.

b. By no later than September 30, 1991, reviewed official fertilizer prices previously established, made necessarily revisions therein and then published any changes in official prices, said prices to be based on the BIP formula as more specifically set forth in PILs issued by A.I.D.

B. Covenants

1. Taxation

The Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the Republic of Kenya.

2. Reports and Records

In addition to the requirements in A.I.D. Regulation 1, the Grantee will:

a. Furnish A.I.D. such reports and information relating to the goods and services financed by this Grant and the performance of Grantee's obligations under this Agreement as A.I.D. may reasonably request. These reports and information shall include but not be limited to: (i) a list of all importers registered with the Government of the Cooperating Country, (ii) a copy of each approved Import License Application for goods financed under this Amendment, (iii) a copy of the "Import Entry" form for each consignment of goods financed under this Amendment, and (iv) a copy of the "Out-Turn" report for each ocean vessel carrying goods financed under this Amendment.

b. Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to this Grant as may be prescribed in Implementation Letters. Such books and records may be inspected by A.I.D. or any of its authorized representatives at all times as A.I.D. may reasonably require, and shall be maintained for three years after the date of last disbursement by A.I.D. under this Grant.

c. Permit A.I.D. or any of its authorized representatives at all reasonable times during the three-year period to inspect the commodities financed under this Grant at any point, including the point of use.

3. Completeness of Information

The Grantee confirms:

a. that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement; and

b. that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

4. Other Payments

Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

5. Size of Transactions

No foreign exchange allocation or letter of credit issued pursuant to the Agreement shall be in an amount less than Three Hundred Thousand Dollars ($300,000), nor more than One Million Five Hundred Thousand Dollars ($1,500,000), except as A.I.D. may otherwise agree in writing.

6. Deposits of Local Currency

Except as A.I.D. may otherwise agree in writing, the Cooperating Country shall deposit in the Special Account entitled "1989 A.I.D. CIP Account," Subsidiary Accounts "A" or "B," pursuant to the Conditions Precedent to the First Disbursement, all currency of the Cooperating Country accruing as a result of the sale or importation of Eligible Items under the Agreement. For all private sector importers, and for public sector importers who do not resell the imported commodity, the amount of local currency to be deposited shall be the local currency equivalent of the A.I.D. dollar disbursement(s) under the Grant, calculated at the highest rate per U.S. dollar not unlawful that is available to anyone in the Cooperating Country at the time that A.I.D. effects payment to the correspondent bank in the U.S. of the participant's commercial bank in Kenya. For public importers who resell the imported commodity, the amount of local currency to be deposited shall be the proceeds of the resale. A.I.D. shall, by Project Implementation Letter, advise the Cooperating Country as to the distribution of the Local Currency deposits between the "A" and "B" subsidiary accounts. Except as A.I.D. may otherwise specify in writing, deposits to the Special Accounts shall become due and payable within 120 days of advice from A.I.D. as to disbursements made under the Agreement.

7. Utilization of Local Currency Deposits

Local currency deposits in the two sub-accounts shall be utilized as follows:

a. Except as A.I.D. may otherwise agree in writing, Kenya Shillings equivalent at the time of deposit to United States dollars two million two hundred thousand ($2,200,000) shall be entrusted to A.I.D. for deposit into a Trust Account to meet the requirements of A.I.D., according to a schedule to be agreed upon by A.I.D. and the Government of Kenya. These funds shall be used for the administrative costs related to operation of USAID/Kenya. Funds deposited pursuant to this sub-paragraph will be credited against funds otherwise required to be deposited under Section 5.6 above. Funds transferred under the Agreement shall be held in trust for the Government of Kenya and interest earnings, if any, on funds so held shall be added to the Trust Account. Title to any tangible assets purchased from the Trust Account shall be vested in the Government of Kenya. Any such assets on hand as of the date of termination of this Agreement shall accordingly be returned to the Government of Kenya. An accounting of the Trust Account by categories shall be rendered annually, upon request of the GOK. Any balance remaining in the Trust Account upon termination of the Agreement or the United States assistance program in Kenya, whichever is earlier, shall be returned to the Government of Kenya. A.I.D. will advise the GOK by project implementation letter whether such funds will be withdrawn from sub-account "A" or "B" referenced in Section 5.6 of the Grant Agreement.

b. Except as A.I.D. may otherwise specify in writing, approximately Kenya Shillings equivalent at the time of deposit to United States dollars twelve million eight hundred thousand ($12,800,000) in the sub-accounts shall be utilized for mutually agreed upon purposes as follows: (i) Financing local cost host country contributions (except salaries and personnel costs) to USAID-assisted projects in the agricultural sector; (ii) Support of line items within the Government of Kenya's Agricultural Development budget, in which A.I.D. has particular interest and which are supportive of the general objectives of USAID's Country Development Strategy Statement; and (iii) Support of line items within the Government of Kenya's Development budget other than Agriculture, in which A.I.D. has particular interest and which are supportive of the general objectives of USAID's Country Development Strategy Statement.

c. The Grantee will provide A.I.D. with a detailed accounting of the use of such local currency; the timing and format for such reports will be specified in an Implementation Letter.

d. Any unencumbered balances of funds which remain in the Special Accounts upon termination of assistance hereunder shall be disbursed for such purposes as may, subject to applicable law, be agreed to between the Grantee and A.I.D.

8. Continuing Consultation

The Grantee and A.I.D. agree to cooperate fully to assure that the purpose of the Grant will be accomplished. To this end, the Grantee and A.I.D. shall from time to time, at the request of either Party, exchange views through their representatives with regard to the Grantee's economic development and its progress in achieving the objectives of its development program, including the level of current expenditures and its foreign exchange position, and the performance by the Grantee of its obligations under the Agreement, the performance of consultants or suppliers under the Grant, and other matters relating to the Agreement.

9. Validity of Licenses

The Cooperating Country, with respect to all commodities financed under the Agreement, covenants to issue all Import Licenses and all Foreign Exchange Allocation Licenses with a validity of not less than six months, except as A.I.D. may otherwise agree in writing.

10. License Application Fee

The Cooperating Country covenants that is will inform all importers financed under the Agreement that, in recognition that no Society General Surveillance or other inspection will be required for CIP commodities, the usual one and a half percent import license application fee paid to the Central Bank will be reduced to one half of one percent for CIP commodity import license applications, except as A.I.D. may otherwise agree in writing.

11. Kenya Exchange Control Notice No. 19

The Cooperating Country covenants that with respect to Exchange Control Notice No. 19, guarantees issued to Kenya-Registered companies, regardless of owner nationality, will not be considered as local borrowing under the Agreement, and further agrees to so notify importers, except as A.I.D. may otherwise agree in writing.

12. Insurance

The Cooperating Country agrees that it will inform Kenyan importers that funds from the Agreement are available to cover marine insurance costs, except as A.I.D. may otherwise agree in writing.

13. Timeliness of Approvals

The Cooperating Country covenants that, except as A.I.D. may otherwise agree in writing:

a. the Central Bank of Kenya will process all applications for Foreign Exchange Allocation Licenses under the Agreement within a maximum of five working days, such five days to include the time before sending to the Ministry of Commerce and Industry as well as the time between the return from the Ministry of Commerce and Industry and the despatch to A.I.D.; and

b. the Ministry of Commerce and Industry will review and process all Import License, applications under the Agreement within a maximum of ten working days after receipt from the Central Bank of Kenya.

14. Fertilizer Pricing

Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees as follows:

a. By no later than February 28, 1990, to undertake and complete a study in collaboration with A.I.D. to assess the potential for decontrol of fertilizer prices, providing USAID with a copy of said study. The terms of reference for the study to be jointly developed by the Kenya Government and USAID.

b. By no later than August 31, 1990, to incorporate the results of said study on the decontrol of fertilizer prices into a fertilizer pricing policy, subject to assessment of administrative and economic feasibility.

15. Fertilizer Importing

Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees as follows:

a. To prepare annual import plans to maximize adequate and timely fertilizer imports by the private sector.

b. To expedite the issuance of fertilizer import licenses and to make available adequate foreign exchange for fertilizer imports to achieve a minimum 5% growth per year of total fertilizer imports.

c. By no later than June 30, 1990, to introduce import performance bonding to minimize the duplication of import licensing applications.

16. Fertilizer Promotion

Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees as follows:

a. By no later than February 28, 1990, to publish and distribute and/or encourage private fertilizer distributors to publish and distribute educational materials to farmers to promote appropriate use of fertilizer.

b. To continue to pack fertilizer in ten and twenty-five kilogramme bags as consumer demand warrants.

c. To continue to maintain adequate pricing incentives for agricultural output prices consistent with the promotion of fertilizer use at cost price.

17. Fertilizer Monitoring

Except as A.I.D. may otherwise agree in writing, the Government of Kenya covenants and agrees to develop, by no later than March 31, 1990, a plan of action to strengthen the Fertilizer inputs Unit of the Ministry of Agriculture, particularly in the areas of price analysis and monitoring of fertilizer market developments.

18. Environmental Studies

The GOK covenants to undertake and complete or cause to be undertaken and completed, as of the dates shown below, studies to address the following environmental concerns, copies to be provided to USAID/Kenya:

a. In consultation with USAID/K, develop a protocol (the SOW) for a study which investigates the changes in soil pH and consequent effects on agricultural productivity, to be completed not later than December 31, 1989.

b. Baseline studies relating to acid soils, fertilizer usage and effects of DAP fertilizer on soil pH, to be completed not later than June 30, 1990.

c. To begin, no later than the midpoint of the program and to complete, by the end of the program, the study called for by the SOW, including recommendations for mitigating environmental concerns, if any.

19. Additional Representation and Covenant

The Government of Kenya hereby reaffirms its commitment to eventual elimination of price controls and quantitative restrictions on fertilizer imports, and in furtherance of that objective, covenants (a) to take appropriate steps to achieve the eventual elimination of price controls and quantitative restrictions on fertilizer imports, and (b) on a periodic basis, to consult with A.I.D. as to its plans, projections and progress in furtherance of the liberalization of fertilizer importation.

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Selected References

USAID/Kenya	Agricultural Sector Strategy Statement, June 1986.
-----------	Fertilizer Marketing Development Program Impact Study, November 1988.
-----------	Structural Adjustment Assistance Program (615-0240) PAAD and PAAD Amendments, 1986, 1987 and 1988.
-----------	Kenya - Action Plan, FY 1989-1990, March 1988.
Government of Kenya	Sixth National Development Plan, 1989-1992. Forthcoming.
----------	National Policy for Fertilizer Pricing and Marketing, December 1987.
----------	Economic Survey, various issues.
The World Bank.	Kenya Agricultural Inputs Review (Volume 1 and 2), June 1985.
----------	Kenya Agricultural Sector Report (Volume 1 and 2), January 1986.
----------	Kenya Agricultural Sector Adjustment Operation review Mission Aide Memoire, November 1987.
----------	Kenya Recent Economic Developments and Selected Policy Issues, September 1988.
----------	Kenya: Policy Framework Paper, 1988-1990. January 1988.
IMF	Kenya - Recent Economic Developments, various issues.
---	Kenya - Review Under Stand-by Arrangements. September 1988.
IFDC.	Kenya: Fertilizer Marketing and Economics of Use, March 1986.

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STATISTICAL APPENDIX

TABLE 1

SUMMARY BALANCE OF PAYMENTS

(in millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
Trade (net)	-1116	-753	-532	-271	-314	-329	-286	-714
Exports (fob)/1	1261	1081	936	927	1034	943	1170	909
Imports (fob)	2378	1834	1468	1198	1348	1273	1457	1623
Services (net)	83	-23	107	53	17	41	35	3
Receipts	823	718	708	608	635	652	736	831
Payments	740	741	601	554	618	611	701	828
Transfers (net)	147	216	133	180	177	192	207	215
Receipts	167	248	164	215	214	220	242	257
Payments	19	32	31	35	37	29	35	43
Current Account Balance	-886	-560	-292	-38	-120	-97	-44	-497
Capital Account (net)	681	329	113	104	174	-6	135	394
Private long-term	149	3	11	-5	9	5	29	12
Government long-term	395	258	66	101	138	-25	5	197
Government Corporations	4	51	7	23	-15	-31	69	75
Short-term	134	17	29	-14	41	46	32	109
Errors and omissions	10	31	-19	20	-10	-12	-1	11
Overall Balance	-195	-199	-198	86	45	-115	90	-92
Monetary Movements	195	199	198	-86	-45	115	-90	92
Change in reserves	47	120	-30	-200	-60	-23	-25	151
Transactions with IMF	148	71	198	116	-2	128	-67	-62
Changes in other liabilities	-	8	30	-2	17	9	2	3

1/ Excluding aircraft and ship stores.

Note: In the BOP statistics, exports refers to "exports to countries," while the provision of stores and fuel to aircraft and ships stopping in Kenya is recorded under "other transportation" in the services account. Therefore, exports in the BOP are lower than total exports in the trade statistics Imports of aircraft, ships and defence items are added to imports in the BOP, since such purchases are omitted from the Annual Trade Report.

Source: The World Bank

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Table 2

SUMMARY OF GOVERNMENT FINANCE
(in millions of Kenyan pounds)

	Actual				Prelim. actual	Financial Program	Latest est.	Financial Program
	FY83	FY84	FY85	FY86	FY87	FY88	FY88	FY89
Revenue and grants	893.1	953.2	1103.9	1269.4	1481.0	1798.5	1780.4	2044.8
Revenue	835.8	924.9	1026.7	1214.6	1400.3	1607.4	1634.0	1853.0
Grants	57.3	28.3	77.2	54.8	80.8	191.1	146.4	191.8
Expenditure and net lending	1021.0	1110.6	1380.7	1597.1	1895.8	2075.7	2090.8	2372.7
Recurrent expenditure	798.0	864.9	1041.8	1222.2	1424.3	1557.1	1582.3	1797.9
Development expenditure and net lending	223.1	245.7	339.0	374.9	471.5	518.7	508.5	574.9
Overall deficit (treasury accounts)	-127.9	-157.4	-276.9	-327.7	-414.8	-277.3	-310.4	-327.9
Adjustment to cash basis/1	-1.5	-0.8	39.8	36.7	-56.5	0.0	16.8	-35.0
Overall cash deficit	-129.4	-158.2	-237.1	-291.0	-471.3	-277.3	-293.6	-362.9
Financing	129.4	158.2	237.1	291.0	471.3	277.3	293.6	363.0
Foreign financing	50.6	6.5	55.9	-48.2	27.1	75.4	76.1	200.1
Drawings	124.7	95.1	176.6	97.9	198.4	236.8	225.6	392.4
Repayments	74.1	88.6	120.8	146.0	171.3	161.4	149.5	192.3
Domestic financing	78.9	151.8	181.3	339.2	444.2	201.9	217.5	162.9
Bank and CSFC	3.8	48.3	41.1	96.6	296.2	66.3	-3.9	110.0
Nonbank	75.1	103.5	140.2	242.6	148.0	135.6	221.4	52.9
Overall cash deficit excluding grants	-186.7	-186.5	-314.3	-345.8	-552.0	-468.3	-440.0	-554.7

1/ The adjustment factor arises because financing data are derived from different sources than revenue and expenditure data. It also includes checks issued but not cashed, and statistical discrepancies.

Sources: IMF and the World Bank

Table 3

Indicators of Key Economic Incentives

	1982	1983	1984	1985	1986	1987
Real Effective Exchange Rate						
Index (1980=100)	100.3	95.0	101.7	100.3	97.0	78.6
Annual % Change (-depreciation)	-	-5.3	7.1	-1.4	-13.3	-9.6
Real Interest Rates (in %)						
Savings a/	-9.8	-2.1	3.4	0.3	5.3	3.9
Lending b/	-6.3	0.4	4.9	3.3	8.3	6.9
Index of Real Wages c/ (1980=100)						
Private Sector	87.1	81.7	83.7	82.5	83.9	87.0
Public Sector	95.6	86.5	85.5	84.1	87.5	84.9
Inflation						
Annual Increase (in %)	22.3	14.6	9.1	10.7	5.7	7.1
Nominal Protection in Agriculture d/						
Maize	79	67	63	70	131	155
Wheat	87	90	98	95	115	132
Sugarcane	62	77	125	155	130	120
Rice (Basmati)	69	79	87	120	113	119
Cotton (AR)	59	53	59	79	98	79
Beef	65	67	69	81	84	- e/

a/ Minimum commercial banks' savings rate.
b/ Maximum lending rate on loans and advances by commercial banks.
c/ Nominal average wage earnings per employee adjusted by composite consumer price index.
d/ Nominal protection coefficient, i.e., domestic price as percent of world price CIF Mombasa. Excludes marketing costs in Kenya.
e/ Market determined.

Source: The World Bank

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Table 4

GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN AT CONSTANT 1982 PRICES
(in millions of Kenyan pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	Average Growth Rate 1980-87	1983-87
Traditional Economy	155.8	159.6	164.6	170.5	176.4	196.1	193.0	199.6	3.5	3.9
Forestry and fishing	21.1	21.8	22.7	23.8	24.5	25.5	26.5	27.4	3.8	3.5
Building and construction	48.1	48.0	49.0	50.6	52.0	66.9	58.4	60.4	3.3	4.4
Water collection	18.7	19.0	19.3	19.6	20.4	21.1	22.0	22.8	2.8	3.8
Ownership of dwellings	68.0	70.7	73.6	76.5	79.6	82.7	86.1	89.0	3.8	3.8
Monetary Economy	2542.7	2700.6	2833.7	2896.2	2915.4	3044.0	3223.9	3381.3	4.1	3.9
Agriculture	817.7	867.3	964.1	979.1	941.1	975.6	1023.4	1062.6	3.7	2.0
Forestry and fishing	27.6	28.4	30.9	33.5	34.3	38.2	41.5	43.9	6.7	6.7
Mining and quarrying	8.8	5.5	6.6	6.7	7.4	8.1	8.4	9.1	0.6	7.7
Manufacturing	351.5	364.1	372.3	389.1	405.8	424.1	448.7	474.3	4.3	5.0
Construction	126.6	136.7	120.6	110.0	102.5	103.6	107.4	111.8	-1.8	0.4
Electricity and water	39.3	45.3	43.7	49.5	50.6	53.8	57.9	61.8	6.5	5.6
Trade, restaurants & hotels	318.4	322.5	299.4	307.8	324.8	350.2	380.0	407.3	3.5	7.0
Transport, storage & comm.	148.9	151.7	195.9	201.5	202.3	206.5	215.4	226.8	6.0	3.0
Finance & business services	169.2	221.3	206.9	223.6	234.0	246.3	259.7	270.3	6.7	4.7
Ownership of dwellings	124.1	135.8	140.7	135.2	134.8	130.6	134.2	138.4	1.6	0.6
Domestic services	28.3	30.7	32.8	34.9	37.2	39.7	44.3	47.8	7.5	7.9
Government services	403.8	425.2	441.4	459.9	473.1	497.3	528.7	558.8	4.6	4.9
Other services	57.0	59.3	62.7	68.5	72.0	78.2	85.6	92.2	6.9	7.4
Less: imputed bank services and charges	-78.4	-93.4	-84.2	-102.9	-104.5	-108.2	-111.5	-124.0		
GDP at Factor Cost	2698.5	2860.2	2998.2	3066.6	3091.8	3240.1	3416.8	3580.8	4.0	3.9

Sources: Government of Kenya and the World Bank

December 10, 1988

Table 5

AGRICULTURAL OUTPUT, INPUTS, AND VALUE ADDED
(in millions of Kenyan pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	Average Growth Rate 1980-87	1983-87
Gross Output										
At current prices	791.19	917.48	1048.82	1274.08	1412.39	1562.86	1814.05	1873.4	12.3	9.6
At constant 1982 prices	945.56	1010.12	1048.82	1121.63	1086.43	1142.35	1217.32	1246.4	3.9	2.6
Value index (1982=100)	75.4	87.5	100.0	121.5	134.7	149.0	173.0	178.6	12.3	9.6
Quantum index (1982=100)	90.2	96.3	100.0	106.9	103.6	108.9	116.1	118.8	3.9	2.6
Price index (1982=100)	83.7	90.8	100.0	113.6	130.0	136.8	149.0	150.3	8.4	7.0
Inputs										
At current prices	103.05	125.74	141.66	147.54	168.05	205.69	216.00	204.1	9.8	8.1
At constant 1982 prices	127.90	142.80	141.66	142.56	145.38	166.96	193.93	183.9	5.2	6.4
Value index (1982=100)	72.7	88.8	100.0	104.2	118.6	145.2	152.5	144.1	9.8	8.1
Quantum index (1982=100)	90.3	100.8	100.0	100.6	102.6	117.9	136.9	129.8	5.2	6.4
Price index (1982=100)	80.6	88.1	100.0	103.5	115.6	123.2	111.4	111.0	4.6	1.8
Value Added										
At current prices	688.14	791.74	907.16	1126.54	1244.34	1357.17	1598.05	1669.3	12.7	9.8
At constant 1982 prices	817.66	867.32	907.16	979.07	941.05	975.39	1023.39	1062.6	3.7	2.0
Value index (1982=100)	75.9	87.3	100.0	124.2	137.2	149.6	176.2	184.0	12.7	9.8
Quantum index (1982=100)	90.1	95.6	100.0	107.9	103.7	107.5	112.8	117.1	3.7	2.0
Price index (1982=100)	84.2	91.3	100.0	115.1	132.2	139.1	156.2	157.1	8.9	7.8
Non-marketed Production/a										
At current prices	437.88	530.60	599.90	718.60	623.61	806.92	875.74	1055.7	12.6	9.6
At constant 1982 prices	522.58	562.99	599.90	636.21	600.65	625.05	n.a.	n.a.	3.6	

/a Includes unrecorded marketed production.

Sources: Government of Kenya and the World Bank

Table 6

AGRICULTURAL TERMS OF TRADE
(1982=100)

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	1983-87
Indices of Output Prices										
Sales to marketing boards	79.6	84.0	100.0	116.9	174.8	139.9	170.8	144.2	8.5	5.2
General index of agricultur output prices	83.7	90.8	100.0	113.6	130.0	136.8	149.0	150.3	8.4	7.0
Indices of Input Prices										
Purchased inputs	94.2	97.4	100.0	104.2	125.1	120.7	123.2	129.6	4.6	5.5
Index of purchased consumer goods - rural areas	69.9	82.7	100.0	113.8	134.0	154.8	159.9	167.8	12.5	9.7
Weighted average of above	77.2	87.1	100.0	111.4	131.8	146.3	150.7	158.8	10.3	8.9
Agricultural Terms of Trade /1	108.4	104.3	100.0	102.0	98.6	93.5	98.9	94.6	-1.9	-1.9
Agricultural Terms of Trade /2	103.1	96.4	100.0	104.9	132.6	95.6	113.3	90.8	-1.8	-3.6

1/ General agricultural output price index divided by weighted average index of input prices.

2/ Marketing Boards' agricultural output price index divided by weighted average index of input prices.

Sources: Government of Kenya and the World Bank

Table 7

GROSS MARKETED PRODUCTION AT CURRENT PRICES
(in millions of Kenya pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	Av. Growth Rate 1983-87
Cereals	35.25	48.15	59.70	81.41	71.41	91.01	107.20	101.0	15.0	5.4
Wheat	17.67	17.87	22.02	26.92	17.84	26.26	32.88	21.9	3.1	-5.2
Maize	10.39	23.64	30.78	48.95	49.05	54.56	66.50	68.1	26.9	8.3
Rice	2.84	2.90	2.90	2.68	3.23	6.76	n.a.	n.a.		
Others	4.35	3.74	4.00	2.86	1.29	3.43	7.82	11.1	13.3	33.8
Temporary Crops	57.29	62.88	64.58	63.20	68.03	83.18	120.53	122.2	10.8	16.5
Pyrethrum	9.74	13.39	14.78	5.03	1.94	2.92	4.48	5.6	-7.8	2.9
Sugar Cane	29.52	30.88	29.40	34.34	40.99	46.75	52.79	55.5	9.0	12.0
Others	18.03	18.61	20.40	23.83	25.10	33.51	63.26	61.1	17.4	23.5
Permanent Crops	204.51	195.62	232.90	316.62	551.75	459.38	550.78	404.8	9.8	6.1
Coffee	118.86	102.47	122.87	166.25	227.67	191.89	288.32	192.2	6.9	3.6
Sisal	9.71	8.51	12.59	15.54	17.34	15.03	15.42	13.5	4.7	-3.4
Tea	71.52	80.59	93.19	130.31	301.12	247.60	242.33	194.8	14.3	10.0
Others	4.42	4.05	4.25	4.52	5.62	4.86	4.71	4.3	-0.3	-1.0
Total Crops	297.05	306.65	357.18	461.23	691.19	633.57	778.51	628.0	10.7	7.7
Livestock and Products	56.26	80.23	91.74	94.25	97.59	122.37	159.80	189.7	17.4	17.5
Cattle and calves	33.91	47.49	52.26	51.81	58.95	70.36	84.26	103.9	16.0	17.4
Dairy products	15.00	22.80	28.51	32.80	25.78	36.26	56.51	62.1	20.3	15.9
Others	7.35	9.94	10.97	9.64	12.86	15.75	19.03	23.7	16.7	
TOTAL	353.31	386.88	448.92	555.48	788.78	755.94	938.31	817.7	12.0	9.7
Memorandum item:										
Value index (1982=100)	78.70	86.18	100.00	123.74	175.71	168.39	209.01	182.1	12.0	9.7
Implicit price index (1982=100)	84.40	86.60	100.00	116.90	174.80	139.90	170.80	144.2	7.7	5.2
Large Farms	168.77	178.61	216.67	271.34	386.22	346.63	515.53	432.1	13.4	11.6
Small Farms	184.53	208.3	232.25	284.1	402.53	409.31	422.79	385.6	10.5	7.6

Sources: Government of Kenya and the World Bank

December 10, 1988

Table 8

AVERAGE PRICES, SALES AND PRODUCER REVENUES OF SELECTED CROPS
(in millions of Kenya pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	Av. Growth Rate 1983-87
Wheat										
Volume of Sales ('000 mt)	215.7	203.4	234.7	242.3	135.4	193.5	224.7	148.3	-5.4	-12.3
Average Price (Ksh/mt)	1638.6	1666.7	1875.8	2220.0	2690.0	2710.0	2930.0	2950.0	8.4	7.1
Producers' Revenue (mn. KL)	17.7	17.0	22.0	26.9	18.2	26.2	32.9	21.9	3.0	-5.2
Maize										
Volume of Sales ('000 mt)	217.9	472.9	571.3	636.0	560.6	582.9	669.5	651.9	15.7	0.6
Average Price (Ksh/mt)	953.7	1000.0	1070.0	1540.0	1750.0	1870.0	1980.0	2090.0	11.2	7.6
Producers' Revenue (mn. KL)	10.4	23.6	30.6	49.0	49.1	54.5	66.3	68.1	26.9	8.3
Sugarcane										
Volume of Sales ('000 mt)	3972.2	3822.0	3107.7	3200.0	3600.0	3500.0	3600.0	3700.0	-1.0	3.6
Average Price (Ksh/mt)	133.0	145.1	170.0	227.0	227.0	270.0	297.0	300.0	11.6	7.0
Producers' Revenue (mn. KL)	26.4	27.7	26.4	36.3	40.9	47.3	53.5	55.5	10.6	10.6
Coffee										
Volume of Sales ('000 mt)	91.3	90.7	88.4	95.3	118.5	96.6	114.9	104.9	2.0	2.4
Average Price (Ksh/mt)	26348.0	22584.1	27800.0	34880.0	38440.0	39720.0	50200.0	36620.0	4.7	1.2
Producers' Revenue (mn. KL)	120.3	102.4	122.9	166.2	227.8	191.8	288.4	192.1	6.7	3.6
Tea										
Volume of Sales ('000 mt)	89.9	90.9	95.6	119.3	116.2	147.1	143.3	155.8	7.9	6.7
Average Price (Ksh/mt)	15911.0	17740.0	19407.8	21840.0	51840.0	33660.0	33820.0	25000.0	6.5	3.4
Producers' Revenue (mn. KL)	71.5	80.6	92.8	130.3	301.2	247.6	242.3	194.8	14.3	10.1

Sources: Government of Kenya and the World Bank

Table 9

INDICES OF SALES TO MARKETING BOARDS
(1982 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	Av. Growth Rate 1983-87
Cereals										
Quantum	58.7	85.5	100.0	105.8	86.7	93.6	104.3	92.4	6.5	-3.4
Price	90.3	93.9	100.0	129.8	139.8	160.7	171.2	179.5	9.8	8.1
Value	53.0	80.3	100.0	137.3	121.2	150.4	178.6	165.9	16.3	4.7
Temporary Industrial Crops										
Quantum	126.5	121.4	100.0	95.6	104.3	81.7	82.0	89.1	-5.0	-1.8
Price	71.0	79.8	100.0	100.7	127.6	137.6	148.5	150.3	10.7	10.0
Value	89.8	96.9	100.0	96.3	133.1	112.4	121.8	133.9	5.7	8.3
Permanent Crops										
Quantum	108.2	99.8	100.0	116.4	122.0	112.2	130.9	121.4	1.6	1.1
Price	91.9	84.1	100.0	118.0	185.7	144.9	181.6	140.7	6.1	4.4
Value	99.4	83.9	100.0	137.4	226.6	162.6	237.7	170.8	7.7	5.5
Crops (Sub-total)										
Quantum	102.4	106.8	100.0	111.4	102.0	110.3	128.0	119.0	2.1	1.6
Price	83.8	85.6	100.0	117.9	178.8	145.3	180.0	142.7	7.6	4.8
Value	85.8	91.4	100.0	131.3	182.4	160.3	230.4	169.8	9.8	6.4
Livestock and Products										
Quantum	80.6	82.0	100.0	100.3	145.9	82.2	92.7	105.1	3.8	1.2
Price	73.8	85.9	100.0	100.3	105.0	118.9	134.8	150.2	10.2	10.1
Value	59.5	70.4	100.0	100.6	153.2	97.7	125.0	157.9	13.9	11.3
Total Marketed Products										
Quantum	95.2	98.9	100.0	110.7	117.9	104.6	120.8	116.2	2.8	1.2
Price	79.6	84.0	100.0	116.9	174.8	139.9	170.8	144.2	8.5	5.2
Value	75.8	83.1	100.0	129.4	206.1	146.3	206.3	167.6	11.3	6.5

Note: Indices for value are derived from multiplying quantum indices by price indices.

Sources: Government of Kenya and the World Bank

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Table 10

AGRICULTURAL EXPORT VOLUMES
(in thousands of metric tons)

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	1983-87
Coffee	80.1	86.2	101.0	90.5	96.9	104.7	126.5	100.0	3.2	2.5
Tea	74.8	75.4	80.4	99.9	91.2	126.3	116.5	134.6	8.4	7.4
Fruits and vegetables of which:	90.4	83.7	111.3	177.2	103.7	84.4	110.5	136.9	5.9	-6.4
Canned pineapples	38.5	40.9	39.9	47.8	50.2	44.5	44.6	43.0	1.6	-2.6
Fresh horticultural produce	....	23.3	24.6	28.9	29.2	30.0	8.2	9.1	-41.8	-29.0
Hides and skins, undressed	8.5	13.0	11.1	9.2	9.1	10.5	14.0	16.1	9.1	14.0
Sisal	40.4	36.4	40.4	38.9	39.1	40.0	31.7	27.9	-5.3	-8.3
Pyrethrum products	0.8	0.6	0.6	1.1	0.8	0.7	0.9	0.5	-7.2	-22.9
Meat products	1.3	1.9	2.9	2.4	4.3	3.7	0.8	0.1	-38.1	-82.6
Sugar and products	150.2	174.8	67.0	50.7	47.6	37.0	4.0	0.1	-114.1	-172.5
Cotton, raw	4.0	2.6	-	0.7	0.1	1.7	0.5	0.1	-61.1	-64.1
Wool, raw	1.7	1.1	1.5	1.2	1.7	0.7	1.1	1.0	-7.3	-3.6
Maize, unmilled	0.0	1.0	0.9	122.5	47.4	17.7	228.0	247.7	134.6	17.6
Animal feeds	5.2	7.8	11.7	30.8	16.7	9.7	17.0	9.7	8.9	-28.8
Live animals mainly for food	224.3	44.3	32.6	32.1	41.4	62.1	0.1	0.8	-79.9	-91.3

Sources: Government of Kenya and the World Bank

Table 11

VALUE OF AGRICULTURAL EXPORTS
(in millions of Kenyan pounds)

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	1983-87
Coffee	108.1	109.4	144.6	160.1	203.6	230.6	388.5	194.6	8.4	4.9
Tea	58.0	61.1	77.6	123.4	189.5	191.4	172.8	163.4	14.8	7.0
Others	74.0	89.5	94.0	126.5	123.3	124.4	130.6	150.1	10.1	4.3
Fruits and vegetables of which:	25.2	32.2	38.4	54.9	54.2	52.9	66.1	77.2	16.0	8.5
Canned pineapples	8.9	12.0	14.5	20.9	25.9	24.4	24.2	25.8	15.3	5.2
Fresh horticultural produce	11.4	12.6	13.6	17.5	17.7	23.5	10.2	14.6	3.6	-4.6
Hides and skins, undressed	9.5	9.2	7.9	6.3	7.1	10.0	12.6	16.9	8.1	24.5
Sisal	8.8	8.8	10.8	12.1	12.6	14.4	10.9	9.9	1.6	-5.0
Pyrethrum products	9.0	6.0	9.6	8.9	9.7	9.5	11.5	9.6	0.9	1.9
Meat products	1.6	2.6	4.5	4.0	7.4	6.9	1.6	0.2	-28.4	-72.9
Sugar and products	4.0	13.5	5.1	2.6	2.0	1.3	0.0	0.0	-83.8	-136.4
Cotton, raw	2.6	1.6	0.0	0.9	0.1	1.9	0.5	0.0	-56.5	-71.3
Wool, raw	1.0	1.0	1.2	0.9	1.4	0.7	1.2	1.5	6.2	11.2
Maize, unmilled	0.0	0.1	0.3	12.2	5.9	1.2	14.7	19.5	121.3	11.8
Animal feeds	0.3	0.4	0.7	2.1	1.3	0.6	1.1	0.6	10.2	-29.2
Live animals mainly for foo	0.6	1.6	1.7	4.1	3.8	1.4	0.0	0.1	-21.8	-86.7
Total Agricultural Exports	240.2	260.0	316.2	410.0	516.4	546.4	691.9	508.0	10.7	5.4

Sources: Government of Kenya and the World Bank

Table 12

PRODUCTION AND AVERAGE YIELDS OF SELECTED CROPS

	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-87	1983-87
Maize									
Area ('000 ha)	1120.0	1208.0	1236.0	1200.0	1130.0	1240.0	1200.0	4.1	-0.7
Production ('000 tons)	1773.0	2502.0	2340.0	2133.0	1413.0	2610.0	2700.0	8.7	3.6
Yield (tons/ha)	1.6	2.1	1.9	1.8	1.3	2.1	2.3	4.6	4.3
Coffee									
Area ('000 ha)									
Co-operatives	71.2	84.7	97.5	103.1	114.2	116.3	117.7	10.4	4.7
Estates	31.2	32.9	33.6	33.6	35.7	35.7	38.6	11.0	3.5
Total	102.4	117.6	131.1	136.7	149.9	152.0	156.3	10.5	4.4
Production ('000 tons)									
Co-operatives	51.9	64.0	52.5	54.1	61.5	64.7	68.4	6.6	6.6
Estates	39.1	34.7	34.4	33.1	49.0	28.9	45.5	8.7	7.0
Total	91.0	98.7	86.9	87.2	110.5	93.6	113.9	7.4	6.8
Yield (kgs/ha)									
Co-operatives	728.9	755.6	538.5	524.7	538.5	556.3	581.1	-3.8	1.9
Estates	1253.2	1054.7	1023.8	985.1	1372.5	809.5	1178.8	-2.3	3.5
Total	888.7	839.3	662.9	637.9	737.2	615.8	728.7	-3.1	2.4
Tea									
Area ('000 ha)									
Smallholders	50.7	53.6	54.7	55.0	56.5	56.5	56.5	2.4	0.8
Estates	25.9	26.2	26.4	26.6	26.7	27.3	27.9	1.5	1.4
Total	76.5	79.7	81.1	81.5	83.2	83.8	84.4	2.1	1.0
Production ('000 tons)									
Smallholders	34.0	35.8	39.9	51.0	52.7	71.3	68.1	9.9	13.4
Estates	55.9	55.1	56.1	68.8	63.9	75.8	75.2	3.3	7.3
Total	89.9	90.9	96.0	119.8	116.6	147.1	143.3	6.1	10.0
Yield (kgs/ha)									
Smallholders	670.7	668.1	729.5	927.9	932.8	1261.8	1204.3	7.5	12.5
Estates	2162.5	2106.8	2126.3	2589.7	2391.6	2774.3	2699.8	1.8	6.0
Total	1174.5	1140.0	1184.1	1469.4	1401.1	1754.8	1697.9	4.0	9.0

Sources: Government of Kenya and the World Bank

Table 13

IMPORTS OF AGRICULTURAL INPUTS

	1980	1981	1982	1983	1984	1985	1986	1987	Av. Growth Rate 1980-85*	Av. Growth Rate 1983-87
Quantity Imported										
Fertilizers ('000 tons)	129.7	208.7	129.6	150.7	74.3	268.1	283.4	227.0	8.0	10.2
Nitrogenous	61.8	63.0	70.8	72.3	36.3	111.5			11.8	
Phosphatic	25.5	36.2	28.2	12.8	2.0	10.3			-18.2	
Other	42.4	109.5	30.6	65.6	36.0	146.3			24.8	
Agricultural Chemicals ('000 tons)	6.4	4.9	4.9	5.9	5.7	4.9			-5.4	
Agricultural Machinery										
Tractors	5752.0	2737.0	820.0	983.0	792.0	1114.0			-32.8	
Hand tools	852.0	599.0	82.0	61.0	164.0	516.0			-10.0	
Quantum Indices (1982=100)										
Fertilizer	141.4	110.6	100.0	95.8	109.9	169.2	218.7	175.2	3.1	15.1
Purchased seeds	37.3	39.4	100.0	93.5	123.8	111.1	145.4	109.3	15.4	3.9
Total material inputs	104.7	85.4	100.0	93.5	131.8	132.0	143.3	162.9	6.3	13.9
Total material & service inputs	100.3	91.8	100.0	96.7	128.2	128.9	139.5	157.9	6.5	12.3
Value (in mn. of KL)										
Fertilizer	15.8	24.1	15.6	25.1	13.9	52.0			23.8	
Nitrogenous	6.3	6.0	7.3	11.9	6.3	16.4			19.3	
Phosphatic	3.1	4.4	3.9	2.0	0.3	1.8			-11.1	
Other	6.5	13.7	4.4	11.3	7.3	33.8			32.9	
Agricultural Chemicals	10.8	9.0	9.0	17.9	17.0	18.5			10.7	
Agricultural Machinery	8.9	8.0	6.6	4.0	7.4	11.1			4.5	
Tractors	8.3	7.4	6.5	4.0	7.1	10.5			4.8	
Hand tools	0.6	0.6	0.2	0.1	0.2	0.6			0.1	
Total imports	35.5	41.1	31.2	47.0	38.3	81.7			16.6	

*Except for fertilizer which shows averages over the 1980-87 period.

Sources: Government of Kenya and the World Bank

Table 14

ESTIMATES OF FERTILIZER USE, 1985/86
(in tons)

Crop	Estates and large farms	Small-holders	Total
Coffee	31,950	29,100	61,050
Maize	25,050	21,450	46,500
Tea	26,850	15,000	41,850
Sugarcane	19,050	20,700	39,750
Wheat	18,000	0	18,000
Other /1	15,735	15,500	31,235
Total	136,635	101,750	238,385

/1 Includes tobacco, potatoes, rice, sunflower, pineaplles, and other horticultural crops.

Sources: Government of Kenya

Table 15

ESTIMATES OF FINANCIAL RETURNS TO FERTILIZER USE
(in shillings per one silling worth of fertilizer)

Crop	1980/81	1981/82	1982/83	1983/84
Coffee	7.2	7.0	9.4	...
Tea	7.0	4.9	7.5	13.7
Maize	2.5	3.0	3.6	3.0
Wheat	4.0	3.7	4.5	4.3
Sugarcane	0.8	0.7	0.9	1.7
Sunflower	1.6	1.7	3.4	3.0
Barley	2.8	2.6	2.8	2.6

Sources: Government of Kenya

Table 16

DONOR-ASSISTED FERTILIZER, 1980 - 1987
(in metric tons)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Norway	4700	5890	.....	8430	....	22000	15000	17110
Denmark	....	....	....	....	12500	17500	....	....
Sweden	....	....	7000	....	....	10500	10000	15000
Finland	....	....	....	....	7000	18000	....	....
Netherlands	13000	18000	4000	....	24400	20000	30000	30000
Japan	7500	8800	3000	2500	4100	8370	....	8705
Italy	....	....	....	....	3000	20000	....	....
West Germany	....	....	....	....	....	....	7000	20000
F.A.O.	....	....	4500	....	1000	....	....	....
United States	43100	20800	....	14200	21000	29200	20000	51500
Total Donor-assisted Fertilizer	68300	53490	18500	25130	73000	145570	82000	142315
U.S. Assistance (as % of total)	63.1	38.9	0.0	56.5	28.8	20.1	24.4	36.2

Sources: Government of Kenya

REPUBLIC OF KENYA
MINISTRY OF FINANCE

THE TREASURY,
P. O. Box 30007,
NAIROBI.

Ref.No. PC 07/01/F/(53)

20th September, 1988.

The Kenya Grain Growers Co-operative Union,
P. O. Box 35,
NAKURU.

District Commissioners.

All Assistant Price Controllers.

Kenya National Trading Corporation.

Kenya National Federation of Co-operatives.

Commercial Fertilizer Importers.

THE 1988/89 FERTILIZER PRICES

The Government has approved fertilizer prices for the 1988/89 season according to the attached schedules which indicate prices applicable to various parts of the country.

Please note that these are maximum prices which include both the cost of transportation and any packing. Any changes thereof will be illegal.

The prices are effective from the date of this circular letter.

S. W. Wainaina (Miss)
PRICE CONTROLLER

Encls.

Copy to:

The Permanent Secretary,
Office of the President,
NAIROBI.

The Permanent Secretary,
Ministry of Agriculture,
NAIROBI.

The Permanent Secretary,
Ministry of Commerce,
NAIROBI.

The Permanent Secretary,
Ministry of Industry,
NAIROBI.

FERTILIZER PRICES

Sept 1980

FERTILIZER	MOMBASA Per Ton	p. 1kg	p. 25kg	P. 10kg	KWALE Per Ton	p. 50kg	p. 25kg	p. 10kg
NPK:25:5:5+5s	5575.40	278.75	139.40	55.75	5705.70	285.30	142.65	57.05
MAP	6779.20	338.95	169.50	67.80	6909.50	345.45	172.75	69.10
TSP	5053.00	252.65	126.30	50.55	5183.30	259.15	129.60	51.85
DAP	6461.20	323.05	161.55	64.60	6591.50	329.60	164.80	65.90
Urea	4462.45	223.10	111.55	44.60	4592.75	229.65	114.80	45.90
SA 21%	2986.10	149.30	74.65	29.85	3116.40	155.80	77.90	31.15
CAN 26%	3553.95	177.70	88.85	35.55	3684.25	184.20	92.05	36.85
ASN 46%	4780.45	239.00	119.50	47.80	4910.75	245.55	122.75	49.10
20:20:0	5666.25	283.30	141.65	56.65	5796.55	289.85	144.90	57.95
17:17:17	5734.40	286.70	143.35	57.35	5864.70	293.25	146.60	58.65
20:10:10	5200.15	264.00	132.00	52.00	5410.40	270.50	135.25	54.10
	KILIFI					WUNDANYI		
NPK:25:5:5+5s	5757.40	287.85	143.95	57.55	5930.05	296.50	148.25	59.30
MAP	6961.20	348.05	174.05	69.60	7133.85	356.70	178.35	71.35
TSP	5235.00	261.75	130.85	52.35	5407.65	270.40	135.20	54.05
DAP	6643.25	332.15	166.10	66.45	6815.05	340.80	170.40	68.15
Urea	4644.50	232.20	116.10	46.45	4817.10	240.85	120.40	48.15
SA 21%	3158.15	158.40	79.20	31.70	3340.75	167.05	83.50	33.40
CAN 26%	3735.95	186.80	93.40	37.35	3908.60	195.45	97.70	39.10
ASN 46%	4962.45	248.10	124.05	49.60	5135.10	256.75	128.35	51.35
20:20:0	5848.30	292.40	146.20	58.50	6020.90	301.05	150.50	60.20
20:10:10	5462.15	273.10	136.55	54.60	5634.00	281.75	140.85	56.35
17:17:17:	5916.40	295.80	147.90	59.15	6089.05	304.45	152.20	60.90

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FERTILIZER	NAIROBI				MACHAKOS			
	Per Ton	P.50kg.	P.25kg	P.10kg	Per Ton	P.50kg	P.25kg	P.10kg
NPK:25:5:5+5s	5994.30	299.70	149.85	59.95	6061.05	303.05	151.50	60.60
MAP	7198.00	359.90	179.95	72.00	7264.85	363.25	181.60	72.65
TSP	5471.80	273.60	136.80	54.70	5538.65	276.95	138.45	55.40
DAP	6880.00	344.00	172.00	68.80	6946.85	347.35	173.65	69.45
Urea	4881.25	244.05	122.05	48.80	4948.10	247.40	123.70	49.50
SA 21%	3404.90	170.25	85.10	34.05	3471.75	173.60	86.80	34.70
CAN 26%	3972.75	198.65	99.30	39.70	4039.60	202.00	101.00	40.40
ASN 46%	5199.25	259.95	130.00	52.00	5266.10	263.30	131.65	52.65
20:20:0	6085.05	304.25	152.10	60.85	6151.90	307.60	153.80	61.50
20:10:10	5698.90	284.95	142.45	57.00	5765.80	288.30	144.15	57.65
17:17:17	6153.20	307.65	153.85	61.55	6220.05	311.00	155.50	62.20

	KITUI				EMBU			
	Per Ton	P.50kg	P.25kg	P.10kg	Per Ton	P.50kg.	P.25kg	P.10kg
NPK:25:5:5+5s	6233.40	311.65	155.85	62.35	6205.65	310.30	155.15	62.05
MAP	7437.20	371.85	185.95	74.35	7409.45	370.45	185.25	74.10
TSP	5711.00	285.55	142.75	57.10	5683.25	284.15	142.10	56.85
DAP	7119.20	355.95	178.00	71.20	7091.45	354.55	177.30	70.90
Urea	5120.45	256.00	128.00	51.20	5092.70	254.65	127.30	50.90
SA 21%	3644.10	182.20	91.10	36.45	3616.35	180.80	90.40	36.15
CAN 26%	4211.90	210.60	105.30	42.10	4184.20	209.20	104.60	41.85
ASN 46%	5438.45	271.90	135.95	54.40	5410.70	270.55	135.25	54.10
20:20:0	6324.25	316.20	158.10	63.25	6296.50	314.85	157.40	62.95
20:10:10	5938.10	296.90	148.45	59.40	5910.40	295.50	147.75	59.10
17:17:17	6392.40	319.60	159.80	63.90	6365.20	318.25	159.15	63.65

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FERTILIZER	MERU Per Ton	p. 50kg	p. 25kg	p. 10kg	NAKUR per Ton	p. 50kg	p. 25 kg	p. 10kg
NPK:25:5:5+5s	6317.50	315.90	157.95	63.15	6409.45	320.45	160.25	64.10
MAP	7521.30	376.05	188.05	75.20	7613.25	380.65	190.35	76.15
TSP	5795.10	289.75	144.85	57.95	5887.05	294.35	147.15	58.85
DAP	7023.30	360.15	175.60	70.25	7295.25	364.75	182.40	72.95
Urea	5204.55	260.25	130.10	52.05	5296.50	264.80	132.40	52.95
SA 21%	3728.20	186.40	93.20	37.30	3820.15	191.00	95.50	38.20
CAN 26%	4296.05	214.80	107.40	42.35	4388.00	219.40	109.70	43.90
ASN 45%	5522.55	276.15	138.05	55.20	5614.50	280.70	140.35	56.15
20:20:0	6408.35	320.40	160.20	64.10	6500.30	325.00	162.50	65.00
20:10:10	6022.25	301.10	150.55	60.20	6114.05	305.70	152.85	61.15
17:17:17	6476.50	323.85	161.90	64.75	6568.45	328.40	164.20	65.70

	KAJIADO Per Ton	P.50kg	P. 25kg	P. 10kg	NARULU Per Ton	P. 50kg	P. 25kg	P. 10kg
NPK:25:5:5+5s	6103.75	305.20	152.60	61.05	6065.15	303.25	151.60	60.65
MAP	7307.55	365.40	182.70	73.05	7268.95	363.45	181.70	72.70
TSP	5561.35	279.05	139.55	55.80	5542.75	277.15	138.55	55.40
DAP	6989.55	349.50	174.75	69.90	6950.95	347.55	173.75	69.50
Urea	4990.80	249.55	124.75	49.90	4952.20	247.60	123.80	49.50
SA 21%	3514.45	175.70	87.85	35.15	3475.85	173.80	86.90	34.75
CAN 26%	4082.25	204.10	102.05	40.80	4043.65	202.20	101.10	40.45
ASN 45%	5308.80	265.45	132.70	53.10	5270.20	263.50	131.75	52.70
20:20:0	6194.50	309.75	154.85	61.95	6155.00	307.80	153.90	61.55
20:10:10:	5808.45	290.40	145.20	58.10	5765.05	288.50	144.25	57.70
17:17:17	6262.75	313.15	156.55	62.60	6224.15	311.20	155.60	62.25

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FERTILIZER	KAPSABET Per Ton	P. 50kg.	P. 25kg.	P. 10kg.	KERICHO Per Ton	P. 50kg.	P. 25kg.	P. 10kg.
NPK:25:5:5+5s	6292.50	314.65	157.30	62.90	6185.95	309.30	154.65	61.85
MAP	7496.30	374.80	187.40	74.95	7389.75	369.50	184.75	73.90
TSP	5770.10	288.50	144.25	57.70	5663.55	283.20	141.60	56.65
DAP	7178.30	358.90	179.45	71.80	7071.80	353.60	176.80	70.70
Urea	5179.55	259.00	129.50	51.80	5073.05	253.65	126.80	50.75
SA 21%	3703.20	185.15	92.60	37.05	3596.70	179.85	89.90	35.95
CAN 26%	4271.05	213.55	106.75	42.70	4164.50	208.25	104.10	41.65
ASN 46%	5497.55	274.90	137.45	54.95	5391.00	269.55	134.75	53.90
20:20:0	6383.35	319.15	159.60	63.85	6276.85	313.85	156.70	62.75
20:10:10	5997.25	299.85	149.95	59.95	5890.70	294.55	147.25	58.90
17:17:17	6451.50	322.55	161.30	64.50	6344.95	317.25	158.60	63,45

	THIKA Per Ton	P. 50kg.	P. 25kg.	P. 10kg.	LAMU Per Ton	P. 50kg.	P. 25kg.	P. 10kg.
NPK:25:5:5+5s	6006.00	300.30	150.15	60.05	6485.00	324.25	162.10	64.85
MAP	7209.80	360.50	180.25	72.10	7688.80	384.45	192.20	76.90
TSP	5483.60	274.20	137.10	54.85	5962.60	298.15	149.05	59.60
DAP	6891.85	344.60	172.30	68.90	7370.80	368.55	184.25	73.70
Urea	4893.05	244.65	122.30	48.95	5372.05	268.60	134.30	53.70
SA 21%	3416.70	170.85	85.40	34.15	3895.70	194.80	97.40	38.95
CAN 26%	4303.80	215.20	107.60	43,05	4463.55	223.20	111.60	44.65
ASN 46%	5211.05	260.55	130.25	52.10	5690.05	284.50	142.25	56.90
20:20:0	6096.05	304.85	152.40	60.95	6575.05	328.80	164.40	65.75
20:10:10	5710.75	285.55	142.75	57.10	6189.70	309.50	154.75	61.90
17:17:17	6165.00	308.25	154.10	61.65	6644.00	332.20	166.10	66.45

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Urea	5372.05	263.60	134.30	53.70	5120.00	256.05	120.00	51.20
SA 21%	3895.70	194.80	97.40	38.95	3644.45	182.20	91.10	36.45
CAN 26%	4463.55	223.20	111.60	44.65	4212.30	210.60	105.30	42.10
ASN 46%	5690.05	284.50	142.25	56.90	5438.00	271.95	135.95	54.40
20:20:0	6575.85	328.00	164.40	65.75	6324.60	316.25	158.10	63.25
20:10:10	6189.70	309.50	154.75	61.90	5938.45	296.90	146.00	59.40
17:17:17	6644.00	322.20	166.10	66.45	6392.75	319.65	159.60	63.90

	BARINGO				KITALE			
	Per Ton	P.50kg	P.25kg	P.10kg	Per Ton	P.50kg	P.25kg	P.10kg
NPK:25:5:5+5s	5285 65	314 30	157.15	62.85	6207.00	310.35	155.15	62.05
MAP	7489.45	374.45	187.25	74.90	7410.00	370.55	185.25	74.10
TSP	5763.25	288.15	144.10	57.65	5684.60	284.25	142.10	56.85
DAP	7171.45	358.55	179.30	71.70	7092.65	354.65	177.30	70.90
Urea	5172.70	253.65	129.30	51.70	5094.10	254.70	127.35	50.95
SA 21%	3696.35	184.80	92.40	36.95	3617.75	180.90	90.45	36.15
CAN 26%	4264.20	213.20	106.60	42.65	4185.55	209.30	104.65	41.85
ASN 46%	5490.70	274.55	137.25	54.90	5412.05	270.60	135.30	54.10
20:20:0	6376.50	318.80	159.40	63.75	6297.85	314.90	157.45	62.95
20:10:10	5990.40	299.50	149.75	59.90	5911.75	295.60	147.80	59.10
17:17:17	6444.65	322.25	161.10	64.45	6366.00	318.30	159.15	63.65

FERTILIZER	ELDORET				KAPENGURIA			
	Per Ton	P.50kg	P.25kg	P.10kg	Per Ton	P.50kg	P.25kg	P.10kg.
NPK:25:5:5+5s	6159.75	308.00	154.00	61.60	6269.85	313.50	156.75	62.70
MAP	7363.50	368.20	184.10	73.65	7473.65	373.70	186.85	74.75
TSP	5637.30	281.85	140.95	56.35	5747.45	287.35	143.70	57.45
DAP	7045.55	352.30	176.15	70.45	7155.65	357.80	178.90	71.55
Urea	5045.80	252.35	126.15	50.45	5156.90	257.85	128.90	51.55
SA 21%	3570.45	178.50	89.25	35.70	3680.55	184.05	92.00	36.80
CAN 26%	4102.80	205.15	102.55	41.00	4248.40	212.40	106.20	42.50
ASN 46%	5364.75	268.25	134.10	53.65	5474.90	273.75	136.85	54.75
20:20:0	6250.60	312.55	156.25	62.50	6360.70	318.05	159.00	63.60
20:10:10	5064.45	293.20	146.60	58.65	5974.60	298.75	149.35	59.75
17:17:17	6318.70	315.95	157.95	63.20	6428.85	321.45	160.70	64.30

	NYAHURURU				HOMA BAY			
	Per Ton	P.50kg	P.25kg	P.10kg	Per Ton	P.50kg	P.25kg	P.10kg
NPK:25:5:5+5s	5088.80	304.45	152.20	60.90	6453.30	322.65	161.35	64.55
MAP	7292.60	354.65	182.30	72.90	7657.10	382.85	191.40	76.55
TSP	5566.40	278.30	139.15	55.65	5930.90	296.55	148.25	59.30
DAP	6974.60	348.75	174.35	69.75	7339.10	366.95	183.45	73.40
Urea	4975.05	240.00	124.40	49.75	5340.35	267.00	133.50	53.40
SA 21%	3499.50	174.95	87.50	35.00	3864.00	193.20	96.60	38.65
CAN 26%	4067.30	203.35	101.70	40.65	4431.85	221.60	110.80	44.30
ASN 46%	6293.80	264.70	132.35	52.95	5658.35	282.90	141.45	56.60
20:20:0	6179.65	309.00	154.50	61.80	6544.15	327.20	163.60	65.45
20:10:10	5793.50	289.70	144.85	57.95	6158.05	307.90	153.95	61.60
17:17:17	6247.75	312.40	156.20	62.45	6612.30	330.60	165.30	66.10

FERTILIZER	KISII				KISUMU			
	Per Ton	P. 50kg	P.25kg	p.10kg	Per Ton	P.50kg	P. 25kg	P. 10kg
NPK:25:5:5+5s	6457.35	322.85	161.45	64.55	6159.75	308.00	154.00	61.60
MAP	7661.10	383.05	191.50	76.60	7363.50	368.20	184.10	73.65
TSP	5934.95	296.75	148.35	59.35	5637.30	281.85	140.95	56.35
DAP	7343.15	367.15	183.55	73.45	7045.55	352.30	176.15	70.45
Urea	5025.15	251.25	125.60	50.25	5046.00	252.35	126.15	50.45
SA 21%	3868.05	193.40	96.70	38.70	3570.45	178.50	89.25	35.70
CAN 26%	4115.45	205.75	103.40	43.55	4138.25	206.90	103.45	41.40
ASN 45%	5662.35	283.10	141.55	56.60	5364.75	268.25	134.10	53.65
20:20:0	6548.20	327.40	163.70	65.50	6250.50	312.55	156.25	62.50
20:10:10	6160.05	308.10	154.00	61.60	5864.45	293.20	146.60	58.65
17:17:17	6616.30	330.80	165.40	66.15	6318.70	315.95	157.95	63.20

	UKUALA/SIAYA				NANYUKI			
	Per Ton	P. 50kg	P. 25kg	P. 10kg	Per Ton	P. 50kg	P. 25kg	P. 10kg
NPK:25:5:5+5s	6326.95	316.35	158.15	63.25	6088.00	304.45	152.20	60.90
MAP	7530.75	376.55	188.25	75.30	7292.50	364.65	182.30	72.90
TSP	5804.55	290.25	145.10	58.05	5566.40	278.30	139.15	55.65
DAP	7212.00	360.65	180.30	72.10	6974.60	348.75	174.35	69.75
Urea	5214.05	260.70	130.35	52.15	4975.85	248.50	124.40	49.75
SA 21%	3737.70	186.90	93.45	37.35	3499.50	174.95	87.50	35.00
CAN 26%	4305.50	215.30	107.65	43.05	4067.30	203.35	101.70	40.65
ASN 45%	5532.00	276.60	138.30	55.30	5293.00	264.70	132.35	52.95
20:20:0	6417.20	320.90	160.45	64.15	6179.65	309.00	154.50	61.80
20:10:10	6031.70	301.60	150.80	60.30	5793.50	289.70	144.85	57.95
17:17:17	6485.95	324.30	162.15	64.85	6247.75	312.40	156.20	62.45

FERTILIZER	KAKAMEGA				BUNGOMA			
	Per Ton	Per 50kg	Per 25kg	Per 10kg	Per Ton	P. 50kg	P. 25kg	P. 10kg
NPK:25:5:5+5s	6277.00	313.90	156.95	62.75	6207.00	310.35	155.15	62.05
MAP	7481.60	374.10	187.05	74.80	7410.00	370.55	185.25	74.10
TSP	5755.40	287.75	143.90	57.55	5684.30	284.25	142.10	56.85
DAP	7163.90	358.20	179.10	71.65	7092.85	354.65	177.30	70.90
Urea	5164.85	258.25	129.10	51.65	5094.10	254.70	127.35	50.95
SA 21%	3688.50	184.40	92.20	36.90	3617.75	180.90	90.45	36.15
CAN 25%	4256.30	212.80	106.40	42.55	4185.55	209.30	104.65	41.85
ASN 46%	5482.85	274.15	137.05	54.80	5412.05	270.60	135.30	54.10
20:20:0	6368.65	318.45	159.20	63.70	6297.85	314.90	157.45	62.95
20:10:10	5982.50	299.15	149.55	59.80	5911.75	295.60	147.80	59.10
17:17:17	6436.00	321.85	160.90	64,35	6366.00	318.30	159.15	63.65

	BUSIA				ISIOLO			
	Per Ton	P. 50kg	P. 25kg	P. 10kg	Per Ton	P. 50kg	P. 25kg	P. 10kg
NPK:25:5:5+5s	6395.90	319.80	159.90	63.95	6272.70	313.65	156.80	62.70
MAP	7599.70	379.95	190.00	75.00	7476.50	373.80	186.90	74.75
TSP	5873.50	293.70	146.85	58.75	5750.30	287.50	143.75	57.50
DAP	7269.90	363.50	181.75	72.70	7150.50	357.55	178.55	71.60
Urea	5282.95	264.15	132.05	52.80	5159.75	258.00	129.00	51.60
SA 21%	3806.60	190.35	95.15	38.05	3683.40	184.15	92.10	36.85
CAN 26%	4374.45	218.70	109.35	43.75	4251.25	212.55	106.30	42.50
ASN 46%	5600.95	280.05	140.00	56.00	5477.75	273.90	136.95	54.75
20:20:0	6485.75	324.35	162.15	64.85	6363.55	318.20	159.10	63.65
20:10:10	6100.65	305.05	152.50	61.00	5977.45	298.85	149.45	59.75
17:17:17	6554.90	327.75	163.85	65.55	6431.70	321.60	160.80	64.30

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FERTILIZER	NYERI				MURANGA			
	Per Ton	P. 50kg	P. 25kg	P. 10kg	Per Ton	Per 50kg	Per 25kg	P. 10kg
NPK:25:5:5+5s	6129.46	306.45	153.20	61.30	6005.00	300.00	150.15	60.05
MAP	7332.90	366.65	183.30	73.30	7209.00	360.50	180.25	72.10
TSP	5603.70	280.35	140.15	56.05	5483.50	274.20	137.10	54.85
DAP	7014.90	350.75	175.35	70.15	6891.05	344.50	172.30	68.90
Urea	5016.15	250.80	125.40	50.15	4893.05	244.65	122.30	48.95
SA 21%	3539.00	177.00	88.50	35.40	3416.70	170.85	85.40	34.15
CAN 26%	4107.65	205.40	102.70	41.05	3984.55	199.25	99.50	39.85
ASN 46%	5334.15	266.70	133.35	53.35	5211.05	260.55	130.25	52.10
20:20:0	6219.95	311.00	155.50	62.20	6096.05	304.85	152.40	60.90
20:10:10	5833.85	291.70	145.85	58.35	5710.75	285.55	142.75	57.10
17:17:17	6288.10	314.40	157.20	62.90	6165.00	308.25	154.10	61.65

	KERUGOYA				KIAMBU			
	Per Ton	P. 50kg	P. 25kg	P. 10kg	Per Ton	Per 50kg	P. 25kg	P. 10kg
NPK:25:5:5+5s	6078.85	303.95	151.95	60.80	6006.90	300.35	150.15	60.05
MAP	7282.65	364.15	182.05	72.80	7222.50	361.15	180.55	72.20
TSP	5553.45	277.80	138.90	55.55	5496.35	274.80	137.40	54.95
DAP	6964.55	348.25	174.10	69.65	6904.55	345.25	172.60	69.05
Urea	4965.90	248.30	124.15	49.65	4905.80	245.30	122.65	49.05
SA 21%	3489.55	174.50	87.25	34.90	3429.45	171.45	85.75	34.30
CAN 26%	4057.40	202.85	101.45	40.55	3997.25	199.85	99.95	39.95
ASN 46%	5283.90	264.20	132.10	52.85	5223.75	261.20	130.60	52.25
20:20:0	6169.70	308.50	154.25	61.70	6109.60	305.50	152.75	61.10
20:10:10	5783.60	289.20	144.60	57.85	5723.45	286.15	143.10	57.25
17:17:17	6237.85	311.90	155.95	62.35	6177.70	308.90	154.45	61.75

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ERTILIZER	SAGANA Per Ton	P. 50kg.	P. 25kg.	P. 10kg.	CHEMELIL Per Ton	P. 50kg.	P. 25kg.	P. 1[illegible]
PK:25:5:5+5s	6053.30	302.65	151.35	60.55	6147.90	307.40	153.70	61.45
AP	7257.10	362.85	101.40	72.55	7351.70	367.60	183.80	73.50
SP	5530.90	276.55	130.25	55.30	5625.50	281.25	140.65	56.25
AP	6939.10	346.95	173.45	69.40	7033.70	351.70	175.85	70.35
rea	4940.35	247.00	123.50	49.40	5034.95	251.75	125.85	50.35
A 21%	3464.00	173.20	06.60	34.55	3558.60	177.95	94.45	37.00
AN 26%	6212.30	310.60	155.30	62.10	6306.90	315.35	157.65	63.05
SN 46%	5258.35	262.90	131.45	52.60	5352.95	267.65	133.80	53.50
0:20:0	6144.15	307.20	153.60	61.45	6238.75	311.95	155.95	62.40
0:10:10	5758.05	287.90	143.95	57.60	5852.65	292.65	146.30	58.50
7:17:17	6212.30	310.60	155.30	62.10	6306.90	315.35	157.65	63.05

	NAIVASHA Per Ton	P. 50kg.	P. 25kg.	P. 10kg.	SOTIK Per Ton	P. 50kg.	P. 25kg.	P. 10k
PK:25:5:5+5s	6053.30	302.65	151.35	60.55	6321.95	316.10	158.05	63.20
AP	7257.10	362.85	101.40	72.55	7525.75	376.30	188.15	75.25
SP	5530.90	276.55	138.25	55.30	5799.55	289.95	145.00	58.00
AP	6939.10	346.95	173.45	69.40	7207.75	360.40	180.20	72.05
rea	4940.35	247.00	123.50	49.40	5209.00	260.45	130.20	52.10
A 21%	3464.00	173.20	06.60	34.65	3732.65	186.65	93.30	37.30
AN 26%	6212.30	310.60	155.30	62.10	6480.95	324.05	162.00	64.80
SN 46%	5258.35	262.90	131.45	52.60	5527.00	276.35	138.15	55.25
0:20:0	6144.15	307.20	153.60	61.45	6412.55	320.65	160.30	64.10
0:10:10	5758.05	287.90	143.95	57.60	6026.70	301.35	150.65	60.25
7:17:17	6212.30	310.60	155.30	62.10	6480.95	324.05	162.00	64.80

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ERTILIZER	NIGORI Per Ton	NIGORI P. 50kg.	NIGORI P. 25 Kg.	NIGORI P. 10kg.	MARALAL Per Ton	MARALAL P. 50kg.	MARALAL P. 25kg.	MARALAL P. 10kg
K:25:5:5+5s	6634.45	331.70	165.85	66.35	6457.75	322.90	161.45	64.55
AP	7030.25	391.90	195.95	78.40	7661.55	383.10	191.55	76.6[illegible]
SP	6112.05	305.60	152.80	61.10	5935.35	296.75	143.40	59.35
AP	7520.25	376.0[illegible]	180.00	75.20	7343.50	367.15	183.60	73.4[illegible]
rea	5521.50	276.10	138.05	55.20	5344.80	267.25	133.6[illegible]	53.45
A 21%	4045.15	202.25	101.10	40.45	3860.45	193.40	96.70	38.7[illegible]
AN 26%	6793.45	339.65	169.85	67.95	5615.75	330.85	165.40	6[illegible].15
SN 4[illegible]%	5839.50	291.95	146.00	58.40	5662.80	283.15	141.55	56.[illegible]
20:20:0	6725.30	33[illegible].25	168.15	67.25	6548.60	327.45	163.70	65.5[illegible]
20:10:10	6339.20	316.95	158.50	63.40	6162.45	308.10	154.05	61.6[illegible]
7:17:17	6793.45	339.65	169.85	67.95	6297.50	314.85	157.45	62.95

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F " REFORM MATRIX

Fertilizer Pricing and Marketing Reform Program
(615-0243)

ANNEX A

NARRATIVE SUMMARY	BACKGROUND	INDICATORS OF OBJECTIVES AND POLICY IMPLEMENTATION
Program Goal: 1. To increase agricultural productivity, farm income and food security. 2. To contribute to increased foreign exchange earnings (savings) and employment.	Agriculture is the engine of growth for Kenya. In the Sixth Development Plan (1989-1993), the GOK considers agriculture as the most important strategic sector in: (a) absorbing new farm workers at a rate of 3 percent per year and generating farm incomes; (b) stimulating off-farm economic activities and jobs in rural areas at a rate of 3.5 to 5 percent per year; (c) providing food security for a growing population; and (d) providing foreign exchange through increased export crops. The sectoral growth rate for the Plan period is projected at 4.8 percent per year. In order to realize the growth rate, the GOK emphasizes institutional and policy reforms to enhance agricultural productivity and growth.	1. Crop yields increased by an average annual rate of 3.5 percent. 2. Farmers' income increased. 3. Official holding of grain reserves adequate to ensure food security for six months. 4. No drastic food price variations. 5. No substantial increases of emergency food imports. 6. Agricultural export volume increased. 7. Use of foreign exchange for food imports (adjusted for population growth) decreased.
Program Purpose: To increase fertilizer use by smallholder farmers in rural areas.	Given limited arable land supply, land use intensification through improved agricultural inputs is necessary for raising agricultural productivity. Wider use of fertilizer is critical especially in the short- and medium-term. The use of fertilizer is currently about one-third of estimated potential demand. The most likely source for higher productivity through the use of fertilizer is smallholder farmers.	1. Proportion of fertilizer consumed by smallholders increased toward 50% of total fertilizer consumption. 2. Fertilizer consumption increased continuously.

NARRATIVE SUMMARY	BACKGROUND	INDICATORS OF OBJECTIVES AND POLICY IMPLEMENTATION
Outputs: 1. Increased availability of fertilizer through a strengthened market network. 2. Increased Government and private sector promotion of appropriate fertilizer use by smallholder farmers.	The development of a market network for making fertilizer available to smallholder farmers has been constrained by inadequate price incentives, price announcements too late to prompt private sector imports, inadequate foreign exchange and cumbersome import quotas and allocation procedures. Some progress has been made in addressing these constraints since 1984, especially in development of a private sector distribution system.	1. Total imports of fertilizer increased by a minimum of 10 percent per year, and available in a timely manner. 2. Average travel distance from farm to fertilizer suppliers reduced. 3. Private sector fertilizer marketing network (importers, wholesalers and retailers) expanded and improved.
Policy Actions: A. Fertilizer Pricing: 1. Revise the official fertilizer pricing formula in order to: (a) reflect more accurately the "benchmark international price" (BIP); (b) ensure adequate profit margins for traders at all levels; and (c) move toward price liberalization by allowing official prices to relfect costs (including adeqate profits to importers and distributors). 2. Revise official prices more frequently and publicize them in time for importers to plan procurements for planting seasons.	The GOK established a Fertilizer Inputs Unit in the Ministry of Agriculture in 1986. The Unit is responsible for collecting and analyzing data related to demand, import allocation and prices. A new pricing formula based on the "Benchmark International Price" (BIP) was adopted. BIP based pricing is intended as a step towards market-based pricing, but the BIP has not been calculated accurately. It has not reflected sufficiently international price movements. The prices also tend to be announced late, resulting in a shortage of fertilizer imports relative to demand.	1. C&F price samples enlarged, realistic exchange rate used and weighted average method adopted. 2. Other direct and overhead charges (handling, transport, storage and finance, etc.) and profits appropriately reflected in the pricing formula. 3. A study to assess the potential for decontrolling prices undertaken by 2/90. 4. The study of decontrolling prices reviewed with A.I.D. and an action plan developed during the second year of the program. 5. Official prices reviewed and/or published twice yearly in June and September except for the first year of the program.

NARRATIVE SUMMARY	BACKGROUND	INDICATORS OF OBJECTIVES AND POLICY IMPLEMENTATION
B. Import Quota and Allocation: 1. Move toward unrestricted fertilizer import policy and introduce importer performance bonding to ensure that importers make realistic import applications. 2. Implement a set of allocation procedures already developed for donor-assisted fertilizer.	All fertilizer used in Kenya is imported. The GOK controls imports out of concern for over-importation and foreign exchange constraints. Government controls are in the forms of import quotas and maximum retail selling prices. Commerical imports are subject to import licensing and foreign exchange allocations. Donor-assisted fertilizer is administratively allocated through tendering procedures. Prior to 1984, fertilizer imports were unreliable, often arriving too late for the planting season. Imports and their distribution were concentrated in the hands of a few importers. While progress has been made in increasing the numbers of private sector importers and distributors, ad hoc decisions on certain allocations remain and clear objective criteria for allocations have not been fully implemented.	1. Fertilizer import quota and foreign exchange allocation for fertilizer imports increased. 2. Importer performance bonding intoduced during the Government Financial Year 1990/91. 3. Total fertilizer imports increased by a minimum of 10 percent per year beginning in Financial Year 1990/91. 4. Allocations are made according to the agreed eligibility criteria. Lists of allocation recipients are provided to USAID prior to disbursement for fertilizer. 5. Fertilizer imports to be provided by making foreign exchange available to private sector importers according to joint GOK/USAID criteria and procedures beginning in 8/90.
C. Promotion of Fertilizer Use: 1. Encourage extension services to actively disseminate information on proper use of fertilizer and its benefits. 2. Ensure that agricultural output pricing provides adequate economic incentives to suppport the use of productivity-enhancing agricultural inputs.	An important element in increasing fertilizer use by smallholder farmers is the dissemination of information related to fertilizer application and benefits. The lack of educational and promotional programs has been recognized by the GOK and the donors. The GOK has increased its efforts in extension services to provide appropriate information for the use of fertilizer. Fertilizer packaging in smaller bags (10 and 25 kg.) has also helped to promote the use of fertilizer by smallholder farmers. The GOK has also followed output pricing policies which provide adequate economic incentives for most crops.	1. Promotional brochures and booklets published and distributed by 2/90. 2. Bagging of fertilizer in 10 and 25 kg. bags continued and increased in response to demand from smallholder farmers. 3. Agricultural terms of trade do not deteriorate, particularly for crops such as maize, wheat and sugarcane (whose returns from fertilizer use are sensitive to output prices).

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ANNEX B

SUMMARY OF GOVERNMENT OF KENYA'S NATIONAL POLICY FOR FERTILIZER PRICING AND MARKETING

The following is an excerpt taken from the Government of Kenya's National Policy for Fertilizer Pricing and Marketing. This policy paper is being reviewed by the cabinet and has not been adopted officially. However, the policy recommendations discussed in this paper have already been followed in part by the Government.

1. FERTILIZER USE IN KENYAN AGRICULTURE AND OBJECTIVES FOR FERTILIZER PRICING AND MARKETING

Increased per-hectare crop yields through the application of increased amounts of fertilizer are an essential element of Kenya's strategy of agricultural intensification.

There has been a strong upward trend in fertilizer use in recent years and over 200,000 tonnes of fertilizer of various types are now imported and distributed annually. However, this level of use is much below potential national usage, which is estimated at 650,000 tonnes.

(a) fertilizer is not always readily available when required

(b) there is a lack of information on usage;

(c) unfavourable climatic conditions make usage of fertilizer by some farmers uneconomical. Some farmers have insufficient funds to purchase fertilizers.

The majority of fertilizer is currently used on the major cash crops, such as coffee, tea and sugar, which account for 60 percent of consumption. Approximately 55 percent of all fertilizer is consumed by estates and large farms and 45 percent by smallholders.

It has become increasingly necessary to develop clear policy guidelines within which fertilizer import requirements allocations, distribution and pricing can be determined. This paper proposes such guidelines.

As unused agricultural land of high and medium potential becomes progressively more limited, a major means of increasing output will be the improvement of yields through increased fertilizer use. This can be done by:

(a) ensuring that fertilizer is available to farmers at the right time, in the right place and at the right price;

(b) ensuring that returns to increased fertilizer use are attractive;

(c) making information about the benefits and methods of fertilizer use available to farmers through extension;

(d) ensuring that credit facilities and crop payment systems are improved to enable farmers to purchase fertilizer when needed.

2. THE PRESENT SYSTEM OF FERTILIZER MARKETING AND PRICING

All fertilizers used in Kenya are imported. These are drawn from the traditional manufacturing areas of Western Europe and the USA and also from Eastern Europe, North Africa, the Middle East and the Far East. To conserve foreign exchange, Kenya receives substantial amounts of fertilizer from donors on concessional terms and private importation is carefully monitored and controlled by the Government.

This control is exercised through:

(a) limitation of the total amount of each type to be imported be based on estimated national requirement;

(b) setting the maximum amount of each type which a particular firm is permited to import during the July-June fertilizer year;

(c) setting maximum retail selling prices.
Domestic distribution takes place through a wide range of supply channels within a competitive private sector. The largest distributor of fertilizer is the Kenya Grain Growers Cooperative union (KGGCU), which handles approximately 30 percent of the total imported.

Maximum retail prices are currently set by the Minister for Finance under the Price Control Act (Cap. 404) for twelve main types imported. For each type prices are set for 42 distribution centres.

3. PROBLEMS AND SHORTCOMINGS OF THE PRESENT SYSTEM

Following the recent introduction of improvements, the current system of importation, distribution and pricing of fertilizer works reasonably effectively. However, scope remains for further substantial improvements in efficiency and the following problem areas need to be addressed.

(a) Determination of the national requirement. Currently the data necessary to forecast accurately the national requirement of each type are not available. There is a need to project the annual requirement on a crop by crop basis. These projections should cover minor crops in addition to main crops on which fertilizer is used; Coffee, tea, suger and maize.

(b) The method of allocation import quotas has varied over time. As the number of applicants increases from year to year, there is need to set certain minimum requirements which qualify a firm for a quota allocation. These should be spelt out clearly to allow the number of applicants to be reduced and to ensure that allocations are sufficiently large to allow economic purchasing and shipment.

(c) <u>If commercial and aid importation</u> are not properly coordinated, either a national over-supply or a national deficit of fertilizer can result. There is need for commercial allocations to take full account of the fertilizers to be received under aid programmes.

(d) <u>The present Pricing methods</u> should be reviewed with the aim of:

(i) improving the estimation of the benchmark C&F prices which are used as the basis for setting the schedules of maximum retail prices;

(ii) Updating the pricing formula, which has been in use since 1979;

(iii) ensuring adequate margins for retailers in rural areas.

4. PROPOSED MODIFICATIONS TO THE PRESENT SYSTEM OF IMPORTATION AND DOMESTIC MARKETING AND PRICING

In both the short and medium term, the main objective of fertilizer policy will be to ensure that fertilizer is always available to the farmer when it is needed. It must also be available at prices which farmers can afford, especially smallscale farmers. To achieve the above objectives, the following steps need to be taken by the Government:

(a) the accuracy of estimating the national requirement must be enhanced. Estimates should be made on a crop by crop basis, taking into account the need for reserve stocks;

(b) aid fertilizer should be carefully coordinated with commercial importation and its arrival scheduled so that it does not disrupt domestic marketing;

(c) to ensure that importers make realistic applications and import the full amounts allocated to them, use should be made of performance bonding;

(d) import allocations should be specified separately for the short rains and the long rains at the time of allocation;

(e) to take advantage of economies of scale and to assist firms with small allocations to import profitably and thereafter to perform group purchasing and shipping should be encouraged.

(f) the present system employing benchmark international pricing should be refined, to allow more accurate estimation of the appropriate C&F prices to be used in the setting of maximum retail price schedules;

(g) the formula used for arriving at domestic maximum retail prices should include sufficient margins for it to be profitable to sell outside the main distribution centers at points close to the farmer;

(h) price reviews should be carried out sufficiently frequently to allow changes in world prices to be reflected in domestic maximum retail selling prices;

(i) monitoring of retail prices, especially in rural areas away from the main market centers should be strengthened to allow actions to be taken to correct localised shortages;

(j) in the long term, fertilizer importation should be liberalized, with the role of the Government limited to monitoring the types and quantities imported;

(k) in the long term, donors should be requested to supply fertilizer aid in the form of concessional funding for importation rather than as aid in kind.

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DETAILED COST ESTIMATES (PROJECT COMPONENT)

The following detailed cost estimates for the studies, monitoring, evaluation, training and consultancies funded under the project component are based on recent USAID experience with similar technical assistance contracts.

1. Fertilizer Price Decontrol Study

Professional staff requirements are an Agricultural Economist (1) and a Pricing Specialist (1), for 4 weeks each, working six day weeks.

Salaries:	
48 days @ $ 250/day (Professional)	12,000
24 days @ $ 100/day (Clerical)	2,400
Subtotal	14,400
Benefits @ 35%	5,000
Overhead, G&A @ 75%	10,800
60 days perdiem @ $ 110/day	6,600
Round trip airfares 2 @ $ 2,500	5,000
Subtotal	41,800
Fee @ 10%	4,200
Total	46,000
Contingency and Inflation	4,000
Grand Total	50,000

2. Evaluation and Impact Monitoring

Two evaluations are planned, one at the midpoint and one final at the PACD. Each team to be comprised of an Agricultural Economist (1), a Fertilizer Specialist (1), a Pricing Specialist (1) and a Behavioral Scientist (1). Each evaluation expected to take six work weeks.

Salaries: 120 days @ $ 250/day	30,000
Overhead @ 100%	30,000
Airfares 4 @ $ 2,500	10,000
Perdiem 170 days @ $ 110/day	18,700
In-country Travel	2,300
Subtotal	91,000
Fee @ 10%	9,000
Total	100,000
Total for 2 evaluations	200,000
Inflation and Contingency	20,000
Grand Total	220,000

3. Fertilizer Import Monitoring

Import monitoring services are expected to be provided by a local contractor who will be required to provide approximately 24 months of services by each of three staff over the life of the program.

Salaries:	
Team leader/manager	67,000
Accountant/End-use Utilization	48,000
Customs Documentation Specialist	16,000
Subtotal	131,000
Benefits @ 25%	33,000
Travel and Transportation	10,000
Allowances	7,000
Other Direct Costs	14,000
Subtotal	195,000

Overhead @ 30%	59,000
Subtotal	254,000
Fee @ 10%	25,000
Total	279,000
Inflation and Contingency	21,000
Grand Total	300,000

4. Short-term Consultancies

To provide assistance to the Fertilizer Inputs Unit of the Ministry of Agriculture on fertilizer pricing, 10 person months of short-term consultancies are planned over the life of the project. Costs for short-term consultants are based on six day work weeks. Costs per month are estimated to be:

Salary 24 days @ $ 250	6,000
Benefits @ 35%	2,100
Overhead, G&A @ 65%	3,900
Round trip airfare @ $2,500	2,500
Perdiem 30 days @ $ 110/day	3,300
Local Travel	500
Other costs	700
Subtotal	19,000
Fee @ 10%	2,000
Total	21,000
Total for 10 person months	210,000
Inflation and contingency	20,000
Grand Total	230,000

5. Studies, Audit, Training and Seminars

Various policy studies, training and seminars on fertilizer pricing, marketing and monitoring are planned over the life of the program. The short-term consultancy rate is used to estimate costs for studies.

Policy Studies and Audit

10 person months @ $ 21,000	210,000

Training

Short-term U.S. 5 @ $ 6,000	30,000

Seminar

In-country 3 @ $ 10,000	30,000
Sub-total	270,000
Inflation and Contingency	30,000
Total	300,000

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ANNEX D

REPUBLIC OF KENYA

OFFICE OF THE VICE-PRESIDENT AND MINISTRY OF FINANCE

Telegraphic Address:
FINANCE-NAIROBI
Telephone: 338111
When replying please quote
Ref. No. EA/FA 9/016
and date

THE TREASURY
P.O. Box 30007
NAIROBI
KENYA

26th May 1989

The Director
USAID/Kenya
NAIROBI.

RE. KENYA FYs 1989 - 1992 FERTILIZER PROGRAMME

Over the last six months or so your officials and those of GOK have been discussing a 'Kenya Fertilizer Pricing & Marketing Reform Program'. The program proposes to provide a 3 - year 150,000 metric tons of DAP fertilizer at an estimated cost of US$ 45 Million.

The purpose of this letter is to make a formal request to USAID to facilitate the signing of the Agreement as soon as approval is granted from AID office in Washington D.C.

We look forward to our continued co-operation.

Yours sincerely

G. KIOKO wa LUKA
for: PERMANENT SECRETARY/ TREASURY

ANNEX E to the
Kenya Fertilizer
Pricing and
Marketing
PAAD (615-0243)

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Project Country:	Kenya		
Project Title:	Kenya Fertilizer Pricing and Marketing Reform Program - (615-0243)		
Funding:	FY(s)	89 - 91	$45,000,000.00
IEE Prepared:	Dr. Edward McGowan, REO		

Environmental Action Recommended:

Positive Determination	____________
Negative Determination	(Qualified see attached)

Approved	X
Disapproved	____________
Date	AUG 10 1989

Concurrence:

Bureau Environmental Officer: Bessie L. Boyd, AFR/TR/ANR AUG 10 1989

Clearance ____________ Date ____________
REDSO/ESA/RLA

Program Description:

The Kenya fertilizer program is essentially a continuation of past efforts in the importation of DAP fertilizer. The program's thrust is one of policy and institutional reform in fertilizer pricing and marketing. Funding for support of agricultural sector investments will be derived from counterpart moneys arising through the fertilizer CIP.

Funding from 615-0240 will be utilized to support a monitoring and evaluation component as well as TA, policy studies, and training in fertilizer pricing marketing. A farm level use analysis and monitoring component is included. Monitoring and analysis at this (farm) level will show use by district, type of fertilizer, types of farms, commodities etc. It will also indicate the magnitude of both supply and demand related problems, and provide a basis for program impact evaluations.

Focus on Environmental Considerations:

The Mission's recent IFDC study on fertilizer usage in Kenya indicated, that for certain soil types, use of DAP fertilizer could over the long term exacerbate problems with soil acidity. The focus of the environmental consideration accordingly is 1) the potential affect eliminate on soil pH by use of DAP fertilizer and 2) any necessary mitigators. There exist early indicators of a potential but distant cumulative impact from the use of certain fertilizers on acid soils.

Recommendations:

It is recommended that the indicative scope of work (see Appendix) be implemented to address the issues during the life of this program. Additionally, it is recommended that the draft covenants contained in the Appendix to be included in the Program Agreement.

Notwithstanding studies over the life of the program, it is felt that the rate of change in soil pH is likely to be slow. As such results at program's end may be only suggestive on inconclusive. Therefore the indicative SOW is written to recommend that consideration be given to a longer term horizon in monitoring. It will be noted that if the period of necessary monitoring exceeds that of the project, the GOK as a responsible participant is encouraged to continue the process.

1406y

SCOPE OF WORK * (Indicative only)

An abundance of data currently exist on soils as well the affect on soils by use of DAP. What is needed is the pulling together of information to focus on the issue at hand. From this, intelligent direction should be forthcoming. The SOW which follows is intended to both prepare the stage and provide for the necessary follow-on.

1. Review status of existing data/studies on soils, especially soils showing acid problems. Brief relevant GOK and USAID/K staff on sufficiency or suggest any need for follow on work.

2. Review status of data on agro ecological zones for correlation with above soils data. Brief relevant GOK and USAID/K staff on sufficiency or suggest any need for follow on.

3. Review status of land use data for correlation with soils data. Brief relevant GOK and USAID/K staff on sufficiency or needs.

4. Review status of data on fertilizer usage by: area, crop, farm type/size, time. Brief relevant GOK AND USAID/K staff on sufficiency or needs.

5. Prepare map of regions showing potential for acid soils problems/with overly of current and projected agriculture especially DAP use area.

6. Derive data on average rates of soils pH change with and without DAP - Prepare Projections using DAP applications over time vs change pH.

7. Review existing institutional capacities and terms of responsibilities in area of soils acidity mitigation - Institutions to include both public and private sectors. Brief relevant GOK and USAID/K staff on sufficiency or need.

8. Summarize physical and institutional issues re acid soil change in pH and usage of DAP.

9. Prepare recommendations (both physical & institutional) to mitigate problem - if any.

*This is to be undertaken by the GOK directly or under a host country contract. The specific Scope of Work will be jointly agreed upon by the GOK and USAID/K.

1406y

COVENANT

Environmental Studies: The GOK covenants to undertake and complete or cause to be undertaken and completed, as of the dates shown below, studies to address the following environmental concerns, copies to be provided to USAID/K:

a. In consultation with USAID/K, develop a protocol (the SOW) for a study which investigates the changes in soil pH and consequent effects on agricultural productivity, to be completed not later than December 31, 1989.

b. Baseline studies relating to acid soils, fertilizer usage and effects of DAP fertilizer on soil pH, to be completed not later than June 30, 1990.

c. To begin, no later than the midpoint of the program and to complete, by the end of the program, the study called for by the SOW, including recommendations for mitigating environmental concerns, if any.

1406y

5C(1) - COUNTRY CHECKLIST

'sted below are statutory criteria ɂpplicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. <u>GENERAL CRITERIA FOR COUNTRY ELIGIBILITY</u>

1. <u>FY 1989 Appropriations Act Sec. 576(b)</u> Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?	No
?. <u>FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07.</u> (This provision apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance form the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which such significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreements? and (b) Has the President	N/A

in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. <u>1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404.</u> (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, — N/A

encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. <u>FAA Sec. 620(c)</u>. If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity? — No

5. <u>FAA Sec. 620(e)(1)</u>. If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

6. FAA Sec. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided, either directly or indirectly, to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? — No N/A

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — No

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — No

10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the — (a) No

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FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriation Act appropriates funds?

(b) No

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator or the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, taken into account by the administration at time of approval of Agency OYB.

?. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

Kenya was not in arrears as of March 31, 1989.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?	No
15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)?	No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?	No
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?	No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)	No

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?	No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)	Kenya was represented at the meeting and failed to disassociate itself from the communique. This was taken into consideration when approving the FY 89 OYB.
21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United State?.	No
22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?	No
23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?	Yes.

'A)2 - NONPROJECT ASSISTANCE CHECKLIST

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

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   The Committees were notified in the FY 89 Congressional Presentation. Also a Congressional Notification was submitted in June, 1989.

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

   No further legislative action is required.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   No.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unison and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	The assistance will finance imports of DAP fertilizer from the US, and will be sold primarily by private sector firms in Kenya. As such, it will directly increase international trade and foster private initiative.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The source of all fertilizer imported in CIP programs is restricted to the US. The procurements will be advertised and this will encourage US private trade abroad.
6. FAA Secs. 612(b), 636(h); FY 1989 Appropriations Act Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	US owned local currency is not available.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	The US does not own excess Kenya Shillings.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
9. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A

?. FY 1989 Appropriations Act
Will assistance be designed so that the percentage of women participants will be demonstrably increased?

The assistance is designed to result in increased fertilizer application by Kenyan small land holding farmers, and a large percentage of them are women. Therefore the assistance will provide increased benefits to women.

`. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	Yes Yes
b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?	No
c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?	Yes Yes
d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	Yes
e. FY 1989 Appropriations Act. If assistance is in the form of a cash transfer (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S.	This is not a cash transfer.

government, as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? (c) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

2. <u>Nonproject Criteria for Development Assistance</u>

a. <u>FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will</u> (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

The program will provide additional fertilizer imports. These imports will allow farmers, a large percentage of whom are women, to increase their economic activity. The local currency proceeds will allow the government to undertake projects which will benefit the poor in both urban and rural sectors.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source): (1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value: Improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and' by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

The fertilizer marketing reforms promoted by this program will increase the agricultural productivity and incomes of the rural poor. Also, the increased use of fertilizer expected to result from these reforms will directly contribute to national food security.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach. N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities. N/A

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

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

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

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development N/A

plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

c. FY 1989 Appropriations Act. Have local currencies generated by the sale of imports or foreign exchange by the government of a country in Sub-Saharan Africa from funds appropriated under Sub-Saharan Africa, DA been deposited in a special account established by that government, and are these local currencies available only for use, in accordance with an agreement with the United States, for development activities which are consistent with the policy directions of Section 102 of the FAA and for necessary administrative requirements of the U.S. Government?

Yes.

FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

e. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The program recognizes the need of Kenyan farmers for greater economic productivity and attempts to address this by increasing the availability of fertilizer to assist them in increasing agricultural outputs. It also recognizes the need to strengthen the institutions involved in fertilizer distribution and attempts to accomplish this by creating a competitive environment that will provide sufficient profit margins for companies to develop in response to market demands.

<u>FAA Sec. 101(a).</u> Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes.

0134G
June 14, 1989

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This sections divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded with Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1989 Appropriations Act Sec. 523; FAA Sec. 634A. If money is sought to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?	A Congressional Notification was submitted in June, 1989.
2. FAA Sec. 611(a)(1). Prior to an obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S of the assistance?	Yes
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	N/A

. FAA Sec. 611(b); FY 1989 Appropriations Act Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)	N/A
5. FAA Sec. 611(e). If project is capital assistance (*e.g.*, construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N/A
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	No N/A
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	Project assistance will finance policy studies that will facilitate increased fertilizer imports and allocations by private commercial sources.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	N/A

FAA Sec. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The host country is contributing 25% of the project cost in cash and in kind. They include salary and benefits for personnel, office space, office furniture, and utility costs.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

The U.S. does not own excess Kenya Shillings.

11. FY 1989 Appropriations Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. procures of the same, similar or competing commodity?

N/A

12. FY 1989 Appropriations Act Sec. 549. Will the assistance (except for programs in Caribbean Basis Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work floves or leather wearing apparel?

No

13. FAA Sec. 119(g) (4)-(6) & (10). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a

No

long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

14. FAA Sec. 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A

15. FY 1989 Appropriations Act. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government? N/A

16. FY 1989 Appropriations Act Sec. 538. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.? N/A

17. FY 1989 Appropriations Act Sec. 514. If funds are being obligated under tn appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained? N/A

'. State Authorization Sec. 139.
(as interpreted by conference).
Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

(a) FY 1989 Appropriations Act Sec. 548. (as interpreted by conference report for original enactment). If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in the third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?

N/A

(b) FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life, and otherwise encourage democratic private and local governmental

a) Improved fertilizer marketing, which will result from the conditionality of the overall program supported by this technical assistance, will directly increase access by the rural poor to a key agricultural input.
b) as a major fertilizer distributor, the Kenya Grain Growers Cooperative Union will be strengthened by this program.
c) the increased food self-reliance which can result from increased productivity in the agricultural sector is the most basic of self-help efforts.
d) as the majority of the farming population of Kenya, women will benefit from increased efficiency in the agricultural sector
e) no impact is anticipated on regional cooperation.

institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

c. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1989 Appropriations Act (Development Fund for Africa). Does the project fit the criteria for the source of funds (functional account) being used?	Yes
d. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?	N/A
e. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?	Yes
f. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority?	Improvements in the fertilizer distribution system which will result from the program supported by this technical assistance will increase the access of small-holder agriculturalists to this important agricultural input.

. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

By promoting the role of private sector fertilizer distributors in the input supply system, the program supports wider participation in the development process.

h. FY 1989 Appropriations Act Sec. 536. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilization?

No

Are any of the funds to be used to pay for any biomedical research which rates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No

i. FY 1989 Appropriations Act. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization?

No

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

N/A

j. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

k. FY 1989 Appropriations Act. What portion of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, colleges and universities having a student body in which more than 40 percent of the students are Hispanic Americans, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? — None

l. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? — Yes

Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; — N/A

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(d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network or protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate projected areas; (j) seek to increase the awareness of U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k)/utilize the resources and abilities of all relevant U.S. government agencies?

m. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b)/take full account of the environmental impacts of the proposed activities on biological diversity? — N/A

n. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotice plants or animals into such areas? — No

o. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water control structures — No which flood relatively undergraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

p. FY 1989 Appropriations Act. If assistance will come from the Sub-Saharan Africa DA account, is it (a) to be used to help the poor majority in Sub-Saharan Africa through a process of long-term development and economic growth that is equitable, participatory, environmentally sustainable, and self-reliant; (b) being provided in accordance with the policies contained in section 102 of the FAA; (c) being provided, when consistent with the objectives of such assistance, through African, United States and other PVOs that have demonstrated effectiveness in the promotion of local grassroots activities on behalf of long-term development in sub-Saharan Africa; (d) being used to help overcome shorter-term constraints to long-term development, to promote reform of sectoral economic policies, to support the critical sector priorities of agricultural production and natural resources, health, voluntary family planning services, education, and income generating opportunities, to being about appropriate sectoral restructuring of the Sub-Saharan African economies, to support reform in public administration and finances and to establish a favorable environment for individual enterprise and

(a) Yes. The assistance will encourage improvements to the marketing network for fertilizer supply to smallholder farmers.

(b) Yes.

(c) PVO participation is not consistent with the objectives of the program.

(d) Yes. The assistance is specifically designed to support reform of the fertilizer sub-sector.

self-sustaining development, and to take into account, in assisted policy reforms, the need to protect vulnerable groups; (e) being used to increase agricultural production in ways that protect and restore the natural resource base, especially food production, to maintain and improve basic transportation and communication networks, to maintain and restore the nature resource base in ways that increase agricultural production, to improve health conditions with special emphasis on meeting the health needs of mothers and children, including the establishment of self-sustaining primary health care systems that give priority to preventive care, to provide increased access to voluntary family planning services, to improve basic literacy and mathematics especially to those outside the formal educational system and to improve primary education, and to develop income-generating opportunities for the unemployed and underemployed in urban and rural areas?

(e) Yes. The policy reforms supported by the program will promote increased agricultural production.

q. <u>FY 1989 Appropriations Act Sec. 515.</u> If deob/reob authority is sought to be exercised in the provision of DA assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

N/A

2. Development Assistance Project Criteria (Loans Only) — N/A

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. — N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? — N/A

c. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? — N/A

Economic Support Fund Project Criteria — N/A

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — N/A

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? — N/A

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N/A

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ANNEX I

AGR/REDSO ~~CHRON COPY~~

UNCLASSIFIED STATE 096790/01

PROJECT - 615-0243
X-REDSO FILE

ACTION: AID-2 INFO: ECON POL/RLO FAS

ZCNA0582 — 29-MAR-89 — TOR: 02:56
OO RUEHNR — CN: 03333
DE RUEHC #6790/01 0870251 — CHRG: AID
ZNR UUUUU ZZH — DIST: AID
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FM SECSTATE WASHDC
TO AMEMBASSY NAIROBI IMMEDIATE 3439
BT
UNCLAS SECTION 01 OF 04 STATE 096790

AIDAC, NAIROBI FOR USAID/KENYA AND REDSO/ESA RLA

E.O. 12356: N/A

TAGS:

SUBJECT: KENYA FERTILIZER PRICING AND MARKETING REFORM PROGRAM (615-0243), PAIP ECPR GUIDANCE

REF: NAIROBI 06555

SUMMARY: MARCH 1, 1989 AFRICA BUREAU ECPR CHAIRED BY DAA/AFR E. L. SAIERS APPROVED THE PAIP FOR THE KENYA FERTILIZER PRICING AND MARKETING REFORM PROGRAM (FPMR) AT LOP OBLIGATION LEVEL OF DOLS FORTY-FIVE (45) MILLION AND FY 1989 OYB OBLIGATION OF DOLS 15 MILLION. ATTENDEES INCLUDED AFR/PD/EAP, AFR/EA, AFR/DP, AFR/TR, GC/AFR. ECPR APPROVED A MULTI-YEAR PROGRAM (NOT TO EXCEED THREE YEARS) TO BE AUTHORIZED, WITH OBLIGATION OF FUNDS, ON AN ANNUAL BASIS.

THE ECPR ALSO RECOMMENDED THAT AA/AFR PROVIDE AN AD HOC DOA FOR FIELD APPROVAL OF THE PAAD SUBJECT TO AID/W REVIEW AND CONCURRENCE WITH THE FINAL CONDITIONALITY FOR THE LIFE OF PROGRAM TOGETHER WITH AN EXPLANATION OF THE RATIONALE FOR THEIR SELECTION.

THE PLANNED TECHNICAL ASSISTANCE PORTION NOT DIRECTLY ASSOCIATED WITH THE FERTILIZER PROGRAM SHOULD BE SEPARATED FROM THE FPMR PROGRAM AND DESIGNED AS A DISCRETE DFA-FUNDED TECHNICAL ASSISTANCE PROJECT INDEPENDENT OF THE FPMR PROGRAM. THIS CABLE CONTAINS AA/AFR AUTHORITY TO PROCEED DIRECTLY TO THE DESIGN OF A PP FOR A NEW PROJECT WITHOUT REQUIREMENT FOR A PID. THE PROPOSED TECHNICAL ASSISTANCE PROJECT SHALL NOT EXCEED AN LOP LEVEL OF DOLS SEVEN (7) MILLION WITH AN FY 1989 OYB OBLIGATION OF DOLS 2 MILLION.

THE FOLLOWING GUIDANCE IS PROVIDED FOR DESIGN OF THE SUBJECT PROGRAM PAAD:

1. PURPOSE STATEMENT:

THE ECPR NOTED THAT THERE APPEAR TO BE CONFLICTING AND INAPPROPRIATE PROGRAM PURPOSE STATEMENTS IN THE PAIP. THE PAIP STATES THAT THE PROPOSED PROGRAM HAS A DUAL PURPOSE: (A) TO FACILITATE POLICY AND

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INSTITUTIONAL REFORMS IN FERTILIZER PRICING AND MARKETING WHICH WILL CONTRIBUTE TO GOAL OF INCREASING AGRICULTURAL PRODUCTIVITY; AND (B) TO PROVIDE ADDITIONAL FOREIGN EXCHANGE IN THE FORM OF FERTILIZER IMPORTS FROM THE UNITED STATES (SEE PAGE 17). HOWEVER, THE SUBJECT PAIP POLICY REFORM MATRIX (PAGES 17A AND 17B) STATES THE PROPOSED PROGRAM PURPOSE AS: (A) TO INCREASE FERTILIZER SUPPLY TO SMALLHOLDER FARMERS IN RURAL AREAS THROUGH STRENGTHENING AND PROMOTING A FERTILIZER NETWORK AT PRICES THAT REFLECT COSTS (INCLUDING ADEQUATE PROFITS TO IMPORTERS AND DISTRIBUTORS); AND (B) TO PROVIDE ADDITIONAL FOREIGN EXCHANGE AND BUDGETARY RESOURCES FOR FERTILIZER IMPORTS AND FOR SUPPORT OF AGRICULTURAL SECTOR INVESTMENT IN LIGHT OF THE GOK'S BUDGET RATIONALIZATION EFFORT. THE ECPR CONCLUDED THAT THE SECOND PART OF THE PURPOSE STATEMENT IN EITHER VERSION SHOULD BE DROPPED, SINCE PROVISION OF FOREIGN EXCHANGE OR BUDGETARY RESOURCES (EVEN WHEN COUCHED IN TERMS OF SPECIFIC IMPORTS), OR REFERENCE TO GENERAL BUDGET RATIONALIZATION EFFORTS ARE INAPPROPRIATE PURPOSES FOR DFA FUNDS. WHILE THESE PURPOSES WOULD BE APPROPRIATE AS AN ADDITIONAL PURPOSE AND JUSTIFICATION FOR AN ESF-FUNDED SECTOR SUPPORT PROGRAM, HERE THE ESF FUNDS WILL BE USED AS AN INTEGRAL PART OF THE SAME PROGRAM WITH DFA FUNDS. THUS, THE NARROWER PURPOSE AND JUSTIFICATION REQUIREMENT APPLICABLE TO DFA FUNDS NEEDS TO BE USED FOR THE ENTIRE

JUSTIFICATIONS FOR THE TWO SEPARATE TYPES OF FUNDS WOULD INAPPROPRIATE, SINCE IT WOULD RISK CONFUSION, PARTICULARLY WITH CONGRESS.

(B) IN ANY CASE, THE PRIMARY BENEFICIARIES OF THE PROPOSED PROGRAM ARE THE SMALLHOLDER FARMERS. THE SUBJECT PROGRAM PURPOSE STATEMENT SHOULD FOCUS DIRECTLY ON THESE BENEFICIARIES. THE PROGRAM PURPOSE STATEMENT INCLUDED IN THE PPMR PAIP POLICY REFORM MATRIX QUOTE TO INCREASE FERTILIZER SUPPLY TO SMALLHOLDER FARMERS IN RURAL AREAS THROUGH STRENGTHENING AND PROMOTING A FERTILIZER MARKET NETWORK AT PRICES THAT REFLECT COSTS INCLUDING ADEQUATE PROFITS TO IMPORTERS AND DISTRIBUTORS. UNQUOTE APPEARS TO BE AN APPROPRIATE STATEMENT OF THE PROGRAM'S PURPOSE AND THE ECPR SUGGESTS IT BE RETAINED DURING PAAD DESIGN. THE MISSION SHOULD ENSURE THAT ALL STATEMENTS OF THE SUBJECT PROGRAM GOAL AND PURPOSE ARE CONSISTENT THROUGHOUT THE PROGRAM DOCUMENTATION AND REFERENCES TO A PROPOSED BALANCE OF PAYMENTS/BUDGETARY SUPPORT PROGRAM OBJECTIVE OR COMPONENT DELETED.

2. LOCAL CURRENCY USAGE.

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(A) THE LOCAL CURRENCY USE PLAN (PAGE 22) SHOULD BE MODIFIED TO CONFORM TO THE GUIDANCE FOR LC GENERATED UNDER SECTOR SUPPORT PROGRAMS WITH DFA FUNDS (JULY 12 1988 HEADQUARTERS MANAGEMENT NOTICE NO. 88-44) AND WITH ESF FUNDS (HB 1, PART VII) AS APPLICABLE. LC GENERATION IS AN AREA WHERE THE TWO TYPES OF FUNDS CAN BE SEPARATED AND SEPARATE REQUIREMENTS FOLLOWED. THE DFA-GENERATED LC MUST BE USED IN SUPPORT OF SECTOR PROGRAM OBJECTIVES, EXCEPT IN EXTRAORDINARY CIRCUMSTANCES. USE OF THE LC IN SUPPORT OF A SECTOR PROGRAM IS A MAJOR POINT OF WHAT CONGRESS INTENDED WITH DFA SECTOR SUPPORT PROGRAMS, IRRESPECTIVE OF DOLLAR USE. THE ECPR DOUBTED EXCEPTIONAL CIRCUMSTANCES JUSTIFYING ANOTHER USE OF DFA LC COULD BE MADE IN THIS CASE. FYI: USE OF THE LC FOR OTHER THAN SUPPORT OF PROGRAM OBJECTIVES MUST BE SPECIFICALLY APPROVED BY AA/AFR. END FYI.

(B) UNDER THE GUIDANCE APPLICABLE TO ESF-FUNDED SECTOR SUPPORT PROGRAMS, WHERE THE DOLLARS ARE USED WITHIN THE SECTOR, AS IN FPMR, THE LC NEED NOT BE SO USED. THUS, WHILE THE ESF-GENERATED LC COULD BE USED FOR BROADER DEVELOPMENTAL PURPOSES, THE ECPR HAS NO OBJECTION TO ITS

USE IN SUPPORT OF SECTOR PROGRAM OBJECTIVES OR IN THE ORDER OF PREFERENCE CONTAINED ON PAGE 22.

(C) FINALLY, ALTHOUGH THE DFA STATUTE EXPLICITLY AUTHORIZES USE OF DFA-GENERATED LC FOR OE TRUST FUND PURPOSES, ECPR PREFERENCE IS THAT ESF LC BE USED TO MEET OE TRUST FUND REQUIREMENTS UNDER THIS PROGRAM IF PRACTICABLE.

3. TECHNICAL ASSISTANCE COMPONENT. THE PAIP PROPOSES THAT CERTAIN TYPES OF ON-GOING TECHNICAL ASSISTANCE (TA) WHICH DO NOT RELATE DIRECTLY TO THE FERTILIZER SECTOR BE CONTINUED (E.G. BUDGET INFORMATION SYSTEMS, RESOURCE PLANNING IN RURAL DEVELOPMENT, TAX ADMINISTRATION) AS THESE ARE ALL TOP PRIORITIES OF THE GOT. THE ECPR AGREED THAT THERE APPEARS TO BE SUFFICIENT IMMEDIATE JUSTIFICATION FOR TECHNICAL ASSISTANCE IN THE AREAS DESCRIBED IN THE SUBJECT PAIP, BUT THE ECPR COULD NOT CLEARLY IDENTIFY HOW THE PROPOSED NON-FERTILIZER TECHNICAL ASSISTANCE IS DIRECTLY RELATED TO THE PROPOSED PROGRAM PURPOSE. BECAUSE THE FPMR IS NOW PARTLY DFA-FUNDED, ITS PURPOSE MUST BE NARROWER THAN THE PAST ESF-FUNDED GENERAL STRUCTURAL ADJUSTMENT PROGRAM. THEREFORE, THE ECPR SUGGESTS THAT THE PROPOSED NON-FERTILIZER RELATED TECHNICAL ASSISTANCE BE APPROPRIATELY PACKAGED AS A DISCRETE DFA-FUNDED TECHNICAL ASSISTANCE PROJECT INDEPENDENT OF THE FPMR PROGRAM. THE ECPR DETERMINED THAT THERE WAS SUFFICIENT CONCEPTUAL DEFINITION/FRAMEWORK FOR A TECHNICAL ASSISTANCE PROJECT FROM THE DESCRIPTION CONTAINED IN THE SUBJECT PAIP TO CONSTITUTE A.I.D./W PID-LEVEL APPROVAL OF SUCH A COMPONENT AND TO ENABLE A.I.D./W'S CONCURRENCE IN THE MISSION'S DEVELOPMENT OF DOCUMENTATION AND ITS AUTHORIZATION/APPROVAL OF A SEPARATE TA PROJECT. PARA. 10 OF THIS CABLE CONTAINS AN

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AD HOC DOA TO APPROVE PP FOR THE TA PROJECT WITHOUT PRI DEVELOPMENT OF A PID. A COPY OF THE TA PROJECT'S IE OULD BE FORWARDED TO A.I.D./W FOR THE AFRICA BUREAU ENVIRONMENTAL OFFICER'S CONCURRENCE. TO MEET 611(A) REQUIREMENTS, THE PP SHOULD EITHER FULLY PLAN AND DESCRIBE THE ACTIVITIES THAT WILL BE CARRIED OUT, OR ALTERNATIVELY, LIST SPECIFIC CRITERIA AND PROCEDURES FOR SUBACTIVITY SELECTION, TOGETHER WITH A LIST (AND BRIEF DESCRIPTION) OF ILLUSTRATIVE SUBACTIVITIES, COSTED OUT, IN AN AMOUNT AT LEAST EQUAL TO THE AUTHORIZED AMOUNT.

4. LENGTH OF PROGRAM: IN PRINCIPLE THE ECPR CONCURS WITH A THREE YEAR PROGRAM IF THE NECESSARY ANALYTICAL BASIS CAN BE DEVELOPED IN THE PAAD. SINCE THE PAIP INDICATES THAT THE POLICY CHANGES WILL ALL BE

ACCOMPLISHED NO LATER THAN AUGUST 1990, IT APPEARS THAT THERE IS ONLY JUSTIFICATION FOR A SHORTER PROGRAM. IF A THREE-YEAR PROGRAM CANNOT BE FULLY DEVELOPED AND JUSTIFIED AT THIS TIME, ONE ALTERNATIVE WOULD BE TO LAY OUT A LONGER-TERM FRAMEWORK, BUT DEVELOP AND APPROVE A SERIES OF PAADS FOR SHORTER TERM PERIODS. IN THAT CASE, A NEW PAAD OR PAAD SUPPEMENT WOULD BE REQUIRED FOR THE PERIOD BEYOND WHCH THE ORIGINAL PAAD IS APPROVED.

5. PAA ANALYSIS: TO MEET SECTION 611(A) ADEQUATE PLANNING REQUIREMENT, SUFFICIENT PLANS FOR THE ENGTH OF THE GRAM MUST BE FULLY DEVELOPED PRIR TO PROGRAM APP. L, INCLUDING A SECTOR ANALSIS IN WHICH WE HAVE REASONABLE CONFIDENCE. THEREFORE THE PAAD SHOULD INCLUDE:

(A) N ANALYSIS OF THE FERTILIZER SUBSECTOR THAT THE SSION BELIEVES WILL BE ACCURATE FOR THE PROPOSED TIME PERIOD. THIS WOULD INCLUDE A DESCRIPTION OF WHERE THE SUBSECTOR IS NOW, A DESCRIPTION OF THE STATUS OF THE CURRENT REFORM PROGRAM, A DESCRIPTION OF WHERE A.I.D. ND THE GOT SEE THE SUBSECTOR AT THE END OF THE CHOSEN

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TIME FRAME IN TERMS OF SECTOR ISSUES GENERALLY AS WELL THOSE CONSTRAINTS WHICH THIS PROGRAM IS ADDRESSING. IT WOULD ALSO INCLUDE A DESCRIPTION OF WHETHER MOVEMENT ON THE OTHER CONSTRAINTS AND POLICY CHANGES THAT THIS PROGRAM IS NOT ADDRESSING ARE SUCH AS TO ENABLE THE SECTOR AS A WHOLE TO MOVE TO THE DESIRED END POINT BY THE PROGRAM'S END. NOTWITHSTANDING GOK POSSIBLE RELUCTANCE TO MOVE BEYOND THAT POINT, THE PAAD SHOULD ADDRESS THE ISSUE OF WHETHER THE REFORMS DISCUSSED IN THE PAIP GO FAR ENOUGH TO ACHIEVE AND SUSTAIN THE PURPOSE OF THE PROPOSED PROGRAM. FINALLY, THE PAAD SHOULD ALSO DESCRIBE THE CONDITIONS UNDER WHICH A.I.D. COULD ULTIMATELY BEGIN TO WITHDRAW FROM THE SUBSECTOR.

(B) THE ECPR CONCURS THAT CHANGES IN PRICING AND INCREASING SMALLHOLDER ACCESS TO FERTILIZER ARE IMPORTANT AREAS OF CONCERN. HOWEVER, THE PAAD SHOULD DESCRIBE THE REFORMS (POLICY CHANGES) THAT THIS PROGRAM WILL ACHIEVE BY END OF THE PROGRAM (WHICH WOULD BE AGREED UPON WITH THE GOK IN THE INITIAL GRANT AGREEMENT), AS WELL AS CONCRETE BENCHMARKS (THE SPECIFIC INTERMEDIATE CPS, IF POSSIBLE) FOR DESIGNATED INTERMEDIATE POINTS, A LOCAL CURRENCY USE PLAN AND A DESCRIPTION OF THE CURRENT IMPACT OF EXISTING POLICIES AND THE ANTICIPATED IMPACT OF THE CHANGES ON THE SUBSECTOR.

ECPR WOULD LIKE TO BETTER UNDERSTAND WHAT THE FPMR WILL ACCOMPLISH IN CONCRETE TERMS. THIS SHOULD BE REFLECTED IN THE PAAD AND IN MATERIAL TO BE SUBMITTED TO AID/W PRIOR TO PAAD APPROVAL (SEE PARA-6 BELOW). FOR EXAMPLE, ONE PROPOSED REFORM IS TO REVISE THE OFFICIAL PRICING FORMULA, WITHOUT AN INDICATION OF THE MAGNITUDE OF ITS CURRENT INAPPROPRIATENESS OR, MOST IMPORTANTLY, THE EXTENT TO WHICH IT WOULD BE REVISED BY PROGRAM END. WHAT WOULD THE CONCRETE IMPACT BE OF SUCH A CHANGE? THIS DATA WOULD ASSIST IN MAKING A JUDGMENT AS TO THE PROGRAM'S WORTH.

ANOTHER PROPOSED POLICY REFORM IS EVENTUAL SUBSTITUTION OF THE CURRENT GOK ALLOCATION SYSTEM BY A MARKET ALLOCATION MECHANISM, IF BOTH PARTIES AGREE THAT THE PILOT PROGRAM WAS SUCCESSFUL DURING PROGRAM IMPLEMENTATION. SINCE SECTION 611(A) REQUIRES THAT THE FULL PROGRAM BE ADEQUATELY PLANNED PRIOR TO OBLIGATION (IE SET FORTH IN THE PAAD), AND SINCE THE POLICY CHANGES ARE THE MAJOR INDICATOR OF WHAT IS ACHIEVED WITH OUR ASSISTANCE, THIS UNCERTAINTY RAISES THE QUESTION OF WHETHER THE PROGRAM CAN BE ADEQUATELY JUSTIFIED FOR THAT TIME PERIOD. TO AVOID SUCH A PROBLEM, THE PAAD SHOULD INDICATE THE REFORMS THAT WOULD BE ADDRESSED, IF THE PILOT WERE NOT SUCCESSFUL, AND SHOW THAT THEIR ACCOMPLISHMENT WAS ADEQUATE JUSTIFICATION FOR THAT/THOSE TRANCHES.

C. THE ECPR NOTED THAT A SOUND COST BENEFIT ANALYSIS AND QUANTIFICATION OF THE BENEFITS AT THE PROGRAM PURPOSE LEVEL SHOULD BE INCLUDED IN THE PAAD DESIGN. IN

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ADDITION, THE PAAD DESIGN SHOULD BUILD IN TO THE PROGRAM AN ON-GOING ANALYTICAL PROCESS WHICH WOULD FOCUS ON AN A SSMENT OF THE IMPACT OF THE PROGRAM ON THE PRIMARY B FICIARIES, I.E. SMALLHOLDER FARMERS. THE MISSION MAY WISH TO CONSIDER ESTABLISHING A RELATIONSHIP WITH LOCAL UNIVERSITIES AND OTHER INSTITUTIONS WHICH COULD BE HELPFUL IN DEVELOPING AND MAINTAINING DATA COLLECTION AND ANALYSIS CAPACITY DURING THE LIFE OF THE PROGRAM AND BEYOND THAT WOULD CONTINUOUSLY PROVIDE INFORMATION TO BOTH THE PRIVATE SECTOR AND GOVERNMENT.

6. PAAD APPROVAL VENUE. THE AFRICA BUREAU'S JULY 12 GUIDANCE ON DFA-FUNDED SECTOR SUPPORT PROGRAMS STATES THAT PAADS WILL NORMALLY BE APPROVED IN AID/W (IRRESPECTIVE OF DOLLAR AMOUNT). ADDITIONALLY, BECAUSE

HE PROGRAM AMOUNT WILL EXCEED DOLS 20 MILLION UNDER DOA 551 APPROVAL OF THE PROGRAM EXCEEDS THE MISSION'S AUTHORITY. THE ECPR RECOMMENDED THAT AA/AFR PROVIDE AN AD HOC DELEGATION OF AUTHORITY FOR FIELD APPROVAL OF THE PAAD, SUBJECT TO AID/W REVIEW AND CONCURRENCE WITH THE FINAL CONDITIONALITY FOR THE LIFE OF THE PROGRAM (FIRST YEAR CPS, AND SUBSEQUENT YEAR AND END OF PROGRAM CPS OR CONCRETE BENCHMARKS), TOGETHER WITH ENOUGH OF AN EXPLANATION TO MAKE THEM MEANINGFUL. ECPR JUDGMENT WAS BASED PARTLY ON THE FACT THAT THE MISSION HAS BEEN WORKING IN THE FERTILIZER REFORM FIELD FOR SEVERAL YEARS. IT WAS RECOGNIZED THAT DFA SECTOR SUPPORT PR AMS ARE NORMALLY APPROVED IN AID/W BECAUSE THEIR FO AND CHARACTERISTICS ARE STILL DEVELOPING, AND RESOLUTION OF AN ISSUE ARISING IN ONE PROGRAM WOULD SET A PRECEDENT FOR OTHER PROGRAMS. ADDITIONALLY, WE NEED TO BE CAREFUL TO AVOID STRUCTURES WHICH WOULD CREATE THE IMPRESSION THAT THE DFA SECTOR SUPPORT PROGRAMS ARE BALANCE OF PAYMENTS PROGRAMS, AND THUS JEOPARDIZE OUR AUTHORITY TO USE THE MECHANISM AT ALL. THE ECPR BELIEVED THAT THIS PROGRAM IS A STRAIGHTFORWARD ONE AND SUCH ISSUES WOULD NOT ARISE. THE AD HOC DOA WOULD BE

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PROCESSED ON THE UNDERSTANDING THAT IF SUCH ISSUES DID
ARISE, THE MISSION WOULD CONSULT WITH AID/W. THE ECPR
CONCLUDED THAT THE MISSION HAS THE CAPACITY TO APPROVE A
NEW SECTOR SUPPORT PROGRAM BECAUSE IT HAS A FULL
COMPLEMENT OF STAFF PRESENT AND HAS BEEN IN DIALOGUE
WITH AID/W CONCERNING REQUIREMENTS FOR THESE PROGRAMS
DURING THIS FISCAL YEAR.

7. DONOR COORDINATION: THE PC OBSERVED THAT THERE
APPEARED TO BE A NEED FOR AN INCREASE IN COMMERCIAL
FERTILIZER IMPORTS AND LESS DONOR-FINANCED IMPORTS OF
FERTILIZER. THIS SHOULD BE ADDRESSED DURING PAAD DESIGN.

8. THE IEE WAS REVIEWED BY BOTH GC/AFR AND THE BUREAU
ENVIRONMENTAL OFFICER (BEO) AFR/TR/ANR AND NEITHER CAN
CLEAR THIS WRITTEN DETERMINATION FOR A NEGATIVE
DETERMINATION. IF THE PROPOSED ACTION HAS A SIGNIFICANT
EFFECT ON THE ENVIRONMENT, THEN AN ENVIRONMENTAL
ASSESSMENT (EA) MUST BE RECOMMENDED.

ON THE OTHER HAND, A NEGATIVE DETERMINATION IS JUSTIFIED
IF THE NEGATIVE EFFECTS ON THE ENVIRONMENT, ALTHOUGH
EXISTING, ARE NOT SIGNIFICANT NEGATIVE EFFECTS. IF AN
EA MUST BE DONE, THE BEO MUST APPROVE ITS SCOPE OF WORK
(SOW) BEFORE FINALIZATION, AND IT MUST FOLLOW REG 16
REQUIREMENTS. THE ENVIRONMENTAL ASSESSMENT (EA) MUST BE

DONE IN TIME TO PERMIT INCORPORATION OF ITS RESULTS INTO
THE FINAL PAAD AFTER ANY BEO REVISIONS.

9. WAIVERS: MISSION SHOULD IDENTIFY AND REQUEST
APPROVAL OF ANY PROCUREMENT WAIVERS WHICH MAY BE
REQUIRED FOR EFFECTIVE IMPLEMENTATION OF THE SUBJECT
PROGRAM AND/OR PROPOSED TECHNICAL ASSISTANCE PROJECT
WITH SUFFICIENT LEAD TIME TO ALLOW A.I.D./W TO PROCESS
THEM IN A TIMELY MANNER.

10. ACTING AA/AFR HEREBY DELEGATES AUTHORITY TO MISSION
DIRECTOR, OR PERSON ACTING IN HIS PLACE TO AUTHORIZE TA
PROJECT NOT TO EXCEED DOLS. 7.0 MILLION. SUCH AUTHORITY
SHOULD BE EXERCISED IN ACCORDANCE WITH TERMS AND
CONDITIONS OF DOA 551 AND MAY BE BASED ON PROJECT PAPER
DEVELOPED BY MISSION WITHOUT REQUIREMENT FOR PID.
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