

# LOAN COMMITTEE

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February 26, 1986

Minutes of Loan Committee Meeting to consider  
 KENYA - Agricultural Sector Operation Initiating Memorandum  
 held on February 6, 1986, Conference Room E-1208

## A. Present

### Committee

Messrs. E. Stern, SVPOP Chairman  
 S. Husain, OPSVP  
 M. Qureshi, SVPFI  
 D. Goldberg, LEGVP  
 J. Kraske, EAlDR

### Others

Messrs. H. Wyss, EAPDR  
 P. Loh, EAPDR  
 R. Clements SVPOP  
 H. Köpp, SVPOP  
 S. Rajapatirana, VPERs  
 Ms. K. Marshall, EAPCA  
 K. Amoako, EAlKU  
 D. Greene, EAlDR  
 Ms. P. Cox, EAPCA  
 Ms. G. Swamy, EAlKU  
 B. Jones, EAlKU  
 V. Dubey, CDPDR  
 K. Imam, PBDCP  
 R. Nelson, AGREP  
 M. Braithwaite, CPDDR

## DISTRIBUTION

### COMMITTEE

Senior Vice President, Operations (Chairman)  
 Senior Vice President, Finance  
 Vice President & General Counsel  
 Vice President, Operations Policy  
 Regional Vice President concerned\*  
 Vice President, Energy & Industry (for lending  
 in these sectors and SALs)  
 Vice President, Economics and Research (for non-  
 project lending)

### OTHERS

Standard (see OMS 9.25 page 7)

\*Copy to all other Regional Vice Presidents

## B. Introduction

1. A meeting of the Loan Committee was held on February 6, 1986, to discuss the initiating memorandum and the final project brief of a proposed Agricultural Sector Operation for Kenya. A memorandum from the Country Policy Department commenting on the operation had also been circulated to the Committee.

2. The meeting began with an assessment of Kenya's policy performance by the Region. The Bank and the IMF had been impressed with Kenya's performance in the area of stabilization and management of the external and budgetary deficits. There was less satisfaction with progress on structural issues, including liberalization of grain markets and external trade (although within the framework of regulated markets, producer prices had been increased). The Region had pushed for structural reform, not only in the SAL's, but also in the context of economic and sector work and Consultative Group meetings, but with little success, and generating some impatience from the Kenyans in the process. There was little disagreement on the substance of required reforms, but it was difficult to obtain commitment as to timing. The proposed sector operation was designed, as had been agreed in the last CPP review, to address reforms in a sectoral context. It represented 18 months of active dialogue on all areas relevant to agriculture and had generated substantial momentum and Kenyan interest.

3. The issue which generated the most discussion was the ultimate objective of the restriction-relaxing steps proposed for this operation, with reference primarily to fertilizer supply (paras. 4-7 below). Other issues included budget allocations, promotion of private enterprise, and parastatals (paras. 8-10 below).

## C. Discussion

4. The Chairman asked whether the Sessional Paper referred to in the initiating memorandum was likely to be another source of friction, if it proposed policies that the Bank would find difficult to support. A Committee member characterized Kenya as a heavily regulated country with a proliferation of parastatal institutions and vested interests (including civil servants) engaging in monopoly rent-seeking activities such as import restrictions. In this context, he asked whether the operation, as presently contemplated, went far enough. Did the Government accept the objective of liberalization? If not, what assurance did we have that, following the operation, the vested interests would not reassert themselves in favor of restrictions?

5. In response, the Region said that, while the staff had not seen any draft of the Sessional Paper, they had been orally briefed on its general thrust, and did not expect the Paper to raise any problems as to general objectives. With the Kenyans, the problem was invariably one of timing. The Chairman asked what schedule was envisaged for fertilizer liberalization. The Region responded that a five-year program for fertilizer liberalization was envisaged. Under this operation, the number of licensed importers and traders would be increased. Cotton marketing would also be liberalized.



6. A Committee member felt that a five-year schedule for fertilizer liberalization stretched credibility. The sector operation itself seemed to focus on streamlining present processes rather than on moving clearly toward liberalization. The Chairman said that the operation could not be characterized as supporting liberalization since an extensive system of controls would remain in place.

7. The Region explained that in many respects Kenya's fertilizer policies were satisfactory--the Government did not subsidize its price, and although a licensing system existed, political use of import licenses was restricted--only about 30,000 tons (of 200,000 tons of fertilizer imported) was available for a system of political rewards. The objective of the proposed operation was to greatly increase (by 50%) the amount of quotas so that shortages would not develop, and to thus demonstrate to the Kenyans the benefits of easier availability and therefore move them towards complete liberalization in later operations. A second objective was to increase availability of fertilizer to smallholders by allowing rural stockists a specific margin. Committee members remained concerned about the limited degree of progress and stressed that the ultimate policy objective remained a critical issue.

8. The Chairman asked what was the view of the IMF on the proposed operation. The Region responded that the IMF supported the operation, except that they were not enthusiastic about the proposed 10% increase in real terms in the MOALD budget. They felt that this was acceptable only if cuts were identified and applied in other sectors. The Chairman asked if the Bank staff had completed a detailed analysis of this question. The Region responded that a mission would visit Nairobi next week to review the Government's Forward Budget for the next three fiscal years.

9. On the proposal to prepare and implement a project for African private sector agro-processing and marketing, the Chairman said that the Region needed to be more precise on what commitments were being sought. He said that the Bank should avoid associating itself with racially discriminatory programs. While liberalization of cotton and milk marketing would be a positive development, it was unclear what the proposed actions for the private sector were. On the credit component, he and others expressed a need for greater clarity on how to increase commercial bank credit to agriculture.

10. A Committee member asked whether staff had seen the State Corporations Bill and found the provisions to be adequate. He also asked about the status of the exercise to classify parastatals into those to be rehabilitated and those to be divested; since the exercise had been going on since 1983, he presumed that classification was nearly complete. The Region replied that the staff had not seen the State Corporations Bill, that this bill might not be passed, and that little progress was expected on divestiture.

11. Two issues not directly covered in the sector operation were also raised: agricultural research and land tenure. On the former, the Region explained the present state of Bank involvement in the

preparation of a national research program and a Bank project. A Committee member suggested that the issue of land tenure be at least discussed in the report.

D. Conclusion

12. The Chairman said that the Region could go ahead with appraisal. However, this operation would be a down payment on faith that substantive reform would be forthcoming. It was essential to obtain clear policy statements on objectives. If the sector approach did not work through one operation, the Bank would simply have to confine its support to investment projects. There were many long-term issues which the Kenyans were not adequately addressing, including population. The Region assured the Chairman that it shared the Committee's concerns. In order to maintain our involvement, it was essential to take the risk and proceed. The Chairman said that the Region should ensure that the Kenyans understood the Bank's concerns, and that after appraisal the Bank should be in a better position to assess the policy context.

13. The Chairman closed the meeting with some remarks on the proposal for a budget rationalization loan. He said that the Bank would not make such a loan, that the Region should not bring an initiating memorandum for such an operation to the Loan Committee, and that the Bank staff should not discuss the possibility of such an operation with the Government.

Cleared with and cc: The Loan Committee.

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