CLASSIFICATION

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 615-9242
2. Country: Kenya
3. Category: Sector Cash Grant
4. Date: May, 1990
5. To: Walter G. Bollinger, A-AA/AFR
6. OYB Change Number: N/A
7. From: Timothy Bork, AFR/PD
8. OYB Increase: N/A
   To be taken from: N/A
9. Approval Requested for Commitment of: $ 2,000,000
10. Appropriation Budget Plan Code:
11. Type Funding: ☐ Loan ☒ Grant
12. Local Currency Arrangement: ☒ Informal ☐ Formal ☐ None
13. Estimated Delivery Period: July-December 1990
14. Transaction Eligibility Date: May 15, 1990
15. Commodities Financed: N/A

16. Permitted Source		17. Estimated Source	
U.S. only		U.S.	
Limited F.W.		Industrialized Countries	
Free World		Local	$2,000,000
Cash	$2,000,000	Other	

18. Summary Description

The purpose of the Kenya Market Development Program is to develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers. The four-year Program will provide $10,000,000 (DFA) in sector dollars grants for policy changes intended to improve agricultural marketing efficiency and $5,000,000 (DFA) for technical assistance, training and commodities in support of the policy changes. An additional $40,000,000 worth of PL 480 Food for Progress food aid will be provided. The GOK is to provide $ 38,000,000 (equivalent) in local currency to be used to rehabilitate inter-market roads.

Program Conditionality and Negotiating Status

The principal policy issues and proposed reform measures outlined in this document have been discussed and reviewed at the Permanent Secretary level in the Ministries of Finance, agriculture and Public Works. The analysis on which the policy agenda is based was directed by the Ministry of Planning and National Development (MPND) Sectoral Planning

*Note that the conditionality being authorized by this PAAD is substantively the same conditionality that will appear in the Food for Progress Agreement.

19. Clearances	Date
AFR/PD: PFeiden	5/4/90
AFR/DP: JWestley	5/11/90
AFR/EA: DLundberg	5/11/90
AFR/TR: RCobb	
GC/AFR: ESpriggs	5/10/90
DAA/AFR: EL Saiers	5/11/90
AFR/CONT: FKing	5/16/90

20. Action

☑ APPROVED ☐ DISAPPROVED

Authorized Signature: [signature] Date: 5/11/90

Title: A/AA/AFR, Walter G. Bollinger

AID 1120-1 (5-82) CLASSIFICATION

Division whose chief was the chairperson of the original KMDP Development Committee. This committee was composed of technical representatives from the Ministries of Agriculture, Planning and National Development, Public Works, Supplies and Marketing, and the National Cereals and Produce Board. The MPND representative also chaired the Committee's review of the analyses, findings and recommendations. Within these fora, GOK representatives have agreed with the goals outlined in the reform agenda, although questions remain as to timing and specific indicators. Finally, the market structure policy reforms are in complete accordance with the GOK 1989-93 Five Year Development Plan and Sessional Paper No. 1 of 1986.

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

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

a. For Initial U.S. $15 Million PL 480 Food Assistance Only

Prior to the provision by A.I.D. of the initial U.S. $15 million of PL 480 food assistance, or to the issuance by A.I.D. of documentation pursuant to which such assistance will be provided, the GOK shall provide, in form and substance satisfactory to A.I.D.:

Documentation confirming that the GOK, through its Ministry of Finance, has formally proposed a Kenya Market Development Program line item for inclusion in the budgets of the Ministries of Agriculture and Public Works which shall not be less than the Kenya Shilling equivalent of U.S. dollars 40 million over the life of the Program. The schedule for inclusion of said funds shall be the subject of future Project Implementation Letters (PILs) to be issued by A.I.D.

Projected date for compliance with CP: April 1, 1990.

b. For Initial U.S. $5 Million KMDP Project Disbursement Only

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

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

Projected date for compliance with CP: September 1, 1990

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

Prior to the disbursement/provision by A.I.D. of any sector dollar grant and/or PL480 food assistance, or to the issuance by A.I.D. of documentation pursuant to which such disbursement/assistance will be made, the GOK, through its Ministry of Finance, shall provide, in form and substance satisfactory to A.I.D., documentation confirming that:

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

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

c. The Ministry of Agriculture (MOA) has planned and conducted a publicity campaign via the press, radio and administration services to inform consumers, producers, and the relevant public and private sector parties of the most current laws, regulations and policies affecting the movement and marketing of maize, processed maize, beans, millet and sorghum within and between administrative districts. The specific requirement for compliance with this condition shall be the subject of a PIL to be issued by A.I.D., but at a minimum shall include:

(1) For each year for which disbursement is sought, a written

description of legislation affecting the movement of maize, processed maize commodities, beans and minor grains within Kenya.

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

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

(4) For each year for which disbursement is sought, written confirmation that district and provincial authorities have been informed of the regulations described in (c) above and that their compliance with these current laws, regulations and policies is required.

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

a. Initial Tranche Sector Dollar Grant Disbursement (U.S. $2 Million Sector Grant)

Documentation, in form and substance satisfactory to A.I.D., that the GOK has:

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

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

Projected date for Compliance with CP: December 1, 1990

b. Second Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (U.S. $3 Million Sector Grant; U.S. $10 Million PL 480 Food Assistance)

Documentation, in form and substance satisfactory to A.I.D., that the GOK, through the Ministry of Finance, has:

(1) gazetted and announced via the public media and government administrative channels the elimination of all movement controls on beans and has informed the district and other administrative authorities that their compliance with these reforms is required; and(2) has removed beans, millet, and sorghum from the list of scheduled commodities.

Projected date for compliance with CP: April 1, 1991

c. Third Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (U.S. $5 Million Sector Grant and U.S. $15 Million PL 480 Food Assistance)

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

Projected date for compliance with CP: April 1, 1992

4. Covenants

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

(1) a review of adverse environmental impacts for each said GOK road rehabilitation design and execution; and
(2) a plan for mitigation of identified adverse environmental impacts, if any.

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

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

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

PROJECT AUTHORIZATION

Name of Country: Kenya

Name of Project: Kenya Market Development Project

Number of Project: 615-0250

1. Pursuant to Title II of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1990 (Sub-Saharan Africa, Development Assistance), and the Foreign Assistance Act of 1961, as amended, I hereby authorize the Kenya Market Development Project for Kenya involving planned obligations not to exceed Five Million United States Dollars ($5,000,000) in grant funds over a four year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/Allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is four years from the date of initial obligation.

2. The Project consists of technical assistance, training and commodities in support of and complementary to the policy reforms undertaken under the companion Kenya Market Development Program (615-0242).

3. The Project Agreement, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms, and the following covenants and major conditions in substance, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Service

Except as A.I.D. may otherwise agree in writing:

(1) Commodities financed by A.I.D. under the Project shall have their source and origin in countries included in A.I.D. Geographic Code 935. All reasonable efforts will be used to maximize U.S. procurement whenever practicable. Air travel and transportation to and from the U.S. shall be upon certified U.S. flag carriers.

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(2) Except for ocean shipping, the suppliers of commodities or services financed by A.I.D. under the Project shall have countries included in A.I.D. Geographic Code 935 as their places of nationality. All reasonable efforts will be made to maximize U.S. procurement whenever practicable. Air travel and transportation to and from the U.S. shall be upon certified U.S. flag carriers.

(3) Ocean shipping financed by A.I.D. under the Project shall be financed only on flag vessels of the countries included in A.I.D. Geographic Code 935 subject to the 50/50 shipping requirements under the Cargo Preference Act and the regulations promulgated thereunder.

b. Condition Precedent:

Prior to the disbursement by A.I.D. of any DFA financing for technical assistance, training or commodities made available under this Grant, or to the issuance by A.I.D. of documentation pursuant to which such disbursements will be made, the GOK shall provide, in form and substance satisfactory to A.I.D., documentation that the GOK, through its Ministry of Finance, has formally concurred with the Request for Proposal (RFP) for technical assistance, training and commodity procurement to be funded under the Kenya Market Development Project Agreement.

c. Covenants:

(1) The Government of Kenya does hereby covenant to undertake an assessment of the environmental consequences of its road rehabilitation activities financed by its contribution to the Kenya Market Development Program.

(2) The Government of Kenya shall provide to USAID, on a no less than annual basis, a report for each completed road rehabilitation activity financed by the GOK contribution to the Kenya Market Development Program, to include a description of the road, a statement of the adverse environmental impacts, if any, a description of steps taken to mitigate any adverse environmental impacts, and an evaluation of the success or failure of mitigation steps.

(3) The Government of Kenya does hereby covenant that, in addition to specific requirements of the Condition Precedent set forth under KMDP, it will seek to increase real road maintenance budgets, allocations and expenditures to a level

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A = Add, C = Change, D = Delete — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Kenya

3. PROJECT NUMBER: 615-0250

4. BUREAU/OFFICE: Africa [6]

5. PROJECT TITLE (maximum 40 characters): Kenya Market Development Project

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 03 DD 01 YY 94

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4)
A. Initial FY 90 B. Quarter 2 C. Final FY 91

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 90 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(1,000)	( )	( )	(5,000)	( )	(5,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country	1,913				38,000	38,000
Other Donor(s)						
TOTALS						

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) DFA	680					5,000		5,000	
(2)									
(3)									
(4)									
TOTALS								5,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
A. Code
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers.

14. SCHEDULED EVALUATIONS
Interim MM 09 YY 91 MM YY Final MM 09 YY 94

15. SOURCE/ORIGIN OF GOODS AND SERVICES
☐ 000 ☐ 941 ☐ Local ☐ Other (Specify) 935

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

The methods of implementation and financing have been reviewed by the Mission Controller. USAID/Kenya Controller: TTotino RK

17. APPROVED BY
Signature: Walter G. Bollinger
Title: Acting Assistant Administrator
Date Signed: MM 01 DD 31 YY 91

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

AID 1330-4 (8-79)

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INSTRUCTIONS

The approved Project Data Sheet summarizes basic data on the project and must provide reliable data for entry into the Country Program Data Bank (CPDB). As a general rule blocks 1 thru 16 are to be completed by the originating office or bureau. It is the responsibility of the reviewing bureau to assume that whenever the original Project Data Sheet is revised, the Project Data Sheet conforms to the revision.

Block 1 - Enter the appropriate letter code in the box, if a change, indicate the Amendment Number.

Block 2 - Enter the name of the Country, Regional or other Entity.

Block 3 - Enter the Project Number assigned by the field mission or an AID/W bureau.

Block 4 - Enter the sponsoring Bureau/Office Symbol and Code. *(See Handbook 3, Appendix 5A, Table 1, Page 1 for guidance.)*

Block 5 - Enter the Project Title *(stay within brackets; limit to 40 characters).*

Block 6 - Enter the Estimated Project Assistance Completion Date. *(See AIDTO Circular A-24 dated 1/26/78, paragraph C, Page 2.)*

Block 7A. - Enter the FY for the first obligation of AID funds for the project.
Block 7B. - Enter the quarter of FY for the first AID funds obligation.
Block 7C. - Enter the FY for the last AID funds obligations.

Block 8 - Enter the amounts from the 'Summary Cost Estimates' and 'Financial Table' of the Project Data Sheet.
NOTE: The L/C column must show the estimated U.S. dollars to be used for the financing of local costs by AID on the lines corresponding to AID.

Block 9 - Enter the amounts and details from the Project Data Sheet section reflecting the estimated rate of use of AID funds.
Block 9A. - Use the Alpha Code. *(See Handbook 3, Appendix 5A, Table 2, Page 2 for guidance.)*

Blocks 9B., C1. & C2. - See Handbook 3, Appendix 5B for guidance. The total of columns 1 and 2 of F must equal the AID appropriated funds total of 8G.

Blocks 10 and 11 - See Handbook 3, Appendix 5B for guidance.

Block 12 - Enter the codes and amounts attributable to each concern for Life of Project. *(See Handbook 3, Appendix 5B, Attachment C for coding.)*

Block 13 - Enter the Project Purpose as it appears in the approved PID Facesheet, or as modified during the project development and reflected in the Project Data Sheet.

Block 14 - Enter the evaluation(s) scheduled in this section.

Block 15 - Enter the information related to the procurement taken from the appropriate section of the Project Data Sheet.

Block 16 - This block is to be used with requests for the amendment of a project.

Block 17 - This block is to be signed and dated by the Authorizing Official of the originating office. The Project Data Sheet will not be reviewed if this Data Sheet is not signed and dated. Do not initial.

Block 18 - This date is to be provided by the office or bureau responsible for the processing of the document covered by this Data Sheet.

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commensurate with requirements to maintain efficient inter-market transportation of agricultural commodities. During program implementation, the required increases shall be the subject of annual consultation between USAID/Kenya and the Ministry of Public Works. No less than 30 days after each such consultation, the GOK shall provide a report describing its proposal for compliance with this covenant.

(4) The Government of Kenya does hereby covenant to maintain the legislative and administrative reforms established under this program.

Walter G. Bollinger
Acting Assistant Administrator
Bureau for Africa

5.11.90
Date

Clearances:
AFR/EA:DLundberg date 5/10/90
AFR/DP:JWestley date 5/11/90
AFR/TR:RCobb date 5/10/90
PPC/PB/C:RMaushammer for date 5/10/90
AFR/PD:AHarding date 5/10/90
GC/AFR:ESpriggs date 5/10/90
DAA/AFR:ELSaiers date 5/11/90
AFR/PD:TBork date 5/10/90

Drafted:AFR/PD/EAP:PFeiden:DOC#0080J:x78286:5-8-90

I. EXECUTIVE SUMMARY

Agricultural GDP grew at an average annual rate of 4.6% during the period 1963-72 but slowed to 2.8% during the period 1973-87. The sector employed 3.6 million people (both formal and informal), or over 70% of Kenya's estimated labor force in 1988. The diminished growth rate, the high percentage of agricultural labor as a percentage of total labor force, and the fact that Kenya's annual population growth rate of 3.8% indicates increasing employment demand in the sector all underline the imperative of improving productivity in the agricultural sector. Because of the fundamental role of agriculture in the Kenyan economy, agriculture must continue to grow, at an accelerated rate, if the standard of living for Kenya's growing population is to improve.

Major constraints to improved productivity include: 1) limited arable land; 2) the lack of a well developed marketing system; 3) agricultural input supply limitations; and 4) research and extension limitations.

Arable land is 19% of total land area, and any attempt to increase it through rehabilitation of arid and semi-arid lands would be far less efficient than concentrating on alleviating other major constraints. Input supply constraints are being addressed through successful Government of Kenya (GOK) programs (the parastatal Kenya Seed Company), USAID programs (Fertilizer Pricing and Marketing Reform Program) and private sector supply systems for agricultural machinery and veterinary supplies. Research and extension constraints are being addressed through assistance from USAID, the International Bank for Reconstruction and Development (IBRD, the World Bank or the Bank) and the European Economic Commission (EEC) to the Kenya Agricultural Research Institute (KARI). The one major constraint that has not been successfully addressed is agricultural marketing. Thus, KMDP is designed to help improve the efficiency of agricultural markets in Kenya.

A. Program Goal and Purpose

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

B. Program Description

In order to achieve the purpose, the four-year program will provide $10 million in DFA Dollar Sector Grants and $40 million in Food for Progress commodities for policy initiatives that will result in: 1) the removal of movement controls on maize and beans and the public announcement of this; 2) the systematization of the

announcement of market price information; and 3) a 10% annual increase in road maintenance budgets. An additional $5 million in DFA funds will finance the technical assistance and training necessary to institutionalize policy analysis capability in relevant GOK agencies. The $38 million GOK host country contributions will be used to address infrastructure constraints to market efficiency by financing the rehabilitation and maintenance of approximately 1,500 kilometers (kms) of inter-market roads in the following districts: 1) Kakamega; 2) Kisii; 3) Kitui; 4) Nakuru; 5) Nyeri; 6) Uasin Gishu; and 7) Narok. The GOK counter-deposit equivalent to the $10 million grant will be programmed in support of the sector program objectives. It is in addition to, and will be programmed for uses separate from, the $38 million-equivalent host country contribution.

C. Beneficiaries

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

D. Food Assistance

Planned food assistance through a multi-year, grant-funded PL 480 Food for Progress agreement is an integral component of the Program. Food for Progress uses U.S. food resources in support of agricultural sector policy reform. In tandem with DFA resources, the Food for Progress mechanism will provide food assistance for policy changes intended to produce a supportive policy climate in which more efficient maize and bean markets will be stimulated in Kenya.

E. Program Resources

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

Table 1
Illustrative Budget
($000)

Source	Amount	Disbursement
1) DFA	$10,000	Performance Disbursement
2) DFA	$ 5,000	TA contract
3) GOK Contribution	$38,000 (equivalent)	LC for road rehabilitation and maintenance
Total	$53,000	

Table 2
Summary of Inputs by FY
($000)

	FY 90		FY 91		FY 92		FY 93		Total	
	GOK	AID	GOK	AID	GOK	AID	GOK	AID	GOK	AID
Cash				5000		5000				10000
TA		4000		1000						5000
GOK/ KSh	14000		10000		14000				38000	
	14000	4000	10000	6000	14000	5000			38000	15000

F. Policy Conditionality

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

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

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

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

II. BACKGROUND

A. Macroeconomic Framework

1. Highlights of Current Macroeconomic Situation[1]

Since gaining its independence in 1963, Kenya has been among the best economic performers in sub-Saharan Africa. In the past five years, Kenya's economy has achieved an annual growth rate of close to 5% per year, following a period of sluggish growth in the early 1980s. Recent high levels of economic growth have been fuelled by: 1) strong agricultural growth made possible by highly favorable weather conditions, increased fertilizer utilization, and policy reforms that have improved farmer incentives; 2) increased imports that have been financed by lower oil prices and increased foreign assistance; 3) increased government spending (nearly 20% average annual increases in the past five years) to "prime the pump" of the economy, also funded by donor assistance; and 4) strong performance in tourism and horticulture. Also significant is the fact that Kenya's population growth rate has begun to slow, decreasing from 4.1% in 1984 to 3.8% in 1989.

As Kenya enters the new decade, however, there are signs that the growth spurt of the late 1980's is weakening. Economic growth for 1989 is likely to decrease to around 3%, while inflation is re-emerging as a major problem. After averaging under 10% for the past five years, the annual inflation rate is presently estimated to be over 15%. Recent declines in the international coffee market are weakening export performance, and it is unlikely that the increases in the numbers of tourists that took place in the latter half of the 1980s can be continued. Beginning in 1988, official grants, loans, and International Monetary Fund (IMF) lending combined to become the largest source of foreign exchange, exceeding coffee, tea and tourism earnings combined. But it is not certain that the high levels of foreign assistance that Kenya has received in the past few years will be maintained, especially given the new demands on donor resources emanating from Eastern Europe.

Despite relatively strong and sustained levels of economic growth, there has been little structural transformation of the productive sectors in the Kenyan economy. Industry's share of

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[1] For a more detailed analytical summary of recent macroeconomic developments, see IBRD, Kenya Recent Economic Developments and Selected Policy Issues, 1989. See also, USAID, Kenya Country Development Strategy Statement, 1990.

GDP has increased only marginally in the past twenty years. In fact, while Kenya has done better than most sub-Saharan African countries, its performance looks much weaker in comparison to other politically stable Third World countries that are striving for transformation to an industrialized economy. These Newly Industrializing Countries (NIC) have achieved rates of economic growth and industrial transformation much stronger than that of Kenya.

A major reason that Kenya's economic performance has not equalled that of the NICs is inefficiency of investments. While Kenya has maintained high rates of domestic savings (20% of GDP) and investment (25% of GDP in 1987), the quality of investment is low. Gross fixed capital formation decreased from over one-third of GDP in 1978 to less than one-fifth in 1988. The GOK's Sessional Paper No. 1 of 1986 states that if the rate of return on investment in Kenya equalled the global average, growth in the economy would be at least two percentage points higher per annum.

Kenya's balance-of-payments is exhibiting several disturbing trends. The trade balance has been dominated in recent years by rapidly increasing imports while exports have decreased in dollar terms. While rising tourism earnings partially offset this imbalance, they were in turn offset by increased outflows of investment income. Thus, the current account of the balance of payments has been increasingly in deficit. On the capital account, the drying up of foreign direct investment (and actual disinvestment) was offset by official long-term loans and grants. Kenya has thus become increasingly dependent on foreign assistance for its balance-of-payments stability.

Over the past five years, Kenya's total external debt has grown from $3.7 billion in 1984 to $5.9 billion in 1987. In spite of the resulting high debt service obligations, Kenya has maintained a strong credit rating by meeting all of its obligations and not rescheduling its debts. In 1989, Kenya began to benefit from bilateral debt reduction programs introduced by several major donors including the U.S., Germany and France. Nonetheless, Kenya's capacity to maintain its credit rating through debt repayment will not be sustainable unless recent export stagnation is reversed.

The GOK has worked very closely with both the IMF and the IBRD during the last decade. It has received a series of seven stand-by arrangements from the IMF in support of economic stabilization efforts and has, at the same time, entered into five structural adjustment lending agreements with the Bank. These efforts have paid off as Kenya has avoided the sharp external and domestic disequilibria that have plagued many African nations. The latest IMF arrangement is an Enhanced Structural Adjustment Facility (ESAF) loan of SDR 240 million that disbursed SDR 80 million in 1989.

2. Implementation of Stabilization and Adjustment Measures

The GOK's record of implementing stabilization and adjustment efforts has been mixed. The Government has been able to undertake difficult stabilization measures, especially during periods when severe economic instability threatened. On the other hand, these efforts have proven difficult to sustain after the potential crisis subsides. Similarly, while the GOK has articulated an ambitious program of structural adjustment, implementation of the program has been slow as well as spotty.

Beginning in the early 1980s, Kenya has followed an increasingly active foreign exchange management program in efforts to attain and sustain economic stabilization. The shilling has been devalued by over 50% since 1982, allowing Kenyan exports and tourism to maintain their competitiveness. The Central Bank of Kenya maintains a program of periodic marginal devaluations to ensure that the shilling does not become overvalued.

A major focus of stabilization efforts has been the interlinked issues of inflation, monetary growth and the budget deficit. In the early 1980s, inflation had averaged over 15% per year. Stabilization efforts in the 1984-88 period brought this rate to under 10%. Lowered inflation was the result of improved fiscal and monetary discipline. The budget deficit was reduced from over 7% of GDP in 1986/87 to under 4% by 1988/89. With the exception of 1986, when high coffee prices and low oil costs generated a terms-of-trade windfall, monetary expansion has been held in check. Between 1984 and 1988 (excluding 1986), growth in money supply (M2) rose at an annual rate of 11%.

However, in late 1989 there were strong indications that the rate of inflation was sharply increasing, fuelled by the increase in government spending and monetary expansion. An increased rate of inflation will make efforts to maintain positive real interest rates more difficult as well as putting pressure on the exchange rate management system. The GOK's efforts to rationalize budgetary expenditures, a major focus of its structural adjustment program, are moving forward much more slowly than was planned. In the past two years, expenditures have increased substantially more rapidly than revenues. The Government is beginning to implement "fee-for-service" schemes in several sectors, but their impacts will not be felt in the short-term. Budgetary expenditures as a percentage of GDP are actually higher now than at the beginning of Kenya's structural adjustment efforts. Similarly, government employment as a percentage of total employment has increased during the period of adjustment.

As part of its adjustment efforts, the GOK has liberalized the import regime, replacing quantitative restrictions for the vast majority of imports. Despite this, a recent study of export

incentives has found the trade regime still retains a strong anti-export bias.[2] The system of fixed wholesale and retail prices has also been largely dismantled. Plans are on the books for even more price liberalization. The GOK has also begun to restructure the financial sector by undertaking such means as creating a Capital Markets Development Authority. The Central Bank has reactivated its rediscount facility and established an informal Open Market Committee. Most observers believe that these efforts will have to be substantially deepened in order to have their intended effect of stimulating private sector investment and improving productive efficiency.

B. The Agricultural Sector and Major Constraints

1. The Role of Agriculture in the Kenyan Economy

The growth and development of the Kenyan economy over the next several decades will depend largely on the agricultural sector. The food and agriculture industry, which includes farming and supporting service and input industries, accounts for approximately 67% of gross domestic product. The sector employs over 70% of the population, contributes approximately 60% of foreign exchange earnings, and provides nearly all the country's food supplies. The average annual growth rate in agricultural GDP for 1963-72 was 4.6%, but declined to 2.8% during 1973-87. The slowing growth rate, coupled with a population growth rate of 3.8% and limited arable land, raises serious questions as to how the agricultural sector will achieve the sustained per capita growth required for Kenya to realize its development objectives.

Sessional Paper No. 1 of 1986 stresses that national growth targets are unobtainable without rapid growth in agriculture. This comes at a time when resources available for expanding agricultural output, especially land resources, are increasingly limited. Of Kenya's 44.6 million hectares of land, only 8.6 million hectares (19%) are medium to high potential agricultural land. Much of the rest is used for extensive livestock grazing or taken up by national parks and forest reserves. Although perhaps 500,000 hectares of land could be brought into production under irrigation, drainage, or flood control, by and large Kenya's agricultural sector will have to provide for both food security and export growth on its existing crop and dairy land.

Given the effective land constraint, the GOK intends to focus on increasing agricultural productivity to achieve its sectoral objectives. In Sessional Paper No. 1 of 1986, the GOK identified three broad strategies - increased intensity of input use, development of more productive technologies, and shifts to higher valued cropping mixes. First, within existing cropping patterns,

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[2] See Kenya Association of Manufacturers, Export Incentive Study, 1989

farmers will be encouraged to adopt more productive practices, especially the wider use of improved varieties, fertilizer, and disease and pest control. Pricing policies, marketing policies and institutions that implement them, and the extension service will be the main instruments through which higher yields will be pursued. Second, research into new varieties, especially of maize and other coarse grains, will be accelerated to generate new, high-yielding varieties to keep pace with increasing consumption. Third, production will be diversified in favor of higher-valued commodities, e.g. coffee, tea, and horticultural produce, and away from lower valued commodities such as maize and dairy products.

2. The Prominence of Maize and Beans in Kenyan Agriculture

Maize and beans are ranked 12th (value produced per hectare) among other crops grown in Kenya because they yield only 3060 Kenya Shillings per hectare.* However, because Kenyans tend to equate food security with maize availability, maize is considered the most important Kenyan agricultural commodity. It is Kenya's major food staple. It currently provides over 50% of Kenya's protein consumption with average per capita consumption in 1986 of 122 kilograms (kgs) per person and projected to be 149 kgs per person by the year 2000.

Maize and beans are generally inter-cropped in Kenyan agriculture. Out of the 2.4 million farmers in the high and medium potential areas, 95% grow maize and 60% grow beans. Maize alone takes up approximately 33% of total non-livestock agricultural land while beans account for approximately 14%.

In 1986 the country just managed to meet maize demand with a production of 2.5 million metric tons meeting a demand of 2.48 million metric tons. Projections to the year 2000 show that the likely demand for maize will exceed production by 96,000 metric tons.

3. Agricultural Constraints

Government of Kenya strategy documents and other sector analyses (such as the IBRD Agricultural Sector Report for Kenya) have identified the following current critical constraints to increasing agricultural productivity: 1) limited land availability; 2) lack of a well developed market system; 3)

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* An increase in the GOK's buying price for maize announced in January 1990 may improve this ranking.

inefficient agricultural supply systems; and 4) inadequate research and extension services.[3] Further, unfavorable terms of trade and consequent balance of payments problems have imposed macroeconomic constraints on the sector.

a. Limited Potentially Arable Land Supply

The limited supply of arable land (19% of total land area), together with a high population growth rate (3.8 % per annum), is an important factor in limiting agricultural growth. In some areas the pressure on land has reduced fallow periods significantly and contributed to erosion, with a resulting decline in productivity. The prospect for increasing land area under cultivation is not promising. Land intensification with existing crops and the evolutionary shift to higher-valued commodities offers the most promising strategy for increasing productivity, output and employment. As yields are already relatively high in the large-holder sector, it is likely that further productivity increases will come principally from smallholders.

b. Marketing Systems

The lack of a well developed marketing system is a disincentive to increased agricultural production. Of the various constraints to market development, the economic analysis done for the PAAD demonstrates that poor roads and inappropriate market policies produce the largest single set of constraints to market development. Better inter-market roads would allow faster movement of goods and less vehicle maintenance. This reduction in marketing costs, in turn, would lead to an increase in farm profits as reduced marketing costs cause a rise in on-farm commodity prices and a fall in on-farm costs of purchased inputs.

With regard to market policies, the extent of intervention in the market by the GOK is high. For most major crops, official prices are gazetted and implemented through marketing boards. Price and market controls affect domestically consumed food and industrial crops more than export crops.

The analysis and the setting of prices are carried out in annual price reviews. In recent years border prices have been a key determinant of gazetted producer prices; i.e., prices have more nearly reflected import/export parity than was the case in the past. Potential incentives resulting from reasonably high producer prices have been offset by late payments to farmers for commodities that are marketed through parastatals. Producers of

[3]In addition to this listing, production credit has been identified as an important constraint. Because it is dealt with in detail in the USAID/Kenya Agricultural Sector Strategy Statement, and because the World Bank has thoroughly analyzed the credit situation and is addressing it in its program, a discussion of it is not included here.

seven major commodities (coffee, tea, maize, milk, cotton, sugar and pyrethrum) often have had to wait from two to fifteen months to receive full payment for their output. This situation has resulted in serious liquidity problems, especially for small scale farmers.

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

In addition to pricing policies, the excessive public market share and the existence of movement controls are also costly government interventions. These policies increase marketing costs and reduce economic incentives to farmers and traders. They create a financial burden on the national budget as the Government subsidizes the operating losses incurred by the National Cereals and Produce Board (NCPB) and other parastatals. The public subsidies and transfers given to parastatals reduce resources that would otherwise be available for investments aimed at raising agricultural productivity.

c. Agricultural Input Supply

Agricultural inputs constitute a critical element in the land use intensification strategy. 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 parastatals), the structure of the input delivery system is characterized by a wide range of participants, including parastatals, cooperatives, and private traders.

Kenya has a successful seed multiplication enterprise, the Kenya Seed Company (KSC). An effective rural distribution system has been established based on a large number of small rural stockists. Hybrid maize seed is widely used by smallholders due to: 1) the packaging of seeds in small (2 kg) bags; 2) marketing margins which encourage extensive distribution; and 3) expected net returns to farmers which are higher than the incremental costs. Agricultural machinery is mainly used by large and medium scale producers, although there is a growing demand for land preparation services. The veterinary and animal health supply system resembles that of the seed input sub-sector in that there is a broad distribution network of stockists which enables extensive dissemination of products.

Fertilizer is the dominant farm input and has particular importance for the intensification of production. The fertilizer sub-sector has experienced the most serious problems among the

agricultural input supply systems. Of particular importance are the issues of fertilizer pricing, import allocation, and marketing policies - all of which are being addressed under the USAID Fertilizer Pricing and Marketing Reform Program. Under this program, fertilizer prices were decontrolled in January 1990.

d. Research and Extension

(1) Research - Prior to independence Kenya's agricultural research system focused largely on the needs of commercial farms with mechanized operations and marketed inputs. While there has been increased importance given to smallholder production in recent years, research has not responded adequately to smallholder needs. The result has been a lack of development of improved technologies for smallholders.

A 1986 assessment of Kenya's agricultural research system identified a number of areas where improvements were needed, including: 1) a systematic approach to setting research priorities based on projected demand and food security considerations; 2) an effective evaluation and monitoring system; 3) the enhancement of research skills and a system for rational staffing assignments for research stations; and 4) adequate and timely funding, especially of recurrent costs. Reform measures to develop a more systematic and coordinated research approach resulted in the establishment of the Kenya Agricultural Research Institute (KARI) in 1986.

(2) Extension - In Kenya, as in many developing countries, there is a considerable gap between research station yields and those realized by farmers, especially smallholders. There are three basic reasons for this gap: 1) poor dissemination of information due to weak linkages between research, extension and farmers; 2) lack of appropriate technologies to extend; and 3) poor management and supervision of extension personnel - which has resulted in substantial increases in personnel expenditures and other recurrent costs. In order to address these constraints, the Ministries of Agriculture and Livestock introduced, with the assistance of the IBRD, the Training and Visitation (T&V) Program in 1983. This program has initiated efforts to improve extension officer effectiveness, expand geographic coverage, and introduce a farmer feedback mechanism in order to make research and extension more relevant.

e. Conclusion - Output market inefficiencies, input supply problems, and research and extension difficulties reinforce the land constraint and limit increases in agricultural productivity and net farm incomes. In reviewing the resources available to address these constraints, investment in market development will have high incremental returns in the short run and will enhance the expected return over time to long-term investments in agricultural research and extension. Market development interacts with efforts to develop and disseminate improved farming technologies to further enhance agricultural productivity.

Ongoing programs are addressing issues of research, extension and input supply. At the same time, the market development constraint has not been satisfactorily addressed. To date the primary market concern of both the Government and donor community has been the reduction of the financial burden of marketing parastatals rather than the creation of an environment where markets for agricultural commodities serve to allocate scarce resources efficiently and enhance agricultural productivity.

C. The Agricultural Marketing Sub-Sector

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

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

* The role of the private sector;

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

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

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

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

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

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

a. The Formal System

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

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

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

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

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

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

* To maintain strategic maize reserves; and

* To control grain smuggling to neighboring deficit countries.

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

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

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

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

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

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

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

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

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

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

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

in the formal marketing system, the informal system network of local market places and traders remains by far the most important outlet for farmer sales and for rural consumer purchases, particularly later in the crop year.

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

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

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

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

c. Conclusion

The stated objectives of movement and price controls are not being achieved. Instead they are creating market inefficiencies which impede the growth of the agricultural sector. The controls have created a market system characterized by unnecessarily high marketing costs, uneven spatial and temporal integration, a high degree of market instability, and potentially increased food insecurity, particularly in the marginal arid and semi-arid areas which do not fully benefit from NCPB inter-regional transfers.

2. The Role of the Private Sector in Agricultural Marketing

a. Current Trade Patterns and Market Behavior

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

Private commerce in agricultural commodities is a response to variation in Kenya's production systems and patterns of supply and demand that fluctuate over the course of the year. Some key characteristics of this trade were observed in the fieldwork done for the PAAD economic analysis:

* Spatial price differentials for maize and beans that are much greater than can be explained by normal transport and handling charges alone. Particularly striking evidence was seen in a 2:1 price ratio in June between northern Rift Valley surplus and Lake Victoria Basin deficit areas which are separated by only 75 to 150 kms;

* Seasonal price differentials that far exceed storage costs. The implication is that movement controls serve to constrain arbitrage activity, and pan-seasonal pricing in the formal market reduces incentives for producers to take advantage of seasonal price rises; and

* Institutionalized collection of rents at police roadblocks and in the granting of movement permits. While not condoned by the GOK, this has become a fact of life in the grain marketing sector. By raising marketing costs, it creates disadvantages for both consumers and producers.

Overall, the performance of informal trade can be characterized as vigorous but inefficient and costly. Official policies with

respect to movement controls are interpreted divergently by District Commissioners, NCPB field officers, and the police. In this uncertain and unpredictable context, most entrepreneurial energies are directed toward maneuvering around the formal system, rather than toward minimizing handling and transaction costs and maximizing turnover to ensure profitability. Two important consequences of the current regulatory system are:

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

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

b. The Prospects for Private Sector Expansion

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

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

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

* Disincentives for rural branch banks to extend credit, including low loan authorization limits, limited contact with borrowers due to frequent transfer of branch managers, and a lack of bankable projects reflecting low purchasing power and insufficient market demand in the rural areas.

GOK officials have voiced doubt regarding the ability of private entrepreneurs to progressively replace the NCPB as principal purchaser, storer, and distributor of maize. However, other factors suggest that in the short-term, private traders and firms will be able to exploit those niches that are opened to them as a result of policy reform, by incrementally expanding their present activities. Their involvement in existing informal trade networks, as well as their direct, officially sanctioned transactions with the NCPB system, give cause for optimism.

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

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

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

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

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

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

Rainfall in Kenya comes in two distinct seasons, the long rainy season between February and June and the less reliable short rainy season between September and December. Because of the two seasons, and because at most middle elevations maize can be grown

twice a year, maize is harvested almost year round in some part of Kenya (see Table 3). Maize planted during the long rains accounts for about 70-80% of annual production. Thus, failure of the long rains spells disaster for Kenyan maize production.

The crucial long rain harvest is divided into two time periods. In the middle elevation sections of Central, Eastern, Rift, Nyanza, and Western Provinces, shorter cycle maize is harvested from July through September, mostly by smallholders. (About two-thirds of these farms will then replant and harvest a short rain maize crop in the December through February period.) The second part of the long rain harvest comes in the higher elevation areas of Western and Rift Valley Provinces where larger farms (using hybrid maize which matures after 9 to 11 months) harvest one crop in the October through December period. This is when NCPB buys a majority of its annual supplies using up-country rail lines that run through the highland areas.

The economic significance of this spatial and temporal pattern of maize production lies in its effect on the spatial and temporal concentration of NCPB marketing activities. The larger farms that produce the majority of Kenya's marketable surplus of maize supply 55-60% of total NCPB maize purchases during the October to December period (see Table 1). Reflecting the importance of these purchases, approximately 80% of NCPB facilities are on or near main branches of rail lines servicing large farm areas.

Table 3

KENYA MAIZE HARVEST AND NCPB PURCHASES

BY KEY AGRO-ECOLOGICAL VARIABLES

Rainy Season	Elevation	Farm Type	Harvest Time Period	Percent Kenya Total	NCPB Purchases
Long	Middle	Small	July-Sept.	55%	15 - 20%
Long*	High	Larger	Oct.-Dec.	25%	55 - 60%
Short	Middle	Small	Jan.-March	20%	20 - 25%

*Note: The long rains extend through much of the year in higher altitude zones.

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

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

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

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

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

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

4. Transport and Information Infrastructure In Market Development

a. Transport

Transportation plays a pivotal role in agricultural marketing, and the components of a transport system must be integrated in a manner that produces efficient movement of commodities and allows other marketing functions to operate effectively. The main transport components in Kenya that facilitate agricultural marketing include: the road system; the transport suppliers operating on the roads; the railroad system; and services closely allied to transport, such as assembly of loads, storage facilities to accumulate large shipments, and loading and unloading activities. If transport is inefficient and impedes a rational marketing program, it is necessary to identify that part of the transport system where the most serious bottlenecks exist. The railroad system is not currently a bottleneck to informal grain markets as grain transported on the rails is controlled by NCPB. The EEC is studying the railroad system and allied activities as part of its effort to increase NCPB's efficiency.

(1) The Road System

Kenya's road network is made up of 150,600 kms, of which 61,688 kms are classified by function and surface condition ranging from Class A to E. Class A and B roads are international and national trunk roads, respectively. Class C, D, and E roads link provincial, district and local centers. Of the 88,912 kms of unclassified roads, 8,500 kms are rural access roads.

In the program assisted districts (For a description of the district selection criteria, see Section III. A.) of Kakamega, Kisii, Kitui, Nakuru, Nyeri, Uasin Gishu and Narok, it has been found that while there is generally good farm to local market

access and storage infrastructure, the roads which link local markets to intermediate market centers (such as the Class C and Class D roads) are in such poor condition that they bear little or no resemblance to a road. These road conditions are attributed to the lack of maintenance over a number of years. This problem is further compounded during the rainy season when most Class C and D roads are impassable. The poor road conditions in Kenya have a direct impact on maize and beans marketing. They cause these commodities to move on the road network at slower rates than they would otherwise move. Such conditions also lead to higher unit transport costs and underutilized transport capacity for transport providers. Transport providers pass their transport operating costs through the marketing channels to producers and consumers. The net effect of this is lower income at the farmgate and higher prices to consumers. Maize and bean shipments between markets are expected to increase with an improvement in the rural road system.

The prospects for increasing the flows of agricultural commodities between production areas and market centers, and between local market centers and district markets, can be significantly enhanced if the supporting infrastructure channels are improved. Because Class C and D roads in Kenya link primary production market areas to intermediate market centers, the full benefits of agriculture policy reforms cannot be realized unless poor road conditions are improved to ease the flow of goods between marketplaces. Improving roads such as those in Classes C and D will have the added benefit of providing improved access to production areas and market centers.

(2) Local Transport Suppliers

In agricultural marketing, the supply of transport varies depending upon the extent of the market, the condition of the roads, and the size of the farms. Smallholder farm output transported to nearby markets is often moved by intermediate transport modes such as animals, headloading, or bicycle on access roads. Motor vehicle use involves pickup trucks and lorries of 7-10 ton capacity. Also, movement may be by bus or matatu, with an individual accompanying the shipment. Longer movements on connecting roads generally will be by motorized vehicles such as lorries. The size of the vehicle depends on the loads made available. Thus, the transport capacity is often mixed. Sufficient transport capacity is generally available for the movement of agricultural commodities in most areas in Kenya. However, the capacity for efficient motor vehicle movement with potentially lower transport costs is insufficient due to road conditions which discourage the use of higher capacity vehicles, particularly between primary production market centers and intermediate market production areas.

Institutional barriers also impede efficient transport operations. Control of entry into the commercial transport industry can unnecessarily restrict supply and provide opportunities for monopolistic pricing, even in an industry that

does not exhibit any natural monopoly characteristics. Entry control does not impede agricultural marketing in Kenya. However, other artificial impediments in the transport industry have arisen. The volume of agricultural commodities that can be transported at any one time is restricted by permits. The current GOK policy restricts movement of more than ten bags of maize between districts unless authorized by a movement permit. Such a restriction leads to the use of smaller, higher unit cost vehicles which leads to an overall higher marketing cost of cereals.

(3) Allied Transport Services

Consolidation of shipments leads to lower unit transport costs when the economies of full vehicle loads more than offset the cost of consolidation. Current marketing practices in Kenya such as movement restrictions tend to discourage consolidation of cereals shipments. In addition, poor road conditions between production areas and market centers also inhibit the consolidation of maize and beans shipments into full truck loads. These two factors are also reflected in higher marketing costs for maize and beans.

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

(4) Conclusion

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

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

b. Market Information

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

In spite of good dissemination capabilities, market information systems currently remain very much in the developmental stage, with most information being passed by word of mouth. The underlying causes for this are: uncertainty with regard to collected information, transmission errors between the field and Nairobi, and delays in analyzing/verifying the data. The GOK has indicated a strong desire to expand current market price reporting of agricultural commodities and a keen interest in improving its crop forecasting abilities.

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

III. Program Strategy and Rationale

A. Agricultural Market Development Strategy

1. The Long-Term View

The lack of a well-developed marketing system has been identified by the GOK, USAID, the World Bank and other donors as one of the fundamental constraints to increasing agricultural productivity in Kenya. Improving marketing policies and governmental analytic capacity in the area of agricultural marketing has been identified by USAID as one of the main targets of its agricultural strategy. As the first phase of pursuing agricultural marketing reform, it is appropriate to focus on maize market liberalization. For the past 50 years, first in colonial times and then after

independence, the GOK has tightly controlled the marketing of the country's main staple food, maize, and, to a lesser extent, the marketing of most other food and export crops. The maize marketing system stands at the center of the entire complex of marketing interventions that pervade Kenyan agriculture. Since the vast bulk of Kenya's rural producers grow maize, both for household consumption and for sale, the signals that are provided by the maize marketing system affect the production not only of maize, but of all crops.

KMDP's focus on maize marketing is based on the fact that providing more appropriate market signals for maize is a necessary first step that will allow farmers and traders to base their cropping and investment decisions on accurate market signals and on the principles of comparative advantage. In the long-term, the goal of the agricultural market development strategy is to facilitate the shift towards higher income crops by clarifying market signals and developing a reliable and low cost distribution system for basic agricultural commodities. Focussing initial market liberalization efforts on maize, by addressing the focal point of inefficiency in the entire agricultural marketing system, will increase the confidence of government in the benefits of an expanded private sector role and will send an important signal to both farmers and traders about the GOK's commitment to reform agricultural marketing in order to improve efficiency and increase agricultural productivity.

By linking policy changes with investments in transportation and information infrastructure, KMDP fits well with the GOK's development strategy for the current National Development Plan (1989-93). Through policy reform, KMDP proposes to reduce the excessive cost of maize, beans and minor grain marketing by eliminating policies that constrain commodity movement from surplus to deficit areas. Concurrently, KMDP will reduce transportation costs by rehabilitating inter-market roads and by redirecting government resources to road maintenance. To enhance market transparency, underpin the private trader confidence essential to increased cereals market investment and promote competition in the marketing system, KMDP will also assist in the dissemination of market regulation and price information. The identified policy reform, road improvement and information activities have the potential to significantly increase maize, beans and minor grain market efficiency and overall agricultural sector productivity.

Farmer productivity will be directly affected by the more exact price signals generated by an efficient and competitive maize, bean, and minor grain marketing system. Prices formed in competitive markets inform producers of what the consumer is willing to pay for the crops they produce or could produce. Although Kenya's informal market prices for maize, beans, and minor grains are more influenced by supply and demand conditions than those in the formal market, the constraints outlined above lead to inefficient price formation. These inefficiently formed

prices provide inaccurate economic signals about the opportunity costs of the producer's cropping mix and input use. By providing price signals that direct producer investments to output maximizing areas of comparative advantage, marketing efficiency increases should help to increase farmer productivity.

Due to the large number of Kenyan farmers who produce maize and beans for cash or consumption (some of whom could increase their net farm incomes by producing other higher value crops in line with their comparative production advantages) focusing on improving the price information transmitted in the maize and bean marketing system holds the most potential for generating large productivity increases over the long-term. Finally, although minor grains such as millet and sorghum figure less prominently in farmer cropping systems, they often provide an alternative cash and food source. Thus the elimination of price formation distortions in the minor grain market will further improve the farmer's decision making environment.

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

2. <u>GOK Agricultural Market Development Strategy</u>

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

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

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

3. District Selection Rationale

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

B. Rationale for Program Assistance

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

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

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

policy concerns and seeks to stimulate progress in their resolution.

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

C. Other Donor Assistance

1. Cereals Sector Policy Reform

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

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

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

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

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

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

KMDP is related to, but significantly different from, the IBRD and EEC programs. The overall cereals sector reform program involves both improving the efficiency of the NCPB and increasing the role of the private sector. The IBRD and EEC efforts focus on problems

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

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

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

In response to these difficulties, USAID and the World Bank have agreed on a system of mill delivery monitoring and financial incentives (fines) that will encourage the large mills to continue to rely on NCPB for the vast majority (80% in 1989/90; decreasing over time) of their supplies. These controls will protect the viability of the Board during the process of restructuring and will allow the gradual elimination of movement controls, culminating in the complete removal of controls for the 1992-93 market year. By protecting the access of NCPB to the large-scale millers, movement decontrol no longer threatens the legitimate interests of NCPB. The timetable for the gradual ending of movement controls is set out both in the ASAO II Program and in KMDP. Thus, while the World Bank/EEC Program and KMDP address different parts of the cereals market, they complement and support one another and respond to the overall need for cereal sector marketing reform.

2. Transport Sector

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

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

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

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

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

the African Development Bank and the World Bank are also involved in large projects to rehabilitate or upgrade segments of the trunk road network.

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

D. Relationship to USAID Country Development Strategy

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

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

KMDP is consistent with the Mission's long-term interests in that USAID/Kenya is promoting agricultural marketing rationalization. This process will be key for maximizing the impact that agriculture can have on the overall growth performance of Kenya as well as enhancing the incomes and quality of life of its rural inhabitants. The activities to be undertaken in KMDP, in coordination with the World Bank's ASAO II and EEC's CSRP, are only the beginnings of a medium-term process of overall cereal sector reform. And cereal sector reform is itself only the first stage in the process of reforming the overall agricultural marketing system. While the GOK and the donors are agreed on the general direction of reform, only in the context of implementing

the various reform activities to be undertaken in the next several years will specific guidelines for difficult policy issues emerge. For instance, the GOK still tends to see food security issues as being wholly addressed by the public sector. The experience of enhancing the private sector role through KMDP will, hopefully, broaden their perspective. Only in that context can the question of the appropriate relationship between NCPB and the private sector intermediaries in a food security strategy be addressed. Similarly, the possibility of utilizing more sophisticated financial instruments, such as futures markets, as part of a food security strategy needs to be examined. USAID intends to continue to be an active collaborator in the process of identifying policy problems and solutions in the broad area of agricultural marketing.

The present portfolio of USAID projects supports initiatives that share similar objectives to those of KMDP. The Fertilizer Pricing and Marketing Reform Program (FPMRP) is designed to increase fertilizer use by smallholders while strengthening the domestic distribution system. An underlying theme in both KMDP and FPMRP is to support much broader private sector participation in marketing and trade activities and to improve efficiencies in services provided to the smallholder. The Agricultural Management Project is strengthening the capacity of private (and public) agribusiness enterprises to serve their clientele, and the Rural Private Enterprise Project has made loans to private rural agribusinesses in Kenya. These market development and agribusiness support efforts represent one set of activities aimed at increasing productivity and income growth in the near-term.

A second major program area involves USAID support to agricultural research and to technology development and transfer to small-to-medium-scale producers. Support to the Kenya Agricultural Research Institute (KARI) and Egerton University, including an evolving linkage between these institutions, are expected to yield major benefits over the longer-term. The applied policy research program, currently based at Egerton, is directly addressing agricultural marketing and policy related issues and will be integrated within KMDP. KARI's focus on the development of appropriate technologies and their adoption by small-to-medium-scale farms is complementary to KMDP. Increases in farmer income derived from improved performance of commodity marketing arrangements should accelerate the adoption of yield-increasing technologies.

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

IV. PROGRAM DESCRIPTION

A. Goals and Objectives

KMDP's long-term goal is to assist Kenya in achieving increased agricultural productivity and increased net farm incomes. Agricultural productivity refers to increasing the difference between the value of inputs and the value of outputs (value added) in the agricultural activities under the Program.

KMDP will combine support for policy reform with targeted investments in the road infrastructure and maintenance used by market actors who buy, store, ship and sell agricultural commodities. KMDP policy measures will remove restrictions on private maize and bean trading activities presently inhibiting Kenya's informal cereals sector as well as stimulate a greater commitment by the GOK to the sustained allocation of resources for road maintenance. Infrastructure investments provided by the GOK contribution to the Program will be aimed at reducing the real transport costs of moving maize and beans between surplus and deficit areas. As a result, a decrease in maize and bean marketing costs is expected. In the short term, this will contribute to higher farmgate prices for maize and beans and increased net farm incomes for maize and bean producers. In the longer term, (more than four years), if maize and bean prices are influenced more by supply and demand relationships than by distortions resulting from government interventions and poor roads, price signals will provide producers with incentives that direct investments.

B. Program Purpose

The purpose of the Program is to develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers. Market efficiency refers to the market participant's use of the least cost combination of resources (inputs) to maximize marketing throuput and profits (output). Specifically, the Program will result in:

* reduced average unit marketing costs due to increased marketing volume;

* reduced transport costs due to improved and better maintained inter-market roads;

* reduced marketing costs due to improved access to market information;

* increased producer prices for maize and beans as a result of lower marketing costs and increased competition; and

* price signals that provide more accurate information to producers on maximizing productivity and net farm incomes.

By 1994, the end of the four-year program period, USAID/Kenya expects to see an environment in which informal sector maize and bean marketing are no longer constrained by administrative controls on inter or intra-district commodity movements. Analysis indicates that the elimination of maize and bean movement controls currently in force will result in an approximate 25-30% reduction in marketing costs. Marketing cost reductions will result in an approximate 7-12% increase in farmgate maize prices. Marketing costs will be further decreased by a an approximate 45-55% reduction in transporter operating costs resulting from rehabilitation of inter-market roads. To sustain the benefits of road improvements, the Government will increase non-personnel recurrent budget support for road maintenance by 10% (real) in each of four years beginning in 1990. USAID and the GOK will undertake, on a continuing basis, studies and dialogue on the past experiences, current constraints and required actions to improve and sustain road maintenance and budget allocations for this purpose. Finally, the capacity of government institutions responsible for market information dissemination and policy analysis and planning will be increased.

Key assumptions linking the purpose and goal are that higher producer prices will result in higher net farm incomes and that higher net farm incomes will provide incentives to intensify production. It is also assumed that there will be sufficient market entrants to ensure competition, that increased competition and reduced marketing costs will result in higher farmgate prices, and that improved macroeconomic policies and technology availability will support factor reallocation toward increased agricultural productivity.

C. Outputs

To achieve the Program purpose of increased national maize and bean market efficiency, KMDP will support the GOK in structural reform, institutional strengthening and infrastructure development. The Program will provide overall support and specific assistance to:

* eliminate movement restrictions on selected agricultural commodities;

* disseminate information concerning market regulations and prices on a regular basis;

* identify, plan for, finance and undertake investments in road improvement and maintenance; and

* increase the Ministry of Agriculture and Ministry of Public Works capacity to analyze, design, monitor and implement investment and policy decisions.

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

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

The Government will announce the descheduling and movement decontrol of beans, millet and sorghum by April, 1991. This announcement will be undertaken as part of the market information activities described above. By April 1992, the Government will announce the elimination of movement controls on maize and maize products.

a. Bean, Sorghum, and Millet Movement Decontrol

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

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

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

b. Maize Decontrol

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

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

2. Campaigns to Announce Commodity Prices and Regulations Affecting Commodity Movement Implemented

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

a. Commodity Prices

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

b. Movement Controls

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

3. Road Conditions Improved and Maize and Bean Transportation Costs Reduced

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

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

4. Ministry of Public Works Capacity to Maintain Inter-Market Roads Increased

If long-term road maintenance is assured, road improvements can

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

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

Through the training and technical assistance provided by the Program, the capacity of the Ministry of Agriculture's Farm Management and Development Planning Divisions will be improved. These divisions will demonstrate improved organizational ability to collect and compile data, conduct policy analysis, monitor and evaluate the impact of reforms, and identify policy revisions or new areas for reform. ARMES (Described in Section IV.F) will assist in improving the accuracy and timeliness of FMD data. It will foster the inclusion of these data in DPD analysis aimed at resolving market policy reform issues. ARMES will also take the lead in monitoring and evaluating the impact of KMDP policy, information and infrastructure investment activities. Finally, ARMES will foster increased Ministry of Agriculture research and analytical collaboration with the University of Nairobi's Agricultural Economics faculty and with Egerton University. This will be accomplished by incorporation of the commodity marketing analysis currently being undertaken by a team of economists from both universities. Although ARMES provides a vehicle through which to channel resources, technical assistance and training, it does not constitute a new institutional structure. Instead, it coordinates and adds focus to the existing activities of the Farm Management and Development Planning Divisions. In this way, the Government's data gathering and analysis capacity will be upgraded in a cost effective and sustainable manner.

In the mid-1980's the Farm Management Division collected and disseminated market price information via radio on a weekly basis. Although price data continue to be collected in the course of the FMD's regular activities, the dissemination of cereal and horticultural commodity price information ended in 1988 due to funding shortfalls and increased Voice of Kenya radio time rates.

During the past two years, FMD has upgraded its MIS capacity by recruiting, training, and posting 80 university graduated marketing officers at the district level. The system is presently constrained by a low level of financial, transportation, communication and computer resources. While initially focusing on market areas most closely tied to the seven KMDP districts, KMDP will assist the Market Information System in upgrading the accuracy and timeliness of market price dissemination. Training, technical assistance, commodities and financing will be provided to reinstitute, upgrade and manage the Farm Management Division's Market Information System. The realignment of existing budget structures will produce funding so that the MIS can continue on a sustainable basis.

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

D. Program Inputs

The Program's resources are organized into three categories: 1) sector grant and food assistance transfers contingent upon achievement of policy conditionality; 2) government contributions to support institutional strengthening and road improvements; and 3) dollar grant funded technical assistance and commodity procurement.

1. Sector Grant and Food Assistance Transfers

Upon satisfaction of conditions precedent, dollar sector grants and food assistance will be made available to the GOK. As described in the Background Section on the Macroeconomic Framework, Kenya faces decreased foreign exchange earnings, burgeoning external debt service payments, a growing current account deficit, and potential near-term decreases in foreign assistance flows. The proposed sector grant will assist Kenya in alleviating these pressures.

In accordance with current Africa Bureau guidance (90 State 50709, 15 February 1990), incorporating Agency guidance concerning ESF dollar tracking (87 State 325792) (Appendix H), the sector grant

will be placed into a separate special account and used for general imports. The grant agreement will contain adequate accountability procedures as required by 87 State 325792. The GOK will make counter-deposits of local currency into another special account, tied in timing and amount to the dollar disbursements. These counter-deposits are in addition to the $38 million host country contribution discussed in the next section, and will be programmed according to the criteria and procedures described in the next section.

The conditions precedent to initial and subsequent disbursements of funds are expected to secure attainment of KMDP outputs. These policy and administrative reforms are considered essential to the achievement of the Program's purpose of developing a more efficient national maize and bean marketing system and providing greater price incentives to maize and bean farmers. The rationale for conditions precedent and performance indicators are set forth in detail in Section IV.E.

2. Counter-deposits

Per Bureau guidance, counter-deposit local currency will be programmed for costs not to duplicate those financed by the Host Country Contribution (Illustrative Budget for GOK Contribution -- Table 4), in the following priority order:

a. Support of the Kenya Market Development Program, as defined in this document and its annexes;

b. To the extent the first priority cannot absorb the counter-deposits, support of the sector program, according to the following criteria:

- What are the most important issues, supportive of the sector program, being addressed by the GOK and of concern to USAID/Kenya;

- For which of these issues is USAID/Kenya capable of offering effective assistance in addressing?

- Are financial resources made available from non-donor assisted funding sources adequate to address these issues effectively?

- If financial resources are not adequate, are other donors planning to contribute to this area in order that resources are sufficient?

- If not, would the GOK be interested in USAID assistance in this area?

- If so, are the resources that USAID could offer sufficient to attain a critical mass and have a significant and remarkable impact?

The established process for budgeting, monitoring and auditing of counter-deposited local currency. The process is as follows:

- Based on the Program Agreement, a special separate, non-comingled account will be set up for all counter-deposits. The GOK will notify USAID when this has been accomplished. A.I.D. records will show whether this has been done or not. The Program Agreement will specify that the amounts of the deposits required will be based on the highest exchange rate legally available to any person for any purpose in Kenya. The Program Agreement will also specify permissible uses of these deposits and will be supplemented by PILs when the need arises.

- The Controller's Office and the appropriate technical office will determine the amount of the counter-deposit that is to be deposited from each conditionality-based disbursement. This amount will be discussed and agreed upon with the GOK Treasury. In the case of counter-deposits from non-project sector assistance, immediately upon receipt of each dollar disbursement, the GOK will deposit the equivalent agreed upon amount into the special, separate, non-comingled account. When the amounts are deposited in the special account, USAID will receive prompt notification of the counter-deposit and the amount of deposit from the Central Bank of Kenya via Treasury. The Program Office and appropriate technical office will then review the process and amount of deposit for conformance with program agreements.

- Before disbursement of any of the deposited special account local currency, the GOK, in form and substance satisfactory to A.I.D., will show that the counter-deposit is included in the GOK budget. To initiate the inclusion in the GOK budget process, GOK Treasury officials, the USAID Program Office and appropriate USAID technical office(s) jointly identify the activities to be funded. Agreement will be formalized through a PIL countersigned by the GOK. The PIL will describe the GOK budget vote, sub-vote, head, sub-head, item number and title, plus the amount to be attributed to each activity. The GOK will then include the agreed upon activities in their printed budget estimates. To verify the inclusion, USAID will analyze the GOK's Development Estimates which is printed every June.

Disbursement from the local currency special accounts will be based on the GOK budget timeframe. The Program Office and Controller's Offices will verify that disbursements are for the jointly agreed upon purposes and that counter-deposits are made in the correct amounts and on a timely basis.

The GOK will furnish USAID, in form and substance as USAID may reasonably request, with all reports and information relating to activities financed with funds from the local

currency special accounts and the performance of the GOK's obligations with respect thereto. The GOK will maintain, or cause to be maintained, in accordance with duly accepted accounting principles and practices consistently applied, such books and records relating to the local currency special accounts as are necessary to adequately show, without limitation, the receipts and uses of funds from the local currency special accounts. Such books and records will be audited regularly in accordance with generally accepted auditing standards, and maintained for at least three years after the date of the last disbursement from the local currency special account. The GOK will also permit AID or any of its authorized representatives to inspect, at all reasonable times, the books and records maintained by the GOK as required under the Program Agreement and to inspect the activities financed from the local currency special accounts.

Specific to this Program, the appropriate technical office will be the Agricultural Office. The above criteria will be applied within the GOK's general agricultural budget.

2. Government Contributions

As called for in the conditions precedent, the GOK will establish a Kenya Market Development Program Budget line item in the budgets of the Ministries of Public Works and Agriculture. The line item will serve as additional budgetary resources for the Program in the two ministries. GOK contributions will assist these institutions in: 1) meeting the costs of implementing both the policy reform agenda and the market information system and analyzing the impact of these activities; and 2) providing GOK budgetary resources for targeted road improvements. A portion of the GOK contribution will be used for a local accounting firm to monitor this host country contribution. (The $38 million equivalent host country contribution is sometimes referred to in this PAAD as a "budget contribution", since it will be made through the GOK budget.).

To take account of Kenya's increasing inflation rates and the substantial expenditure of local currency on fuel, a contingency of approximately $3 million (equivalent) is included in the GOK budget.

a. Ministry of Public Works Local Currency (Host Country Contribution) Use

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Ministry of Agriculture Budget

The MOA will use $2.6 million in GOK budgetary contributions in supporting the market information system and in undertaking data collection and analysis regarding program impact and policy reform. The MOA's Farm Management Division (FMD) will be responsible for collecting wholesale and retail grain and horticultural commodity prices at selected marketplaces in the seven program districts and adjacent major urban centers such as Nairobi and Kisumu. Eventually this system is expected to be expanded to cover all major markets in Kenya. Price information will be disseminated to the public through twice weekly media announcements or other appropriate means. Although FMD managed a similar activity in the past, system upgrading to ensure the timeliness, quality and use of information is required. This will entail providing survey method training to district level MOA technicians, telephone and fax facilities, computer hardware and software, vehicles, media advertising assistance, and short-term technical assistance. In accordance with program conditionality, FMD's Market Information System will also announce regulations affecting maize, bean, sorghum and millet marketing at the beginning of each market season.

The Farm Management Division will collect and compile data on farmgate prices and enterprise profitability. In coordination with the Policy Analysis Matrix university teams, the MOA's Development Planning Division (DPD) will use this data in evaluating the actual and potential impact of KMDP policy reforms. At the district level, FMD staff will require training in survey methodologies, computer hardware and software, transport capacity, and materials for recording data. MOA/FMD staff at the national level will require training in simple analytical methodologies, (to be provided by the University of Nairobi and to

include training in use of the Policy Analysis Matrix), computer hardware and software, and short-term technical assistance for systems development.

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

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

Table 4
GOK Contribution-KSh Budget
($000 equivalent)

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

3. Dollar Supported Technical Assistance and Commodity Procurement

Short and long-term technical assistance will be provided to the Ministries of Public Works and Agriculture, the University of Nairobi, and Egerton University. Within these institutions, technical assistance will develop and support the capacity for evaluating and analyzing the impact of KMDP reforms and investments during program implementation. An additional major objective of this technical assistance is the development of the institutional linkages and capacities to foster increased and sustainable university-government cooperation in identifying and implementing agricultural policy reforms.

Nine person-years of long-term technical assistance, composed of two long-term advisors in the MOA, one in the MOPW and one in the university activities, will be provided. Commodities, including vehicles, computer hardware and software, traffic counters and fax machines specifically related to implementing the roadwork component and market information systems and assessing program impact will be provided.

The proposed technical assistance, commodity support, and training will require a total of $5 million over the four-year program period with the majority of the funds to be used for technical assistance and related costs associated with policy studies, reform implementation, and institutional strengthening.

At this stage, it is planned that two A.I.D. direct technical assistance contracts will be financed. One will be a competitively awarded contract for provision of short-term and long-term technical assistance to the Ministries of Agriculture and Public Works, short-term training in-country, and commodity procurement. This contract is planned to be a joint U.S.-Kenya proposal and will utilize as much Kenyan technical assistance as possible. The other technical assistance contract will be awarded to Stanford University and the University of Arizona through a buy-in to the centrally-funded Agricultural Policy Analysis Project (APAP). This contract will provide short-term and long-term technical assistance to the University of Nairobi and Egerton University in implementing applied research and analysis programs employing the Policy Analysis Matrix (PAM) approach.

a. Long-Term Technical Assistance to the MOA/FMD

Technical assistance will be provided to the Farm Management Division's Input, Credit and Marketing Branch to develop a market price information system and to promote the use of market price data analysis in government policy making. Technical assistance will help to 1) develop a plan for the collection and dissemination of market price data including identification of markets, commodities, users, channels, and terminology; 2) upgrade market data collection, dissemination and end use monitoring capacity, 3) develop a system for the routine monitoring and analysis of market price trends, correlations, temporal and spatial differentiation, and how quickly price changes are transmitted from one market level to the next; 4) develop extension messages on farmer use of market price information; 5) initiate the development of a system of grades and standards to facilitate trading at a distance; 6) develop a long-term plan for the improvement of commodity trading including futures markets, forward contracts, and legal methods for contract enforcement; and 7) provide on-the-job training to Kenyan counterparts.

Technical assistance will be provided to FMD's Research Branch to assist in upgrading its capacity for farmgate commodity price

collection and analysis. This technical assistant will be the Chief-of-Party to the technical assistance team. He/she will have the overall responsibility for ensuring that government decision makers employ market and farmgate price information and analysis in developing policies affecting agricultural markets, and that government and university policy analysts collaborate in the analysis of data concerning agricultural market efficiency and its impact on farmgate profitability. Other responsibilities will be to assist in: 1) developing a conceptual approach for introducing farmgate price information into policy discussions; 2) developing FMD's capacity to collect, compile and analyze farm price data; 3) identifying the determinants of farmgate prices; 4) evaluating the impact of market policy reforms on farmgate prices; 5) determining how farmers employ price signals in their enterprise mix decisions; and 6) providing on-the-job training.

b. Long-Term Technical Assistance to MOPW/DPCD

Technical assistance will be provided to the Ministry of Public Works Development Planning and Coordination Department in order to improve its capacity to evaluate the economic impact of road improvement investments. Specifically, technical assistance will assist in: 1) developing a strategy for introducing road improvement impact information into policy decisions; 2) developing a conceptual framework and identifying data requirements for analyzing road improvement impact; 3) establishing computer systems for the compilation and analysis of transportation system data; 4) improving district level capacity for data collection; 5) developing a system for monitoring progress in implementing KMDP's road improvement component; 6) performing environmental analyses of proposed road rehabilitation activities; and 7) providing on-the-job training.

c. Long-Term Technical Assistance to the Universities

To continue work previously started under USAID's Institutional Development for Agricultural Training project, technical assistance will be provided to Egerton University and the University of Nairobi for applied research activities in collaboration with Stanford University and the University of Arizona. This assistance will support the expansion of the Policy Analysis Matrix (PAM) methodology for policy analysis. Previous experience with PAM in Kenya has illustrated its appropriateness for assessing the impact of government policies on the private profitability and overall economic efficiency of commodity systems. Under KMDP, university-government ministry collaboration in undertaking PAM activities and reviewing results will lay the basis for a long-term effort to analyze constraints to increases in agricultural productivity. This collaboration will also provide another vehicle for building the broad consensus necessary to support KMDP policy reforms. Technical assistance will focus on: 1) developing the linkages between the two universities and government ministries involved in agricultural sector policy decisions; 2) assisting in the applied research activities using

the Policy Analysis Matrix approach; 3) developing curriculum materials for training in applied analytical approaches, including PAM; and 4) providing short-term classroom and on-the-job training.

d. Short-Term Technical Assistance

Fifty-five person months of short-term technical assistance are programmed for the MOA, MOPW, and Egerton and Nairobi Universities. Although these plans may change, specific analytical agendas and short-term technical assistance requirements will be outlined in each institution's annual work plans developed under the direction of the KMDP Steering Committee. The following is an illustrative list of anticipated short-term technical assistance requirements:

(1) Ministry of Agriculture

(a) Inventory of regulations affecting maize and bean trading;
(b) Specific studies of the impact of announcing market regulations on commodity flows and marketing techniques;
(c) Development of a strategy for implementing and sustaining a national market price information system;
(d) Development of predictive scenarios of the impact of maize and bean decontrol on national food security and the NCPB;
(e) Analysis of possible future roles for NCPB in grain marketing;
(f) Development of a national food security strategy;
(g) Evaluation of the private sector's capacity to respond to liberalization;
(h) Analysis of the agricultural input sector's response to market liberalization;
(i) Development of strategies for commodity market structure (including forward contracting and futures);
(j) Assessment of the potential impact of maize movement decontrol on farm enterprise mix; and
(k) Identification and monitoring of the impact of maize movement decontrol on "losers" in the marketing system.

(2) Ministry of Public Works

(a) Evaluation of private sector potential to expand its contract roadwork capacity;
(b) Development of strategies to reduce costs within the ministry;
(c) An analysis of optimum road maintenance funding requirements and management;
(d) An analysis of past road maintenance experience and lessons learned;
(e) Analysis of alternative methods of obtaining revenues for inter-market road maintenance;
(f) Analysis of potential environmental impact of proposed road rehabilitation activities;

(g) Evaluation of district level data collection capacity and strategies for improvement; and
(h) Development of a system for tracking road rehabilitation.

e. University Personnel and Operating Costs

Approximately $670,000 to be converted into Kenyan Shillings will be provided to Egerton University and the University of Nairobi to cover the personnel, operating, and workshop costs of implementing their applied research program.

f. Commodities

The following commodities are planned to be financed directly by A.I.D.:

For the MOPW, one vehicle for district visits, three computer systems (systems include software), and 25 traffic counters; and

For the MOA, eight vehicles for district data collection activities, five computer systems, and seven fax machines for market price transmission between the districts and Nairobi.

g. Evaluation/Audit

Two evaluations are scheduled: one after the first one and one/half years of program implementation and one at the three-year point.

Table 5
Dollar Budget
U.S.$000

	A.I.D
Technical Assistance	
Long-term	2,700
Short-term	550
Local University Personnel	380
University Operating Costs	290
Training	
PAM Workshops - Short Courses	60
Commodities	460
Equipment Maintenance	160
Contingencies	100
Evaluations/Non-Federal Audits	300
Total	5,000

E. Program Conditionality and Negotiating Status

The principal policy issues and proposed reform measures outlined in this document have been discussed and reviewed at the Permanent Secretary level in the Ministries of Finance, Agriculture and Public Works. The analysis on which the policy agenda is based was directed by the Ministry of Planning and National Development (MPND) Sectoral Planning Division whose chief was the chairperson of the original KMDP Development Committee. This committee was composed of technical representatives from the Ministries of Agriculture, Planning and National Development, Public Works, Supplies and Marketing, and the National Cereals and Produce Board. The MPND representative also chaired the Committee's review of the analyses, findings and recommendations. Within these fora, GOK representatives have agreed with the goals outlined in the reform agenda, although questions remain as to timing and specific indicators. Finally, the market structure policy reforms are in complete accordance with the GOK 1989-93 Five Year Development Plan and Sessional Paper No. 1 of 1986.

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

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

a. For Initial U.S. $15 Million PL 480 Food Assistance Only

Prior to the provision by A.I.D. of the initial U.S. $15 million of PL 480 food assistance, or to the issuance by A.I.D. of documentation pursuant to which such assistance will be provided, the GOK shall provide, in form and substance satisfactory to A.I.D.:

Documentation confirming that the GOK, through its Ministry of Finance, has formally proposed a Kenya Market Development Program

line item for inclusion in the budgets of the Ministries of Agriculture and Public Works which shall not be less than the Kenya Shilling equivalent of U.S. dollars 40 million over the life of the Program. The schedule for inclusion of said funds shall be the subject of future Project Implementation Letters (PILs) to be issued by A.I.D.

Projected date for compliance with CP: April 1, 1990.

b. For Initial U.S. $4 Million KMDP Project Disbursement Only

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

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

Projected date for compliance with CP: September 1, 1990

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

Prior to the disbursement/provision by A.I.D. of any sector dollar grant and/or PL480 food assistance, or to the issuance by A.I.D. of documentation pursuant to which such disbursement/assistance will be made, the GOK, through its Ministry of Finance, shall provide, in form and substance satisfactory to A.I.D., documentation confirming that:

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

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

c. The Ministry of Agriculture (MOA) has planned and conducted a publicity campaign via the press, radio and administration services to inform consumers, producers, and the relevant public and private sector parties of the most current laws, regulations and policies affecting the movement and marketing of maize, processed maize, beans, millet and sorghum within and between administrative districts. The specific requirement for compliance with this condition shall be the subject of a PIL to be issued by A.I.D., but at a minimum shall include:

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

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

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

(4) For each year for which disbursement is sought, written confirmation that district and provincial authorities have been informed of the regulations described in (c) above and that their compliance with these current laws, regulations and policies is required.

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

a. Initial Tranche Sector Dollar Grant Disbursement (U.S. $2 Million Sector Grant)

Documentation, in form and substance satisfactory to A.I.D., that the GOK has:

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

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

Projected date for Compliance with CP: December 1, 1990

b. Second Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (U.S. $3 Million Sector Grant; U.S. $10 Million PL 480 Food Assistance)

Documentation, in form and substance satisfactory to A.I.D., that the GOK, through the Ministry of Finance, has:

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

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

Projected date for compliance with CP: April 1, 1991

c. Third Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (U.S. $5 Million Sector Grant and U.S. $15 Million PL 480 Food Assistance)

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

Projected date for compliance with CP: April 1, 1992

4. Covenants

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

(1) a review of adverse environmental impacts for each said GOK road rehabilitation design and execution; and
(2) a plan for mitigation of identified adverse environmental impacts, if any.

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

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

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

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

F. Applied Research, Monitoring and Evaluation System

In order to evaluate the impact of KMDP policy reform and infrastructure development activities, and to continue the development of a conceptual approach for evaluating the long-term impact of agricultural sector policy reforms, the Program will provide technical assistance and local currency resources for data collection and analysis activities within the Ministry of Agriculture, the Ministry of Public Works, the University of Nairobi and Egerton University. This assistance is designed to create a system that will integrate the following activities:

* enhanced farmgate price, market price, production cost, and enterprise mix data collection and compilation by the MOA/FMD;

* enhanced traffic type, traffic volume, transport cost, and transport distance data collection, compilation and analysis by the Ministry of Public Works;

* enhanced analysis and planning by the MOA/DPD to underpin policy reform regarding agricultural marketing, price stabilization and strategic reserve maintenance issues;

* enhanced analysis and measurement of agricultural policy and market road investment impact on market efficiency and farm incomes to be carried-out by policy analysts from the University of Nairobi and Egerton University.

These activities will assist in the performance of policy analysis in the Development Planning Division of the Ministry of Agriculture as well as the Development Planning and Coordination Division (DPCD) of the Ministry of Public Works. DPD/MOA has a longstanding mandate for policy development in the agriculture sector and DPCD/MOPW has the institutional mandate to develop and evaluate road investments. Policy analysts from the agricultural economics departments of the two universities are currently implementing an applied research program focusing on marketing issues in the seven program districts. The results of their

continued analysis of commodity systems, including maize and beans, will contribute to the analytical findings and policy impact of KMDP.

Under the proposed system for applied research, monitoring and evaluation, DPD/MOA and DPCD/MOPW will exchange analytical findings relevant to their two policy areas. For example, the Ministry of Public Works will provide DPD/MOA with working papers and reports on changes in transportation efficiency resulting from market policy reforms or road improvement investments. In turn, the Ministry of Agriculture will provide MOPW/DPCD with working papers and reports concerning farmgate or market price changes that could be attributed to road improvements and their impact on market efficiency. In this way it is hoped that GOK resource expenditures in areas affecting agricultural transportation and marketing will be based on a wider array of relevant information. The University of Nairobi and Egerton University will also contribute to the marketing and infrastructure improvement policy dialogue by providing working papers, seminars and reports on their applied research results, commodity system efficiency, and overall agricultural sector productivity.

Data upgrading within the MOA's Farm Management Division will entail three concurrent activities:

* farm enterprise budget modelling presently being supported by the German Technical Cooperation Agency (GTZ), including production costs, input and output mixes and relative profitability comparisons of farm enterprises;

* farmgate (or primary sales point) price data collection, analysis as to variables affecting those prices, identification of variables affecting farmer response to price changes, price trend analysis; and

* market price gathering, dissemination and analysis.

Data collection and analysis activities at the University of Nairobi and Egerton University will employ the Policy Analysis Matrix approach developed by Stanford University, the University of Arizona, and Egerton University under USAID's IDAT Project. PAM analyzes the private profitability and overall efficiency of commodity systems including on farm production systems and post farm transportation and processing activities. Using existing data (such as that collected by FMD, CBS and MOPW), PAM permits concise measurements of the current private profitability and overall efficiency of a commodity system and the potential implications of policy reforms. Its analysis and results will be provided to DPD to provide a basis for its work concerning market reforms envisioned under KMDP. PAM analysis could also provide information to MOPW concerning decisions related to the real and potential role of increased inter-market road improvement investments. During this process the PAM methodology will be reviewed as to its use in tracking overall productivity and

efficiency changes in the agricultural sector. Eventually, it is hoped that the PAM methodology will be employed within the DPD in carrying out its analysis and policy development mandate.

The ARMES component will form the basis for the interpretation of analytical results, the impact of policy reforms and program activities, and the effective presentation of future policy options related to agricultural marketing. The KMDP Policy Committee will be the institutional mechanism for this dialogue process.

G. Program Monitoring and Evaluation Plan

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

1. Key Indicators of Performance

a. Input Indicators

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

Input indicators will include the following:

- Amount of dollars disbursed to GOK;
- Amount of GOK funds committed (and used) for agreed upon activities;
- Tons and value of PL 480 commodities supplied;
- Number of technical advisors hired;
- Value and type of equipment and machines delivered;

- Additional policy and institutional reforms defined;
- Number of Kenyan staff trained; and
- Monitoring and Evaluation system developed.

b. Output Indicators

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

Output indicators will include the following:

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

c. Measurement of Input and Output Indicators

The specific means and procedures for obtaining and verifying information on input and output indicators are detailed in the logical framework. Program staff will follow a system of regular feedback reviews with the GOK, contractors and other concerned parties.

d. Purpose Level Indicators

Generation of the outputs listed above will result in the accomplishment of certain benefits which constitute the purpose of the Program, that is, the development of a more efficient maize

and bean marketing system and the provision of greater price incentives to maize and bean producers. Indicators of market efficiency include:

- Reduced average unit marketing costs;
- Reduced road transport costs;
- Reduced geographic and temporal maize and bean market price differentials; and
- Increased maize and beans producer prices.

Survey and continuous monitoring information will be used to assess the performance of these indicators and to establish the relationships between observed changes and program interventions.

(1) Measurement and Timing of Purpose Level Information

(a) Baseline

The first step in measuring purpose level indicators will be a baseline survey to be completed during the first year of the Program, not later than August 1990. The survey will establish the conditions existing before policy reforms and road rehabilitation, in regard to the selected indicators. The baseline data will contain information on current average unit marketing costs for maize and beans, road transport costs, price differentials, and maize and bean producer prices, which are direct indicators of market efficiency. In addition, it will include information on some intermediate indicators such as market lorry travel distances, traffic numbers by type on each road, and transported commodities by volume. These intermediate indicators represent conditions that would normally precede the achievement of the direct market efficiency indicators.

Some data on these indicators can be found in various Kenyan institutions, and in particular, the Ministry of Agriculture, Ministry of Public Works, and the Central Bureau of Statistics. However, because the existing data has been collected and analysed for different purposes, establishing a good baseline against which changes can be tracked will require review of this existing data, field verification, reorganization and completion of the gaps that will be identified.

(b) On-Going Monitoring and Evaluation

After the baseline information is established, monitoring and evaluation efforts will concentrate on measuring changes in the baseline indicators as program implementation proceeds. KMDP resources will be used to provide technical assistance, computers, and operational support to the Ministry of Agriculture and Public Works as a means to strengthen the existing capacities to undertake the necessary data collection and analysis on an

on-going basis. The Ministry of Public Works already undertakes traffic counts by type at 5,000 road points in the country using approximately 130 fulltime survey staff. Such capacities will be strengthened to cover the seven KMDP districts and to include additional transport variables required to measure the specified market efficiency indicators. The Ministry of Agriculture's Farm Management Division and CBS attempt to collect information on market prices on a weekly basis. The frequency and quality of this information needs improvement. Under KMDP, the Farm Management Division will be strengthened through technical assistance and training of Kenya personnel to collect more accurate maize and bean market prices and to provide good coverage of rural markets in the seven districts.

There is no reliable information or organized procedure to collect farmgate prices. The Ministry of Agriculture has made some estimates using primary market prices and estimated transport costs. Technical assistance provided to the Farm Management Division will direct surveys of farmgate prices with the aim of establishing the direction and magnitude of change as the various outputs are achieved. In addition, an analysis of price determinants will be undertaken to show the factors that affect farmgate prices. It will further establish the proportionate impact of KMDP interventions, as well as the supply responses to policy reform, market information dissemination and road improvements.

These on-going evaluations, therefore, will provide the basis for assessing the Program's institutional strengthening activities. After 18 months of implementation, a major mid-term evaluation will draw together all the information generated by the on-going M&E activities, and assess the degree to which the planned KMDP objectives have been achieved. It will reveal whether the Program is still on course, and any need for mid-term corrections in plans, objectives, or in the assumptions made at the beginning.

e. <u>Goal Level Indicators</u>

KMDP goals transcend the marketing sub-sector interests and relate the Program to national objectives - objectives that are common to other programs in the Mission and to agencies outside the Mission. A successful marketing program will provide some of the conditions that are necessary to achieve the stated long-term goal of increasing agricultural productivity. While achievement of the stated purpose is expected to have a direct effect on increasing maize and bean producer prices during the life of the Program, growth in agricultural productivity is seen as its longer-term objective.

The goal level question is, to what extent could reduction of high costs of agricultural marketing, resulting from poorly developed infrastructure or inefficient government policies, lead to broader growth of agricultural productivity. The research and analysis required to answer this question involves studying a variety of

inter-related factors including broad policy issues and a look into historical patterns, recent baseline data and simulations. At this level, research and analysis should provide information to evaluate how improved agricultural marketing efficiency contributes to long run agricultural productivity and economic growth in Kenya. This entails measuring changes in the following indicators:

- Increased value added in agricultural production (in market and social prices);
- Increased sectoral efficiency as measured by reduced divergence between market and social prices of inputs and commodities;
- Increased financial returns to producer investments of land and labor in agricultural production; and
- Farmer shifts to higher value cropping mixes.

(1) Goal-Level Data Collection and Analysis Methodology Includes:

- Collection of data on volumes of agricultural production, planted areas, and yields;
- Collection of data on values and value added in agricultural production, in market and social prices (by crop and area);
- Collection of data on and analysis of impact on agricultural profitability of (a) agricultural price, macro, and marketing policies, (b) public and private institutions servicing agricultural marketing, and (c) changes in domestic and external prices for Kenyan agricultural products; and
- Analysis of sources of agricultural productivity (by crop and area), including contributions of changes in cropped area and yields, plus explanations of each (new land openings; crop substitutions; irrigation investment; transportation investment; research and extension of high yielding varieties or improved farming or processing technologies; and incentives or disincentives from price, macroeconomic, and marketing policies).

(2) Measurement and Timing of Goal Level Information

The principal aim of analysis at the goal level is to understand the role of marketing in agricultural development and to set the context for microeconomic analysis of likely future impacts of changes in policies or new public investments in infrastructure. While there is a great need to understand this better in order to direct agricultural sector growth, attempting to measure goal level indicators within the three years of the Program using GOK capacities would be too ambitious. The aim is to build capacities within Kenyan institutions to undertake this type of research and analysis competently in the future.

The Policy Analysis Matrix has been identified as the most appropriate methodology to provide the conceptual framework to understand agricultural productivity and to build analytical capacities in Kenya. This methodology has already been tested in Kenya under a Policy Research and Training Project based at Egerton University, in collaboration with Stanford and Arizona Universities. During the 18 months the project has been in operation it covered two of the seven KMDP districts where it identified and analyzed 15 different commodity systems. In the two districts covered, the Project has collected useful data that will contribute to establishment of the baseline information. Analytical results will form a basis for continuing work on the goal level indicators. Under KMDP, this Project will be expanded to the University of Nairobi, and to cover all seven program districts. The major purposes of this support to and collaboration with universities and GOK planning departments, as discussed earlier in the section on ARMES, are twofold: to carry out on the job training in agricultural policy analysis and to create an improved analytical capability in Government of Kenya agencies and universities, based on the principals of the Policy Analysis Matrix.

f. End of Program Evaluation

At the beginning of year three, an end of program evaluation will be done involving an external evaluation team. Information from the entire M&E system, including program records from continuous monitoring, baseline data and reports, mid-term results and any special studies will be organized by KMDP staff for review by the evaluation team. This final evaluation will assess, among other things, impact of KMDP on marketing efficiency as measured by specified indicators and the resultant positive and negative impact on different types of farmers and traders. It will assess the reasons for success or failure to achieve any of the expected benefits and give guidance for the expansion of the Program. It will further provide lessons for future interventions in the agricultural marketing sub-sector.

2. Feedback Procedures and M&E Information Access

M&E information will be reviewed periodically and as special studies are completed. The ARMES technical group formed during design will be formalized to continue with implementation. It has representation at the main KMDP Policy Committee. The ARMES technical group includes members from Ministry of Agriculture, Ministry of Planning and National Development, Ministry of Public Works as well as Egerton and Nairobi Universities' departments of economics. Results of the M&E system's interim and final reports will be reviewed by the Mission and will be available to AID/Washington staff as necessary.

H. Program Coordination and Management

KMDP implementation responsibilities will cut across a variety of levels, from overall agricultural marketing policy decisions to programming of local currency for roadwork to management of technical assistance resources. Continued coordination and collaboration with the EEC and IBRD programs is also envisaged. The Ministry of Finance (MOF) provides overall donor coordination for the GOK. Due to the MOF's role in coordinating the EEC and IBRD programs, and due to the effect that maize and bean market liberalization could have on the national budget, the Ministry of Finance will assume primary responsibility for the coordination and negotiation of KMDP policy reforms. During program implementation, the Ministry of Agriculture will assume primary responsibility for program monitoring and for implementing an analytical agenda defined by the KMDP Policy Committee. The Ministry of Public Works will be responsible for implementation and monitoring of the roads component.

1. Program Coordination

The Program will be coordinated through two mechanisms: the KMDP Policy Committee and the KMDP Steering Committee, both chaired by the MOF. The KMDP Policy Committee will be composed of representatives from the Ministries of Finance, Agriculture, Public Works, Planning and National Development, Supplies and Marketing and the National Cereals and Produce Board. The Policy Committee will meet semi-annually to determine progress in meeting the Program's policy objectives, to review analyses of the impact of policy changes and to make recommendations for future policy directions. The KMDP Steering Committee will be composed of representatives of the Ministries of Finance, Agriculture and Public Works. The Steering Committee (chaired by the MOF) will meet quarterly with the USAID/KMDP Program Monitoring Committee to review program status, to recommend implementation actions and/or changes, if necessary, and to make GOK and dollar budget allocation recommendations.

a. USAID

The Chief of the Mission's Agriculture Office will chair the USAID Program Monitoring Committee composed of the KMDP Program Manager, the Food for Peace/KMDP Roads Component project officer, the ARMES project officer, the project development officer, and the program economist. The USAID committee will have responsibility for monitoring the policy reform program and for concurring in GOK local currency usage with the MOF. It is expected that the USAID committee will benefit from the analyses and recommendations provided by ARMES and the Policy Committee in assessing progress.

The responsibilities of the USAID Program Monitoring Committee will include:

- monitoring the policy reform program and preparing reports for USAID as required;

preparing and reviewing with the GOK any changes or revisions in the grant agreement;

- reviewing monitoring and evaluation reports to ensure that the policy reforms are properly implemented and targets are being met;

- coordinating with the Ministry of Finance to ensure the conditions precedent in the grant agreement are met; and,

- concurrence in uses of counter-deposits

- monitoring the host country contribution.

Based on the recommendations of this USAID committee, the USAID Mission Director will have primary responsibility for making determinations as to whether conditions precedent have been met for the disbursement of funds and food assistance or whether modifications of policy reform targets are needed.

b. Donor Coordination

KMDP has been extensively discussed and will be implemented in close coordination with the IBRD and EEC programs. USAID will continue to initiate informal meetings and respond to informal invitations from the other donors. To the extent possible, these meetings will convey information as to policy reform progress and analytical findings as well as potential program reorientations. When joint areas of interest are identified, USAID will give primary attention to implementing short-term analysis or workshops in coordination with ongoing EEC and IBRD activities.

In order to heighten the level of cereals sector donor coordination, the MOF will request that EEC and IBRD representatives attend the KMDP Policy Committee meetings as observers, and that USAID representatives attend the EEC and IBRD related meetings. Eventually, the ASAO II, CSRP and KMDP Committees will be merged, but only after KMDP is on a sound implementation basis. These MOF based, multi-program coordination mechanisms will enable the Mission to monitor the progress of the complementary EEC and IBRD programs as well as keeping them informed as to KMDP progress. It will also rationalize GOK administrative commitments, reinforce the importance of serious dialogue concerning market reform, and build a broadbased understanding of ongoing market reform programs within the GOK.

2. Program Management

a. GOK

The Ministry of Finance will be the lead official coordinating agency while the Ministry of Agriculture will be the lead data collection, analysis, and planning agency and the Ministry of Public Works the lead road improvement agency. Through the Policy

Committee, the MOF will coordinate the more important, non-routine interactions between the two lead ministries and the other ministries affected by KMDP. MOF will not provide day to day guidance to MOA or MOPW. Instead, these institutions will be individually responsible for implementing their work programs with overall guidance from the quarterly Steering Committee meetings. In the context of implementing ARMES's research, monitoring and evaluation agenda, data and analytical results will be passed between the MOA and the MOPW on a routine basis.

In early 1988, the Ministry of Planning and National Development (MPND) formed a KMDP Development Committee (including representatives from MPND, Agriculture, Supplies and Marketing, Public Works, Central Bureau of Statistics, the Kenyan Range and Environmental Management Unit and the National Cereals and Produce Board) to supervise pre-design analysis and coordinate the contributions to and review of the analysis. As KMDP's scope narrowed, it became apparent that MPND's more national level planning activities, and the workload that these responsibilities required, precluded it from fulfilling an effective management role. In contrast, the MOF's donor coordination activities, and its interest in reducing NCPB's burden on the national budget, identified it as the logical program coordinator.

The GOK will nominate officers to serve as the authorized GOK representatives from each of the three main institutions, i.e. Finance, Public Works and Agriculture. These individuals will have direct responsibility for liaising between their departments and the KMDP Policy Committee and for ensuring compilation and transmission to the Committee and USAID of evidence demonstrating satisfaction of conditions precedent. They will also be responsible for transmitting working papers and monitoring reports detailing program impact and outlining the ARMES research agenda on an annual basis.

ARMES will be assisted by a long and short-term technical assistance team during project implementation. The prime contractor will be selected and expected to be operational by early 1991. The contract will include funding to provide specialized short-term (local and expatriate) technical assistance for a thirty month period. In the interim before the team arrives, the institutional components of ARMES will host a pre-implementation workshop where issues will be discussed, a schedule for the KMDP Policy Committee finalized, and a draft research and monitoring agenda drawn-up. Concurrent with the establishment of this agenda, an inventory of existing data sources, analytical capacity (computer templates, district level MOA technicians), and conceptual frameworks will be conducted to identify relevancy to KMDP needs, data gaps and additional upgrading needs. In addition, short-term technical assistance to explore specific issues will be provided.

The MOA currently operates a wide ranging farm level and market price data collection system. In terms of undertaking ARMES type

activities, the basic personnel and structure are already in place. However, the MOA will have to strengthen certain aspects of its data collection, price dissemination, and analytical capacities. The Ministry of Public Works staffing capacity is similar to that of the MOA's; however, a focus of assistance to the MOPW will be in aiding them to continue and to strengthen their reliance on private sector contractors for inter-market road rehabilitation.

b. USAID

The Program will be managed by the Office of Agriculture of USAID/Kenya which is currently staffed with five U.S. Direct Hires and two Kenyan professionals (a project specialist and a program specialist).

KMDP's daily management will be the responsibility of the Food for Peace/Program Officer (FFP/PO) who will manage the road component and the PL480 Program; the FSN Program Specialist-Agriculture who will manage the ARMES component; and the Agricultural Economist/Program Manager who will manage overall program coordination and assist the FSN and FFP/PO in managing the ARMES and roads component. The Agricultural Economist will also provide analytical input to the policy dialogue and maintain GOK and donor coordination.

The first year of the Program will be the most management intensive while the systems are being established for monitoring and reviewing the CPs for release of the funds and the achievement of benchmarks. Concurrently, efforts will focus on designing the collaborative relationships between the MOA and MOPW at the national and district level. Because the technical assistance will not be in place at the time the first benchmarks are scheduled to be met, the following division of labor is anticipated.

The Chief of the Agricultural Office will be responsible for assuring that the workplans, scopes of work, pre-implementation workshops, and policy dialogue processes with the KMDP Policy Committee and MOF representative remain consistent with the overall program objectives and the objectives of the Agricultural Office's portfolio. He/she will attend KMDP Policy and Steering Committee meetings and other donor meetings when appropriate. He/she will devote 15% of his/her time to KMDP program management issues.

The Agricultural Economist/Program Manager will be responsible for the overall policy dialogue and the monitoring of GOK compliance. He/she will supervise and coordinate the FSN international development specialist's development of the scope of work for the technical assistance component to the MOA (under ARMES), and the Food for Peace/Program Officer's development of the scope of work for technical assistance to the roads component. He/she will collaborate with the FSN, FFP/PO, the MOA and MOPW representatives

in outlining ARMES's first year research and monitoring agenda for review by the KMDP Policy Committee. He/she will have primary responsibility for the Marketing Information System. He/she will liaise with the MOF representative to ensure timely implementation of reforms and to address unforeseen issues. He/she will also have the overall responsibility for drawing up the RFP, participating in contractor selection, initiating and finalizing all documents necessary for program management, and monitoring of any short-term technical assistance contracts implemented. He/she will coordinate the Program Office and Controller's Office FSNs who are responsible for monitoring the counter-deposited local currency. The Program Manager will devote 60% of his/her time to these tasks.

The FFP/PO roads component manager will be responsible for liaising with the MOPW's representative in designing the first year's work schedule and technical assistance scope of work (in conjunction with the FSN/Program Specialist-Agriculture), implementing district level workshops, putting in place the structures to monitor MOPW performance of policy reforms, and developing the data collection structures necessary for monitoring road improvement impact. He/she will also be responsible for PL 480 Program implementation, monitoring GOK budget contributions, and attending KMDP Policy and Steering Committee meetings, Donor Road Program coordination meetings, and IBRD and EEC meetings in the absence of the Program Manager. The FFP/PO will put in place management information systems to track policy reform and program implementation including: development of data bases; schedules for commodity arrivals; district level data collection plans; contract implementation schedules; commodity procurement plans; monitoring of performance against indicators; and generation of program implementation reports. He/she will devote 60% of his/her time to these activities and will use REDSO/ESA engineering assistance as required.

The FSN/Program Specialist-Agriculture ARMES manager will have primary responsibility for monitoring and facilitating the MOA's development of the data collection, analysis and report generation structures necessary in monitoring program impact and informing GOK decision makers. He/she will have primary responsibility for USAID/AGR's monitoring and evaluation of KMDP and will assist the FFP/PO in developing KMDP's management information system. He/she will be responsible for drawing up the ARMES technical assistance scope of work (in conjunction with the FFP/PO), assisting the MOA in developing and implementing ARMES's first year workplan, managing the KMDP pre-implementation workshop and relevant district level training, and assisting the Program Manager with the first year workplan for the MOA's Marketing Information System. He/she will attend all KMDP Steering Committee meetings and the other related donor meetings when appropriate. He/she will devote 60% of his/her time to these activities.

Near the end of year one, the technical assistance team is expected to be in place and by the beginning of year two it should

be fully functional. The second disbursements are scheduled to take place midway through year two. The technical assistance contractor is expected to play a major role in the day-to-day operation of ARMES and the monitoring of the impact of policy changes and road improvements. Procedures for USAID monitoring will be in place based on year one experience. Therefore, USAID management time is expected to decrease to 50% of the Agricultural Economist/Program Manager's time, 50% of the FFP/PO roads component manager's time, and 40% of the ARMES manager's time. Due to the Agriculture Office Chief's responsibilities, there will not be a significant decrease in his/her time devoted to KMDP in year two.

c. Management and Use of the GOK Contribution

The GOK will provide budget support equivalent to $38 million. These funds will serve as additional budgetary resources for the implementing agencies. Use of the Kenya Shillings will support the policy, infrastructure and institutional goals of the Program which are primarily limited to investment requirements on the part of implementing institutions.

The MOF, MOA, MOPW representatives will be responsible for the review of local currency budget support programming proposals. Written recommendations from these representatives will be forwarded to the MOF and copied to USAID. The Auditor General's (AG) Office of the GOK has responsibility for audits of GOK finance and will periodically audit the use of the funds to ensure compliance with program intent and GOK procedures. Any reports or audits performed by the AG on funds expended will be made available for USAID review.

d. Management and Use of DFA Sector Program Grant and Counter-Deposit

KMDP DFA sector dollar grants will be disbursed against policy reforms in line with program objectives. The USAID Program Monitoring Committee will recommend to the Mission Director whether dollar disbursements are warranted given GOK implementation of the agreed upon policy reform conditionality. This recommendation will be based on the Agreements, and documentation and information provided by the MOF, MOA and MOPW representatives via the Steering Committee.

The GOK will use the sector grant for general imports. The counter-deposited local currency will be jointly programmed with the GOK to support sector program objectives. USAID will track the implementation of program dollars and counter-deposited local currency according to procedures defined in the Section IV. D.1. and Section IV.J. of this PAAD, the program agreement and subsequent PILs, guidance in 87 State 325792 (Annex H) and Bureau guidance.

e. DFA Procurement Plan - Goods and Services

Under the projectized element of the Program, $5 million in contractor service support is planned. Under DFA procurement policies, AID Geographic Code 935 is authorized. It remains A.I.D policy, however, to maximize U.S. procurement whenever practicable. At this stage, it is planned that two A.I.D. direct technical assistance contracts will be financed. One will be a competitively awarded contract for provision of long and short-term technical assistance to the Ministries of Agriculture and Public Works, short-term training in-country, and commodity procurement. This contract is planned to be a joint U.S.-Kenya proposal and will utilize as much Kenyan technical assistance as possible. The other technical assistance contract will be awarded to Stanford University and the University of Arizona through an buy-in to the centrally-funded Agricultural Policy Analysis Project (APAP). This contract will provide short-term and long-term technical assistance to the University of Nairobi and Egerton University in implementing applied research and analysis programs employing the Policy Analysis Matrix (PAM) approach.

The anticipated source and origin of the commodities to be provided under the overall technical assistance contract element is as follows:

Commodity	Source/Origin		Est. Value ($ 000)
9 Vehicles Right-Hand Drive	935 (Mission blanket waiver)		$180
8 Computers	000		$150
25 Traffic Counters	000		$123
7 Fax Machines	000		$ 7
		Total	$460
Services			
TA Contract	000		$ 2,440
PAM BUY-IN	000		$ 1,480
		Total	$ 3,920

f. Gray Amendment

The Mission is examining opportunities for minority, women-owned and Gray Amendment firms to participate in implementation contracting. The technical assistance contracts will comply with

the requirement of Section 579 of the FY 90 Foreign Assistance Appropriation Act for mandatory subcontracting with Gray Amendment entities, and with implementing regulations in effect at the time of contracting. The current interim regulation, AIDAR Notice 90-2, would require that 10% of their dollar value be subcontracted to Gray Amendment entities, unless the contracting officer certifies that there is no realistic expectation of U.S. subcontracting opportunities or unless the Administrator approves an exception.

I. Implementation

a. Implementation Planning

The implementation plan provided below is based on the assumption that the PAAD will be authorized by the end of April, 1990. It includes time schedules for achievement of conditions precedent, KMDP Policy Committee meetings that will provide the main avenue for policy dialogue, KMDP Steering Committee meetings, the publication of working papers and other activities. The final evaluation will take place after the last disbursement has been made in year three of the Program.

Implementation Plan

Action	Month/Year
Selection and convening of KMDP/GOK Negotiating Committee (eventual KMDP Policy Committee)	February, 1990
Naming of GOK/MOA and MOPW represents-tives for KMDP Steering Committee (to meet quarterly)	February, 1990
KMDP Steering Committee meets	March, 1990
MOPW private sector road improvement capacity study	March, 1990
MOA inventory of regulations affecting maize and bean trading	March, 1990
PAAD authorized	April, 1990
Grant Agreement signed	April, 1990
Final date for compliance with GOK KMDP budget item establishment CP ($15 million PL 480)	April, 1990
PL 480 Agreement signed	April, 1990

Interim commodity procurement plan	April, 1990
GOK submits to USAID a description of existing movement control regulations	May, 1990
Semi-annual meeting of KMDP Policy Committee	June, 1990
KMDP Steering Committee meets	June, 1990
Baseline study implementation plans finalized	June, 1990
Pre-implementation workshop (Nairobi)	June, 1990
Formal GOK concurrence with RFP	June, 1990
GOK mandates MOA to collect, compile and disseminate market price information	June, 1990
Definition of ARMES and MOPW first year workplans	June, 1990
ARMES research agenda drafted	June, 1990
GOK publication of existing Movement control regulations	June, 1990
MOPW and MOF provide proof of increased road maintenance resources for MOPW	June, 1990
Baseline survey initiated	July, 1990
KMDP Steering Committee meets	September, 1990
Baseline survey completed	September, 1990
Final date for compliance with GOK-RFP concurrence CP ($5 million DFA for TA)	September, 1990
Semi-Annual meeting of KMDP Policy Committee	December, 1990
Final date for compliance with MOPW maintenance resources, market regulation announcement, and market price information CP ($2 million sector grant)	December, 1990
TA Contractor in place	January, 1991
KMDP Steering Committee meets	April, 1991

Final date for compliance with GOK announcement of bean decontrol and bean, millet, sorghum de-scheduling CP ($3 million sector grant and $15 million PL 480)	April, 1991
MOPW and MOF provide proof satisfying increased MOPW road maintenance resources CP	April, 1991
GOK provides evidence satisfying movement control regulation announcement CP	April, 1991
ARMES Working Paper on impact of market regulation announcements	April, 1991
Semi-annual meeting of KMDP Policy Committee	June, 1991
Definition of ARMES 2nd year workplan	June, 1991
KMDP Steering Committee meets	June, 1991
Evaluation	July, 1991
ARMES Working Paper on impact of bean decontrol and minor grain descheduling	July, 1991
KMDP Steering Committee meets	September, 1991
Semi-annual meeting of KMDP Policy Committee	December, 1991
KMDP Steering Committee meets	December, 1991
KMDP Steering Committee meets	March, 1992
GOK provides evidence satisfying movement control regulation announcement CP	April, 1992
MOPW and MOF provide proof satisfying increased MOPW road maintenance resources CP	April, 1992
Final date for compliance with maize and maize product movement decontrol CP ($5 million sector grant, $15 million PL 480)	April, 1992
KMDP Steering Committee meets	June, 1992

Definition of ARMES 3rd year workplan	June, 1992
Semi-annual meeting of KMDP Policy Committee	July, 1992
ARMES Working Paper on impact of maize decontrol and other program activities	July, 1992
KMDP Steering Committee meets	September, 1992
KMDP Steering Committee meets	December, 1992
ARMES Working Paper on program impact	December, 1992
Semi-annual meeting of KMDP Policy Committee	December, 1992
Evaluation	January, 1993
KMDP Steering Committee meets	March, 1993
KMDP Steering Committee meets	June, 1993
ARMES Working Paper on program impact	June, 1993
ARMES-University Working Paper on areas for further policy reform	June, 1993
TA Contract Close Out	June, 1993
Semi-annual meeting of KMDP Policy Committee	June, 1993
KMDP Steering Committee meets	September, 1993
KMDP Steering Committee meets	December, 1993
ARMES-University Working Paper on program impact	December, 1993
ARMES-University Working Paper on areas for further policy reform	December, 1993
Semi-annual meeting of KMDP Policy Committee	December, 1993
PACD	February, 1994

b. 611 (a) Assessment

Based on the Mission Director's review of the Program and complementary Project documentation and consultations with GOK, AID and external experts, it is his assessment that the financial and other plans necessary to carry-out such assistance and a reasonably firm estimate of the costs to the U.S. Government of providing such assistance have been completed.

Based on the Mission Director's review of the Program and complementary Project documentation, the political commitment of the GOK to the reform agenda, and consultations with senior GOK officials, it is his assessment that upon execution of the Agreements, legislative action may reasonably be anticipated to be completed in time to permit the orderly accomplishment of the purpose of this Program and Project. (See Annex J)

J. FINANCIAL PLAN

The total funding level for KMDP is $55 million over a four-year period. The source of funding for $15 million of the Program is DFA. In addition, the GOK will contribute the equivalent of $38 million as a Kenya Shillings for the Program.

A total of $10 million is planned as dollar disbursements to be provided by sector program grants in support of proposed policy reforms. The $10 million is expected to be disbursed directly to the MOF in three tranches subject to documented accomplishment of the policy reform conditionally.

Dollar disbursements will be made as follows:

a. A.I.D. and the GOK will sign a sector dollar grant agreement which will contain policy reform conditions precedent tied to the dollar disbursements. The conditionality will be set out in substantive terms with the understanding that elaborations and modifications, within the substantive context, may be undertaken by the Mission through PILS.

b. Upon GOK compliance, satisfactory to A.I.D., with the conditions precedent, the Regional Accounting Management Center (RAMC) Paris will be requested by the Controller, based on documentation provided by USAID/Kenya, to issue a U.S. dollar check to the Central Bank of Kenya.

c. The USAID/Kenya Cashier will hand-carry the check to the Treasury of Kenya, from where he/she will obtain a receipt which USAID/K will copy to the MOF. At the time of deposit into the special account, the bank will send a receipt containing the check number, amount and date of deposit to the USAID Controller.

d. At the time of the deposit of the dollar check into the special account, the GOK will counter-deposit an equivlent amount of local currency into another special account.

In addition to the $10 million in dollar sector grant, $5.0 million is proposed to be obligated through a complementary Project Grant Agreement. The $5.0 million is planned for technical assistance, commodities, training, policy studies, seminars/workshops, and audit/evaluation. Four million will be obligated in Fiscal Year 1990 and the remaining $1.0 million planned for FY 91. The local currency from the counter-deposit will be jointly programmed in support of sector program objectives, general agricultural budget support, uses which are separate from the $38 million equivalent host country contribution. The deposits and expenditures from the local currency special account will be monitored by USAID through a contract with a local accounting firm.

Direct A.I.D. contracting under two contracts to be managed by USAID/Kenya/AGR is planned, using standard A.I.D. procedures. The method of financing will be direct payment. Normal USG audit provisions will apply under the project grant to the technical assistance contractor(s) with whom USAID will have a direct contract relationship.

Procurement of office and household furniture and equipment for the technical assistance team will be carried-out by the U.S. contracting institution involved in accordance with USG regulations. Some commodity procurement for the GOK implementing institutions will require foreign exchange and may need to be executed prior to the arrival of the technical assistance contractor. Standard A.I.D. procurement procedures will be followed.

Food assistance disbursements will be made as follows:

a. A.I.D. and the GOK will sign a PL 480 Food for Progress Agreement which will contain policy reform conditions precedent tied to the provision of annual food assistance. The policy conditionality in the Food for Progress agreement will parallel the Program Agreement conditionality for the sector dollar grant.

b. On the basis of an "annual review" process which will incorporate performance evaluation factors and required reports, agreement will be reached as to whether the GOK has satisfied the conditions precedent. Once agreed upon, the Country Team will notify the USG Food Aid Sub-Committee (DCC) that conditions have been met. The commodity to be called forward and time and place of delivery will be laid out in the agreement.

c. The GOK will follow in detail the section on "Commodity Arrangements" found in the Food for Progress Agreement. Commodity arrangements will specifically address the issues of ocean transport costs, and freight forwarding and booking.

d. The agricultural commodities will be admitted duty free and exempt from all taxes.

e. The GOK will make all necessary arrangements for receiving the agricultural commodities and will assume full responsibility for storage and maintenance of the agricultural commodities from the time of delivery at the port.

f. All claims due to losses, damages or misuse of the commodities will follow the procedures outlined in the food assistance agreement.

The GOK contribution will be managed as follows:

a. The GOK will establish a KMDP budget line item in the Ministries of Agriculture and Public Works into which it will budget and expend $38 million (equivalent) of Kenya Shillings over the life of the Program.

b. These funds will be programmed by the GOK.

c. The local currency funds will be expended by the MOF, the MOPW and the MOA in accordance with established GOK procedures.

d. At various points during the Program, the GOK will make documentation available to USAID to demonstrate that the local currency was budgeted and expended as agreed upon. The GOK will procure the services of an accounting firm, using funds from the GOK local currency contributions, to track its local currency expenditures.

2. Budget Tables

The following budget tables are found on the next three pages:

Table 6 Illustrative Budget -- DFA and FFPr

Table 7 Illustrative GOK Budget Contribution

Table 8 Methods of Implementation and Financing

K. Environmental Considerations

Although the GOK's local currency contribution's for road rehabilitation are not subject to Regulation 16 and are not jointly programmed with A.I.D., the Program has been designed in keeping with the April 1988 AID Policy Paper entitled "Environment and National Resources" and provides responsible safeguards for the environment.

Kenya Market Development Program
Illustrative Expenditure Budget
($'000)

	FY 1990	FY 1991	FY 1992	FY 1993	Total Budget
1. Policy Reform Conditionality					
(a) DFA	2,000	3,000		5,000	10,000
(b) Food for Progress	15,000	10,000	15,000		40,000
					50,000
2. Technical Assistance					
(a) Long-term -- Ministries	450	900	750		2,100
(b) Expatriate -- Universities	150	300	150		600
(c) Local -- Universities	127	127	126		380
(d) University Operating Costs	97	97	96		290
(e) Short-term	200	175	175		550
					3,920
3. Commodities					
(a) Vehicles	180				180
(b) Computer Systems	150				150
(c) Traffic Counters	123				123
(d) Fax machines	7				7
					460
4. Training					
Workshops & Short Courses	20	20	20		60
					60
5. Other Costs					
Evaluations		150		150	300
Equipment Maintenance		50	60	50	160
Contingency	25	25	25	25	100
					560
	18,529	14,844	16,402	5,225	55,000

Kenya Market Development Program
Illustrative Budget
GOK Budget Contribution
($'000)

Item	FY 1990	FY 1991	FY 1992	FY 1993	Total Budget
1. Road Rehabilitation ‡					
Road Rehabilitation		7,400	7,400	7,400	22,200
Road Structures (e.g. bridges)		750	750	750	2,250
Road Maintenance		465	1,400	2,320	4,185
Travel - DWOs	3	8	8	8	27
Road Inspection Visits	3	3	3	3	12
Data Collection (MOPW)	300	500	500	500	1,800
T.A., Environmental Impact		100	100	100	300
					30,774
2. Market Information					
Data Collection (MOA)	385	425	425	425	1,660
Media Costs	15	20	40	60	135
Facility Development (MOA)		35	65		100
Other costs	50	75	75	75	275
					2,170
3. Other					
Training	50	100	100	50	300
Seminars/Workshops	25	40	40	30	135
Technical Assistance (Short)	50	150	150	150	500
L. C. Monitoring	125	135	135	135	530
Other costs	125	125	100	25	375
Contingency (@ 9%)	782	783	782	783	3,130
					4,970
	1,913	11,114	12,073	12,814	38,000

‡ The cost of rehabilitating 1,500 kilometers of road to gravel standard is based on a per kilometer rate of $12,683. The cost of rehabilitation includes an additional $14,390 per kilometer for sealing 200 (MoPW projection) of the 1,500 kilometers. The cost of road structures was based on an average kilometer cost of $31,220. The cost of maintaining the rehabilitated roads was based on an annual cost of $1,554 per kilometer, with maintenance phased in as rehabilitation work progresses.

Methods of Implementation and Financing
($'000)

	Method of Implementation	Method of Payment	Total Budget
1. Policy Reform Conditionality			
(a) DFA	Program Grant	Sector Program Grant	10,000
(b) Food for Progress	FFP Grant	Food Shipments	40,000
			50,000
2. Technical Assistance	Direct A.I.D. Contract	Direct Payment	
(a) Long-term -- Ministries			2,100
(b) Expatriate -- Universities			600
(c) Local -- Universities			380
(d) University Operating Costs			290
(e) Short-term			550
			3,920
3. Commodities	Direct A.I.D. Contract	Direct Payment	
(a) Vehicles			180
(b) Computer Systems			150
(c) Traffic Counters			123
(d) Fax machines			7
			460
4. Training	Direct A.I.D. Contract	Direct Payment	
Workshops & Short Courses			60
			60
5. Other Costs	Direct A.I.D. Contract	Direct Payment	
Evaluations			300
Equipment Maintenance			160
Contingency			100
			560
			55,000

1. Program Description

KMDP will provide support for rural road maintenance and rehabilitation. No new roads will be built, and no roads to be rehabilitated will be rerouted. During the four year program life, the equivalent of $30.7 million from the GOK contribution will be used for the rehabilitation of approximately 1,500 kms of rural roads in agricultural districts in the following areas: 1) Kisii, 2) Nakuru, 3) Nyeri, 4) Kakamega, 5) Uasin Gishu, 6) Kitui, and 7) Narok.

The rehabilitation of the roads could have detrimental environmental effects if environmental considerations are not included in the design and execution of the rehabilitation. For example, road slopes and drainage patterns could have negative environmental effects through erosion. Alternatively, the pits from which local materials (gravel sand) are taken could adversely affect local environmental conditions.

2. Covenants

In order to ensure that this does not happen, the program grant agreement will provide the following covenants:

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

(1) a review of adverse environmental impacts for each said GOK road rehabilitation design and execution; and
(2) a plan for mitigation of identified adverse environmental impacts, if any.

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

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

3. DFA Funded Portion of Program

The DFA portion of the Program will provide $10 million to be disbursed as a sector program grant against achievement of mutually agreed upon policy objectives and $5 million to fund technical assistance in support of the institutional requirements needed to make and maintain the policy changes. The attached IEE provides a categorical exclusion for the DFA funded portion of the Program. (See Annex F)

V. FEASIBILITY ANALYSES

A. Economic Impact Analysis

KMDP economic analyses have emphasized a unique feature of the Program: the linking of a market reform component to a complementary infrastructure development (inter-market roads) component. The summary costs and benefits associated with each component are clearly identifiable in Table 2. This section covers the following topics:

- A brief review of the derivation and critical assumptions involved in the cost and benefit streams in Table 2;
- A review of the internal rate of return calculations for the two major components and KMDP as a whole;
- A summary discussion of the overall economic justification for the Program.

1. KMDP Cost and Benefit Streams

The cost streams in Table 2 are described in detail in Sections IV.D, Program Inputs and IV.J, Financial Plan of the PAAD. Here we note simply that costs are made up of US dollar costs (DFA sector program grant and project funds) and costs financed by the GOK budget. In the latter category are administrative costs in the Ministry of Public Works and the costs of maintaining the roads rehabilitated under the KMDP inter-market roads component. Greater detail on the derivation of the roads component costs and benefits are contained in unattached Annex F, Transport Sector Analysis.

Market reform component benefits are attributable to the elimination of movement controls on maize and beans and related reforms and in the wider dissemination of better market information. Efficiency gains take the form of maize and bean marketing cost reductions and the resulting savings that accrue to the informal maize and bean trade (i.e. that trade which is outside the current NCPB/major mills network). They are determined by estimating potential reductions in marketing margins at the wholesale level.

The overall market share of informal trade in grain markets has been growing in recent years relative to that of the NCPB. Analysis of maize marketing channels and practices indicates that substantial savings could be realized if shipments were unrestricted by quantity or destination. For example, current small-scale wholesalers in Eldoret purchase maize from local traders ("first handlers") for KShs 315 (about $15) per 90 kg bag. They incur expenses of KShs 60 in shipping the maize in small volumes (less than 10 bags) to their customers in adjoining seasonal deficit areas. If maize movement among districts were

permitted, traders would be allowed to purchase maize directly from farmers in surplus producing areas and deliver it by the truckload (about 100 bags) to their customers in deficit areas. Under this scenario, the traders would accrue estimated savings of KShs 65 (about $3) per bag reflecting a combination of a lower cost of goods and lower unit transportation and handling costs. Numerous similar examples were worked through during the PAAD economic analysis and consistently the savings realized through efficiency gains were in the KShs 55-75 per bag range. Assuming turnover in private channels of 7 million bags per year, the aggregate gross savings are on the order of $20 million per year.

Trading in beans is equally constrained by formal system rules, even though only a fraction of marketed volumes actually reach the NCPB. Under present policy conditions, excess marketing costs average about KShs 75 ($3.50) per bag. As with maize, these costs are directly attributable to the maneuvering, inefficient practices and unnecessary intermediaries that are used to circumvent movement controls. Interestingly, the KShs 75 per bag affects both small-scale traders (mainly in the form of handling costs) and unauthorized larger-scale traders who engage in inter-district arbitrage (e.g. Kisii to Nairobi), but must pay substantial rents at roadblocks along the route. Gross savings of $3.50 per bag on private sector trading volume of 1.8 million bags of beans would aggregate to $6.3 million per year.

In Table 2, the estimate of net benefits to the Kenyan economy of the elimination of movement controls on maize and beans represents only about 30 % of the cost savings from the reduction in maize and bean marketing margins. This is because only the distributional efficiency savings (composed of reduced real costs for handling, transport, and informal rents) are considered to be net economic gains to the economy as a whole. The rest of the marketing margin reduction represents transfers within the economy, primarily from a sub-group of small market traders to producers, consumers, and wholesale level traders.[4/]

Overall the marketing reforms, under very conservative assumptions, produce a stream of benefits of approximately $59 million over ten years against costs of about $25 million, occurring largely in the first three years.

[4/] One could also assume that some of the reduced margin going to traders and producers would have further secondary impacts on increased maize production and on reduced costs from wholesalers having a greater propensity to reinvest extra profits in transport, storage and handling facilities which would further reduce the aggregate costs of marketing. However, none of these secondary benefits have been included in this summary economic analysis.

Market Development Program — Table 9

Illustrative Summary Economic Analysis of Project Components (All in US$ Mill.)

Cost and Benefit Categories	Years 1	2	3	4	5	6	7	8	9	10
COSTS==										
1. PA Costs										
1. PA to GOK (B)	2.0	3.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. UPA TA (B)	1.7	1.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Support to GOK										
1. Contributions (LC)	2.0	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0
1. Road Rehab. (LC)	5.1	8.2	7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3. O&M Costs										
1. Road Maint. (LC)	0.0	0.1	0.2	0.3	0.3	1.1	1.1	1.1	0.3	0.3
2. MPW Admin. (LC)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Component Subtotals										
Mktg Policy Reform	5.7	6.7	8.3	2.0	2.0	0.0	0.0	0.0	0.0	0.0
Market Roads	5.1	8.3	7.4	0.3	0.3	1.1	1.1	1.1	0.3	0.3
TOTAL COSTS	10.8	15.0	15.2	2.3	2.3	1.1	1.1	1.1	0.3	0.3
BENEFITS (MKTG SAVINGS)										
1. Informal Mkt										
1. Maize	0.0	0.0	5.2	5.3	5.6	5.6	5.6	5.6	5.6	5.6
2. Beans	0.0	1.5	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7
2. Formal Mkt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Component Subtotals										
Mktg Policy Reform	0.0	1.5	6.8	6.9	7.3	7.3	7.3	7.3	7.3	7.3
Market Roads	0.0	1.9	5.0	7.7	7.8	8.0	8.3	8.5	8.8	9.0
TOTAL BENEFITS	0.0	3.4	11.8	14.6	15.1	15.3	15.6	15.8	16.1	16.3
NET BENEFITS==										
Mktg Policy Reform	-5.7	-5.2	-2.0	4.9	5.3	7.3	7.3	7.3	7.3	7.3
Market Roads	-5.1	-6.4	-2.4	7.4	7.5	6.9	7.1	7.4	8.4	8.7
TOTAL NET	-10.8	-11.6	-4.4	12.3	12.8	14.2	14.4	14.7	15.7	16.0

Illustrative Economic IRR's

	After: 4 Yrs	10 Yrs
Mktg Policy Reform Component:	-36%	29%
Mkt Road Component:	-26%	32%
Total KMDP:	-30%	30%

BEST AVAILABLE DOCUMENT

2. Distribution of Benefits from Marketing Reforms

The benefit streams in Table 9 were estimated to be distributed to producers, consumers and traders in the expanding wholesale segment of the vertical marketing channels for maize and beans. The projected impacts of potential reforms at the farm level for two farm sizes (under and over 8 hectares) and six Provinces of Kenya, are summarized below in Kenya Shillings:

Table 10
Benefits in KShs Millions

Zone	Farm Size Small	Large	Total	Percent of Total
1. Coast and "Dry East	25	0	25	2%
2. Central and "West East"	129	7	136	11%
3. Rift Valley	346	368	714	60%
4. Nyanza	91	8	99	8%
5. Western	211	8	219	18%
Totals	802	391	1,194	100%

These results indicate that a greater than proportionate share of the KMDP farmgate benefits will flow to Rift Valley farmers, while less than proportionate benefits go to zones 1, 2 and 4 above. Western Province (zone 5) is a third case that will receive benefits which are proportionate to maize production levels there. The basic logic is that traders will tend to concentrate on areas such as Upper Rift which have substantial surpluses to export to other regions and where better infrastructure and past practice give a definite advantage to the region's farmers, with benefits going most rapidly to larger farms which may have been benefiting selectively already by being able to skirt the movement controls one way or another.

When we look at the distribution of benefits going to traders and consumers, we see that overall, shilling benefits from the elimination of controls are distributed as follows during the early and later years of the KMDP effort:

Table 11
Percent of Benefits to:

Time Period	Producers	Traders	Consumers
Years 2-4	27	37	36
Years 5-10	40	20	40
First 10 Years	36	25	39

Early excess profits are important to stimulating trade as they provide incentives for others to enter the maize market which would then increase competition and eventually contribute to higher prices going to producers and to consumers paying less for basic food supplies. It should be noted that consumers in early years of the Program benefit substantially more than producers (twice as much in year 2) since they are more concentrated and easier to reach than producers. The economic analysis of the market component is further explained in unattached Annex A, Economic Analysis.

3. Cost and Benefits of the Roads Component

KMDP road investments are intended to integrate the system of Class C and D roads with district centers and production areas, and upgrade existing inter-market roads to gravel standards. The economic analyses are based on the evaluation of three cases: Class C and D road projects in a high potential maize surplus area (Nakuru), a high potential cash crop area (Kakamega or Kisii) and a grain deficit area (Kitui).

Because reductions in transport costs are the most direct benefits that accrue to users of an improved road under a regime of competitive markets, these benefits are used as the basis for the analyses. Vehicle operating costs savings come about when a gravel road in poor condition is restored to its original design standards. Because such an improvement results in changes in the surface condition of the road, the costs of operating vehicles over the road are lowered. The resulting transport benefits were first annualized and then projected over the life of the improved road. The discounted benefits were then compared to the discounted costs of construction and the costs of both routine and periodic maintenance of the road improvement over the same period of time. The net benefits (i.e., the discounted benefits minus the discounted costs) were used to conduct the internal rate of return.

The procedure used in performing the analysis was to evaluate a base case scenario first for Class C and D roads in the two high potential areas and in the low potential areas. Under the base case scenario, the economic analysis was conducted on user savings only. The costs of inputs for the base case analysis included the construction costs estimated at KShs 260,000 ($12,700 @ 20.5 KShs/U.S.$) per km, annual maintenance costs estimated at KShs

10,900 ($531) per km for routine maintenance and KShs 150,000 ($7317) per km for periodic maintenance. All cost inputs were shadow priced for the foreign exchange component and for the use of the unskilled labor to reflect economic costs rather than financial costs. (The shadow prices are based on I.B.R.D. 1986.)

Vehicle operating cost savings or user benefits were estimated on the basis of the savings achieved from using an earth road in poor condition as compared to using an improved gravel road. Vehicle operating costs can be grouped into two categories consisting of fixed costs and variable costs. Fixed costs are those incurred as a result of owning the vehicle such as license fees, taxes, insurance and depreciation. Variable costs, or more precisely running costs, relate to those costs incurred as a result of putting the vehicle into service. Variable costs include: fuel, oil and lubricant consumption, spare parts consumption, tire consumption, maintenance repair costs, crew costs, and idling costs.

Fixed costs represent 65% of total operating cost for a seven-ton lorry or about KShs 35.75 per km. The variable costs are 35% of the vehicle operating costs or KShs 19.59 per km. Assuming that a lorry spends 50% of its running time on a gravel road and 50% on a paved road (both in good condition), the operating cost should be approximately KShs 18.76 per km. However, because of the road conditions prevailing in the study area, the running costs per km for a lorry are estimated to be 53% (KShs 6.81 per km) above what they would be if the roads were in good condition.

In order to estimate indicative aggregate cost savings brought about by KMDP road improvement investments, it is assumed that over ten years average daily traffic on the 1,500 kms of road to be rehabilitated would average 50 seven-ton vehicles. (This figure is derived from MOPW estimates of present road usage levels and represents the transportation of 1.01 million 90 kg bags of maize, a reasonable figure considering total national annual formal and informal maize marketings of approximately 13.5 million bags.) Based on that volume of traffic, and the 6.81 KShs per km cost savings estimated above, total running cost savings over ten years (2600 operating days) are estimated at $64.9 million (@20.5 KShs/U.S.$). As these assumptions cannot be based on exact projections, the case studies were subjected to sensitivity analysis illustrating the effects of 25% reductions in average daily traffic or cost savings. These are illustrated in the the tables in Unattached Annex F, Transport Sector Analyses.

4. Program Economic IRR's and Justification

Internal rates of return, after four and ten years, were calculated for both of the major KMDP components, market reform and inter-market roads, and for the Program as a whole. Results of these computations are summarized below:

Table 12
Internal Rates of Return after:

Components	4 years	10 years
Market Reform	-18%	29%
Market Roads	-26%	32%
Total KMDP	-23%	30%

It will be noted that the market roads component has a slower rate of payback but that the 32% rate of return after ten years is considered very good for investment in rural roads infrastructure. Because the major policy component of maize movement decontrol occurs in year three, the accrual of a positive return is not evident during implementation of the initial four years.

The rates of return for the market reform component reflect the large savings which can easily be realized through economies of scale if normal private wholesalers of maize and beans are allowed to expand without distortions due to restrictions on supply movements between surplus and deficit areas. This is the heart of KMDP: it is both the major economic justification for the Program and the most difficult part of the policy agenda for the GOK to accomplish. The reasons for hesitation in adopting simple reforms with clear-cut benefits are partly due to the inertia of marketing system policies which have been in operation for 50 years, and partly to legitimate concerns on the part of the GOK that it be able to fulfill its critical role in assuring national food security.

As previously discussed in Section III.C.1., Other Donor Assistance, GOK and donor representatives have voiced concern over the potential negative impacts of movement control elimination on the financial viability of the NCPB. It is felt that during a transitional period to greater maize market liberalization, decontrol would threaten NCPB's ability to purchase and sell enough maize to avoid net increases in per unit throughput costs. Increased costs would cause greater NCPB operating deficits and greater requirements for national budget subsidies. This would have a negative impact on the economic feasibility of the Program. However, analysis has found :

- Under average and bumper supply conditions, the elimination of the controls would not appreciably affect the NCPB as a buyer since its harvest price would generally be above prevailing market levels because the time period when NCPB purchases the majority of its stocks is immediately after harvest when informal market prices are at levels generally below NCPB's prices;

- Under mild deficit conditions, it is clear that liberalization means that NCPB would have to compete on price for its needed stock acquisitions. This effect would be transitory, however, since under more severe deficit and drought conditions, NCPB would cease buying and begin the release of the security stock while it considers increased food aid and commercial imports of cereals; and

- Administrative monitoring of miller purchases, and fines as a disincentive to millers seeking their supplies from other than NCPB sources will provide short-term protection of NCPB's wholesale market outlets while it increases its operational efficiency and competitiveness.

B. Social Impact Analysis

During the process of PAAD design, field studies were conducted in districts targeted for assistance under KMDP. The study team focused its analysis on market linkages and spatial relationships between production areas and markets, and then on the principal socio-economic groups involved in the marketing system for maize and beans. To lay the groundwork for identifying probable "winners" and "losers" under a scenario of policy reform, the analysis began with the stakes that various groups have in the current system.

Important distinctions were noted in the capacity and performance of the formal system in purchasing the output of different producer groups, and meeting the needs of various consumer groups. In large part the uneven performance of the NCPB system and the development of an active "informal system" of private trade which operates in parallel are traceable to its origins. The predecessors of the current Board were organized half a century ago, with the objective of ensuring a market and a gazetted price for large farmers (then exclusively Europeans), and ensuring delivery of grain and flour (through the closely connected milling industry) to consumers in urban areas. Yet while Kenya's rural economy and land tenure systems have been substantially transformed since that time, altering the relationship between producers and markets for maize and beans, the monopoly/monopsony status and associated regulatory system of the Board have remained essentially the same.

By increasing transparency and deregulating the existing informal trade, KMDP offers advantages to groups who have not been well served under the existing system:

- Medium-scale maize farmers, especially in resettlement zones, who depend on maize as an important income source, will be able to direct their significant surpluses to a wider range of buyers;

- Wholesalers and medium to large-scale traders, who will realize greater economies of scale because they no longer have to maneuver around the restrictions of the formal systems;

- Rural consumers in many regions, especially those living in areas that experience seasonal deficits characterized by severe price swings, such as the districts adjoining Lake Victoria or those in Central Province which have switched over to high value cash crops; and

- Lower-income urban consumers, who would have greater access to grain for unsifted posho flour, especially under bumper harvest conditions when producer prices are relatively low.

One of the most significant transformations will take place in the marketing channels between rural surplus and deficit zones. Here the increased efficiencies in handling and transport will be achieved through elimination, on average, of one handler/middleman in the chain. Some of those displaced are likely to be women traders, in cases where the freer flow of trade favors consolidation of shipments into lorry loads or pick up loads, rather than very small quantities sent via donkeys, bicycles, buses, or matatus. However, the success of women entrepreneurs in the marketing of unregulated commodities such as potatoes, bananas, and vegetables - many already operating at large-scale, with their own means of transport - suggests that in a more open and competitive trading environment, some of those now dealing in maize and beans will be able to expand and prosper.

The reduction of prices during the "hungry season" of April to July in seasonal deficit areas will be one of the key indicators of program impact. In these areas, not only are there large numbers of female-headed households, but rural purchasing power tends to be low and the scarcity of maize and beans after stocks from the previous harvest run out creates a genuine hardship. By opening up the flow of staples into these areas the Program should have direct, measurable impact on the consumption of affected households.

The ARMES unit of KMDP will be provided with adequate support to carry out several key functions, among them:

- Reporting on price indicators to monitor changes in spatial and seasonal differentials;

- Short-term diagnostic studies to dig deeper into issues arising from data on price patterns and trends;

- Longer-term applied research, using the Policy Analysis Matrix (PAM) and other methodologies at the farm level to improve understanding of commodity systems; and

- Helping to develop and refine a comprehensive strategy for food security.

The first two of these functions will be implemented so as to provide analysis and result with a quick turn around so that USAID

and GOK policy makers are able to monitor program impact, identify vulnerable groups (or intended beneficiaries who have not yet been reached), and take remedial action.

The proposed infrastructure component to rehabilitate roads linking markets is being modelled on the successful Minor Roads Program which enjoys multi-donor support. The MRP has pioneered efforts to ensure that women benefit from employment opportunities, and road improvement under KMDP will draw on its experience and procedures. Private contractors engaged by the Ministry of Public Works to upgrade linkage roads (Class C and D) will be required to observe the criteria of the Ministry.

C. Beneficiary Impact Analysis

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

1. Beneficiaries

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

Among the traders, large-scale wholesalers would see a big improvement in business. Lifting of movement controls would make their operations more profitable and allow expanded wholesaling operations with greater efficiencies. These large benefits would attract new entrants causing effective competition and higher producer prices. Major marketing cost savings will be a result of this improvement in operational efficiency which is currently impeded by trade restrictions. Analysis based on field data describes marketing savings of approximately KSh 65.00 a bag of

maize as it moves from the farmgate or first handler level to the mills, wholesalers or retailers. Under reform, small-scale traders using donkeys and moving small loads on matatus will retain their niches as strictly local retailers and 'first handler' assemblers.

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

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

2. Losers

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

We also anticipate that the current beneficiaries of the system of economic "rents" will be losers due to the removal of movement controls. This group's possible range of reactions and the

anticipated effects of these reactions are dealt with in detail in Unattached Annex I - Political Analysis.

3. Effect of Present Policies on Incomes of Different Groups

Under current policies, the large-scale farmers (over 20 hectares) and large milling corporations have an advantage in the maize industry. Large-scale farmers annually producing anything up to 2,000 bags and over benefit from NCPB's bulk buying, storage and transportation facilities, including the railway system. Many farmers in this category also enjoy privileged access to large millers and private markets. Under reform this group is likely to prefer to sell their maize to their existing customers in bumper and normal years, while in deficit years they will probably take advantage of liberalized markets to transport grain to seriously affected areas where they would fetch a price above that offered by NCPB. In any case, most large-scale farmers earn substantially more income from wheat and dairy production; thus, any reform in the maize market is likely to affect only minimally their overall incomes. The large millers' income growth has been favored by the gazetted price structure of the current system. They have done even better, in financial terms, when they were able to purchase maize through the "back door" directly from large farmers or lorry traders. Even under conditions of market restructuring and probable growth in the market share of private traders, it should be emphasized that most of Kenya's large millers have the resources and experience needed for successful adjustment.

Some small-scale farmers, small traders and high-income urban consumers have also benefited to some extent under the current system. Small-scale holders in grain producing areas have experienced a slight advantage in bumper and normal years because access to NCPB assures them a market. In deficit years they lose some potential benefits by selling at lower prices than would prevail under a freer market. Small traders can take advantage of low volume trade under the current system while middle and high income urban consumers benefit significantly from fixed price for flour and dependable supply.

The remaining groups of maize market actors have their income growth and food security constrained significantly by the current maize marketing policies.

Medium-scale producers in the large farm/settlement areas appear to incur the greatest costs among all producer groups. Among this group, sales of 100 to 200 bags are common, but because they have only one outlet for their produce (NCPB), they lose significant revenue. Large-scale traders and wholesalers who resort to unauthorized trade dealings absorb the highest risks and potential costs under the current system. The other categories of losers include small-scale producers in deficit regions who are largely net purchasers, low-income urban consumers and to an extent middle and high-income urban consumers, urban and rural posho millers, not to mention the undesirable erosion of government revenue as a result of maintaining the present policies.

4. Potential Longer-Run "No-Loser" Effects of Reform

The analysis of beneficiary impact and the surveys upon which this analysis is based indicate that in the short run some economic gains may shift from a few market actors, particularly large scale farmers and millers who are currently protected by economically inefficient trade regulation, to other groups in the economy. Also, some medium-small-scale traders are expected to be displaced by larger, more efficient operations. However, there are real net economic gains to Kenya to be realized from improved efficiency in maize marketing. If these economic gains result in overall economic growth, there should not be any real longer run losers as a result of reform. The apparent short run losers will shift to alternative profitable activities created by economic growth in the country.

The longer run effect of undertaking the reforms on the growth of agricultural productivity will more than offset the short run losses.

First, under freer marketing, small-scale maize producers can be assured of marketing their surplus produce. Consumers of maize, the country's food staple, can be assured of supply. Given more confidence in the ability to buy and sell, many subsistence farmers will be willing to shift to commercial production. First, they will produce more maize because they can sell it and improve their income level - a supply response to availability of effective maize market and higher prices from trader competition.

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

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

D. Institutional Analysis

The principal institutions involved in the implementation of KMDP will be the Ministry of Finance, the Ministry of Agriculture, and the Ministry of Public Works. The Ministry of Finance will serve as the program coordinator and will chair the inter-ministerial KMDP Policy Committee. The MIS sub-component will be located in the Ministry of Agriculture, Farm Management Division. The ARMES sub-component, while involving various ministries, will be housed in the Development Planning Division, Ministry of Agriculture. The Ministry of Public Works will implement the Roads Improvement Component.

In addition, successful implementation of the Program will require participation and coordination with the University of Nairobi, Egerton University, the Ministry of Planning and National Development, private road construction contractors and the inter-ministerial KMDP Policy and Steering Committees.

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

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

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

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

2. Ministry of Agriculture (MOA)

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

At the top of the MOA's organizational structure is the Minister of Agriculture and the Assistant Ministers. The Permanent Secretary is the highest ranking civil servant. Reporting to the Permanent Secretary are the Director of Agriculture, the Deputy Secretary for Administration and the Head of the Development Planning Division. Under the Director of Agriculture are seven

technical divisions. One of the seven is the Farm Management Division.

The MOA has considerable capability and experience in policy development and implementation of programs. Its organization and operations span the full range of technical and professional activities necessary for the effective management of the sector. In some functions, such as crop development, farming statistics, marketing, irrigation and soil conservation, the MOA shares responsibility with other GOK institutions. Where the Ministry's control has been transferred to other ministries, the MOA has reduced the depth of its involvement.

a. The Development Planning Division (DPD), MOA

The Development Planning Division is one of three divisions that report to the Permanent Secretary of the Ministry of Agriculture. The Division is divided into four sections: commodity analysis, inputs, project preparation and strategy. Under KMDP, DPD will be responsible for coordination of the ARMES sub-component in the GOK.

DPD is the GOK's only organizational unit explicitly mandated to undertake strategic and policy analysis of the agricultural sector. As noted above, the Head of the DPD reports directly to the Permanent Secretary. This makes DPD well positioned to present policy issues to decision makers. The Division is called on by the Permanent Secretary to review policy and strategic analysis reports from other divisions and government departments.

DPD is also well positioned to obtain data and information from the technical divisions in the MOA. The functional role of the Division demands that it work closely with the other divisions within the MOA. This occurs either through informal contacts between officers or through formal mechanisms such as ad hoc committees and task groups, and through the Ministry's management meetings.

DPD has developed strong formal and informal linkages with other GOK institutions in policy development and has the respect of other GOK institutions in policy analysis. For example, the Division has recently been requested to prepare a food security policy paper for an inter-ministerial task force. These linkages are due, in part, to the fact that all the Kenyan staff in DPD are economists or planners seconded from the Ministry of Planning and National Development. While the DPD staff may report to the Permanent Secretary of MOA, they are professionally responsible to the MPND.

The Division's position will be enhanced under the proposed IBRD-funded Monitoring and Evaluation (M&E) project. The M&E project stresses the need for line ministries, like the MOA, to develop their analytical capabilities to perform minor analyses and to use more quantitative information in their decision making processes. Likewise, the institutional strengthening activities

planned for DPD under KMDP will improve the quality of DPD's contribution to the M&E project.

However, DPD's technical capacity currently is not sufficient to carry-out the Division's mandate in policy analysis. Due to the low level of renumeration offered to professional staff in the civil service, the Division has faced a high rate of personnel turn-over. In addition, of the 18 professional staff in the Division, six are on leave for post-graduate training.

Three local professionals have been recruited as technical assistants funded by IBRD to replace departing expatriates. These local experts are on short-term contracts, and will probably leave DPD within three years. Most of the other local staff are relatively new in the Division, replacing other officers who left after receiving their post-graduate degrees.

In addition, DPD does not have reliable data bases to support comprehensive and timely analysis of policy issues. In the past, DPD has concentrated its efforts on the analysis of crisis policy issues without the use of farm level data. The Division is aware of the need to develop data bases for policy analysis in order to quantify the impact of policy reform on private and social profits, market efficiency and agricultural production.

Assistance will be provided to DPD under KMDP to increase the Division's access and capacity to analyze high quality farm level data. KMDP will upgrade DPD's farm level data bases in collaboration with the Farm Management Division. Short-term advisors and commodities will be provided as needed to increase the Department's capacity to manage the data bases. The Program will also provide short-term training to increase the analytical and planning capacity of DPD staff.

b. <u>The Farm Management Division (FMD), MOA</u>

The Farm Management Division is one of seven technical divisions in the MOA. The Division is comprised of three branches covering Farm Inputs and Marketing, Farm Systems and Statistics, and Land Use Planning. The FMD will be responsible for implementation of the Market Information System. It will also work with the DPD to implement ARMES. Two FMD initiatives are of particular importance to its role in KMDP, i.e., the development of its data bases and its market information system.

The FMD data bases have been described as the most expansive and organized farm-level production data in Kenya. The three main data bases were developed between 1978 and 1987. They will provide a firm basis for development of the data sets required for ARMES. Under KMDP, these data will be verified and updated and a data base system for strategic planning and policy making will be institutionalized. A long-term advisor will be provided to assist with this work and to assist in the development of a system to monitor factors that influence farmgate prices.

In the mid-1980's, FMD started a Market Information System (MIS) to improve market transparency by collecting data on wholesale market prices in nine major urban centers. This information was disseminated on a weekly basis through radio broadcasts. Most MIS activities stopped last year due to a lack of funds to cover the recurrent cost of telephone and telex correspondence between enumerators and the head office and the cost of the weekly radio broadcasts.

A well functioning MIS is still an important goal for FMD. Data on rural market prices continue to be gathered by the Ministry's farm-level agricultural technical assistants. These data are then forwarded to the District Agricultural Officers who compile monthly reports submitted to MOA headquarters. However, the FMD's organizational capacity and recurrent resources are inadequate to systematically manage and process the data collected.

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

c. MOA, District Level

The MOA district level establishment has several sections which represent most of the technical divisions of the Ministry. These sections are headed by officers with graduate and post-graduate educations in their fields. A District Agricultural Officer (DAO) has overall responsibility for MOA activities at this level. The DAO has a functional reporting relationship to all heads of technical divisions of MOA. FMD and DPD district level ARMES and MIS related activities in the implementation of ARMES and MIS will be coordinated by the DAO.

3. Ministry of Public Works (MOPW)

The Ministry of Public Works has the responsibility for development, maintenance and improvement of the country's classified and unclassified road networks. The networks measure 61,688 kms and 88,912 kms respectively. Among the Ministry's other functions are development and maintenance of public buildings, inventory maintenance of government property and mechanical services to other government agencies.

As with other GOK ministries, the Permanent Secretary of MOPW reports to the Minister. The Chief Engineer (Roads), the Chief Engineer (Planning), and the Engineer-in-Chief report directly to the Permanent Secretary. The Chief Engineer (Planning) supervises the Development Planning and Coordination Department (DPCD). The

Chief Engineer (Roads) heads the Roads Department which is divided into four branches; Design, Special Projects, Construction and Maintenance. Each branch is headed by a Chief Superintendent Engineer. About half of MOPW's staff is engaged in the Roads Department. The department accounts for about 65% and 90% of the Ministry's recurrent and development budgets respectively.

Over the past 15 years, the Ministry has launched three major programs for the development of non-bitumen roads. These are the Graveling, Bridging and Culverting Program (GBCP), the Rural Access Roads Program (RARP) and the Minor Roads Program (MRP). Based on their experiences in these projects, donors and consultants have described the Ministry as one of the best run ministries in the GOK. Through these projects MOPW has gained much experience in collaborating and coordinating with other GOK departments and donors. The Ministry also developed systems and procedures that can provide internal tracking and external accountability for funds.

The Ministry will be the institution responsible for implementation of the Road Component of KMDP. Within the Ministry, the Coordinator of the Road Improvement Component will be the Senior Superintendent Engineer for Regravelling in the Roads Maintenance Branch. The Coordinator will work closely with the Development Planning and Coordination Department. (It is expected that the Assistance Coordinator will be from DPCD.) The Planning Department will be responsible for monitoring the impact of road rehabilitation and assisting the coordinator in monitoring project implementation. The Coordinator will also be able to call on the Construction Branch and the GBCP, Special Projects Branch, for design of road structures (i.e., bridges and culverts). The Ministry has found that project coordinators are an effective mechanism for large project management and the departments have a strong collaborative working relationship.

a. Road Maintenance Branch, Roads Department, MOPW

The Maintenance Branch is one of the four branches of the Roads Department. Reporting to the Chief Superintendent Engineer for Maintenance are the Senior Superintendent Engineers for the Inspection and Management System, Regravelling, Resealing and Road Marking and the Provincial Road Engineers.

Unlike the other three major rural road programs, KMDP will not be implemented by the Special Projects Branch. The Maintenance Branch has a number of advantages that will contribute to the success and sustainability of this program component. The primary advantage is that the Maintenance Branch has a country-wide organization and some idle operating capacity which can be mobilized to support the implementation of KMDP. In particular, District Roads Engineers are better placed and have more capacity

than the MRP/RARP District Improvement and Maintenance Engineers to supervise the KMDP road activities at the district level.

Unlike the Special Projects Branch, the Maintenance Branch has had considerable experience over the years in the employment of private contractors. In recent years the Maintenance Branch has developed a system for costing, budgeting and monitoring expenditures on road maintenance based on the IBRD's Highway Maintenance Model. Furthermore, using the Maintenance Branch will also avoid further fragmentation of the MOPW maintenance operations. Already, some institutional fragmentation has resulted from the development of parallel structures and operations under GBCP and RARP/MRP.

The introduction of the "Road Toll Fund" and the use of private road contractors have provided the Road Maintenance Branch with full and sustainable capacity to maintain the country's trunk roads. This does not include the 2,500 kms of paved roads that need to be rehabilitated. As these roads are rehabilitated with assistance from other donors, they will be maintained by the Road Toll Fund.

The Branch remains operationally weak only in the routine maintenance of graveled roads. The Branch is only able to regravel 600 kms of the 5,000 kms of roads targeted per year. The main constraints are the lack of funds to purchase, maintain and operate equipment, and weak management in the maintenance camps. The Branch is taking steps to relieve these constraints through increased use of private contractors and adoption of the routine maintenance system used under RARP and MRP.

The funds provided by the KMDP Roads Component will help the Ministry clear some of the backlog of non-paved roads requiring rehabilitation. KMDP's emphasis on the use of private contractors for rehabilitation and periodic maintenance will reduce the Ministry's dependence on donor assistance for procurement and maintenance of equipment. The Ministry's plans to use a modified lengthman system for routine maintenance of C and longer D roads will reduce equipment needs and increase the utilization of existing road maintenance staff.

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

Additional assistance, computer equipment and training, will be provided to assist the Coordinator with project management.

Short-term technical assistance will be provided to address constraints as they arise and for studies related to increasing the efficiency of the Maintenance Branch.

b. Developing Planning and Coordination Department (DPCD), MOPW

The Development Planning and Coordination Department is comprised of six units: Policy Review, Economics and Statistics Unit, Advance Planning Programming Unit, Implementation and Monitoring Unit, Toll Collections Unit, Traffic Engineering Branch, and Road Safety Unit. With the exception of the first unit, all of the units are headed and staffed with civil engineers. Reporting to the Chief Engineer (Planning) is the Chief Superintendent Engineer (Planning). The Chief Superintendent Engineer in turn supervises the Senior Economist, the Superintendent Engineers and the Traffic Engineer who head the units. The Senior Superintendent Engineer for Project Implementation and Monitoring will most likely be the Assistant Road Component Coordinator. The organizational structure is somewhat fluid in that staff resources are often shared to meet peak workloads or to assist units that are understaffed.

The DPCD will play a major role in implementation and impact monitoring for the KMDP Roads Component. The Implementation and Monitoring Unit will work closely with the Roads Component Coordinator to track progress in road rehabilitation and the expenditure of GOK funds for the Program. Implementation status data will be sent to the Coordinator from the districts. The Coordinator will pass the data to the Implementation and Monitoring Unit for analysis and reporting. The Unit provides this service for all major road projects undertaken by MOPW and has the capacity to take on more work.

Despite this existing capacity, only two officers are assigned to cover the Implementation and Monitoring Unit and the Advance Planning Unit. While the Department is sufficiently flexible to provide these officers with additional staff as needed, computer equipment and training will be provided to increase their efficiency. Training will be provided in the use of computers for project management and in policy analysis.

The Traffic Engineer is in charge of the Toll Collections Unit, the Traffic Engineering Unit and the Road Safety Unit. The Traffic Engineer, through the Traffic Engineering Unit, will be responsible for data collection and analysis for the KMDP Roads Component. The Traffic Engineering Unit has a senior staff of 20 officers available to undertake special studies, surveys and evaluations for road projects. In addition, there are 100 enumerators fully occupied with the Unit's on-going traffic survey and 60-point traffic census.

While the Unit is well staff to collect traffic data, the Unit's budget is 50% of the KShs. 2 million required to cover the costs of the traffic surveys. The Unit has all but exhausted its travel budget allocation for 1989-90, less than six months into the year. The data collected are compiled and coded by the Traffic Engineering Unit. They are then sent to the Government Computer Services Centre (GCSC) for processing. Due to limited capacity of the GSCS and the large jobs the Center must process (e.g., the GOK payroll), the turn-around time to process the traffic data is one year. Consequently, DPCD's planning and monitoring is based on out of date data. The Department also does not have the capacity to analyze the data beyond what was done by GCSC.

Assistance will be provided to the Traffic Engineering Unit to strengthen its capacity to collect and analyze traffic data. Twenty-five mechanical traffic counters will be provided to increase the Unit's capacity to collect traffic volume data without increasing personnel costs. Computer equipment, computer training and technical assistance will be provided to enable the Unit to analyze the data collected in a timely manner.

c. MOPW, District Level

Initial road selection, tendering and contractor management will take place at the district level. District Works Officers (DWO) will have responsibility for overseeing implementation of road rehabilitation and maintenance activities. Reporting to the DWO are the District Improvement and Maintenance Engineer (DIME) and the District Roads Engineer (DRE), among others. DIMEs implement the RARP and the MRP. DREs will be responsible for implementation of the KMDP road activities. They have the requisite skills and excess capacity to supervise these operations.

District Roads Engineers, while supervised by the DWOs are functionally responsible to the Provincial Road Engineers. District Roads Engineers supervise the 275 maintenance camps across the country, each headed by an Officer-in-Charge.

Workshops will be held to ensure that district officers are prepared to implement the KMDP road component. Workshop topics will include procedures for tendering, managing contractors, impact monitoring and the Policy Analysis Matrix.

4. Other Institutions

a. District Level Institutions

The principal institutions involved at the district level will be the District Development Committees (DDC), the District Executive Committees, the District Tender Boards, the District Treasuries and district level establishments of the MOPW and MOA. All have

been strengthened under the GOK's District Focus Strategy. The district level institutional set-up provides for accounting and financial control, the procurement and payment for services, and accounting and reporting on expenditures on a monthly basis. The MOA's and the MOPW's district level organizations are discussed above.

b. Private Road Contractors

The MOPW has a long tradition of employing private contractors for virtually all its major road projects. It has employed large, mainly international, contracting firms in major bitumen works. In periodic maintenance (resealing) of trunk roads, the MOPW has been contracting out to what it regards as medium-sized contractors. The medium-sized contractors are also available for large graveling jobs. For most regravelling jobs, usually in the Class C and D roads, there has been extensive involvement of small domestic contractors for a number of years.

Preliminary reviews (by consultants, REDSO/ESA and from discussions with MOPW officials) show that private road contractors have the capacity to undertake the work planned for KMDP. However, to ensure that this is the case, a more detailed study of contractor capacity and constraints will be conducted at the beginning of the first program year. If necessary, local currency funds will be re-allocated to address the needs identified.

c. Ministry of Planning and National Development (MPND)

It is a mandate of the Ministry of Planning and National development to undertake analysis of economic and development issues and to formulate overall strategies for the implementation of development programs and projects. The Ministry has been major player in the design of KMDP. The Ministry's Central Bureau of Statistics, Sectoral Planning Department and Department of Resource Survey and Remote Sensing have been the organizational units most involved.

MPND will continue to be active in the Program's implementation, but to a lesser degree. The change in the Ministry's level of participation is due to a change in program focus, full commitment of Ministry resources to other donor projects (particularly, the World Bank's new Monitoring and Evaluation project) and limitations on KMDP's budget and the Mission's management capacity.

During implementation, MPND's role will be one of providing data to other participating ministries, assisting in data collection and analyzing data on program impact. At the district level, district planning officers will be called upon to assist in guiding road project selection and in monitoring program impact.

No KMDP resources are planned for MPND. It is expected that MPND's needs will be met by other donor projects and USAID/Kenya's on-going project in the Rural Planning Department.

d. Agricultural Universities

Egerton and Nairobi Universities will make a major contribution and play an integral role in the implementation of the ARMES research and analysis agenda. The two universities will continue their ongoing program of applied research and analysis concerning the impact of policy changes and road investments on maize, bean and other principal agricultural commodity systems. They will perform a crucial function in KMDP policy development by contributing to KMDP Policy Committee discussions and by collaborating with district level MOA and MOPW technicians in data base development. The two universities have been involved in applied research on marketing investment and policy development in a project that has been underway for 18 months. During this period, they have worked in collaboration with Stanford and Arizon Universities in applying and establishing the strengths of the Policy Analyses Matrix (PAM) approach to Kenya's policy development process. Under KMDP this collaborative effort will be expanded through short-term training of GOK economists and planners and through the development and publication of ministry/university working papers on program impact. University researchers will also take the lead in identifying and elucidating additional policy reforms that could enhance the efficiency of commodity systems not dealt with in KMDP's initial policy agenda.

ACTION: AID-3 INFO: ON POL/RLO

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ANNEX A
Page 1

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C O R R E C T E D C O P Y (TEXT PARA 3A)

E.O. 12356: N/A

SUBJECT: KENYA MARKET DEVELOPMENT SUPPLEMENTARY DOCUMENT (615-0242)

REF: 88 STATE 400130

1. THE KENYA MARKET DEVELOPMENT PAIP WAS REVIEWED ON NOVEMBER 17, 1988 AT AN ECPR CHAIRED BY DAA/AFR E. L. SAIERS. THE ECPR CONCLUDED THAT, PRIOR TO PAAD APPROVAL, THE MISSION SHOULD SUBMIT A SUPPLEMENTARY DOCUMENT TO A.I.D./W FOR REVIEW AND APPROVAL. THE PURPOSE OF THE SUPPLEMENTARY DOCUMENT IS TO DEEPEN THE ANALYTICAL BASE FOR THE PROGRAM OUTLINED IN THE PAIP SUBMISSION. REFTEL PROVIDED MISSION WITH SPECIFIC ITEMS TO BE ADDRESSED IN THE SUPPLEMENT, AND PROVIDED GUIDANCE FOR PAAD DEVELOPMENT.

2. THE KENYA MARKET DEVELOPMENT (KMDP) SUPPLEMENTARY DOCUMENT WAS REVIEWED ON MARCH 24, 1989 AT A PROJECT COMMITTEE (PC) MEETING CHAIRED BY AFR/PD AND ATTENDED BY AFR/PD/TAP, AFR/EA, AFR/TR/ANR, AFR/MDI, AFR/DP, GC/AFR, PRE/E AND S&T/RD. THE SUPPLEMENTARY DOCUMENT WAS ACCEPTED, WITH SOME CONCERNS AS TO THE NPA COMPONENT

(SEE BELOW), AND MISSION IS HEREBY AUTHORIZED TO DEVELOP A THREE YEAR SECTOR ASSISTANCE PROGRAM WITH LIFE-OF-PROGRAM (LOP) LEVEL OF DOLS 15 MILLION AND AN FY 1989 OBLIGATION OF DOLS 2 MILLION. THE BUREAU ALSO CONCURS WITH DEVELOPMENT AND SUBMISSION OF A MULTI-YEAR PL 480 TITLE III PROGRAM IN SUPPORT OF MARKET DEVELOPMENT IN KENYA. WITH RESPECT TO THE PROPOSED DFA FUNDED NPA COMPONENT, HOWEVER, THERE ARE CONCERNS REGARDING: (1) MISSION'S ABILITY IN TIME REMAINING THIS FY TO ADEQUATELY DESIGN NPA COMPONENT (AS SUMMARIZED ON P 29 OF SUPPLEMENT) IN ACCORDANCE WITH REFTEL AND BUREAU NPA GUIDANCE; (2) APPROPRIATENESS OF DFA-NPA FOR FIRST YEAR ACTIVITIES DESCRIBED IN THE SUPPLEMENT, AND (3) WHETHER, GIVEN THESE TWO CONCERNS, A SECTOR ASSISTANCE DOCUMENT (PAAD OR A PP) WHICH CONTEMPLATES BUT DOES NOT

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CONTAIN A DFA-NPA COMPONENT WOULD BE A MORE APPROPRIATE ASSISTANCE TOOL AND A MORE DEFENSIBLE 3-YEAR AUTHORIZATION VEHICLE AT THIS TIME, WITH DFA-NPA COMPONENT TO BE ADDED BY FIELD AMENDMENT WHEN READY. IN AN EFFORT TO BE HELPFUL AS YOU PROCEED, THESE CONCERNS, AND RESULTING OPTIONS OPEN TO MISSION, ARE DISCUSSED MORE FULLY BELOW.

3. PROGRAM TARGETS AND CONDITIONALITY: THE SUPPLEMENT STATES THAT THE PROPOSED PROGRAM CONSISTS OF THREE COMPONENTS, I.E. POLICY MEASURES, INFRASTRUCTURE DEVELOPMENT AND INSTITUTIONAL STRENGTHENING.

A. POLICY MEASURES: THE SUPPLEMENT DESCRIBES 3 POLICY CONSTRAINT AREAS TO BE ADDRESSED BY THE NPA COMPONENT OF THE PROGRAM: (1) THE EXCESSIVE PUBLIC SECTOR MARKET SHARE; (2) MOVEMENT CONTROLS; AND (3) PRICE STRUCTURE. THE SUPPLEMENT ADDS THAT DURING PAAD DESIGN USAID AND THE GOK WILL COLLABORATIVELY DEVELOP A DETAILED POLICY AGENDA COVERING THESE POLICY AREAS, AND THAT THE AGENDA WILL INCLUDE SPECIFIC SELF-HELP MEASURES AND VERIFIABLE BENCHMARKS FOR YEAR 1 AS WELL AS THE EXPECTED TIMEFRAME AND PROBABLE SELF-HELP MEASURES FOR IMPLEMENTATION OF POLICY MEASURES DURING YEARS 2 AND 3. THIS CLEAR AND WELL-RECEIVED SUMMARY OF PAAD DEVELOPMENT APPROACH TO POLICY CONDITIONALITY ASPECT OF NPA COMPONENT, WHICH CLOSELY TRACKS PRIOR GUIDANCE, APPEARS TO BE INCONSISTENT WITH DETAILS SPELLED OUT ON SUCEEDING PAGES OF THE SUPPLEMENT.

FOR EXAMPLE, WITH RESPECT TO MOVEMENT CONTROLS AND PRICE STRUCTURE, THE PC'S READING OF THE SUPPLEMENT (PP 30-31) LEFT IT WITH THE IMPRESSION THAT THE KMDP'S FIRST YEAR PROGRAM ACHIEVEMENTS MIGHT BE LIMITED TO A SERIES OF ANALYTICAL STUDIES. WITH RESPECT TO THE MARKET SHARE POLICY AREA, THE PC'S READING OF THE SUPPLEMENT (PP 29-30) LEFT IT WITH THE PERCEPTION THAT GOK "POLICY" DECISIONS HAVE BEEN AND ARE BEING MADE THROUGH THE EEC AND IBRD PROGRAMS AND THAT OUR ASSISTANCE WILL BE PRIMARILY IN SUPPORT OF GOK IMPLEMENTATION THROUGH DEVELOPMENT OF A PROCUREMENT PLAN AND MONITORING SYSTEM -- BOTH OF WHICH SEEM TO BE SUITABLE TA ACTIVITIES BUT DO NOT APPEAR TO BE POLICY REFORMS.

ALONG SIMILAR LINES, SUPPLEMENT STATES THAT IMPROVEMENT IN MAIZE AND BEAN MARKETING SYSTEMS ARE THE FOCUS OF THE POLICY MEASURES COMPONENT BECAUSE OF THE POTENTIAL DIRECT AND INDIRECT SAVINGS WHICH CAN BE REALIZED BY REDUCING MARKET INEFFICIENCIES. BUT THE SUPPLEMENT DID NOT SPECIFY ANY PRELIMINARY TARGETS FOR POLICY CHANGE TO BE ACHIEVED IN THE FIRST YEAR OR BY THE END OF THE PROGRAM, NOR DID IT INDICATE THE ANTICIPATED IMPACT OF POLICY CHANGE.

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MORE GENERALLY, THE SUPPLEMENT DOES NOT APPEAR TO ESTABLISH CLEAR LINKAGE BETWEEN DISBURSEMENT OF NPA AND GOK ACTIONS NECESSARY TO ACHIEVE PROGRAM PURPOSES OR TO OTHERWISE JUSTIFY USE OF NPA VS OTHER FORMS OF ASSISTANCE TO ADDRESS THE SPECIFIC CONSTRAINTS TARGETED FOR AID ASSISTANCE IN SUPPLEMENT.

WE AGREE THAT APPROPRIATE ANALYTICAL RESEARCH IS NEEDED IN THE CONTEXT OF THE CONTINUING POLICY DIALOGUE WITH THE GOVERNMENT OF KENYA (GOK). IT IS ALSO TRUE THAT DETAILED POLICY CHANGES, CONDITIONALITY AND THE POTENTIAL IMPACT OF POLICY CHANGES ARE NOT REQUIRED TO BE FINALIZED UNTIL PAAD DESIGN. YET IT REMAINS UNCLEAR WHETHER THE DESIGN METHODOLOGY OUTLINED IN THE SUPPLEMENT WOULD YIELD A PAAD WHICH IS CONSISTENT WITH REFTEL PARA. 9B, AND AFRICA BUREAU DFA NPA SECTOR ASSISTANCE GUIDANCE (JULY 1988) BOTH OF WHICH REQUIRE CONCRETE STATEMENTS OF CONDITIONALITY. THE COMPLETE PAAD (WITH NPA COMPONENT INCLUDED) SHOULD CLEARLY DESCRIBE (1) THE RELATIONSHIP BETWEEN THE PROVISION OF THE ASSISTANCE AND THE ACHIEVEMENT OF PROGRAM PURPOSE AND OUTPUTS; (2) SPECIFIC ACCOMPLISHMENTS TO BE ACHIEVED AT SPECIFIC TIMES AND THE TRANCHING OF PROGRAM DISBURSEMENTS TO THESE ACCOMPLISHMENTS; AND (3) WHAT THE PROGRAM EXPECTS TO ACHIEVE THROUGH DOLLAR CONDITIONALITY AND THE PROGRAMMING OF LOCAL CURRENCY RESPECTIVELY. PAAD WILL NOT BE APPROVED UNLESS IT MEETS THESE STANDARDS AND COMPLIES WITH GUIDANCE CONTAINED IN REFTEL AND HEADQUARTERS MANAGEMENT NOTICE 88-44.

IF, ON THE OTHER HAND, YOU FIND THAT YEAR ONE IS NECESSARY TO CARRY OUT STUDIES WHICH WOULD LEAD TO DEFINITION OF A SPECIFIC GOK - APPROVED POLICY AGENDA, THE PROGRAM MIGHT BE MORE APPROPRIATELY PACKAGED AS A TECHNICAL ASSISTANCE COMPONENT WITHIN AN OVERALL 3 YEAR SECTOR ASSISTANCE PROGRAM WHICH WOULD ALSO INCLUDE INFRASTRUCTURE DEVELOPMENT, INSTITUTIONAL STRENGTHENING AND TITLE III AS PLANNED. BUT NO DFA-NPA COMPONENT OR DISBURSEMENTS. THE RESULTING SPECIFIC POLICY AGENDA WOULD ENABLE THEPA COMPONENT TO BE FINALIZED AND ADDED TO THE PROGRAM. THIS DFA-NPA COMPONENT COULD BE AUTHORIZED BY MISSION AS AN AMENDMENT WHEN FULLY DESIGNED, FOLLOWING REVIEW BY AID/W OF THE POLICY AGENDA AND PROPOSED CONDITIONALITY. A MAJOR ASSUMPTION HERE IS THAT EVEN IF NO SPECIFIC POLICY AGENDA IS EVENTUALLY AGREED UPON WITH THE GOK, AT LEAST SOME KEY OBJECTIVES OF THE 3-YEAR DOLS 5 MILLION DFA SECTOR PROGRAM THAT WOULD BE AUTHORIZED THIS FY UNDER THIS SCENARIO WOULD BE ACHIEVED. IF THIS SCENARIO ADOPTED, PAAD SHOULD ADDRESS THIS ASSUMPTION. THE DECISION REGARDING NPA NOW OR LATER BELONGS, PROPERLY, TO THE MISSION. REQUEST MISSION PLEASE ADVISE AID/W OF PLANNED COURSE OF ACTION AND APPROXIMATE TIMING OF DOCUMENT SUBMISSION.

B. INFRASTRUCTURE DEVELOPMENT: KMDP INVESTMENT IN RURAL ROADS IS IDENTIFIED AS AN INTEGRAL COMPONENT OF

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INFRASTRUCTURE ARE KEY CONSTRAINTS TO MARKET DEVELOPMENT. HOWEVER, IT WAS NOT CLEAR WHAT ROLE GOK POLICIES AND INSTITUTIONS PLAY IN SUPPORT OF RURAL ROADS REHABILITATION, AND THE IMPLICATION FOR PROGRAM SUSTAINABILITY (RECURRENT COSTS FINANCING). HOW WOULD THE KMDP ADDRESS POLICIES AFFECTING A VIABLE ROAD MAINTENANCE/REHABILITATION PROGRAM, E.G. RECURRENT COST FINANCING, TECHNICAL CAPACITY, INSTITUTIONAL ASPECTS, ETC? THE PAAD OR PP (DEPENDING ON WHICH SECTOR ASSISTANCE MODE FOR FY 89 AUTHORIZATION MISSION CHOOSES PER PRECEDING DISCUSSION) SHOULD PROVIDE SUFFICIENT ECONOMIC, INSTITUTIONAL AND TECHNICAL INFORMATION (1) ON THE ROLE THESE ROADS PLAY IN MARKETING EFFICIENCY; (2) CONSTRAINTS AFFECTING THE MAINTENANCE OF RURAL ROADS IN KENYA AND (3) A.I.D. OR OTHER DONOR INVOLVEMENT IN THE SECTOR WHICH WILL LEAD TO SUSTAINABLE BENEFITS IN THE LONG-TERM.

THE PC CONCURS THAT THERE IS A LACK OF SUFFICIENT ANALYSIS TO SUPPORT THE CONCLUSION THAT INADEQUATE MARKET TOWN INFRASTRUCTURE IS A CONSTRAINT TO MARKETING IN KENYA. ANY SUBSEQUENT DECISION TO INCLUDE TOWN INFRASTRUCTURE UNDER THIS PHASE OF KMDP WOULD REQUIRE A PAAD/PP AMENDMENT FULLY JUSTIFYING IT AND INCLUDING THE APPROPRIATE ANALYSES, CONDITIONS AND FINANCIAL PLANS.

C. INSTITUTIONAL STRENGTHENING: THE SUPPLEMENT STATES THAT A CONSTRAINT TO UNDERTAKING THE PROPOSED POLICY MEASURES IS THE GOK'S INSTITUTIONAL CAPACITY TO CARRY OUT EXTENSIVE REFORMS IN A RELATIVELY SHORT PERIOD OF TIME. THIS STATEMENT WAS MADE WITHIN THE CONTEXT OF PROVIDING THE RATIONALE FOR INTEGRATING THE APPLIED RESEARCH, MONITORING AND EVALUATION SYSTEM (ARMS) WITH THE POLICY MEASURES AND INFRASTRUCTURE DEVELOPMENT COMPONENTS OF THE PROGRAM. HOWEVER, IT IS NOT CLEAR WHETHER ARMS IS AN EXISTING GOK ENTITY OR WILL BE CREATED, WHICH GOK MINISTRY/AGENCY WILL BE RESPONSIBLE FOR MANAGING THE IMPLEMENTATION OF THE SYSTEM, AND THE

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EXTENT OF COORDINATION AMONGST GOK MINISTRIES WHICH MAY BE REQUIRED. REFTEL PARA. 14 ADDRESSES THE ISSUE OF PROGRAM MANAGEMENT WITHIN THE GOK. THE PAAD/PP INSTITUTIONAL ANALYSIS SHOULD PROVIDE AN IN-DEPTH ANALYSIS OF THE STRENGTHS AND WEAKNESSES OF GOK CENTRAL AND LOCAL GOVERNMENT INSTITUTIONS ON WHICH SUCCESSFUL PROGRAM IMPLEMENTATION WILL DEPEND. THE PAAD/PP SHOULD ALSO INCLUDE A CONCISE DESCRIPTION OF ARMS: (A) PURPOSE AND COMPOSITION OF THE TECHNICAL ASSISTANCE; (B) OTHER RESOURCE REQUIREMENTS AND POTENTIAL SOURCES OF ASSISTANCE; (C) APPROPRIATE INSTITUTIONAL ARRANGEMENTS WITH A GOK AGENCY; AND (D) POTENTIAL RESEARCH/POLICY AGENDAS.

4. PROGRAM BENFICIARIES: THE SUPPLEMENT STATES THAT THERE ARE TWO GROUPS WHO WILL BE DIRECTLY AFFECTED BY THE KMDP, I.E. SMALLHOLDERS (LARGELY WOMEN) AND URBAN CONSUMERS, THE FIRST BEING THE MOST SIGNIFICANTLY AFFECTED GROUP. IT WILL INDIRECTLY AFFECT MERCHANTS AND BUSINESSES IN RURAL AREAS. ALSO THE SUPPLEMENT STATES THAT BEANS AND MAIZE SMALLHOLDERS AND RURAL CONSUMERS PRIMARILY USE AN INFORMAL SYSTEM OF SMALL TRADERS (AND NOT THE NATIONAL CEREALS AND PRODUCE BOARD) WHERE PRICES ARE NOT BASED ON THE GAZETTED PRICE AND FLUCTUATE ACCORDING TO SUPPLY AND DEMAND. THE POTENTIAL IMPACT OF PLANNED PROGRAM ACHIEVEMENTS IN BEANS AND MAIZE ON THE IDENTIFIED PROGRAM BENEFICIARIES, THEREFORE, IS NOT CLEAR. THERE IS ALSO AN ABSENCE OF ANY DISCUSSION OF THE POTENTIAL LOSERS, E.G. NCPB BUYERS WHO MAY BE NEGATIVELY AFFECTED BY RELAXED OR ELIMINATED GRAIN MOVEMENT RESTRICTIONS; MILLERS WHO MAY SUFFER INCREASED OPERATING COSTS AS NCPB'S ROLE IS REDUCED; RURAL/URBAN CONSUMERS WITH THE LEAST PURCHASING POWER, ETC. THE LACK OF SUCH ANALYSIS SHOULD BE ADDRESSED BY INCLUDING A THOROUGH ANALYSIS OF THE CONDITION OF THE WINNERS AND

OSERS AFFECTED BY PLANNED PROGRAM ACHIEVEMENTS; AND A DETAILED DESCRIPTION OF HOW THE PROGRAM WILL AFFECT THEIR PRODUCTION AND CONSUMPTION OPPORTUNITIES.

5. PROGRAM OBJECTIVES: THE SUPPLEMENT HIGHLIGHTS WHAT MAY BE POLICY DIFFERENCES AMONGST THE IBRD, EC AND A.I.D. IN THE GRAIN MARKETING SECTOR. THE OTHER DONORS APPEAR TO BE PROVIDING A TYPE OF ASSISTANCE WHICH IS INTENDED TO ENHANCE NCPB'S EFFICIENCY WHILE A.I.D. IS PURSUING A POLICY ENVIRONMENT CONDUCIVE TO PRIVATE SECTOR DOMINANCE OF THE GRAIN MARKETING SECTOR. DO THESE DONORS INTEND, AND IS THEIR ASSISTANCE IN FACT CONSISTENT WITH, A REDUCED ROLE FOR NCPB?

THE SUPPLEMENT STATES THAT THE ISSUES TO BE ADDRESSED IN THE LONG-TERM INCLUDE: (A) DEVELOPING COST EFFECTIVE MEANS OF PROVIDING FOOD SECURITY; (B) ANALYZING THE IMPLICATIONS OF A STRATEGIC RESERVE FOR DOMESTIC BUYING AND SELLING ACTIVITIES; AND (C) ASSESSING THE FEASIBILITY OF DECREASING NCPB'S OVERHEAD EXPENDITURES BY REDUCING PHYSICAL STORAGE CAPACITY. THE DETAILS OF

SUCH MEASURES ARE EXPECTED TO BE DEVELOPED DURING PAAD/PP DESIGN. WE UNDERSTAND ARMS WILL HAVE A ROLE IN RESOLVING THESE ISSUES AND PROMOTING A PRIVATE SECTOR APPROACH. IN ADDITION, THE PAAD/PP DESIGN SHOULD INCLUDE A DESCRIPTION OF THE MISSION'S STRATEGY/PLAN FOR DEVELOPING UNANIMITY OR COMPLEMENTARITY WITH EC AND IBRD PROGRAM OBJECTIVES IF THEY DO NOT ALREADY EXIST AND PROMOTE COLLABORATION BETWEEN ARMS AND OTHER ACTIVITIES SPONSORED BY A.I.D. AND OTHER DONORS. BAKER
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5C(1) - COUNTRY CHECKLIST - KENYA - FY 1990

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

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(b). 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

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, 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 N/A

are transported, or through which 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 agreement? and (b) Has the President 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. 1986 Drug Act Sec. 2013. (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 N/A

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Congress listing such country as one: (a) which, as a matter of government policy, 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. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (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. FAA Sec. 620(e)(1). 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 Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Secs. 512, 548. Is recipient country a Communist country? If so, has the President: (a) 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, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? 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 1990 Appropriations Act Sec. 518 (Brooke Amendment). (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 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 1990 Appropriations Act appropriates funds?	(a) NO (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 of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	N/A
12.	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.)	While Kenya was slightly in arrears as of January 1, 1989 this was taken into account by the A.I.D. Administrator in approving the FY 90 OYB. Kenya is not delinquent within the meaning of Article 19 of the UN charter.

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 1990 Appropriations Act Sec. 564. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? 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 by the Administrator in approving the FY 90 OYB.
21.	FY 1990 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
22.	FY 1990 Appropriations Act Sec. 539. 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

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? NO

b. FY 1990 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violace any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? NO

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? NO

b. FY 1990 Appropriations Act Sec. 569(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? YES

5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is 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?	YES
	HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?	YES

A. GENERAL CRITERIA FOR PROJECT

1.	FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. If money is 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 CN was submitted on March 30, 1990 and the 15-day waiting period expired without objection on April 14, 1990.
2.	FAA Sec. 611(a). 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 with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?	Representations by senior government officials, including the Vice-Pres. and Minister of Finance, analysis of legislative requirements, recent legislation related to project objectives, recent experience, terms of the program agreement and favorable political environment.

4.	FAA Sec. 611(b); FY 1990 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 market efficiency changes. These changes will increase internal trade, foster private sector competition, discourage monopolies and improve technologies in agriculture.
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).	The technical assistance contract will U.S. private enterprise. It is expected that A.I.D. financed commodities will also be from the U.S.

9. FAA Secs. 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 40% of the program cost in cash and in-kind. They include salary and benefits for personnel, office space, office furniture, utility costs and operating 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?

10. The U.S. does not own excess Kenya shillings.

11. FY 1990 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. producers of the same, similar or competing commodity?

11. N/A

12. FY 1990 Appropriations Act Sec. 547. Will the assistance (except for programs in Caribbean Basin 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 gloves 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 long-term agreement in which the recipient country agrees to protect ecosystems or other

NO

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 1990 Appropriations Act, Title II, under heading "Agency for International Development." 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 1990 Appropriations Act Sec. 537. 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 1990 Appropriations Act Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures? N/A

Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?	Yes, the generated local currencies will be used in support of sector program objectives.
Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?	The program agreement will establish appropriate measures.
If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?	YES

18. State Authorization Sec. 139 (as interpreted by conference report). 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).	Cable is not required, since the agreement does not exceed $25 million and the agreements are not otherwise significant.
19. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate?	YES
20. FY 1990 Appropriations Act, Title II, under heading "Women in Development." Will assistance be designed so that the percentage of women participants will be demonstrably increased?	YES
21. FY 1990 Appropriations Act Sec. 592(a). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies, has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?	(a) The program agreement will require that the $10 million LC equivalent generated by the dollar disbursement be deposited into a separate account. (b) and (c) The program agreement will so provide.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FY 1990 Appropriations Act Sec. 546 (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: (1) 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 that 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 (2) in support of research that is intended primarily to benefit U.S. producers?	N/A
b. 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
c. 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.	By promoting the role of private sector markets, the program supports wider participation in the development process.

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

YES

e. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will: (1) 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; (2) 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 institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries.

(1) More efficient 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; (2) no direct assistance to cooperatives will be provided, but cooperatives involved in storage and marketing of the crops targeted in the project will benefit from increased efficiency and market information dissemination; (3) increased food self-reliance which will result from increased productivity in the agricultural sector is the most basic of self-help efforts; (4) as the majority of the farming population, and operators in the market system and consumers, women will directly benefit from increased efficiency in the agricultural sector; (5) no impact is anticipated on regional cooperation.

f. FAA Secs. 103, 103A, 104, 105, 106, 120-21; FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." Does the project fit the criteria for the source of funds (functional account) being used?

f. YES

g. FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA." 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

g. YES

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?

h. 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

i. 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

j. 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? — Improvement in the Ministry of Agriculture's ability to forecast crop yields and quality will permit the small holder farmers to make informed planting decisions and, therefore, increase their ultimate economic welfare.

k. 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. — See answer to question on page 15, item 1c

l. FY 1990 Appropriations Act, under heading "Population, DA," and Sec. 535. 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 sterilizations?	NO
Are any of the funds to be made availabl to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?	NO
Will funds be made available only to voluntary family planning projects which offer, either directly or through referral to, or information about access to, a broad range of family planning methods and services?	N/A
In awarding grants for natural family planning, will any applicant be discriminated against because of such applicant's religious or conscientious commitment to offer only natural family planning?	N/A
Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	NO
m. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	YES
n. FY 1990 Appropriations Act Sec. 579. 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	See Gray Amendment discussion in PAAD, on page 68

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)?

o. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (1) stress the importance of conserving and sustainably managing forest resources; (2) 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; (3) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (4) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (5) help conserve forests which have not yet been degraded by helping to increase production on lands already cleared or degraded; (6) conserve forested watersheds and rehabilitate those which have been deforested; (7) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (8) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (9) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a

YES

N/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 protected areas; (10) seek to increase the awareness of U.S. Government agencies and other donors of the immediate and long-term value of tropical forests; and (11)/utilize the resources and abilities of all relevant U.S. government agencies?

p. 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: (1) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (2)/take full account of the environmental impacts of the proposed activities on biological diversity? N/A

q. FAA Sec. 118(c)(14). Will assistance be used for: (1) 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 (2) actions which will significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? NO

r. FAA Sec. 118(c)(15). Will assistance be used for: (1) activities which would result in the conversion of forest lands to the rearing of livestock; (2) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undergraded forest lands; (3) the NO

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colonization of forest lands; or (4) the construction of dams or other water control structures 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?

s. FY 1990 Appropriations Act Sec. 534(a). If assistance relates to tropical forests, will project assist countries in developing a systematic analysis of the appropriate use of their total tropical forest resources, with the goal of developing a national program for sustainable forestry? N/A

t. FY 1990 Appropriations Act Sec. 534(b). If assistance relates to energy, will such assistance focus on improved energy efficiency, increased use of renewable energy resources, and national energy plans (such as least-cost energy plans) which include investment in end-use efficiency and renewable energy resources? N/A

Describe and give conclusions as to how such assistance will: (1) increase the energy expertise of A.I.D. staff, (2) help to develop analyses of energy-sector actions to minimize emissions of greenhouse gases at least cost, (3) develop energy-sector plans that employ end-use analysis and other techniques to identify cost-effective actions to minimize reliance on fossil fuels, (4) help to analyze fully environmental impacts (including impact on global warming), (5) improve efficiency in production, transmission, distribution, and use of energy, (6) assist in exploiting nonconventional renewable energy resources, including wind, solar, small-hydro, geo-thermal, and advanced

biomass systems, (7) expand efforts to meet the energy needs of the rural poor, (8) encourage host countries to sponsor meetings with United States energy efficiency experts to discuss the use of least-cost planning techniques, (9) help to develop a cadre of United States experts capable of providing technical assistance to developing countries on energy issues, and (10) strengthen cooperation on energy issues with the Department of Energy, EPA, World Bank, and Development Assistance Committee of the OECD.

u. <u>FY 1990 Appropriations Act, Title II, under heading "Sub-Saharan Africa, DA"</u> (as interpreted by conference report upon original enactment). If assistance will come from the Sub-Saharan Africa DA account, is it: (1) 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; (2) being provided in accordance with the policies contained in section 102 of the FAA; (3) 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; (4) 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 bring 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 self-sustaining development, and to take

(1) YES. The assistance will encourage improvement to agricultural marketing networks which both supply and are operated by smallholder farmers.

(2) YES

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

(4) YES. The assistance is specifically designed to support reform of the agricultural marketing subsector.

into account, in assisted policy reforms, the need to protect vulnerable groups; (5) 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 renewable natural 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?

(5) YES. The policy reforms supported by the program will promote increased agricultural production.

v. International Development Act Sec. 711, FAA Sec. 463. If project will finance a debt-for-nature exchange, describe how the exchange will support protection of: (1) the world's oceans and atmosphere, (2) animal and plant species, and (3) parks and reserves; or describe how the exchange will promote:
(4) natural resource management,
(5) local conservation programs,
(6) conservation training programs,
(7) public commitment to conservation,
(8) land and ecosystem management, and
(9) regenerative approaches in farming, forestry, fishing, and watershed management.

N/A

w. FY 1990 Appropriations Act Sec. 515. 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 region as originally obligated, and have the House and Senate Appropriations Committees been properly notified?

N/A

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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's 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

3. 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

3(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?	YES
	HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?	YES

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1990 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.

   1. A Congressional Notification was submitted on March 30, 1990, and the 15-day waiting period expired without objection on April 14, 1990.

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?

   2. Representations by senior government officials, including the Vice-President and Minister of Finance, analysis of legislative requirements, recent legislation related to program objectives, recent experience terms of the program agreement and favorable political environment.

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.

   3. 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 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.	Assistance will foster private sector competition, discourage monopolies, facilitate market efficiency and improve technologies in agriculture.
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 most technical assistance will be U.S. and will, therefore, encourage U.S. private enterprise and private trade.
6. 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

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

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?

N/A

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?

N/A

e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. 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, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? (c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. 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? (d) 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?

(a) YES

(b) The $10 million equivalent in local currency which will be generated will be placed in a separate, special account. The grant agreement and/or PILs will specify these items.

(c) YES. Local currency for USG requirements will be obtained from the generation of other programs.

(d) YES

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a). Extent to which activity will: (1) 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; (2) 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; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

The program will provide assistance in removing policies which result in inefficient agricultural marketing. The removal of these policies will result in greater trader margins, the majority of whom are women. The policy changes will also result in higher prices to the farmers for their produce. This will provide farmers with more financing for self-help efforts.

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):

N/A

(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.

(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 N/A

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and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for energy, private voluntary organizations, 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, multidonor development 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)? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

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

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — YES

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him? — YES

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — N/A

4. FAA Sec. 604(e). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N/A

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5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) **N/A**

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? **NO**

7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? **YES**

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? **YES**

9. FY 1990 Appropriations Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? **YES**

10. FY 1990 Appropriations Act Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? YES

11. Trade Act Sec. 5164 (as interpreted by conference report), amending Metric Conversion Act of 1975 Sec. 2. Does the project use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? YES

12. FAA Secs. 612(b), 636(h); FY 1990 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. N/A

13. 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? NO

14. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? YES

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? YES

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1990 Appropriations Act under heading "Population, DA," and Secs. 525, 535. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? YES

b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? YES

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? YES

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? YES

e. FAA Sec. 662. For CIA activities? YES

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? YES

g. FY 1990 Appropriations Act Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? YES

h. FY 1990 Appropriations Act Sec. 505. To pay U.N. assessments, arrearages or dues? YES

i. FY 1990 Appropriations Act Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? YES

j. FY 1990 Appropriations Act Sec. 510. To finance the export of nuclear equipment, fuel, or technology? YES

k. FY 1990 Appropriations Act Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? YES

l. FY 1990 Appropriations Act Sec. 516; State Authorization Sec. 109. To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? YES

5. FY 1990 Appropriations Act Sec. 574. Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? YES

6. FY 1990 Appropriations Act Sec. 582. Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? NO

LOGICAL FRAMEWORK

KENYA MARKET DEVELOPMENT PROGRAM (615-0[illegible])

GPOI	INDICATORS	VERIFICATION	ASSUMPTIONS
GOAL: To assist Kenya in achieving increased agricultural productivity and increased net farm incomes.	1. Increased value added in agricultural production (in market and social prices) 2. Increased sectoral efficiency as measured by reduced divergence between market and social prices of inputs and commodities 3. Increased financial returns to producer investments of land and labor in agricultural production 4. Farmer shifts to higher value cropping mixes	1. MOA/CBS Production Statistics 2. MOA/NCPB Yield Data 3. MOA/KREMU Area Statistics 4. MOA/FMD Revenue/Cost Statistics 5. CBS Household Budget Surveys 6. CBS Economic Surveys 7. CBS Rural Market Surveys	Higher producer p[illegible] in higher net farm [illegible] Higher net farm [illegible] incentive to [illegible] Competitive market [illegible] reallocation [illegible] productivity Favorable macro[illegible] Improved technolog[illegible]
PURPOSE: To develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers.	1. Reductions in the average unit marketing costs of traders due to increases in quantities marketed. 2. Reduction in transport costs resulting from improved inter-market roads. a) Reduced fuel, spare parts, and time costs. b) Reduced average unit costs of marketed throughput resulting from increased transport volumes. 3. Reduced marketing costs due to improved access to market information. 4. Reduced price differences between temporally and geographically seperated markets. 5. Increased producer prices for maize and beans as a result of lower marketing costs and increased competition.	1 Surveys indicating: a)market lorry travel distances b)traffic numbers by type c)transported commodities by volume d)transport costs 2. Surveys on trader margins and marketing cost structures 3. Market Information System data on price differences between geographically and temporally seperated markets 4. Policy Analysis Matrix findings on commodity system profitability 5. MOA/FMD surveys on enterprise cost structures, prices, returns, farmer use of market information	Reduced marketing [illegible] in producer price [illegible] Improved market [illegible] lowers barriers [illegible] Sufficient market [illegible] to ensure competi[illegible]

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GPOI		VERIFICATION	ASSUMPTIONS
OUTPUTS:			
(a) Campains to announce commodity prices and regulations affecting commodity movement implemented.	1. Written description of laws affecting maize, maize products, beans, millet, sorghum movement and marketing compiled for publication by 5/90 2. Schedule of public announcements and extension messages on regulations and prices developed by 6/90. 3. Implementation of the schedule of public announcements and extension messages initiated by 12/90. 4. Letter listing laws described in 1 and asking compliance sent to district authorities by 12/90.	1. Receipt of GOK policies and regulations affecting maize and bean marketing. 2. Receipt of GOK market price information dissemination schedule. 3. Receipt of regulation announcement transcripts. Countryside checks to assess extent of district level adherence to regulations. 4. Receipt of market price information transcripts and extension messages.	GOK decides inter[illegible] will not affect [illegible] District authorities comply with laws and regulations. Government financing [illegible] for information campaigns.
(b) Movement restrictions on maize, beans, maize products, sorghum and millet eliminated.	1. Government announcement of movement control elimination for beans; descheduling millet, sorghum by 4/91 2. Government announcement of movement control elimination for maize and maize products by 4/92. 3. Government publicizes new regulations on beans, etc. by 4/91 and on maize by 4/92.	1. Receipt of press transcripts and extension messages publicizing decontrol. 2. Receipt of new legislation decontrolling movement of maize, maize products, beans, sorghum, millet. 3. Receipt of information campaign documentation, media transcripts, district level survey findings.	Government has control[illegible] in its ability to [illegible] drought after liberalization. Government eliminates [illegible] and does not reinstate [illegible] controls.
(c) Road conditions improved and maize and bean transportion costs reduced.	1. Min. Public Works employs economic returns based road selection criteria for KMDP roads. 2. First year KMDP roads selected by 3/91, 2nd year by 3/92, 3rd year by 3/93. 3. 500 kilometers of road rehabilitated by 3/92, 1000 by 3/93, 1500 by 3/94. 4. Bean and maize transporter operating costs reduced by 45-55% on improved roads.	1. Letter identifying roads selected received by USAID annually. 2. Road rehabilitation program submitted to USAID annually. 3. Work records, district engineer workplan, site visits by USAID and MOPW representatives. 4. Survey interviews of truck operators on transport costs.	District Development [illegible] agree to establish [illegible] ion criteria. Adequate fuel, equipment and road material [illegible] Government financing [illegible] for programming [illegible] of road improvement
(d) Ministry of Public Works capacity to maintain inter-market roads increased.	1. Government undertakes study of means to increase road maintenance financing by 12/90. 2. Government increased non-salary recurrent budget support for road	1. Completion, review and dissemination of study. 2. Receipt of 90/91-93/94 recurrent cost budget estimates.	Government agrees [illegible] of increased [illegible] maintenance. MoPW maintenance [illegible] releases do not [illegible]

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GPOI	INDICATORS	VERIFICATION	ASSUMPTION
(e) Government policy analysis, policy implementation, investment planning and market information dissemination capacity improved.	1. Institutional structures for MOA's generation and analysis of data to inform grain market policies in place by 4/91 2. Research agenda established by 6/91 including: a) conceptual/analytical approach b) data base development plan c) identification of key policy impacts for monitoring d) plan for routinely collected data use. Research initiated by 8/91 3. Market information unit within MoA operating effectively by 9/91 4. Universities implementing applied research in KMDP districts by 9/90 5. University/Ministry Working Paper on further reform areas submitted to KMDP Policy Committee by 12/93	1. Applied Research, Monitoring and Evaluation System planning document reviewed and disseminated 2. Short-term issue specific reports received by KMDP Steering Committee and USAID 3. Semi-annual review by KMDP Policy Committee of program progress and plans based on ARMES analysis and reports 4. On-ground trutting of prices announced	MoA able to retain [illegible] staff Drought, etc. will [illegible] implementation of [illegible] to a complete halt GOK bases policy [illegible] analysis Media advertising [illegible] available Government [illegible] and MIS operation[illegible]
INPUTS:			
(a) Policy Reform Sector Grants, PL 480 Food Assistance Upon publicizing market regulations and commodity price information, upon descheduling/decontrolling selected commodities, and upon realignment of MoPW resources in favor of road maintenance	1. $10 million unrestricted grant disbursed 2. $40 million Food for Progress food assistance delivered	1. GoK/USAID programming documents 2. KMDP Steering Committee/USAID Program Monitoring Committee meetings	Funds and commodi[illegible] available GoK continues to [illegible] commodities
(b) Technical Assistance Studies and analysis required to assess impact of policy reforms; to define, plan and implement additional policy and institutional reforms; to assist in upgrading market information dissemination	1. Studies completed, options identified and implementation plans approved and implemented	1. Study reports, MoA and MoPW records and statistics, special studies, ARMES research agenda, etc 2. Working papers on impact of policy changes, consultant reports, policy implementation plans	Appropriate GoK [illegible] expertise available
(c) GoK Counterpart	1. GoK financial contributions programmed for roadwork, market information dissemination, and policy analysis to $40 million equivalent	1. Annual draft budget estimates 2. Audits and end-use monitoring contractor reports	
(d) Evaluation and monitoring	Midterm and final evaluation		

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KENYA MARKET DEVELOPMENT PROGRAM

POLICY MATRIX

OBJECTIVE	BACKGROUND	INDICATORS OF OBJECTIVES AND POLICY IMPLEMENTATION	RELATIONSHIP TO GOK AND OTHER DONOR PROGRAMS
Program Goal: a) To assist Kenya in achieving increased agricultural productivity and increased net farm incomes	Continued Kenyan economic growth will depend on a highly productive agricultural sector. The GOK strategy for achieving higher productivity includes: greater input use, development of more productive technologies, increased input and commodity market efficiency, and shifts to higher value crops. More efficient and lower cost markets for agricultural commodities will underpin economic growth, enhance foreign exchange earnings (savings), and provide greater incentives to producers. USAID/Kenya also supports the development of more productive technologies through investments in agricultural research, facilitates increased fertilizer use through the fertilizer marketing program, strengthens human resources through on-going efforts with Egerton University, and assists agribusinesses with financial and organizational management training.	Increased value added in agricultural production activities Increased sectoral efficiency as measured by reduced divergence between market and social prices Increased financial returns to producer investments of land and labor in agricultural production activities Farmer shifts to higher value cropping mixes	Increased agricultural p[illegible] is one of GOK's p[illegible] as stated in the [illegible] No. 1 (1986) and the [illegible] National Development [illegible] This sectoral goal [illegible] by the EEC's [illegible] Program, IBRD's [illegible] Assistance Operation and donor assisted [illegible] programs.
Program Purpose: To develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers	Agricultural market efficiency can be improved by removing the administive and physical constraints to commodity movements between surplus and deficit areas within Kenya. Kenya's diverse agricultural resource base means Kenya is "made for trade". Adminstrative constraints to efficient commodity movement can be eliminated through policy reform and increased market transparency (prices, trade regulations). Physical constraints can be eliminated by improving roads thus lowering agricultural commodity transport costs. A transparent market in which commodities move freely will	Larger marketing volumes resulting in reduced average unit costs of marketed throughput. Reductions in transport costs resulting from improved inter-market roads. Reduced fuel, spare parts, time, and load handling costs from increased transport volumes. Reduced marketing costs due to greater access to market information Reduced price differences between temporally and geographically seperated markets	The National Development [illegible] cusses plans to [illegible] alize grain market [illegible] alization, NCPB's [illegible] strategic [illegible] price stabilization [illegible] that 75% of the [illegible] will be opened [illegible] and co-operative[illegible] The Donors, [illegible] IBRD, and USAID, [illegible] this objective.

POLICY REFORM	BACKGROUND	INDICATORS OF OBJECTIVES AND POLICY IMPLEMENTATION	RELATIONSHIP TO [illegible] OTHER DONOR [illegible]
1. At the beginning of each marketing campaign, the Ministry of Agriculture will conduct a publicity campaign via the press, radio and administration services to inform consumers, producers and the relevant public and private sector parties of the most current laws, regulations and policies affecting the movement and marketing of maize, processed maize, beans, millet and sorghum within and between administrative districts. Date of Implementation: December, 1990 and continued each year thereafter	In 1988/89 the Government undertook a significant reform by increasing the limit on the amount of maize that could be moved between districts without a permit from 2 to 10 bags. The implementation of this reform has been very uneven, some districts allow the movement of only 2 bags, others 5 bags, others 10 bags. Wide dissemination of information on existing regulations could result in an immediate increase in load sizes and market efficiency. It will also indicate to private traders that the government will implement its stated plans to liberalize.	1. GOK provides AID with a written description of legislation affecting the movement of maize, processed maize commodities, beans, and minor grains. 2. GOK provides AID with written confirmation that the market regulation publicity campaign has been conducted by the MOA in a timely manner prior to that year's marketing seasons. 3. GOK provides AID with written confirmation that district and provincial authorities have been informed of the regulations described in (1) above and that their compliance with these current laws, regulations and policies is required.	The increase in [illegible] movement limits [illegible] was accomplished under the sponsored Cereal [illegible] Program. The National [illegible] Produce Board [illegible] impact in district [illegible] bags actually moved [illegible] is in complete [illegible] CSRP and exi[illegible]
2. The Government will instruct the Ministry of Agriculture that the Farm Management Division is mandated to collect, compile and disseminate, via the media, extension service, and other administrative channels, unofficial and official market price information on grain and horticultural commodities. Date of Implementation: December, 1990 and continued each year thereafter	In the mid-1980's, MOA/FMD collected and disseminated via radio wholesale price information on a weekly basis. These market information activities ended in 1988 due to funding shortfalls. During the past two years FMD has upgraded its MIS capacity by recruiting, training and posting 80 university and diploma graduates in the districts. The system is presently constrained by a lack of financial and analytical resources. The key will be to ensure that actual market prices, and not only established official prices, are disseminated.	1. The GOK provides AID with written confirmation that it has instructed the Ministry of Agriculture that the Farm Management Division is mandated to collect, compile and disseminate, via the media, the MOA extension service and other administrative channels, unofficial and official market price information on grain and horticultural commodities. 2. The GOK provides AID with written evidence that the MOA has developed and is implementing a plan for increasing the accuracy, timeliness, reliability and use of the MOA's disseminated market price information.	The previous MI[illegible] [illegible] Funded by the [illegible]
3. The government will announce the elimination of all movement controls on maize, maize products, beans, millet and sorghum and will inform district and other administrative authorities that their compliance with these reforms is required. Dates of Implementation:	Movement controls prohibit free exchange between surplus and deficit areas decreasing market efficiency, distorting price signals, and leading to inefficient allocation of production and marketing resources. Informal market traders circumvent these controls. However, it is estimated that controls increase informal	1. GOK provides to AID written evidence that the elimination of all movement controls on maize, maize products and beans has been posted and announced via the public media and administrative channels and that the district and other administrative authorities have been notified that their compliance is required.	The movement control[illegible] included in [illegible] focus on the [illegible] than the internal [illegible] IBRD's ASAP II [illegible] crop forecasting [illegible] reason there will [illegible] movement control [illegible]

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POLICY REFORM	BACKGROUND	INDICATORS OF OBJECTIVES AND POLICY IMPLEMENTATION	RELATIONSHIP TO [illegible] OTHER USAID PROGRAMS
	along to consumers and producers.		following [illegible] requiring that [illegible] be reserved for [illegible] an advantage in the [illegible] large farmer [illegible] the short term [illegible] dominate the large farm [illegible] which they presently [illegible] majority of their [illegible]
4.The Government will remove beans, millet, and sorghum from the list of scheduled commodities. Date of Implementation: April, 1991	A commodities "scheduling" gives the government authority to intervene in its production, marketing, and consumption. Historically, the government has not intervened in the beans, sorghum and millet markets to a significant extent. Presently, NCPB has less than a 10% share for beans and 5% share for sorghum and millet. De-scheduling would not limit GOK ability to intervene where necessary to provide price support. It would free NCPB resources to be used more effectively and contribute to private sector confidence in liberalization.	1. The GOK provides AID with written evidence that beans, millet, and sorghum have been removed from the list of scheduled commodities and that this reform has been gazetted and announced via the public media and administrative channels.	The descheduling [illegible] and millet will support the [illegible] term reorganization [illegible] Although it is within the framework, at present [illegible] no formal plans [illegible]
5. The Government, through the Ministry of Public Works, will increase the recurrent budget support for the Roads Maintenance Branch by 10% in "real" terms (incremental percentage increase less the prevailing inflation rate) annually. Date of Implementation: December, 1990 and continued each year thereafter	The elimination of movement controls and the dissemination of market information will have greater effect if transport costs are concurrently reduced. At present, the deteriorating state of roads linking farm to market roads (i.e. Class C and longer D roads) increases transport costs significantly. Road improvements will have maximum economic impact only if maintenance is assured. GOK/MoPW road maintenance resources have declined annually as personnel costs have absorbed increasing proportions of MoPW's total budget.	1. The GOK will provide AID with written evidence that the Ministry of Public Works has increased the recurrent budget support for non-salary items for the Roads Maintenance Branch by not less than 10% in "real" terms and has not decreased allocations to the Roads Maintenance Branch below the budget allocation for the Kenyan 1990/91 fiscal year. 2. In no case shall resources be made available for non-personnel items in the Road Maintenance Branch's budget by reducing other road maintenance related budget allocations.	Previous and [illegible] focus on upgrading [illegible] and minor roads. [illegible] improve the link [illegible] with the national [illegible] network. Donors supporting the [illegible] Program are [illegible] for ensuring long [illegible] enance including the [illegible] of alternative [illegible] as taxes on [illegible]

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 9/03
and date

THE TREASURY
P.O. Box 30007
NAIROBI
KENYA

23rd January, 1990

Mr. Steven Sinding
Director
USAID/Kenya
NAIROBI.

Dear Mr. Sinding,

RE. KENYA MARKET DEVELOPMENT PROGRAMME (KMDP)

I refer to the letter from the then Acting Director responding to my letter ref. EA/FA 9/03 dated 7, December 1989 on the above subject in which you adequately responded to the issues raised by the GOK earlier.

The GOK now formally makes a request for the funding of the programme which is in support of our strategy to increase the efficiency of agricultural marketing.

The proposed programme combines support for market roads rehabilitation initially in seven districts namely:- Kakamega, Kisii, Kitui, Nakuru, Narok, Nyeri and Uasin Gishu, GOK commitment to the policy agenda for liberalizing the marketing system for agricultural commodities, particularly maize within the framework of the 1989/93 National Development Plan. In addition the programme is geared towards improving policy analysis capacity within selected Kenyan institutions.

The GOK is constituting a negotiation team under Treasury chairmanship and will include representatives from the Ministries of Agriculture, Public Works, Supplies & Marketing and the National Cereals and Produce Board. Mr. Kioko wa Luka of this Ministry has been directed to co-ordinate the exercise. We look forward to further continued co-operation between our two governments.

Yours Sincerely,

INITIAL ENVIRONMENTAL EXAMINATION
OR
CATEGORICAL EXCLUSION

Project Country: Kenya

Project Title: Kenya Market Development Program (615-0242)

Funding: FY(s) 89 - 91 $15,000,000

IEE Prepared by: Bessie L. Boyd, AFR/TR/ANR

Environmental Action Recommended:

Positive Determination _____
Negative Determination _____

Categorical Exclusion

Component 1, Qualifies for a Categorical Exclusion in accordance with Reg. 16, Section 216.2(c)(1).

Component 3, Qualifies for a Categorical Exclusion under Reg. 16, Section 216.2(c)(2)(i).

APPROVED x

DISAPPROVED _____

DATE FEB 28 1989

Concurrence:
Bureau Environmental Officer: Bessie L. Boyd, AFR/TR/ANR

Clearance: Mary Alice Kleingan, GC/AFR MAK date 3/1/89

I. Description of Project:

The purpose of the Kenya Market Development Program is to develop selected market areas and to improve the policy environment for marketing in Kenya. The October 12, 1988 PAIP states that the program will consist of several components (1) a $10 million DFA - funded sector support program to achieve policy reform, disbursed as cash conditioned upon achievement of policy changes; (2) host-country owned local currency generated from the DFA cash grant, which will be used for development of physical infrastructure in secondary market towns, including establishment or improvement of physical markets, provision and/or improvement of utilities, improvement of urban roads, bus paths and other transportation facilities; construction of water and sewer facilities; promotion of revenue-generating public works such as commercial parks, storage and processing; and substantial rural road construction and Rehabilitation; (3) a $5 million DFA-funded project grant, to provide technical assistance for strengthening Kenya's market information system, for research and evaluation activities to assist in policy development, and for assisting in strengthening local governments, and related training and commodities; (4) a $30 million HIG sector program loan guarantee, to be used for the same purposes as the DFA local currency generations, to the extent that they meet HIG criteria; (5) PL 480 Title III local currency use offsets, which will be used for the same purposes as the DFA local currency generations to the extent that they meet Title III criteria.

II. Examination of Nature, Scope, and Magnitude of Environmental Impacts:

1. This IEE covers only components (1) and (3), the DFA-funded sector cash grant and the DFA-funded technical assistance. Component (2), the local currency deposits generated by the $10 million DFA sector cash grant, is not subject to Reg. 16 as a legal matter, since the local currency will be host-country owned. However, the agency guidance on local currency programming (87 State 327494, October 21, 1987); para. 5.1c, requires that the program contain responsible safeguards ensuring that environmental concerns will be taken into account for this element.

2. If the HIG component is retained in the program, an IEE covering it will need to be submitted immediately, and in any case well prior to PAAD submission.

3. An IEE for the PL 480 Title III local currency offset [illegible] the appropriate Title III

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III. Recommended Environmental Action:

1. Component 1, the $10 million DFA sector grant disbursed as cash, qualifies for a categorical exclusion under Reg. 16, section 216.2(c)(1).

2. Component 3, the $5 million DFA - funded technical assistance, training and evaluation grant, qualifies for a categorical exclusion under section 216.2(c)(2)(i), except to the extent that it may include an activity directly affecting the environment, such as construction.

ANNEX G

P.L. 480 Food for Progress Proposal

FY 90 - 92

USAID/Kenya

FOREWARD

The P.L. 480 Food for Progress food assistance proposal has been submitted as a principal annex to the Kenya Market Development Program Assistance Document, FY1990 - 1993. In preparing the proposal, we have borrowed relevant sections of the PAAD document and condensed them into an executive summary piece. We believe the Food for Progress proposal strongly supports the major goal and purpose of the KMDP Program and should be reviewed accordingly. A formal Food for Progress request cable for DCC action was submitted on January 26, 1990.

P.L. 480, FOOD FOR PROGRESS PROPOSAL

I. INTRODUCTION

The Kenya Market Development and Food for Progress Program goal is to assist the GOK in achieving increased agricultural productivity and increased net farm incomes. The program purpose is to develop a more efficient national maize and bean marketing system that will provide greater price incentives to maize and bean producers.

In order to achieve the purpose, the program will provide $10 million DFA Dollar Sector Grants and $40 million in Food for Progress commodities for policy changes that will provide a supportive policy climate in which more efficient maize and bean markets can be stimulated in Kenya. An additional $5 million in DFA funds will finance technical assistance and training to institutionalize policy analysis capability in relevant GOK agencies. Local currency funds provided by the GOK will be used to rehabilitate and maintain 1,500 kms of inter-market roads serving those markets. The program will provide overall support and specific assistance to:

* eliminate movement restrictions on selected agricultural commodities;

* disseminate information concerning market regulations and prices on a regular basis;

* identify, plan for, finance and undertake investments in road infrastructure and maintenance; and,

* increase the Ministry of Agriculture's and Ministry of Public Works capacity to analyze, design, monitor and implement investment and policy decisions.

By 1994, the end of the four year program period, USAID/Kenya expects to see an environment where informal sector maize and bean marketing are no longer constrained by administrative controls on inter or intra-district commodity movements. Analysis indicates that the elimination of maize and bean movement controls currently in force will result in an approximate 25-30% reduction in marketing costs. Marketing cost reductions will result in an approximate 7 - 10% increase in farmgate maize prices. Marketing costs will be further enhanced by a 45 - 55% reduction in transporter operating costs resulting from rehabilitation of inter-market roads. To sustain the improvements, the government will increase non-personnel recurrent budget support for road maintenance by 10% [illegible], in each of the three years beginning in 1990. Finally, the capacity of government institutions responsible for market information dissemination and [illegible]

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II. BACKGROUND

Since gaining its independence in 1963, Kenya has been among the best economic performers in sub-Saharan Africa. In the past five years, Kenya's economy has achieved an annual growth rate of close to 5% per year, following a period of sluggish growth in the early 1980s. Recent high levels of economic growth have been fuelled by: 1) strong agricultural growth made possible by highly favorable weather conditions, increased fertilizer utilization, and policy reforms that have improved farmer incentives; 2) increased imports that have been financed by lower oil prices and increased foreign assistance; 3) increased government spending (nearly 20% average annual increases in the past five years) to "prime the pump" of the economy, also funded by donor assistance; and 4) strong performance in tourism and horticulture. Also significant is the fact that Kenya's population growth rate has begun to slow, decreasing from 4.1% in 1984 to 3.8% in 1989.

As Kenya enters the new decade, however, there are signs that the growth spurt of the late 1980's is weakening. Economic growth for 1989 is likely to decrease to around 3%, while inflation is re-emerging as a major problem. After averaging under 10% for the past five years, the annual inflation rate is presently estimated at over 15%. Recent declines in the international coffee market are weakening export performance, and it is unlikely that the increases in the numbers of tourists that took place in the latter half of the 1980s can be continued. Beginning in 1988, official grants, loans, and International Monetary Fund (IMF) lending combined to become the largest source of foreign exchange, exceeding coffee, tea and tourism earnings combined. But it is not certain that the high levels of foreign assistance that Kenya has received in the past few years will be maintained, especially given the new demand on donor resources emanating from Eastern Europe.

The growth and development of the Kenyan economy over the next several decades will depend largely on the agricultural sector. The food and agriculture industry, which includes farming and supporting service and input industries, accounts for approximately 67% of gross domestic product. The sector employs over 70% of the population, contributes approximately 60% of foreign exchange earnings, and provides nearly all the country's food supplies. The average annual growth rate in agricultural GDP for 1963-72 was 4.6%, but declined to

2.8% during 1973-87. With a population growth rate of 3.8%, Kenya's agricultural sector must achieve a sustainable growth rate over 4.0% if Kenya is to achieve its development objectives. This growth must be achieved through increased productivity (i.e., value-added per hectare) due to the limited supply of arable land.

The lack of a well developed marketing system is a disincentive to increased agricultural productivity. Of the various constraints to market development, the economic analysis carried out by USAID demonstrates that poor roads and inappropriate market policies produce the largest single set of constraints to market development. Better inter-market roads would allow faster movement of goods and less vehicle maintenance. This reduction in marketing costs, in turn, would lead to an increase in farm profits as reduced marketing costs cause a rise in on-farm commodity prices and a fall in on-farm costs of purchased inputs.

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

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

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

* Obtaining permits to move maize on contract within the "formal channels" (i.e., to the Board, the mills, or from the Board for resale in certain deficit areas) is

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not particularly difficult. However, obtaining a general permit authorizing market-to-market private wholesale trade is much more difficult and, when accomplished, is often subject to the payment of some type of "rent" or similar, unauthorized transaction cost; and

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

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

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

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

The result of these policies has been a growing loss of GOK budget resources which, as much as anything, has served as a spur to looking at system reform. Indeed, rising NCPB operating losses were estimated (FEC, 1988) at Kshs. 1.8 billion (about $120 million) in the 1986/87

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season, added to the cumulative losses in the previous 5 years of KShs. 3.5 billion (about $240 million). Of this amount, KShs 2.5 billion has been attributed to external trade deficits arising from maize stock management (NCPB, 1989). In summary, critics of the formal maize market believe that the system of controls adversely affects marketing efficiency. The conclusion is that the control legislation has resulted in a market channel characterized by:

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

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

In conclusion, the stated objectives of movement and price controls are not being achieved. Instead they are creating market inefficiencies which impede the growth of the agricultural sector. The controls have created a market system characterized by unnecessarily high marketing costs, uneven spatial and temporal integration, a high degree of market instability, and potentially increased food insecurity. Food insecurity is particularly a problem in the marginal arid and semi-arid areas which do not fully benefit from NCPB inter-regional transfers.

III. PROGRAM STRATEGY AND RATIONALE

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

By linking policy changes with investments in transportation and information infrastructure, KMDP fits well with the GOK's development strategy for the current National Development Plan (1989-93). Through policy [illegible]

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

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

KMDP is designed as one component in a multi-donor effort to develop a more efficient maize and beans marketing system. An efficient marketing system will direct marketing and production resources to their most productive uses. It will help the government in ensuring stable maize and beans prices and food security without creating excessive and unnecessary burdens for the national budget. Through the recently defined IBRD Agricultural Sector Assistance Operation II (ASAO II), the EEC's ongoing Cereals Sector Reform Program, and the KMDP planning process, the Bank, the EEC, and USAID have reached a consensus with the GOK on a near-term policy reform agenda for the maize and beans marketing system. The four-year KMDP will support the implementation of reforms of the informal cereals sector and help the GOK and other donors define a much broader reform program expected to be implemented over the next ten years.

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IV. PROGRAM CONDITIONALITY

E. Program Conditionality and Negotiating Status

The principal policy issues and proposed reform measures outlined in this document have been discussed and reviewed at the Permanent Secretary level in the Ministries of Finance, Agriculture and Public Works. The analysis on which the policy agenda is based was directed by the Ministry of Planning and National Development (MPND) Sectoral Planning Division whose chief was the chairperson of the original KMDP Development Committee. This committee was composed of technical representatives from the Ministries of Agriculture, Planning and National Development, Public Works, Supplies and Marketing, and the National Cereals and Produce Board. The MPND representative also chaired the Committee's review of the analyses, findings and recommendations. Within these fora, GOK representatives have agreed with the goals outlined in the reform agenda, although questions remain as to timing and specific indicators. Finally, the market structure policy reforms are in complete accordance with the GOK 1989-93 Five Year Development Plan and Sessional Paper No. 1 of 1986.

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

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

a. For Initial U.S. $15 Million PL 480 Food Assistance Only

Prior to the provision by A.I.D. of the initial U.S. $15 million of PL 480 food assistance, or to the issuance by A.I.D. of documentation pursuant to which such assistance will be provided, the GOK shall provide, in form and substance satisfactory to A.I.D.:

Documentation confirming that the GOK, through its Ministry of Finance, has formally proposed a Kenya Market Development Program line item for inclusion in the budgets of the Ministries of Agriculture and Public Works which shall not be less than the Kenya Shilling equivalent of U.S. dollars 40 million over the life of the Program. The schedule for inclusion of said funds shall be the subject of future Project Implementation Letters (PILs) to be issued by A.I.D.

Projected date for compliance with CP: April 1, 1990.

b. For Initial U.S. $~~5~~ 4 Million KMDP Project Disbursement Only

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

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

Projected date for compliance with CP:
September 1, 1990

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

Prior to the disbursement/provision by A.I.D. of any sector dollar grant and/or PL480 food assistance, or to the issuance by A.I.D. of documentation pursuant to which such disbursement/assistance will be made, the GOK, through its Ministry of Finance, shall provide, in form and substance satisfactory to A.I.D., documentation confirming that:

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

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

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

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

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

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

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

(4) For each year for which disbursement is sought, written confirmation that district and provincial authorities have been informed of the regulations described in (c) above and that their compliance with these current laws, regulations and policies is required.

3. <u>Conditions Precedent to Specific Disbursements/Assistance</u> (Applicable to KMDP Program and PL 480 only)

a. <u>Initial Tranche Sector Dollar Grant Disbursement (U.S. $2 Million Sector Grant)</u>

Documentation, in form and substance satisfactory to A.I.D., that the GOK has:

(1) Through its Ministry of Finance, instructed the MOA that the MOA's Farm Management Division is mandated to collect, compile and disseminate, via the

media, the MOA extension service, and other administrative channels, unofficial and official market price information on grain and horticultural commodities, to begin with the 1990/91 market season; and

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

Projected date for Compliance with CP: December 1, 1990

b. Second Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (U.S. $3 Million Sector Grant; U.S. $10 Million PL 480 Food Assistance)

Documentation, in form and substance satisfactory to A.I.D., that the GOK, through the Ministry of Finance, has:

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

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

Projected date for compliance with CP: April 1, 1991

c. Third Tranche Sector Dollar Grant Disbursement and PL 480 Assistance (U.S. $5 Million Sector Grant and U.S. $15 Million PL 480 Food Assistance)

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

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Projected date for compliance with CP: April 1, 1992

4. Covenants

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

(1) a review of adverse environmental impacts for each said GOK road rehabilitation design and execution; and
(2) a plan for mitigation of identified adverse environmental impacts, if any.

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

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

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

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

J. MONITORING AND EVALUATION INDICATORS

a. Input Indicators

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

Input indicators will include the following:

- Amount of dollars disbursed to GOK;
- Amount of GOK funds committed (and used) for agreed upon activities;
- Tons and value of PL 480 commodities supplied;
- Number and level of technical assistants hired;
- Value and type of equipment and machines delivered;
- Additional policy and institutional reforms defined;
- Number and level of Kenyan staff trained;
- Monitoring and Evaluation system developed.

b. Output Indicators

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

Output indicators will include the following:

- Elimination of movement restrictions on maize, beans, sorghums and millets;
- Written descriptions, campaigns and public announcements of specific laws, regulations and policies affecting maize and bean trade;
- Evidence of announcements concerning market prices;
- A road improvement plan that is based on economic criteria for selection;
- A study of means to increase road maintenance;
- A plan for increased reliance on private contractors in road maintenance;
- Increased GOK non-salary recurrent budget for road maintenance;
- Kilometers of rehabilitated roads;

Improved capacity for government policy analysis, policy implementation and investment planning;
Improved capacity for market information collection and dissemination.

VI. BENEFICIARY IMPACT

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

1. Beneficiaries

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

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

Analysis based on field data describes marketing savings of approximately KShs 65.00 a bag of maize as it moves from the farmgate or first handler level to the mills, wholesalers or retailers. Under reform, small scale traders using donkeys and moving small loads on matatus will retain their niches as strictly local retailers and 'first handler' assemblers.

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

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

2. Losers

With reform, medium to small scale wholesalers are likely to be squeezed out unless they shift to more cost-effective means of transport. Currently, they move small loads on matatus or on top of buses packed in less than 1 bag loads to escape institutional transaction costs and the police, and do not make much

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money on their operations. A day's turnover is about one 90 kg bag, making about KSh. 0.30-0.50 per kilogram and therefore approximately KShs. 27.00-45.00 per day. Permitting large trading volumes and lorry load shipments of 8 tons and over would mean that some small scale and medium scale traders would be out of business.. A few large milling companies represent the second group that would see reduced advantages in a less protected situation where they would need to compete for their supply with private traders and the smaller posho millers.

3. Long-run Impact

The longer-run effect of undertaking the reforms on the growth of agricultural productivity will more than offset the short-run losses.

First, under freer marketing, small scale maize producers can be assured of marketing their surplus produce. Consumers of maize, the country's food staple, can be assured of supply. Given more confidence in the ability to buy and sell, many subsistence farmers will be willing to shift to commercial production. First, they will produce more maize because they can sell it and improve their income level - a supply response to availability of effective maize market and higher prices from trader competition.

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

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

VII. FOOD NEEDS ASSESSMENT

1. Wheat Grain Overview

Since 1970 Kenya has experienced an increasing structural deficit in wheat. While the GOK has recently stated a desire to achieve self-sufficiency and has raised producer prices to encourage this strategy it's believed that there will be little opportunity over the next 7-10 years to substantially increase wheat production because of: (1) the scarcity of suitable land resources; (2) the capital-intensive nature of Kenyan wheat production; (3) the sub-division of traditional wheat belt acreage due to population pressure with a concomitant change-over to maize production; and (4) the already relatively high yield (2.25 mt/hectare) of the current wheat technologies now employed. Together these factors have limited production increases to less than 2.2% per year. Simultaneously, the demand for wheat has been increasing by approximately 6.5% per year as a result of population growth as well as changes in consumer taste, perceived convenience of wheat products and increased income associated with development and urbanization. The result is that currently Kenya is producing only 50% of the country's consumption requirements.

Presently the country's production - demand gap is approximately 230,000 mt and is increasing by approximately 25,000 mt annually. If this trend continues, the wheat gap will more than double over the next seven to ten years. An examination of the estimated costs to Kenya in financing this deficit reveals that the expected wheat import bill will go from $40 million in 1989, to $71 million in 1995, to nearly $100 million in 2000.

2. Current Year Situation

An examination of Kenya's current year food balance (July 1989 - June 1990) for wheat shows a current estimate for domestic production of approximately 250,000 mt which is about 5,000 mt less than last year's production. Non-food use (seed, feed and waste, etc.) will total approximately 23,700 mt reducing the gross production to a net production of approximately 226,300 mt. Kenya entered the crop year with carry-over stocks of approximately 120,000 mt or roughly 3 months supply. Figuring in a net change of stocks of approximately 45,000 mt, Kenya's total domestic wheat supply equals approximately 271,300. With a total consumption requirement of approximately 457,230 mt (19.1 kg/yr per capita) Kenya's import requirement for 1989-90 will be approximately 185,930 mt. Total projected commercial imports equal 88,000 mt thereby leaving Kenya with a remaining total food deficit of 97,930 mt. At the current allocation rate to millers, Kenya will have no stocks of wheat by June 30th. The domestic wheat harvest in Kenya begins in August. While the GOK continues to explore commercial options to meet the expected gap, the scarcity of foreign exchange and relatively high wheat prices hinder their ability to procure the necessary wheat.

VIII. COMMODITY AMOUNT AND SPECIFICATIONS

1. Amount

$40 million of U.S. wheat over three years:

FY 1990 $15 million
FY 1991 $10 million
FY 1992 $15 million

2. Type and Specifications

U.S. No. 2 Hard Red Winter Wheat in bulk:
13.5% maximum moisture content
Minimum 11.5% protein. A higher protein level is requested for blending purposes.

IX. TIMING OF NEGOTIATIONS, SIGNING AND DELIVERY SCHEDULE

a. Negotiations: Country Team will enter into formal negotiations with Host Government as soon as DCC issues negotiating instructions

b. Signing: We anticipate a signing before March 31, 1990.

c. Delivery Schedule: Commodity delivery schedule will be subject to GOK meeting conditions precedent to initial disbursement, Food need and requirement that commodity be lifted before end of fiscal year. We estimate that GOK will request commodity to arrive in country not later than June, 1990.

d. Packaging and Marking: Not required. Bulk shipment. No BNT required.

e. Port of Discharge: Mombasa

f. Consignee: National Cereals and Produce Board (NCPB)
P.O. Box 30586
Nairobi, Kenya

X. OCEAN TRANSPORTATION COSTS:

Country team requests ocean transportation costs to be covered under the multi-year food for progress agreement. We request these costs to be included in the actual yearly commodity costs.

4. Country team requests that DCC review the food for progress proposal expeditiously. Mission Director Sinding plans to be in AID/W from 2/26 to 3/9 and would be available to participate in the review during that period should the DCC so desire. We look forward to your comments, negotiating instructions, and draft agreement language.

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ACTION AID INFO AMB DCM ECON AREP

VZCZCILC171
RR RUEHIL
DE RUEHC #5792/01 293083
ZNR UUUUU ZZH
R 2008272 OCT 87 ZEX
FM SECSTATE WASHDC
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CN: 41935
CHRG: AID
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AIDAC

E.O. 12356: N/A

SUBJECT: ESF CASH TRANSFER ASSISTANCE - AMPLIFIED POLICY GUIDANCE

REFS: (A) STATE 52619 (B) STATE 129933 (NOTAL)
(C) 83 STATE 246904

1. FOLLOWING IS A REVISED AND AMPLIFIED AID POLICY INSTRUCTION REGARDING ESF CASH TRANSFERS. IT IMPLEMENTS THE STATUTORY REQUIREMENTS REGARDING SEPARATE ACCOUNTS FOR (A) DOLLARS AND (B) ANY LOCAL CURRENCY WHICH THE RECIPIENT GOVERNMENT MAY BE REQUIRED TO DEPOSIT PURSUANT TO ESF CASH TRANSFER AGREEMENTS. IT APPLIES ONLY TO ESF CASH TRANSFERS AND NOT OTHER FORMS OF DISBURSEMENT UNDER ESF ASSISTANCE (CIPS, PROJECTS). EFFECTIVE IMMEDIATELY, THIS GUIDANCE SUPERSEDES REFERENCE (A) IN ITS ENTIRETY, AS WELL AS ANY OTHER GUIDANCE ON CASH TRANSFER SEPARATE ACCOUNTS ISSUED TO DATE.

2. WHEN USING THE TERM TO CHARACTERIZE A MODE OF AID ASSISTANCE, AID DEFINES CASH TRANSFERS AS THE FURNISHING OF RAPID-DISBURSING BALANCE OF PAYMENTS ASSISTANCE ON A CASH BASIS TO A RECIPIENT IN FURTHERANCE OF UNITED STATES NATIONAL SECURITY, ECONOMIC AND DEVELOPMENTAL OBJECTIVES. SPECIFIC PURPOSES VARY AMONG RECIPIENT COUNTRIES AS SET FORTH IN DOCUMENTATION, USUALLY A PAAD, ACCOMPANYING THE CASH TRANSFER REQUEST. CASH TRANSFER ASSISTANCE FOR BALANCE OF PAYMENTS SUPPORT PURPOSES IS TO BE DISTINGUISHED FROM PROGRAM SECTOR ASSISTANCE AS CHARACTERIZED IN REF (C), AS WELL AS CONTRIBUTIONS TO INTERNATIONAL FUNDS. CONGRESS HAS TRADITIONALLY RECOGNIZED THE UNIQUE AND VALUABLE CHARACTERISTICS OF CASH TRANSFER ASSISTANCE, AND HAS EXPLICITLY RECOGNIZED THE DISTINCTION BETWEEN THE CASH TRANSFER AND COMMODITY ASSISTANCE PROGRAM MODES. VARIOUS LEGISLATIVE REQUIREMENTS, SUCH AS CARGO PREFERENCE, NORMALLY APPLICABLE TO OTHER FORMS OF ASSISTANCE, E.G. CIPS, SECTOR PROGRAMS, AND PROJECTS, HAVE NEVER APPLIED TO CASH TRANSFERS. THE FY 87 CR MAINTAINED THIS LONG STANDING RULE WHEN IT ESTABLISHED SEPARATE ACCOUNTS BY SPECIFYING THAT FUNDS MAY BE OBLIGATED AND EXPENDED AS CASH TRANSFERS NOTWITHSTANDING OTHER PROVISIONS OF LAW

OFFICIAL FILE	ACTION	OFFICE	INFO
		D	
		DD	✓
✓	✓	PRO	
		BLA	✓
		C&C (2)	✓
		PDM	✓
		CLE	
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.CH ARE INCONSISTENT WITH THE CASH TRANSFER NATURE OF JCH ASSISTANCE. ESF CASH TRANSFER ASSISTANCE AGREEMENTS, THEREFORE, CONTINUE TO BE EXEMPT FROM THE PROCUREMENT REGULATIONS APPLICABLE TO PROJECT ASSISTANCE AND COMMODITY IMPORT PROGRAMS WHICH ARE INCONSISTENT WITH THE NATURE OF THE ASSISTANCE. AT THE SAME TIME, BOTH AID AND THE CONGRESS ARE CONCERNED ABOUT THE POTENTIAL FOR INAPPROPRIATE USE OF FOREIGN EXCHANGE PROVIDED UNDER CASH TRANSFERS.

3. IN ACCORDANCE WITH STATUTORY PROVISIONS CONTAINED IN THE FY 1987 CONTINUING RESOLUTION, ALL COUNTRIES RECEIVING CASH TRANSFER ASSISTANCE IN EXCESS OF DOLLARS 5 MILLION OBLIGATED AFTER FEBRUARY 1, 1987, WILL BE REQUIRED TO ESTABLISH A SEPARATE ACCOUNT OR ACCOUNTS INTO WHICH WILL BE PLACED THE DOLLAR ASSISTANCE AND A SEPARATE ACCOUNT OR ACCOUNTS FOR DEPOSITS OF LOCAL CURRENCY. THE LEGAL REQUIREMENT FOR SEPARATE ACCOUNTS IS MADE APPLICABLE TO FY 1988 BY THE CONTINUING RESOLUTION. (SPECIAL INSTRUCTIONS FOR DOLLAR ACCOUNTABILITY IN THE CASE OF WEST AND CENTRAL AFRICAN MONETARY UNIONS ARE INCLUDED IN REF (B) AND ARE UNDER REVIEW, AS ARE SOUTHERN AFRICA RAND AND EASTERN CARIBBEAN CURRENCY UNION CASES. FURTHER GUIDANCE FOR CASES SUCH AS THESE IS BEING DEVELOPED. NOTE ALSO THAT, IF THE CASH TRANSFER ASSISTANCE AGREEMENT DOES NOT PROVIDE FOR LOCAL CURRENCY DEPOSITS, SEPARATE LOCAL CURRENCY ACCOUNT(S) ARE NOT REQUIRED.) THE HOUSE APPROPRIATIONS COMMITTEE REPORT ACCOMPANYING THE CONTINUING RESOLUTION ALSO DIRECTS THAT DEPOSITED LOCAL CURRENCY BE TRACKABLE AND NOT BE COMMINGLED. THE SENATE APPROPRIATIONS COMMITTEE REPORT EXPRESSES CONCERN OVER THIRD COUNTRY COMPETITION WITH U.S. EXPORTS WITH REFERENCE TO THE USE OF CASH TRANSFER DOLLARS.

4. DISBURSEMENT OF DOLLARS SHALL BE MADE BY AID UPON RECIPIENT'S REQUEST AFTER SATISFACTION OF ANY CONDITIONS PRECEDENT. RECIPIENTS OF CASH TRANSFERS WILL BE EXPECTED TO ACCOUNT FOR THE DISPOSITION OF DOLLARS AFTER DISBURSEMENT BY AID. IN ALL CASES, THE DOLLAR ACCOUNT INTO WHICH THE FUNDS ARE DEPOSITED AND FROM WHICH THE FUNDS ARE RELEASED FOR AGREED-UPON USES MUST BE SEPARATE, AND THE FUNDS MAY NOT BE COMMINGLED. PRIOR TO THE USE OF ANY DOLLARS FROM A SEPARATE ACCOUNT, AID AND THE RECIPIENT WILL AGREE ON THE GENERAL USES OF THE DOLLARS AND SUCH USES WHEREVER POSSIBLE WILL BE IDENTIFIED IN THE CASH TRANSFER ASSISTANCE AGREEMENT. DOCUMENTATION PURSUANT TO THE AGREEMENT MAY AMPLIFY REQUIREMENTS, BUT PREFERABLY SHOULD NOT SUBSTITUTE FOR AN UNDERSTANDING ON USES IN THE PRINCIPAL AGREEMENT.

AGREEMENTS SHOULD ALSO REFLECT THAT, AS A MATTER OF AID POLICY, DOLLAR OR LOCAL CURRENCY SEPARATE ACCOUNTS ARE TO BE INTEREST-BEARING, TO THE EXTENT SUCH ACCOUNTS ARE PERMITTED UNDER HOST COUNTRY LAW OR REGULATION AND, IN THE CASE OF LOCAL CURRENCY ACCOUNTS, DO NOT UNDERMINE INTERNATIONALLYSUPPORTED STABILIZATION AGREEMENTS OR SOUND MONETARY POLICY. ANY INTEREST EARNED ON DOLLAR OR LOCAL CURRENCY ACCOUNTS MUST BE PROGRAMMED AND USED AS IF IT WERE PRINCIPAL.

5. THE FAA AND FY 87 APPROPRIATIONS BILL AND THEIR LEGISLATIVE HISTORY RECOGNIZE THE DISTINCTION BETWEEN THE CASH TRANSFER ASSISTANCE MODE AND OTHER FORMS OF ESF ASSISTANCE, AND MAKE IT CLEAR THAT STATUTORY PROVISIONS THAT APPLY TO PROJECT AID AND CIP ASSISTANCE (EG. CARGO PREFERENCE, STRICT SOURCE/ORIGIN/COMPONENTRY RULES, THE COMPETITION IN CONTRACTING ACT, AND SO ON) DO NOT APPLY TO CASH TRANSFER AID, SINCE THEY ARE INCONSISTENT WITH THE CASH TRANSFER NATURE OF THE ASSISTANCE. HOWEVER, JUDGEMENTS DO HAVE TO BE MADE AS TO WHICH USES OF DOLLARS IN THE SEPARATE ACCOUNT SHOULD BE PERMITTED AND SPECIFICALLY APPROVED IN THE AGREEMENT. APPROPRIATE

PROCEDURES FOR SPECIFYING AND TRACKING USES OF DOLLARS RELEASED FROM THE SEPARATE ACCOUNT, AND ASSOCIATED ACCOUNTABILITY ARRANGEMENTS, WILL VARY, DEPENDING UPON THE NATURE OF THE ASSISTANCE, THE RECIPIENT'S FOREIGN EXCHANGE AND IMPORT REGIMES, THE INTEGRITY OF ITS ACCOUNTING SYSTEMS, THE POLITICAL ENVIRONMENT, AND OTHER FACTORS. (SEE ALSO PARAGRAPH 6 BELOW.) THE BASIC SPECTRUM OF FOREIGN EXCHANGE AND ACCOUNTABILITY REGIMES IS ESSENTIALLY CHARACTERIZED IN THE FOLLOWING SUBPARAGRAPHS. AID'S OVERALL PREFERENCE IS FOR U.S. IMPORT FINANCING WITH ESF CASH TRANSFER DOLLARS, WHETHER THROUGH DIRECT DISBURSEMENT, REIMBURSEMENT OR AUCTION ARRANGEMENTS. DEBT SERVICE IS AN ALTERNATIVE, AS IS A BLENDING OF IMPORT FINANCING AND DEBT SERVICE IN SOME INSTANCES. IN CONCERT WITH THE RELEVANT REGIONAL BUREAU, PREFERABLY DURING THE PAAD APPROVAL PROCESS, MISSIONS SHOULD REVIEW THESE REGIMES AND MAKE A JUDGEMENT AS TO WHICH MOST CLOSELY REFLECTS THE SITUATION IN THEIR RESPECTIVE HOST COUNTRIES, AND THEN PROCEED TO TAILOR DOLLAR USE AND ACCOUNTABILITY ARRANGEMENTS TO SUIT THE INDIVIDUAL COUNTRY CONTEXT WITHIN THE PARAMETERS OF THE BASIC REGIMES PROVIDED. NOTE THAT EACH OF THE APPROACHES REQUIRES ADEQUATE MONITORING AND AUDIT RIGHTS AGREED TO BY THE RECIPIENT, A MONITORING COMMITMENT BY AID STAFF, PERIODIC SUBSTANTIVE REPORTING BY THE RECIPIENT, AND DOLLAR REDEPOSIT OR OTHER REMEDIAL ACTION IN CASES OF NONCOMPLIANCE WITH THE AGREEMENT ON USES.

(A) IN THOSE RECIPIENT COUNTRIES WHERE IMPORTS, FOREIGN EXCHANGE ALLOCATIONS, AND, PRESUMABLY, EXCHANGE RATES ARE STRICTLY CONTROLLED BY GOVERNMENT OR MONETARY AUTHORITIES, AND WHERE SUBSTANTIAL LIBERALIZATION OF

SUCH CONTROLS IS NOT UNDERWAY OR ANTICIPATED, AID PREFERS THAT CASH TRANSFER DOLLARS BE USED TO FINANCE IMPORTS EITHER DIRECTLY OR ON A REIMBURSABLE BASIS. IN THE EVENT THIS IMPORTS FINANCING ARRANGEMENT IS USED:

(I) PRIORITY SHOULD BE GIVEN TO IMPORTS FROM THE U.S., WITH IMPORTS PERMITTED BY THE MISSION FROM OTHER SOURCES ON A CASE BY CASE BASIS.

(II) DOLLAR USE SHOULD NORMALLY BE LIMITED TO RAW MATERIALS, INTERMEDIATE AND CAPITAL GOODS, AND ESSENTIAL CONSUMER GOODS IMPORTS AS APPROVED BY THE MISSION, AND DOLLARS MUST NOT BE USED TO FINANCE IMPORTS, SUCH AS MILITARY OR POLICE EQUIPMENT, THAT AID COULD NOT PROCURE DIRECTLY.

(III) WHERE NEEDED, THE IMPORT APPROVAL AND VERIFICATION PROCESS SHOULD INCLUDE A PRICE CHECKING ARRANGEMENT TO ASSURE THAT U.S. FUNDS ARE NOT BEING USED TO EFFECT CAPITAL FLIGHT THROUGH OVERINVOICING.

(IV) REIMBURSEMENTS MUST BE FOR SPECIFIC IMPORT TRANSACTIONS AND SHOULD BE PART OF A TIMELY SEQUENCE FOR COMPLETING SUCH TRANSACTIONS. THIS TYPE OF REIMBURSEMENT IS TO BE DISTINGUISHED FROM EX POST ATTRIBUTION MADE AFTER RELEASE OF DOLLARS FROM THE SEPARATE ACCOUNTS, A PROCEDURE EMPLOYED IN SOME ESF RECIPIENT COUNTRIES.

THIS APPROACH APPROXIMATES THE ONE CURRENTLY USED IN THE EL SALVADOR PROGRAM AND MAY BE APPLICABLE TO OTHER CASH TRANSFER RECIPIENTS WITH SIMILAR FOREIGN EXCHANGE/IMPORTS CONTROL ARRANGEMENTS WHERE CASH TRANSFERS ARE A SUBSTANTIAL COMPONENT OF AVAILABLE FOREIGN EXCHANGE. IMPLEMENTATION PROCEDURES DEVELOPED FOR THE EL SALVADOR PROGRAM MAY BE USEFUL AS GUIDANCE FOR OTHER MISSIONS, AND ARE AVAILABLE UPON REQUEST.

(B) IN THOSE RECIPIENT COUNTRIES WHERE SUBSTANTIAL

LIBERALIZATION OF FOREIGN EXCHANGE AND IMPORTS CONTROLS IS UNDERWAY OR IS AT A RELATIVELY ADVANCED STAGE OF NEGOTIATION, AND AID WISHES TO AVOID IMPEDING OR WISHES TO SUPPORT HOST COUNTRY MOVES TOWARD OPEN MARKET FORCES, USE OF AN AUCTION OR AUCTION-LIKE MECHANISM TO DISBURSE CASH TRANSFER DOLLARS MAY BE APPROPRIATE. MANY AUCTION SYSTEMS HAVE BEEN DEVELOPED AS PART OF A SUCCESSFUL MULTIDONOR DIALOGUE WITH THE HOST GOVERNMENT, AND ARE SUPPORTED BY THOSE DONORS AND GENERAL FOREIGN EXCHANGE RESERVES OF THE RECIPIENT GOVERNMENT. AID CASH TRANSFER DOLLARS CAN BE USED TO SUPPORT AN AUCTION OR AUCTION-LIKE SYSTEM IF:

(I) CASH TRANSFER DOLLARS CAN REMAIN SEGREGATED UNTIL UTILIZED AND CAN BE TRACKED TO IDENTIFIABLE IMPORT TRANSACTIONS.

(II) AUCTION PROCEDURES PERMIT THE IMPLEMENTING AUTHORITY TO ENSURE THAT AID CASH TRANSFER DOLLARS ARE NOT USED FOR MILITARY, PARAMILITARY, OR LUXURY IMPORTS. THIS NEGATIVE LIST SHOULD BE AT LEAST AS LIMITING AS THE AID HANDBOOK 1, SUPPLEMENT B, CHAPTER 4D LISTING OF INELIGIBLE COMMODITIES (I.E., MILITARY EQUIPMENT, SURVEILLANCE EQUIPMENT, POLICE AND LAW ENFORCEMENT COMMODITIES AND SERVICES, ABORTION EQUIPMENT AND SERVICES, LUXURY GOODS AND GAMBLING EQUIPMENT AND WEATHER MODIFICATION EQUIPMENT).

(III) THE RECIPIENT GOVERNMENT AGREES TO USE CASH TRANSFER DOLLARS, FOLLOWING EACH INDIVIDUAL AUCTION, FOR FINANCING OF U.S. IMPORT TRANSACTIONS APPROVED AT THE AUCTION AS FIRST PREFERENCE AND OTHER FREE WORLD TRANSACTIONS AS SECOND PREFERENCE. PREFERENTIAL FINANCING OF IMPORTS WILL NOT BE USED, AND IS NOT MEANT TO, REDIRECT THE ALLOCATION OF FOREIGN EXCHANGE TO ANY SPECIFIC TYPES OR SOURCES OF IMPORTS IN A MANNER INCONSISTENT WITH THE MARKETDETERMINED NATURE OF THE FOREIGN EXCHANGE AUCTION.

BECAUSE OF THE ABOVE PROVISIONS, TOTALLY UNRESTRICTED AUCTION SYSTEMS ARE NOT APPROPRIATE MODES FOR THE USE OF CASH TRANSFER DOLLARS. ANY AUCTIONS OF AID CASH TRANSFER DOLLARS MUST PERMIT THE USE OF SEPARATE ACCOUNTS AND PROVIDE FOR TRACKABILITY.

(C) IN CERTAIN INSTANCES WHERE RECIPIENT COUNTRY DEBT SERVICE IS A SIGNIFICANT BARRIER TO GROWTH AND DEVELOPMENT, OR WHERE INSTITUTIONAL ARRANGEMENTS MAY PRECLUDE THE TRACEABLE USE OF CASH TRANSFER DOLLARS OTHERWISE, CASH TRANSFER ASSISTANCE MAY BE USED TO REPAY DEBT SERVICE PAYMENTS. THE USE OF CASH TRANSFER DOLLARS FOR DEBT SERVICE MAY BE PARTICULARLY JUSTIFIED WHEN SUCH SERVICING WILL HAVE A SIGNIFICANT EFFECT ON LEVERAGING ADDITIONAL FLOWS OF DEVELOPMENT FINANCE. HOWEVER, AID DOES NOT CONSIDER APPROPRIATE THE USE OF

CASH TRANSFER DOLLARS FOR SERVICING OF CERTAIN CATEGORIES OF DEBT WHICH MIGHT BE PERCEIVED AS HAVING A NON-DEVELOPMENTAL CHARACTER. THEREFORE, DEBT SERVICE IS PERMITTED SUBJECT TO THE FOLLOWING PROVISOS:

(I) CASH TRANSFER DOLLARS MAY NOT BE USED TO COVER THE SERVICE OF LOANS OR CREDITS THAT ORIGINALLY FINANCED MILITARY IMPORTS OR OTHER MILITARY REQUIREMENTS, E.G. FMS DEBT, UNLESS, AS DETERMINED BY THE ADMINISTRATOR, SUCH USE OF CASH TRANSFERS IN INDIVIDUAL COUNTRY CASES IS RECOGNIZED BY STATUTE AS AMPLIFIED BY LEGISLATIVE HISTORY AS VALID.

(II) SERVICE OF DEBT KNOWN TO HAVE BEEN INCURRED TO FINANCE OTHER (NON MILITARY) ITEMS THAT AID COULD NOT FINANCE BECAUSE OF SPECIFIC LEGAL PROHIBITIONS, E.G., ABORTION EQUIPMENT, IS PRECLUDED. THIS PROHIBITION HAS PARTICULAR APPLICATION TO CURRENTLY OR RECENTLY CONTRACTED DEBT WHERE RELEVANT INFORMATION IS OR SHOULD BE READILY AVAILABLE TO THE MISSION AND WHERE IT MIGHT BE INFERRED THAT CASH TRANSFER FINANCING OF DEBT SERVICE COULD HAVE BEEN ANTICIPATED. IT IS NOT INTENDED TO REQUIRE A REVIEW OF THE DOCUMENTS RELATED TO THE LOANS TO BE SERVICED, A REQUIREMENT WHICH WOULD NOT BE ADMINISTRATIVELY FEASIBLE.

(III) CONSISTENT WITH THE AGREED RESTRUCTURING ARRANGEMENTS AND PAYMENTS SCHEDULING OF THE PARIS AND LONDON CLUBS, WHERE APPLICABLE, SERVICE OF DEBT OWED TO THE U.S. GOVERNMENT (EXCLUSIVE OF FMS DEBT) SHALL HAVE FIRST PRIORITY.

(IV) CASH TRANSFER DOLLARS MAY BE USED FOR SERVICING OF DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS AND THE IMF, SUBJECT TO PRIOR CONCURRENCE OF THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR.

(V) SERVICING OF DEBT OTHER THAN THAT COVERED IN

SUBPARAGRAPHS (I) THROUGH (IV) MAY BE APPROVED ON AN EXCEPTIONAL, CASE BY CASE BASIS BY THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR IN CONSULTATION WITH PPC.

(D) IN THE CASE OF THE RELATIVELY-ADVANCED ESF RECIPIENT COUNTRIES WHICH HAVE ESSENTIALLY MARKETDETERMINED FOREIGN EXCHANGE ALLOCATION SYSTEMS, LIBERAL IMPORT REGIMES, AND WELL-ESTABLISHED STANDARDS OF FINANCIAL ACCOUNTABILITY, SEPARATE ACCOUNTS AND TRACEABILITY ARE STILL REQUIRED, BUT AID SHOULD AVOID ANY ACCOUNTABILITY PROCEDURES WHICH WOULD HAVE THE EFFECT OF REIMPOSING FOREIGN EXCHANGE OR IMPORT CONTROLS. EXAMPLES OF SUCH COUNTRIES INCLUDE THE NATO ALLIES WHICH AFFORD THE UNITED STATES WITH BASE OR ACCESS RIGHTS AND DEVELOPING COUNTRIES WHICH HAVE LARGELY LIBERALIZED POLICIES AND INSTITUTIONS AROUND MARKETORIENTED PRINCIPLES. PROCEDURES USED, DETERMINED ON A CASE BY CASE BASIS, SHOULD BE SIMPLIFIED AND DE MINIMIS BUT STILL PERMIT SEGREGATION AND TRACING OF DOLLARS; USE OF CASH TRANSFER DOLLARS FOR DEBT SERVICE OR LARGE SCALE IMPORT TRANSACTIONS WOULD USUALLY BE APPROPRIATE IN THESE INSTANCES. SIMPLIFIED MONITORING PROCEDURES ARE ALSO APPROPRIATE IN THOSE COUNTRIES WHERE AID DOES NOT HAVE A DEVELOPMENT PRESENCE.

6. THE CASH TRANSFER ASSISTANCE AGREEMENT SHOULD PROVIDE APPROPRIATE AUDIT AND REDEPOSIT PROVISIONS WHICH WILL SUFFICIENTLY PROTECT THE AGENCY. THE AGREEMENT SHOULD REQUIRE A REDEPOSIT TO THE SEPARATE ACCOUNT OF FUNDS APPLIED TO A DISALLOWED USE, THUS PERMITTING SUCH FUNDS TO BE REPROGRAMMED FOR A PERMITTED USE. RECIPIENTS WILL BE REQUIRED TO PERIODICALLY REPORT ON THE DISPOSITION OF DOLLAR FUNDS. TYPICALLY, THE REPORT SHOULD ATTEST THAT FINANCIAL DOCUMENTATION, BOOKS AND RECORDS COVERING THE USE OF DOLLAR FUNDS ARE BEING MAINTAINED OR CAUSED TO BE MAINTAINED, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES CONSISTENTLY APPLIED, AND ARE AVAILABLE FOR INSPECTION BY AID OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS AID MAY REASONABLY REQUIRE FOR A PERIOD OF THREE (3) YEARS AFTER THE DATE OF LAST DISBURSEMENT BY AID UNDER THE CASH TRANSFER. FINANCIAL RECORDS SHALL BE SUITABLE, AT A MINIMUM, TO DOCUMENT THE WITHDRAWAL AND DISPOSITION OF DOLLAR FUNDS FROM THE SEPARATE ACCOUNT AND THEIR TRACING TO FINAL ACCEPTABLE USES. FOR EXAMPLE, THIS MAY INCLUDE CENTRAL BANK AND COMMERCIAL BANK DOCUMENTS DEMONSTRATING THAT AID FUNDS WERE TRANSFERRED FROM A HOST COUNTRY CENTRAL BANKCONTROLLED ACCOUNT TO AN ACCOUNT IDENTIFIED FOR EXTERNAL DEBT REPAYMENT, AND THAT DEBT SERVICE PAYMENTS ACTUALLY WERE MADE WITH THE TRANSFERRED DOLLARS.

7. LOCAL CURRENCY DEPOSITS MUST BE USED IN ACCORDANCE WITH FAA SECTIONS 531(D) AND 609. SECTION 531(D)

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REQUIRES THAT AT LEAST 50 PERCENT OF LOCAL CURRENCY GENERATED BY ESF CIPS OR OTHER PROGRAM ASSISTANCE SUPPORT ACTIVITIES CONSISTENT WITH SECTION 103106 OBJECTIVES. SECTION 609 REQUIRES THAT LOCAL CURRENCIES ASSOCIATED WITH ESF GRANT CIPS AND--BY THE PROVISIONS OF THE FY 87 CR--CASH TRANSFER ASSISTANCE BE USED TO CARRY OUT THE PURPOSES FOR WHICH NEW FUNDS AUTHORIZED BY THE FAA WOULD THEMSELVES BE AVAILABLE.

6. THE EXTENT TO WHICH MISSIONS MUST MONITOR THE ACTUAL USES OF THE LOCAL CURRENCY WILL DEPEND ON THE AGREEMENT WITH THE RECIPIENT GOVERNMENT.

(A) IF AID SHOULD CHOOSE TO DIRECTLY ASSOCIATE JOINTLY PROGRAMMED LOCAL CURRENCY WITH HOST GOVERNMENT PROJECTS OR PRIVATE SECTOR ACTIVITIES, THE MISSION SHOULD HAVE REASONABLE ASSURANCE THAT THE ACTIVITIES HAVE BEEN DESIGNED IN ACCORDANCE WITH SOUND TECHNICAL, FINANCIAL, AND ENVIRONMENTAL PRACTICES, THAT IMPLEMENTATION AND MONITORING CAPABILITIES OF THE IMPLEMENTING ENTITIES ARE ADEQUATE, AND THAT PERIODIC AUDITS OF RELEVANT ACTIVITIES WILL BE UNDERTAKEN. PROJECTS THAT ARE FUNDED AND MONITORED BY AID WOULD PROVIDE SUCH EVIDENCE. PROJECTS FUNDED AND MONITORED BY OTHER DONORS ALSO USUALLY PROVIDE SUCH ASSURANCES; THE SAME APPLIES TO PROJECTS UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS. OTHERWISE, MISSIONS SHOULD BE PREPARED TO TAKE A MORE ACTIVE ROLE IN IMPLEMENTATION OVERSIGHT IN ADDITION TO REVIEWING THE PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVAL OF FUNDING FOR THE ACTIVITY. IF AND WHEN SUBSEQUENT ALLOCATIONS OF JOINTLY PROGRAMMED LOCAL CURRENCY FOR PROJECT LEVEL ACTIVITIES ARE BEING CONSIDERED, THE MISSION SHOULD TAKE THIS OPPORTUNITY TO REVIEW PROGRESS IN MOVING TOWARD PROJECT COMPLETION. PERIODIC REPORTING BY THE HOST GOVERNMENT SHOULD BE REQUIRED, AND FIELD VISITS MAY BE USEFUL IN MONITORING.

(E) IF AID AND THE RECIPIENT GOVERNMENT PROGRAM THE LOCAL CURRENCY FOR MORE GENERAL PURPOSES, FOR EXAMPLE, AN AGREEMENT THAT LOCAL CURRENCY WILL BE USED TO MEET DEVELOPMENT BUDGET REQUIREMENTS OF, SAY, THE MINISTRY OF AGRICULTURE, THE ROLE OF AID MAY BE LIMITED TO ENSURING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCY INDEED WAS TRANSFERRED TO THE MINISTRY'S DEVELOPMENT ACCOUNT. THE MISSION NEED NOT TRACE THE FUNDS TO SPECIFIC BUDGETARY OR END-USE ITEMS SINCE AID'S DEVELOPMENT GOAL IS A LEVEL OF OVERALL FINANCIAL SUPPORT TO A PROGRAM OR INSTITUTION; INDEED, ONCE TRANSFERRED FROM A SEPARATE ACCOUNT TO A PROGRAM OR INSTITUTION, THE FUNDS WILL GENERALLY HAVE BEEN COMBINED WITH OTHER BUDGETARY FUNDS AND WILL NOT BE TRACEABLE. HOWEVER, THE MISSION SHOULD GENERALLY BE SATISFIED ON THE QUALITY OF OVERALL PROGRAM ACTIVITIES AND THE TECHNICAL AND ADMINISTRATIVE CAPABILITY OF THE IMPLEMENTING ENTITY OR ENTITIES TO CARRY OUT THE PROGRAM. FURTHERMORE, PERIODIC REPORTS ON BUDGETARY ALLOCATIONS SHOULD BE REQUIRED OVER THE PERIOD OF THE AGREEMENT TO ENABLE THE MISSION TO ASSESS COMPLIANCE WITH AGREED PRIORITIES. FINALLY, THE MISSION SHOULD ASSURE ITSELF POST HOC THAT THE GOVERNMENT HAS ACCORDED AN APPROPRIATE EMPHASIS TO PRIORITY PROGRAMS. THIS CAN THEN BE USED AS A BASIS FOR MAKING JUDGEMENTS ABOUT FUTURE LOCAL-CURRENCY-ALLOCATION DECISIONS.

9. TO REITERATE, AID'S RETENTION OF MONITORING AND APPROVAL RIGHTS, AS WELL AS THE RIGHT TO RECEIVE REPORTS, IS DIRECTLY RELATED TO THE PROGRAMMING BURDEN THAT AID ASSUMES FOR ITSELF IN THE AGREEMENT DESCRIBING HOW LOCAL CURRENCY WILL BE USED. RETENTION OF THESE RIGHTS IN THE AGREEMENT SHOULD BE CONSISTENT, THEN, WITH THE AGREED UPON PROGRAMMING RESPONSIBILITIES OF AID BUT, AT A MINIMUM, SHOULD BE ADEQUATE TO ENSURE THAT AID WITH TIMELY ACCESS CAN TAKE AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCY HAS NOT BEEN VIOLATED.

10. AS NECESSARY, REGIONAL BUREAUS WILL FOLLOW UP WITH COUNTRY-BY-COUNTRY GUIDANCE. AID/W AS A WHOLE WILL ALSO CONTINUE TO EVALUATE THE IMPLEMENTATION OF THIS GUIDANCE TO ENSURE CLARITY, CONSISTENCY, AND CONSONANCE WITH LEGISLATIVE INTENT, AND WILL AMEND OR UPDATE GUIDANCE AS CIRCUMSTANCES WARRANT. MISSIONS ARE INVITED TO PROVIDE COMMENTS ON THE CONTENT OF THIS GUIDANCE. AID/W WILL RESPOND EXPEDITIOUSLY TO INQUIRIES. WHITEHEAD

BT
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BEST AVAILABLE DOCUMENT

CERTIFICATION FOR COMPLIANCE WITH GRAY AMENDMENT

I, Steven W. Sinding, USAID/Kenya Director and the Principal Officer of the Agency for International Development in Kenya do hereby certify that the acquisition plan in the Kenya Market Development Program was developed with full consideration of maximally involving minority and women-owned firms, or Gray Amendment Organizations, in the provision of required goods and services. To the extent possible at this stage, opportunities for such organizations to participate in the project have been identified. The nature of the project, however, will not permit major minority or Gray Amendment contracting.

SW Sinding

Steven W. Sinding
Director
USAID/Kenya

1/31/90
Date

LEGISLATIVE ACTION REQUIREMENTS: FAA 611 (a)

Analysis of legislative requirements and the political/administrative environment for the proposed policy reforms strongly indicate that the necessary legislative actions in furtherance of project and program objectives can be expected to be achieved in a timely manner following agreement execution.

Legislation affecting commodity scheduling and restrictions on inter and intra-district movement are contained in the National Cereals and Produce Board Act, Chapter 338, of 1965. To amend this legislation, the concerned ministries (the Ministry of Supplies and Marketing, the Ministry of Finance, or the Ministry of Agriculture) must propose the legislative change to the GOK Cabinet in a Cabinet Paper. Upon receiving the Cabinet's approval, the suggested legislative changes are submitted to the Attorney General's Office. The Attorney General's Office makes the necessary revisions and then submits the proposed legislation to Parliament for discussion and voting.

The above process has been successfully employed in the authorization of the European Economic Community's (EEC) Cereals Sector Reform Program. After substantial analysis of NCPB's organizational requirements, the Ministry of Supplies and Marketing submitted a Cabinet Paper describing various organizational and legislative changes necessary to increase NCPB efficiency. In response, the Cabinet issued a Cabinet Directive approving the Cereals Sector Reform Program and instructing the Ministry of Supplies and Marketing to proceed

with implementing the organizational changes described in the implementation plan. This directive also instructed the Ministry to submit additional Cabinet Papers when the time came to amend legislation dealing with minor grain commodity scheduling and commodity movement permit issuance.

During Mission Director discussions with high level GOK representatives within the Office of the Vice-President and Ministry of Finance, it was acknowledged that GOK signing of the program agreement will require and signal Government of Kenya commitment to amending or changing the necessary laws, orders or regulations to assure implementation of the stated policy reform agenda during the life of the program.

During PAAD analysis and design, there were several significant indications that the current political climate is conducive to achievement of KMDP policy reforms during the life of the program. In January, the Minister of the Ministry of Supplies and Marketing announced in a public and widely publicized speech that the movement of 10 bags of maize between and within districts is legal and does not require an NCPB movement control permit. During KMDP Steering Committee meetings, and again in the Office of the Vice-President and Ministry of Finance's formal request for KMDP, GOK representatives frequently cited the Government's commitment to cereals market liberalization as stated in the 1989-93 Development Plan. Finally, as cited in the Unattached Annex, Political Analysis, the GOK's performance under World Bank sector adjustment programs, World Bank and EEC programs that would "protect" the National Cereals and Produce Board during liberalization, the drain on the national budget that existing institutional arrangements represent, and the GOK's realization that Kenya's

economic growth must become more dynamic in the face of burgeoning population growth all indicate a political environment supportive of KMDP policy reforms.

Based on the foregoing representations of senior GOK personnel the analysis of legislative requirements, and the recent relevant experience and favorable political environment, it is reasonable to conclude that timely legislative actions required for the negotiated and agreed upon program will be accomplished.

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