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USAID/KENYA FERTILIZER MARKET DEVELOPMENT PROGRAM

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I. Introduction and Summary:

For the past 4 years, USAID/Kenya has carried out a program of policy dialogue with the Government of Kenya (GOK) aimed at increased use and improved distribution of fertilizer in Kenya. The focus of this policy dialogue has been to expand the involvement of the private sector in fertilizer distribution, and to increase its use by smallholder farmers.

Prior to 1984, practically all fertilizer used in Kenya was distributed by one organization, the Kenya Farmers Association (KFA). The KFA is a GOK controlled organization appointed as the sole distribution agent for all government (donor financed) fertilizer. Exclusive distribution rights of all government fertilizer, combined with the KFA's own commercial imports, gave it a market share of over 85% of all fertilizer sold in Kenya. The rest was imported by 3 or 4 private companies which sold directly to estates and large farms. For smallholder farmers, the only source of fertilizer was the KFA.

The distribution monopoly by the KFA resulted in the non-availability of fertilizer to farmers in rural areas and non-competitive prices. Most farmers in Kenya are aware of the benefits of using fertilizer. However, the cost of travel in acquiring fertilizer and obtaining information on its proper use is too high.

Inefficiencies from the monopolistic distribution of fertilizer have been exascerbated by excessive government involvement in determining fertilizer import allocations and prices. As a result, fertilizer is often imported too late, in insufficient amounts, of the wrong type, and at prices which are higher than necessary. The large gap between effective demand and available supplies encourages wholesale trading of import allocations. Consequently, reduced price margins discourage retailers from investing in market services and facilities to expand their distribution network among smallholder farmers.

The GOK is beginning to implement needed structural reforms in the fertilizer sector to correct these deficiencies. The reform process is now a multi-donor effort which was initiated by USAID through encouragement to the GOK to break up its sole agency agreement with the KFA, and to expand the involvement of the private sector in the distribution of government fertilizer. USAID is building on this initial success by encouraging the development of an integrated retail marketing system though sustained active involvement of the private sector. The long-term goal is to have a system in place whereby the supply, types and prices of fertilizer in Kenya are determined by the market place.

II. Why Fertilizer:

Agriculture plays a dominant role in Kenya's economy in terms of its contribution to GDP, employment and foreign exchange earnings. Directly and indirectly the agriculture and food industry accounts for roughly 75% of the nation's gross domestic product. Over 80% of total employment is in agriculture and agriculture related activities. Agricultural exports over the past decade have accounted for between 50-60% of total annual export earnings.

From 1963-1972, agricultural production grew at an average rate of 4.6% per year. During this period, the first decade after independence, attention was focused on the African farmer. High growth was attributed primarily to the expansion of land area under cultivation, major yield increases from the use of high yielding varieties and shifts by smallholders to higher value crops such as coffee and tea.

Since 1972 there has been a slower growth in agricultural production, to about 3% per year. The conditions contributing to rapid growth in the 1960's, such as the expansion of land under cultivation and the introduction of high yielding varieties, came to an end in 1973. Despite a large total land area of about 583,000 sq km, only 19% of the total can be classified as high and medium potential agricultural land. These lands are practically all under cultivation. Thus, increased agricultural production will have to come from intensification of cultivation and expanding yields. The availability and use of agricultural inputs play a central role in Kenya's future agricultural growth. Part of the GOK's strategy to achieve this growth is through increased use and more efficient distribution of fertilizer.

The use of fertilizer in Kenya has beneficial economic returns. On maize, the benefit/cost ratio is estimated to be about 1.74. The use of fertilizer on coffee is very profitable, yielding a benefit/cost ratio of up to 27.7. The use of fertilizer on tea and wheat is 1.24 and 1.69 respectively. The proper use of fertilizer, particularly when combined with other husbandry practices, can double output per hectare.

The greatest potential increase in agricultural production from increased use of fertilizer is by the smallholder farming sector. Estates and large farmers already receive nearly adequate supplies. The largest gap between present and recommended levels in is maize where present levels of use vary between 5% and 43% of recommended nutrient levels. Smallholder tea and coffee is at about 33% and 35% of recommended levels respectively. Thus, the targeting of increased fertilizer use by smallholder farmers, and efforts to improve the distribution and services by input distributors to smallholder farmers will greatly increase on agricultural production in Kenya.

III. <u>Problems in the Fertilizer Sector Which Limit Increased Use by Smallholders and Constrain Expanded Distribution:</u>

Excessive involvement by the government in distribution, and regulating supplies and prices has been the major constraint to increased use and expanded distribution of fertilizer in Kenya. The USIAD Fertilizer Marketing programs aim at assisting the government to reduce its direct involvement in the sector, and to transfer much of the marketing functions to the private sector, while improving the GOK's performance in monitoring and planning.

The fertilizer sector in Kenya has been government dominated since 1974. Prior to that time, a number of European based companies imported and distributed fertilizer to Kenya through locally based representatives. Oil price rises in the early 1970's increased government intervention out of distrust of the private sector to set fair prices. The GOK began controlling the issuance of import licences and establishing retail price ceilings based on a set formula. All imports since that time have been by the KFA, plus a small number of private firms which were able to get an import allocation from the Fertilizer Allocation Committee.

Donors began financing large amounts of fertilizer for Kenya in 1977. The KFA, later renamed the Kenya Grain Growers Cooperative Union (KGGCU), was appointed as the government's sole agent to distribute all donor fertilizer. This resulted in the demise of several private distributors leaving the KFA (with its share of donor and commercial fertilizers) as the major distributor in Kenya, handling some 85% of all imports.

The existance of one major distributor and only a few other minor distributors resulted in an inefficient marketing system lacking competition which could not cater to the needs of the smallholder farmers. The 3 or 4 other distributors catered mainly to the estates and large farmers. The KFA sold some of its fertilizer to rural stockists, but most was available to farmers only from its branches which were located in market centers in the major food producing areas of the Rift Valley. Farmers in areas outside these centers did not have access to fertilizer without having to incure considerable transport expenses.

Other problems arose from the GOK's sole agency agreement with the KFA relating to the generation and deposit of local currency. Because the KFA also imported substantial quantities of commercial fertilizer, it sold these supplies first while charging the GOK storage costs for its stocks of government fertilizer. In addition, the KFA would assess handling charges on government fertilizer, making it almost impossible for the GOK to calculate in advance the amount of local currency which should be deposited to the Treasury. Much of the government fertilizer was sold on credit to Agricultural Finance Corporation (AFC) loanees, another GOK parastatal. Inherent inefficiencies in the AFC credit program delayed repayments to the KFA resulting in delays of up to two years for Treasury to receive local currency deposits.

Government involvement in the import allocation procedures has contributed to an overall shortage of fertilizer in the country. The Fertilizer Allocation Committee determines who can import fertilizer, the types, and amounts. The total amount allocated is based on the previous year's imports and is generally increased by 3% per year. Kenya imports about 220,000 tons of fertilizer a year. All fertilizer used in Kenya is imported. The effective demand is estimated to be at least 500,000 tons and could be as much as 1,000,000 tons. With such a gap between supply and demand, the amount available is first purchased by large estates and large farmers who value the importance of fertilizer and seek out available supplies. Very little is left for marketing in rural areas. Allocations are often announced late resulting in importers not being able to place orders with suppliers in time for the crop season.

The overall shortage of fertilizer in the country contributes to reduced retail price margins. The gap between supply and demand has created a wholesalers' market where import allocations are sold for profit by traders who receive allocations based on influence. Traders sell their allocations to legitimate importers. As a result only 3 or 4 private firms actually import fertilizer. The importer who purchases an allocation from a trader is left with a lower price margin with which to retail his fertilizer. Thus, distributors have little price incentive to retail fertilizer to rural areas.

The allocation process also does not assure importers of guaranteed supplies of fertilizer. Importers need to satisfy regular customers and plan marketing strategies to invest in expanded retail networks and facilities. This cannot be done when an importer does not know if he will receive an allocation or not, or if the allocation will be more or less than the previous year.

Another major problem is the government's determination and announcement of prices. The GOK uses a formula to determine the maximum retail price for fertilizers sold in Kenya. The formula, is based on a 30 percent markup of the C&F price of each individual fertilizer shipment plus 100 shillings. The markup is intended to cover all wholesale and retail distribution costs. This method of pricing provides that fertilizer is sold in Kenya at no less than world market prices, but its administration has resulted in several problems which include:

a) Delayed price announcements. Retail prices in Kenya are recommended by the Fertilizer Committee, and anounced by the Price Controller after review and approval by Cabinet. As this requires the preparation of working papers and the attention of the most senior policy makers, delays are often encountered. Importers cannot place orders and arrange deliveries to Kenya until they know the price at which it can be sold. Once prices are finally announced it is often too late for importers to deliver the fertilizer at the time it is needed.

b) Fertilizers are priced too high. Some importers have taken advantage of the poor administration of the present system by artifically inflating their invoices. Invoices are passed to the Fertilizer Committee for a price determination based on the above formula. No technical review of the invoice is made to determine if the price indicated by the importer is within reasonable limits. The current procedures do not encourage importers to shop for competitive prices.

Related to the pricing problem is the government's practice of announcing fertilizer prices only once a year. World market prices vary from season to season and sometimes month to month. A price announced for the short-rain season, which was based on world market prices in the preceeding three month period, may be invalid 4 months later if the world market price has increased. As a result, importers will not place orders and a shortage of fertilizer will occur. The lack of information and data on the fertilizer sector has contributed to the overall shortage of fertilizer and the delay in price announcements. GOK planners and policy makers do not have an understanding of the most appropriate types of fertilizer to use in the country, farmer requirements, world market prices, importer/distributor performance, and available supplies in the country. Effective demand has not been tested, and recent research has not been carried out on the economics of fertilizer use and crop response to different types of fertilizer. Lack of data and analysis capability in the government has constrained planning for timely and addequate imports and analysis of the effect of government policies on the fertilizer sector.

There is a general lack of smallholder farmer knowledge on the proper use of fertilizer due to programs not targetted to the smallholder on fertilizer use. Use by smallholders can be greatly increased by provinding fertilizer in appropriate sized and priced packages, and providing extension information on how to purchase and apply the proper types of fertilizer.

Lastly, there is little opportunity for the private sector to give input to GOK planners and policy makers. The GOK needs to listen to the private industry's needs and the effects of government policies and procedures on their ability to help increase fertilizer use and distribution in Kenya.

IV. USAID/Kenya's Long-Term Goal In The Fertilizer Sector And The Policy Dialogue Process

The long-term goal of the USAID Fertilizer Market Development Program is to have in place a marketing system whereby the quanities of fertilizer imported, the types, the timing and the prices in Kenya are determined by the market place. The role of the private sector will be to determine and respond to the effective demand for fertilizer, import the types needed, and determine when and where it is required. The government's role will be to monitor for quality control, gather and analyze data on imports, consumption, prices and distributor performance, and to formulate policies to encourage price competition and performance by the private sector. This type of system works in Kenya for agro-chemicals and it should work as well for fertilizer.

USAID's strategy to achieve its long term goal is to create the environment, through ESF conditionality, to allow the market place to operate. This requires a focus on four key elements:

1) Reduce the GOK's involvemnt in direct distribution of fertilizer and expand the number of private sector distributors experienced in handling fertilizer.

2) Gradually increase the overall supply of fertilizer in the country.

3) Formulate and implement policies to provide incentives for distributors to invest in retail marketing services, while at the same time, provide disincentives for wholesalers to continue in trading and speculation.

4) Develop the instutional capability of the GOK to collect and analyze data for proper planning and administration.

These elements are being addressed through policy dialogue under four on-going programs:

The 1984 Agricultural Development Program (615-0230), a DA loan for $14,724,314;

The 1985 Structural Adjustment Program (615-0213), an ESF grant for $12,000,000;

The 1986 Structural Adjustment Assistance Program (615-0240), an ESF grant for $14,441,901; and

The 1987 Structural Adjustment Assistance Program (615-0240) Amendment No. Two, an ESF grant for $11,295,000.

Getting policy dialogue started was a slow process which began in 1983. At that time, USAID and the GOK had different reasons for wanting to make changes in the distribution system of government fertilizer. USAID was concerned with the effects of monopolistic fertilizer distribution on increasing food production in Kenya. Of primary concern to the GOK, however, and also a major concern to USAID, was the accountability and timely deposit of local currency generations from the sale of fertilizer by its agent, the KFA.

USAID commisioned a study in 1983 to look at the importation and distribution of fertilizer in the country, and to propose recommendations to modify the system. The study proposed a system whereby USAID financed fertilizer could be distributed by private sector firms which would purchase the fertilizer from the Ministry of Finance under a bank guarantee system. Bank guarantees would be payable 120 days after the fertilizer was collected by the distributor. When the quantity purchased from the U.S., and the arrival date to Kenya was known, the fertilizer would be advertised for interested private sector agricultural input distributors to request an allocation for distribution. The GOK would determine a wholesale distributor price to cover the CIF cost of the fertilizer plus inland handling and transportation charges. The price to distributors would be comparable to world market prices so as not to disrupt the sale of commercial fertilizer in Kenya.

The govermnment was at first sceptical of the proposed system. It believed that the private sector firms would not make the fertilizer available to smallholders. However, the Ministry of Finance was willing to try out the system on an experimental basis to see how the bank guarantee system would work. Its distrust of the private sector was not as strong as its desire for prompt and full deposit of local currency.

In October 1983, USAID financed the importation of 14,000 tons of fertilizer under the 1982 Agriculture Sector Grant (615-0228). Half was distributed by the KFA under the old system, and the other half was allocated to private sector distributors under the proposed system with payment by bank guarantees. Seven private sector firms received allocations and sold the fertilizer through their normal distribution systems. After 120 days, the distributor's banks promptly paid the full amount of the bank guarantees to the Treasury. Payment for fertilizer distributed by the KFA was delayed. As long as one year later there was still no confirmation that the KFA had deposited any counterpart into the Treasury. Furthermore, the Treasury was unable to plan on the amount to be deposited as the KFA could not document projected handling and storage charges. Based on the success of this trial effort, the GOK accepted the new system.

The following year, USAID and the GOK began negotiations on the 1984 Agricultural Development Program (ADP). The objective of this program was to fully implement the new private sector distribution system initiated under the Agricultural Sector Grant. The full amount of fertilizer finanaced under this program, about 50,000 tons, would be distributed by the private sector under payment of bank guarantees. The GOK agent, the KFA, was also eligible to distribute this fertilizer, but had to purchase it under the same conditions as the private companies. Futhermore, the GOK agreed to request the other donors to distribute their fertilizer under the new system.

An evaluation of the ADP in July 1985 pointed out that the program was successful in expanding the distribution of fertilizer by the private sector. By that time over 30 private sector firms had participated in the distribution of government fertilizer. The resistance by the GOK to private sector invlovment in the distrubution of government fertilizer had broken down.

The evaluation pointed out to USAID that increased food production in the long-term, through improved fertilizer use and distribution, needed an integrated marketing system in Kenya. Expanding private sector distribution was not necessarily going to assure increased use of fertilizer. A marketing system was needed which could assure the GOK and farmers of having sufficient quantities of the right types of fertilizer imported at the right time and at competitive prices.

The ADP evaluation was a turning point for USAID and the GOK in our efforts to increase fertilizer use and expand its distribution in Kenya through the private sector. USAID began developing new objectives which focused on the development of a sustainable marketing system driven by the private sector, and to address the other structural problems constraining increased use and distribution of fertilizer. Policy changes conditioned under subsequent ESF programs were designed to achieve the following new and expanded set of objective for fertilizer market development. Achieving these objectives would facilitate reaching the eventual goal of instituting a fertilizer import and distribution system driven by the market place.

1) To improve fertilizer use and distribution in Kenya, particularly by smallholder farmers in rural areas;

2) To improve the planning and administration of fertilizer imports to Kenya, both donor and commercial, in order to assure that fertilizers are imported of the right type, in sufficient quantities, at the right time and at competitive prices;

3) To encourage agricultural input distributors to establish retail marketing programs designed to distribute fertilizer to smallholder farmers in rural areas and to educate farmers on fertilizer use; and

4) To increase farmer's awareness of the value and proper use of fertilizer.

V. Conditions and Covenants to Achieve the Long-term Goal

Conditions and covenants since the 1984 ADP have been designed to address the major constraints affecting the development of an integrated marketing system, i.e., prices; import allocation procedures; overall supply shortage; incentives to retail market expansion; planning and administration; and lack of farmer understanding of the proper use of fertilizer. Policy changes from the 1984 ADP had already broken the distribution monopoly of the GOK's agent, expanded the number of private sector distributors, and injected accountability into the generation of local currency. The program also began to develop an expertise in the GOK to address fertilizer sector issues.

On pricing, the GOK was required to complete a study of the current pricing system to make recommendations for revision, if necessary. The study was completed and the recommendations formulated subsequent covenants which required the GOK to a) implement a new pricing formula to provide gross margins sufficient to encourage retail marketing organizations to invest in retail marketing services, and b) to implement a system which establishes prices based on a Benchmark International Price (BIP) rather than individual CIF invoices. Other recommendations required the GOK to announce retail fertilizer prices by a specified deadline in order for importers to arrange for timely imports. As world fertilizer prices change, the GOK is also required to review prices in Kenya to determine if they should be adjusted upwards or downwards, and to announce new prices more than once a year if necessary.

To improve import allocation procedures, the GOK was required to develop an annual import plan which includes carry forward stocks, donor financing intentions and planned commercial imports. The import plan was to be made available to commercial importers so that they could plan their import requirements and strategies. The GOK was also required to announce commercial import allocations by a specified date for importers to place orders for timely deliveries. Also, as a covenant under the most recent program, the GOK is in the process of carrying out a feasiblity study to review the present commercial import allocation approval process with a view toward shortening the time and reducing the steps involved in import licensing approval. The feasibility study is also developing a policy for improved donor coordination and management of donor-financed and commercial imports of fertilizer.

To relieve the overall shortage of fertilizer in the country, the GOK covenanted to develop an annual fertilizer import plan. This has enabled planners to better determine the amounts and types of fertilizer required. The GOK is also providing import allocations to major end-users, such as cooperatives, up to their proven requirements. Each year the GOK is required to increase total fertilizer availablity consisting of commercial imports, donor aid, and carry-forward stocks by increasing target avialabilities in the annual import plan.

To develop incentives for distributors to invest in retail market expansion, the GOK was required to develop and enforce distributor criteria for private sector distributors to be elegible to receive allocations of donor fertilizer. Those distributors who performed according to the criteria were to continue to recieve import allocations. The GOK agreed that proven importers who do perform will be given preference during subsequent allocation exercises in order to encourage investment in specialized fertilizer handling facilities and the development of distribution networks in smallholder farming areas.

In order to improve the planning and administration of the fertilizer sector, the GOK was required to establish a Fertilizer Committee composed of members from the Ministies of Agriculture, Finance and the Office of the President. This Committee was to oversee the implementation of policy reforms under the USAID and other donor programs and to recommend allocations of commercial and donor fertilizer. The Committee members have established an expertise to analyze sector issues and develop policies to promote greater efficiency in the sector. The GOK was also required to set up a Fertilizer Inputs Unit in the Ministry of Agriculture to monitor importer/distributor performance, collect data on world market prices and distribution costs in Kenya, and to collect data on fertilizer availabilities and requirements.

A National Fertilizer Association has been established composed of representatives of the private sector who meet with GOK planners and administrators to help discuss and develop policies supportive of private sector distribution. The GOK agreed to assist in the formation of this Association.

In order to improve farmer understanding of the proper use of fertilizer, the GOK agreed to develop and provide information leaflets on fertilizer use which could be distributed to farmers as they buy fertilizer. The leaflets would be printed in English and Swahili, and contain drawings and simple to understand instructions on fertilizer use. The leaflets would be distributed by retail firms. An important policy change was to package fertilizer in smaller sized bags, rather than the usual 50 kilo bags, and to authorize a surcharge for distributors to recover the additional handling and transportation costs.

VI. Impact To Date:

USAID has made considerable progress towards achieving the goal of instituting a marketing system driven by the private sector. The first significant policy change was fully implemented in 1985 with the GOK cancellation of its agreement with the KFA for the exclusive distribution of GOK fertilizer. In March 1985 AID financed the importation of 20,500 tons of DAP which was distributed by 16 private sector distributors. In October 1985 another 28,000 tons of AID financed DAP imported by the GOK was distributed by a total 24 of private sector distributors. To date, more than 35 private sector firms have distributed government fertilizer as opposed to only 1 prior to USAID's program. The effects of this policy change have been to expand the geographical distribution of fertilizer in rural areas through a greater number of distributors, thereby making it more available to smallholder farmers, and to encourage price competition at the wholesale and retail levels.

There has been an increase in total fertilizer supply through expanded commercial fertilizer import allocations and allocations to cooperatives. The number of private sector firms receiving allocations from the GOK to import fertilizer commercially has increased from 13 in the 1983/84 cropping year to 44 in the current year. During the same period the total amount of fertilizer allocated for commercial importation by these firms has increased from 183,205 tons to 209,102 tons. Amounts of donor financed fertilizer imports have increased as well from 33,000 tons in the 1983/84 cropping year to 128,000 tons in the current year.

In March of 1986 the Ministry of Agriculture (MOA) established a Fertilizer Inputs Unit to collect and analyze data on the fertilizer sector. Data is collected on quantities and types imported, consumption requirements, local and world market prices and carry over stocks. This information is used by the Ministry to prepare an annual fertilizer import plan so that arrangements can be made to import fertilizer of the proper types, in correct amounts, at the required time and at competitive prices. Since 1985 the MOA has prepared annual fertilizer import plans according to the requirements of the USAID program. This import plan has helped to improve the supply of fertilizer tremendously. The Input Unit has also monitored the performance of commercial importers to make sure quantities allocated for import are in fact being imported and to make timely adjustments in the import plan.

Starting the 1986 long rain season, DAP fertilizer financed by USAID was offered for sale in 10, 25 and 50 kilo bags. Prior to this all fertilizer was sold in 50 kg bags. This enabled farmers to purchase quantities of fertilizer at affordable prices and in convenient sizes for transportation. Popularity of the smaller sized bags is extremely high and it has increased the use of fertilizer by smallholder farmers as a result.

Begining 1986 import allocations have been given to cooperative unions and other end users. This has provided a very significant portion of smallholder farmers better access to fertilizer at very competitive prices.

In December 1986 USAID carried out a study to identify the agricultural input distributors in Kenya who are interested in expanding their retail distribution network, and investing in marketing programs for fertilizer. USAID liaised with the International Fertilizer Development Center (IFDC) to conduct a course in Kenya on retail marketing of fertilizer. USAID financed the participation of indivuduals from 6 private sector firms to attend this course. Thus, further assistance was given to private sector firms to help them to develop marketing strategies and to implement these strategies through better planning and understanding of fertilizer marketing concepts.

Through donor coordination there has developed a better understanding of the necessary changes in the fertilizer sector to improve fertilizer use and distribution. The problems affecting the fertilizer sector have been discussed in detail at these meetings, and some donors are now developing programs to implement changes. One donor is financing a research program on crop responses to fertilizer use and the economics of fertilizer use. The results of this research will enable planners to better determine the appropriate types of fertilizer to be imported to Kenya and assist the extension service to disseminate information on proper fertilizer use. Donor coordination also resulted in the completion of the fertilizer pricing study as required under the 1984 ADP. The results of this study have lead to the development of policy recommendations which are now being considered the GOK.

Beginning last year the GOK applied the basic theory behind the recommendations to establish prices based on a Benchmark International Price (BIP). Full implementation of the BIP is expected next year as the staff of the Fertilizer Inputs Unit becomes trained and fully operational. In the absence of world market price information the GOK analyzed actual C&F prices paid by Kenyan importers for fertilizers delivered to Kenya in the three month period preceeding the announcement of prices. A BIP was then calculated using the average of the three lowest prices. The scrutiny of the import documents by the GOK indicates an increased interest in finding out how importers operate and to improve the planning and administration of its own functions. The effect of basing the BIP on the average of the lowest three submitted invoices encouraged importers to search for the lowest prices and to adopt efficient import practices.

The establishment of the Fertilizer Committee under the 1984 ADP has developed a technical expertise in the GOK to analyze and develop fertilizer policies. Fertilizer policies are recommended to senior GOK policy makers from their technical officers. These recommendations are first developed through discussions at the technical level of the GOK and USAID. In this manner, GOK policy makers are advised by their own officers rather than a donor promoting policy changes. The GOK is moving in the direction of less decision making at the top and relying more on technical officers to guide the formulation of policies and procedures. This is a welcome change which supports USAID efforts to reduce GOK involvement in the fertilizer sector. Import allocations are now influenced by technical officers which has helped to reduce the approval time for allocations. During the last 2 years, the GOK has developed commercial import allocations and announced them prior to the established deadlines.

VII. Future Plans:

In the future, discussions will continue with the GOK on additional policy changes. The GOK is now developing a policy paper to outline a strategy for improving fertilizer use and distribution in Kenya. The recommendations in the policy paper are expected to focus on coordination of donor and commercial imports, and to further implement steps to liberalize GOK allocation and pricing procedures. The paper will begin a new stage for policy dialogue. Policy dialogue will now be based on the GOK's own plan.

USAID will conduct an assessment of the impact of its fertilizer program on the use and distribution of fertilizer. The study will appraise the effects of the recent developments on the overall use and distribution of fertilizer. It will help test our assumptions about what is needed to expand the use of fertilizer in Kenya and to alert us if we are moving off what we think is the right track in our policy dialogue with the GOK on fertilizer sector reforms. The study will look briefly at the effects of recent developments to establish whether they lead to increased fertilizer demand and consumption. A key objective of this study will be to answer two questions raised by AID/W regarding 1) end use, i.e., who is using fertilizer, is it getting wide distribution, and is it being employed effectively by end users; and 2) sustainability, i.e., how long should AID continue with its involvement in fertilizer sector in Kenya.

VIII. Lessons Learned:

USAID experience with policy dialogue under the fertilizer program underscores a number of points which are necessary for effective policy dialogue.

1. There must be a strong capability within the USAID and the host government to understand the problem at the technical level and to access or do quality analyses.

2. A close productive relationship at the technical level of USAID and the host government over a sustained period of time is essential.

3. Conditions and covenants must be jointly developed and carried out against a well developed strategy for policy dialogue to be successful.

4. Policy change is more likely to occur when dealing with a specific sectoral program over an extended period, e.g. three to five years.

5. The policy dialogue process is constantly evolving with objectives and goals changing over time based on new knowledge and better understanding.

Donor coordination has had a significant impact on fertilizer sector policy changes. USAID is one of 8 major donors of fertilizer in Kenya. Donor meetings are held frequently to discuss the fertilizer situation, donor intentions for future imports, GOK programs and policies which impact on the fertilizer sector, and donor intentions to develop new policies and conditions. Donor coordination has been successful where there are a number of donors with programs directly related to fertilizer. It has been catalyzed by one donor with a technical assistance project to monitor fertilizer use and distribution. One of the objectives of the project was to coordinate with donors to determine their import plans for the coming year. Meetings were conviened by the project where other donors were invited to discuss their import plans, and to be briefed by the project consultants on recent developments in the sector.

IX. Conclusions:

USAID is pleased with its success in initiating GOK policy changes to improve fertilizer use and distribution in Kenya. The fundamental differences between USAID and the GOK over the involvement of the private sector have been broken down. There is now agreement over the eventual goal to have in place a fertilizer distribution system driven by the market-place. The problems left to sort out are the steps and timing to achieve this goal. The problems in the fertilizer sector in Kenya and the role of the government prior to 1984 are perhaps similar to other African countries. The programs developed by USAID/Kenya and the GOK to address these problems could be a model for other African countries to follow.