USAID/KENYA

FOOD ASSISTANCE DEVELOPMENT STRATEGY

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USAID/KENYA

FOOF ASSISTANCE DEVELOPMENT STRATEGY STATEMENT

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Executive Summary

The USAID/Kenya Food Assistance Development Strategy is unlike the sectoral strategies which have been developed by the Mission. The essential difference is that food assistance is a developmental resource, rather than a sector which may be addressed and benefit from assistance. The objective of the Food Assistance Development Strategy is therefore to complement and reinforce the specific objectives of the Country Development Strategy Statement (CDSS) as well as those found in the individual sector strategies.

The Food Needs Assessment

The Food Needs Assessment presented in Chapter II reveals that for the period 1970-87, the country was generally self-sufficient in cereal production with the exception of the drought years. A closer examination however reveals that the country has generally had a surplus of coarse grain production while it experienced an increasing structural deficit in wheat and rice. Currently, the Government is attempting to overcome the rice gap through an increase in acreage for both irrigated and rainfed rice. The Government, however, acknowledges that self-reliance, rather than self-sufficiency, is the appropriate strategy for wheat. The underlying reason for this policy is that there is little opportunity to increase wheat production because of: (1) the relative scarcity of appropriate land resources; (2) the capital-intensive nature of Kenyan wheat production; (3) the sub-division of what historically has been the wheat belt due to increasing population pressure and the transfer of this acreage from wheat to maize; and (4) the relatively high yields (2.25 MT/Ha) of the current wheat technologies employed. Together these factors have limited production increases to less than 2.5% per year. Simultaneously, the demand for wheat has been increasing by approximately 6.5% per year as a result of population growth as well as the taste, convenience, and income effects associated with development and urbanization. The result is that currently Kenya is producing only 50% of the country's consumption requirements. Further, the production-consumption gap is approximately 230,000 MT and increasing by 25,000 MT annually. In the longer-term we expect that the wheat gap will continue to increase to nearly 600,000 MT at the turn of the century. We also expect a potential deficit of nearly 400,000 MT in maize unless farmers receive sufficient incentive to intensify maize production. The reasons for this trend are a rapidly-closing land frontier, under-utilization of agricultural inputs, and an increasing demand for maize by the feed industry. We do not anticipate severe shortages for other cereal commodities.

When one examines the country's ability to finance the expected deficit, one finds that the expected wheat import bill will increase from approximately $30 million in 1987, to $60 million in 1995, to nearly $85 million in 2000. Given the instability and depressed nature of the coffee and tea markets, we do not have confidence that the country will generate the required foreign exchange to finance such an import bill without drawing upon significant sums that would otherwise be allocated for investment purposes. Consequently, we believe that a food aid package valued at $20-25 million per year should not distort either domestic or international markets and would contribute to Kenya's economic development.

A Review of USAID/Kenya Food Assistance Program, 1980 - 1987

The review of the Title I Program has been divided into two phases. During the first phase, Title I resources were used for emergency relief. Emphasis was placed on moving the commodities - particularly rice which sat in storage for more than a year before consumption. Furthermore, it appears that Kenyan officials perceived the purpose of the program to be political rather than developmental. The second phase of the program (post-1984) has shown good progress in the area of privatization of U.S. and commercial imports, Government efforts to develop an implementation plan for private-sector domestic market development, and the programming of counterpart resources. The developmental impact of the program has continued, however, to be limited by the fact that Title I resources belong to the Government. This limits A.I.D.'s leverage on both programming counterpart and on on requiring relatively strong self-help measures.

The review of the Title II Project Food Assistance shows that, with the exception of emergency assistance, the Title II program has been modest. Catholic Relief Services (CRS) has served as the principal implementing agency. During the decade, CRS has attempted to adjust to the trend within Food for Peace to use food assistance as a development resource by redesigning its program to include agricultural production, soil conservation and food security. Recently, other PVOs, including CARE and Food for the Hungry International have also developed project initiatives which integrate food with non-food resources in developmental activities.

The USAID/Kenya Food Assistance Development Strategy

The goals of this strategy are consistent with those found in the current Kenya CDSS. The specific objectives of the food assistance development program are to: (1) provide short-term food security at the national level through the importation of food commodities for which there are insufficient levels from domestic or commercial importation sources; (2) encourage and promote efficient market development in order to assure that adequate availabilities at the national level are translated to local and individual food security; (3) provide short-term targeted food assistance in circumstances in which the individual/community is unable to achieve food security; (4) provide balance of payments support in order that the scarce foreign exchange may be used for productive investment rather than the consumption of food commodities; (5) permit the Government to design and implement policy and investment decisions to strengthen the foundation for economic growth and food security; and (6) through the use of counterpart funds generated by the sale of P.L. 480 commodities, provide the means to undertake investments in the food, agricultural and related sectors.

To implement this strategy, USAID/Kenya intends to pursue a two-pronged food assistance program. The first prong is what we have termed "the food structural adjustment program." Given the expected total food assistance requirement of some $20-25 million per year in the short-term, the U.S.'s comparative advantage in cereal production and the commitment of USAID/Kenya to increased productivity within the food and agricultural sector, we belie it is appropriate to recommend an eventual increase in the U.S. p ram size to an eventual level of $15-20 million. It is important stress, however, that providing assistance at such a level must be performance-based, i.e., the Government must initiate and implement structural reforms that contribute to agricultural productivity and international competitiveness as a condition for the receipt of the commodity. Having reviewed the policy issues in both the Agricultural and Private Sector Strategies, it is our assessment that the most critical policy issue of the late 1980s is that of agricultural marketing. Therefore, it is the intention of USAID/Kenya to build upon the modest successes of the current Title I Program as well as the stated commitment of the Kenyan Government to encourage competitive and efficient market development, by integrating P.L. 480 resources with those of Development Assistance and Housing Guarantee funds in the form of a new Agricultural Marketing Development Program. In addition to supporting the Government's intended reforms, this program will generate counterpart funds to assist in the financing of market development.

With regard to the type of food assistance, the Government has requested A.I.D. to explore the possibilities of grant rather than concessional loan terms. Given this request, and the mitigating effect that loan terms have had on the implementation of the Title I Program, as a first priority USAID/Kenya intends to pursue a Section 206 Program. A modified Title III, or a Title I program, would be second and third alternatives, respectively. The final decision on priorities will depend on actual worldwide food availabilities. In this connection, it is important to stress that the implementation of a performance-based program will require increased flexibility and support by the Food Assistance Sub-Committee of the Development Coordination Committee in Washington, D.C. (DCC).

The second prong of USAID's food assistance development strategy includes project food aid. These modest activities will focus upon long-term development impact through a few well-targeted, relatively short-term multi-year programs (2-3 years). Occasions for such assistance may be the result of chronic under-production, inefficient marketing, and/or lack of resources resulting in location specific malnutrition. Again, such assistance will be provided to well-targeted activities that address the relevant constraint(s) to food security.

I. Introduction

Food is the most basic of human needs. Providing sufficient food of adequate nutritional quality to the population is the first development objective for the Government of Kenya, and USAID/Kenya has placed an emphasis through its project and program assistance on helping the Government realize this objective. Yet, food insecurity remains a persistent problem. In Kenya the basic problem has not been so much the lack of food, but rather, the lack of effective demand and efficient market channels to assure the availability of food commodities at an affordable price. Economic growth, the primary objective of USAID/Kenya, will ultimately provide both individual households and the nation with sufficient purchasing power to ensure adequate diets. Until that time, it will be necessary to utilize compensatory resources such as food assistance to assure that the country's food security position is maintained at acceptable levels.

It is important to stress that the provision of compensatory resources without addressing the underlying c[illegible]es of the food problem, (i.e. decreasing agricultural productivity, an extremely high rate of population growth, a lagging growth in employment opportunities and international competitiveness, etc.) will only serve to undermine the objectives of economic growth and long-term food security in Kenya. We have entitled this document the "Food Assistance Development Strategy", and given an explicit focus to food assistance as a developmental resource. Hence, this strategy document is unlike the previously released strategies on the Private and Agricultural Sectors. It is understood that food assistance is one resource which serves these sectoral strategies as well as those of Population, Health, and Human Resources through policy dialogue, the implementation of location-specific projects by PVOs, and the release of counterpart generations for priority activities that address the underlying causes of the food problem.

The sections which follow (1) analyze the current and expected status of the food sector; (2) review the food assistance programs implemented by USAID/Kenya in the 1980s; (3) review the food assistance program options available to USAID/Kenya; (4) present the USAID/Kenya Food Assistance Development Strategy; and (5) examine the management implications of this strategy.

II. Current and Expected Status of the Food Sector

A. Introduction

Prior to discussing the role of food aid, and specifically the "USAID/Kenya Food Assistance Development Strategy", it is necessary first to review the food sector in order to assess the current situation, and the probable short and medium-term trends which will affect Kenya's economic well-being, in addition to the resources to be made available for development investment. The following section reports the expected domestic food needs and availabilities in light of past trends and on-going investments. It is followed by a brief analysis of Kenya's ability to finance future deficits on a commercial basis, as well as a consideration of future food aid requirements. Here, it is important to stress that USAID/Kenya is fully aware of the experience of increasing dependency upon food assistance resources in a number of countries, particularly in Sub-Saharan Africa. USAID/Kenya's posit[illegible] is that such dependency should be minimized, and that, to t[illegible] greatest extent possible, the Government of Kenya should rely on commercial purchases/sales in order to achieve a position of long-term food security.

B. Expected Food Needs and Availabilities

Currently, there are two principal means of determining the expected food needs in a country. The first is to determine the average caloric consumption, adjusted for distribution inequalities. The caloric balance is then used to determine the per capita deficit and the quantities of a given commodity necessary to bring the food situation into caloric equilibrium. The second method is to calculate the domestic supply, demand and surplus (deficit) for individual commodities, in an effort to ensure an appropriate balance of food availabilities in light of domestic production trends. Of the two methods, USAID/Kenya believes the latter is more appropriate, especially for non-emergency assistance. The reason for this is our assessment that, in the Kenyan context, wheat, rice, maize and sorghum are not necessarily the substitutes that a caloric analysis might imply. It is our conviction that the consumer should determine the commodity consumed, provided that the price of the commodity reflects the international value of consumption. However, so that the reader may better understand the food and agricultural relationships, we will present an overview of the Kenyan food sector, and utilize both types of analysis.

Tables 1 and 2 below present the historical data from 1970 - 1987, as well as USAID/Kenya's expectations. These are based on current policies and investments in agricultural production through the end of this century. The tables reflect the fact that, with the exception of the drought years (1974-75, 1980-81, 1984-85 and 1987-88), the country has largely been self-sufficient in aggregate cereal production. However, we believe this trend has now ended due to rapid population growth; the increasing scarcity of high potential land resources; the lack of appropriate and affordable technological packages available to small-holders; and policies that constrain efficient market development. Therefore, we expect that cereal deficits will continue to increase in severity through the end of the century. As shown in Table 2, the deficit for 1987/88 is approximately 575,000 MT (Production is now estimated to be 15% below the long-term trend for corn (maize) and 10% for wheat). In the short-term the deficit will be offset largely by existing stocks; however, the long-term implications are unsettling. Assuming "normal" production, the cereal deficit in 1988/89 is expected to total 326,000 MT. This quantity is expected to increase to over 1 million MT by the turn of the century. As an example of the severity, in 1995/96, again assuming "normal" crop conditions, the total deficit of 795,000 MT is expected to nearly equal that experienced during the 1984/85 drought.

Table 1: Kenya - Domestic Cereal Production, Non-Food Utilization, and Food Availabilities 1971 -- 2000

			Production (000 MT)						Feed Seed and Waste (000 MT)						Food Availabilities (000 MT)					
Year	Population Growth Rate	Population (000)	Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains
1970/71	---	11.452	1.181	177	30	311	30	1.729	111	19	2	23	2	156	1.070	158	29	288	28	1.573
1971/72	3.5	11.858	1.473	170	35	324	35	2.037	126	19	2	24	2	176	1.345	151	33	300	33	1.861
1972/73	3.6	12.290	1.384	150	35	316	33	1.919	129	20	2	24	2	176	1,255	130	34	292	31	1,743
1973/74	3.7	12.748	1,279	138	33	310	30	1,790	124	21	2	23	2	171	1.155	117	31	287	28	1.619
1974/75	3.8	13.232	1.387	158	32	300	28	1,905	128	21	2	22	2	175	1,259	137	.30	278	26	1,730
1975/76	3.9	13.744	1.638	162	39	361	35	2,285	149	22	2	27	2	202	1,539	140	37	334	33	2,083
1976/77	4.0	14.288	1.909	181	44	367	38	2.439	156	23	2	34	2	217	1,653	158	42	333	36	2,222
1977/78	4.0	14.863	1.842	166	36	450	38	2.532	156	24	2	35	2	219	1,686	142	34	415	36	2.313
1978/79	4.1	15,468	1.935	138	36	466	35	2,630	159	25	2	27	2	214	1,776	133	34	439	33	2.416
1979/80	4.1	16,104	1,750	155	34	355	38	2,332	149	26	2	30	2	209	1.601	129	32	325	36	2,123
1980/81	4.2	16.774	1.637	189	41	399	42	2.308	150	24	2	30	3	209	1,487	165	39	369	39	2.099
1981/82	4.2	17.474	2.501	235	38	410	43	3.227	202	27	2	31	3	265	2,299	208	36	379	40	2.962
1982/83	4.2	18.206	2.350	244	38	391	40	3.063	198	28	2	29	2	259	2,152	216	36	362	38	2.804
1983/84	4.2	18.969	2,030	190	36	238	38	2,532	184	29	2	18	2	235	1.846	161	34	220	36	2,297
1984/85	4.2	19,760	1.725	85	29	353	26	2.218	171	30	1	27	2	231	1.554	55	27	326	24	1.987
1985/86	4.0	20.550	2,750	235	37	313	40	3.375	228	31	2	31	2	295	2.522	204	35	282	38	3.080
1986/87	4.0	21,372	2.830	255	45	324	43	3.517	206	33	2	32	3	276	2.644	222	43	292	41	3.242
1987/88	4.0	22.227	2.250	215	35	280	35	2.815	214	35	2	33	2	286	2.036	180	33	247	33	2,529
1988/89	4.0	23.116	2.517	242	55	346	39	3.199	222	36	3	35	2	298	2.295	205	52	311	37	2.901
1989/90	4.0	24.041	2.587	246	65	358	40	3.297	231	38	3	36	2	310	2,356	208	62	322	38	2.986
1990/91	3.9	24.979	2.630	253	80	370	41	3.373	240	40	4	37	2	323	2,389	213	76	333	39	3.050
1991/92	3.9	25.953	2.672	259	85	381	42	3.440	250	42	4	38	3	337	2,422	217	81	343	40	3.103
1992/93	3.9	26,965	2.745	266	87	393	43	3.536	260	44	4	39	3	351	2,485	221	85	354	41	3.185
1993/94	3.9	28,017	2.819	272	93	406	44	3.634	271	47	5	40	3	365	2.548	226	88	366	42	3,269
1994/95	3.9	29.109	2.895	279	97	419	45	3.736	282	49	5	41	3	380	2,613	230	92	378	43	3,356
1995/96	3.8	30.215	2,945	287	101	431	47	3.811	294	52	5	43	3	397	2.651	235	96	388	44	3.414
1996/97	3.8	31.364	3,031	295	104	446	48	3,924	307	55	5	44	3	414	2,724	240	99	402	45	3.510
1997/98	3.8	32.555	3.123	303	108	461	49	4.044	321	58	5	45	3	432	2,802	245	103	416	46	3.613
1998/99	3.8	33.793	3.222	311	112	477	51	4.173	335	61	6	46	3	451	2,887	250	106	431	48	3.723
1999/2000	3.8	35.077	3.332	320	115	496	52	4.316	351	64	6	47	3	471	2,981	256	110	457	49	3,845

Source: 1970 - 1987, Merged Data from GOK/Ministry of Agriculture, GOK/Central Bureau of Statistics, USDA and FAO
1988 - 2000, USAID/Kenya Expectations based on previous data, implementation of the agricultural research and extension program and increased fertilizer availability.

Table 2: Kenya - Per Capita Cereal Food Demand, Total Cereal Food Demand, and Surplus/Deficit 1971 — 2000

Year	Population Growth Rate	Population (000)	Per Capita Food Demand (Kg): Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Total Food Demand (000 MT): Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Food Surplus (Deficit) — 000 MT: Maize	Wheat	Rice Paddy	Sorghum — Millet	Other Grain	All Grains
1970/71	—	11.452	113.5	14.8	2.5	19.7	2.0	152.5	1.300	170	28	225	23	1.746	(119)	7	2	84	7	(17)
1971/72	3.5	11.858	113.4	15.1	2.5	19.4	2.0	152.5	1.315	179	30	231	24	1.808	128	(9)	5	93	11	229
1972/73	3.6	12.290	113.3	15.4	2.5	19.2	2.1	152.5	1,392	190	31	236	25	1.874	(8)	(40)	5	80	8	45
1973/74	3.7	12,748	113.1	15.7	2.3	19.0	2.1	152.5	1,442	201	32	242	27	1.944	(163)	(63)	1	68	3	(154)
1974/75	3.8	13.232	113.0	16.1	2.5	18.8	2.1	152.5	1.495	213	34	249	28	2.018	(108)	(55)	(2)	51	(0)	(113)
1975/76	3.9	13.744	112.8	16.4	2.5	18.6	2.2	152.5	1.551	225	35	256	30	2.096	137	(63)	4	105	5	189
1976/77	4.0	14.288	112.7	16.7	2.6	18.4	2.2	152.5	1.610	239	37	263	31	2.179	199	(58)	7	164	7	260
1977/78	4.0	14.863	112.5	17.1	2.6	18.2	2.2	152.5	1,672	254	38	270	33	2,267	170	(88)	(2)	180	5	265
1978/79	4.1	15.463	112.3	17.4	2.6	18.0	2.3	152.5	1.736	269	40	278	35	2.359	199	(111)	(4)	188	6	271
1979/80	4.1	16.104	112.0	17.8	2.6	17.8	2.3	152.5	1.904	286	43	286	37	2.456	(54)	(131)	(9)	69	1	(124)
1980/81	4.2	16.774	114.1	15.8	2.7	17.5	2.3	152.5	1.914	265	45	294	39	2.558	(277)	(76)	(4)	105	3	(250)
1981/82	4.2	17.474	111.6	18.5	2.7	17.3	2.4	152.5	1.950	323	48	303	41	2,665	551	(88)	(10)	107	2	562
1982/83	4.2	18.205	112.2	18.0	2.8	17.1	2.4	152.5	2,042	328	50	312	44	2,776	308	(84)	(12)	79	(4)	287
1983/84	4.2	18.963	112.2	18.1	2.8	16.9	2.4	152.5	2.129	343	53	321	46	2,893	(99)	(153)	(17)	(83)	(8)	(361)
1984/85	4.2	19.760	111.3	19.1	2.9	16.7	2.5	152.5	2.200	377	56	331	49	3.013	(475)	(292)	(28)	22	(23)	(796)
1985/86	4.0	20.550	111.7	18.9	2.9	16.5	2.5	152.5	2.296	387	60	340	51	3.134	454	(152)	(22)	(27)	(11)	241
1986/87	4.0	21.372	111.2	19.5	2.9	16.3	2.5	152.5	2.376	417	63	349	54	3.259	474	(162)	(18)	(25)	(11)	258
1987/88	4.0	22.227	110.9	19.9	3.0	16.1	2.6	152.5	2.464	443	66	359	57	3,390	(214)	(228)	(31)	(79)	(22)	(575)
1988/89	4.0	23.116	110.5	20.4	3.0	15.9	2.6	152.5	2,555	471	70	368	60	3,525	(38)	(230)	(15)	(22)	(21)	(326)
1989/90	4.0	24.041	110.2	20.8	3.1	15.7	2.7	152.5	2,649	501	74	378	64	3,666	(62)	(255)	(9)	(20)	(24)	(370)
1990/91	3.9	24.979	109.8	21.3	3.1	15.5	2.7	152.5	2.743	532	78	388	67	3.809	(114)	(280)	2	(18)	(26)	(436)
1991/92	3.9	25.953	109.5	21.8	3.2	15.3	2.7	152.5	2,841	566	82	398	71	3.958	(169)	(307)	3	(17)	(29)	(518)
1992/93	3.9	26.965	109.1	22.3	3.2	15.2	2.8	152.5	2.941	601	87	409	75	4,112	(196)	(333)	2	(16)	(32)	(576)
1993/94	3.9	28.017	109.7	22.8	3.3	15.0	2.8	152.5	3.045	638	91	419	79	4.273	(226)	(366)	2	(13)	(35)	(638)
1994/95	3.9	29.109	108.3	23.3	3.3	14.8	2.9	152.5	3,152	678	96	430	83	4,439	(256)	(379)	1	(11)	(38)	(703)
1995/96	3.8	30.215	107.8	23.8	3.4	14.6	2.9	152.5	3,258	720	102	440	88	4.608	(313)	(433)	(1)	(9)	(41)	(797)
1996/97	3.8	31.364	107.4	24.4	3.4	14.4	2.9	152.5	3.369	764	107	451	92	4.783	(337)	(469)	(3)	(5)	(44)	(859)
1997/98	3.8	32.555	107.0	24.9	3.5	14.2	3.0	152.5	3,482	811	113	462	97	4.965	(359)	(508)	(5)	(1)	(48)	(921)
1998/99	3.8	33.793	106.5	25.5	3.5	14.0	3.0	152.5	3.598	861	119	473	103	5,153	(376)	(550)	(7)	4	(52)	(980)
1999/2000	3.8	35.077	106.0	26.0	3.6	13.9	3.1	152.5	3.718	913	125	484	108	5,349	(386)	(594)	(9)	12	(56)	(1,033)

Source: 1970 - 1987, Merged Data from GOK/Ministry of Agriculture, Central Bureau of Statistics, USDA and FAO
1988 - 2000, USAID/Kenya Expectations based on previous data, implementation of the agricultural research and extension program and increased fertilizer availability.

If the situation is analyzed on a commodity basis, we find that the leading contributor to the domestic production deficit is wheat. In 1970/71, Kenya was virtually self-sufficient in wheat production. However, it is predicted that the domestic consumption deficit will increase to 230,000 MT in 1988/89; to 400,000 MT by 1995; and to nearly 600,000 MT by the year 2000. While the Government's stated policy is one of "self-sufficiency", the <u>de facto</u> policy for wheat is one of "self-reliance". The principal factors that limit an increase in Kenya's wheat supply include: (1) the relative scarcity of appropriate land resources; (2) the capital-intensive nature of Kenyan wheat production; (3) the sub-division of acreage historically devoted to wheat as a result of increasing rural population pressures that result in the transfer of land from wheat to maize; and (4) the relatively high yields (2.25 MT/Ha) of current wheat technologies employed. Taken together, these factors have limited net production increases, while simultaneously the demand for wheat has increased by more than 2.5% per capita, or over 6.5% per year. These increases h- been caused by changes in consumer taste; the convenience . wheat products; and the increased income associated with development and urbanization. The net effect of these movements is that the wheat gap is currently increasing by 25,000 MT per year, with an expected increase to 50,000 MT per year by the end of the century.

The second commodity which contributes to the expected deficit is corn. Corn or maize is the staple of the Kenyan diet. It accounts for some 80% of cereal consumption. With the exception of the drought years, production historically has exceeded consumption. We expect a modest deficit in the late 1980s increasing to more than 250,000 MT in 1994/95, and approaching 400,000 MT by the end of the century. The basis for these expectations is that, during the past decade, production has been increasing by slightly more than 2.5% per year, largely due to increase in acreage devoted to maize production. Simultaneously, demand has been increasing almost as rapidly as the population: over 4.0% per year. The production shortfall has resulted largely from the fact that the high potential land frontier has been rapidly closing. While we expect the A.I.D.-financed Maize Research Program, and the World Bank-financed Extension Program, to increase the availability and affordability of appropriate technological packages, we recognize that only limited returns will accrue from research and extension investment through the end of the century. Therefore, we expect an increasing deficit for maize through the early years of the 21st century. After this time, some surpluses could emerge. It should also be noted that much of the maize deficit may be attributed to the poultry/animal feed industry, which is expected to grow dramatically as a result of both the continued increase in the demand for livestock products, and to the land constraint which will force an increasing share of the livestock sector to be grain fed (zero grazing).

A review of the commodity situation for rice shows the current domestic rice deficit to be approximately 20,000 MT. This should be reduced as a result of on-going efforts to expand irrigated rice production, as well as the African Development Bank's effort to expand rainfed production. As these plans are brought into production, we estimate that there will be a slight rice surplus in the early 1990s. However, this could well be followed by a small but increasing deficit unless additional acreage is brought under cultivation at the expense of another commodity (probably maize).

During the remaining years of this decade, a slight deficit for sorghum/millet of 20,000 - 25,000 MT is anticipated. It is expected that this deficit will be reduced to approximately 10,000 MT by the mid-1990s, and result in a potential surplus (due to the investment in agricultural research) by the year 2000. As a result of the increasing preference for maize, the demand for sorghum/millet as a food/beverage commodity has been declining rapidly. As a result of the growing animal/poultry feed industry, however, it is expected that the demand for sorghum will increase over time. It has been proposed in Sessional Paper No. 1 (1986) that Kenya should adopt a blending formula of sorghum with wheat as the basic bread ingredient. Such a policy is supported by USAID/Kenya. Should it develop, it may be possible to decrease the national demand for wheat by 10%.

The final commodity is "other grains", i.e. barley and oats. The principal commodity is barley, which is a virtual monopoly of Kenya Breweries and their contracted outcroppers. Here, the figures reflect a small current deficit of approximately 10,000 MT. However, this is likely to increase to 55,000 MT by the turn of the century. In order to cope with this deficit it will be necessary either to import barley or contract additional acreage with wheat farmers at a favorable price. Such a strategy would reduce the wheat acreage and, hence, production by a comparable amount.

The second means of food needs analysis focuses upon caloric intake as a percentage of the FAO-set standard. Table 3 presents the per capita availability of domestically-produced commodities for the 1971-1987 period, as well as our supply expectations through the end of the century. The table shows that, as a consequence of climatic factors, per capita food availabilities (particularly for cereals) have been highly variable. If we assume that "normal" climatic conditions will

Table 3: Domestic Per Capita Availability of Food Crops, 1971 -- 2000.

Year	Cereals: Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Other Food Crop: Pulses	Roots & Tubers	Oilseeds	Sugar	Vegetables	Fruit	Other Food Crops Total	All Food Crops
1970/71	93.4	13.9	2.5	25.1	2.5	137.3	19.4	72.5	1.8	18.3	26.4	28.4	166.8	304.1
1971/72	113.4	12.7	2.8	25.3	2.8	157.0	18.6	72.6	2.3	19.3	26.3	28.7	167.8	324.8
1972/73	102.1	10.6	2.8	23.9	2.5	141.8	17.7	73.4	3.3	17.1	26.0	28.6	166.1	307.9
1973/74	90.5	9.2	2.5	22.5	2.2	127.0	16.4	73.0	3.3	21.4	24.8	27.8	166.7	293.7
1974/75	95.1	10.3	2.3	21.0	2.0	130.7	17.8	74.9	2.6	13.7	25.0	29.4	163.4	294.1
1975/76	112.0	10.2	2.7	24.3	2.4	151.5	16.3	72.7	1.9	16.9	24.8	31.1	163.7	315.2
1976/77	115.7	11.1	2.9	23.3	2.5	155.5	14.4	71.6	3.6	14.6	24.2	32.4	160.8	316.3
1977/78	113.4	9.6	2.3	27.9	2.4	155.6	13.8	74.8	4.3	16.7	24.3	32.6	166.5	322.1
1978/79	114.8	8.6	2.2	28.4	2.1	156.2	11.4	73.1	5.0	15.4	24.1	33.3	162.3	318.5
1979/80	99.4	8.0	2.0	20.2	2.2	131.8	11.7	71.5	5.1	16.6	23.6	33.2	161.7	293.5
1980/81	88.6	9.8	2.3	22.0	2.4	125.2	11.7	61.4	5.4	14.5	23.7	34.3	151.0	276.2
1981/82	131.5	11.9	2.1	21.7	2.3	169.5	15.9	65.8	6.5	13.6	23.7	32.6	159.1	328.6
1982/83	119.2	11.9	2.6	19.9	2.1	154.0	13.2	61.8	6.4	13.3	21.4	30.3	146.4	300.4
1983/84	97.3	8.5	1.8	11.6	1.9	121.1	7.5	53.5	5.9	12.8	15.2	29.0	123.9	245.0
1984/85	78.7	2.8	1.4	16.5	1.2	100.5	11.0	58.7	5.7	13.5	20.2	28.6	137.7	238.2
1985/86	122.7	9.9	1.7	13.7	1.8	149.9	13.6	58.4	5.6	15.6	22.5	31.7	147.4	297.3
1986/87	123.7	10.4	2.0	13.6	1.9	151.7	14.8	57.8	5.5	15.2	22.3	31.4	147.0	298.6
1987/88	91.6	8.1	1.5	11.1	1.5	113.8	14.5	57.5	5.5	14.8	22.1	31.1	145.4	259.2
1988/89	99.3	8.9	2.3	13.5	1.6	125.5	14.1	57.1	5.5	14.5	21.9	30.8	143.8	269.3
1989/90	98.0	8.7	2.6	13.4	1.6	124.2	13.8	56.7	5.5	14.1	21.6	30.5	142.3	266.5
1990/91	95.7	8.5	3.0	13.3	1.5	122.1	13.6	55.6	5.6	13.8	21.4	30.2	140.2	262.3
1991/92	93.3	8.4	3.1	13.2	1.5	119.6	13.5	54.6	5.6	13.5	21.2	29.9	138.3	257.8
1992/93	92.2	8.2	3.1	13.1	1.5	118.1	13.3	53.6	5.7	13.2	21.0	29.6	136.3	254.4
1993/94	90.9	8.0	3.2	13.1	1.5	116.7	13.2	52.4	5.7	12.9	20.8	29.3	134.3	251.0
1994/95	89.8	7.9	3.2	13.0	1.5	115.3	13.0	51.5	5.8	12.6	20.6	29.0	132.5	247.7
1995/96	87.7	7.8	3.2	12.9	1.5	113.0	12.8	50.7	5.9	12.3	20.4	28.7	130.7	243.7
1996/97	86.9	7.7	3.1	12.8	1.4	111.9	12.5	50.0	6.0	12.0	20.2	28.4	129.1	241.1
1997/98	86.1	7.5	3.2	[illegible]	[illegible]	111.0	12.3	49.3	6.2	11.8	20.0	28.1	127.7	238.7
1998/99	85.4	7.4	3.1	[illegible]	[illegible]	[illegible]	12.2	48.7	6.4	11.5	19.8	27.9	126.4	236.5
1999/2000	85.0	7.3	3.1	[illegible]	[illegible]	[illegible]	12.0	48.2	6.5	11.2	19.6	27.6	125.1	[illegible]

Source: 1970 - 1987, Merged Data from GOK/Mi[illegible], GOK/Central Bureau of Statistics, USDA and FAO
1988 - 2000, USAID/Kenya Expectations based on previous data, implementation of the agricultural research and extension program and increased fertilizer availability.

prevail through the period, we find that per capita availabilities of grains are expected to decline from 139 kg in 1971-75 to 124 kg by the end of this decade, and to 110 kg by the turn of the century. A similar trend is shown for other food crops, with per capita availability decreasing from 166 Kg in 1971-75; to 142 kg by the end of this decade; and 125 kg in the year 2000. It is noteworthy that oilseed and fruit availabilities are not expected to decline as rapidly as other commodities because of a significant level of private investment and community participation.

Using USDA conversion factors, Table 4 translates the per capita availabilities into caloric intake. This table shows that per capita caloric intake from food crops is expected to decline from 1800 in the late 1970s, to 1550 in 1990, to approximately 1390 in the year 2000.

Table 5 presents total per capita caloric intake, including the livestock sector, and compares this figure with the FAO standard. The table indicates that throughout the 1970s caloric intake was nearly 2000 calories per day, or more than 20% above the FAO minimum standard for Kenya. However, during the 1980s, per capita availabilities have declined to an average of only 5% above the FAO standard. In fact, they were below this standard during the 1983/85 drought period. Our

Table 4: Per Capita Caloric Intake of Food Crops. 1971 -- 2000.

Year	Cereals: Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Other Food Crops: Pulses	Roots & Tubers	Oilseeds	Sugar	Vegetables	Fruit	Other Food Crops Total	All Food Crops
1970/71	722.8	103.5	24.8	195.0	16.3	1.062.4	180.7	194.7	39.5	178.5	15.9	35.0	644.2	1,706.6
1971/72	877.4	95.1	27.9	196.2	18.4	1.215.1	173.3	194.9	50.4	188.2	15.9	35.4	650.1	1,873.2
1972/73	790.3	79.2	27.7	184.7	16.8	1.098.6	164.9	197.1	72.3	156.8	15.7	35.3	652.0	1,750.6
1973/74	701.3	68.9	24.4	174.6	14.7	984.0	152.8	196.0	72.3	208.7	14.9	34.3	679.0	1,663.0
1974/75	735.1	77.2	22.8	162.8	13.2	1.012.2	165.8	201.1	57.0	133.6	15.1	36.2	608.8	1,621.0
1975/76	865.3	76.1	26.8	189.6	15.9	1.173.8	151.8	195.2	41.6	164.8	14.9	38.3	606.8	1.780.6
1976/77	895.3	82.7	29.1	181.1	16.6	1.204.8	134.1	192.2	78.9	142.4	14.6	39.9	602.2	1.807.0
1977/78	877.8	71.5	22.9	216.0	16.0	1,204.9	128.5	200.8	94.2	162.9	14.6	40.2	641.3	1,846.2
1978/79	883.4	64.3	22.0	220.6	19.1	1,209.5	106.2	196.3	109.6	150.2	14.5	41.1	617.8	1,827.3
1979/80	769.0	59.9	20.0	156.7	14.7	1.020.3	109.0	192.0	111.8	161.9	14.2	40.9	629.8	1,650.1
1980/81	685.8	73.6	23.1	170.8	15.6	968.9	109.0	164.9	116.4	141.4	14.3	42.3	590.2	1,559.1
1981/82	1.017.8	88.9	20.6	169.5	15.4	1,311.1	148.1	179.4	142.5	132.6	14.3	40.2	657.1	1,968.2
1982/83	914.6	88.7	19.7	154.2	13.7	1,191.1	123.0	165.9	140.3	129.7	12.9	37.4	609.1	1,800.3
1983/84	752.8	63.7	17.9	90.1	12.5	937.0	69.9	143.6	129.3	124.8	9.2	35.8	512.6	1,449.6
1984/85	602.5	20.6	15.7	128.2	8.2	779.3	102.5	137.6	124.9	131.7	12.2	35.3	564.1	1,343.4
1985/86	949.5	74.2	17.1	106.5	12.2	1,159.3	126.7	156.8	122.7	151.9	13.6	39.1	610.8	1,770.1
1986/87	957.2	77.7	19.9	106.0	12.7	1.173.5	137.9	155.2	120.0	148.2	13.4	38.7	613.4	1,786.9
1987/88	708.8	60.7	14.6	86.1	9.8	880.1	134.7	154.3	120.0	144.7	13.3	38.4	605.3	1,485.3
1988/89	763.2	66.4	22.5	104.6	10.6	972.4	131.6	153.3	120.3	141.2	13.2	38.0	597.5	1,569.9
1989/90	759.3	64.8	25.5	104.1	10.4	963.2	128.5	152.3	120.9	137.8	13.0	37.6	590.1	1,553.3
1990/91	740.1	63.7	30.3	103.6	10.3	947.9	127.0	149.4	121.7	134.6	12.9	37.2	582.8	1,530.7
1991/92	722.1	62.5	30.9	102.6	10.1	928.4	125.5	146.7	122.7	131.5	12.8	36.8	576.0	1,504.4
1992/93	713.1	61.4	31.2	101.9	10.0	917.5	124.1	143.9	123.8	128.5	12.7	36.5	569.4	1,486.9
1993/94	703.6	60.2	31.4	101.4	9.9	906.4	122.7	140.8	125.4	125.5	12.5	36.1	563.0	1,469.4
1994/95	694.6	59.1	31.5	100.7	9.7	895.6	121.5	138.2	127.2	122.6	12.4	35.7	557.7	1,453.3
1995/96	678.8	58.2	31.6	99.8	9.6	878.1	119.1	136.1	129.4	119.9	12.3	35.4	552.1	1,430.1
1996/97	672.0	57.2	31.3	99.6	9.5	869.7	116.8	134.2	132.2	117.2	12.2	35.0	547.6	1,417.3
1997/98	666.0	56.3	31.3	99.2	9.5	862.4	115.0	132.5	135.3	114.6	12.0	34.7	544.1	1,406.5
1998/99	661.0	55.4	31.3	99.0	9.4	856.1	113.2	130.9	139.2	112.1	11.9	34.3	541.7	1,397.8
1999/2000	657.6	54.5	31.2	99.3	9.3	852.0	111.7	129.3	143.4	109.6	11.8	34.0	539.8	1,391.8

Source: 1970 - 1987. Merged Data from GOK/[illegible] of Agriculture, GOK/Central Bureau of Statistics, USDA and FAO
1988 - 2000, USAID/Kenya Ex[illegible] previous data, implementation of the agricultural research and extension program and increased fertilizer availability.

Table 5: Total Caloric Consumption and Caloric Surplus/Deficit, 1971 — 2000

Year	Meats	Milk	Other Livstk	Fish	Livstok & Fish	Cereals	Other Food Crops	Total Calories	FAO Critical Limit	FAO Security Allowance (10%)	Caloric Surplus/Deficit (Cal/Day)	Caloric Intake as a Percent of FAO Security Norm
1970/71	84.8	127.6	26.2	8.5	247.2	1,042.4	644.2	1,953.8	1,517.0	1,668.7	285.1	117.1
1971/72	82.9	135.6	29.8	6.3	254.6	1,215.1	658.1	2,127.8	1,517.0	1,668.7	459.1	127.5
1972/73	81.2	135.0	27.3	6.3	249.8	1,098.6	652.0	2,000.4	1,517.0	1,668.7	331.7	119.9
1973/74	81.2	122.0	25.8	6.0	234.9	984.0	679.0	1,897.9	1,517.0	1,668.7	229.2	113.7
1974/75	80.3	113.4	32.8	6.0	232.5	1,012.2	608.8	1,853.5	1,517.0	1,668.7	184.9	111.1
1975/76	72.1	113.1	49.1	5.3	239.6	1,173.8	606.8	2,020.2	1,517.0	1,668.7	351.5	121.1
1976/77	75.0	113.2	29.0	7.7	225.0	1,204.8	602.2	2,032.0	1,517.0	1,668.7	363.3	121.8
1977/78	90.6	113.0	30.6	7.4	241.7	1,204.9	641.3	2,087.9	1,517.0	1,668.7	419.2	125.1
1978/79	91.0	110.3	29.1	7.7	238.1	1,209.5	617.8	2,065.4	1,517.0	1,668.7	396.7	123.8
1979/80	88.8	97.9	27.5	8.3	222.4	1,020.3	629.9	1,872.6	1,517.0	1,668.7	203.9	112.2
1980/81	86.2	91.4	27.5	7.9	213.0	968.9	590.2	1,772.1	1,517.0	1,668.7	103.4	106.2
1981/82	91.1	92.7	27.2	7.8	218.8	1,311.1	657.1	2,186.9	1,517.0	1,668.7	518.2	131.1
1982/83	93.8	92.8	26.8	7.8	221.2	1,191.1	609.1	2,021.5	1,517.0	1,668.7	352.8	121.1
1983/84	91.6	82.2	26.3	7.5	207.5	937.0	512.6	1,657.1	1,517.0	1,668.7	(11.6)	99.3
1984/85	95.1	48.0	25.9	7.2	176.2	779.3	584.1	1,539.6	1,517.0	1,668.7	(129.1)	92.3
1985/86	66.6	81.4	18.1	7.5	173.6	1,159.3	610.8	1,943.7	1,517.0	1,668.7	275.0	116.5
1986/87	74.0	85.0	20.2	7.5	186.7	1,173.5	613.4	1,973.6	1,517.0	1,668.7	304.9	118.3
1987/88	82.0	85.4	22.3	7.6	197.3	880.1	605.3	1,682.7	1,517.0	1,668.7	14.0	100.8
1988/89	83.0	85.9	22.6	7.6	199.1	972.4	597.5	1,769.0	1,517.0	1,668.7	100.3	106.0
1989/90	85.7	86.3	23.3	7.7	203.0	963.2	590.1	1,756.3	1,517.0	1,668.7	87.6	105.2
1990/91	83.6	86.7	22.8	7.7	200.7	947.9	582.8	1,731.4	1,517.0	1,668.7	62.7	103.8
1991/92	82.3	87.1	22.4	7.7	199.6	928.4	576.0	1,704.0	1,517.0	1,668.7	35.3	102.1
1992/93	81.1	87.6	22.1	7.8	198.5	917.5	569.4	1,685.4	1,517.0	1,668.7	16.7	101.0
1993/94	79.9	88.0	21.8	7.8	197.4	906.4	563.0	1,666.9	1,517.0	1,668.7	(1.8)	99.9
1994/95	78.7	88.5	21.4	7.8	196.4	895.6	557.7	1,649.7	1,517.0	1,668.7	(19.0)	98.9
1995/96	76.7	88.9	20.9	7.9	194.4	878.1	552.1	1,624.5	1,517.0	1,668.7	(44.2)	97.4
1996/97	75.5	89.3	20.6	7.9	193.4	869.7	547.6	1,610.7	1,517.0	1,668.7	(58.0)	96.5
1997/98	74.4	89.8	20.3	8.0	192.4	862.4	544.1	1,598.9	1,517.0	1,668.7	(69.8)	95.8
1998/99	73.3	90.2	20.0	8.0	191.5	856.1	541.7	1,589.3	1,517.0	1,668.7	(79.4)	95.2
1999/2000	72.2	90.7	19.7	8.0	190.6	852.0	539.8	1,582.4	1,517.0	1,668.7	[illegible]	94.8

Source: 1970 - 1987. Merged Data fr[illegible]istry of Agriculture, GOK/Central Bureau of Statistics, USDA and FAO
1988 - 2000. USAID/Kenya Expectations based on previous data, implementation of the agricultural research and extension program and increased fertilizer availability.

projections indicate that rapid population growth and a lagging agricultural sector will cause this trend to continue, with per capita caloric intake in a "normal" year (from domestic sources only) totalling 95% of the FAO standard at the turn of the century. Therefore, it seems clear that in order to achieve its stated goal of food security, Kenya will be required to import increasing quantities of food.

Tables 4 and 5 also demonstrate the relative importance of cereals, particularly maize, in the diet of Kenyans. Throughout the period of analysis, cereals provided approximately 60% of domestically produced caloric intake, with maize alone contributing nearly 50%. The second most important source of calories is root and tuber crops, followed by a relatively even balance among pulses, oilseeds, sugar and milk. Finally, Table 5 shows that, with the exception of milk, livestock products do not contribute significantly to the Kenyan diet.

C. Balance of Payments and Kenya's Ability to Cover Expected Import Requirements

The preceding section demonstrates that Kenya is, currently, an importer of wheat and rice. Furthermore, it shows that, while Kenya has been marginally self-sufficient in maize, it will experience increasing maize deficits in the next century. Table 6 presents a brief assessment of the costs required to cover the production gap. This table, utilizing constant 1987 dollars and prices, shows that Kenya now has a total cereal import bill of approximately $40 million (wheat - $30 million, rice - $ 5 million, and other cereals - $ 5 million). As a function of the growing wheat and maize deficits, import costs are expected to increase to some $57 million in 1990, and to $ 135 million per year by the turn of the century. In fact, the real cost to the country may be much higher due to the fact that both commodity prices and the value of the dollar currently are now relatively low.

Because several key factors are highly variable (prices for coffee, tea, petroleum, etc.), it is difficult to predict the Kenyan foreign exchange levels that may reasonably be expected to be available for the import of food commodities. Table 7 presents the Government's short-term preliminary balance of payments projections. They indicate that, for the

Table 6: Cost of Covering the Production Gap

Year	Food Surplus (Deficit) — 000 MT: Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains	Cost per MT cif Mombasa (US$): Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	Cost of Cereal Imports to Cover Domestic Production Gap (000 US$): Maize	Wheat	Rice Paddy	Sorghum/ Millet	Other Grain	All Grains
1970/71	(119)	7	2	86	7	(17)	113.10	142.25	315.57	111.60	112.80	(13,485)	1,046	495	9,573	800	(1,570)
1971/72	128	(9)	5	93	11	229	113.10	142.25	315.57	111.60	112.80	14,497	(1,315)	1,708	10,421	1,233	26,544
1972/73	(8)	(40)	5	80	8	45	113.10	142.25	315.57	111.60	112.80	(922)	(5,628)	1.634	8.887	866	4.838
1973/74	(163)	(63)	1	68	3	(154)	113.10	142.25	315.57	111.60	112.80	(18.459)	(8,911)	275	7,541	377	(19,178)
1974/75	(168)	(55)	(2)	51	(0)	(113)	113.10	142.25	315.57	111.60	112.80	(12.210)	(7,754)	(479)	5,713	(10)	(14,740)
1975/76	137	(63)	4	105	5	189	113.10	142.25	315.57	111.60	112.80	15.540	(8,996)	1.266	11,772	608	20.189
1976/77	199	(58)	7	104	7	260	113.10	142.25	315.57	111.60	112.80	22,556	(8,241)	2,349	11.649	762	29.075
1977/78	170	(88)	(2)	180	5	265	113.10	142.25	315.57	111.60	112.80	19,260	(12.464)	(700)	20.080	565	26.741
1978/79	199	(112)	(4)	168	0	271	113.10	142.25	315.57	111.60	112.80	22,452	(15,837)	(1.380)	20.999	17	26.252
1979/80	(54)	(131)	(9)	69	1	(124)	113.10	142.25	315.57	111.60	112.80	(6.144)	(18,653)	(2,733)	7,709	132	(19.689)
1980/81	(277)	(76)	(4)	105	3	(230)	113.10	142.25	315.57	111.60	112.80	(31.359)	(10,863)	(1.295)	11,677	316	(31,998)
1981/82	551	(88)	(10)	107	2	562	113.10	142.25	315.57	111.60	112.80	62.365	(12,556)	(3.058)	11.933	207	58.891
1982/83	309	(84)	(12)	79	(4)	297	113.10	142.25	315.57	111.60	112.80	34.778	(11,933)	(3.924)	8,810	(399)	27.333
1983/84	(99)	(153)	(17)	(83)	(8)	(361)	113.10	142.25	315.57	111.60	112.80	(11.209)	(21.756)	(5.470)	(9,294)	(907)	(48.626)
1984/85	(475)	(292)	(28)	22	(23)	(796)	113.10	142.25	315.57	111.60	112.80	(53,745)	(41.596)	(8,771)	2,487	(2.558)	(104.123)
1985/86	454	(152)	(22)	(27)	(11)	241	113.10	142.25	315.57	111.60	112.80	51,368	(21.675)	(7,078)	(2,970)	(1,284)	18.336
1986/87	474	(152)	(18)	(25)	(11)	258	113.10	142.25	315.57	111.60	112.80	53.569	(23.611)	(5,679)	(2.860)	(1,223)	20,906
1987/88	(214)	(228)	(31)	(79)	(22)	(575)	113.10	142.25	315.57	111.60	112.80	(24,203)	(32,433)	(9,783)	(8,816)	(2,482)	(77,717)
1988/89	(38)	(230)	(15)	(22)	(19)	(374)	113.10	142.25	315.57	111.60	112.80	(4,268)	(32,672)	(4,740)	(2,496)	(2,179)	(46,355)
1989/90	(62)	(255)	(9)	(20)	(22)	(368)	113.10	142.25	315.57	111.60	112.80	(6,991)	(36,240)	(2,813)	(2,270)	(2.466)	(50,780)
1990/91	(114)	(289)	2	(18)	(24)	(434)	113.10	142.25	315.57	111.60	112.80	(12.876)	(39,805)	648	(2,030)	(2,740)	(56,803)
1991/92	(168)	(307)	3	(17)	(27)	(516)	113.10	142.25	315.57	111.60	112.80	(19,047)	(43,619)	883	(1,925)	(3.031)	(66,739)
1992/93	(196)	(335)	2	(15)	(30)	(574)	113.10	142.25	315.57	111.60	112.80	(22,149)	(47,713)	729	(1,732)	(3,343)	(74,209)
1993/94	(226)	(366)	2	(13)	(33)	(635)	113.10	142.25	315.57	111.60	112.80	(25.554)	(52.106)	498	(1.454)	(3,677)	(82,293)
1994/95	(256)	(399)	1	(11)	(36)	(701)	113.10	142.25	315.57	111.60	112.80	(28.964)	(56,789)	186	(1,200)	(4,031)	(90,799)
1995/96	(313)	(433)	(1)	(9)	(39)	(795)	113.10	142.25	315.57	111.60	112.80	(35.402)	(61.614)	(182)	(1,035)	(4.386)	(102.618)
1996/97	(337)	(469)	(3)	(5)	(42)	(957)	113.10	142.25	315.57	111.60	112.80	(38.131)	(66,772)	(952)	(559)	(4,764)	(111.179)
1997/98	(359)	(508)	(5)	(1)	(45)	(918)	113.10	142.25	315.57	111.60	112.80	(40.577)	(72.274)	(1,499)	(105)	(5.163)	(119.620)
1998/99	(376)	(550)	(7)	4	(50)	(972)	113.10	142.25	315.57	111.60	112.80	(42.506)	(78,170)	(2.143)	436	(5,594)	(127,977)
1999/2000	(386)	(594)	(9)	12	(54)	(1,031)	113.10	142.25	315.57	111.60	112.80	(43,644)	(84,444)	(2.989)	1,290	(5,046)	(135.733)

Source: Surplus/Deficit Calculated in Table 2 above.
Costs of importation from USDA, "Guide to Commercial Sales" as of July 17, 1987. Freight costs from Gulf Port to Mombasa average $37.

country to replenish its reserves to approximately $475 million, Kenya will require additional revenues of $260.3 million in 1988, $338.3 million in 1989 and $343.8 million in 1990.

Historically, the Government has allocated 7-14% of the foreign exchange reserve to food imports, with the higher figure corresponding to famine years. Government records indicate that 60% of this figure has been used to import cereals. Therefore, the expected resources available for cereal imports in the near term are $25-30 million, which is significantly below the $57 million anticipated cereal import requirement in 1990 and represents only 20% of the expected cereal import requirement at the turn of the century.

We conclude that, in the short-term, the country probably will require food assistance levels of $25-30 million per year from all donor sources. Although such levels should not alter normal commercial marketing practices, they will be requi[illegible] to avoid a potentially-serious displacement of investment ca[illegible]l for consumption. Given the magnitude of the projections during the 1990s, it is imperative that food assistance resources be utilized to address the underlying factors of the expected deficit, and to encourage Kenya to become a competitive participant in the international market.

Table 7: Preliminary Balance of Payments Projections in Millions of U.S. Dollars

	1986	1987	1988	1989	1990
IMPORTS	1,472.1	1,545.9	1,587.1	1,656.6	1,793.9
EXPORTS	1,186.8	944.6	1,013.1	1,107.1	1,209.8
MERCHANDISE ACCOUNT	(285.3)	(601.3)	(574.1)	(549.6)	(584.2)
Invisibles (Net)					
Government Grants*	150.8	153.8	152.9	163.8	175.7
Others	63.6	80.4	121.4	159.8	191.5
Total	214.4	234.1	274.3	323.5	367.2
CURRENT ACCOUNT	(70.9)	(367.1)	(299.8)	(226.1)	(217.0)
Capital (Net)					
Government	16.0	281.6	94.4	20.0	19.6
Others	130.3	80.5	56.1	53.3	40.4
Total	146.3	362.1	150.5	73.3	60.1
Errors & Omissions	15.9				
OVERALL BALANCE	91.3	(5.0)	(149.3)	(152.8)	(156.9)
FINANCED BY:					
Net Borrowing from IMF	(68.0)	(110.3)	(88.6)	(128.8)	(156.9)
Other Repayments (Add. Req.)	0.0	0.0	0.0	(20.0)	(44.9)
Change in Reserves	(24.9)	115.3	(22.4)	(42.9)	(40.3)
Other Liabilities	1.7				
Additional Requirements	0.0	0.0	260.3	330.3	343.8
RESERVE LEVEL	490.4	375.1	397.4	434.1	474.4

Source: GOK

D. Summary

Long-range forecasts are only useful for tentative assessments and need to be updated on a regular basis (quarterly or semi-annually). Nonetheless, the evidence is clear that Kenya faces a structural wheat deficit of some 250,000 MT. This is expected to double by the end of the century. The increasing deficit is attributed to the fact that demand for wheat in Kenya is increasing by 6.5% per year, while the supply is increasing by only some 2.5% per year. The chief factors that account for the increase in demand include both population growth, and an increase in per capita demand due to urbanization and economic growth. The limited potential supply results from the fact that Kenyan wheat yields are already relatively high by international standards, and that there is a very limited land base on which to expand wheat acreage. In fact, in Kenya's traditional wheat areas, the acreage is actually decreasing as a result of land sub-division and the increase in less capital-intensive production of maize by small-holders. Since parity pricing was adopted in ea: y 1980's, a review of prices indicates that food aid has not distorted the demand for wheat commodities. This may be due to the fact that such aid enters Kenya only on fully-costed terms, and is not subsidized during the transformation process. Together with domestic production, both food aid and commercial imports are resources which the Government employs to ensure an adequate food supply to meet the effective consumption demand. A basic implication of Kenya's growing wheat deficit is that in the short-term the country will need to generate additional foreign exchange and/or receive wheat assistance of $20 - 25 million per year.

As a percentage of domestic production/consumption, we do not expect significant shortfalls in normal years for other commodities (with the exception of oilseeds). However, even in "normal" years there is a strong probability that Kenya will need to import increasing quantities of maize to satisfy the demand for both the food and feed industries.

III. A Review of the USAID/Kenya Food Assistance Program, 1980 - 1987

A. P.L. 480 Title I Overview

USAID/Kenya has had an on-going P.L. 480 Title I program since 1980. As summarized in the following table, during the 1980 - 1987 period, A.I.D. has provided an estimated 590,600 MT of agricultural commodities valued at approximately $95.9 million. A review of the program over these years suggests that it is appropriate to consider it in two distinct phases: the initial phase of 1980-83, and the current phase of 1984-87.

1. The Initial Phase: 1980 - 1983

The initial phase of the current program was developed as a result of the 1980/81 drought which, as shown in the earlier tables, greatly reduced the domestic food availabilities. While the documentation is incomplete, the Government recognized the severity of the shortfall and declared a disaster. The A.I.D. response was the initiation of a Title I Program rather than emergency assistance under Title II. These quasi-relief efforts continued over a two year period during which A.I.D. delivered 60,800 MT of wheat, 10,000 MT of rice and 129,900 MT of maize. Following the emergency situation, the program shifted course in 1982-1983 to one in which the emphasis was general balance of payments support to the Government of Kenya with an emphasis on moving the commodities and satisfying domestic U.S. producer interests. It was also during this phase that the two Governments agreed on port access rights. We believe that these two factors caused responsible Government of Kenya officials to perceive the Title I program as one that primarily benefitted the American farmer, and which served

Table 8: A Summary of the P.L. 480 Title I Program, 1980 - 1987

Year	Date of Signing	Description	Wheat	Rice	Maize	Total	Value of Title I Program (000 US$)	Self-Help Measures
1980	03/06/80	Basic Agreement	40,800			40,800	6,900	1. Broaden mandate of GOK crop reporting
	05/15/80	Amendment	20,000	10,000	20,500	50,500	10,000	2. Support food crop research
								3. Upgrade extension service
1981	12/31/80	Basic Agreement			69,200	69,200	11,000	4. Improve availability of smallholder credit
	03/22/81	Amendment			40,200	40,200	5,000	5. Maintenance fund for farm-to-market road projects.
								6. Support Soil Conservation programs
								7. Provide funding to the Rural Development Fund.
1982	06/03/82	Basic Agreement	70,000	15,000		85,000	15,000	1. Special Account
								2. Implement operational reforms of NCPB
								3. Continue to write off debt of NCPB
								4. Prepare and adopt policies for grain security program
1983	10/27/82	Basic Agreement	71,000	15,000		86,000	15,000	1. Special Account
								2. Implement operational reforms of NCPB
								3. Continue to write off debt of NCPB
								4. Prepare and adopt policies for grain security program
								5. Introduce freer movement of grain
1984	08/24/84	Basic Agreement	35,000			35,000	5,000	1. Privatization In 1985
								2. Drought Response System
								3. Special Account
1985	07/16/85	Basic Agreement	66,000			66,000	10,000	1. Privatization - Offer full amount to private millers
								2. Food Grain Situation and Outlook Reporting
								3. Report on Grain Reforms (Implementation of Booker Report)
								4. Special Account and Deposits
1986	07/16/86	Basic Agreement	55,000	11,000		66,000	10,000	1. Title I Program Coordination by GOK
								2. Full Privatization of Title I Commodities
								3. Food Grain Situation and Outlook Reporting
								4. Special Account and Deposits
1987	06/29/87	Basic Agreement	51,900			51,900	8,000	1. Full Privatization of A.I.D. and Commercial Imports
								2. Terms of Reference for Feasibility Study of Direct Miller Importation
								3. Domestic Grain Marketing Reform ([illegible] Announced)
								4. Food Grain Situation and Outlook Reporting
								5. Food Aid Coordination (GOK and Donors)
		Total	[illegible]	[illegible]	129,900	590,600	95,900	

as partial remuneration to Kenya for U.S. strategic access privileges.

The documentation for this period reveals that while Self-Help Measures were included within the program, these measures were written in a general tone without specific achievements or benchmarks included. Also, neither the Government of Kenya nor USAID/Kenya adequately monitored the deposit and use of funds to ensure that the counterpart generated was made available and effectively used for developmental purposes. Thus, the Government gave minimal attention to the Agreement, and did not feel obliged to act upon or report with any degree of substance on the developmental efforts of the country in the food and agricultural sector. Yet because of the political importance of the program, levels were maintained at the $15-17 million range throughout the period.

2. <u>The Current Phase: 1984 - 1987</u>

The current phase of the program began in 1984 with the integration of the Title I Program into the USAID/Kenya Agricultural Strategy. Specifically, USAID/Kenya decided that we needed to tighten up both the design and implementation of the individual Title I agreements. It was also decided to view the program as a multi-year effort, cumulative in nature, even though Title I agreements are permitted on an annual basis only. A 1984 review of the USAID/Kenya agricultural portfolio found that we had numerous projects that were about to be phased out. We decided to identify those areas where our development assistance investment could be most productively used. Simultaneously, we decided that the Title I Program would be used to complement the development assistance portfolio by addressing specific policy and/or organizational issues. Title I would also serve as a funding source for the Government's contribution to A.I.D.-financed projects and complementary activities in the food and agricultural sector.

a. Privatization

This turnabout in the Mission's approach to Title I is shown most strongly in the area of privatization, which started with the 1984 Agreement and focused exclusively on the privatization of Title I commodities. This self-help measure was deliberately chosen as an appropriate policy area for a Title I focus. (The Government had previously gone on record as agreeing to report on policy measures undertaken but was reluctant to undertake broad-based structural reforms as a result of negotiations with a bilateral donor). During negotiations, the Government balked at making such a significant reform when the overall Title I level was being reduced from $15 million to $5 million, but did agree to implement the reform under the FY 1985 Program. As promised, in FY 1985 the Government attempted to implement the measure, but inexperience with the necessary bidding procedures meant that only 15% was distributed through private channels. The self-help measure was repeated in FY 1986, when 100% was privatized. More importantly, the National Cereals and Produce Board, the Ministry of Agriculture, and the Ministry of Finance have been convinced that the privatization measure results in considerable economic and financial savings to Government while permitting the Government to retain sufficient monitoring control over the food supply to avoid any shortfalls or speculation.

As a result of these conclusions regarding pri[illegible]e marketing, the Government has agreed to study the feasibility of permitting the import privatization program to expand to its logical next phase, i.e., the direct importation by private millers. The terms of reference for this study are to be completed during the GOK's 1987/88 financial year, conducted during 1988/89 and implemented in 1989/90. While the pace of implementation is not as rapid as USAID/Kenya like, we believe that on policy issues of this importance, it is better to proceed at the Government's pace than to push too hard, being ready to provide assistance as the Government attempts to develop a strategy for implementation.

The success of this incremental approach to policy reform can be seen in the Government's agreement to fully privatize all commercial imports, as well as Title I wheat commodities, during the FY 1987 program. The Government has also indicated that it would be willing to privatize wheat supplied by other donors if these conditions could be incorporated within the respective bilateral agreements. (This willingness by Government to expand the privatization program was one of the factors which led to the development of the FY 1987 Self-Help Measure on Donor Coordination).

b. Domestic Market Reform

A closely related, though indirect, consequence of the privatization program was that the demonstration of sufficient monitoring control of the food supply at a reduced cost to Government has led to a renewed effort to reform domestic market policies. In 1983, the Government had initiated efforts to reform the domestic market structure, i.e. replace the monopsonistic position of the National Cereals and Produce Board (NCPB) with a competitive system with the Government (in the form of NCPB) as a buyer/seller of last resort. However, these efforts were overtaken by the drought of 1984, which greatly distorted the market. In 1986, because the domestic market developed a surplus and the Title I privatization program carried a demonstration effect, the Government attempted to liberalize the domestic maize market. Eventually, this program failed because of noncompetitive farmgate market structure and an agricultural credit sector dependent upon NCPB as a collecting agency for seasonal credit. Taken together, these factors led to the temporary suspension of the free market for cereal crops in early 1987

Rather than being a dead issue, however, the Government continued to develop two strategy documents on food security and the operational reforms of NCPB. These are expected to establish a basis for the future market policy of the country. As a result of this development, the FY 1987 Agreement incorporated a self-help measure which required the Government to transmit these studies and to advise USAID/Kenya of the policy decisions. Once these decisions are made by the Government, we intend to use future year programs to support and reinforce the Government's efforts to assure the development (not simply liberalization) of competitive agricultural markets.

c. Situation and Outlook Reporting

The Mission has concluded that the Government has not made the same level of progress in situation and outlook reporting. The problems in this area are three-fold. First, the Government currently has five different agencies which are responsible for assessing the crop situation. While each organization is attempting to perform its assigned task, there is, at this time, a difference of 25% in the respective estimates. The magnitude of this range, plus institutional rivalries, have resulted in a situation where the information is available but not officially reported in a timely fashion. The second factor, which is closely related to the first, is the lack of scientific methodology and resulting inaccuracy in the estimates. Presently, none of the institutions are using scientifically-accepted procedures for crop estimations. It is widely acknowledged that list-frames are appropriate for household and socio-economic data, but are inappropriate for crop estimates (due to the introduction of a small-farmer bias). A lack of funding, however, has meant the Government has been unable to complement the basic list-frame used by the Central Bureau of Statistics with an area-sample frame. The lack of recurrent cost financing has also impeded the ability of the Ministry of Agriculture to collect as much information as would be desired.

Finally, the third and most significant issue is one of attitude. Traditionally, Kenyan officials have perceived agricultural statistics to be useful after the fact, as historical record rather than as preliminary estimates useful in the decision-making process. This has tended to discourage the collection and dissemination of relevant statistics. (Through relatively intensive efforts of USAID staff, as well as the introduction of U.S. and Canadian-educated officials to highly responsible positions, such attitudes are beginning to change and the quality of the reporting has improved.) We believe that basic market information is essential to the development of free and competitive markets. As such, in spite of relatively poor performance on this self-help measure, we will continue to press to improve the Government's reporting capability because we regard it as an essential pre-condition to agricultural development and economic growth.

d. Counterpart Programming

In addition to the policy improvement discussed above, the current phase of the Title I Program has made significant progress in terms of programming of Title I local currency generations for mutually-agreed upon purposes. The programming of counterpart funds has been a difficult process since the inception of the program in 1980. The Government has long contended that since the Title I Program is a loan, the original amount, as well as the proceeds derived, belong to the Government to use as it sees fit until repayment is made. On many occasions, A.I.D. has described the high degree of concessionality in the program, but to little avail. To complicate the programming issue, the Government has been seriously engaged in a budget rationalization program that s intended to reduce the proliferation of projects and to ensure that there is sufficient financing for on-going, high-priority programs.

In late 1986, after lengthy discussions it was agreed that as the first priority the two governments would jointly program counterpart funds in support of on-going USAID-financed projects. It was further agreed that should sufficient funds be thereafter available, the two Governments would program these resources for activities which were considered by both parties to be of high developmental priority. Table 9 presents a summary of the activities for which Title I generations have been programmed in the 1987/88 Development Budget. This table indicates that the highest priority areas -- agricultural research and education -- were the recipients of funds. The table also reflects USAID/Kenya's intent to utilize counterpart funds to support activities such as renewable energy, soil conservation and the District Development Fund, which are believed important to Kenya's long-term growth and development but which cannot be fully funded for lack of external assistance. Since these monies have only been programmed in the past year, we do not yet have an accounting for the expenditures or a measure of the developmental impact of these uses. Such reporting should be provided by the GOK in the Annual Self Help Report.

Table 9: Summary of Title I Counterpart Funds Programmed in the Development Budget 1987/88

Vote	Ministry	Sub-Vote	Head	Amount Programmed in Letters of Agreement (K Pounds)
FY 1984 P.L. 480 Title I Program Paymaster General Account No. 115				
D-10	Support of National Agricultural Research Program (Ministry of Agriculture)	100	580	1,445,000
D-10	Soil Conservation - Machinery Rehabilitation (Ministry of Agriculture)	103	247	1,400,000
D-6	District Development Fund (Ministry of Planning & National Development)			155,503
FY 1985 P.L. 480 Title I Program Paymaster General Account No. 129				
D-30	Renewable Energy Development (Ministry of Energy and Regional Development)	301	430	1,620,000
D-31	Egerton Universit College in support of IDAT and Agr. Management Projects (Ministry of Education, Science & Technology)		833	3,600,000
D-6	District Development Fund (Ministry of Planning & National Development)			2,124,000

A related issue is the timely deposit of counterpart generations. This is a problem which has been persistent and is intertwined with the Government's legally correct interpretation that the counterpart funds belong to it, as well as to the chronic financial difficulties of the NCPB. However, while these problems persist, the Government did agree in the Minutes of Negotiations to develop a deposit plan for all Title I counterpart arrearages. USAID/Kenya is currently working with both Treasury and NCPB to assure that all outstanding sums are deposited in a timely fashion.

e. Implementation

USAID/Kenya believes that the favorable movement in both policy reforms and counterpart programming is largely attributable to increased staffing within its Office of Agriculture, and to the establishment of a Food for Peace Officer position within the Human Resources Development Office. The decision to place the design of the program within the Agriculture Office ensures that the proposed self-help measures are consistent with the Mission's on-going policy dialogue and enable better communication between USAID and the technical ministries. Similarly, the establishment of the Food for Peace position assures that relatively more attention will be paid to the actual implementation of the program. These developments, as well as the evolving thinking of AID/W, have resulted in the improved design and management of the program. In particular, during the current phase of the program USAID/Kenya has established verifiable benchmarks to assess the Government's performance in the agreed-on self-help measures. We have also developed a tracking and monitoring system which enables all parties to monitor program progress. Finally, while we have not been as successful as we would like, program implementation has become more developmentally oriented, including on-going discussions and policy dialogue.

A second factor which has contributed to the improved performance of recent years is the renewed commitment by both AID/W and the Mission to program food as a developmental resource. Mission management has resolved to ask and expect continued improvement in Government performance as a condition for developing the subsequent year's Agreement.

3. Summary

When the overall program is considered, given the level of our investment, USAID/Kenya must conclude that the program has not achieved the desired level of developmental impact. However, we do believe that the progress during the past four years has resulted in increased credibility of the Title I program as a developmental resource. We also conclude that the Government's performance has not been nearly as weak as its reporting of its performance. Indeed, the Government's line ministries, particularly the Ministry of Agriculture, have undertaken numerous reforms, such as improvements in the research, extension, private investment and credit sub-sectors that contribute directly to the general self-help measure of improved agricultural development. Yet these efforts have never been reported because of ineffective communication within Government and/or the unwillingness of the GOK to appear to be "answering to" the U.S. Government.

B. Project Food Assistance Overview

Project Food Assistance (P.L. 480 Title II, Section 201-Regular and Section 202-Emergency as well as Section 416) has been programmed in Kenya since 1965. Traditionally, the programs have been humanitarian and relief in nature, targeting the poorest of the poor. Except for emergency situations such as periodic droughts, the project food assistance to Kenya has been relatively modest in amounts. The following section gives an overview of project food assistance in Kenya from 1980-87.

1. Regular Private Voluntary Agency Programs

Only one United States voluntary agency (volag) has carried out a traditional Title II regular food assistance program in Kenya - Catholic Relief Services (CRS). Its Kenya program began in 1965. By 1980, CRS/Kenya had negotiated a separate Country Agreement with the Government of Kenya and was sponsoring distributions of over 9,000 metric tons of Title II food commodities valued at approximately U.S. $4 million to nearly 140,000 beneficiaries per year.

Up to the early eighties, CRS/Kenya focused primarily on nutritionally substandard children. The mechanism for this food and nutrition program has been a traditional Maternal and Child Health (MCH) center approach chiefly sponsored by private Catholic missions and dioceses throughout Kenya. In 1981, CRS/Kenya had nearly 100,000 recipients registered in over 140 centers. Monthly voluntary recipient contributions (fees) were solicited from mothers to offset the costs of logistics (transport of food to centers, storage, and distributions), the health and nutrition education sessions, and to support the Growth Surveillance System (GSS). CRS/Kenya also targeted nutritionally substandard children though its Other Child Feeding Program (OCF), also called institutional feeding (orphanages, homes for handicapped, etc.), and the Pre-School Children Feeding Program (PSCF) for nursery school-aged children).

Along with these efforts, CRS/Kenya initiated a Food for Work Program (FFW) in the late seventies to assist community development and implement rural public works projects. By 1981, CRS/Kenya had a Peace Corps Volunteer assigned to the program and nearly 5,000 workers benefiting from the assistance. It should also be noted that CRS/Kenya maintained a "General (Emergency) Relief": category for destitute cases.

By 1980, USAID had decided that CRS/Kenya shou phase-out its OCF and PSCF programs since they did not target nutritionally substandard children under five years of age. Basically, USAID viewed these categories as nothing more than welfare feeding with little or no developmental impact. CRS/Kenya agreed and submitted a phase-out plan in its Operational Plan for 1980/81.

In 1981, Kenya experienced a severe drought in the arid and semi-arid areas, particularly in Turkana. CRS/Kenya applied for and received emergency P.L. 480 food assistance from USAID as well as the first Title II monetization program ever approved in Kenya. Local currency proceeds from Title II sales of wheat were used to defray the logistics costs of moving additional food commodities to the Turkana region and to other hard hit areas in the northern Eastern Province. Because of the drought, the OCF and PSCF Programs were retained and used as conduits for the food aid, as were the MCH centers.

A major review/audit of the CRS/Kenya program took place in June of FY 1982. The review was to determine the effectiveness of the CRS/Kenya P.L. 480 program implementation and management and to verify compliance with P.L. 480 laws and regulations. The findings, conclusions and recommendations of the review were significant and still remain valid. To summarize, it was felt that the CRS/Kenya P.L. 480 Title II program had become stagnant and was not focusing on those groups of children in Kenya suffering most from malnutrition. Retargeting resources to these nutritionally substandard children was recommended. This resulted in a USAID and CRS/Kenya agreement to undertake a retargeting exercise which was presented in the FY 1983 Operational Plan and approved by AID/Washington. CRS/Kenya also applied for an Outreach Grant from USAID to enable it to meet the costs of retargeting to the harder to reach areas of Kenya.

Due to another severe drought in 1984, CRS/Kenya nearly doubled its Title II program. An additional consignment of commodities was approved for a Nutrition Supplement program to increase the food ration given to recipients in various CRS/Kenya programs. Focus on the drought also caused a hiatus in CRS/Kenya's retargeting plans and, once again, a phase-out of the OCF and PSCF Programs. By the second quarter of 1985, food conditions in Kenya were better and CRS terminated its drought assistance program.

As a result of serious allegations brought against Catholic Relief Services Headquarters in New York, in late 1985, CRS/Kenya was chosen as one of two country programs worldwide to be audited by the Inspector General of USAID. The financial and compliance audit rendered the following conclusions about the CRS/Kenya P.L. 480 Title II Program: that CRS/Kenya denied food assistance to beneficiaries due to inability to pay voluntary fees; that it improperly accounted for such recipient contribution funds; that it did not request USAID review and approval for use of the funds; and, that CRS spent funds from AID program grants in Kenya for unauthorized purposes.

As a result of an AID/Washington Outreach Assessment undertaken in several African countries, CRS/Kenya lost its eligibility for further grants. Along with this, CRS/New York notified country programs worldwide that recipient contributions would no longer be collected at the country program level. Instead, only the local distributors of P.L. 480 Title II commodities (missions, centers, etc.) could collect fees to offset their own expenses. Findings by the audit and assessment teams undoubtedly led to CRS/Kenya's decision in 1986/87 to phase-down its P.L. 480 Title II program, concentrating instead on community development projects which generally would not include a food component.

CRS/Kenya has submitted a multi-year Operational Plan for 1988-90 which requests a monetization of P.L. 4. Title II commodities to offset logistics and operational/administrative costs. The plan also calls for a swap of Title II wheat for locally-preferred commodities, maize and beans. The swap is meant to encourage the use of locally-preferred food and an opportunity for CRS/Kenya to impart nutritional education about such foods as well as cut dramatically the costs of moving P.L. 480 Title II commodities from the port to distribution locations in Kenya. The alternative will be to draw down food from regional stores managed by the GOK National Cereals and Produce Board.

Operationally, CRS/Kenya will continue its MCH program, but will gradually phase it down to a more manageable size. The Food for Work program will also continue, albeit on a somewhat modified scale, as will the General Relief program. In early FY 1987, CRS/Kenya phased-out the OCF and PSCF programs. Because of the monetization/swap component, overall levels of P.L. 480 Title II commodities should remain roughly the same as in the outyears.

2. Regular World Food Program Project

Since 1980/81, the United Nations World Food P ̣ram (UN/WFP) has carried out a Feeding of Primary and Pre-Primary Schoolchildren Project in Kenya. Food for the project is provided to WFP by a yearly allocation of P.L. 480 Title II food from AID/W. The project seeks to address the negative effects on educational standards of poverty and under-nutrition in the arid and semi-arid areas of Kenya. In these areas, population is sparse and the number of nomadic and semi-nomadic peoples is high. The long-range development objectives of this project are to extend and upgrade primary education in the most deprived regions of Kenya through improvement in the rates of school enrollment and attendance, and to improve the nutritional status of the primary and pre-school groups in some areas. Over the life of the project, this will be done by providing a meal for an annual average of 50,000 pre-school and 350,000 primary schoolchildren; by reducing the cost of to the parents of sending a child to school through provision of a free meal everyday, and by increasing the motivation to enroll and encouraging school attendance through offsetting both direct and indirect parental costs of sending their children to school.

WFP/Kenya has coordinated and implemented a highly successful swap program with the Government for this project. P.L. 480 Title II WFP wheat is brought to Kenya and swapped for local maize and beans. During each three year phase, the project level has been approximately 50,000 metric tons of wheat.

3. Emergency Bilateral Programs and Emergency Voluntary Agency Programs

Since 1980/81, USAID has responded to requests by both the GOK and voluntary agencies for emergency food aid assistance. In 1981, CRS/Kenya requested and received additional Title II food commodities to feed 30,000 drought victims in Turkana. This emergency feeding took place primarily at MCH Centers. USAID also donated approximately 30,000 metric tons of Title II food assistance to the GOK under the WFP program for the same drought program.

In 1984/85, USAID responded to one of the Kenya's severest droughts by approving government-to-government Transfer Authorizations totalling approximately 151,000 metric tons of grains and beans valued at approximately $50 million including ocean freight costs. Nearly 90,000 metric tons were freely distributed to drought victims through the Drought Relief Program capably implemented by the Government's Office of the President through Provincial and District Administrations. Another 20,[illegible] metric tons was used in support of Food for Work rural public works programs as part of the Government's drought recovery and rehabilitation program. USAID retained title to the balance of approximately 40,000 metric tons because the Government did not require the food. USAID also approved a Nutrition Supplement Program, to be operated through CRS/Kenya's existing MCH program.

4. Food Assistance Levels: 1980-1987

P.L. 480 Title II Shipments
to Kenya
metric tons

1980	1981	1982	1983	1984	1985	1986	1987
7,691	39,485	9,623	5,714	8,300	165,071	8,971	3,500

Values of Commodities Shipped Under
P.L. 480 Title II to Kenya
(metric tons)

1980	1981	1982	1983	1984	1985	1986	1[illegible]
3.1	9.8	3.0	1.9	3.5	24.6	2.4	.9

Figures are a combination of voluntary agency and government-to-government bilateral programs/grants.

5. <u>Comments/Conclusions</u>

With the exception of emergency periods, USAID has participated in a modest project food assistance program (Title II) in Kenya since 1965. This program has been implemented by a U.S.-registered voluntary agency acting as the cooperating sponsor and, in general, fully responsible for the operation of the program. In Kenya, Catholic Relief Services has dominated the Title II scene, as it has for most of Africa during the past twenty years. Except for isolated programs implemented by other volags, CRS has pursued an active Title II presence in a majority of sub-saharan African countries and has captured 90-95 percent of the Title II market. Kenya has been and remains a good example of this trend.

By the late seventies and early eighties, AID/Washington had begun to look more seriously at U.S. food resources and at opportunities to change its image - from a source of relief handouts for the hungry, to a reso[illegible] with developmental potential. Included in this evolv[illegible] policy was the Title II program. New and revised policy guidelines to promote better design of Title II operational program plans, as well as new mechanisms to access food and complementary developmental resources, became available to voluntary agencies. As a result, volags' interest in the developmental use of U.S. excess food resources increased. Following the severe African famine in 1984/85, a special interest in food for development was shown, as a diverse number of volags moved from emergency programs to a drought recovery and rehabilitation mode.

In Kenya, the Title II program has been no exception to this pattern of events. USAID has encouraged CRS/Kenya to accept the new operational plan guidelines proposed by AID/Washington. As part of a major program redesign effort, CRS/Kenya revised its development objectives to include more emphasis on agricultural production, soil conservation, and overall food security. Currently, CRS' proposed Title II Operational Plan for 1988-90 reflects an attempt to address these concerns, although in a program of smaller proportions. At the same time, by the addition of a Title II food resources component other U.S. volags in Kenya have come forth with their own innovative ideas to promote food security. Examples include CARE's revolving rural community food bank/buffer stock proposal, and a Food for the Hungry International's (FHI) natural resources operational plan that involves Food for Work reforestation in the Marsabit area.

The future of such Title II programs in Kenya (and in other African countries) revolves around the resources, food and funds available to the volags. For the moment, adequate supplies of Title II food commodities exist. However, the dollars and local currency needed to operate the programs in a logistically expensive country like Kenya are in great demand by volags. The willingness of Washington's Interagency Food Aid Sub-Committee (the DCC) to be flexible in its interpretation of costs directly attributable to project food aid will be important in deciding whether or not volags will be able and willing to undertake Title II programs with increased developmental impact in Kenya. Certainly an interest in undertaking such projects here exists among the volags.

IV. USAID/Kenya Food Assistance Development Strategy Statement

A. Introduction/Objectives

During the past few years, USAID/Kenya has developed number of sectoral strategies which fall within, but provide greater detail than does the current Country Development Strategy Statement. Food Assistance is a resource, just as Development Assistance and Economic Support Funds are resources, rather than a sector to be addressed.

Given this, the objectives of the USAID/Kenya food assistance development program are consistent with those of the CDSS in general and the Agricultural Sector Strategy in particular. These goals include: (1) food security through self-reliance defined as the country's ability to assure an adequate level of food consumption to all sectors of the population; (2) maximization of foreign exchange earnings (savings) from the food sector in order to permit the importation of essential goods to stimulate economic growth; and (3) the expansion of productive employment opportunities which must grow rapidly to absorb the expanding labor force as well as provide effective demand for agricultural produce.

The specific objectives of the food assistance development program which fall under these goals are: (1) provide short-term food security at the national level through the importation of food commodities for which there are insufficient levels from domestic or commercial importation sources; (2) encourage and promote efficient market development in order to assure that adequate availabilities at the national level are translated to local and individual food security; (3) provide short-term targeted food assistance in circumstances in which the individual/community is unable to achieve food security due to national disaster, lack of efficient market systems or the lack of effective demand (Such assistance should only be provided when the cause of the food shortfall is being addressed concurrently.); (4) provide balance of payments support in order that the scarce foreign exchange may be used for productive investment rather than the consumption of food commodities; (5) permit the Government to design and implement policy and investment decisions, through the use of Self-Help Measures, in order to strengthen the foundation for economic growth and food security; and (6) permit through the use of counterpart funds generated by the sale of P.L. 480 commodities the Government the means to undertake investments in the food, agricultural, population and health sector which will result in growth in productivity, employment and long-term food security.

In summary, since food assistance is both an in-kind and a financial resource, the objective of the program is to utilize the available resources as efficiently and effectively as possible in order to assure that both the conditions of short and long-term food security are realized. To the extent possible, food aid resources should be integrated with those of development assistance and economic support funds to ensure that all resources contribute effectively to these objectives.

B. Specific Strategy Elements

The food assistance development program has two elements or program mechanisms which may be employed in pursuit of the objectives discussed above. The first of these is what we have termed the "structural adjustment element" of the food assistance development strategy and may consist of either Title I, Title III, Title II (Section 206), Food for Progress or some combination of these individual programs. The second strategy element is that of Project Food Assistance (Regular or Emergency Title II Programs or Section 416).

1. P.L. 480 Structural Adjustment Program

a. Selection of Program (Type and Level)

When one considers the strategy of the Structural Adjustment Program, it is necessary also to consider food import requirements; the effectiveness of the structural program in achieving policy reform; the ability to integrate the program (both policy reforms and use counterpart) with the other elements of USAID/Kenya's portfolio; expected counterpart requirements in the years to come; and the availability of an appropriate commodity mix under alternative food assistance programs [Title I, Title III, Title II (Section 206) and Food for Progress].

As presented in Chapter II above, at least until the turn of the century, the Government of Kenya faces a staggering import bill for food commodities, particularly for wheat. Currently, it is estimated by both Government and USAID/Kenya officials that the cereal import bill will approach $60 million in 1990, and increase to as much as $135 million by the year 2000. These estimates imply that, unless the country is able to procure annually a total of $25-30 million in food assistance from all donor sources (or to realize a comparable sum in foreign exchange earnings), a significant percentage sum of domestic investment potential will leave the country for short-term consumption. While allowing the country to realize short-term food security, such a trend will impede economic growth, the basis for long-term food security. The Government of Kenya fully appreciates the implications of this long-term trend. Thus, during the FY 1987 negotiations of the Title I Program, the GOK requested USAID/Kenya to explore means to: (1) restore the structural programs to the level to those of the early 1980s, i.e. eventually $15-20 million; (2) to attempt to convert the program from a concessional loan to a grant; and (3) to utilize a concept of multi-year programming so as to enable the Government to call forward commodities as required.

Having conducted the food needs assessment and reviewed the donors' comparative advantage, we believe that USAID/Kenya should continue to play the lead role in food assistance. Currently, the only other donors who provide food assistance on a regular basis are WFP (annual shipments of 5,000 - 15,000 MT of wheat) and the EEC, which provides 10,000 - 15,000 MT of wheat. Due to their relatively small size and their humanitarian nature, neither of these programs are able to contribute to structural adjustment. For these reasons, unless other donors initiate food assistance programs we envision U.S. providing eventually $15-20 million of the structural wheat deficit, in exchange for policy reforms that will enable Kenya to increase its agricultural productivity and international competitiveness.

An overview and assessment of the Title I Program in Kenya was presented in Chapter III. We found that while the program as a whole had not achieved the level of developmental impact expected, there had been numerous improvements in the past four years. In particular, it was noted that as a result of the Title I program, the Government had undertaken a series of reforms with regard to the privatization of imported wheat; that there is an on-going spill-over of this movement of domestic markets;

and that the Government had agreed to jointly program the Title I generations for investments that fall within the broad definition of the food and agricultural sector. However, the assessment also noted that the Title I program was unable to maximize its developmental effectiveness, due to: (1) the general unwillingness of the Government to undertake policy reforms as a condition to food assistance when such assistance is loan-financed; and (2), the perception by key Government officials that Title I food is provided primarily in support of political, not developmental, programs.

Annex A presents a review of the alternative food assistance programs. Given the declining development investment levels and impediments discussed above to utilizing Title I for development purposes, USAID believes that a transition from Title I to Title II (Section 206), or alternatively to a modified (relaxed) Title III Program, is desirable. While we believe that restored levels would provide a relatively greater incentive for improved GOK performance, we note the difficulty in integrating the Title I program with our development assistance efforts, both in terms of policy reform and the programming of counterpart. Therefore, we propose a multi-year effort which fully integrates P.L. 480

resources with our Agricultural Marketing Development Program. This would bring together the available commodities with the performance-based implementation of specific policy reforms, and the multi-year programming of counterpart generated in order to complement the dollar resources of our program. USAID strongly believes that such an integrated program would enable the food assistance program to increase its developmental impact, while helping to reduce the apparently staggering need for additional food resources during the 1990s.

The preferred option is the Section 206 Program, with an annual value of $15-20 million. Such a level should only be targeted, however, after the Government has announced and begun the implementation of serious reforms with regard to the marketing sector. The advantage of the 206 Program is that it is: (1) multi-year, to assure the Government of Kenya of A.I.D.'s commitment; (2) grant-financed, to allow the programming of counterpart as part of the sub-sectoral program; (3) amenable to appropriate Self-Help Measures, performance-based and integrated with other developmental investments as a condition to subsequent call-forwards; and (4) amenable to the payment of shipping by the USG, to significantly increase the value of the program to the GOK. The primary drawback to the Section 206 program could be the fact that it is funded from Title II unallocated reserves. As such, the overall levels, as well as Kenya-specific levels, are uncertain.

The second option is that of a modified Title III program. This would also be multi-year, and would incorporate a loan-forgiveness feature when proceeds and/or commodities are used for agreed-upon development purposes. Such a program would be less favored by Kenya, due to the fact that the GOK would pay ocean transport costs. Also, it would be less attractive to A.I.D., due to the extensive program management requirements. However, we understand that Title III Guidelines are currently under review. If the guidelines are modified, and A.I.D. is allowed to fully integrate the conditions within the marketing sub-sector program, the net demand on management time should not be so severe.

The final option is that of Title I, complemented by Food for Progress as an incentive for good performance. It is our opinion, however, that given the Kenyan situation and the past performance of the Title I Program, the implementation of this option represents a continuation of the past, which could be expected to result in relatively smaller development impact than either the Section 206 or Title III Program.

b. Policy Issues

USAID/Kenya believes that the policy environment is critical to the success of both the Government of Kenya's development program and of USAID's investment within Kenya. For this reason, when policy issues are identified that limit the developmental impact of a program they must be responsibly addressed through appropriate project or program assistance. By its very nature, food assistance provides a unique opportunity to engage in constructive policy dialogue. The primary objective of the food assistance development strategy is food security, both in the short and long term. This concept incorporates not only food availability but also the economic concerns of employment and income generation which are inherent in effective demand. As such, structural adjustment food assistance may be used as a point of entry for discussion of a wide range of policy issues affecting the food a[illegible] agricultural sector.

In our review of food and agricultural sector policies, we have found that the greatest impediment to sustainable growth is the prevalence of Government controlled and/or regulated agricultural markets. The regulation of these markets (both input and output) in terms of price and movement controls on grain assures an inefficient market. This translates into: (1) regional food surpluses and deficits; (2) inaccurate price parameters used by producers/consumers in an effort to maximize their utility, thus reducing household, regional and national productivity and welfare; (3) disincentives to private sector investment, with a resulting impact on employment and incomes; (4) a significant economic and financial burden to the Government as it attempts to overcome market inefficiencies; and resulting from all of the above, (5) a systematic erosion of development potential.

Given the gravity of the market structure problem, the significant impact of the Title I Program to date, and the expressed interest by Government in encouraging the development of competitive and efficient markets, we find appropriate the continuation and expansion of market policy issues as the central theme of our policy dialogue/self-help measures. However, it must be acknowledged that the attempt to introduce classical economic prescriptions to Kenya via self-help measures or conditions precedent has not yielded the desired developmental impact. Therefore, it is important that as the grain marketing reforms evolve, the Government take the initiative, while USAID/Kenya should play a supportive role. Equally important, however, is the necessity of candid dialogue among the Mission, the Government, and the DCC. For the Mission to undertake a performance-based Structural Adjustment Program centered on food assistance will require an increased flexibility and support from the DCC. In order that the Structural Adjustment Program may be effectively utilized as an encouragement for Government to undertake the appropriate reforms, the Mission must be able to candidly discuss the rewards and/or costs of a given policy with Government, so that the GOK can make informed decisions. (This is one advantage of multi-year programming, which gives increased flexibility levels and call-foward dates.) Such an approach also will require a greater participation by USAID personnel during the initial phases of program design and implementation than has traditionally occurred in the past.

Restricting our policy dialogue to market and market-related issues under this program is deliberate. Mission experience shows that it is counterproductive to attempt to address a wide-range of issues or policies. Rather, we have found that we are much more effective when we limit ourselves to addressing issues which are important, have a relatively narrow focus, and in which the U.S. has a comparative advantage. Given Kenya's growing structural deficit in wheat, as well as availability of highly desirable U.S. Hard Winter No. 2 to blend with the softer domestic wheats, linking market policies with food aid permits an effective avenue for policy discussions/reforms. It should also be noted that policy discussions under this program will complement those under the ESF program, as well as discussions held with the GOK with other donor agencies, especially the IBRD and IMF.

Finally, a second dimension of policy issues arises with the programming and release of counterpart fund While it is not our intention to limit the import of commodity assistance on the basis of factors other than market development, we do believe it is appropriate to block the release of counterpart to an intended recipient should policies or institutional arrangements preclude the use of funds effectively. An example of the latter situation might be a refusal to use counterpart to fund an expansion of veterinary services until such time as the Government has implemented a system of user fees to allow that service to recover its recurrent costs. In such a case, the use of counterpart serves to address institutional issues similar to that of conditions precedent under project assistance.

c. Programming and Financial Management of Counterpart Funds

Enhancing the developmental impact of P.L. 480 resources is the major objective of the Food Assistance Development Program. Accordingly, USAID/Kenya intends to actively participate in the programming of local currency generations, with an emphasis on integrating P.L. 480 resources with non-food assistance resources to better achieve our specific program and policy objectives, and to enhance the developmental impact of all external resources. Thus, it is Mission policy to:

Broadly program the expected amount of counterpart at the sub-sector level at the time of each Agreement with Government, to reach agreement with GOK on specific earmarks for such funds as part of the annual budget exercise;

As the highest priority, ensure that that USAID development assistance-funded projects are adequately supported by the Government's contribution;

Program the remaining monies to activities which are understood by both Governments to be of high priority, but which would otherwise not be funded;

Program, to the extent possible, monies in support of private sector expansion and activities implemented by PVOs;

Systematically monitor the Government's total budget to ensure that the local currency generated results in a net relative expansion and/or supports policy reforms above and beyond what otherwise would have occurred.

* Implement a financial review system in which the counterpart recipient or end-user is required to submit periodic (quarterly) progress and financial reports, including verification by on-site visits of USAID and GOK personnel.

A list of currently anticipated uses of local currency through fiscal year 1992/93 is presented in Table 10. This list, which includes ESF, illustrates areas of perceived importance, in conformity with the above guidelines. To ensure the maximum complementarity USAID/Kenya intends to fully integrate the structural adjustment program within its Agricultural Marketing Development Program. To the extent that Government reforms merit assistance levels beyond those that can be effectively absorbed by the Agricultural Marketing Program, we intend to program these funds, chiefly within the food and agriculture and related sectors (e.g. Agricultural Research, Agricultural Education, the expanded immunization program, rural access roads, et Table 10 sets forth Mission plans in greater detail.

Table 10: Anticipated Future Uses of Counterpart Funds (P.L. 480 and ESF)

Title and Details	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	Total	Action Office
Egerton University College - (IDAT, Agr. Mgmt.)	0	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	6,250,000	AGR
Kenya Agricultural Research Institute -	0	3,437,500	4,000,000	3,500,000	3,750,000	4,062,500	18,750,000	AGR
ASAL Continuation	0	2,500,000	6,250,000	7,500,000	7,500,000	7,500,000	31,250,000	AGR
Agricultural Marketing Development Program	0	0	6,250,000	12,500,000	12,500,000	6,250,000	37,500,000	AGR
National AIDS Control Program	350,000	350,000	350,000	0	0	0	1,050,000	PH
Health Information Systems Unit	600,000	100,000	100,000	0	0	0	800,000	PH
Expanded Program on Immunizations	100,000	100,000	100,000	100,000	100,000	100,000	600,000	PH
On-farm Grain Storage	45,000	0	0	0	0	0	45,000	AGR
College of Insurance	0	0	0	1,250,000	0	0	1,250,000	PRJ
Rural Private Enterprise - Computer	2,500	0	0	0	0	0	2,500	PRJ
Jua Kali Loan Scheme	0	3,125,000	0	0	0	0	3,125,000	PRJ
Development Finance and Co. of Kenya	0	3,000,000	0	0	0	0	3,000,000	PRJ
Consortium Rehabilitation	750,000	0	0	0	0	0	750,000	PRJ
Kenya Small Traders Society	0	0	1,875,000	0	0	0	1,875,000	PRJ
Rural Access Roads	0	1,562,500	1,562,500	1,562,500	1,562,500	0	6,250,000	PROG
Government Training Institute, Mombasa	281,250	0	0	0	0	0	281,250	RHUDO
Rental Units in Small Towns	1,800,000	0	0	0	0	0	1,800,000	RHUDO
Local Government Training at Mombasa	312,500	0	0	0	0	0	312,500	RHUDO
Local Government Training at Kenya Inst. of Admin.	125,000	0	0	0	0	0	125,000	RHUDO
Umoja I & II Community Services	0	1,875,000	0	0	0	0	1,875,000	RHUDO
Upgrading Squater Settlements	0	2,500,000	0	0	0	0	2,500,000	RHUDO
District Housing for Civil Servants	1,875,000	0	0	0	0	0	1,875,000	RHUDO
Human Resources Training	0	500,000	500,000	500,000	500,000	500,000	2,500,000	HRD
Total	6,241,250	20,300,000	22,237,500	28,162,500	27,162,500	19,662,500	123,766,250	

2. P.L. 480 Project Food Assistance

a. Introduction

Since USAID and PVOs began their Title II food assistance to Kenya, the program has been widely viewed as humanitarian aid, primarily to alleviate hunger and malnutrition. However, P.L. 480 also allows Title II commodities to be used to promote economic and community development in developing countries. Over the last few years, AID and cooperating sponsors (PVOs, cooperatives, etc.) have begun to emphasize the use of project food assistance in ways that will mitigate hunger and under-nourishment but also enhance overall development impact. This has particular relevance to programs in Africa, where reductions in development assistance and economic support funds are taking place and USAID Missions are searching for ways to use existing resources more effectively. Some examples of these uses include drought preparedness, food security, and child survival programs.[1]

1 GAO Report, "Food Aid - Improving Economic and Market Development Impact in African Countries". Draft Report. 8/19/87

b. Grant Food Aid Rationale

In order for the Mission to consider the programming and possible integration of P.L. 480 project food aid resources in its overall development assistance portfolio, and within the current P.L. 480 policies and guidelines of AID, a comprehensive "Grant Food Aid Rationale" has been developed. The rationale endorses the concept of project food assistance as a "potentially valuable long-term resource for our development assistance program and a vital short-term resource to use for humanitarian purposes in critical emergencies, such as drought and other national disasters, that cause acute shortages of local food and may lead to famine or serious problems of hunger among members of the local population".[2]

In this connection, USAID acknowledges the central role played by U.S. registered cooperating sponsors (PVOs, cooperatives, etc.) in project food assistance programming. We will give active support to those which follow closely the priority criteria presented in the Mission Grant Food Aid Rationale. Of central importance is evidence that the cooperating sponsor(s) has

2 USAID Kenya P.L. 480 Grant Food AID Rationale. 2/13/87.

demonstrated a firm commitment to and alignment with the precepts and sectoral goals emphasized in the GOK's Sessional Paper No. 1 of 1986, "Economic Management for Renewed Growth", as well as to USAID's Country Development Strategy Statement (CDSS) - a document that includes an Agricultural Sector Strategy and Child Survival Action Plan.

Project food assistance proposals submitted to the Mission for review and approval should focus on long-term, positive developmental impact in Kenya. Programs which concentrate on the alleviation of hunger and malnutrition (such as Maternal Child Health), or on diarrheal diseases and immunizations (such as Child Survival Programs) will, of necessity, require additional technical screening before approval. However, all food assisted programs, whether Food for Work, rural public works or health and nutrition, will share certain priority criteria for eventual selection. Favored will be innovative project food assistance programs that give evidence of a clear demonstrated need; provide assurances that the food assistance will not promote substantial disincentives (or dependencies) to domestic marketing or production; show evidence that the GOK District Development Committee(s) and central government have approved the intervention;

include an evaluation plan capable of measuring intended development benefits; and provide assurances of community acceptance and participation. Additional criteria are discussed in the "Rationale" (see above).

c. Focus of P.L. 480 Project Food Assistance in Kenya

USAID will endorse P.L. 480 regular project food assistance interventions that have a long-term development impact in well-targeted, relatively short-term (2-3 year multi-year) programs. The need for such assistance may stem from geographic areas of chronic under-production, an inefficient marketing supply system, and/or general lack of resources (natural, human, infrastructural, etc.) that results in hunger and malnutrition. Such food assistance must be consistent with the Mission Agricultural Sector Strategy and Child Survival Action Plans, already integrated into the Mission's CDSS.

Because of the comprehensive nature of these strategies, the Mission will have flexibility in the selection of project food assistance programs that seek to achieve the strategies' goals and objectives. For instance, the Agricultural Sector Strategy encompasses food security as a major objective. Here, short-term food security might be addressed through modest phased-in-and-out Food for Work projects, that target small holders who need food, and perhaps cash, inputs between harvests. Project food assistance also may provide an added incentive for mothers to bring their vulnerable children under five to immunization centers, and/or supply a vital nutrition supplement necessary to prevent stunting.

USAID also endorses P.L. 480 emergency project food assistance interventions where natural disasters, such as droughts, bring about deficits in the national food supply and result in hunger and malnutrition. Once again, such project food assistance should be targeted to the truly needy by means of mutually-agreed selection criteria, and an agreed phase-out schedule.

V. Implementation of the USAID/Kenya Food Assistance Development Program

A. Management Approach

The strategy detailed above is based on four broad operational/management concepts. First, it focuses food assistance on a limited number of high-priority programs. The intent is to concentrate assistance to address key development constraints and limit the efforts to selected major, long-term programs, in preference to a proliferation of short-term projects that attempt to solve all problems. Secondly, emphasis is on activities that will maximize development impact, of a type for which A.I.D. has a comparative advantage. Again, it is not possible to address all constraints, but emphasis needs to be on high impact efforts to maximize the effectiveness of our assistance. Thirdly, the program takes cognizance of and is coordinated with the development activities of other donors. Finally, efforts will be made to fully integrate all available assistance instruments which support USAID/Kenya's development strategy and the specific elements of that strategy, i.e., P.L. 480, ESF and Development Assistance.

B. Management Implications of the Strategy

To maximize the developmental impact of U.S. food assistance in Kenya, the USAID/Kenya Food Assistance Development Strategy must include a clearly-defined, rational Mission food aid management organization. As suggested in this Strategy, managing a food assistance portfolio will require establishing an adequate but streamlined working system that stresses full coordination and cooperation among all concerned parties. The approach that is presented below satisfies, at the operational field level, the principal concepts drawn-up and approved by the 1987 AID Working Group on the Future Management of Food Aid Resources. These included: 1) allocating and programming food aid resources; 2) identifying and designing projects; 3) managing field operations (implementation); and 4) managing constituent relations.

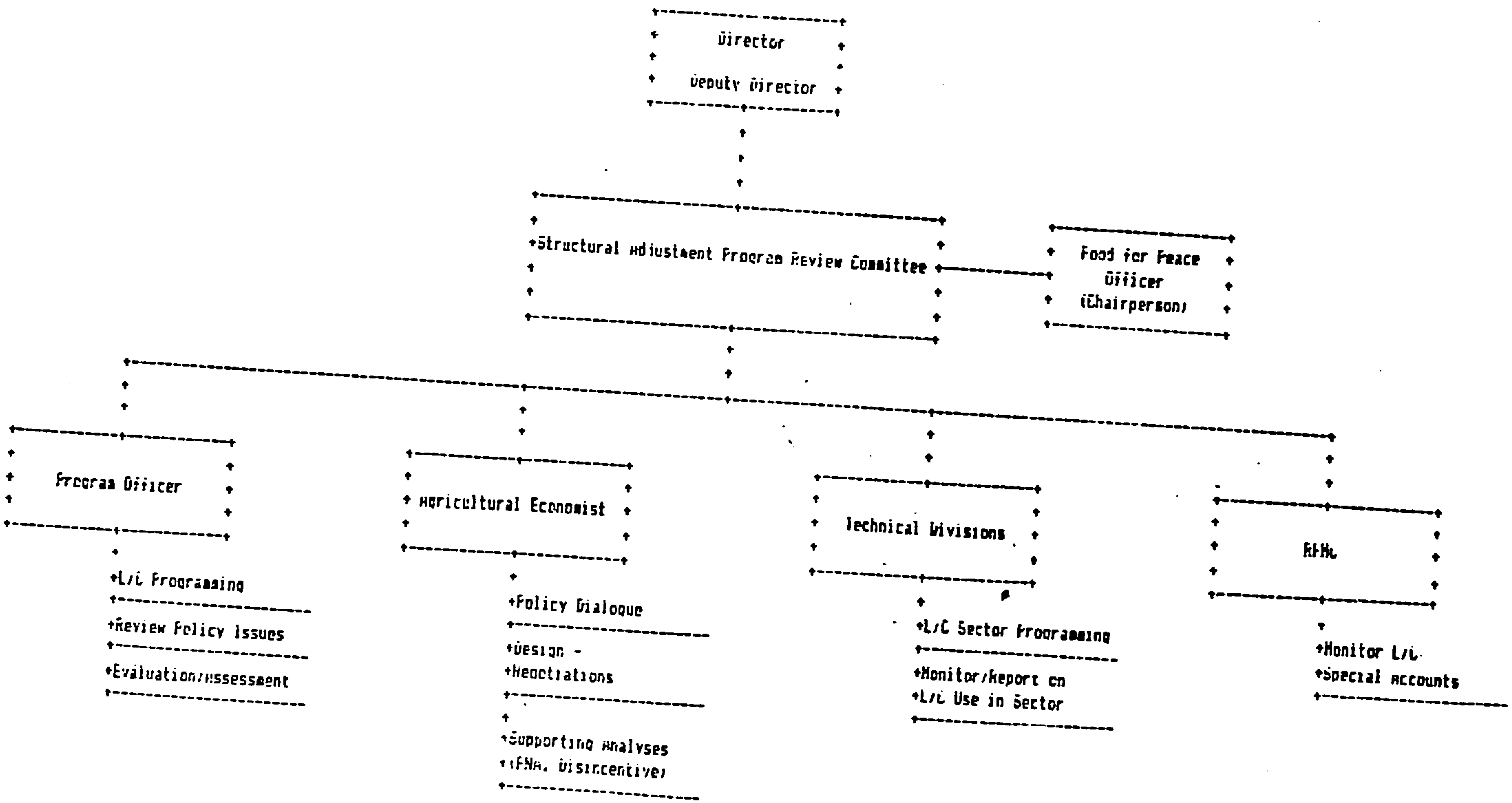
1. Structural Adjustment Program (Section 206, Title III, or Title I)

In order to achieve the expected long and short-term developmental benefits, there is general agreement that the Mission needs effective management of the food assisted structural adjustment program. Food aid responsibilities in this program range from policy dialogue; through program

Figure 1: USAID/Kenya Food Assistance Management System

for the

Structural Adjustment Program



analysis, design, and negotiation; to implementation, monitoring, reporting and evaluation. Figure 1 shows the Mission management system envisioned:

The USAID Director and/or Deputy Director (or designee) will be members of the P.L. 480 Structural Adjustment Program Review Committee. Normally, they will take the lead in representing the Mission's (Country Team's) structural adjustment program policy in high level dialogue with Government and donor representatives. The Director and Deputy Director also will provide the necessary direction, counsel and balance required to ensure program momentum and eventual success. As needed, the Director and/or Deputy Director will assist in program negotiations with the Government.

As principal USAID Officer for the food aid portfolio, the Mission Food for Peace Officer, Human Resources Development Division, will be responsible for coordinating the overall management of the food assistance structural adjustment program. The FFPO will chair a P.L. 480 Structural Adjustment Program Review Committee, to be comprised of Mission personnel working on various components of the program. The FFPO will have direct responsibilities for implementation of the program's

Self-Help Measures, and the use of local currency generations. To a lesser degree, the FFPO also will be involved in policy dialogue, design, analysis, negotiation and evaluation/assessment of the program.

The Mission Agricultural Economist, Agriculture Division, will have direct responsibilities for structural adjustment policy dialogue with the Government's technical ministries and parastatals, as well as concerned private sector entities; program design and negotiation with the Government and other parties; regular analysis of national food needs (FNA) and disincentives (Bellmon Determination); assisting in the programming of local currency generations in the Food and Agriculture Sector; and implementing program evaluation and assessments. The Agricultural Economist sits on the Program Review Committee, and answers to the chairperson or designate.

The Mission Program Officer (or designee) will be directly responsible for the programming of counterpart funds generated by the structural adjustment program. As a member of the Program Review Committee, the Program Officer will review and advise on program policy issues and answer to the chairperson or designate. He/she also will be directly responsible for coordinating any evaluation/assessment of the program.

- Other Mission technical divisions will be directly responsible for the use of program-generated local currencies allocated to line projects/activities in their particular sectors. Technical Divisions also may be involved in any evaluation/assessment of the program. In these tasks, technical division staff will report to the Program Review Committee.

- RFMC will have direct responsibility for monitoring local currency special accounts. When called upon it, will make periodic reports on L/C special accounts to the Program Review Committee.

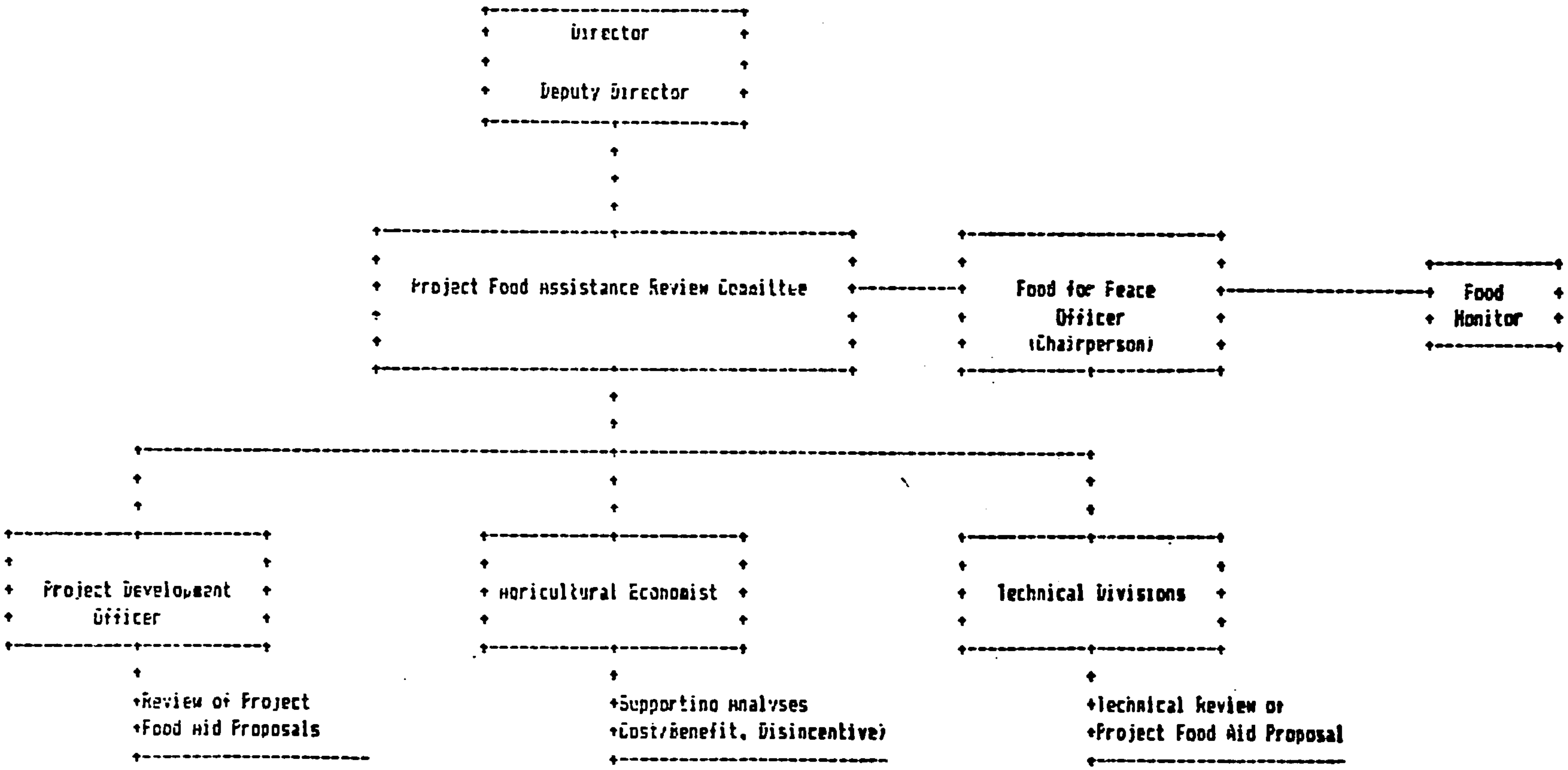
2. <u>Project Food Assistance (Title II, Section 201-Regular, Section 202-Emergency, Section 416, etc.)</u>

As shown in Figure 2, the management of project food assistance will be similar to the system adopted by the food-assisted structural adjustment program. Due to the special nature of such aid, however, USAID's Project Development Office will be more involved than under the structural adjustment program. The system envisioned here follows closely the one currently in place:

Figure 2: USAID/Kenya Food Assistance Management System

for

Project Food Assistance



The Director and/or Deputy Director (or designee) will be members of the Mission Project Food Aid Review Committee. This committee will review, discuss, critique and respond to project food aid proposals (operational plans) submitted to USAID/Kenya by PVOs, cooperatives or the GOK. Final endorsement of proposals by the Project Review Committee (with the Director and/or Deputy Director as members) must be given before final Mission approval.

The Mission FFPO, or designate, will serve as chairperson of the Project Food Aid Review Committee. The FFPO will have direct responsibilities for the management of Mission project food aid: proposer relations, operational plans, AERs, commodity selection/ration mix, design assistance, GOK and AID/W liaison, interpretation of regulations, accountability, monitoring, reporting, evaluation/ assessment, etc.

The Project Development Officer will sit on the Review Committee and will be responsible for assisting in the review of project food aid proposals. This officer will be acquainted with AFR/PD (AID/W) positions on AID project food aid.

The Agricultural Economist, or designee, will sit on the Project Review Committee. He/she will provide technical assistance to the food aid project proposer for disincentive and cost-benefit analyses, and will advise the Project Review Committee in these areas. He/she also will have the responsibility of verifying that the proposed activity will not serve as a disincentive to production, or result in market distortions or dependencies.

The Mission technical divisions, as well as a REDSO Food for Peace Officer, will be invited to the Review Committee as needed. In this connection, it is envisioned that a Population and Health Division representative will be required on issues concerning Child Survival Plans, and other health-related components.

Food Monitor: We foresee the need for a PSC food monitor, particularly if USAID/Kenya approves two or more proje food aid programs. The food monitor will spend approximately 50 percent of his/her time in the field, monitoring and reporting on food commodity usage, accountability, and assessing how well such programs meet specific and measurable targets/goals.

3. Conclusion

We believe the allocation of responsibilities discussed above will go far to strengthen the review, implementation, monitoring and evaluation of food aid programming at the Mission level. The food aid management model that we suggest clarifies individual and collective actions, thereby increasing accountability. It also increases the likelihood of positive developmental impact through food assistance investments.

Having a Mission Food for Peace Officer position along with a support staff of technical officers (agricultural economist, food monitor, nutritionist, etc.) goes a long way towards enhancing the close coordination of available food resources with development assistance projects. Deploying such a staff wisely will allow the Mission to effectively address issues ranging from economic analysis, program design, nutrition and emergency needs assessment to food security, storage and transport.

ANNEX A

A Possible Mix of Food Assistance Programs

Annex A

A Possible Mix of Food Assistance Programs

A. Concessional Assistance

1. Title I, Section 101

Title I seeks to provide long-term credit at low interest to friendly countries to assist in financing specific commodity imports - usually food - from the U.S. The program is designed to augment the net supply of food in a country, which is to be marketed through private commercial channels. In this way, the program also promotes long term commercial trading relationships between the U.S. and the recipient country.

Title I programs are negotiated between the U.S. and friendly countries on an annual basis. Title I agreements authorize commercial sales transactions between the importing country and a U.S. commercial supplier. The CCC (Commodity Credit Corporation) of the Department of Agriculture makes a loan for the purchase of the commodities and pays the difference in shipping costs for the quantity of the commodities shipped on U.S. - as opposed to foreign - vessels. Except in extraordinary circumstances, the remaining costs of ocean freight are paid for by the importing country.

Loan terms differ, depending upon the recipient country's ability to repay. Such terms range from a 20-year repayment period (with two years of grace and repayment in dollar credit), to a 40 year repayment period (with 10 years grace and repayment in convertible local currency credits). Interest rates for all programs are two percent during the grace period, and three percent thereafter.[1] For most programs there is a small percentage payment made initially which is referred to as the Currency Use Payment (CUP). This is usually a 5-10 percent payment in local currency, and represents a portion of the principle which does not need to be paid back in U.S. dollars. CUP payments reduce U.S. dollar repayment obligations by the amount of the CUP, calculated at the official exchange rate.

The repayment terms of Title I loans are concessional, providing a 50-67 percent grant element. The OECD "grant element" calculations were used to determine these "softness" percentages. By taking into account the interest rate, maturity and grace period, a discounted "present value method" expresses the stream of payments to be received under the loan in terms of the capital which would yield the same repayments if invested at 10 percent, compounded annually. Thus, the grant element is nil for a loan carrying an interest rate of 10 percent and 100 percent for a grant. The softest terms available under P.L. 480 are A 67 percent grant element.

These payments are usually made within the first year after the signing of the agreement, and are generally used to meet local currency U.S. government obligations in the host country. Currently, all but Section 108 programs require repayments in dollars.

P.L. 480 legislation requires that 75 percent of the Title I budget be allocated to countries with annual per capita incomes below the poverty criterion of the International Development Association. Currently, this is $790 per year.

Title I is targeted to countries which require balance of payments assistance. A major concern in Title I reviews is that these concessional sales do not disrupt markets or world prices. The Title I agreement must establish UMRs (Usual Marketing Requirements), based on the average level of commercial imports for the same commodity over the past five years. The Title I commodities are to be additional to this average, although a waiver can be obtained when foreign exchange constraints are overwhelming.

In the past, local currency generated by Title I sales often has gone to general budgetary support. In recent years, there has been a move to encourage the use of local currencies in specific development areas. In addition, self-help measures have been considerably strengthened, and disincentive effects on local production are being analyzed more carefully.

1.a. Title I, Section 106/108: Section 1111 of the Food Security Act of 1985

Local Currency Lending Program

Section 108 intends to set aside a minimum of 10 percent of the aggregate value of Title I sales contracts for repayment in local currency. These U.S.-owned local currencies are then to be used to capitalize a loan fund. This fund is drawn upon by intermediate financial institutions (IFIs) which, in turn, lend to the private sector.

The intent of Section 106 is to set aside an additional 15 percent of the aggregate value of Title I sales contracts for use in loan funds similar to Section 108 (above). Unlike Section 108, however, Section 106 refers to host government-owned proceeds generated by Title I sales which are jointly programmed (U.S. and host government) for exactly the same types of activities as described in Section 108 above.

The DCC (Development Coordinating Committee, Interagency Food Aid Subcommittee) agreed that this program would be administered in the field by A.I.D., and that ultimate decisions would be made by an In-Country Policy Group (IPG) which would be composed of members of the country team. The law specifically states that the U.S. has to use intermediaries to run this program; the IPG, in short, cannot serve as the "project banker" for this program. Instead, this will be a two step process: the U.S. will make loans to an IFI, and the IFI, in turn, takes credit risks and makes subloans to private sector organizations according to criteria set by the legislation.

Reflows of the loan may be used for further lending, and the funds can also be used for agricultural technical assistance, to increase markets for U.S. products, and for Currency Use Payment (CUP)-type of activities. If funds are used this latter way, however, they are to be counted as a new appropriation.

In practice, the program works as follows. Every year, as part of its Title I planning exercise, a Mission estimates how much 106/108 activity it is likely to have. Through AID/W, the Mission then asks for authority to negotiate such an agreement. Washington takes into consideration all requests, and allocates the worldwide 108 budget accordingly. Thence, program management is given over almost entirely to the field.

Additional major point of interest: PVOs and co-ops are eligible to be IFIs, and can be given grants for start-up costs. These grants are for administrative expenses only, and do not cover the capitalization of loan funds. Also, PVOs and co-ops must pay market rates for the money they borrow.

The guidelines also point out that preference will be given to IFIs that lend in the agriculture private sector. For Section 108 programs, the IFIs must be privately owned, and have "significant local" ownership.

2. <u>Title III, Food for Development Program</u>

Title III Food for Development programs are intended to support a wide range of development activities in agricultural and rural development, nutrition, health services and population planning. However, the main focus of Title III programs is on activities that support increased food production and food availability for poor consumers.

Title III of P.L. 480 authorizes concessional food sales to eligible recipient countries over a multi-year period. When local currency proceeds and/or commodities are used for agreed upon development purposes, a provision is included for forgiveness of the repayment obligation.[1] Title III is geared to those low-income (under $790 per capita income in 1987), food-deficit

1 The "loan forgiveness" earned by a recipient government can be applied to the outstanding repayment obligations of the Title III loan. For example, in the first year of a multi-year program the USG loans $10 million, which incurs a 40 year repayment obligation of about $16 million. If the recipient government meets the tough conditions of the Title III loan it will earn $16 million in "loan forgiveness", thereby wiping out the entire dollar repayment obligation. However the "loan forgiveness" "earned" by the recipient government also can be applied to existing Title I dollar repayment obligations which may fall due in the nearer term. This second application of "loan forgiveness" is obviously more valuable in terms of foreign exchange savings to the recipient country, since it can wipe out current and near future dollar repayment obligations rather than dollar repayment obligations which do not fall due for 20, 30 or 40 years.

countries which have the potential to significantly raise agricultural production, pursue agricultural-based strategies, and are committed to efforts to stimulate rural growth. Consistent with this commitment, Title III's multi-year commodity supply assurance, and the potential for forgiveness of loan repayments, should provide incentives for recipients to agree to significant policy and institutional reforms, and to key improvements in their development programs.

Loan forgiveness is usually earned when the recipient government in the Title III Agreement agrees to do one or both of the following:

a. to undertake certain, usually difficult economic policy reforms (e.g. reform the agricultural pricing regime), and/or

b. to place the local currency generations in a Special Account and uses them for projects/activities that are in addition to the recipient government's planned budget. Such "additionality" must be verified.

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Title III is most suited to countries where the causes of food and agricultural production are understood by key policy makers in LDCs willing to enter into a long-range effort, including policy reforms and program adjustments, to correct rural-urban imbalances and to pursue the broad-based growth of the rural economy. The recipient country government should be committed, and hopefully have made some progress towards

a. Developing the institutional capacity for food and agricultural planning and policy analysis;

b. Developing human resources and institutions which (i) generate and apply innovations designed to raise agricultural productivity and rural incomes; and, (ii) evaluate and adapt technologies transferred from developed countries and international institutions;

c. Encouraging (i) policy and management reforms that make public enterprises more responsive to market forces; (ii) greater private sector initiatives in the same spheres; and (iii) the reduction of inappropriate public enterprises in the economy.

Normally a Title III program is proposed in a PID followed by a Project Paper (PP). Such documents are carefully reviewed by AID, State, OMB, and USDA. About one year is normally required between the initial proposal the signature of an Agreement.

To summarize, through Title III programs;

a. The recipient country gets:

(i) a multi-year commitment of food aid and,

(ii) loan forgiveness; therefore, a large foreign exchange grant.

b. The USG gets:

(i) more development impact from its food aid, and

(ii) policy dialogue plus a closer relationship with the recipient government.

B. Title II, Section 206 Programs

Title II Section 206 programs seek to alleviate the underlying causes of a country's food problems; to increase the availability of food and the effectiveness of food distribution for the country's neediest population groups; and to support health programs and projects, including the immunization of children.

The principal feature of these government-to-government programs is their development orientation. Section 206 programs provide food aid on a grant basis; permit multi-year commitments subject to an annual review of program performance and commodity availability; incorporate policy conditionality; and generate local currency to support development activities consistent with legislative requirements, country priorities, and Mission CDSS objectives.

Illustrative program initiatives include efforts to increase food and agricultural production; establish a reliable food data collection and reporting system; improve the country's food distribution system to enhance food consumption among low-income groups; develop a food emergency preparedness plan; and to remove constraints to more effective participation by the private sector in food production and distribution.

Section 206 programs are generally tailored to the needs of lower income developing countries requiring food assistance, with priority given to those experiencing chronic food deficits. Lower income countries are those meeting the World Bank's IDA loan eligibility criteria, which is currently a per capita income of dollars 790 or less. Candidate country programs are those in which emphasis is given to integrating food aid and non-food aid assistance programs to promote food self-reliance and food security, as well as economic growth.

Section 206 programs differ from Title I programs in that they are grant as opposed to credit programs; are generally limited to lower income developing countries; are usually approved on a multi-year basis, subject to commodity and funding availability; and place special emphasis on directly addressing the root causes of the recipient country's food problems and supporting precautionary measures that help avert food shortages.

Section 206 programs differ from multi-year Title III programs in that they are grant as opposed to credit programs with a credit-forgiveness feature; are more modest in program size - 10,000 to 20,000 metric tons; give priority to chronic food deficit countries; and again place special emphasis on addressing the root causes of the recipient country's food problems and supporting precautionary measures that help avert food shortages. The USG pays for the transport costs of Section 206 commodities, whereas these are usually paid by the recipient government for Title I and Title III commodities.

Funding for Section 206 programs is available through the Title II unallocated reserve. Due to the demands placed on the reserve in recent years to meet emergency needs, Section 206 programs have been few in number and small in size. In years when there are higher levels of Title II commodities available for programming, more Section 206 programs will be possible. Recently, AID/Washington has streamlined the approval process for Section 206 programs, to make this more compatible with other Title II programs.

C. Food for Progress: Section 1110 of the Food Security Act of 1985

The intent of the Food for Progress Program is to use U.S. food resources in support of developing country agricultural sector policy reform in four basic areas: 1) price policy; 2) marketing reform; 3) input supply and distribution policy; and 4) private sector involvement.

Under NSC (National Security Council) direction, the Third World Hunger Study in December 1984 recommended a new tool for use in addressing global hunger problems: a Food for Progress program which would use U.S. food donations to support developing countries that agree to specific reforms in their agricultural policies. The President approved the program and Congress authorized it with some modifications, as Section 1110 of the 1985 Food Security Bill. Funding is from Section 416 and Title I.

Selection criteria for the Food for Progress program include a first requirement to serve U.S. strategic and foreign policy interests. Once this is satisfied, the following additional criteria apply: 1) the recipient country has a political commitment to reform and to implementation of policy decisions, based on free market principles and private sector involvement; 2) there is a need for non-emergency food aid: "Food for Progress" commodities must be additional to U.S. regular food aid programs (the Bellmon Determination holds in this case); 3) an in-country capacity must exist to carry out agricultural reform; 4) evidence is required of policies conducive to improvements in agriculture, shown by a movement toward market-oriented agriculture and the phase-out of government controls over agricultural pricing, distribution and marketing functions, and/or by other macro level policies that "send incentive signals" to the agricultural sector and induce micro level policy decisions that promise a positive effect on local level investment, production and marketing responses.

Criteria of lesser importance include: 1) the potential for economic growth that will lead to the country's ability to participate in international trade, and to import U.S. commodities; 2) the potential for, or existence of, other donor support for agricultural programs and policy reform (indicators of potential for co-financing); 3) the USAID's capacity to negotiate Food for Progress agreements, and to assist the host government to develop, implement, monitor and evaluation of the program.

Moving quickly on this new authority, in FY 1986 the DCC sent guidance to the field and requested proposals for pilot projects in seven African countries. All seven Missions responded with proposals. Two - from Madagascar and Guinea - were selected by the DCC for immediate FY 1986 funding. Based on the experience of the pilot programs, in FY 1987 the guidance was modified and sent to 16 additional Missions worldwide.

Existing Programs: The Guinea program for 30,000 mt of rice will be used to promote liberalization of marketing policies. Specific economic reforms to which the program is tied comprise: 1) changes in exchange rates, including a significant currency devaluation, and tying currency exchange to market rates; 2) replacing government banks with private banks; 3) abolition of food rationing and state trading companies (which had a monopoly over food imports); 4) liquidation of most parastatals, and reductions in the civil service.

The Madagascar program is designed to complement a World Bank effort to strengthen that country's recent initiative to remove state controls on rice trading. Specifically, the 30,000 mt of rice in the program will be used to dampen price swings, as government controls are lifted.

D. Additional Grant Food Assistance Programs: Project Food Aid

1. Title II, Section 201

Traditionally, the intent of project food aid has been to alleviate immediate hunger and malnutrition. In recent years, efforts have been made to use food aid projects to further developmental objectives.

UTb

There are three basic delivery systems for regular food aid projects:

a. Maternal-Child Health Feeding Projects (MCH) - offer food supplements to pregnant and lactating mothers and preschool children from low income families. These projects are typically implemented at feeding or health centers managed by indigenous or U.S. organizations. Feeding rations are distributed to mothers and infants and rudimentary lessons in health or nutrition are provided. In better-run centers, a growth surveillance system is used to ensure adequate levels of intake and to monitor impact.

b. School Feeding Programs (SFP) - provide meals to school age children who are physically present at educational institutions. School Feeding Programs are intended to contribute to development through human capital formation and increased productivity.

c. The contribution of Food for Work (FFW) projects to development differs from that of MCH and school feeding programs. In this case, development occurs through income generation and employment for the poor; infrastructure development; and the promotion of community organization and development.

Project food aid is implemented by Private Voluntary Organizations (PVOs), cooperatives and the World Food Program (WFP). Section 201 of Title II provides that in FY 1987 1.45 million metric tons of U.S. commodities is to be distributed through non-emergency projects by these institutions. Costs of ocean transport and overland transport - port of entry to point of entry for land-locked countries - are also provided in these projects.

Sponsors submit Operational Program Plans - or project documents in the case of cooperatives - to A.I.D. field missions. They are reviewed and, when approved, are forwarded to Washington for the normal DCC approval process. For the WFP, projects are reviewed and approved at their biennial meetings in Rome.

2. Section 416, Section 1109, Food Security Act of 1985

The intent of Section 416 is to reduce U.S. Agricultural surpluses - additional to P.L. 480 - and to provide humanitarian and development aid in the same way as Title II projects worldwide.

Amendments to Section 416 of the Agriculture Act in 1982 authorized USDA to donate dairy products from Commodity Credit Corporation (CCC) stocks for poor people needing food assistance in foreign countries. These donations can be made through foreign governments, or through U.S. private, non-profit voluntary organizations (PVOs).

A 1984 agreement divided programming responsibilities between A.I.D. and USDA. USDA is now responsible for determining the commodities that are available, and in what quantities. A.I.D.'s responsibilities include review and approval of program sponsors, development and review of specific proposals, establishment of Section 416 program policy, and development of audit procedures. Section 416 is considered additional to P.L. 480, and is available to countries beyond the list of LDCs now receiving the bulk of Title II assistance. This includes middle-income countries and advanced developing countries, such as Mexico and Chile.

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Procedures for submitting and approving Section 416 proposals are much the same as those for P.L. 480 Title II programs. Requests are submitted to A.I.D. for preliminary review and then presented to the DCC for final approval. Existing Title II logistical systems are used to transfer the commodities.

Food Security Act Amendment - The Firm Bill increased the amounts and commodities available for programming under Section 416. Grains and oilseeds are now included and the following minimum tonnages are to be made available during the period FY 1986 - FY 1990: 500,000 mt of grains and oilseeds, and 150,000 mt of dairy products.

The Farm Bill also contains provisions about monetization under Section 416. A minimum of five percent of the aggregate value of commodities made available to PVOs and cooperatives is to be provided for sale. The following provisions on Section 416 monetization are included: a) such sales are to be incidental to donation of 416 commodities; b) sales can finance distribution, handling and processing costs of 416 commodities; c) sales of commodities provided to PVOs and cooperatives can be used to enhance the effectiveness of transportation, distribution and use of the commodities for Food for Work programs and cooperative and agricultural products.

The following are additional important 416 provisions in the Farm Bill: a) disincentive and UMR analyses are to be conducted prior to programming; b) multi-year programs are authorized and strongly encouraged; and c) cargo preference rules now apply.

3. <u>Monetization</u>

The intent of monetization is to meet local currency costs associated with grant food aid projects. Monetization simply means sales of grant food aid commodities, i.e., Title II and Section 416 regular and emergency projects. Commodities can be monetized in PVO, cooperative, as well as Government-to-Government projects; monetization can be partial or full.

Existing monetization projects represent a wide variety of possibilities: full monetization by cooperatives for development purposes; full or partial sales of emergency commodities by PVOs or host governments for food distribution; and partial sales in regular Title II or Section 416 project food aid. These projects are to be found worldwide.

The Food Security Bill of 1985 has recently focused attention on partial monetization of project food aid by the World Food Program, PVOs and cooperatives. This partial monetization of project food aid is the major focus of A.I.D. monetization policy. The Bill legislates that a minimum of five percent of the aggregate dollar value of both regular Title II and Section 416 program be monetized. For FY87, this would represent approximately $11.4 million of Title II resources. Percentage values for Section 416 are more difficult to calculate since there is no proposed dollar budget for Section 416 food. Tonnages for Section 416 in FY87 are expected to exceed the 650,000 mt minimum.

Procedures for partial monetization of Section 416 and Title II project food aid make PVOs and cooperatives responsible for submissions of proposals, and for the ultimate implementation and accountability for monetization projects. As with all PVO/cooperative projects, field missions are responsible for oversight. Monetization proposals are submitted by PVOs and cooperatives as part of Operational Program Plans/project documents, and are subject to the normal review and approval process of food aid projects.

For WFP (World Food Program) projects, proposals that include monetization are reviewed in the normal Committee on Food Aid process.

The most appropriate uses of local currency proceeds generated by monetization are:

internal transport and storage costs; and

ancillary inputs that enhance project food aid objectives.

For those who apply for regular food monetization projects, the major uses they should consider include:

a. The use of local currencies in Maternal Child Health programs, to include such inputs as scales, growth surveillance charts, nutrition education and pilot ORT programs;

b.. The uses of local currencies in School Feeding programs, to include purchase of tools and equipment for school gardens, educational aids related to nutrition and equipment for school kitchens, etc.;

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c. The uses of monetization proceeds in Food for Work, to include items such as simple tools, cement, fencing or compactors to complement labor intensive infrastructure projects and short-term technical services supplied, for example, by engineers, foresters and agriculturalists. Cash supplements or substitute cash payments to workers also are appropriate under special circumstances.

Other issues that need to be examined before proceeding with a monetization program are:

a. the need exhaust all alternative funding sources;

b. the possible disincentives to local production and marketing;

c. the effects of imports and sales on Usual Marketing Requirements (UMRs - five year average of commercial imports);

d. host government approval of grant food sales program; and

e. the need for adequate management and accountability.

ANNEX B

USAID/Kenya P.L. 480 Grant

Food Aid Rationale and Criteria for Support

AID KENYA MISSION ORDER

SUBJECT: USAID/Kenya P.L. 480 Grant Food Aid Rationale and Criteria for Support

ORDER No. 8-10 CHRON No. ____

DATE ISSUED 2/13/87 DATE EFFECTIVE 2/13/87

SUPERSEDES NEW

AUTHORITY:

I. PURPOSE: To announce a rationale and criteria for USAID/Kenya supported grant food aid programs.

II. INTRODUCTION:

U.S. Government P.L. 480 grant food aid (Title II, Section 416) is a potentially valuable long-term resource for our development assistance program. It is also a vital short-term resource to use for humanitarian purposes in critical emergencies, such as drought, and other national disasters that cause acute shortages of local food and may lead to famine or serious problems of hunger among members of the local population.

In a period of diminishing development assistance (and economic support fund) resources for AID, food is a potentially important resource for USAID in Kenya, both in dollar terms and in the addition of resources to our assistance program. Consequently, USAID has a responsibility to examine critically food-based assistance proposals submitted by PVOs (and others) so that food is used to bring about a positive developmental impact in Kenya.

Achieving longer-term developmental impact through grant food aid in Kenya depends on such elements as basic need, funding resources, project design, logistics capability, host government commitment, alternative food sources, etc. This multiplicity of factors underlines the need for a concise rationale to assist USAID in evaluating food-based development programs, as proposed by PVOs and others. The rationale takes into account the salient concerns of USAID's country development strategy; the management and administration of its development program; and Kenya's own development policies and priorities.

The Issue of Dependency and Disincentive Effects

To produce positive outcomes, the use of food aid requires that it be programmed under specific conditions and with careful precautions. To do otherwise would run the risk that such aid might become a costly and ineffective intervention which creates dependency and acts as a disincentive to local food production.

Disincentive and dependency risks are essential concerns in considering an increase in imported food supplies. Depressed prices for host country farmers and inappropriate host government agricultural policies may both result, and both may lead to decreases in food production.

As for the dependency effect, outside food aid can cause a change in eating habits that creates a permanent dependency on specific food imports. This may occur by shifting demand from domestic to imported foods which cannot be competitively produced at home.

As a result, USAID will discourage the importation and use of U.S. agricultural commodities as food aid when this would result in depressing the market for foodstuffs normally grown and consumed in Kenya. Food aid must not serve as a disincentive to Kenyan producers who strive to improve the production, quality and distribution of agricultural commodities within Kenya. Nor will USAID normally endorse or support any U.S. government food-based assistance that could displace, or act as a substitute for, local commodities, thus causing undue dependency among the local population on foreign imports.

As a prerequisite to USAID's approval of any food assistance proposal, a Bellmon Determination will be made, with a disincentive and dependency analysis. As required, the analysis will "determine that the distribution of the commodities in the recipient country will not result in a substantial disincentive to or interference with domestic production or marketing in that country".

Other Essential Criteria

Under normal circumstances, USAID views food as an importa supplementary resource for development only when it is use imaginatively, effectively and efficiently. This must be done with maximum cooperation and participation of the local population, so as to enhance or extend the impact of long-term development that improves the standard of living of the targeted population.

As defined above, and providing they are endorsed by cooperating Kenyan authorities, USAID encourages and provides support for the active participation of American PVOs in carrying out food-based development programs in Kenya.

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Within this framework, there is a series of priority criteria that USAID will apply to determine its support to PVOs and others who propose development assistance programs based on food imported into Kenya by the U.S. government. Such proposals will be measured against the following criteria:

1) Clearly demonstrated need;

2) Positive developmental impact;

3) Potential for program to achieve targeted objectives and phase itself out;

4) Availability of appropriate foods;

5) Innovativeness/Pilot Activity;

6) Demonstrated ability to promote food self-reliance of targeted group(s);

7) Indication of GOK approval and support;

8) Evidence of active community participation and ability to manage the program;

9) Solid experience and proven track record of PVO;

10) Manageable program size and elements;

11) Feasible operational plan;

12) Viable evaluation plan;

13) Significant contribution by PVO and other donors to project.

(An annotated list of the criteria is attached).

Note: Standards used to assess proposals for using U.S. government-owned foods for emergency purposes will be different. Essentially, these will be based on proven need, urgency and logistic/administrative competence of the PVO to implement a reasonable program as fast as possible.

Summary

USAID's rationale for the use of P.L. 480 grant food aid in Kenya is tied to a clearly-designed program and an agreed-upon set of criteria which, intelligently applied, will ensure effective developmental outcomes without creating disincentives or dependency among the local population. To merit USAID/Kenya's support, food-based development assistance proposals must be of an exemplary nature: well-planned, imaginative, and endorsed by the community and host government. All such programs must result in a measurable development impact, and be conducted in consonance with USAID's country development assistance strategy.

SW Sinding

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Distribution: A,B,C

Mission Order 8-10

Annotated List of Criteria: P.L. 480 Grant Food Aid Rationale

1) Clearly demonstrated need:

What is the evidence of the need (reports, statistics, anecdotal, etc.)? What is the source of the evidence (PVO, Community, GOK)? Do all parties concerned agree on the need?

The needs assessment will include a disincentive and dependency analysis (Bellmon Determination). Among other things, this will analyze the domestic food supply situation, other donors' food aid programs, as well commercial food imports. The balance between such imports and food aid, and the indications of the proposed program in Kenya's balance of payments position must be addressed.

2) Positive developmental impact:

What will be the expected impact of the program? What inputs are needed (costs) vs. outputs expected (benefits)?

3) Potential for program to phase itself out:

Will the program be self-sustaining after the project is over? If so, what evidence is there to support this belief?

4) Availability of appropriate food:

USAID will only make available specific imported foods which are appropriate to the goal/objectives of the proposed program, and which will not act as a disincentive to local production or create a dependency on new food products. If the U.S. is capable of supplying appropriate foods, then this criterion may be satisfied.

5) Innovativeness:

Does the proposed program offer innovative approaches which appear likely to solve the major problem(s) identified? How will it serve as an example? If a "pilot" program, does it provide for flexibility, on-going evaluation and mid-stream changes? Can it be easily dropped if it doesn't work?

6) Demonstrated ability to promote food self-reliance of targeted groups:

Does the proposal support national as well as local food security, both short and long term? How? Will it encourage food self-reliance? How will the program contribute to Kenya's ability to ensure an adequate level of food for all sectors of the population?

7) Indication of government approval and support:

What evidence is there of GOK commitment to the proposed food-based development program? How will the program support GOK priority strategies, such as the District Focus?

8) Evidence of active community participation and ability to manage the program:

How was the local population/community involved in identifying needs, designing the proposal, participating in the implementation and evaluation of the project? How will the community sustain the activity after the project ends? Does the community have the management capacity to do so? If not, how will this capacity be developed?

9) Solid experience and proven track record of PVO:

What is the PVO's in-country base? Has it carried out other food-based development programs (Kenya, Africa, other)? If so, how were they evaluated? What is the quality of its staff? What record-keeping, monitoring and reporting systems capabilities exist? Do such systems conform with P.L. 480 regulations?

10) Manageable program size and elements:

What skills and time must USAID invest to help develop, perfect and monitor the proposed program? Is the implementing agency capable of managing a project of the size and scope proposed? Is the program worth the effort needed to achieve a significant development impact, in terms of cost, time and personnel requirements?

11) Presence of a viable evaluation plan:

How good are the program evaluation plans, over the life of the project? What quantifiable indicators

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will be used to objectively measure project results on a scheduled, systematic basis? How and when will expected outcomes be assessed? Are adequate funds budgeted for evaluation?

12) Feasible operational plan:

Does the food-based development proposal (operational plan) conform to AID guidelines? Is the plan proposed acceptable to the USAID Project Review Committee?

13) Significant contribution of PVO and other donors to the project:

Can the proposed project be completely funded? How much must AID contribute? How much is the PVO/other donor(s) contributing? If the GOK is contributing, how much? If the PVO must meet specific funding requirements, can these be met?

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