PD-AAG-055 (2)

KENYA

COMMODITY IMPORT PROGRAM GRANT PROJECT

Project Paper

615-0200

Agency for International Development
Washington, D.C. 20523

September 1980

ACTION MEMORANDUM FOR THE ACTING ADMINISTRATOR 24 SEP 1980

THRU: ES DC

THRU: AA/PPC, Mr. Alexander Shakow C Paolillo

FROM: AA/AFR, Goler T. Butcher

SUBJECT: Kenya Commodity Import Program Grant, Project 615-0200

Problem: Your approval is being requested to execute a $14.5 million Commodity Import Program Grant from FY 1980 Economic Support Funds to the Government of Kenya (GOK), and for a source waiver for the procurement of ocean transportation services.

Discussion:

A. Project Description

The proposed grant, in conjunction with the efforts of other donors, will help mitigate Kenya's current balance of payments problems and will generate local currency funds to be used for development activities in support of increased agricultural production, manpower development, and other priority areas. The foreign exchange provided under this grant will be used to import three types of manufactured fertilizer which will contribute to increasing food production and help reduce a substantial shortfall, beginning in the 1980/81 crop year, in donor-supplied fertilizer imports. Kenya imports virtually all of its manufactured fertilizer requirements, which for the 1979/80 crop year exceeded 160,000 metric tons, representing over $37 million in foreign exchange. The grant will finance the purchase of fertilizer manufactured in the U.S. and included in the A.I.D. commodity eligibility list. The proposed $14.5 million grant is to be obligated in Fiscal Year 1980 and disbursed in accordance with AID Regulation 1, except as AID may otherwise specify in writing. Fertilizer imported under the grant will be handled and distributed by the Kenya Farmer's Association (KFA), which is the GOK's duly authorized agent for handling all Government-procured and donor-provided fertilizer in Kenya. The KFA will serve as consignee of the fertilizer and have responsibility for receiving, clearing, storing, distributing and selling the fertilizer, and depositing local currencies resulting from the sale of fertilizer financed under the Grant. Proceeds from fertilizer sales will be placed in a special account for use in development activities jointly agreed to by the GOK and AID.

The proposed AID grant constitutes only a portion of GOK balance of payments requirements. Its overall balance of payments deficit will amount to $273 million in CY 1980, and it is expected that substantial deficits will continue at reduced levels through 1983 despite decreased expenditures in both the current and development accounts. The AID contribution will complement additional external resources being provided to the GOK by the International Monetary Fund, the World Bank/EEC, United Kingdom and the Netherlands. Financing from these sources will provide approximately $204 million to Kenya in CY 1980, leaving a gap of $68.6 million. The proposed AID grant of $14.5 million will meet 21% of this unmet foreign exchange requirement for the current calendar year.

B. Financial Summary

The proposed $14.5 million will be utilized to procure manufactured fertilizer and to cover commodity-related costs, including ocean transportation costs.

C. Socio-economic, Technical and Administrative Considerations

The analyses presented in the Program Assistance Approval Document (PAAD) show the project to be economically, technically, and administratively feasible. The proposed program is based on a careful analysis of the Kenyan economy and of the agriculture sector which accounts for 35% of total GDP, employs 80% of the Kenyan workforce and represents 60% of total exports. Foreign exchange shortages and budgetary imbalances have emerged in the last few years as key constraints limiting Kenya's growth to unacceptable levels and restricting the Government's ability to carry out important social policies and planned structural reforms. Rather than restricting the development of the entire Kenyan economy for short-term balance of payments considerations, the PAAD fully substantiates the case for a properly designed program which supports structural changes that alter the trade-off between external balance and internal growth in favor of the latter. Fertilizer is the commodity identified for this program assistance for the following reasons: (1) It will have a direct effect on increasing food production; (2) it has potential benefit for smallholders; (3) it is easily procured in the U.S. and distributed in Kenya; and (4) there would otherwise be a substantial shortfall in donor-supplied fertilizer imports beginning in 1980/81.

From a technical standpoint, the project is sound. The three fertilizers to be financed were selected by USAID/Kenya in consultation with Kenya's Inter-ministerial Fertilizer Committee chaired by the Department of Agriculture. A number of selection criteria were applied, including Kenya's overall fertilizer requirements, U.S.

availabilities, competitiveness of U.S. pricing for each type of fertilizer, and selection of those fertilizers best adapted in a technical sense for application to food crops, given Kenya's current shortage of marketed grains.

Administrative arrangements under the project assure that the imported fertilizer will reach Kenyan farmers prior to the "long rains" of March through May. Detailed procedures, introduced in 1979, govern the import and distribution of fertilizer in Kenya. The Kenya Farmers' Association (KFA), a parastatal cooperative, is the GOK's authorized agent for all Government-procured and donor-provided fertilizer; it has full operational capability to handle the fertilizer to be imported under this grant from dockside receipt to final distribution and sale. Administrative arrangements under the project further assure that local currency to be generated under the grant will be utilized so as to have maximum impact on priority development problems as determined jointly by AID and the GOK.

D. Environmental and Human Rights Considerations

The Assistant Administrator for Africa determined on September 23, 1980, that a negative determination is appropriate regarding the anticipated environmental impact of the grant. The Bureau of Human Rights and Humanitarian Affairs provided its clearance of the proposed grant on September 24, 1980.

E. Conditions and Covenants

No special problems are anticipated in negotiating the Project Agreement or in reaching agreement on utilization of fertilizer sales proceeds. A covenant in the draft agreement stipulates that AID and the GOK shall agree on a plan for the disbursement of local generations within six months from signature of the Agreement, and sets forth priority areas for which local generations are to be used which include agricultural activities that result in increased production and manpower development activities, particularly for in-service training of GOK agricultural field staff. The Africa Bureau expects to provide additional guidance to USAID/Kenya on the use of local generations to ensure that funds are programmed in support of GOK agriculture development and in areas consonant with AID's own assistance strategy for Kenya. It is envisaged that the activities to be supported would be those which most directly address constraints to increasing food production and marketing; increase rural employment; and assist in the development of small scale agri-business.

Government of Kenya officials have participated with USAID/Kenya staff in developing the proposed grant, and have approved informally the draft Grant Agreement in substance. We are confident that the GOK will be able to sign the Grant Agreement by September 30.

F. Waiver Requested

A procurement source waiver is requested to permit procurement of ocean transportation on vessels of AID Geographic Code 899 (Free World) flag to the extent necessary to move the fertilizer in a timely fashion if U.S. flag or other Code 941 flag vessels are not available.

G. Committee Action and Congressional Notification

The Project Committee considered the project on September 16, 1980, and recommended approval with two stipulations: (1) That guidance on criteria to be used in determining priority uses of sales proceeds be included in the Program Assistance Approval Document and otherwise communicated to USAID/Kenya to ensure that proceeds are related more specifically to needed improvements in Kenya's agriculture sector; and (2) that USAID/Kenya undertake an in-depth examination of GOK agricultural policy by updating its 1976 agriculture sector assessment during Fiscal Year 1981.

The project was reviewed and recommended for authorization by the Project Committee and Project Review Meeting and, thereafter, at a meeting chaired by AA/AFR on September 19, 1980.

A revised Advice of Program Change was provided to the Congress on September 12; the waiting period will expire on September 26, 1980.

H. Implementation

USAID/Kenya's Agriculture Division will have direct responsibility for program administration under the direction of the USAID Director and in cooperation with support offices in AID Washington and the REDSO/EA Supply Management Office. The Agriculture Division will be responsible for assisting GOK officials in the proper and effective use of grant funds and for maintaining appropriate Mission procedures governing grant documentation and control.

The major Government of Kenya entities responsible for implementing and administering the grant are the Ministry of Agriculture (MOA), Ministry of Economic Planning and Development (MEPD), and the Kenya Farmers' Association Ltd. (KFA). The MOA will have overall responsibility for managing fertilizer procured under the grant and determining its selling price. The KFA, as official GOK agents for all Government-procured and donor-provided fertilizer, will be responsible for clearing, storing, distributing and selling the imported fertilizer and for deposting the local currencies generated by the sale of fertilizer in a Special Account designated by the Ministry of Finance. Disbursements from the Special Account will be made on the basis of a plan mutually agreed to by the MEPD and AID within six months from signature of the Grant Agreement.

The USAID project manager responsible for the project is Charles Hash; the Africa Bureau Project Officer responsible for the project is Christina Schoux, AFR/DP/EAP.

Recommenations:

1. That you sign the attached PAAD, thereby authorizing the proposed grant in the amount of $14.5 million; and

2. That you sign this Action Memorandum, thus approving the procurement source waiver requested in Section F, above, for which a detailed justication is provided in Attachment B to this memorandum.

Approved: ____________

Disapproved: ____________

Date: Sept. 26, 1980

Attachments:
- A. Project Design Schedule
- B. Procurement Source Waiver for Ocean Transportation
- C. Program Assistance Approval Document (PAAD)

Clearances:

DAA/AFR:WHNorth		Date	9/24/80
AAA/AFR/DR:JWKoehring		Date	9/24/80
AFR/DR:NCohen		Date	24/IX/80
AFR/DR/EAP:SCole		Date	9/24/80
AFR/DP:RStacy		Date	9/24/80
AFR/EA:HJohnson		Date	9/24/80
GC/AFR:EDragon		Date	9/24/80
AFR/DR/ARD:HJones	(draft)	Date	9/24/80
AFR/DP/PPE:FGilbert	(draft)	Date	9/24/80
SER/COM:PHagan	(draft)	Date	9/24/80
GC:NHolmes		Date	9/25/80
AAA/PPC/PDPR:JEriksson		Date	9/26/80

Drafted:AFR/DR/EAP:CSchoux:ldh:9/23/80:X28286

ATTACHMENT - A

PROJECT DESIGN SCHEDULE

PAIP (PID equivalent) Submission Date	July 21, 1980
PAIP Approval Date	July 29, 1980
PAAD (PP equivalent) Submission Date	September 11, 1980
PAAD ECPR Approval Date	September 19, 1980

ATTACHMENT - B

PROCUREMENT SOURCE WAIVER FOR OCEAN TRANSPORTATION

Problem: An Ocean Transportation Waiver is required in order to broaden the eligible source (flag of vessel) for ocean freight to be used to carry fertilizer to Kenya under an AID Commodity Import Program grant (Project No. 615-0200) so that vessels from AID geographic Code 899 (Free World) countries may be used to the extent that the freight tender demonstrates that U.S. flag or other Code 941 flag vessels are unavailable.

Discussion: The source of procurement of fertilizer and related services under the above program grant is the United States. The fertilizer tender calls for approximately 38, 000 Metric Tons to be financed, with shipments to take place during January 1981.

Handbook I, Sup. B, Ch. 7, Section 7B4b (1) (c), (incorporating Section 7-B4a (1) (b)), authorizes a waiver from Code 000 to Code 899 vessels when the United States, cooperating country, and Code 941 vessels are unavailable, the cargo is ready for shipment, and it is reasonably evident that delaying the shipment would subject either the Supplier or cargo to additional costs, or the importer to significantly delayed receipt of cargo.

Kenya has no available foreign exchange to finance ocean freight on the fertilizer and thus all ocean freight must be financed under this program grant. Moreover, Kenya has no ships of its own to move fertilizer from the United States, and it appears uncertain that appropriate 941 vessels will be available in this trade. We will not know until the commodity and freight are tendered and offers received whether there will be sufficient U.S. flag vessels available at fair and reasonable rates to meet the quantities and loading dates of the fertilizer offers. However, in view of other heavy demands which will be made upon the limited supply of suitable U.S. flag vessels during approximately the same period (e.g., 200,000 metric ton shipments each of fertilizer to India and corn to Egypt), it seems probable that insufficient U.S. flag vessels will be offered to transport the commodity during the required period, which is dictated by the need to have the product in Kenya by February for the growing season.

It is proposed that the Embassy of Kenya issue a freight tender for U.S. flag vessels to the extent that they are available, and for Code 899 vessels to the extent that U.S. flag vessels are unavailable. Fertilizer bids are scheduled to be opened on November 17, 1980, with awards to be made no later than November 21, 1980.

The entire freight tender must be conducted during this brief period because the fertilizer awards will be made partly based upon the availability of vessels and the computation of the lowest landed cost of the commodity. Thus, it is necessary to tender for both U.S. flag and Code 899 vessels at the same time. Similarly, because of the brief span of time, it is necessary now to process a waiver for the use of Code 899 vessels contingent upon the unavailability of U.S. flag vessels.

The total cost of non-U.S. flag freight to be financed for fertilizer under this waiver, if approved, cannot be known until freight offers are received and matched with fertilizer bids. It is estimated non-U.S. flag freight may cost about $115 per metric ton. Thus, a single chartered non-U.S. flag ship of 15,000 tons would cost about $1.7 million which would exceed AA/SER's waiver authority of $500,000 under Delegation 40. If all shipments had to move on non-U.S. flag vessels, the amount of the waiver could reach $4.4 million or slightly more if relatively low fertilizer prices permit procuring somewhat more than 38,000 metric tons of fertilizer with available grant funds. It may be noted that in a similar procurement of fertilizer by Zambia this year, U.S. flag ships were available to carry one-third of the tonnage.

The interests of the United States are best served by permitting the financing of ocean transportation services on ocean vessels under flag registry of Free World countries other than the cooperating country and countries included in Code 941.

Recommendation: That the Administrator authorize the financing of ocean transportation on vessels of any Code 899 flag to the extent necessary to move the fertilizer in a timely fashion if U.S. flag or other 941 flag vessels are not available.

ATTACHMENT - C

9/30/75 (TM 4:1) CLASSIFICATION: Att 1 to App 3B, Ch 3, HB 4

AID 1120-1 (8-66)

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PAAD — **PROGRAM ASSISTANCE APPROVAL DOCUMENT**

1. PAAD NO.: 650-0200
2. COUNTRY: REPUBLIC OF KENYA
3. CATEGORY: Commodity Financing - Standard Procedure
4. DATE: September 9, 1980
5. TO: DOUGLAS J. BENNET, JR. ADMINISTRATOR, A.I.D.
6. OYB CHANGE NO.: -
7. FROM: Allison B. Herrick, Director, USAID/Kenya
8. OYB INCREASE: $14,500.000
TO BE TAKEN FROM: ESF Funds FY 1980
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 14,500,000
10. APPROPRIATION - ALLOTMENT:
11. TYPE FUNDING: ☐ LOAN ☒ GRANT
12. LOCAL CURRENCY ARRANGEMENT: ☐ INFORMAL ☒ FORMAL ☐ NONE
13. ESTIMATED DELIVERY PERIOD: Nov 1980-Feb 1981
14. TRANSACTION ELIGIBILITY DATE: September 30, 1980
15. COMMODITIES FINANCED

Manufactured Fertilizer

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	$14,500,000	U.S.:	$14,500,000
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	

18. SUMMARY DESCRIPTION

The 1980 Commodity Import Program Grant will provide assistance to the Government of Kenya for basic balance of payments and budgetary support while financing imports of required agricultural inputs (fertilizer). Local Currency generations will be deposited in a Special Account from which disbursements will be made for jointly agreed activities in support of agricultural production and manpower development.

19. CLEARANCES	DATE
AA/AFR, GTButcher	
DAA/AFR, WENorth	9/24/80
AAA/AFR/DR, JWKoehring	9/24/80
AFR/DR, NCohen	9/24/80
AFR/DR/EAP, SWCole	9/24/80
AFR/DP, RStacy	9/24/80
AFR/EA, EJohnson	9/24/80
GC/AFR, EDragon	9/24/80
AFR/DR/ARD, HJones(Draft)*	9/24/80
AFR/DP/PPE, FGilbert(Draft)*	9/24/80

20. ACTION

☒ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE — DATE: Sep 26, 1980

Joseph C. Wheeler
Acting Administrator AID
TITLE

SER/COM, PHagan(Draft)	9/24/80
GC, NHolmes	9/25/80
AAA/PPC/PDPR, JEriksson	9/[illegible]

*Same as Action Memorandum

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I. Summary and Recommendations

A. Problem

Since 1978, foreign exchange shortages and budgetary imbalances have emerged as key constraints limiting Kenya's growth to unacceptable levels and restricting the government's ability to carry out important social policies and planned structural reforms. Although Kenya's balance of payments recovered last year from the crisis of 1978 due to tough government measures, it is expected that the basic balance deficit in 1980 will be larger than that recorded in 1978, and that substantial deficits will continue at reduced levels through 1983. As the experience of 1978 has made clear, efforts to control balance of payments deficits have broad effects on the level of activity in the economy as a whole, as well as on government revenues and expenditures.

Deterioration in the external terms of trade, and government restraint in fiscal, monetary, and import policies have reduced revenues which will be available to government during the current Five Year Plan, thus limiting the government's ability to implement its long range policies in both the industrial and agricultural sectors. Current Account expenditures have been reduced in each of the forward budgets through 1983. Such reductions have been difficult particularly in the face of rising defense expenditures required as a result of deteriorating regional security. More than two-thirds of the overall budget cuts have come from the Development Account. Development expenditures have been reduced by some 18 percent over the period of the Plan as a whole. Such cuts will result in postponement of new project starts, and in reduction of the level of government investment and direct loans to private enterprises.

Athough the government of President Moi has shown itself willing to apply orthodox me hods to return foreign exchange reserves to acceptable levels, an important question is whether the government should restrict development of the entire economy for short term balance of payments considerations, or seek to make structural changes that would alter the trade-off between external balance and internal growth in favor of the latter. The continued application of orthodox methods alone during the remaining years of the current Five Year Plan will not permit adequate financing of the structural changes required to achieve either long term improvements in the balance of payments, or desirable rates of long term growth.

B. U.S. Response

At the Consultative Group Meeting of May 1979, the Government of Kenya (GOK) presented plans to make structural adjustments in its economy designed to increase the contribution of exports to national growth, as well as to promote job creation. Aware of Kenya's increasing balance of payments constraints, the United States and other donors indicated their willingness to provide necessary assistance. In June 1979, Kenya officially requested program assitance from the United States Government of approximately 20 million dollars for 1979 or 1980. The GOK Ministry of Economic Development and Planning presented a similar request to the U.S. Ambassador to Kenya on February 8, 1980.

During his visit to the U.S. in late February, President Moi was told by President Carter that in addition to the assistance already budgeted (and set forth in the Congressional Presentation for 1980 and 1981) the United States would make available 10 million dollars in PL 480 Title I funds, and an additional 10 million dollars this year and next from the Economic Support Fund. The PL 480 funding was provided by an amendment to the 1980 PL 480 agreement. USAID/Kenya is now recommending authorization of a 14.5 million dollar Commodity Import Program Grant from Economic Support Funds to be obligated in FY 1980. Local currencies will be generated under the program grant through importation of fertilizer into Kenya. Fertilizer is the commodity identified for this program assistance for the following reasons: (1) it will have direct effect on increasing food production; (2) it has potential benefit for smallholders; (3) it is easily procured in the U.S. and distributed in Kenya; and (4) there will otherwise be a substantial shortfall in donor-supplied fertilizer imports beginning in 1980/81. The proposed $14,500,000 U.S. grant will permit import of approximately 38,000 metric tons of fertilizer, depending on prices at the time of tender. AID-financed fertilizers would then replace approximately 57 percent of the gap in concessionally financed fertilizer needs. Local currency generations from sales of fertilizer will be deposited in a Special Account in the Central Bank of Kenya. Disbursements from this account will be made for jointly agreed activities in support of programs to increase agricultural production, and manpower development.

C. Recommendations

USAID/Kenya recommends that a fourteen and one half million dollar ($14,500,000) grant from Economic Support Funds be authorized to the Government of the Republic of Kenya for financing the importation of selected commodities, subject to the following provisions:

-- Procurement will be restricted to A.I.D. Geographic Code 000.

-- Such other terms and conditions as A.I.D. may deem advisable.

D. Environmental Analysis

In accordance with AID Regulation 16, paragraph 216-2(f) and (g), it has been determined that a negative determination is appropriate regarding the environmental impact of this grant. As the proceeds of the grant will not be used for the purpose of carrying out a specifically identifiable project or series of activities, an Environmental Assessment or Environmental Impact Statement is not required.

II. Special U.S. Interests

Kenya is a key country for U.S. African policy. U.S. interests cover a variety of political, strategic and economic factors. Kenya's stability is unique in Africa. This stability is reflected by the peaceful and constitutional transfer of power which took place following the death of President Kenyatta in 1978; by Kenya's pattern of regular and peaceful elections; and by its acceptance of a wide range of ideological beliefs within its single party structure.

Kenya is also a strong supporter of human rights at home and abroad -- it has no political detainees. Its parliamentary elections in 1979 saw the defeat of almost a third of all Cabinet members and half of all MPs -- clear indication that the political structure can be effectively altered through the democratic process. The success of the Kenyan model serves as a model to the rest of the third world. It is a graphic demonstration that authoritarianism is not a necessary prerequisite to economic and social development.

Internationally, Kenya and the United States share similar views on a wide variety of issues. Kenya has been outspoken on such important issues as Afghanistan, the Olympic boycott, and U.S. hostages in Iran. Kenya regularly speaks with a voice of moderation and compromise in third world councils, and is an effective spokesman in such important groupings as the G-77. Kenya is also sensitive to efforts by the Soviet Union to expand its interests and ideology in Africa and elsewhere. This concern is reflected in part by Kenyan willingness to provide increased access to U.S. military ships and aircraft supporting the U.S. Rapid Development Force in the Indian Ocean. This is of great strategic importance, since Kenyan air and sea ports are the best available to the U.S. forces along the Indian Ocean littoral.

Kenya is also important to the U.S. as a demonstration that economic development can successfully take place in a relatively free-market environment. Economic development here is especially important as an international model for energy-poor LDCs. Kenya has, in fact, been one of the most vocal supporters, outside the developed world, of the U.S. position on the effects of energy prices on economic growth and development. Kenya is also an attractive location for U.S. firms. Over 120 firms with local and regional interests have offices in Kenya, and U.S. private investment exceeds $200 million.

East Africa will grow in importance to the U.S. in the coming decade. Conflicts between Ethiopia and Somalia, unrest in Uganda, and political turmoil throughout the area are threats to U.S. interests. Kenya's continued stability and independence in this crucial area are thus also a key factor in our long term national interests, and could be the key element in the success of our policy in the region.

U.S. interests in Kenya are additionally addressed in the annual Goals, Objectives and Resource Management Cable (Nairobi 02834) submitted on February 13, 1980. Messages transmitted in connection with the visit to the U.S. in late February 1980 of Kenya's President Moi should also be referred to as required.

III. Economic Analysis

A. Structure of the Economy

Despite more than a decade and a half of substantial economic development since gaining independence on December 12, 1963, Kenya remains a relatively poor country with a 1979 Gross Domestic Product of 341 U.S. dollars per capita.* There are pronounced imbalances in employment and in income levels between urban and rural areas, with urban dwellers totaling 14 percent of the general population and earning approximately 30 percent of national income. In urban areas, the poor basically include the unemployed and the underemployed. In rural areas, they include the landless, the pastoralists, squatters and a large class of smallholders typically farming less than 2.1 hectares.

The structure of the Kenyan economy has changed somewhat over the past fifteen years. The relative share represented by the traditional (non-monetary) sector has remained low and has fallen to only 5.1 percent of GDP in 1979. Agriculture still dominates the economy accounting for 35 percent of total GDP. The manufacturing sector has expanded to account for 13.2 percent of GDP last year compared to 10.3 percent in 1964. (See table III, page 9.)

Kenya is a "mixed" economy in which investment, pricing and other decisions are made by both the private and the public sector. Organization for production takes diverse forms, combining private enterprise with a significant amount of government participation and guidance. The share of overall Government services (excluding parastatals) in 1979 GDP amounted to 14 percent of the total. The Central Government accounted for 20 percent of formal wage employment in 1979, while parastatal bodies accounted for another 17 percent. An additional 2.4 percent of wage employment was accounted for by enterprises with majority control by the public sector. The private sector has remained a dominant element of the economy, however, accounting for 76 percent of 1979 consumption and 56 percent of investment.

Kenya has a limited resource base. More than 73 percent of Kenya's land is arid; another 9 percent is semi-arid; and

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* Provisional. GDP at Factor Cost was 1.97 billion Kenya Pounds, equivalent to 5.2 billion U.S. dollars, converted at the mean 1979 exchange rate of 1K£ = 2.66 US$. Population in 1979 was estimated by government at 15.4 million.

only 18 percent is classified as having high or medium agricultural potential. Among the 19 countries in East Africa, Kenya ranks among the lowest in relative land availability with approximately .2 hectares of cropped land per capita (about the same level as China).

No significant mineral wealth has yet been discovered in Kenya. Mining and quarrying in 1979 accounted for less than three-tenths of one percent of GDP. Given the limitations of its natural resources, Kenya has actively pursued policies designed to encourage a relatively high rate of capital formation. Investment in 1979 equaled 22.4 percent of GDP, with 61 percent of this investment financed from domestic savings, and 39 percent financed from external grants and loans.

B. Development of the Economy

1. General.— During the first ten years after independence in 1963, Kenya's economy exhibited a high and relatively stable rate of growth. Real Gross Domestic Product (at Factor Cost) grew at an average rate of 6.6 percent per year, and per capita GDP rose at an average annual rate of 2.9 percent. Kenya's second development decade has so far been less promising. GDP growth during the period 1974-79 has averaged only 4.4 percent annually, and per capita GDP growth has average no more than 0.5 percent. This second decade has demonstrated Kenya's vulnerability to external economic events including the oil price increases beginning in 1973; the international recession of 1974/75; the collapse of the East African Community; and the end of the export boom of 1977. See Table I below:

Table I

Kenya: GDP Growth Rates, 1972-79

Year	1972	1973	1974	1975	1976	1977	1978	1979
GDP Growth Rate in Real Terms	6.8	4.3	1.1	4.1	2.4	8.8	6.6	3.3

The quadrupling of oil prices in 1974 was accompanied by a drop in the growth rate to 1.1 percent (i.e. minus 2.8 percent per capita). Economic revival was touched off by the boom of 1976 and 1977 when unprecedented prices were reached for Kenya's two principle agricultural exports, coffee and tea. Kenya's economic performance peaked in 1977 when a growth rate of 8.8 percent in real terms was achieved. Thereafter, export prices began to fall while oil and other import prices continued to climb. The growth rate fell to 6.6 percent in 1978 and to 3.3 percent in 1979.

2. Labor. As is indicated in Table II below, wage employment since 1964 has failed to keep pace with Kenya's rapidly growing labor force. Between 1964 and 1969, wage employment rose only 1.3 percent per annum, while the labor force increased by 3.7 percent. Between 1969 and 1976 the opposite was true, and employment actually increased more rapidly than the labor force. Nevertheless, during the period 1964-1976 as a whole the labor force increased by about two million persons, with only 270,000, or 13 percent of that increase, absorbed by wage employment. Strictly comparable figures for the period 1976-1979 are not currently available. Nevertheless even in urban and semi-urban areas, unemployment is currently estimated by Government to exceed 20 percent.

Table II

Employment

(Thousands)

Wage Employment	1964	1969	Annual Average Growth Rate 1964-69	1976	Annual Average Growth Rate 1969-76
Private-Agriculture	211	179	- 3.2%	197	+ 1.4%
Private-Manufacturing	50	58	+ 3.0	88	+ 6.1
Private- Other	145	153	+ 1.1	197	+ 3.7
Private - Subtotal	406	390	- .8%	482	+ 3.1%
Public	182	237	+ 5.4	376	+ 6.8
Subtotal - Wage Employment	588	627	+ 1.3%	858	+ 4.6%
Smallholder Ag. & Rural Non-Ag	n/a	3,178	n/a	4,101	+ 3.7
Other Urban - Informal	n/a	96	n/a	125	+ 3.8
Residual (unemployment and underemployment)	n/a	401	n/a	526	+ 3.9
Total Labor Force	3,580	4,302	+ 3.7%	5,610	+ 3.9%

Source: Crawford and Thorebeck, ILO Consultancy, 1978; and 1979-1983 Development Plan.

3. Capital. Kenya has achieved a relatively high rate of capital formation since independence, and in the 1970s the proportion of GDP being invested averaged 24.1 percent a year. Overall, the proportion financed domestically was 74.5 percent, while 25.5 percent was covered by external grants and loans. Athough the capital output ratio in the early years of 1970s (1970-72) averaged 3.24, the overall ratio for the last years of the decade (1975-79) averaged 4.35. While such ratios calculated over short periods of time are notoriously volatile, the available evidence suggests increasing difficulty in achieving desirable rates of growth without increases in rates of investment, in industrial efficiency, or both.

Table III below summarizes major sectoral changes over time, indicating a small decline in the importance of the agricultural sector since 1964, and the increasing importance of both manufacturing and the government services sectors. The evolution of the non-government, directly productive, sectors are discussed separately below.

Table III

Kenya's Share of Gross Domestic Product by Sector; 1964, 1974 and 1979

	1964	1974	1979
Agriculture	36.0%	32.5%	34.6%
Manufacturing	10.3	12.7	13.2
Government	12.2	17.0	14.5
Other Sectors	41.5	37.8	37.7
Total	100.0%	100.0%	100.0%

Source: Ministry of Finance and Planning, *Economic Surveys*, various years.

4. Agriculture. The agriculture sector has provided Kenya with: (1) substantial export earnings; (2) a base for industrial and commercial growth; (3) the majority of basic food requirements; and, of greatest importance, (4) approximately 80 percent of employment. Between 1964 and 1973, the agricultural

sector grew at the annual rate of 5.5 percent due to (1) a dramatic increase in crop acreage which rose 21 percent during the period; (2) a significant increase in yields, attributed to the introduction of highly effective technologies, such as hybrid seeds (average maize yields increased 45 percent); (3) increased use of purchased inputs and improved husbandry (coffee and tea yields doubled); and (4) a switch to high value crops (incremental smallholder coffee and tea production, for example, accounted for about 50 percent of the increased value).

Between 1973 and 1979 however, growth in the agricultural sector slipped to an average annual rate of 2.7 percent, largely due to the limited quanity and marginal quality of new land being brought into cultivation, to the reduced rate of introduction of new technologies, and to the GOK's production inhibiting agricultural pricing, input and credit policies, as well as to vagaries of the weather.

5. Manufacturing. The manufacturing sector has shown the greatest consistent growth, with the volume of production increasing by 8.5 percent per annum between 1964 and 1973, and by an impressive 11.0 percent from 1973 to 1979. Apparently, the competitiveness of Kenya's manufactured exports has fallen dramatically since 1973. The volume of manufactured exports has decreased in each year beginning in 1974. The level in 1979 was 55 percent of that prevailing in 1973. (See export quantum indices, Table 9, Annex A). Such decreases occured despite (or perhaps because of) an increase in the price index of Kenya's manufactured exports by more than 275 percent between 1973 and 1979. (See export price indices, Table 8, Annex A).

6. External Sector. The external sector has become increasingly important to Kenya, with the value of imports of goods and services rising from 32 percent of GDP in 1973 to 37 percent in 1979. Imports of goods in 1979 accounted for 18 percent of GDP. Imports are crucial for growth in Kenya's industrial and commercial agricultural sectors. Machinery and transport equipment accounted for 36 percent of the value of goods imported in 1979, with industrial supplies representing 29 percent, fuels 20 percent, food and beverages 5 percent, and other consumer goods only 6 percent. (See Table 11, Annex A). In the overall economy, 31 percent of all intermediate inputs are accounted for by imports. In the manufacturing sector, imports account for between 75 and 85 percent of

overall value added. (By comparison, only 4 percent of value added in agriculture is accounted for by imports).

The value of exports of goods and services has not kept pace with import growth, falling from 31 percent of GDP in 1973 to 27 percent in 1979. As a result, the current account deficit has risen from 6 percent of GDP in 1973, to 9 percent of GDP in 1979. Kenya has been attempting to develop new markets in the Middle East but little tangible evidence of success can be noted and no major breakthroughs are expected. The 1977 Tanzania border closing resulted in a major market loss for Kenya, with exports to Tanzania (including re-exports) falling from K£ 33.4 million in 1976 (10 percent of total exports) to K£ 4.1 million in 1979 (1 percent of exports). The Uganda export market has dropped from K£ 60 million in 1977 (10 percent of total exports) to 37.7 million in 1979 (4 percent of total exports).

Similarly, Kenyan worldwide exports have fallen from K£ 480 million ($1,208 million) in 1977 to K£ 385 million ($1,024 million) in 1979, with nearly the entire decline due to the lower value of coffee exports (down K£ 94 million). (See Tables 12 and 13, Annex A). Tea exports have fallen in the same period by K£ 9 million, while refined petroleum exports have fallen more than K£ 4 million.

As Table 8, Annex A indicates, claims of damage to Kenya's economy since 1972 based on the terms of trade argument might more accurately relate to the variability of the external sector than to the trend. Actually, the terms of trade for all items (including petroleum products) have deteriorated only 5 percent in the seven year period 1972-1979. The non-oil terms of trade fell by nearly the same amount (3 percent). The overall quantity of exports has risen by only 9 percent since 1972. Given the slight decrease in relative prices, the purchasing power of exports has increased by only 4 percent over the time period as a whole. By contrast, GDP has increased by 4.4 percent per annum during the same seven year span. The failure of the export sector to expand or diversify has implied increasing relative shortages of imports as overall GDP continues to expand.

C. Important Development Issues

1. Overview. The 1980 Commodity Import Program Grant is designed to address important short term and long term macroeconomic problems facing Kenya, while providing

substantial assistance to the agricultural sector through the financing of imports and through selective programming of local currency generations. In the short term, a serious balance of payments deficit must be overcome to permit Kenya the foreign exchange flexibility required to implement industrial rationalization aimed at Kenya's long-term problem: employment generation. Revenue shortfalls (caused, at least in part, by efforts to slow the economy in order to protect the balance of payments position) will also be partially met. Local currency generations will be programmed in a manner which will permit additional resources to flow into priority areas in the agricultural sector as identified in the CDSS. The basic long term development problems facing Kenya are summarized below.

2. Population. Kenya's population growth rate is currently estimated at 4.0 percent, the fastest rate of increase in the world. Rising fertility rates and declining mortality have pushed the population up from 8.6 million persons in 1962 to an estimated 15.8 million in 1979.1/ At current growth rates the population is expected to reach 24 million in 1989 and 37 million by 2000. Population growth upsets Kenya's balance between investment and consumption, straining fixed natural resources, increasing the demand for social services to satisfy basic human needs, and calling for ever higher levels of production and employment just to maintain current consumption levels and living standards.

Table IV

Kenya: Population and Labor Force, 1969-2000

	1969	1979	1989	2000
Total Population (mn)	10.9	15.8	24.0	37.0
Rate of Natural Increase	3.2%	4.0%	4.1%	4.0%
Percent Under 15 Years	48.4%	49.9%	52.2%	53.0%
School-age (mn)	3.2	4.4	7.3	8.8
Labor Force (mn)	4.4	6.2	8.9	13.8

Source: Population Studies and Research Institute, University of Nairobi. Recent Demographic Trends. 1979.

1/ Preliminary raw census data for 1979 places the population at 15.3 million. Subsequent statistical adjustments are expected to raise the final figure close to the current estimate of 15.8 million.

3. Employment. The current population growth rate will swell the labor force from 5.6 million in 1976 to an estimated 13.8 million by 2000. If non-agricultural employment continues to grow at a rate of 6 percent per year (Korea managed to sustain a 7 percent rate during the 1960s) through a massive expansion of export production, it would manage to absorb 3.5 million of the projected 8.2 million labor force increase between 1976 and 2000. Agriculture would still be left with the task of absorbing 4.7 million new workers.

4. Income inequality between rural and urban areas, and between the poor smallholder and pastoralists and the wealthier commercial farmer must be adequately addressed during the next 20 years if Kenya is to achieve its development objectives without political unrest. The 80 percent of the population employment in agriculture only receives 47 percent of the national income.

5. Kenya's energy requirements impact adversely on foreign exchange reserves, commercial production, and the environment. Prices of mineral fuels imported into Kenya have increased 697 percent since 1972, and future prices and supplies are far from certain. Net imports of oil have increased from 0.1 percent of total imports in 1972, to 11 percent of imports in 1979. Commercial enterprises directly account for 25 percent of petroleum purchases, with another 28 percent consumed by the sector's transportation requirements.

6. Industrial Rationalization. Import substitution has run its course in Kenya. As a consequence of the country's pricing and import policies, too much of of Kenya's manufacturing sector is geared toward production for the domestic market, often at price levels above those prevailing in international markets. Relatively capital-intensive manufacturing has been encouraged and protected, and industry operates with an increasing dependence on imported inputs and foreign exchange availabilities. Kenya's attempt both to balance its external payments and to protect certain industries has resulted in substantial reliance upon quantitative import restrictions, and in a probable overvaluation of the Kenya Shilling. Protection (and effective subsidy) of certain industries has been considerable, representing a tax on the rest of the economy, including, of course, agriculture.

Kenya's trade restrictions have included import bans, quotas, licenses and prior deposit requirements in addition to traditional tariffs.

Quantitative restrictions gained prominence while Kenya was a member of the East African Community and was, by the nature of its membership, unable unilaterally to alter exchange rates or tariffs. The restrictions have a certain measure of bureaucratic (and political) appeal in that industry-specific concessions can be made. Finally. GOK equity or loan participation in selected industries has created pressures to use quantitative restrictions to shore up these specific GOK investments. Dismantling this increasingly inefficient system, and development of a more open, price-oriented economy with improved prospects for continued long term growth is the key development problem facing the modern sector in Kenya in the 1980s.

7. Agricultural Sector Development. With regard to the AID target group, development of the agricultural sector in Kenya will remain the most important Mission priority in the immediate years ahead. The sector's importance in terms of employment and income has already been alluded to. In addition, however, food production will be a primary concern during the current decade as the population increases by another 8.2 million persons. Food production will need to increase at a 4.5 percent annual rate just to keep pace with population growth and to eliminate the most serious cases of hunger.

Farm income and farm production are of course closely related. The keys to increasing Kenya's food crop production over the next five years lie in (a) ameliorating post harvest losses; (b) increasing intensity of use of high and medium potential lands, and (c) rationalizing pricing and marketing policies.

Recent efforts on the part of Government to initiate development of a National Food Plan, and to improve the collection efforts of marketing boards, together with announced increases in the prices paid to farmers for both maize and wheat, all indicate that some progress is now being made on the policy front. Changes announced on August 27, 1980 increased the price to the producer for a 90 kilo bag of maize from 80 Shillings to 90 Shillings, an increase of 12.5 percent (to approximately \$137 per metric ton). Wheat prices were raised from 135 Shillings to 150 Shillings per 90 kilo bag i.e. by 11.1 percent (to approximately \$228 per metric ton).

Given such progress, efforts to increase marketed production become more attractive. The availability of additional high and medium potential land in Kenya is limited. In addition, although expansion of crop land is possible in the arid and semi-arid lands, the cost per unit of production can be expected to be relatively high. The arguments for reducing post-harvest losses, and for intensifying production on currently cropped land are clear. The Mission's on-farm crop storage project addresses the first possibility directly.

Increased productivity remains as the second part of the strategy. Agricultural productivity is constrained by insufficient access to known technologies, by the lack of new relevant production technologies and by inadequate and inaccessible inputs. A production strategy should emphasize investments in agriculture directed at reducing access constraints (planning, research, training and credit, for example). Such a strategy calls for a significant increase in the capacity of the extension service, the co-operatives, the marketing boards and the credit mechanism, as well as in the institutional capabilities of the Ministry of Agriculture.

D. Recent Economic Difficulties

As previously indicated, Kenya has become increasingly vulnerable to rapid fluctuations in levels of economic activity as a result of changes in its external sector. That vulnerability has been demonstrated in the course of events following the end of the export-led boom of 1977.

Kenya's balance of payments crisis in 1978 was the worst of the decade with an overall current account deficit of K£ 252 million (US $654 million) equivalent to 14 percent of overall GDP. (See Table 2, Annex A). The basic balance was in deficit a total of K£ 81.5 million (US $210 million). Table 8, Annex A, indicates that Kenya's overall terms of trade deteriorated by more than 14 percent between 1977 and 1978. Since the quantity of exports also declined by 7 percent, the overall purchasing power of exports was 20 percent less in 1978 than in 1977.

In December 1978, the GOK elected to undertake severe measures restricting imports including: (a) suspension of all import licenses granted in October, November, and December 1978, (b) introduction of an import deposit scheme, with some deposits being 100 percent of the value of imported goods, and (c) placing restrictions on international travel, profits and dividend remittances, and on borrowing for imports. Net foreign exchange reserves bottomed in March of 1979 (see Table 6, Annex A) and then improved throughtout the remainder of the year. The lag in response was due primarily to the approximate six months of import inventories already in the country and to the placement of import orders before the restrictions were imposed.

With foreign exchange reserves rising and with the import restrictions choking economic growth, the GOK relaxed restrictions somewhat, effective November 30, 1979. Required import deposit levels were lowered, and the requirement for 90/180 days overseas credit was withdrawn. Restrictions on overseas profit and dividend remittances and travel were retained however.

Budgetary controls and credit restrictions were also part of the overall package designed to bring the balance of payments back into line and to reduce the need for external borrowing. It should be pointed out that the orthodox credit/budget/import restrictions of 1978/79 have had their desired effects. In 1979 the current account deficit narrowed by K£ 74 million, the value of imports of goods and non-factor services declining by more than 6 percent while exports of goods and non-factor services rose by greater than 4 percent. The physical quantity of imports declined by 35 percent, while export quantities rose by 6 percent. The total decline in imports of K£ 102.2 more than accounted for the increase in gross reserves of K£ 101 which Kenya achieved in an attempt to strengthen its reserve position.

Sharp curtailment of imports along with associated macroeconomic restrictions resulted in a significant decline in Kenya's overall level of economic activity. In 1979, the Kenyan economy exhibited negative per capita growth in Gross Domestic Product for the third time in the decade of the 1970s. The 1979 GDP growth rate of 3.8 percent, when combined with rapid increases in population, resulted in a per capita decrease in GDP of .8 percent. Absorption of increases in the labor force once again arose as a major problem. In 1979, President Moi "announced" that wage employment in the modern sector would increase by 10 percent. In any event, public sector employment rose by 8.9 percent and private sector employment by 5 percent, for a weighted averaged increase of 6.7 percent. While the absolute number of persons employed in the modern sector rose by some 60,000 persons, the total number of persons registering for such employment exceeded 260,000. The fact that total output rose only 3.1 percent in the face of such increases in "employment" indicates the limitations of a one dimensional approach and the need for substantial structural adjustment.

IV. Grant Justificiation

A. Statement of the Problem

1. Balance of Payments and Budget. The government of President Moi has shown itself willing to apply orthodox methods to return foreign exchange reserves to acceptable levels. The important question is whether the development of the entire economy should be restricted for short term balance of payments considerations, or whether a properly designed program could support structural changes that would alter the trade-off between external balance and internal growth in favor of the latter. The Government of Kenya has initiated a program of industrial rationalization, employment creation and export expansion which will in the long run act to increase the country's ability to earn foreign exchange while improving the prospects for long term growth as well. Introduction of measures to reduce quantitative import controls and overall protection of domestic industry will be particularly difficult to carry out in a period of projected foreign exchange shortages. The current World Bank/EEC structural adjustment credit, equivalent to 70 million US Dollars, is designed to assist the government of Kenya in implementing required adjustments in the foreign exchange regime and industrial structure. USAID analysis supports the desirability of the proposed reforms. The 1980 CIP grant will provide additional balance of payments support to assist the government of Kenya in carrying out desired changes.

In light of the experiences of 1978-79, foreign exchange shortages and budgetary imbalances have emerged as key constraints limiting Kenya's growth to unacceptable levels and restricting the government's ability to carry out important social policies and planned structural reforms. The purchasing power of Kenya's exports has grown only 4 percent since 1972, the last full year before the OPEC-induced aid crisis. Restricted imports of capital equipment, of required inputs (including fuels), and of consumer goods have resulted in reduced capacity utilization, lowered output, and decreased tax revenues. Although Kenya's balance of payments recovered last year from the crisis of 1978 due to tough government measures, it is expected that the basic balance deficit in 1980 will be larger than that recorded in 1978, and that substantial deficits will continue at reduced levels through 1983. As the experience of 1978 has made clear, efforts to control balance of payments deficits have broad effects on the level of activity in the economy as a whole, as well as on government revenues and expenditures.

Government and donor analysts now agree that Kenya will be unable to meet the original development targets of the 1979-1983 Economic Plan. According to a recent government white paper, planned per capita growth rates (which were to have averaged 2.4 percent per year over the plan period) have been revised downward to 1.5 percent. The revised estimates are themselves based on levels of government expenditure, and foreign exchange availability, which will not be attained without increases in external assistance to meet remaining unmet foreign exchange requirements.

Deterioration in the external terms of trade, and government restraint in fiscal, monetary, and import policies have reduced revenues which will be available to government during the current Five Year Plan, thus limiting the government's ability to implement its long range policies in both the industrial and agricultural sectors. Current Account expenditures have been reduced in each of the forward budgets through 1983. Such reductions have been difficult particularly in the face of rising defense expenditures required as a result of deteriorating regional security. More than two-thirds of the overall budget cuts have come from the Development Account. Development expenditures have been reduced by some 18 percent over the period of the Plan as a whole. Such cuts will result in postponement of new project starts, and in reduction of the level of government investment and direct loans to private enterprises.

Analysis indicates that overall GOK budgetary imbalances will be most pronounced during FY 1980/81. Despite reduced expenditures in both the Current and Development Accounts, the overall budgeted deficit for the period 1979/80 - 1982/83 will increase by some 16 percent to a total of 533 million Kenya (1.55 billion U.S. dollars). (See Table V below and Table 1, Annex A, for individual line items).

Table V

Government Revenues and Expenditures, 1979/80 - 1982/83

(Million Kenya Pounds)

	Plan	Revised
Current Revenue	2754	2393
Current Expenses by Ministries	1914	1758
Interest on Debt	267	318
Current Surplus	574	317
Development Expenses of Ministries	1202	991
Overall Deficit	503	583

A similar analysis shows that the foreign exchange constraint for Kenya will be at its most severe this year and next. The overall balance of payments deficit will amount to K£ 102 million (US $273 million) in CY 1980, and to K£ 83.6 million (US $222 million) in CY 1981. See Table 2, Annex A, for projections of individual line items in Kenya's balance of payments by year through 1983. (See also Tables 3 and 4, Annex A, for details regarding the exports and imports of goods and services which underlie projections of the deficit on current account.) Balance of payments projections consistent with the revised Five year Plan now indicate a substantial deficit rather than a surplus for the period 1979-1983 as a whole, as is indicated below:

Table VI

Kenya: Balance of Payments, 1979-83
(Million Kenya Pounds)

	Original Plan	Revised Plan
Current Account Balance	-511	-1026
Capital and Reserve Items	571	823
Overall Surplus Deficit	60	- 203

Current Mission analysis indicates that estimates presently available from Government may in fact be overly optimistic given the oil price increases announced in July, and given the likely continued fall in the unit price of coffee exports, together with a possible drop in the quantity of coffee available for export of up to one-third. The following table summarizes Kenya's need for balance of payments assistance over the current planning period and indicates the foreign exchange gap remaining after identified sources of assistance (excluding the proposed CIP grant) have been taken into account.

Table VII

Kenya: Foreign Exchange Gap, 1980-83
(Millions of Kenya Pounds)

	1980	1981	1982	1983
FX Required	10.25	83.6	44.1	47.3
Identified Sources	76.7	50.0	15.6	-
Unidentified Balance	25.8	33.6	27.5	47.3
Unidentified Balance Expressed in US$	68.6	89.4	73.2	125.8

At the Consultative Group Meeting of May 1979, the Government of Kenya requested an increased level of program assistance from the donor community and subsequently initiated structural changes designed to promote industry and exports. This request has drawn an initial response from the World Bank, in addition to responses from individual donors. Additional assistance will be required, however, if even the minimal goals of Kenya's revised Five Year Plan are to be reached. Prompt U.S. action on commitments to provide program assistance will permit foreign exchange generation which will have maximum impact on the short range constraints limiting Kenya's development, while assisting the GOK to fully implement its current structural adjustment policies.

2. Food and Fertilizer. Kenya currently faces a shortage of marketed food grains that is only partially being met by increased shipments financed under PL 480. Government-held food stocks fell to zero in May 1980 although the normal reserve is set at 180,000 metric tons of basic food grains. Shortages in marketed supplies will continue into 1981 even under the most favorable of growing conditions, although recent increases in government-set prices for wheat and maize should lead to expanded output.

It has also become clear that Kenya faces a considerable shortfall in donor-supplied fertilizers in 1980/81. In 1979/80, external support for fertilizer imports was provided through a series of short term programs by three external donors (Holland, Norway and Japan). Together the three provided a total of 67,000 MT of fertilizer (over 40 percent of Kenya's overall requirement). None of the current programs, however, were designed to extend into fertilizer year 1980/81. No other donor is prepared to act in the time frame required for deliveries to be made at the start of the "long rains" (March-May). The shortfall is equivalent to 31 percent of the projected requirement for 1980/81.

Programming of 14.5 million dollars of U.S. grant assistance will provide approximately 38,000 metric tons of fertilizer in 1980/81, an amount which would replace 57 percent of the gap in concessionally financed fertilizer needs that will not be filled by other donors. The AID contribution to overall fertilizer needs would then be approximately 18 percent.

B. Corrective Measures

1. Government of Kenya

a. GOK Policies and Plans. The GOK's Fourth Development Plan, 1979-1983 sets forth the twin development objectives of poverty alleviation and self-sustaining economic growth. The Plan focuses on insuring basic human needs for the majority of Kenya's people, on extending the benefits of development to those groups which have thus far not shared equitably in Kenya's growth, and on increasing employment opportunities and income levels.

The Plan's sector specific policies include: (A) greater emphasis on rural development; (B) efforts to strike a balance between rural and urban development in order to diminish existing income dichotomies; (C) additional efforts to implement decentralized planning; (D) an increased emphasis on establishing manufacturing industries in rural areas and increased efforts on export promotion; (F) increased attention on access to rural infrastructure, including rural roads and water, and initiation of a rural housing policy; and (G) efforts to extend rural health services and primary education more widely. Increased export production, increased off-farm employment, and increased labor intensive production form a common thread linking together several sector policies into a cohesive sub-strategy.

The major thrust of the Plan's industrial policy is an attempt to bring about a shift in emphasis from production chiefly for domestic markets to a strategy stressing penetration of export markets. It is recognized that this will require five years. In particular, "Letters of No Objection", a system of protection under which domestic manufacturers have been allowed to influence Government decisions on the licensing of imports (including requests for total bans), would be eliminated. The tariff would be made the major form of protection, and tariff rates would be increased and made more uniform.

The Plan recognizes that reduction of protection and increased industrial efficiency, while necessary to mounting a sustained export drive, may not be sufficient. In this regard, the Plan calls for: (a) strengthening the Kenyan External Trade Authority; (b) extending the role of the Kenya National Trading Company; (c) establishing export houses; (d) implementing an export credit guarantee scheme;

and (e) rationalizing the existing export incentive program by linking the level of export subsidies to the value of local content. It is clear that the Government will have to provide some assistance (possibly in the form of credit) to firms experiencing transitional problems because of the reduction in their protection. Moreover, it seems evident that Kenya will need additional external resources to reduce the balance of payments constraint if it is to be able to carry out this program.

b. GOK Actions. Planned reductions in both Current Account and Development expenditures by the GOK during the period 1979-1983 have already been discussed above. Results for FY 1979/80 (which ended on June 30) indicate that the overall Government deficit was reduced to 4.5 percent of GDP, an outcome which surpassed the policy target of 6 percent of GDP established for the first year of the current IMF Stand-By Agreement. The budget for FY 1980-81 as submitted on June 19, 1980 provides for increases in revenues of 22 percent, with increases in expenditures limited to 19 percent. The deficit would remain near 4.5 percent of GDP if revenue estimates prove accurate. In CY 1979, increases in the money supply and in credit grew at similar rates of about 13 percent, very close to the growth in normal GDP. Substantially lower rates of increase are projected through the end of FY 1980/81.

The Government of Kenya has also indicated the seriousness of its intentions with regard to its new industrial policy in the 1980/81 budget just submitted. Additional revenues will be generated by the new customs tariff which became effective at midnight on June 19, 1980. The current export compensation scheme has been broadened to include all non-traditional exports (approximately 38 percent of total exports). The level of compensation has been doubled to 20 percent of f.o.b. value; and payments will be made directly through the Central Bank of Kenya in order to expedite claims. The increased rate of export compensation and the wider coverage are designed to elicit a supply response in all potential exports except those which are not thought by authorities to be price elastic at current price levels and exchange rates. Finally, in addition to the above measures, the "Letter of No Obj ction" privilege was abolished simultaneously with th introduction of the new tariff schedule, although it remains to be seen how the existing structure of protection based upon previous concessions will be administratively dealt with.

2. Other Donors

The GOK has been successful in mobilizing some of the additional external resources it will require over the next few years. In August of 1979, the GOK entered into a two-year Stand-By arrangement with the International Monetary Fund. The arrangement involves the upper tranches through the fourth, and will provide 157 million U.S. dollars (122.5 million SDRs). In addition, Kenya has been permitted to purchase 89 million U.S. dollars (69 million SDRs) under the Fund's compensatory financing facility. Drawings under the Standby are scheduled quarterly ending March 31, 1981.

Kenya has also obtained IBRD-administered credits totaling $70 million, including a $15 million credit from the European Economic Community Special Action Fund (on standard IDA terms; to help finance essential imports) and $55 million in direct IDA credits. The $15 million EEC credit and $35 million of the IDA credit were available for disbursement after March 30, 1980. The remaining $20 million of the IDA credit is scheduled for disbursement during 1980, assuming acceptable progress on the part of the GOK in meeting IBRD conditions.

In support of the GOK program of industrial reorganization, IDA has also recently approved a 4-year technical assistance program totaling $4.5 million to finance studies and training related to production and export marketing.

Major donors who have responded to the GOK request for assistance in 1979 by offering new program loans, or by re-channeling proposed project assistance into the program format, include the Netherlands ($19 million) and the United Kingdom ($61 million). Adjusting for shifts from project to program assistance, national and international donors have so far responded with additional resources totaling $250 million in the near term. Some further program assistance may be forthcoming during the current planning period as well. Finally, in addition to concessionary financing, the Government of Kenya in 1979 drew down $99 million of a $200 million Eurocurrency loan contracted in August 1979. Given the high costs of such commercial borrowing, however, it is not the intention of Government to use external commercial borrowing for budgetary support during FY 1980/81 over and above the $200 million already negotiated. All of the above financial transactions have been fully reflected in the discussion concerning the remaining foreign exchange gap facing Kenya during the remainder of the current planning period, and have been included in the projections presented in Table VII above and in Table 2, Annex A below.

V. Proposed U.S. Assistance

A. Levels and Commodities

A Commodity Import Program Grant is proposed in the amount of 14,500,000 U.S. dollars for obligation in fiscal year 1980. Such a level would be equivalent to approximately 21 percent of Kenya's unmet foreign exchange requirements for the current calendar year, while assisting to meet budgetary imbalances projected to continue (although at declining levels) through the end of the current planning period. The proposed level of assistance leaves considerable opportunity for supplementary contributions from other donors, as well as for additional self-help measures, while providing overall levels of program assistance in keeping with prior U.S. commitments.

Fertilizer has been identified as the commodity most appropriate for achieving significant impact on agricultural output. Kenya imports virtually all of its manufactured fertilizer requirements, an amount that exceeded 160,000 metric tons in 1979/80, and which represented over 37 million dollars in foreign exchange. As indicated above, although 67,000 metric tons of fertilizer were supplied by other donors in 1979/80, none of the existing programs were planned to continue into the current fiscal year. The proposed $14,500,000 U.S. grant will permit import of up to 38,000 metric tons of fertilizer, depending on prices at the time of tender. AID-financed fertilizers would then replace approximately 57 percent of the gap in concessionally financed fertilizer needs that will not be filled by other donor programs. The AID contribution to overall fertilizer supplies would be approximately 18 percent.

In determining the quantities and types of fertilizer to be financed, the Mission has had the full co-operation of the inter-ministerial Fertilizer Committee, chaired by the Department of Agriculture. Selection criteria considered included the following:

(1) Kenya's overall fertilizer requirements by type for fiscal year (and fertilizer year) 1980/81. (See Section VII.A. below which analyzes demand requirements. Table IX in Section VII.A. contains the list of 1980/81 requirements submitted by the Fertilizer Committee);

(2) U.S. availabilities given the short programming time and the necessity to ensure deliveries in time for the "long rains" in March-May;

(3) the competitiveness of U.S. pricing for each type of fertilizer;

(4) the desirability of shipping high analysis, high unit value fertilizers to maximize final impact of imports given high shipping costs; and

(5) priority for fertilizer types best adapted in a technical sense for application to food crops, given Kenya's current shortage of marketed grains (See Annex E for current technical recommendations of the Kenya Farmers Association).

The following fertilizers have been selected for financing:

(1) Diammonium Phosphate (DAP) - 16,000 metric tons at approximately $250 per ton;

(2) Mono-Ammonium Phosphate (MAP) - 11,000 metric tons at approximately $260 per ton;

(3) Triple Super Phosphate (TSP) - 11,000 metric tons at approximately $215 per ton.

AID-financed imports would then represent approximately 66 percent of 1980/81 requirements for DAP; 60 percent of requirements for MAP; and 81 percent of requirements for TSP. Margins have been left for private importers whose outlets in some areas may represent a necessary addition to those provided by the Kenya Farmers Associations network of supply points. Estimated prices are all f.o.b. vessel, bagged, loaded and stowed and represent latest available quotations. Bulk importation with ship-side bagging using portable facilities is being investigated as a possibility and may represent substantial savings. USAID has been advised both by the Kenya Farmers Association and by other donors that import of fertilizers in bags is much to be preferred if ship-side bagging proves impossible for the current program. Shipping costs are currently estimated at $156 per metric ton on U.S. bottoms and about $115 per metric ton on board foreign vessels.

B. <u>Counterpart Generations and the Special Account</u>

The Government of Kenya has agreed to deposit into a special account an amount of Kenya shillings equivalent to the proceeds of local sales of commodities financed for import under the proposed grant. The U.S. fertilizers to be financed are in general competitively priced but the additional costs attributable to delivery on U.S. bottoms may make some of the imports more costly than local averages. Additional costs would have to be borne by the Exchequer, by the Kenya Farmers' Association, or by the purchasers of fertilizer themselves. The Mission concurs with the GOK contention that all fertilizers of equivalent formulation should be sold to farmers at the same price based on competitive costs at Mombasa plus required costs of distribution (see Section VI.B. below on implementation). Competitive pricing of U.S. fertilizers imported under the current grant will help assure that sales proceed smoothly, avoiding the problems of extended storage and accountability that might arise if such fertilizers were sold at prices above those prevailing in local markets for the same or similar products. Therefore, to the extent that direct costs of the imported fertilizers, attributable to the cost of shipment on U.S. bottoms, will exceed competitive costs, local currency generations can be applied to cover such costs in lieu of deposit in the special account.

C. Use of Local Currency Generations

The Commodity Import Program grant will generate substantial amounts of local currency which represents an important resource for use by the Government of Kenya in pursuit of its development objectives. The Ministries of Finance and Economic Planning and Development have agreed that the use of these currencies should be carefully planned to ensure that they are applied in a manner to gain the maximum impact on priority development problems. A definitive agreement will be reached within six months of the signing of the C.I.P. grant (to be expressed in an exchange of letters between the Ministry of Economic Planning and Development and USAID/Kenya which will serve as a sub-agreement to the basic C.I.P. Grant Agreement) on the objectives and criteria to be applied in uses of the local currency. A.I.D. will require an annual report on the anniversary of the Grant Agreement specifying details of allocations, disbursements and balances in the account.

It is the intent of this project that local currency use shall be programmed in support of GOK agriculture development and in areas consonant with A.I.D.'s own assistance strategy for Kenya. Criteria for selecting activities for local currency application will be refined in the process of negotiating the definitive agreement on local currency use which will provide specific guidance. It is envisaged that the activities to be supported would be those which most directly address constraints to increasing food production by small farmers; increase rural employment; and assist in the development of small-scale agri-businesses.

VI. Implementation.

A. A.I.D.

1. Administrative Repsonsibilities.

A.I.D. will administer the program through the USAID/Kenya Agriculture Division under the direction of the USAID Director and in cooperation with support offices in A.I.D. Washington. The REDSO/EA Supply Management Office will also provide assistance as necessary. The USAID Program Office will be the principal focal point for all matters pertaining to macroeconomic policy matters while the Agriculture Division will focus on implementation of the Commodity Import Program and be responsible for guiding and advising host country officials in the proper and effective use of Grant funds, and for maintaining appropriate Mission internal procedures for Grant documentation and control.

2. Eligible Commodities.

The grant will finance the purchase of fertilizer manufactured in the U.S. and included in the A.I.D. commodity eligibility list. The grant will not be utilized to finance the acquisition or importation of goods and services otherwise financed by the U.S. Government or financed under other non-U.S. technical or economic assistance to Kenya. It will be prohibited to finance, under the grant, commodities for delivery or transfer by the importer to any military force.

3. Procurement and Financing Procedures.

Procurement and financing procedures under this Grant will be those set forth in A.I.D. Regulation 1. Financing will be carried out through direct letters of commitment (L/Coms) to suppliers.

4. Procurement Restrictions.

This grant will be restricted to Code 000 source and origin for commodities and related incidental services. Procurement and utilization of commodities and commodity related services financed under it are subject to the terms and conditions of A.I.D. Regulation 1 as from time to time amended and in effect, except as A.I.D. may otherwise specify in writing. If any provision of A.I.D. Regulation 1 is inconsistent with a provision of this agreement, the provision of this agreement shall govern.

B. GOK

1. Administrative Responsibilities.

The Kenya Government's Fertilizer Committee, established in the Ministry of Agriculture, has primary responsibility for the terms and conditions of fertilizer procurement in Kenya. The Kenya Farmers Association (KFA) is Government's duly authorized agent for handling all Government procured and donor provided fertilizer to Kenya.

As its official agent, KFA is consignee of the fertilizer and responsible for receiving, clearing, storing, distributing and selling and depositing local currencies resulting from the sales of fertilizer financed under the Grant.

2. Import and Distribution of Fertilizer

The following procedures, initiated in 1979, are currently in force in handling fertilizer either consigned to the Government by various Donors or purchased by the Government of Kenya.

a. Appointment of Distributors and Sub-Distributors

The Kenya Farmers' Association (co-op) Ltd. (KFA), is appointed sole agent for handling and distribution of fertilizers. Appointment of sub-agents for internal distribution may be made by the KFA on terms which may be mutually agreed between the two parties concerned but sub-distributors have the right to appeal to the Ministry of Agriculture if their requests for appointment as sub-distributors are not accepted by KFA.

b. Shipping Documents

The Government of Kenya or its fertilizer supplier provides the KFA with shipping documents listed below at least two weeks before the arrival of the carrying vessel at Mombasa. The KFA may be held responsible for additional surcharges for port storage and late documentation. The documents are:

(i) Letter of Release in the name of KFA or by Import License.

(ii) Two original and two copies of suppliers Commercial Invoice showing FOB value (port of loading), freight charges, and insurance premium in case of CIF prices.

(iii) Three negotiable and two non-negotiable full sets of clean on board shipping company's Bills of Lading to order blank, endorsed and marked 'notify KFA'.

(iv) One original and one copy of certificate of origin.

(v) One original and one copy of chemical analysis.

(vi) One original and one copy of weight notes.

(vii) The original and two copies of Insurance Certificate (policy) when fertilizers are bought on CIF Mombasa basis.

The KFA appoints the Kenya National Assurance Company (KNAC) to provide Insurance cover for Government Fertilizers imported and accepted on CIF basis.

c. Clearing and Forwarding Services

KFA is responsible for the appointment of clearing and forwarding agents.

d. Railage and Road Transport

Rail and transport charges are paid according to Tariff 9 of the Kenya Railways.

e. Storage

The KFA is given priority by the Port Authority and the Kenya Railways when discharging these fertilizers. Only PL 480, Title I commodities have precedence in discharging priority.

f. Import in bulk

(i) KFA forwards bulk shipments to Nakuru or to other fertilizer bagging facilities.

(ii) Bagging is done in polypropylene bags of 50 kg net.

3. Pricing, Credit and Sales

a. The Ministry of Agriculture and the KFA agree on a price to be charged by the KFA based on the selling price at Mombasa plus the costs of handling, clearing, forwarding and storage. The KFA's gross margin is the difference between the price charged to KFA and the FOB Mombasa price.

b. The Government through the Ministry of Agriculture consults and obtains the approval of the KFA before any changes are made to the selling price.

c. Fertilizer loans are made to farmers who are eligible to take part in the seasonal credit scheme. Large farmers deal with the Agriculture Finance Corporation (AFC) and small farmers (less than 20 acres of land) deal with the Cooperative Bank of Kenya (CBK). The financial institutions approve loan applications.

d. Large farmers redeem their chits at KFA and small farmers deal through their respective cooperative societies for fertilizer deliveries.

e. AFC and CBK then apply to the CSFC for reimbursement, in the amount of the chits they now hold, to pay KFA for fertilizer distributed to farmers. The KFA then repays its outstanding loan with CSFC which it used to purchase the fertilizer in the first instance.

4. <u>Special Accounts and Disbursements</u>

a. The KFA keeps separate records for each lot of fertilizer transactions and records all purchases and sales.

b. The KFA remits sales proceeds to the special account in a repository so designated by the Ministry of Finance.

c. Disbursements from the account will be based on a plan agreed to by the USAID and Ministry of Economic Planning and Development within Six Months from signing of the Grant Agreement. The plan will consider rapidity of disbursement for activities that had to be deferred as a result of the Government's recent budgetary adjustment program.

d. <u>Internal Financial Analysis</u>. The generations of local currency are expected to begin in the first quarter of CY 1981 and deposits in a special account to be designated by the Ministry of Finance will be made quarterly by KFA beginning with March 31, 1981. Although fertilizer sales will be virtually completed by September 1981, minimal fertilizer stocks are expected to remain for a period beyond the first Twelve Months of sales. However, at the request of the Ministry of Finance officials to obviate the necessity to prolong the period of local currency accumulations, thus lessening its impact on the economy, KFA will close the account by depositing therein all such amounts as may be outstanding by the 15th month following signature of the Project Agreement.

5. <u>Disbursement Period</u>

The grant's Terminal Disbursement Date (TDD) will be Eighteen Months from the date the Grantee satisfies the Conditions Precedent in the Grant Agreement except as

A.I.D. may otherwise agree in writing. The Grant Agreement specifies documentation requirements and general covenants.

C. Implementation Schedule

September 26, 1980	- Authorization of Grant by AID/W.
September 30, 1980	- Grant Agreement signed.
October 1, 1980	- Implementation Letter No. 1 issued with CPs attached.
October 1, 1980	- AID/W approves IFB submitted with PAAD.
October 3, 1980	- IFB advertised in Export Opportunity Bulletin and Commerce Business Daily.
October 15, 1980	- Conditions Precedent met.
November 17, 1980	- Bid closing date.
November 21, 1980	- Contract signed.
November 21, 1980	- GOK submits financing request to A.I.D. for Direct Letter of Commitment to be transmitted to AID/W by cable.
January 2, 1981	- First delivery to dock.
January 15, 1981	- Second delivery to dock.
January 31, 1981	- Third delivery to dock.

VII. Basic Market Analysis

A. Demand for Fertilizer

As is indicated in Tables VII and VIII below, the index for fertilizer prices has been rising more rapidly since 1972 than the price index for other material inputs into agricultural production, and more rapidly than the price indices of major crop categories. As a result, fertilizer demand has shown little overall change from CY 1972 through CY 1979 although the value of fertilizer inputs has risen substantially. Both the trend of fertilizer use, and the trend of imports have been erratic, so that conclusions regarding use should not be based on observations in a single year. (See Tables 15 and 16, Annex A for annual imports of fertilizer by type.) Moreover, since cropping cycles in Kenya do not coincide neatly with calendar years, imports and use patterns are difficult to follow using calendar year data. To obviate such problems, the Fertilizer Committee has recently established a "fertilizer year" which extends from July 1 through June 30. Planned and actual imports of fertilizer by type during the 1979/81 fertilizer year are indicated in Table IX below, along with official projections of demand for 1980/81.

Projected overall increases are based on a number of factors, including improvements in fertiliser distribution and handling, in credit availability, and in government support for agriculture that is in keeping with President Moi's recently announced policy of regarding food self-sufficiency as a key objective in overall economic planning. Elements of the policy have already included authorization of higher grain prices as mentioned above, along with improved marketing opportunities in many areas of the country. While relative prices have moved against fertilizer since 1972, most of the increase occurred in one year, 1974. Agricultural prices in Kenya have shown a general upward trend, and it is problematical to try to project whether fertilizer prices in Kenya will rise more rapidly than food prices over the long run. Kenya Farmers Association's spokesmen are convinced of the value of increased fertilizer applications in areas with which they are familiar, and are also in general agreement with the projections of the Fertilizer Committee with which they work closely.

Comparatively speaking, demand for fertilizer in Kenya is quite low, especially for a country whose ratio of cropped land to population (using very broad definitions) is lower than that of India, and about as low as China. (See Table X).

Table VII

Kenya: Fertilizer Demand Indicators, 1972-1979

Year	Value of Fertilizer Inputs (1000 KЬ)	Fertilizer Quantum Index	Fertilizer Price Index	Total Material Inputs Quantum Index	Total Material Inputs Price Index
1972	4,224	100	100	100	100
1973	5,893	97.2	143.5	100.9	117.6
1974	12,876	99.1	307.4	110.2	170.0
1975	9,974	88.8	266.0	106.8	176.0
1976	9,664	89.3	256.2	119.9	175.0
1977	13,756	97.8	333.2	136.7	217.1
1978	14,781	106.0	330.2	148.4	233.1
1979	13,500	92.7*	344.6*	135.6*	248.6*

*Provisional

Table VIII

Kenya: Price Indices of Marketed Crops, 1972-1979

Year	Total Crops	(1972=100) Cereals	Temporary Industrial Crops	Permanent Crops
1972	100	100	100	100
1973	113.7	103.4	104.5	118.7
1974	142.1	131.7	118.9	151.6
1975	150.7	186.2	143.4	144.2
1976	231.7	209.5	167.2	260.1
1977	366.1	238.2	208.8	433.7
1978	291.3	241.9	230.6	318.8
1979	285.2	240.4	239.1	306.7

Source: Ministry of Finance and Planning, Economic Surveys, 1977,1978, 1979, 1980.

Figures for 1978 and 1979 converted from base year 1976 to base year 1972.

Table IX

Fertilizer Importation, 1979/80 and 1980/81

Quantities in Metric Tons

Fertilizer Type	1979/80 Planned	1979/80 Actual	Projected 1980/81 Importation
Sulphate of Ammonia	21,900	20,720	28,000
Urea	6,800	7,218	8,500
Calcium Ammonium Nitrate	13,800	11,300	21,500
Ammonium Sulphate Nitrate	12,500	9,600	18,175
Calcium Nitrate	800	800	1,000
Single Super Phosphate	15,000	14,145	6,000
Hyperphosphate	2,000	2,000	2,000
Triple Super Phosphate	13,000	12,000	16,900
Di-Ammonium Phosphate	25,500	24,030	33,350
Mono-Ammonium Phosphate	19,000	19,000	25,000
Muriate of Potash	1,500	1,500	3,600
Sulphate of Potash	1,500	1,000	1,575
NPK			
17:17:17	5,500	5,500	19,700
15:15:15	9,600	9,600	-
20:20:0	6,700	6,700	10,850
20:10:10	17,900	16,966	19,400
Other	500	500	1,350
Total	172,500	162,579	216,900

Source: GOK - Fertilizer Committee

Table X

Fertilizer and Agricultural Production Indicators By Country, 1975-77

	Fertilizer Consumption (kg/ha) 1976	Per Capita Cropped Land (ha) 1976	Cereal Yield (ton/ha) 1975-77	Annual Change in Cereal Yield (Aug 1969-71 Nov 1975-77)	Per Capita Cereal Consumption kg/yr 1975-1977
East Africa					
Burundi	*	0.3	1.1	1.3	81
Comoros	...	0.3	1.3	3.8	102
Djibouti	...	...	...	...	...
Ethiopia	2	0.5	1.0	...	174
Kenya	25	0.2	1.3	0.8	160
Lesotho	4	0.3	1.0	6.8	222
Madagascar	3	0.4	1.8	-0.4	301
Malawi	11	0.4	1.1	1.4	253
Mauritius	269	0.1	2.9	-1.1	160
Mozambique	4	0.3	0.7	-5.8	90
Reunion	202	0.1	1.1	7.4	208
Rwanda	*	0.2	1.1	0.4	55
Seychelles	...	...	...	...	...
Somalia	...	0.3	0.6	0.4	110
Swaziland	57	0.3	1.3	7.4	233
Tanzania	1.2	0.4	0.8	2.0	113
Uganda	*	0.5	1.2	1.1	137
Zambia	13	1.0	0.9	2.0	252
Zimbabwe	63	0.4	1.8	3.2	266
Other					
Brazil	63	0.3	1.4	1.4	279
China	49	0.2	2.1	1.7	295
Colombia	48	0.2	2.3	4.8	146
Congo	5	0.5	0.7	-0.9	39
Egypt	210	0.1	4.0	0.8	305
India	20	0.3	1.3	2.0	214
Korea, South	287	0.1	4.5	4.4	352
Mexico	42	0.4	1.6	1.4	290
Philippines	34	0.2	1.4	0.9	233
Sudan	14	0.4	0.6	-3.5	145
Thailand	13	0.4	1.8	-1.5	305
Taiwan	776	0.1	3.3	1.4	339

Source: International Agricultural Development Service, Agricultural Development Indicators, 1980.

Note: * Less than .5 kg/ha.

Kenya's cereals yields per hectare are not outstanding compared with those of other East African countries, and are well below those of many of the major developing countries cited in Table X. Kenya's performance in increasing cereal yields has been unimpressive in recent years as the data in Table X suggest; and its cereals consumption per capita remains low even for East Africa. Given the broad differences in demand for fertilizer among less developed countries, one would have to conclude that institutional factors rather than price factors are the major determinants of differences in comparative fertilizer use. Kenya is in the process of reducing a number of the institutional barriers to increased fertilizer use that have prevented its agricultural performance from more closely matching more successful programs of other countries within the region and elsewhere.

B. Patterns of Fertilizer Use

Information concerning the pattern of fertilizer use by province in Kenya is presented in Table XI. Data are summarized from the latest published round of the Integrated Rural Survey which sampled farms of 20 hectares or less. Ironically, much less is known about fertilizer use on large farms (20 ha, or more) since such farms were not included in the Survey work plan. In 1974/75, such large farms would have accounted for 44 percent of land in farm holdings, for more than half of marketed farm production, and for three quarters of fertilizer purchases, in terms of value. Table XI indicates that fertilizer use on small farms was quite low, averaging 42 shillings per holding or 24.7 shillings per hectare (less than $3.50 per hectare at the average exchange rate). While the average price at which small farmers purchased fertilizers is unknown, the average dockside price of fertilizer in 1974 was over $.22 per kilo, so that average use would have been less than 15 kilos per hectare of cropped land (ignoring internal distribution costs which would have been substantial in many cases.)

Fertilizer use was most intensive in Rift Valley Province where the chief small farm crops included primarily hybrid maize, local maize and finger millet, in that order, and almost to the exclusion of other crops (based on area planted). Fertilizer use in Central Province was also high, with major crops including tea, coffee, local maize, hybrid maize, potatoes and beans, in that order. Usage in other provinces was relatively much less, the heaviest applications being made in Eastern Province where coffee, local maize, potatoes, beans, cow peas and hybrid maize were the major crops.

Table XI

Kenya: Average Small Farm* Fertilizer Use By Province, 1974/75**

Province	Average Farm Area Under Cultivation: Short Rains	Long Rains	Total	Average Farm Production	Average Farm Sales	Average Crop Sales
	(hectares)			(Kenya Shillings)		
Central	0.9	0.7	1.6	3139	1491	780
Coast	1.6	0.9	2.5	1220	549	170
Eastern	1.2	1.0	2.2	2487	1334	658
Nyanza	0.6	0.7	1.2	3103	1184	1186
Rift Valley	0.8	0.8	1.6	4036	1906	590
Western	0.5	1.0	1.5	1521	550	311
Average	0.9	0.8	1.7	2660	1192	759

Province	Purchased Crop Inputs	Fertilize Inputs	Fertilizer Inputs Per Ha	Index of Fertilizer Usage*	Calculated Fertilizer Inputs Per Ha (kg)**
	(Kenya Shillings)			(Avg=100)	
Central	271	85	53.1	215	32
Coast	31	2	0.8	3	0.4
Eastern	202	41	18.6	75	11
Nyanza	137	10	8.3	34	5
Rift Valley	391	125	78.1	316	47
Western	96	17	11.3	46	7
Average	185	42	24.7	100	15

Source: Central Bureau of Statistics, Integrated Rural Survey, 1974/75, Statistical Abstract, 1979, pp 123, 126 and 128.

Note: * Average Use = 100. Average use is 24.7 Shillings of fertilizer per hectare.

** Based on average 1974 import price of fertilizer of 1.67 Shillings per kilc Actual average usage will have been generally lower reflecting internal distribution costs, and will have varied from that calculated above depending upon the average mix of fertilizer actually applied in each province and upon differential internal costs of distribution.

*** The 1974/75 Integrated Rural Survey included all farms 20 hectares or less.

Table XII

Kenya: Average Small Farm***
Fertilizer Use By Income Class, 1974/75

(Kenya Shillings)

Income Group	Average Production*	Average Sales*	Crop Sales
0-999	258	191	87
1000-1999	869	586	278
2000-2999	1,668	769	441
3000-3999	2,377	950	647
4000-5999	3,515	1,492	855
6000-7999	5,185	2,072	1,251
8000 and over	9,180	3,318	2,575
Average	2,660	1,192	759

	Purchased Crop Inputs	Fertilizer Inputs	Index of Relative Fertilizer Usage**
0-999	44	4	78
1000-1999	75	8	49
2000-2999	131	32	122
3000-3999	173	34	89
4000-5999	222	38	75
6000-7999	311	108	146
8000-and over	346	78	51
Average	185	42	100

Source: Central Bureau of Statistics, Integrated Rural Survey 1974/75, Statistical Abstract, 1979, p. 128.

Notes: * Includes production and sales of crops, livestock and milk.

** Average Use = 100. Average use is 42 shillings of fertilizer per 759 shillings of crop sales, or .0553 shillings of fertilizer per shilling of crop sales.

*** The 1974/75 Integrated Rural Survey included all farms 20 hectares or less.

Table XII provides some additional information regarding farms under 20 hectares, indicating fertilizer usage by income class. Of course, average usage was the same as that recorded in Table XI. In terms of attempting to identify the beneficiaries of imported fertilizers, Table XI indicates no very clear relationship between income class and relative fertilizer use (based on the ratio of fertilizer use to crop sales.) In relation to their sales of crops, small farmers seem to have used as much fertilizer as large ones at least within the range of incomes measured in the survey (up to KSh. 8000 or approximately US$ 1100).

C. Fertilizer Supply

Kenya currently relies on imports to supply virtually all of its requirements for manufactured fertilizers. Fertilizer plants in general are energy and capital intensive, while Kenya is facing an energy shortage and is seeking to rationalize its industrial structure with the goal of maximizing labor, rather than capital inputs. Kenya has no known commercial deposits of natural gas or of minerals which might make construction of a domestic plant attractive or profitable. The last serious attempt to establish a fertilizer manufacturing facility in Kenya was in 1975. The so-called Ken-Ren facility was to have been powered by excess heavy oils from the Mombasa Refinery which were not then easily salable elsewhere. Other inputs were to have been imported. At the time, difficulties ensued over the unavailability of the originally selected site, over product mix, and over control of the enterprise; the private partners withdrew abandoning the project. The economics of such a plant in Kenya appear less attractive now than at the time initial plans were formulated over five years ago.

As Table 14, Annex A indicates, 24 countries have supplied Kenya with significant amount of fertilizer during the five calendar years 1975-1979. European nations have traditionally supplied much of the market given their generally lower transport costs. No single supplier has a dominant share of the market, although West German deliveries have been the largest during the 5 year period in question. The US has been the second largest supplier with the following market shares:

1975	-	8%
1976	-	13.4%
1977	-	12.8%
1978	-	21.3%
1979	-	0.1%

The 1975 figure includes some imports financed under Program Loan 615-H-007. Of the commercial sales during the period 1976-79, the fertilizer types supplied by the U.S. included chiefly the single, double and triple superphosphates; ammonium phosphates; and lesser amounts of unspecified phosphatic and nitrogeneous fertilizers falling into the "other" categories in the breakdown utilized in the official statistics and summarized in Tables 15 and 16, Annex A.

VIII. Other Considerations

A. Impact on the U.S. Balance of Payments

All of the procurement of commodities and shipping under the proposed program grant is anticipated to come from the United States, improving the US balance of payments on current account by an equivalent amount (less any displacement of commercial sales which might have occurred in any case in the absence of the CIP grant). Precise determination of displacements, if any, of commercial sales would be difficult. The market for fertilizers in Kenya is highly volatile, and the US share of this market over the last five years has ranged from as high as 21.3 percent of the total in 1978 to 0.1 percent in 1979. To the extent that users are satisfied with the performance of U.S. suppliers in terms of quality, packaging and delivery, an increased demand for continued imports of similar US products may be created. Increased familiarity of Kenyan purchasers with U.S. sources and market conditions, and increased familiarity of U.S. suppliers with Kenyan purchasers and requirements, may have a similar effect of increasing trade between the two nations.

B. Relation to Ex-Im Credits

Ex-Im has provided financing for a sugar mill expansion project in Kenya's South Nyanza District and for a polyester textile mill in Nanyuki. During the days of the East African Community it also financed aircraft purchases for East Africa Airlines. Fertilizers do not appear to be within the scope of Ex-Im programs for Kenya, therefore, it would in all probability not object to this Commodity Import Program.

C. Relation to OPIC Program

Virtually all U.S. business ventures in Kenya are covered by OPIC insurance with about $100 million in force today. None of the U.S. ventures currently are involved with fertilizer manufacturing or distribution in Kenya.

D. Status of the 1973 Fertilizer Loan to Kenya (615-H-007)

1. Overview

The USAID program loan to Kenya, 615-H-007, was authorized in February 1973 for $10.0 million and the loan agreement was signed in March 1973. The loan financed the purchase of 23,700 m.t. of fertilizer at a cost of $6,665,625. The commodities were delivered to Mombasa port during the period December 1974-October 1975. The value of fertilizer in Kenya shillings was 53,524,481.90.

The fertilizer was sold to ten private firms by the Kenya National Federation of Cooperatives (KNFC), consignee for the Government of Kenya. These vendors were responsible for the ultimate disposition of the fertilizer. A total of 2,134 m.t. of the commodity was lost as the result of damage arising from humid conditions at Mombasa where the fertilizer was stored. The loss was further exacerbated by the poor quality of bagging materials used by U.S. manufacturers. The value of distressed cargo was estimated at KShs. 4,801,275 calculated on the basis of invoiced sales price. The Kenya Treasury had authorized the write-off of this amount according to a statemement in a letter from the Ministry of Agriculture in 1977.

In addition to cargo losses, short landed cargo amounted to 952 bags or 47.6 m.t. for a value of KShs. 99,989.87. Although claims were lodged with the insurance firm the matter is unsettled.

The lack of a systematic procedure for accountability of various donor fertilizer that arrived in Mombasa about the same time, a drop in the price of fertilizer on the world market after USAID fertilizer was sold to private distributors, and the loss of identity of the fertilizer with the original consignment as it was transported up country contributed to difficulties in tracing distribution and sales. Additionally, distributors made large periodic payments to the Exchequer against account balances without reference to the type or source of fertilizer.

A precise accounting of the amount deposited in the USAID account in the Exchequer is not available in the Ministry of Agriculture (MOA) since changes in venue of accountability in 1977/78 resulted in the MOA losing control of receivables related to the Fertilizer Shipment.

2. Purchases and Payments by Private Distributors

Ten private distributors received the entire shipment of fertilizer valued at KShs. 53,524,481.90. Although, Ministry of Agriculture vouchers valued at KShs. 28,465,000 were paid into Treasury Account No. 9-188-001-006, amounts as high as KShs. 39,054,005.90 have been alleged to have been deposited therein by government. The discrepancy may be partially attributed to traders whose deposits did not identify source of fertilizer shipments. In any event, both FAO and FRG fertilizer programs were enmeshed in the same confusion as their shipments arrived during the same period.

Government's official accounting of transactions for the USAID shipment follows in summary:-

Proceeds of Sales	KShs.	46,283,290.40
Amount uncollected from distributors		7,241,191.50
Amount due to Treasury		53,524,481.90
Less amount deposited in Treasury		48,465,000.00
Amount due to Treasury account		5,059,481.90

3. Insurance Claims for USAID Fertilizer

Insurance claims were filed against Reed-Shaw, Stenhouse, Inc. for 952 bags (47.6 m.t.) valued at Shs.99,989.87 in June and July 1975. The claims were for distressed cargo aboard the ships MV Griffin, MV Gulf Trader and MV Zinnia. After about two years of negotiations with the insurance firm, satisfaction was not obtained by Government. The consignee for the fertilizer, Kenya National Federation of Cooperatives (KNFC), abolished its merchandise department, the instigator of the claims, after which demands on the insurance firm ceased. The Attorney General was not formally requested to enter litigation, thus the matter remains unsettled.

4. Conclusions and Recommendations

The 1973 program loan was hastily conceived and implemented by A.I.D. Implementation requirements were neither firmly communicated by the Mission nor clearly understood by government. As a result, fertilizer shipments were co-mingled with other donor fertilizers thus obliterating a clear audit trail required by the Attorney General to prosecute distributors who were in arrears in payment for the fertilizer. Another factor, unforeseen at the time of the purchase of fertilizer, was a sudden drop in prices for the commodity. This forced distributors to hold fertilizer in storage for prolonged periods while commercial fertilizer purchases became available at lower prices.

While all of the fertilizer was eventually sold or otherwise accounted for as distressed cargo, complete payment for the fertilizer was not made to government. Government has a list of private traders who owe it substantial amounts for fertilizers over the past 7 years.

In recent months the Director of USAID approached the President's Office and initiated a dialog to find a solution to the problem and to close the books on the program loan. As a result, the President's Office instructed the Ministry of Agriculture to convene a task force to look into outstanding matters on the fertilizer loan and to resolve the issue. The Permanent Secretary, Ministry of Agriculture, was appointed chairman of the task force, which includes a representative from USAID.

An investigation into the matter revealed that virtually no follow-up action was taken by government to collect outstanding amounts in recent years. It appears that after an initial two years of vigorous action by Government to collect outstanding debts and insurance claims, personnel changes in management positions in government resulted in the loss of continuity and interest in the problem. Other donors in addition to the U.S. were also affected by these events.

Unlike the U.S., however, other donors continued to provide fertilizer during the interim, but with greater persistence in bringing about changes in government procedures for handling donor commodities and local currency generations. In 1978 the Attorney General's Office drafted procedures for accountability of fertilizer purchases and in 1979 instructed implementation of these procedures. Donors who have used these procedures have expressed satisfaction with these procedures and the USAID's detailed review of government's procurement process supports this optimism.

The Mission has discussed the matter in detail with Ministry of Finance officials, who were in government during the period of the fertilizer activity and who are acquainted with the details of the matter. Ministry officials are interested in closing the books on this matter as prolonged debate is increasingly becoming a counterproductive exercise. The Government is considering options for bringing the matter to a close.

Government can attempt to ascertain the exact amount deposited in the Development Account in Treasury attributed to USAID fertilizer sales or failing that to determine the total amount deposited for all donor fertilizers during that period. On the basis of this information, it may choose to transfer funds to cover the shortfall. The USAID and Government will continue to pursue the matter.

Another alternative is for the U.S. to pursue a course of action initiated earlier which was designed to hold government accountable for procedures which did not exist at the time of arrival of the fertilizer and had not been developed by the U.S.A.I.D. and GOK. USAID finds this option counterproductive at this juncture of U.S. relationships with Kenya, particularly in view of the fact it has learned from its past mistakes with the establishment of clear guidelines for handling all government purchased fertilizers.

IX. Conditions and Recommendations.

A. Conditions and Covenant

In addition to the standard conditions included in AID Project Agreements, the following conditions and covenants are proposed:

1. Conditions Precedent to Initial Disbursement.

(a) The GOK will provide a statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each person certified as to its authenticity.

(b) The GOK will designate a repository and special account for deposit of local currency generations from the sale of commotities financed under the grant.

2. Covenant

The GOK and USAID will agree on a plan for the disbursement of local generations within Six Months from signature of the Agreement.

B. Recommendations

USAID/Kenya recommends that a fourteen and one half/ million dollar ($14,500,000) grant from Economic Support Funds be authorized to the Government of the Republic of Kenya for financing the importation of selected commodities, subject to the following provisions:

-- Procurement will be restricted to A.I.D. Geographic Code 000.

-- Such other terms and conditions as A.I.D. may deem advisable.

X. Annexes.

A. Statistical Tables.

B. Initial Environmental Examination.

C. Application for Assistance.

D. Checklists.

E. Fertilizer Application. Illustrative Technical Bulletin.

F. Specimen Invitation for Bid.

G. Draft Grant Agreement.

Annex A

STATISTICAL TABLES

Kenya:

1. Summary of Government Budgets 1979/80 - 1982/83.
2. Projected Balance of Payments, 1980-1983.
3. Projected Changes in Export of Goods and Non-Factor Services, 1978-1983.
4. Projected Changes in Imports of Goods and Non-Factor Services, 1979-1983.
5. Balance of Payments, 1972-79.
6. Foreign Exchange Reserves -- 1972-1979.
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8. Export and Import Price Indices; and External Terms of Trade, 1972-1979.
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16. Volume of Fertilizer Imports by Type, 1975-1979.

Table 1

Kenya: Summary of Government Budgets
1979/80 - 1982/83

(Missions of Kenyan Pounds)

	1979/80	1980/81	1981/82	1982/83
Current Revenue	545.2	580.5	614.5	652.9
Current Expenditures	472.2	510.1	535.5	558.1
Current Surplus	73.0	70.4	79.0	94.8
Foreign Grants	21.3	22.1	22.9	25.2
Development Expenditures	243.0	244.8	244.7	258.4
Overall Deficit	-149.9	-152.3	-142.8	-138.4
Financed By:				
Net External Concessional Loans	97.9	75.0	72.3	75.8
Net External Commercial Loans	- 1.3	-	- 12.1	- 18.9
Net Domestic (Non-Bank)	36.6	38.6	38.6	38.6
Total Net Non-Bank Borrowing	133.2	113.6	98.8	95.5
Residual Deficit	- 16.7	- 38.7	- 44.0	- 42.9
Residual Deficit Expressed in U.S. Dollars*	- 44.4	-102.9	-117.0	-114.1

Source: GOK: Sessional Paper No. 4 of 1980, page 33.

Notes: *Exchange rate calculated at 1K£ = 2.66 US dollars

Table 2

Kenya: Projected Balance of Payments, 1980-1983
(Millions of Kenya Pounds)

	1980	1981	1982	1983
Imports of Goods and NFS	818.3	896.9	980.6	1088.8
Exports of Goods and NFS	640.8	711.6	797.9	894.7
Resource Balance	-177.5	-185.3	-182.7	-194.1
Investment Income, Net	- 65.0	- 72.0	- 77.0	- 82.0
Other Factor Income, Net	- 14.6	- 15.0	- 15.0	- 15.0
Transfers, Net	45.0	56.0	65.0	73.0
Current Account Balance	-212.1	-216.3	-209.7	-218.1
Private Long Term Capital, Net	75.0	80.0	85.0	90.0
Public Long Term Capital, Net	91.5	82.3	89.3	94.4
Other Capital, Net	- 33.7	- 13.9	8.0	8.0
Capital Account Balance	132.8	148.4	182.3	192.4
Additions (-) to Reserves				
Desired (Related to Increased M)	- 23.2	- 15.7	- 16.7	- 21.6
Overall Surplus (Deficit:-)	-102.5	- 83.6	- 44.1	- 47.3
Additional Financing Required	102.5	83.6	44.1	47.3
Of which:-				
IMF	24.2	29.0	5.8	-
IBRD	26.9	-	-	-
Probable Program Loans	16.3	11.0	10.8	-
Unidentified (Gross)	35.1	43.6	27.5	47.3
Reduction in Reserves	9.3	10.0	-	-
Unidentified (Net)	25.8	33.6	27.5	47.3
Unidentified (Net) Expressed in US$	68.6	89.4	73.2	125.8

Source: GOK: Sessional Paper No. 4 of 1980, p. 32.

Note: *Exchange rate calculated at 1K£ = 2.66 US$

Table 3

Kenya: Projected Changes in Export of Goods and Non-Factor Services, 1978-1983

	1978	1979	1980	1981	1983	1983
Coffee						
Price (K£/ton)	1,461	1,439	1,500	1,500	1,450	1,450
Volume (ton)	85,405	76,648	80,000	84,000	95,000	102,000
Value (K£ million)	124.7	110.3	120.0	126.0	137.8	147.9
Tea						
Price (K£ton)	746	683	725	725	750	750
Volume	84,735	91,068	93,000	100,000	103,000	108,000
Value (K£ million)	63.2	62.2	67.4	72.5	77.2	83.7
Petroleum Products						
Price (K£ton)		_ 21.0	30.0	7.0	7.0	7.0
Volume (ton)		-20.0	8.0	6.0	5.0	5.0
Value (K£ million)	39.6	38.4	53.9	61.1	68.6	77.1
Other Goods						
Price %		5.0	7.0	6.0	6.0	6.0
Volume %		-3.2	6.0	6.0	7.0	8.0
Value (K£ million)	139.0	141.1	160.0	179.8	203.9	233.4
Total Goods	366.5	352.0	401.3	439.4	487.5	542.1
Non Factor Services						
Value (£ million)	200.3	199.6	239.5	272.2	310.4	352.6
Total Goods and Non Factor Services						
Value (K£ million)	566.9	551.6	640.8	711.6	797.9	894.7
Prices %		3.5	13.4	-	3.8	4.6
Volume %		-6.0	2.4	10.9	8.0	7.3
Value %		-2.7	16.2	11.0	12.1	12.1

Source: GOK-Ministry of Finance and Planning, provisional data.

Note: Projections based on partially revised data for 1978. Provisional data for 1979 indicate that export projections have been somewhat underestimated.

Table 4

Kenya: Projected Changes in Imports of Goods and Non-Factor Services, 1978-1983

	1978	1979	1980	1981	1982	1983
Crude Petroleum						
Prices %		25.0	35.5	8.0	7.0	7.0
Volume %		-9.0	4.0	4.0	4.0	4.0
Value (K£ million)	88.0	106.5	150.1	168.6	187.6	208.8
Petroleum Products						
Prices %		21.0	30.0	7.0	7.0	7.0
Volume %		-39.0	4.0	4.0	2.0	2.0
Value (K£ million)	24.0	17.9	24.2	26.9	29.4	32.1
Other Goods						
Prices %		12.9	9.3	6.3	4.8	7.2
Volume %		-23.5	5.1	2.1	3.7	3.7
Value (K£ million)	611.3	613.9	736.7	610.5	663.6	737.7
Total Goods	723.3	613.9	736.7	806.5	880.6	978.6
Non Factor Services						
Value (K£ million)	64.1	71.3	81.6	90.6	100.0	110.2
Total Goods and Non Factor Services						
Value (K£ million)	787.4	685.2	818.3	896.9	980.6	1,088.8
Price %		11.9	13.6	6.7	5.3	7.0
Volume %		-22.2	2.2	2.7	3.8	3.8
Value %		-13.0	19.4	9.6	9.3	11.0

Source: GOK-Ministry of Finance and Planning.

Note: Projections based on partially revised data for 1978. Provisional data for 1979 indicate that import projections have been underestimated to a greater degree than the export projections in the previous table. Overall, the deficit in the Resource Balance during 1979-83 has in all likelihood been underestimated.

Table 5

Kenya: Balance of Payments, 1972-79
(Millions of Kenya Pounds)

	1972	1973	1974	1975	1976	1977	1978	1979*
Imports of Goods and NFS	214.2	253.0	431.2	412.1	459.1	586.5	786.8	734.4
Exports of Goods and NFS	194.2	239.4	351.3	354.5	469.5	645.1	551.1	575.6
Resource Balance	-20.0	-13.6	- 79.9	-57.6	10.4	58.6	-229.7	-158.8
Investment Income, Net	-12.3	-35.7	- 36.1	-35.4	-57.5	-65.5	- 55.0	- 49.2
Other Factor Income, Net	- 5.7	- 5.3	- 2.9	- 9.4	-10.9	- 9.2	- 7.6	- 7.7
Transfers, Net	13.6	7.8	6.9	18.5	6.1	27.5	39.8	37.4
Current Account Balance	-24.4	-46.8	-112.0	-83.9	-51.9	11.4	-252.5	-178.3
Private Long Term Capital, Net	15.3	31.3	41.6	14.7	62.3	48.0	76.4	80.7
Public Long TErm Capital, Net	15.3	16.8	29.4	42.7	28.4	35.9	84.0	100.3
Other Capital, Net	2.2	5.0	14.8	11.5	- 2.1	18.5	10.6	69.9
Capital Account Balance	32.8	53.1	85.8	68.9	88.6	102.4	171.0	250.9
Overall Surplus (Deficit:-)	8.4	6.3	- 26.2	-15.0	36.7	113.8	- 81.5	72.6
Net Debits with IMF (Credits:-)	0.0	.2	- 25.4	-18.1	- 8.3	22.7	- 3.0	3.9
Other Changes in Assets (Decrease:-)	9.0	10.7	- 5.0	1.2	43.9	90.0	- 74.6	66.7
Errors and Omissions	- .5	- 4.6	4.2	1.9	1.1	1.1	- 3.9	2.0

Source: Ministry of Finance Planning
Economic Survey, 1975-1980 inclusive.

Note: *1979 - provisional. Data for all other years are as revised and presented in the most recent editions of the Economic Survey

Data for all years have been adapted to fit a common simplified format.

Table 6

Kenya: Foreign Exchange Reserves -- 1972-1979
(Million Kenya Pounds)

End Of	Foreign Exchange Reserves of Central Monetary Authorities	Net Use of IMF Fund Credit*	Net Foreign Exchange	Exchange Rate US$ Per K£
1972	66373	4664	71037	2.80
1973	76297	5111	81408	2.86
1974	68799	-14013	54786	2.80
1975	70555	-33109	37446	2.72
1976	113997	-41070	72927	2.39
1977	208591	-23015	185576	2.42
1978	...	...	...	2.59
Mar	203709	-23015	180694	...
Jun	176915	-23015	153900	...
Sep	149084	-21868	127216	...
Dec	133328	-25256	108072	...
1979	...	...	...	2.66
Mar	140819	-32888	107931	...
Jun	173340	-32888	140452	...
Sep	225569	-52980	172589	...
Dec	234540	-52980	181560	...

Source: Ministry of Finance and Planning, Economic Surveys, 1977, 1979, 1980

*Figures in minus indicate use of Fund Credit

Table 8

Kenya: Export and Import Price Indices; and External Terms of Trade, 1972-1979

	All Items - 1972=100			Non-Oil Items - 1972=100		
	Export Prices	Import Prices	Terms of Trade	Export Prices	Import Prices	Terms of Trade
1972	100	100	100	100	100	100
1973	115	119	97	116	120	97
1974	152	178	85	139	158	88
1975	175	225	78	150	194	77
1976	238	261	91	214	225	95
1977	337	281	120	321	245	131
1978	287	279	103	264	248	106
1979	306	323	95	266	275	97

Kenya: Export and Import Quantum Indices; and Purchasing Power of Exports, 1972-1979

	All Items - 1972=100			Non-Oil Items - 1972=100		
	Export Quantum	Import Quantum	Purchasing Power of Exports	Export Quantum	Import Quantum	Purchasing Power of Exports
1972	100	100	100	100	100	100
1973	117	97	113	120	98	116
1974	111	109	94	113	108	99
1975	101	82	79	104	78	80
1976	107	79	97	112	76	106
1977	111	96	133	114	96	149
1978	103	120	106	108	124	114
1979	109	78	104	115	75	112

Source: Ministry of Finance and Planning; Economic Surveys, 1977, 1978, 1980.

Note: 1979 figures converted from base year 1976 to base year 1972.
Purchasing Power of Exports calculated as the the product of the Export Quantum Index and the External Terms of Trade.

Table 9

Kenya: Export and Import Quantum Indices
By Category, 1972-1979

Exports - 1972=100

	1973	1974	1975	1976	1977	1978	1979
1. Food and live animals	117	102	100	116	134	130	133
2. Beverages and tobacco	126	93	62	66	102	79	85
3. Crude materials inedible	112	133	120	122	104	99	114
4. Mineral fuels	103	102	94	92	98	82	74
5. Animal and vegetable oils and fats	165	152	133	192	48	24	33
6. Chemicals	123	130	91	87	74	77	65
7. Manufactured goods	121	105	103	102	75	69	67
8. Machinery and transport equipment	170	176	143	147	78	68	61
9. Miscellaneous manufactured articles	120	107	90	69	54	52	55

Imports - 1972=100

	1973	1974	1975	1976	1977	1978	1979
1. Food and live animals	87	89	37	39	45	67	54
2. Beverages and tobacco	82	137	95	139	80	138	149
3. Crude materials inedible	119	171	103	108	162	111	101
4. Mineral fuels	94	114	100	92	96	98	99
5. Animal and vegetable oils and fats	116	144	96	146	132	161	148
6. Chemicals	100	129	71	62	90	96	75
7. Manufactured goods	107	119	69	78	90	100	86
8. Machinery and transport equipment	92	94	97	81	100	171	122
9. Miscellaneous manufactured articles	94	89	73	83	89	93	92

Source: Ministry of Finance and Planning Economic Surveys, 1977, 1978, 1979, 1980.

Table 10

Kenya: Export and Import Price Indices By Category, 1972-1979

Exports - 1972=100

	1973	1974	1975	1976	1977	1978	1979
1. Food and live animals	110	131	137	224	375	276	263
2. Beverages and tobacco	98	80	116	145	139	165	156
3. Crude Materials inedible	141	184	160	180	202	220	229
4. Mineral fuels	108	230	322	387	434	436	559
5. Animal and vegetable oils and fats	114	174	227	262	272	332	353
6. Chemicals	115	126	163	205	216	197	275
7. Manufactured goods	118	134	183	219	280	305	325
8. Machinery and transport equipment	114	131	166	211	253	269	305
9. Miscellaneous manufactured articles	129	150	148	208	258	261	271

Imports - 1972=100

	1973	1974	1975	1976	1977	1978	1979
1. Food and live animals	124	126	238	238	208	205	181
2. Beverages and Tobacco	108	116	147	168	193	219	211
3. Crude Materials inedible	101	109	137	178	177	219	214
4. Mineral fuels	113	339	452	534	575	568	697
5. Animal and vegetable oils and fats	115	158	212	192	270	259	277
6. Chemicals	134	208	276	342	341	346	456
7. Manufactured goods	122	174	192	205	223	243	259
8. Machinery and transport equipment	115	141	172	219	250	238	264
9. Miscellaneous manufactured articles	118	166	189	195	214	237	239

Source: Ministry of Finance and Planning Economic Surveys, 1977, 1978, 1979, 1980.

Table 11

Kenya: Total Imports By Broad Economic Category, 1972-79
(Million Kenya Pounds)

	1972	1973	1974	1975	1976	1977	1978	1979
Food and Beverages	19,494	21,813	25,395	21,393	26,310	27,459	38,503	32,900
Primary	4,951	6,932	4,675	6,609	2,786	4,977	11,729	9,868
For Industry	2,455	4,815	2,654	4,712	393	2,894	7,245	3,138
For Household Consumption	2,496	2,117	2,021	1,879	2,393	2,083	4,484	6,730
Processed	14,543	14,881	20,720	14,784	23,534	22,482	26,774	23,031
For Industry	3,883	4,692	7,806	8,925	11,379	14,575	16,937	14,262
For Household Consumption	10,660	10,189	12,914	5,859	12,145	7,907	9,837	8,769
Industrial Supplies (Non-Food)	68,506	88,978	153,094	105,007	124,011	160,780	179,812	179,849
Primary	5,114	5,360	9,281	7,734	11,488	13,147	13,350	7,731
Processed	63,392	83,618	143,813	97,273	112,523	147,633	166,462	172,118
Fuels and Lubricants	20,903	22,321	81,565	95,805	103,884	117,147	117,778	146,798
Primary	14,,816	16,708	67,465	87,242	94,159	101,007	93,861	120,934
Processed	6,087	5,609	14,100	8,563	9,725	16,140	23,917	25,864
Motor Spirit	1,270	1,079	2,200	-1,006	796	2,652	5,000	5,538
Other	4,817	4,530	11,900	7,557	8,929	13,488	18,917	20,326
Machinery and Other Capital Equipment	37,797	42,728	43,028	61,660	75,521	103,006	141,074	125,036
Machinery and other Capital Equipment	34,500	39,580	38,918	56,307	63,259	91,439	126,052	94,151
Parts and Accessories	3,297	3,148	4,110	5,353	8,262	11,567	15,022	30,885
Transport Equipment	28,290	27,641	44,373	46,789	44,116	76,054	126,652	95,688
Passenger Motor Vehicles	5,967	4,760	9,495	6,230	8,410	12,412	20,182	11,173
Other	9,704	9,135	12,652	19,072	16,955	38,502	63,706	58,666
Industrial	9,481	8,985	12,393	18,836	16,618	38,059	62,735	57,574
Non-Industrial	223	150	259	236	337	443	971	1,092
Parts and Accessories	12,619	13,746	22,226	21,487	18,751	25,140	42,764	25,850
Consumer Goods not elsewhere specified	21,706	24,617	35,304	31,273	35,219	46,355	55,299	38,786
Durable	4,571	5,385	7,179	5,277	7,009	9,034	12,365	8,313
Semi-Durable	9,098	9,924	15,657	12,989	16,578	21,431	21,202	11,956
Non-Durable	8,037	9,309	12,468	13,007	11,632	15,890	21,732	18,517
Goods not elsewhere specified	1,153	456	1,116	659	936	644	2,007	647
Total	197,851	228,552	383,875	362,586	406,997	531,446	661,125	619,704
				Percentage Shares				
Food and Beverages	9.8	9.5	6.6	5.9	6.5	5.2	5.8	5.3
Industrial Supplies (Non-Food)	34.6	38.9	39.9	29.0	30.5	30.3	27.2	29.0
Fuels and Lubricants	10.6	9.8	21.2	26.4	25.5	22.0	17.8	23.7
Machinery and other Capital Equipment	19.1	18.7	11.2	17.0	17.8	19.4	21.3	20.2
Transport Equipment	14.3	12.1	11.6	12.9	10.8	14.3	19.2	15.4
Consumer Goods not elsewhere specified	11.0	10.8	9.2	8.6	8.7	8.7	8.4	6.3
Goods not elsewhere spcified	0.6	0.2	0.3	0.2	0.2	0.1	0.3	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance and Planning, Economic Surveys, 1977 and 1980.

Table 12

Kenya: Total Exports By Broad Economic Category, 1972-79
(Million Kenya Pounds)

	1972	1973	1974	1975	1976	1977	1978	1979
Food and Beverages	62,679	74,983	83,028	82,417	159,586	315,102	217,688	216,643
Primary	48,951	59,912	67,328	67,676	135,873	289,158	198,338	186,248
For Industry	26,906	37,310	40,532	36,278	95,926	206,258	126,025	116,555
For Household Consumption	22,045	22,602	26,796	31,398	39,947	82,901	72,313	69,693
Processed	13,728	15,071	15,700	14,741	23,713	25,943	19,350	30,394
For Industry	1,051	1,970	2,275	2,395	2,805	2,117	711	8,673
For Household Consumption	12,677	13,101	13,425	12,346	20,908	23,826	18,639	21,721
Industrial Supplies (Non-Food)	32,919	56,651	75,415	65,196	78,480	64,790	65,973	73,793
Primary	14,952	28,630	36,888	30,617	34,836	27,911	30,182	31,278
Processed	17,967	28,021	38,527	14,579	43,644	36,879	35,792	42,515
Fuel and Lubricants	19,451	21,673	46,035	58,957	69,730	83,198	68,985	77,172
Primary	69	88	98	268	323	220	215	14
Processed	19,382	21,585	45,937	58,689	69,407	82,978	68,771	77,158
Motor Spirit	2,902	3,317	6,027	8,246	8,966	13,578	10,390	23,994
Other	16,480	18,268	39,910	50,443	60,441	69,400	58,381	53,164
Machinery and other Capital Equipment	1,930	3,272	5,390	5,303	6,589	1,228	1,489	1,509
Machinery and other Capital Equipment	1,807	2,934	4,710	4,398	5,319	1,162	1,450	1,286
Parts and Accessories	123	338	680	905	1,270	66	39	223
Transport Equipment	1,946	4,026	4,199	4,190	4,005	999	965	1,079
Passenger Motor Vehicles	50	156	196	460	484	-	-	-
Other	245	322	1,057	1,570	1,283	492	448	631
Industrial	245	318	1,053	1,467	1,269	488	443	604
Non-Industrial	-	4	4	103	14	4	5	27
Parts and Accessories	1,651	3,548	2,946	2,160	2,238	507	518	449
Consumer Goods not elsewhere specified	8,732	13,657	14,473	14,092	16,712	14,627	14,615	15,060
Durable	264	582	595	528	762	346	510	601
Semi-Durable	2,932	4,861	4,400	3,279	3,925	4,113	5,414	4,151
Non-Durable	5,536	8,214	9,478	10,285	12,025	10,168	8,691	10,308
Goods not elsewhere specified	190	157	223	200	293	314	250	272
Total	127,848	174,420	228,763	230,356	335,395	480,259	369,695	385,528
					Percentage Shares			
Food and Beverages	49.1	43.0	36.3	35.8	47.6	65.6	58.8	56.2
Industrial Supplies (Non-Food)	25.8	32.5	33.0	28.3	23.4	13.5	17.8	19.1
Fuel and Lubricants	15.2	12.4	20.1	25.6	20.8	17.3	18.6	20.0
Machinery and other Capital Equipment	1.5	1.9	2.4	2.3	2.0	0.3	0.4	0.4
Transport Equipment	1.5	2.3	1.8	1.8	1.1	0.2	0.3	0.3
Consumer Goods not elsewhere specified	6.8	7.8	6.3	6.1	5.0	3.0	4 0	3.9
Goods not elsewhere specified	0.1	1.0	0.1	0.1	0.1	0.1	0.1	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance and Planning, Economic Surveys, 1977 and 1980.

Note: Excludes re-exports

Table 13

Kenya: Value, Volume and Prices of Main Exports, 1972-79

		1972	1973	1974	1975	1976	1977	1978	1979
(Value in Million Kenyan Pounds)									
Coffee, unroasted		24.8	35.8	38.4	35.2	93.3	204.4	124.7	110.6
Petroleum Products		15.3	16.1	38.0	48.7	56.9	72.4	60.2	68.0
Tea		16.5	17.0	19.4	22.9	31.8	71.8	63.2	62.8
Hides and Skins		3.8	5.2	4.4	5.4	8.6	8.0	9.8	13.8
Pineapples, canned		0.9	1.5	1.4	3.6	7.0	10.5	9.6	9.3
Cement		2.7	2.7	4.5	6.0	8.1	8.6	9.0	8.3
Soda Ash		2.0	2.9	2.1	2.4	3.0	2.7	3.7	5.6
Pyrethrum Extract		3.8	2.9	4.6	3.5	5.7	5.0	4.1	5.5
Sisal		2.1	4.8	17.0	7.4	4.2	4.1	4.0	4.8
Meat and Products		5.2	3.9	4.7	5.1	8.4	7.6	2.7	2.7
(Volume in Thousand Metric Tons)									
Coffee, unroasted		63.1	75.3	71.7	67.6	77.6	94.3	85.4	78.8
Petroleum Products*		1.9	1.9	1.8	1.8	1.6	1.6	1.4	1.2
Tea		47.3	51.5	49.6	52.6	59.3	70.2	85.0	94.0
Hides and Skins		10.5	8.2	9.1	11.9	14.2	11.4	10.9	13.1
Pineapples, canned		9.8	13.4	8.7	20.0	29.9	45.3	42.1	41.0
Cement		469	449	531	549	628	662	610	510
Soda Ash		150	205	140	81	101	102	161	216
Pyrethrum Extract		.5	.4	.5	.3	.5	.4	.3	.4
Sisal		38.8	44.9	72.1	42.7	29.4	24.9	26.7	26.0
Meat and Products		11.0	6.7	6.8	8.3	9.8	9.3	3.0	2.6
(*Billion litres)									
(Value in Kenya Shillings per Unit)									
Coffee, unroasted	kg.	7.8	9.5	10.7	10.4	24.1	43.3	29.2	28.6
Petroleum Products	1000 lt.	165.2	172.8	425.8	636.8	736.6	866.2	860.9	1159.5
Tea	kg.	7.0	6.6	7.8	8.7	10.7	20.4	14.9	13.4
Hides and Skins	kg.	7.2	12.6	9.8	9.1	12.1	14.1	18.0	21.1
Pineapples, canned	kg.	1.9	2.2	3.3	3.5	4.7	4.6	4.6	4.5
Cement	mt.	105.5	122.2	171.3	218.7	256.8	258.8	295.3	327.2
Soda Ash	mt.	267.4	279.4	387.4	601.3	599.8	528.0	459.0	515.3
Pyrethrum Extract	kg.	184.5	163.8	192.0	223.3	225.9	238.2	312.7	281.8
Sisal	kg.	1.07	2.13	4.71	3.34	2.85	3.30	3.03	3.73
Meat and Products	kg.	9.6	11.9	11.5	12.6	17.2	16.3	18.0	20.3

Source: Ministry of Finance and Planning, Economic Survey 1980; Statistical Abstracts, 1977, 1978 and 1979.

Table 14

Kenya: Imports of Fertilizer By Country, 1975-79

(Kenya Shillings)

	1975	1976	1977	1978	1979
Australia	-	-	-	2709043	-
Austria	349186	10543375	-	-	429421
Belgium	22010443	12483176	9517758	28266846	7284990
Canada	40851565	54590	-	-	-
Denmark	-	-	-	-	15478414
Finland	-	14572265	5410905	-	-
France	15868174	2634591	3689876	363588	870346
Germany, W.	15489903	2487455	53577651	25054998	39627710
Greece	-	-	7063355	-	-
Hong Kong	-	-	-	-	-
India	-	-	6009	349	2335
Israel	5625135	2119833	1685955	4057231	3100648
Italy	41678448	-	21146473	18950830	9168992
Japan	-	-	6398571	-	9020421
Korea, S.	-	-	-	-	17066655
Netherlands	28237726	520106	13942854	22771874	88461
Norway	-	-	-	-	310792
Rumania	-	-	5490778	8088718	-
Spain	-	13187251	-	11298601	-
Sweden	-	-	-	-	89213
Switzerland	-	15252438	27862877	5696693	194729
Uganda	-	-	160000	351005	-
United Kingdom	34252161	16640469	2559751	29911397	4055803
United States	18719465	13998940	24265071	42714450	9975
Zambia	38121	3394	-	-	-
Other	-	-	6687200	-	-
Total	223120327	104497883	189467084	200235623	106795305

Source: Ministry of Finance and Planning: 1976-78, Annual Trade Reports; 1975 and 1979, Working Documents.

Table 15

Kenya: Value of Fertilizer Imports by Type, 1975-79

(Kenya Shillings)

	1975	1976	1977	1978	1979
Sulphate of Ammonia	24172670	7211	13158324	19953761	13126838
Ammonium Sulphate Nitrate	13688247	3879502	33958812	18846576	3128043
Urea	1576	1256	78111	752705	-
Calcium Ammonium Nitrate	20039981	1219506	19003918	16359456	17456055
Ammonium Nitrate	440698	865345	56769	3247710	3903273
Other Nitrogeneous	29385226	15540595	36131736	31734234	19616152
Single Super Phosphate	4762359	27185034	10117238	9162740	2424574
Double and Triple Super Phosphate	15666202	12154695	27563767	11527063	2012292
Other Phosphatic	40851088	627694	894300	95841	14679958
Muriate of Potash	579407	3043713	679388	1511925	560419
Sulphate of Potash	247977	1912351	960631	12722419	-
Other Potassic	273858	228434	8610791	-	131701
Ammonium Phosphate	30203249	15252438	22007858	17835642	145427
Other	42807789	22580100	16245441	56485551	29610573
Total	223120327	104497883	189467084	200235623	106795305

Source: Ministry of Finance and Planning: 1976-78, Annual Trade Reports; 1975 and 1979, Working Documents.

Table 16

Kenya: Volume of Fertilizer Imports, By Type, 1975-1979

(Metric Tons)

	1975	1976	1977	1978	1979
Sulphate of Ammonia	13534	2	14989	21701	9354
Ammonium Sulphate-Nitrate	7291	4560	32220	17479	2000
Urea	-	-	22	500	-
Calcium Ammonium Nitrate	14000	1001	17737	15517	13317
Ammonium Nitrate	155	299	20	965	2188
Other Nitrogenous	9375	14242	23213	22008	11515
Single Super Phosphates	5005	19995	10160	10438	2000
Double and Triple Super Phosphates	5000	10000	22815	9137	1000
Other Phosphatic	16500	254	525	50	8455
Muriate of Potash	414	2549	750	1502	1
Sulphate of Potash	150	1227	738	9250	-
Other Potassic	120	144	5850	-	90
Ammonium Phosphate	14340	10980	15258	11000	10
Other	17960	14574	11651	35632	10823
Total	103884	79827	155948	155179	60735

Source: Ministry of Finance and Planning:
1976-78, Annual Trade Reports;
1975 and 1979, Working Documents.

ANNEX B

INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Kenya

Project Title: Kenya: 1980 Commodity Import Program Grant (615-0200)

Funding: FY 1980 - $ 20 million

Life of Project: The terminal date for requesting disbursement authorization is 12 months from the date of the grant agreement. The terminal disbursement date is 18 months from the date of the grant agreement.

IEE Prepared by: Richard Greene, Economist, USAID/Kenya

Date: August 28, 1980

Environmental Action Recommended: Negative Determination

Concurrence:

William S. Lefes, Acting Dir, USAID/Kenya

Satish Shah, Engineer, USAID/Kenya

Tom Warrick, Project Officer, USAID/Kenya

Gary Bisson, Regional Legal Advisor, REDSO/EA

Assistant Administrator's Decision:

Approved ____________

Disapproved ____________

Date ____________

1. <u>Examination of Nature, Scope, and Magnitude of Environmental Impacts</u>

A. <u>Project Description</u>

This project proposes to provide a commodity import grant of 20 million US dollars to the Government of Kenya from Economic Support Funds to be obligated in FY 1980. The primary purpose of the grant is to provide for basic balance of payments and budgetary assistance while financing imports of high priority agricultural inputs. Fertilizer has been identified as the commodity most appropriate for achieving significant impact on agricultural output. Local currency generations from the sales of fertilizers will be deposited in a special account to be established in the Central Bank of Kenya. Disbursements from this account will be made for jointly agreed activities in support of programs to increase agricultural production, manpower development, and/or Administrative uses of the U.S. Government.

Foreign exchange and budgetary imbalances have emerged as key constraints limiting Kenya's growth to unacceptable levels, and restricting the governments' ability to carry out important social policies and planned structural reforms. The purchasing power of Kenya's exports has grown by only 4 percent since 1972, the last full year before the OPEC-induced oil crisis. Restricted imports of capital equipment, of required inputs (including fuels), and of consumer goods have resulted in reduced capacity utilization, lowered output, and decreased tax revenues. Increased balance of payments deficits are projected through 1983 with peak deficits in 1980 and 1981. Government budget deficits will peak in fiscal year 1980/81. Expenditures under Kenya's current Five Year Plan have been reduced in each of the forward government budgets through 1983. More than two-thirds of the overall budget cuts have come from the Development Account, and planned development expenditures have been reduced by some 18 percent overall. Projections of per capita GDP growth have been revised downward to 1.5 percent per annum from a planned level of 2.4 percent. The revised estimates are themselves based on levels of government expenditures, and foreign exchange availability which will not be attained without increases in overall external assistance of which the proposed U.S. program grant froms an important part.

Kenya imports virtually all of its manufactured fertilizer requirements, an amount that exceeded 160,000 MT in 1979/80, and which represented over 37 million dollars in foreign exchange. Through a series of short term programs, 67,000 MT of fertilizer were supplied by three external donors in 1979/80. None of the current programs, however, will extend into fertilizer year 1980/81. The proposed AID grant of 20 million US dollars will permit import of approximately 55,000 MT of fertilizer at current market prices, depending on the portion of each type ultimately delivered. If the full amount were programmed during 1980/81, AID-supplied fertilizers would then replace 80 percent of the gap in concessionally-financed fertilizer needs that will not be filled by other donor programs. The AID contribution to overall fertilizer supplies would be approximately 25 percent.

B. Identification and Evaluation of Environmental Impacts

The impact of this program on the environment is likely to be slight. Since the proceeds of the grant will not be used for the purpose of carrying out a specifically identifiable project or series of activities, an Environmental Assessment or Environmental Impact Statement is not required. Balance of payments and budgetary assistance provide funds that are essentially fungible within the limits of the basic agreement between the two governments. Funds provided by the proposed grant have been programmed to finance purchase of fertilizer imports within the limits of quantities and types projected for government licensing in 1980/81. To the extent that provision by AID of necessary foreign exchange will guarantee the delivery of required fertilizer imputs, overall fertilizer usage may be greater in 1980/81 than would otherwise have been the case.

The environmental impact of any potential increase in fertilizer usage would be related primarily to changes in soil character, and in the chemical and possibly, biological state of water. In general, Kenya soils are normally deficient in nitrogen and phosphates while potassium is generally well supplied. The phosphate and nitrogen/phosphate formulations proposed for financing under the 1980 Commodity Import Grant are of the specific types being recommended primarily for application to maize, wheat, barley and other food crops. When applied to crops, such fertilizers are capable of causing changes which may be adverse, beneficial or of no significant consequence. Improper use by inexperienced handlers and farmers is a possibility for limited quantities of fertilizer. For the most part, however, fertilizer will be obtained by established farmers who have used them previously, and there is no indication that cases of negative impact would be extensive or permanent. In general, applications of fertilizers will increase yields per hectare which are very low.

The use of fertilizer will thus have a significant beneficial effect on the welfare of farm households with a low probability of adverse effects on the land.

Overuse of phosphate and nitrogen/phosphate complexes poses the possibility of negative effects on water quality. The permissible criterion for nitrates (determined as nitrogen) in public drinking water is 10 milligrams per liter. Satisfactory records are not available on the nitrate content of drinking waters, nor are we aware of any evidence of the incidence of hemoglobinemia, the disease caused by high nitrates.

Overuse of nitrates and phosphates may also contribute to over-growth of objectionalble plant forms in lakes and other standing bodies of water. In general, overall fertilizer use in Kenya is quite low, averaging 25 kilograms per hectare of cropped land in 1976. Comparable national averages for other East African countries in 1976 range from less than .5 kg/ha in Uganda, to 63 kg/ha in Zimbabwe, and to 269 kg/ha in Mauritius. A list of comparable 1976 figures (in kg/ha) for important developing countries outside the region might include the followi,: Brazil (63); China (49); Colombia (48); Egypt (210); India (20); Mexico (42); Philippines (34); South Korea (287); Taiwan (776). While conditions among countries vary widely, it is clear that Kenya falls nearer to the bottom than to the top of the list of major developing countries in terms of comparative fertilizer use.

It is also clear that fertilizer application in Kenya has become more exact as the result of increased efforts by government extension agents, and by the Kenya Farmers Association. Moreover, the cost of fertilizer in Kenya has increased rapidly since the oil crisis of 1973. Between 1972 and 1979, the index of fertilizer prices has increased by over 340 percent, while the index of fertilizer usage in the same period declined by some 7 percent. According to the 1974/75 Integrated Rural Survey, farmers with holdings of 20 hectares or less averaged fertilizer use of 24.7 shillings (less than $3.50) per hectare of cropped land. Average use ranged from approximately $11 per hectare in Rift Valley Province to $.11 per hectare in the Coast Province. The average dockside price of imported fertilizer in 1974 was over $.22 per kilo so that average usage by small farmers even in the Rift Valley would not have exceeded 50 kg/ha., (ignoring internal distribution costs). While small farmers are least likely to be aware of correct technical procedures and application rates, they are also less likely to be able to afford or to have access to large amounts of fertilizers.

Ironically, much less is known about fertilizer use on large farms (20 ha, or more) since such farms were not included in the last completed Integrated Rural Survey. In 1974/75 such large farms would have accounted for approximately 44 percent of land in farm holdings; for more than half of marketed farm production; and for three-quarters of fertilizer purchases. While such large farms clearly had higher overall rates of fertilizer use, it is just such large-scale farmers who have greatest access to correct technical advice and who are most likely to seek to optimize rather than to maximize rates of fertilizer application.

Overall, the beneficial effects of Kenya's relatively low rate of fertilizer application is likely to far outweigh potential and unproved adverse effects. Required fertilizer imports of specific types will be assured by the 1980 CIP, but import of quantities and types beyond those already projected for licencing by government are not contemplated. The Commodity Import Grant will have its effects primarily through improvements in the balance of payments and through increases in development revenues available to government in agreed-upon areas. Such effects, though important in underwriting significant and ongoing structural adjustments in the Kenyan economy, are generalized rather than specific and affect the overall environment in a manner that is primarily indirect.

II. Recommended Environmental Action

In accordance with AID Regulation 16, paragraphs 216-2(f) and (g), it has been determined that a negative determination is appropriate regarding the environmental impact of this grant. As the proceeds of the grant will not be used for the purpose of carrying out a specifically identifiable project or series of activities, an Environmental Assessment or Environmental Impact Statement is not required.

IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-areas	Impact Identification and Evaluation
A. LAND USE	
1. Changing the character of the land through:	
a. Increasing the population	N
b. Extracting natural resources	N
c. Land clearing	N
d. Changing soil character	L
2. Altering natural character	N
3. Foreclosing import uses	N
4. Jeopardizing man or his works	N
5. Traffic access	N
6. Land use planning	N
7. Squatter, other development	N
B. WATER QUALITY	
1. Physical state of water	N
2. Chemical and biological states	L
3. Ecological balance	L
C. ATMOSPHERIC	
1. Air additives	N
2. Air pollution	N
3. Noise pollution	N

D. NATURAL RESOURCES

1. Diversion, altered use of water	N
2. Irreversible, inefficient commitments	N
3. Wildlife	N

E. CULTURAL

1. Altering physical symbols	N
2. Dilution of cultural traditions	N

F. SOCIOECONOMIC

1. Changes in economic/employment patterns	N
2. Changes in population	H
3. Changes in cultural patterns	N
4. Dislocation and relocation of area residents	N
5. Support facilities	N

G. HEALTH

1. Changing a natural environment	N
2. Eliminating an ecosystem element	N
3. New pathways for disease vectors	N
4. Safety provisions	N

H. GENERAL

1. International impacts	N
2. Controversial impacts	N
3. Larger program impacts	N
4. Aesthetics	N

N - No environmental impact
M - Moderate environmental impact
U - Unknown environmental impact
L - Little environmental impact
H - High environmental impact

Annex C

APPLICATION FOR PROGRAMME LOAN

Application is hereby made by the Government of the Republic of Kenya to the United States of America for a Programme Loan of K£7 million.*

The justification for this application is based on the balance of payments problems Kenya is facing at present and in future. Kenya's balance of payments has deteriorated seriously in recent years and is likely to remain in a state of deficit for several years to come. These difficulties can be attributed to a number of concurrent events largely beyond the nation's control. These include:

(1) The sharp fall in coffee prices accompanied by bad weather which have reduced coffee export value from K£124.7 million in 1978 to K£ 110.3 million in 1979; coffee earnings are expected to remain low throughout the recessions just now beginning in the industrialized nations;

(2) The need to refurbish port, railway and telecommunications facilities following the break up of East African Common Services Organisations;

(3) The need to strengthen our defence posture in the face of growing uncertanities on many of Kenya's borders in recent years;

(4) The increase in debt servicing charges which are now growing very rapidly (by approximately 50 per cent between 1979/80 and 1980/81);

(5) The rising value of imports of petroleum products which in 1979 will amount to over K£ 124 million or over 20 per cent of total goods imported.

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* Equivalent to US $ 18.2 million

One consequence of these adverse effects on Kenya's balance of payments is a sharp reduction in Kenya's rate of growth. In contrast to the 6.3 per cent growth established in the Development Plan (published in March 1979) even the revised target of 5.4 per cent now seems optimistic. Given a rate of population growth of 3.9 per cent, there is little scope for improving standards of living over the current plan period without substantial additional assistance from friendly countries.

In anticipation of the balance of payments problem, the Government has taken several measures which will in the long term bring balance of payments in equilibrium. These include agricultural, industrial, trade and tariff policies. The impact of these measures will, however, take time to be felt. In the short-term, the policy changes and the pattern of public sector expenditures as outlined in the 4th Development Plan, are unable to reduce the balance of payments deficit substantially. In order not to lower the planned growth of the economy to an unacceptable low rate, it has become necessary for Kenya to seek balance of payments support from the donors.

Several governments and multilatial agencies have responded sympathetically to Kenya's requests for balance of payments assistance. Discussions with the IMF were initiated in June, 1979 and it seems reasonable to expect that a stand-by arrangement for K£ 59 million will be concluded; discussions with IBRD have been finalized for K£26.9 million; the Netherlands has agreed to provide K£7 million; a request for K£ 22.6 million is being considered by the U.K.; and other sources may also come to Kenya's assistance. As some of the bilateral arrangements represent transfers of project lending to programme lending, the net balance of payments support is in these cases estimated to amount to 50 per cent of the gross loans. In addition Kenya has negotiated a Euro-credit loan on commercial terms and has drawn K£37.2 million in 1979.

The additional finance estimated to be required are set out below in K£ million:

	1980	1981	1982	1983
Additional finance required	102.5	83.6	44.1	47.3

As has been mentioned above, some of these sources have already been identified and what remains to be financed is as follows in [illegible] million:

	1980	1981	1982	1983
Unidentified Sources	25.8	33.6	27.5	47.3

More detailed projections are provided in the attached tables.

In the light of these overall residual needs for balance of payments support, the Republic of Kenya requests the Government of the United States of America to consider a loan to Kenya on IDA-equivalent terms intended to assist in the financing of the amounts mentioned above. The funds needed for balance of payments support over the years 1980 and 1981, would amount to K£ 7.0 million. It should be noted by way of comparison that Kenya imported goods valued K£41.1 million in 1978 from the United States of America.

The loan is requested on soft terms because Kenya is clearly entering a prolonged period of balance of payments deficits which will be further aggravated as debt servicing requirements mount. Kenya proposes, therefore, that the loan carry interest at ¾ of the one per cent per annum with a moratorium on principal repayments for the first ten years, the principal over the succeding thirty years in equal annual instalments. It is anticipated that the loan would be drawn as follows (in K£ million equivalents):

1980	1981
3.5	3.5

Apart from the financial assistance sought for balance of payments support for 1980 and 1981, the Republic of Kenya will also request the government of the United States to finance K£22.8 million* of grain import needed in 1980. A separate application under PL 480 agreement will be submitted for this request.

The proceeds of the programme loan will be used for purchase of selected imports of raw materials, capital and intermediate goods essential to sustain the continued growth of the economy of Kenya.

As in the case of the World Bank Programme Loan, it is proposed that programme loan would be administered as follows:

a) Procurement: The programme loan would be disbursed against goods imported by the private sector on approval of an import licence and through normal commercial channels. To this end the private sector is sufficiently diversified to secure competitive procurements and regulations are in force to ensure that imports over K£1,000 are subject to pre-shipment quality and quantity inspection.

b) Disbursement: It is recommended that an initial advance be extended to be subsequently supported by a fully documented claim.

c) Counterpart Funds: The local currency equivalent of imports financed by the Programme Aid will be credited to the Exchequer and will be utilised on the one hand to alleviate the Government's burden in financing local costs on development projects as well as pressing recurrent needs, and on the other hand provide the much needed capital for agricultural credits, crop purchases and crop movement.

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* Equivalent of US $58.4 million

ANNEX D

CHECKLISTS

1. Country Checklist - 3A(1).
   Country Checklist is up to date.
   Referen~e Kenya Rural Planning II Project (615-01.9), authorized and approved August 22, 1980.

2. Non-project Assistance Checklist - 3A(2).
   Attached below.

3. Standard Item Checklist - 3A(3) has been reviewed.

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

   Normal CN procedures have been followed.

   (b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

   Yes

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

   No further legislative action is required.

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

   No

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

   (a),(b),(c),(e). Assistance will support GOK program of export promotion, trade liberalization and industrial rationalization, including reduction of import controls and other trade restrictions. Counterpart generations will be spent chiefly in support of Agricultural Sector. (c),(f). Little effect.

A.

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Goods procured with this assistance will be obtained from private U.S. companies in the U.S. and at least 50% of the goods will be shipped on U.S. ships.

6. FAA Sec. 612(b); Sec 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 United States are utilized to meet the cost of contractual and other services.

Not applicable; there are no contractual or other services.

7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

The U.S. does not own excess foreign currency.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

This assistance will help close a growing balance of payments gap by providing foreign exchange for the importation of agricultural production inputs. Thus it will make a direct contribution to economic as well as political stability.

2. Nonproject Criteria for Development Assistance

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

The remainder of the checklist is not applicable since it pertains only to Development Assistance, Loan and Alliance for Progress funds.

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

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;

   (b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?

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?

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

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

B2b

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

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

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

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

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

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

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

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

B2

c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

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

e. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). 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; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives?

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

3. Nonproject Criteria for Development Assistance (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.

B3

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.]

a. FAA Sec. 251(b)(1)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

Annex E: Fertilizer Application:
Illustrative Technical Bulletin

ILLUSTRATIVE PERIODIC
TECHNICAL BULLETIN FOR
FERTILIZER USERS

ANNEX E

From: Manager Fertilizer
Kenya Farmers Association

To: All Branch/Depot Managers

Ref: Fert/9/A/2

Date: 25th August, 1980

Fertilizer Circular No 3.

Recommendation for Fertilizer Usage:

Agronomy stands for Agricultural Economy - The science of making plants (Crops) grow better and more economically.

FERTILIZER is PLANTFOOD which make crops grow better.

a) Primary or Major Plant foods are Nitrogen (N), Phosphate (P_2O_5) and Potassium (K_2O) - so called as plants require large quantities of these.

b) Secondary Plant Foods are calcium (Ca), Magnesium and sulphur (S), required in medium quantities.

c) Minor Plant Foods of which plants require only very small quantities.

We must apply fertilizer plant food because our soils are lacking sufficient plant food for the production of optimum economic crops. A common method of finding the amount of available plant food in the soil is through soil Analysis which shows available plant food in soil so we can supplement those plant foods which are lacking by Chemical fertilizers.

Law of the Minimum: That plant food element which is in shortest supply will determine the final yield of the plant (Crop). so if phosphate is deficient in a soil the final yield will be determined by this low level of phosphate availability. The aim of fertilization is therefore to supplement natural plant food in the soil by adding chemical fertilizer plant food in such a manner as to raise the yield potential to the highest possible optimum without wasting either soil or fertilizer applied plantfoods. In general, Kenya soils are normally deficient in phosphate and often deficient in Nitrogen, with Potassium in general well supplied.

Types of Fertilizer

a) Straight Fertilizers: Contain only one of the major plantfoods (Single or Triple supers, A.S.N., C.A.N, sulphate of Ammonia, etc.)

b) Complex Fertilizers: Contain 2 or more of the major plantfood elements complex fertilizers are divided into: Compound fertilizers and Mixed fertilizers.

COMPOUND FERTILIZERS are chemically compounded giving a fertilizer where each and every granula contains the nutrients stated on the bag in the correct proportions.

MIXED FERTILIZERS are physical mixtures of 2 or more basic materials. Individual fertilizer granules in such a mixture remain as the Original basic materials.

How are the Nutrient Contents of Fertilizers Expressed?

NITROGEN: in elemental N (Nitrogen) percentage (%)

PHOSPHATE: in P_2O_5 (Phosphoric acid) percentage (%)

POTASSIUM: in K_2O (Potassium oxide) percentage (%)

Which are the Main Straight Fertilizers?

a) Nitrogen - Sulphate of Ammonia 21% N, Ammonium Sulphate Nitrate (A.S.N) 26%N, Calcium Ammonium Nitrate (C.A.N.) 26%N and Urea 46%N.

b) Phosphate - Single Superphosphate 18% P_2O_5 and Triple Superphosphate 45/47% P_2O_5.

c) Potassium - Muriate of Potash 60/62% K_2O and Sulphate of Potash 50/52% K_2O.

How are the Primary Plant nutrient contents expressed in complex/compound Fertilizers?

Percentages of the three primary plant food nutrients in complex/compound fertilizers are always expressed in the same N-P-K order, in the form of % or units of N, P_2O_5 and K_2O (1 unit = 1 Kg/lb acre/ha of N, P_2O_5 or K_2O).

1) Nitrogen (%N) 2) Phosphate (½$P_2$05) 3) Potassium(%$K_2$0)

Thus a N-P-K fertilizer reading 20-10-10 contains 20% Nitrogen, 10% P_2O_5, 10% K_2O.

The two main Kenyan Compound fertilizers are:

Compound 11-52-0 (11% Nitrogen, 52% P_2O5 and K_2O) and Di-Amm phosphate 18-46-0 (18% Nitrogen, 46% P_2O_5 and 0 K_2O).

Other compounds are 15-15-15, 16-16-16, 17-17-17, 20-20-0, 23-23-0, 20-10-10, 25-5-5+55 etc.

Functions of Primary Plant Food Elements:

1) Nitrogen (N) - Gives dark green colour to plant. Promotes rapid growth. Increases yields. Improves quality of particulary leaf crops.

2) Phosphate (P_2O_5) stimulates early root formation and growth. Gives rapid and vigorous start to plants. Hastens maturity. Stimulates flowering and promotes seed formation (Yield).

Common Hunger (Deficiency) Sign in crops:

1) Nitrogen Deficiency - A sickly yellowish - green colour. A distictly slow and dwafed growth. Drying up or 'firing' (Yellowing) of leaves which starts at the bottom of the plant, proceeding upwards. In maize the 'firing' (Yellowing) starts at the tip of the bottom leaves and proceeds along the midrib.

2) Phosphate Deficiency: - Slow growth and delayed maturity, with some varieties purplish leaves, stems (Branches). Small slender weak stalks which bend or break easily (wind or rain damage with maize). Uneven and poor seed setting on the cob. Low yield of grain.

FERTILIZER APPLICATION

How should various fertilizers be applied to be most efficient and economical?

Fertilizers containing as main plant food phosphate such as straight supers or compounds with a high phosphate content (11-52-0 etc) should preferably be applied slightly below and to the side of the planted seed.

With maize 1-2 inches to the side and below the maize seed is ideal. As stated above phosphate stimulates rapid root development and growth in the early stages and should therefore be available very early on in the maize plants life. Phosphate does not travel very much through the soil, and thus placement is of the utmost importance.

NITROGEN - Should partly be incorporated with the phosphate at planting for early 'get-away' of plants and because it enhances overall phosphate availability to the plant. The main Nitrogen application should be applied as a so called 'top - dressing' i.e. an application put on the soil surface during the growing period of the plant. For maize the best time is around 6 weeks after planting, when the young maize plants are some 3 feet high.

GENERAL INFORMATION

NITROGEN (N)

Promotes rapid early growth and development.
Stimulates leaf development.
Increase the yield of leaf, Fruit and Seed.
Is a constituent of plant proteins.

PHOSPHORUS (P)

Stimulates early root development.
Gives rapid and vigorous start to plants.
Promotes flowering, fruit and seed formation
Accelerates maturation.

POTASSIUM: (K)

Affects formation of proteins and fats.
Regulates the transfer of starch, sugars oil.
Strengthens the stalks.
Improves the quality of fruit and seed.

NO. 1 SYMBOL - N.P.K. - COMPOUNDS

COMPOUNDS	ANALYSIS	RECOMMENDED FOR
1) 15x15x15) 16x16x16)* 17x17x17)	16% Nitrogen) 16% P_2O_5) 16% K_2O) (Potassium))	Complex fertilizer can be used for all plants N.P.K. fertilizer of a high nitrogen such as 1:1:1: rations, and are favoured where stress is laid upon strong green foliage growth and carbohydrates production e.g. for grassland, sugar-beet, fodderbeet, sugarcane, tea, coffee and all (horticultural) Vegetables, onion, potatoes, (Sweet-Potatoes) carrot, egg plant tomato, cabbages, and lettuce etc.

2)	20x20x20 23x23x0	20% Nitrogen) 20% P_2O_5) 0% K_2O)	20-20-0 will do well on potash - rich soils in arid climates, where potash is not needed for the soil, and where K_2O extracted from the soil is replenished naturally and rapidly. Maize, coffee and General garden crops need these elements.
3)	20x10x10	20% Nitrogen 10% P_2O_5 10% K_2O	20x10x10 is adapted to soils well supplied with phosphate and potash, or where plentiful N is needed. Also used when nitrogen top dressing is not feasible for coffee, tea, horticultural crops which require high potassium in addition to Nitrogen and phosphate.
4)	25x5x5+5%	25% Nitrogen) 5% P_2O_5) 5% K_2O) 5% Sulphur)	......Coffee and Tea fertilizers.
5)	MAP - 11x52x0	11% Nitrogen) 52% P_2O_5) 0% K_2O)	Wheat, Barley, Maize and general crops.
6)	Di-Amm. Phosphate 18x46x0	18% Nitrogen) 46% P_2O_5)	Wheat, Maize Potatoes Folder Crops and general garden crops.

NO. 11 SYMBOL -N-NITROGEN FERTILIZER

Better known as "straight" fertilizers, are normally used for top-dressing and should only be applied during rainy conditions. Maize responds well to nitrogenous top-dressing. Wheat does not give any appreciable response. Other crops do not respond well.

1) A.S.N. = Ammonium Sulphate Nitrate (26% Nitrogen) Recommended for use on maize, tea, coffee and pastures.

2) S.A. = Sulphate of Ammonia (21% Nitrogen) Recommended for use on soils of poor sulphur contents and where Nitrogen is in slower acting Ammonia form. Best use on pastures.

3) C.A.N. = Calcium Ammonia Nitrate (21% Nitrogen) Recommended for use on maize, pastures, coffee and other crops grown on somewhat acid soils.

4) UREA = Because of its biuret contents urea is suitable if used correctly as a stock-feed.

Note: Urea is not generally recommended as a fertilizer without prior advise from Agricultural officer etc.

NO. 111 SYMPOB -P- PHOSPHOROUS

This element is usually known as "phosphate", and is expressed as ..% water soluble P_2O_5. Many undeveloped/uncultivated/virgin lands in Kenya lack phosphate. Black Cotton Soils indicate some response to phosphate. For each successive crop, application of phosphate should be maintained at a high level.

1) S.S. = Single Superphosphate 20-21% water soluble P_2O_5.

* Used mostly for sugar cane, maize, pyrethrum, sunflower and pastures.

2) T.S.P. = Triple Superphosphate 44-46% P_2O_5 (minimum 43% P_2O_5 soluble in water)

* Used for maize, wheat, barley, sunflower, sugar cane, horticultural crops, pyrethrum and pastures.

3) D.A.P. = Di-Ammonium Phosphate - 18% Nitrogen 46% P_2O_5 and 15-45-0

* Is normally used for planting maize, wheat and barley.

NO. IV SYMBOL -K- POTASH

Past beliefs have generally been that Kenya soils were adequate in Potash. But as we continue using nitrogen and phosphate, chances are that; an imbalance of nutrients in respect of Potassium will occur. Symptoms of Potassium deficiency are: -

a) Scorched leaves.

b) Premature drying when high levels of other fertilizers are used: particularly, in potatoes and maize.

Potassium can most conveniently be obtained in a N.P.K. compound, and it is also obtainable by itself, and can be applied as a "straight" fertilizer.

1) MURIATE OF POTASH: = Analysis 60-62% K_2O.

* Muriate of Potash (Potassium Chloride) is recommended for use on cereal crops, maize, wheat etc. but due to its high chlorine contents, it should not be used in quantity on Potatoes and Tobacco crops.

2) SULPHATE OF POTASH = Analysis 50% - K_2O

* Sulphate of Potash (Potassium Sulphate) is recommended for use on all crops including potatoes and tobacco crops.

ANNEX F: SPECIMEN INVITATION FOR BID

THE KENYA FARMERS' ASSOCIATION (CO-OPERATIVE) LIMITED

P. O. BOX 35,
NAKURU, KENYA.

INVITATION FOR BIDS FOR FERTILIZER (IFB)

A. IFB No: 611-K-005 - NAMBOARD 80-1
B. Date of Issuance:
C. Types and Approximate Quantities:

1. INVITATION FOR BIDS (IFB):

(a) The Kenya Farmers' Association (Co-operative) Limited (KFA), hereinafter called the Purchaser, solicits offers, on C & F Mombasa Liner Terms basis, funds controlling, for fertilizer conforming to the specifications set forth in Appendix (A) to this IFB.

(b) Article 4 of this Invitation for Bids specifies the total quantity of fertilizer being sought. Bidders are requested to offer any quantity, subject to the minimum of Section 8(a), which they are in a position to furnish. Bidders are advised that award may be made for any quantity or portion thereof which is offered.

2. REJECTION OF ALL OFFERS:

Notwithstanding any of the provisions contained in this IFB, the Purchaser reserves the right to reject any or all offers submitted in response hereto. He further reserves the right to reject any offer not fully responsive to all terms and conditions of this IFB. Any material deviation, reservation or exception to the terms and conditions may be a cause for rejection. In the event of rejection, the Bidder will have no claim on the Purchaser for any expenses incurred by him or damages sustained by him in submitting his offer.

3. FINANCING OF AWARD:

Although the Purchaser will be responsible for payment, orders resulting from this IFB may be financed, in whole or in part, with funds made available by the United States Agency for International Development. Suppliers receiving contracts under this IFB must conform to the provisions of A.I.D. Regulation 1, 22 C.F.R. Part 201, as from time to time amended and in effect. Copies of Regulation 1 may be obtained from the Office of Small Business, Agency for International Development, Washington, D.C., 20523, Tel. (703) 235-9119. The authorized geographic code for both source and origin of commodity offered as defined in A.I.D. Regulation 1, shall be A.I.D. Geographic Code 000 (United States).

4. FERTILIZER REQUIREMENTS AND SHIPPING SCHEDULE: BID OPENING DATE AND VALIDITY PERIOD:

(a) Fertilizer and Shipping Schedule

The desired type of fertilizer and shipping schedule are given below. Quantities offered within a given period of delivery to the port of loading (shipment) are to be made available at the port of loading by supplier within the delivery period as required by the Agreement terms. (Appendix "C").

COMMODITY | APPROXIMATE DELIVERY AT THE PORT OF LOADING AT PURCHASER'S CALL (Quantity in Metric Tons)

Mixed Fertilizer (Complex)
(Chemically Mixed)

All of the above to be in bags filled to a net weight of 50 kilos each. Commodities and bags must meet the specifications contained herein.

(b) Bid Opening Date

Bids will be opened in public on at hours, Washington, D.C. time in the Embassy of the Republic of Kenya, 2249 R Street. N.W., Washington. D.C. 20008.

(c) Validity Period

Bids to be responsive, must remain valid for Purchaser's acceptance from the Bid Opening Date specified in paragraph 4(b) until Midnight Washington, D.C. time

5. AWARD OF CONTRACT:

(a) Purchaser will notify successful Bidders of award by telex or telegram.

" The Notice of Award".

The Notice of Award will be subsequently confirmed in writing by Confirmation of Award in the form of Appendix "D" attached hereto.

(b) The resulting contract shall be effective upon dispatch of the Notice of Award and shall be composed of this IFB, Appendices hereto, the bid, the Notice of Award, the Confirmation of Award, and the terms of Regulation 1. In case of conflict, Regulation 1 shall prevail, and the terms of the bid shall defer.

(c) The Notice of Award and Confirmation of Award will specify the quantity of fertilizer to be purchased, the period or periods when Purchaser will accept delivery thereof, and the port or ports at which Purchaser will accept delivery thereof.

6. ELIGIBLE SUPPLIERS:

Bids are invited from eligible Suppliers, as defined in A.I.D. Regulation 1, from A.I.D. Geographic Code 000.

7. SUBMISSION OF BIDS:

(a) Bids must be received in the Embassy of the Republic of Kenya, 2249 R Street. N.W., Washington. D.C. 20008, not later than hours, Washington, D.C. time, as specified in this paragraph. Bids delivered by hand should be delivered to the Embassy of the Republic of Kenya, Washington D.C. 2249 R Street. N.W., Washington. D.C. 20008.

Mailed offers should be addressed to the same address.

Bids should be submitted in quadruplicate (4) under sealed covers superscribed with IFB number, due date of opening and nomenclature of the type of fertilizer. The Bidder is responsible for assuring that the bid, including modification or withdrawals, is actually received in time at the address designated in this IFB. No bid received after time and date specified for receipt in this paragraph will be considered for award unless its late arrival at that address is attributed to mishandling of the bid documents by Purcha

In no case will the Purchaser consider a bid which was not received at the place of public opening before the award was made.

(b) Bids must include the completed, signed Proforma Offer to Sell attached hereto as Appendix "B".

(c) Telegraphic bids will not be accepted.

(d) Bids must be of 5,000 Metric Tons or more for each bagged commodity and for each delivery period and from one safe port.

(e) Bids must be in accordance with specifications in Appendix "A".

(f) Bids must state total quantity offered, the quantity to be shipped from each port and whether loading will entail any special berth, draught, length, or special navigational consideration.

8. QUANTITY VARIATION:

(a) The quantity offered for shipment in any period specified by the Bidder at the specified price and for delivery at a single port of shipment shall constitute an offer. The Purchaser shall have the right to accept any quantity of 5,000 metric tons or more for bagged product at the price per ton quoted for the total quantity offered.

(b) Contracted quantities at time of award will be subject to a plus-or-minus 5% Purchaser's option, for purpose of shipment.

(c) Purchaser reserves the right to award a contract for a quantity in excess of the quantity for which bids are submitted or in excess of the quantity requested in Paragraph 4 of this IFB. Such additional quantities shall be purchased on the same terms and conditions as those set forth in this IFB.

9. BID BOND:

(a) Bids must be accompanied by a U.S. dollar bid bond, or adequate evidence satisfactory to Purchaser that such bond has been established prior to the time of bid closing.

(b) Said bond shall be in the form of a certified check, cashier's check, or clean irrevocable letter of credit on a bank with sufficient assets to assure payment and must be valid for thirty (30) days from the bid opening date per paragraph 4(b) of this IFB. If the bidder is a U.S. Supplier, said bid bond may also be in the form of a U.S. dollar surety bond issued by a surety company approved for government contracts by the Treasury Department of the U.S. Government. The bid bond shall be in an amount not less than five per cent (5%) of the bid price, and shall be in favour of the Purchaser and collectible by him upon the failure of the Bidder to hold his offer open in accordance with the terms of this IFB, or to give the required Performance Bond specified in Paragraph 11, Appendix "C", if the Bidder is awarded a contract.

(c) Unsuccessful Bidders will be released from their bid bonds upon expiration of their offers.

(d) If Purchaser has issued a Notice of Award to Bidder prior to said date, the bid bond shall be released only when Bidder furnishes a Performance Bond to the Purchaser as described in Appendix "C", Paragraph 11.

10. EVALUATION OF BIDS:

Bids will be evaluated and awards made on the basis of the lowest landed cost per nutrient ton of same commodity. For purposes of evaluation, ocean transportation cost will be applied to each quoted C & F Mombasa Liner Terms price from the port stated in the bid. The ocean transportation cost to be applied will reflect actual freight quotations received from ocean freight carriers for quantities offered by Bidders as a result of this IFB. The Purchaser reserves the right to reject any bid hereunder if freight quotations are not offered from the stated port of loading or are insufficient to cover the total amount of cargo offered by Bidders from any one port of loading. Purchaser reserves the right after evaluation and award to make whatever ocean transportation arrangement are necessary in order to comply with the requirements of law and regulations pertaining to cargo preference which govern the Agency for International Development.

11. INSPECTION:

(a) Fertilizer inspection will be performed by an independent inspection firm for the account of the Supplier in accordance with specifications set forth in Appendix "A" and Appendix "C".

(b) Bids must include the name of the inspection firm chosen, and the name of the laboratory to be used if other than the Bidder's own laboratory.

(c) Analyses performed in the manufacturer's laboratory under the inspection firm's supervision are an unacceptable substitute for the inspection firm's own sampling and chemical analyses

(d) Regarding commodity shipped from non-U.S. sources, if no independent laboratory acceptable to A.I.D. is available locally, the inspection firm must airmail its consolidated, official sample(s) to an alternative laboratory acceptable to the Agency for International Development.

12. OCEAN TRANSPORTATION:

Purchaser will arrange for all ocean transportation. Successful Bidders for commodities and ocean transportation will be required to co-ordinate on all shipments of fertilizer purchased under C & F Mombasa Liner Terms.

13. SPARE BAGS - SPECIAL REQUIREMENT: SPARE EMPTY BAGS amounting to two per cent (2%) of the total bags shipped must accompany each shipment. Suppliers are cautioned that failure to ship necessary Spare Bags will result in withholding of five per cent (5%) of price per Metric Ton of bagged commodity for each Spare Bag not shipped. Furthermore, if Purchaser incurs loss of commodity because of failure of Supplier to provide empty bags, Supplier shall be liable for liquidated damages in the amount of 5% of the price per metric ton, per bag.

14. AGENT'S COMMISSION:

In the event a contract materializes, on the basis of the bid, payment of any commission will be made in accordance with A.I.D. Regulation 1, as amended, and the foreign exchange regulations of the Republic of Kenya.

15. APPENDICES ATTACHED HEREWITH:

APPENDIX "A" (1)

SPECIFICATIONS

MIXED FERTILIZER: (Complete)	(Chemically Mixed)
Triple Super Phosphate (TSP)	44-46% P_2O_5 minimum 43% 0_20_5 Soluble in water
Di-ammonia Phosphate (DAP)	18% - N 46% P_2O_5
Mono-ammonia Phosphate (MAP)	11% - N 52% - P_2O_5 0% - K_2O

APPENDIX "A" (3)

1. TECHNICAL BAG AND LINER SPECIFICATIONS:

A. Outer Bags

(1) Polypropylene Bags

(a) Capacity: 50-kg net

(b) Fabric:

Bags shall be made of 100% ultraviolet-stabilized polypropylene resin with a weight of not less than 2.6 oz. per square yard and possess the properties described under test methods (paragraph(c) below). The colour shall be light tan or beige. A coloured identification marker (yarn) shallbe inserted in the weave by the fabric manufacturer. The identification marker is to be reported to A.I.D.

The fabric forming the top or bottom of the furnished bags shall be a tucked selvedge or a natural selvedge containing not less than the number of ends prevalent in the body of the fabric. Alternatively, the selvedge may be heat cut and formed a minimum of 1-inch wide with a minimum of 20 warp threads per inch.

The fabric must be woven to a construction tight enough to prevent excessive product sifting in the event bag liner failure occurs.

The bottom seam is to be flat sewn in accordance with Federal Standard 751a, SSa-1, regardless of heat cut or tucked selvedge fabric. The side seam "Export Type" shall be in accordance with Federal Standard 751a, SSd-1. Bags shall be turned so seams are inside. The sewing thread shall be U.V. stabilized, polypropylene nominal 1000 denier with test strength of 5 grams/denier. There is no thread colour requirement.

(c) Test Methods:

Ultraviolet Stability Test Material and thread must have not less than 70% strength retention after 200 hours exposure in weatherometer. The U.V. testing weatherometer exposure method is 5804 Federal Standard 191.

Strength warp and fill, each 105 lbs. average (10 samples shall be tested in each direction with no single test below 90 lbs.

Tensile Strength - ASM Method D-1682 (Grab Method).

Air permeability of the fabric in an unstressed state should not exceed 100 cubic feet per minute per square foot: Permeability - - ASM Method D737-75.

B. Liner (Inner Bag)

Inner loose tubular liner shall be of 4 ml polyethylene film. The liner shall beheat-sealed at the bottom. The film shall be of low slip plastic.

(1) Test Methods

(a) Thickness - - ASM, D374. 4 ml polyethylene film.

(b) Impact Resistance - - ASM, D1709. An Impact resistance of 145 gram.

(c) Kinetic Coefficients of Friction - - ASM,D1894. (Kinetic coefficient of friction 0.8 m/s maximum).

C. Methods of Closure

(1) Outer bag: Top seam stitching shall be a minimum of one inch from the selvedge. The sewing thread shall be 200 hours U.V. stabilized, polypropylene nominal 1000 denier with test strength of 5 grams per denier. There is no thread colour requirement. The outer bag shall be sewn above - not to the liner.

(2) Liner : The polyethylene liner shall be closed at the top by one of the following methods after exhausting the excess air:

(a) Heat Sealing.

(b) Mechanically applied acid resistant clip of 0.150 inch minimum diameter (9 gauge) completely circling the polyethylene liner to hermetically seal it.

(c) Mechanically applied bag tie 4½ inches long, plastic-covered wire with a ½ inch inside loop on each end. The wire shall be a minimum of 17 gauge before being covered with plastic to a minimum of 16 gauge.

D. Bag Marking

(1) All bags furnished by commodity Suppliers used in the shipment of fertilizers purchased under this IFB will be marked in three (3) colours maximum in clear, legible and indelible manner as follows:

(a) Purchaser's designated branch name and mark (twocolours) to be provided directly to Supplier and Supplier's local agent (if any) by Purchaser immediately after awards are made.

ALL BAGS ARE TO BE FURTHER MARKED WITH A LARGE GREEN CROSS AND ALL LET[illegible] FOR FERTILIZER C[illegible] "R" MUST BE IN [illegible]: ALL LETTER[illegible] [illegible] "R" [illegible] BE I[illegible]: per specifications to be provided at time of Award.

(b) One Side

(1) Product Name (e.g. Compound
(2) A.I.D. Emblem
(3) Country of origin
(4) K.F.A. Emblem
(5) Name of Supplier
(6) Contract Number and Date
(7) "Use no Hooks"

(c) Opposite Side

(1) Product Name and Analysis

(2) Net kg. weight per bag
(3) K.F.A. Emblem
(4) Distributed by: The Kenya Farmers' Association (Co-operative) Limited, P. O. Box 35, Nakuru, Kenya.

(d) Except for "Use No Hooks" in red, the colour of the lettering shall be as follows:

(1) green for Compound "X", and (2) red for Compound "R".

2. INSPECTION, SAMPLING AND TESTING

A. Shipments of fertilizer will be inspected at time of loading onto vessels. Inspection will be made by an independent inspection firm to certify that the commodity supplied meets or did not meet specifications of this IFB, and to determine by standard methods that plant food nutrient equals or exceeds guaranteed analysis printed on the bags. Additionally, inspection will be made on the following items:

(1) Packaging test for bag specifications

(2) Proper marking for shipment

(3) Moisture content

(4) Mechanical condition of material

(5) Filled weight of bags if bags were manually filled and weighed.

B. The cost of inspection is for the account of the Supplier and is to be included in the offered price. A certified copy of the Inspection Certificate for each shipment will be submitted by the inspection firm to:

THE OFFICE OF COMMODITY MANAGEMENT
COMMODITY AND PROCUREMENT SUPPORT DIVISION
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C., 20523 USA

C. Certificate of Inspection issued by any of the following independent inspection firms will be accepted. Bids must include the name of the inspection firm chosen, and the name of the laboratory to be used if other than its own.

SGS CONTROL SERVICES	17 BATTERY PLACE NORTH NEW YORK, NY 10004
ROBERT W. HUNT & CO.	810 SOUTH CLINTON STREET CHICAGO, IL 60607
U.S. TESTING CO.	1941 PARK AVENUE HOBOKEN, NJ 07030
AMERINSPECT CORP.	17 BATTERY PLACE NORTH NEW YORK, NY 10004
THORNTON LABORATORIES	P.O. BOX 2[illegible], TAMPA, FL 33601
PENNIMAN & BROWNE, INC.	6252 FALLS ROAD, BALTIMORE, MD 21209
SHILSTONE TESTING LAB., INC.	P.O. BOX 13163, HOUSTON, TX 77019

D. Suppliers wishing to use inspection firms other than those shown above must receive prior approval from A.I.D., SER/COM/CPS, in Washington, D.C. before the use of another firm.

E. In addition to the foregoing, the Supplier agrees to notify the designated inspection agency in writing at least ten (10) days in advance of completion of manufacture that the fertilizer is ready for final inspection.

F. Sampling and Testing

(1) Responsibility and Scope: General Instructions to the Inspector

(a) The official inspection firm/laboratory, or other firm approved by A.I.D., shall follow the procedures as covered herein.

(b) The official samples shall be taken at the last point where the material is handled prior to ship loading. Material shall be sampled periodically at the time of bagging before the bag is closed whenever possible. The inspection firm is required to draw the official samples itself, and arrange laboratory analysis of same in accordance with procedures specified herein.

(c) The official samples obtained by procedures specified in the following Section 2, F,(3), (Collection and Preparation of Official Samples), may be used in the event of a dispute regarding quality of commodity.

(d) Each commodity specification includes, under the heading "Analytical Methods of Quality Control", precise analytical methodsfor checking compliance with A.I.D. specifications. Unless otherwise indicated, the numerical citations shown for chemical requirements refer to analytical methods inthe 12th Edition(1975) of the Association of Official Analytical Chemists (A.O.A.C) Manual, OFFICIAL METHODS OF ANALYSIS. Citations for physical requirements and for identified chemical requirements refer to the 2nd Edition (1974) of the Fertilizer Institute (TFI) Manual, FERTILIZER SAMPLING AND ANALYTICAL METHODS. Both manuals are well known to persons in the United States and abroad who work with agricultural chemicals. The A.O.A.C. Manual may be obtained from the Association of Official Analytical Chemists, P. O. Box 540, Benjamin Franklin Station, Washington, D.C., 20044. The TFI Manual may be obtained from the Fertilizer Institute, 1015 18th Street, N.W. Washington, D.C., 20036.

(2) Special Comments

(a) The inspection firm shall perform its sampling and inspection duties on bags of fertilizer at unannounced times, but at intervals not exceeding eight (8) hours bagging.

(b) The inspector shall be responsible for making arrangements with the bagging firms to follow the sampling procedures as indicated in paragraph 2.F.3., Appendix "A" (6), below.

(c) The inspector shall assure that vessel holds are clean, dry, and ready to receive cargo, that the cargo is loaded aboard vessel, that loading is ceased during inclement weather or for reasons which may damage the cargo, and that the storage procedures are such that they will not damage the cargo nor result in discharging difficulties.

(d) The Certificates of Inspection, Sampling and Analysis shall be issued by the inspection agency to the Purchaser, Seller, and A.I.D., and the others that may be designated, within ten (10) days of the final sampling.

(e) Where laboratory analyses are included in the commodity specifications, the inspection certificate must include actual laboratory results for each required test. If inspection and/or analysis reveal any deviation between the actual commodity or commodities and the specifications as stated in this IFB, the inspection firm must notify the Purchaser, Supplier, and A.I.D./SER/COM/CPS of such discrepancies immediately. If the commodity or commodities meet the specifications without exception, the inspector shall conclude his report stating, if true, that the fertilizer meets contract specifications (in the stated IFB), and that the bags appear to meet specifications upon visual inspection.

(3) Collection and Preparation of Official Samples

(a) Bagged Fertilizer

(1) Closed bags - - Material shall be sampled as specified by TFI Method 112 and number of bags to be sampled is specified in the sampling schedule(3). The punctured bags should be neatly patched with printed labels, pressure sensitive tags, or special patching material.

(2) Open bags -- Material shall be sampled by taking cup samples from the bags before they are closed. The samples shall be taken during random visits (See 2.F.(1).(b)., Appendix "A" (6) to the bagging operation to insure representations of the entire lot. The number of bags to be sampled is specified in the following sampling schedule.

(b) Sampling Schedule - - Where stream sampling is not feasible as a means of obtaining official fertilizer samples, the following guide for sampling bagged or bulk materials shall be followed.

CONSIGNMENT			
TONS (m.t)		NUMBER OF BAGS	No. of Bags to be Sampled or increments to be taken
15,000	TSP	300,000	
22,000	DAP	440,000	
15,000	MAP	300,000	

(c) Sample Preparation - - Consolidation of increment samples into a gross sample and sample reduction by riffling shall be by the official inspector in accordance with TFI Method 112, Paragraph B, pages 39-40. All samples must be kept in covered moisture-proof containers, except when being added to the containers, or being reduced. Final preparation of sample for chemical analysis shall be in accordance with TFI Method 112, Paragraph C, pages 40-41.

(4) Distribution of Official Sample

The official consolidated sample shall be divided into four (4) parts, prior to grinding, by means of riffling, using the procedure specified in Sample Preparation (4), One of the four (4) parts shall be analyzed by the official inspector, one is made available to the Seller upon request, and the remaining two (2) such parts shall be retained by the official inspector for a minimum period of six (6) months for possible use by a third referee chemist in the event of a dispute or reserve purposes.

(5) Collection of Bag Samples

The inspection firm shall obtain at least four (4) complete samples each of the outer bags and of the liners being used, and retain such samples for a minimum period of six (6) months.

G. Certification of Weight

(1) The independent inspection firm shall attest, on or prior to the date of the Bill of Lading, as to the weights of the commodity or commodities described in the invoice.

(2) The inspection firm shall check the bagging scales and tare weights at intervals not to exceed 16 bagging hours. The inspector shall also spot check bagged material already stockpiled in the warehouse at intervals not to exceed eight (8) bagging hours. For purposes of check-weighing, an accurate platform scale adjacent to the bagging line should be maintained, kept clean and in balance.

(3) The inspection firm shall assure that scales are checked at intervals during bagging and shall reweigh bags periodically during the operation, keeping a record of these weight checks.

3. EVALUATION

A. Single-Nutrient Fertilizers

Fertilizers will be evaluated on the basis of the minimum guaranteed analysis in increments of one unit of Plant Nutrient (PN); e.g., triple superphosphate ranging from 46.0% to and including 46.99% P_2O_5 will be evaluated as 46%.

B. Multinutrient Fertilizers

Fertilizers must be guaranteed and will be evaluated only on the basis of the analysis requested in the Tender; e.g., 18-46-0 will be evaluated as 18% nitrogen and 46% P_2O_5 or a total of 64 units of Plant Nutrient.

4. DISCOUNTS

A. Rates of Discount

When a shipment fails to meet the grade of Plant Nutrient as guaranteed, the following discount schedule will apply:

Deviation from Guaranteed Analysis	Adjustment Factor
(1) When the deficiency of any Nutrient guaranteed is 0.5 units orless.	-0-
(2) When the deficiency of any Nutrient guaranteed is more than 0.5 but less than 1.0 units	2
(3) When the deficiency of any Nutrient guaranteed is 1.0 units or more	3

The above discounts will apply to each Nutrient guaranteed. No allowance will be made for excess over guarantee of one nutrient to balance deficiency of another nutrient. Plant Nutrient value will be calculated on the basis of the contract price per ton of commodity.

B. Example of Computation

(1) Analysis of triple superphosphate guaranteed by the Seller is 46% on a lot of 1,000 tons priced at $75.00 per ton. Upon testing, the Plant Nutrient content was found to be 45.2% viz., deficiency was 46.0 minus 45.2 = 0.8 of a unit.

Price adjustment (discount) is computed as follows:

0.8 (unit deficiency) times 2 (adjustment factor) times $1.63 (plant nutrient value) = $75.00 divided by 46 times 1,000 (number of tons) equals $2,608.00 therefore, the total discount would be $2,608.00.

(2) Analysis of 16-16-8 granular mixed fertilizer guaranteed by the Supplier are 16%N, 16% P_2O_5 and 8% K_2O on a lot of 5,000 tons priced at $60.00 per ton. Upon testing, the Plant Nutrients were found to be 15.3%N, 16.2% P_2O_5 and 8.3% K_2O

viz., deficiency was 16.0 minus 15.3 = 0.7 of a unit.

Price Adjustment (discount) is computed as follows:

Although both P_2O_5 and K_2O exceeded guarantee, no allowance is made for these excesses to balance the deficiency of N.

C. Discount for Exceeding Chlorine Tolerance in Potassium Sulfate

Chlorine tolerance of 0.5% above specifications will be permitted without discount. For every 0.5% in excess of this tolerance, a discount of 5% of the computed contract cost will be charged.

D. Non-Nutrient Deficiencies

If, after inspection, the fertilizer is determined by the Purchaser at the Port of Loading to be so deficient as to be unacceptable, the Purchaser may decline to accept the commodity and exercise appropriate legal remedies. If, however, in spite of deficiencies, the Purchaser determines to accept the commodity, the Purchaser shall be entitled, in any event, to a reasonable adjustment in the quoted C & F Mombasa Liner Terms Price.

BEST AVAILABLE COPY

APPENDIX "B"
PROFORMA OFFERS TO SELL: INVITATION NO.

NAME OF SUPPLIER	TYPE OF FERTILIZER OFFERED	QUANTITY IN METRIC TONS (NET WEIGHT OF PRODUCT)	SPECIFIC PERIOD OF AVAILABILITY FOR SHIPMENT FROM PORT	PRICE PER M/TON (NET WT. OF PRODUCT) IN DOLLARS (C & F MOMBASA LINER TERMS)	DETAILED PACKING SPECIFICATIONS	PORT OF SHIPMENT	REMARKS
1	2	3	4	5	6	7	8

Offers shall be submitted in quadruplicate (4) and properly authenticated by persons preparing the offers.

CERTIFICATION

The undersigned submits offer and certifies on behalf of the named Supplier that except as hereinafter represented, this offer complies with all the terms of the IFB, its appendices and amendments.

(Exceptions, if any, must be clearly stated, incorporated in the above bid, and clearly and expressly identified as an exception. Exception may result in rejection of bid).

Source: (Country) ________________ Origin: (Country) ____________ Name of Inspection Firm: ______ ________________

Name of Laboratory performing analyses
(if other than Inspection Firm's own lab: ____________________________

____

(Signature & Title) (Firm) (Date)

BEST AVAILABLE COPY

APPENDIX "C" (1)

AGREEMENT TERMS

1. Payments:

(a) Within five (5) business days after Purchaser has dispatched the Notice of Award(s) to Supplier(s), Purchaser shall request A.I.D. to open a Direct Letter of Commitment in Supplier's favour, in an amount equal to the contract price and payable in U.S. Dollars. The Direct Letter of Commitment shall be operable only after A.I.D. has received notice from the Purchaser that Purchaser has received from the Supplier a Performance Bond acceptable to both the Purchaser and A.I.D.

(b) The Direct Letter of Commitment shall provide for payment upon presentation of the documents listed below to:

OFFICE OF COMMODITY MANAGEMENT (COM/SE)
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C., 20523

ATTN: MR. C. EUGENE CLARKE

(1) Bill of Lading: One original and one copy of a signed, clean, negotiable on-board Bill(s) of Lading, showing that the commodity has been consigned directly to the Purchaser. The Bill(s) of Lading shall be marked "ON-BOARD".

(2) Supplier's Invoice: The original and one copy of the Supplier's detailed invoice showing the following:

(a) The name and address of the Purchaser, and the IFB and notice of Award numbers;

(b) The quantity and commodity description shipped in sufficient detail for ready identification;

(c) The total gross sales price;

(d) The total net sales price, determined by deducting from the total gross sales price the amounts required to be deducted under Section 201.65(h) of Regulation 1, as amended, all trade discounts to which the Purchaser is entitled, and all commission and service payments to the extent they are ineligible for dollar financing under Section 201.65 of Regulation 1, as amended;

(e) The delivery terms;

(f) The dollar amount of any incidental services which are not included in the price of the commodity for which payment is claimed;

(g) To the extent that the commodity includes other commodity-related services, a description of such services and the dollar amounts attributable to such services.

(3) Supplier's Certificate: The original and one copy of the Supplier's Certificate (Form A.I.D. 282) executed by the Supplier of the commodity covering the cost of the commodity-related services furnished by the Supplier.

Note: The original of each Supplier's Certificate (Form A.I.D.282) shall be signed by hand and shall bind the person or organization in whose behalf the execution is made.

(4) A.I.D. Voucher: A.I.D. voucher (SF 1034) with three (3) copies prepared by the addressee of the commitment or by the bank as assignee or agent for the addressee of the commitment.

(5) Certification of Inspection: A Certificate of Inspection and Approval, so labeled, must be issued by an independent inspection firm approved by A.I.D., The certificate shall state, if true, that upon its inspection, sampling, and testing of the named commodity, at the time of loading on to vessel, the commodity conforms to all the requirements of the stated IFB, that the bags meet the requirements of the IFB upon visual and other testing by the inspection firm, and that the vessel inspection requirement of the stated IFB has been met acceptably and in full. The inspection certificate shall be signed by an individual authorized to bind the inspection firm and shall be issued in an original and one (1) copy.

(6) Test Certificate: Certification in original and one(1) copy issued by the manufacturer of the Fertilizer showing that the Fertilizer conforms to specifications of the contract at the timeof delivery to the Port of Loading.

(7) Certificate of Weight: A certificate executed by an independent inspection agency in an original and one (1) copy and dated on or prior to the date of the Bill of Lading, as to the net and gross weight of the commodity or commodities described in the invoice.

(8) Transmittal Letter: One (1) copy of Freight Forwarder's transmittal evidencing that an original Bill of Lading was forwarded to the consignee immediately on sailing of the vessel.

(9) Certificate ofBag Manufacturer: A Certificate, in original and one (1) copy, from Bag Manufacturers that Bags supplied meet specifications of this IFB. For polypropylene bags and polyethylene liners (liners only in the case of jute bags), such certificate shall include actual laboratory results for the tests required in "Test Methods", Appendix "A" Section 1.A.1.c., and Appendix "A" Section 1.B.1., if separately requested by the Purchaser. The certificate shall identify the transaction against which the bags were furnished to the Supplier and the A.I.D. Bag Specifications contained in this IFB.

(c) If the supplier is paid through a A.I.D. Letter of Commitment is issued directly to him, the Letter of Commitment shall contain a statement that A.I.D. may deduct from the payment amount specified in the Letter of Commitment monies owed by the beneficiary to A.I.D. and covered by A.I.D. Bills of Collection. The A.I.D. Letter of Commitment or any funds due or to become due under it may be assigned only in accordance with provisions of Assignment of Claim Act of 1940 (C.U.S.C. Section 203 and 41 U.S.C. Section 15). A copy of a proforma A.I.D. Letter of Commitment can be obtained for review by making such request directly to A.I.D., SER/FM/EFD, Washington, D.C., 20523.

2. Breach and Damages:

(a) The failure of Supplier(s) to deliver the commodity purchased hereunder in accordance with the terms and conditions hereof shall constitute breach of this Agreement and Supplier(s) shall be liable to Purchaser for damages suffered. The Purchaser shall have the right to exercise one of the following options:

(1) Grant Supplier an extension of time. In this case, Supplier shall pay Purchaser liquidated damages in an amount of one percent (1%) per week, or fraction thereof, of the contract price of the delayed commodity, up to a maximum of ten (10) percent.

(2) Purchase on behalf of Supplier, and Supplier shall pay Purchaser the difference, if any, between the price paid by Purchaser and the contract price.

(3) Cancel the contract and foreclose upon the Performance Bond.

(b) The failure of Purchaser to accept and to make arrangements for the payment for the commodity purchased hereunder in accordance with the terms and conditions hereof, shall constitute a material breach of this Agreement, and the Purchaser shall be liable to the Supplier for damages suffered by the Supplier.

3. Shipment Terms:

(a) C & F Liner Terms Mombasa Vessel shall mean any and all shipments hereunder, and terms of sales shall be on the basis of "C & F Liner Terms Mombasa vessel port of shipment" which shall be defined for this contract as "loaded and stowed or trimmed on board overseas vessel at named port of export, free of expense to Purchaser". Supplier agrees to make quantities of fertilizer offered and awarded, available within the delivery period to the Purchaser in accordance with the Agreement terms and Notice of Loading clause (see para.3(b), below). It shall be the responsibility of the Supplier to do the following:

(1) Provide for, and pay and bear, all charges incurred in placing the commodity actually on board the vessel designated and provided by or for the Purchaser on the date or within the period fixed.

(2) Supply commodity on board in such condition that a clean on board ocean bill of lading can be issued.

(3) Be responsible for any loss or damage, or both, until the commodity has been placed actually on board the vessel on the date or within the period fixed and clean on board ocean bill of lading or clean mate's receipt is delivered to the Purchaser or the agents nominated by the Purchaser.

(4) Render Purchaser or his authorized agents assistance in obtaining thedocuments issued in the country of origin, or shipment, or both, which may be required for purpose of importation at destination.

(5) Be responsible for co-ordination of loading schedule with the designated carrier, or its agent, in accordance with "Notice of Loading" to be provided by the Purchaser, as specified herein below.

(b) Notice of Loading:

The Purchaser agrees to require the contracted carrier to give fourteen (14) days' notice of vessel's expected readiness at first port of loading to the Supplier. Such notice shall also state the exact quantity of cargo required to be loaded. If two loading ports are to be used, the carrier, or his agent, are also to declare to the Supplier the quantity of cargo required at second loadport not less than six (6) days prior to commencement of loading at the second loading port.

(c) Notice of Arrival for Loading:

Seven (7) days' notice of arrival of the ship at the port of loading will be given by contracted vessel to Supplier and expected time of arrival will also be notified by the master of the ship.

(d) Lightering:

Any Lightering required for loading will be for Supplier's account.

(e) Dunnage:

Any Dunnage required for loading will be for Supplier's account.

(f) Safe Berth:

Delivery shall be made by the Supplier at safe Berth(s) and safe port(s), at the Supplier's option, subject to the other terms of this Agreement.

(g) Vessel Shifting Costs:

Time and cost of shifting from 1st berth to 2nd berth at the port of loading will be for Supplier's account.

(h) Rate of Loading and Unloading:

Supplier(s) agrees to load, stow and trim Purchaser's vessel to an average rate of not less than 1,250 metric tons per weather working day, including Saturday forenoon, notwithstanding higher stevedoring or other charges payable if any, Saturday afternoon, Sundays and Holidays are exempt from the foregoing. At each port of loading used, time for loading will commence at 8.00 a.m. on the next business day after the tendering of notification of readiness, whether in berth or not. Should Supplier(s) fail to load as above, Supplier(s) shall be responsible for the payment of vessel's demurrage, as incurred. Carrier agrees to an average rate of unloading of not less than m.t. per weather working day, including Saturday forenoon.

(i) VESSEL'S GEAR - LOADING LIABILITIES:

Average rate of loading set forth herein is based upon the Purchaser's making available a vessel(s) with a minimum of five (5) hatches, fully geared. The stevedoring will be at Supplier(s)' account. The opening and closing hatch covers and initial rigging of cargo gear will be at vessel(s)' expense.

(j) INDEMNIFICATION:

The Supplier(s) shall indemnify the Purchaser for any liability of the Purchaser to the vessel(s) owner, including demurrage, dead freight, or any other damages attributable to delayed or shortloading of the cargo. Despatch money earned at the loading port will be returned to the grant for use by the borrower. If the Supplier fails for any reason to provide a vessel(s) within delivery period specified in the "Notice of Award", then, to the extent that the Supplier(s) after a fifteen (15) day period beyond the final delivery date specified in such notice incurs reasonable storage charges and other reasonable expenses for purposes of making the commodity available to the Purchaser, the Purchaser shall be responsible for such charges.

4. ASSIGNMENT:

Supplier(s) may not assign or delegate any of its obligations under this Agreement to any party whatsoever without the prior written consent of the Purchaser and A.I.D.

The provisions of this paragraph shall apply to, but shall not be limited to, the following circumstances:

(a) Subcontracting for the procurement of the commodity purchased hereunder.

(b) A sale or encumbrance of substantially all of Supplier(s) shares or assets; a merger of Supplier(s)' business or insolvency or receivership proceedings in receipt to Supplier(s)' business.

5. WAIVER:

The failure of either party to invoke or enforce any of the terms and conditions of this Agreement shall not be deemed a waiver of its conditions or an amendment of its terms, nor shall a waiver of any breach of the terms and conditions hereof be deemed a waiver of such terms or of any subsequent terms.

6. MERGER AND AMENDMENTS:

This Agreement contains each and every representation, warranty, proviso and condition of the Agreement between the Supplier(s) and the Purchaser and shall supercede any prior written or oral agreement between Supplier(s) and the Purchaser. This Agreement may not be amended or supplemented in any respect except in writing, duly executed by parties concerned.

7. Applicable Law:

Supplier(s) and the Purchaser expressly agree that the terms and conditions of this Agreement shall be construed to the laws of the State of New York.

8. Notices:

Except as otherwise specified, all notices hereunder shall be in writing, shall be effective upon dispatch, and shall be given by deposit in the U.S. mail, first class postage prepaid, by tested telex, by cable, or by hand delivery, addressed as follows:

To Purchaser	:	Address designated in paragraph 1 of the IFB
With Copy to	:	SER/COM/ALI, Room 709 RP Agency for International Development Washington, D.C. 20523
To Supplier	:	Address designated in the bid

or to such other address in the United States as the respective party may designate in accordance with this paragraph.

9. Disputes:

All disputes arising in connection with this contract shall be finally decided under the Rules of Conciliation and Arbitration of the International Chamber of Commerce in New York, New York, by one or more arbitrators appointed in accordance with the Rules.

10. Force Majeure:

(a) Time is of the essence relative to Supplier's performance. However, neither party will beliable to the other nor will this Agreement be deemed breached except as provided in this paragraph, for delays or interruption in performing obligations hereunder proximately resulting from the following, disturbances, including but not limited to fires, strikes or explosions; or any other cause beyond the reasonable control and without fault of the party concerned. Delays or interruption in Supplier's performance shall not be considered beyond his reasonable control if arising from the non-performance under sub-contracts for supplies or services if such supplies or services were reasonably obtainable from other sources in sufficient time to permit the Supplier to meet the required delivery schedule.

(b) The party whose performance may be impaired by the occurrence of any of the events referred to above (hereafter referred to as "the affected Party") will promptly notify the other of the fact, indicating the steps required to minimize the impairment and its probable effect on the delivery date or the schedule of delivery dates.

(c) If the probable effect of said impairment is to delay performance of this Agreement for a period in excess of 60 days, the affected party will furnish to the other party weekly reports together with any reports of other significant events which may effect the situation.

11. Performance Bond:

(a) Within fifteen (15) days from the date of the Notice or Award, Supplier shall furnish Purchaser with a Performance Bond indemnifying Purchaser from any loss it may suffer as a result of Supplier's failure to perform any of the terms of this Agreement. It shall be issued in favour of the Purchaser in U.S. dollars in an amount not less than ten percent (10%) of the contract price.

(b) The Performance Bond shall be in the form of a certified check, cashier's check, bank bond or clean irrevocable letter of credit, issued by a bank with sufficient assets to assure payment. If Supplier is a U.S. Supplier, the Performance Bond may also be in the form of a surety bond issued by a surety company approved for government contracts by the U.S. Treasury Department.

(c) The Performance Bond shall be released within 15 days after Supplier's presentation of the payment documents listed in paragraph 1 of this appendix. However, if a Notice of Award provides for more than one delivery, the Performance Bond may be decreased by ten percent (10%) of the value ofthe delivery, after presentation of the payment documents covering that delivery.

(d) Purchaser's collection of any sums from the Bid Bond or Performance Bond shall not preclude it from pursuing any other remedy that it may have at law, at equity, or otherwise.

12. Severability:

Should any provisions of this Agreement hereafter be determined to contravene any law or public policy of the United States of America or the Purchaser, the remaining provisions hereof shall continue and remain in full force and effect and be construed to implement to the maximum possible extent, the intent of the parties expressed herein.

13. Clearance Documentation:

Promptly following delivery to vessel at the Port of Loading, Supplier shall mail the following clearance documentation to the following address. , so that the documents arrive at least ten (10) days in advance of the scheduled arrival of the vessel carrying the commodity:

(a) REPUBLIC OF KENYA
THE KENYA FARMERS' ASSOCIATION (CO-OPERATIVE) LIMITED
P. O. BOX 35, NAKURU, KENYA.

APPENDIX "C" (7)

Documents to be forwarded : One (1) Original and one (1) copy of the Bill(s) of Lading.

One (1) copy of Supplier's Invoice.

One (1) copy of Supplier's Certificate (Form A.I.D. 282)

One (1) copy of each certificate listed in Paragraph 1 of this Appendix.

(b) EMBASSY OF THE REPUBLIC OF KENYA

2249 R STREET., N.W. WASHINGTON D.C. 20008.

Documents to be forwarded: Two (2) Original Bill(s) of Lading and two (2) copies of Bill(s) of Lading.

Two (2) copies of Supplier's Invoice

Two (2) copies of Supplier's Certificate.

Two (2) copies of each certificate listed in Paragraph 1 of this Appendix.

(c) U.S.A.I.D./Director
U.S.A.I.D./Kenya
P.O. BOX 30261
Nairobi, Kenya

Documents to be forwarded : One (1) copy of the Bill(s) of Lading.

One (1) copy of Supplier's Invoice

One (1) copy of Supplier's Certificate. (Form A.I.D.282)

One (1) copy of each certificate listed in Paragraph 1 of this Appendix.

APPENDIX "D"

CONFIRMATION OF AWARD

No: ____________

Date: ____________

TO: ______________________________

____

____

FROM ______________________________

____

____

Gentlemen:

We hereby confirm as Purchaser our purchase from you of the following quantity of fertilizer offered by you under the terms and conditions of Invitation-For-Bids (IFB) No. ____________ dated ____________. The contract for this purchase shall be composed of the IFB, the Appendices, the Bid, the Notice of Award, this Confirmation of Award, and the terms of AID Regulation 1.

The bags shall meet thespecifications set forth in the IFB. A lead time of several weeks between ordering and delivery may be needed forbag procurement of the necessary bags in order to assure their timely availability to you.

This award is conditioned upon your furnishing Purchaser with a Performance Bond as set forth in the contract documents within fifteen (15) days of receipt of Notice of Award thereof.

TYPE & MIXTURE	PACKING	QUANTITY	PRICE	PORT OF DELIVERY	DELIVERY PERIOD

Sincerely yours,

Annex G

A.I.D. Grant No. 615-0200

GRANT AGREEMENT

BETWEEN

UNITED STATES OF AMERICA

AND THE

REPUBLIC OF KENYA

FOR

COMMODITY IMPORT PROGRAM

DATED: September , 1980

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A.I.D. Grant No. 615-0200

COMMODITY IMPORT GRANT AGREEMENT

Dated: September , 1980

Between

THE REPUBLIC OF KENYA ("Grantee")

and

THE UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.")

Article 1: The Grant

To finance the foreign exchange costs of certain commodities and commodity-related services ("Eligible Items") necessary to assist the Grantee in meeting a serious foreign exchange shortage, achieving development objectives and improving the stardard of living of Kenyans, the United States, pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Government of Kenya under the terms of this Agreement, not to exceed Fourteen and One Half Million United States dollars ($20,000,000) ("Grant").

Article 2: Conditions Precedent to Disbursement

Section 2.1. Conditions Precedent. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 7.2, together with a specimen signature of each person certified as to its authenticity.

(b) The designation of a repository and special account for deposit of local currency generations from the sale of commodities financed under this grant as provided in Section 5.1(a).

Section 2.2. Notification. When A.I.D. has determined that the conditions precedent specified in Section 2.1 have been met, it will promptly notify the Grantee.

Section 2.3. Terminal Date of Conditions Precedent. If all conditions specified in Section 2.1 have not been met within Two Weeks (15) days from the date of this Agreement, or such later date as A.I.D. may specify in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 3: <u>Procurement, Eligibility, and Utilization of Commodities</u>

Section 3.1. <u>A.I.D. Regulation 1</u>. This Grant and the procurement and utilization of commodities and commodity-related services financed under it are subject to the terms and conditions of A.I.D. Regulation 1 as from time to time amended and in effect, except as A.I.D. may otherwise specify in writing. If any provision of A.I.D. Regulation 1 is inconsistent with a provision of this Agreement, the provision of this Agreement shall govern.

Section 3.2. <u>Eligible Items</u>. The commodities eligible for financing under this Grant shall be those mutually agreed upon by the Parties and specified in the Implementation Letters issued to Grantee in accordance with Section 7.1 of this Agreement. Commodity-related services as defined in A.I.D. Regulation 1 are eligible for financing under this Grant. Eligible Items will be subject to the requirements and Special Provisions of Parts I, II, and III of the A.I.D Commodity Eligible Listing which will be transmitted with the first Implementation Letter. Other commodities or services shall become eligible for financing only with the written agreement of A.I.D. A.I.D. may decline to finance any specific commodity or commodity-related service when in its judgment such financing would be inconsistent with the purposes of the Grant or of the Foreign Assistance Act of 1961, as amended.

Section 3.3. Procurement Source. All Eligible Items shall have their source and origin in the United States of America (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such Eligible Items) except as A.I.D. may specify in Implementation Letters or as it may otherwise agree in writing.

Section 3.4. Eligible Date. No commodities or commodity-related services may be financed under this Grant if they were procured pursuant to orders or to contracts firmly placed or entered into prior to the date of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 3.5. Procurement for Public Sector.

(a) With respect to procurement under this Grant by or for Grantee, its departments and instrumentalities, the provisions of Section 201.22 of A.I.D. Regulation 1 regarding formal competitive bid produres will apply unless A.I.D. otherwise agree in writing.

(b) Grantee will undertake to assure that public sector end-users under this Grant establish adequate logistic manament facilities and that adequate funds are available to pay banking charges, customs, duties and other commodity-related charges in connection with commodities imported by public sector end-users.

Section 3.6. Special Procurement Rules

(a) None of the proceeds of this Grant may be used to finance the purchase, sale, long.term lease, exchange or guaranty of a sale of motor vehicles.

(b) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(c) All international air shipment financed under this Grant will be on carriers holding U.S. certification to perform the service, unless shipment would, in the judgment of the Grantee, be delayed an unreasonable time awaiting a U.S.-flag carrier either at point of origin or transshipment. The Grantee must certify to the facts in the vouchers or other documents retained as part of the Grant records.

Section 3.7. Financing Physical Facilities. None of the proceeds of this Grant shall be used for the purchase of commodities or commodity-related services for use in the construction, expansion, equipping, or alterations of any physical facility or related physical facilities.

Section 3.8. Utilization of Commodities

(a) Grantee will assure that commodities financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, the Grantee will use its best efforts to assure that the following procedures are followed:

(i) accurate arrival and clearance records are maintained by customs authorities; commodity imports are promptly processed through customs at ports or entry; such commodities are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessel at the port of entry, unless the importer is hindered by force majeure or A.I.D. otherwise agrees in writing;

(ii) proper surveillance and supervision are maintained to reduce breakage and pilferage in ports resulting from careless or deliberately improper cargo handling practices, as specified in detail in Implementation Letter; and

(iii) the commodities are consumed or used by the importer not later than (1) year from the date commodities are removed from customs, unless a longer period can be justified to the satisfaction of A.I.D. by reason of force majeure or special market conditions or other circumstances.

(b) Grantee will assure that commodities financed under this Grant will not be reexported in the same or substantially the same form, unless specifically authorized by A.I.D.

(c) Grantee shall use its best efforts to prevent the use of commodities financed under this Agreement to promote or assist any project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such projected use, except with the prior written consent of A.I.D.

Section 3.9. Minimum Size of Transactions. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than except as A.I.D. may otherwise agree in writing. The minimum size of transaction restriction is not applicable for end-use importers.

Article 4: Disbursement

Section 4.1. Letters of Commitment to Banks. After satisfaction of the conditions precedent, the Grantee may obtain disbursements of funds under this Grant by submitting Financing Requests to A.I.D. for the issuance of letters of commitment for specified amounts to one or more banking institutions in the United States designated by Grantee and satisfactory to A.I.D. Such letters will commit A.I.D. to reimburse the bank or banks on behalf of the Grantee for payments made by the banks to suppliers or contractors, under letters of credit or otherwise, pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be for the account of Grantee and may be financed by this Grant.

Section 4.2. Other Forms of Disbursement Authorizations. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

Section 4.3. Terminal Date for Requests for Disbursement Authorizations. No letter of commitment of other disbursement authorization will be issued in response to a request received after twelve (12) months from the date the Grantee satisfies the Conditions Precedent in Section 2.1, except as A.I.D. may otherwise agree in writing.

Section 4.4. Terminal Date for Disbursement. No disbursement of Grant funds shall be made against documentation received by A.I.D. or any bank described in Section 4.1. after eighteen (18) months from the date the Grantee satisfies the Conditions Precedent in Section 2.1, except as A.I.D. may otherwise agree in writing.

Section 4.5. Date of Disbursement. Disbursements by A.I.D. shall be deemed to occur on the date on which A.I.D. makes a disbursement to the Grantee, or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment or other form of disbursement authorization.

Section 4.6. Documentation Requirements. A.I.D. Regulation 1 specifies in detail the documents required to substantiate disbursements under this Agreement by Letter of Commitment of other method of financing. The document number shown on the Letter of Commitment or other disbursing authorization document shall be the number reflected on all disbursement documents submitted to A.I.D. In addition to the above, the Grantee shall maintain records adequate to establish that commodities financed hereunder have been utilized in accordance with Section 3.8. of this Agreement. If additional documents are required by A.I.D. with respect to specific commodities financed herein, details of those documents will be set forth in Implementation Letters.

Article 5: General Covenants

Section 5.1. Taxation. This Agreement and the Grant will be free from any taxation or fees imposed under the laws in effect in the Republic of Kenya.

Section 5.2. Reports and Records. In addition to requirements in A.I.D. Regulation 1, the Grantee will:

(a) furnish A.I.D. such reports and information relating to the goods and services financed by this Grant and the performance of Grantee's obligations under this Agreement as A.I.D. may reasonably request;

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

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

Section 5.3. Completeness of Information. The Grantee confirms:

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

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

Section 5.4. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section 5.5. Periodic Discussions. Periodically, but no less than annually, the Grantee and A.I.D. will met to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to those concerns.

Section 5.6. Use of Local Currency

(a) Grantee will establish a Special Account and deposit therein currency of the Government of Kenya in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale or importation of the Eligible Items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee at the time this Agreement is signed, provided that such portion of the funds in the Special Account as may be designated by A.I.D. shall be made available to A.I.D. to meet the requirements of the United States.*

(b) The Grantee and A.I.D. will identify priority areas for local currencies uses related to the current five year development plan. An agreement on local currency uses through an exchange of letters will be issued within six (6) months of the date of signature of this agreement. General areas of emphasis for use of local generations include 1) agricultural activities which directly impact on increased production for which additional resources would increase, a) the rate of implementation or b) broaden the scope of the activity; and 2) new undertakings in manpower development, particularly in-service training or retraining of GOK agricultural field staff.

*In addition, to the extent that direct costs of the imported fertilizers, attributable to the cost of shipment on U.S. bottoms, will exceed competitive costs, local currency generations may be applied, upon mutual agreement by A.I.D. and the Grantee, to cover such costs in lieu of deposit in the special account.

Article 6: <u>Termination; Remedies</u>

Section 6.1. <u>Termination</u>. This Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

Section 6.2. <u>Suspension</u>. If at any time:

(a) Grantee shall fail to comply with any provisions of this Agreement; or

(b) Any representation or warranty made by or on behalf of Grantee with respect to obtaining this Grant or made or required to be made under this Agreement is incorrect in any material respect; or

(c) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purposes of the Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

(d) Any disbursement by A.I.D. would be violation of the legislation governing A.I.D.; or

(e) A default shall have occurred under any other agreement between Grantee or any of its agencies and the Government of the United States or any of its agencies;

Then, in addition to remedies provided in A.I.D. Regulation 1, A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through irrevocable commitments to third parties or otherwise, or to the extend that A.I.D. has not made direct reimbursement to the Grantee thereunder, giving prompt notice to Grantee thereafter;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Grant be vested in A.I.D. if the goods are in a deliverable state and have not been offloaded in ports

of entry of the Republic of Kenya.

Section 6.3. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section 6.2, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Grant that is not then disbursed or irrevocably committed to third parties.

Section 6.4. Refunds

(a) In addition to any refund otherwise required by A.I.D. pursuant to A.I.D. Regulation 1, if A.I.D. determines that any disbursement is not supported by valid documentation in accordance with this Agreement, or is in violation of United States law, or is not made or used in accordance with the terms of this Agreement, A.I.D. may require the Grantee to refund the amount of such disbursement in U.S. dollars to A.I.D. within thirty (30) days after receipt of request thereof. Refunds paid by the Grantee to A.I.D. resulting from violations of the terms of this Agreement shall be considered as a reduction in the amount of A.I.D.'s obligation under the Agreement and shall be available for reuse under the Agreement if authorized by A.I.D. in writing.

(b) The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

Section 6.5. Nonwaiver of Remedies. No delay in exercising or omitting to exercise, any right, power, or remedy accruing to A.I.D. under this Agreement will be construed as a waiver of such rights, powers, or remedies.

Article 7: Miscellaneous

Section 7.1. Implementation Letters. From time to time, for the information and guidance of both parties, A.I.D. will issue Implementation Letters and Commodity Procurement Instructions describing the procedures applicable to the implementation of the Agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters will not be used to amend or modify the text of this Agreement.

Section 7.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Permanent Secretary, Vice-President's Office and Ministry of Finance and A.I.D. will be represented by the individual serving or acting in the office of the Director, USAID/Kenya, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as dully authorized by instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.3. Communications. Any notice, reqt -t, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address:

To the Grantee:

Mail Address:	Permanent Secretary Vice President's Office and Ministry of Finance P.O. Box 30007 Nairobi, Kenya
Alternate address for cables:	Finance, Nairobi, Kenya

To A.I.D.:

Mail Address:	Director A.I.D. Mission to Kenya P.O. Box 30261 Nairobi, Kenya
Alternate address for cables:	A.I.D., American Embassy, Nairobi, Kenya

All such communications will be in English unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon giving of notice.

Section 7.4. Implementation and Marking. The Grantee will give appropriate publicity to the Grant as a program to which the United States has contributed, and require goods financed by A.I.D. to be marked as described in Implementation Letters.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

THE REPUBLIC OF KENYA:	UNITED STATES OF AMERICA:
BY: ____________________	BY: ____________________
TITLE: Permanent Secretary Vice President's Office and Ministry of Finance	TITLE: Director A.I.D. Mission to Kenya
	BY: ____________________
	TITLE: U.S. Ambassador