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GROWTH AND STRUCTURAL CHANGE IN EAST AFRICA: DOMESTIC POLICIES, AGRICULTURAL PERFORMANCE AND WORLD BANK ASSISTANCE, 1963-1986

Part II

by

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Abstract

A comparative overview will be presented of domestic policies (macroeconomic and agricultural) in Kenya, Malawi and Tanzania and their influence on the extent and character of agricultural growth. The contribution of the World Bank to agricultural growth in the three countries will then be reviewed, from the perpectives of both policy advice and lending provided by the Bank. The presentation will be based upon the findings of case studies of the Bank's involvement in the three East African countries, carried out under DRD's Managing Agricultural Development in Africa (MADIA) Research Project.

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PART II

ACTIVITIES OF THE WORLD BANK IN KENYA, MALAWI AND TANZANIA

Preface

Part I of this paper provided a comparative overview of the macroeconomic and sectoral policies of Kenya, Malawi and Tanzania with a particular focus on policies and performance in their agricultural sectors. The policy environments reviewed in Part I have provided the context in which World Bank agricultural operations have functioned in each country. They have played a critical role in determining the extent to which Bank lending to agriculture has or has not been successful. They have, of course, in turn also been influenced by Bank economic and sector analysis, policy advice and lending. It is to the topic of this interaction between country policy environments and Bank analysis, advice and lending that we now turn.

Part II, which follows, first examines World Bank economic and sector analysis and advice in each country. It then reviews the pattern and content of project lending to agriculture in each. Finally, it examines the Bank's experience with structural and sectoral lending. In treating this threefold involvement of the Bank in each country, we attempt to show the relationship (or lack thereof) between economic and sectoral analysis and the content of projects financed. We also examine the results of the policy advice and lending provided to each recipient country. The paper ends with some brief conclusions that emerge from this review of the Bank's experience in the three East African countries.

IV. BANK ECONOMIC AND SECTORAL ANALYSIS AND POLICY ADVICE

A. Introduction

The Bank's economic advice to Kenya, Malawi and Tanzania has been provided either in the context of economic and sectoral analysis or the financing of investments. This first section (IV) summarizes the Bank's economic assessments of each of the three countries and indicates how these assessments have changed over time. Section V examines the lending programs in each and relates this to general policy advice provided by the Bank.

Bank economic analysis has consisted of basic economic reports, annual economic memoranda and agricultural sector reports through which periodic assessments have been made of the countries' economic (or sectoral) performances, policies and potentials. Also, areas have been identified in which policy (and, in the more recent period, also institutional) reforms have been considered necessary. These reports have also been a vehicle for identifying a lending program for the Bank. Major basic economic reports were written for Kenya and Tanzania between 1973 and 1977 as well as agricultural sector reports for all three countries. In the early 1980s another basic economic report was produced for Kenya and an agricultural sector report was written for each of the countries. In between (and subsequently) there have been periodic updating economic memoranda.

A considerable amount of informal sector work has also been done on specific issues in Kenya such as on agricultural credit, land policy, input supply and grain marketing and in Malawi on food security and land policy. As policy reform has become more important, the resources devoted to issue specific informal sector work, e.g., budget rationalization or parastatal

finances, have greatly increased relative to the more comprehensive basic economic report work.

In general, however, the Bank's reports have tended to suffer from lack of microeconomic analysis of some of the most fundamental processes of development. We will demonstrate in this part of the paper that it is the lack of adequate links between macroeconomic, sectoral analysis and micro level processes influencing the decisions of individual economic actors that has often limited the effectiveness of the Bank's policy advice and lending program. This problem continues, in our view, despite the greater degree of specificity of topics being examined in recent years and the increased knowledge accumulated from concentrating analysis on individual subsectors, e.g., the attention given to parastatals.

Another striking feature of the Bank's economic work has been the lack of agricultural economics input (especially micro but also sectoral) in the preparation of many of its Economic Reports. This once again in our view reflects the lack of an adequate appreciation of the need for both in-depth knowledge of the sector and the need to link that knowledge to macroeconomic processes. The Basic Economic Reports for Kenya (1974) and Tanzania (1977) had annexes on agriculture and each drew on earlier agricultural sector reports (but contradicted some of the major conclusions in those reports). The 1983 Basic Economic Report for Kenya included some excellent analysis on agriculture in the annexes of the report. Unfortunately, its significance for major economic policies was not explored in the main body of the report. In fact, the latter contradicted several of the conclusions contained in the

annexes.[1/] Given the overwhelming importance of agriculture in these economies, we have found quite striking the omission in this work of a central treatment of the process of agricultural development and its relationship to overall economic development.

The contradictory conclusions on specific issues contained in different Bank reports that were produced at similar times (and even at times found in the same report, as mentioned above) have sometimes made it difficult for us to establish precisely what the Bank's positions were on a given issue. This is also a problem for the recipient governments, especially as the reasons for the differences in conclusions are not usually contained in the reports. They appear to result more from the differing perspectives of the individuals involved rather than necessarily being based on thorough analysis of the situation, including explicit comparisons of conflicting viewpoints. This problem is compounded by the fact that there is a lack of an institutional memory and therefore an historical treatment of the reasons for changes in the conclusions reached.

In light of the above, it is perhaps not surprising that there was only a weak connection between the spirit of the Bank's individual economic and sector reports and the way the Bank's lending program evolved in the 1970s. Nevertheless, it is possible to discern some central tendencies. We focus on these first by identifying the content of economic and sectoral judgements made in each country.

It is important to note at the outset the great diversity of issues treated in the Bank's work on the three countries despite the many

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1/ See Chapter I, Lele and Meyers, op cit.

similarities between them in terms of possible types of growth and how these might be exploited through a systematic agricultural strategy. This diversity appears to be the result of a lack of a common analytical framework, albeit informal, for identifying constraints to and potentials for growth. It also reflects a minimally data based orientation to agricultural sector and economic work, especially with respect to the importance of viewing the experience of any given country from a broader cross country perspective. Consequently personalities rather than a framework and facts have frequently unduly influenced the scope and conclusions of the Bank's analysis. We document these points by reporting below the main themes of the Bank's economic and sector work in each country and also by comparing these themes across countries, in light of where growth occurred or could occur (as discussed earlier in Part I). In Section V we examine the size, the pattern and the impact of the Bank's lending program and pick up again the theme of the Bank's policy advice in connection with lending.

While we have reviewed reports beginning from the period in the 1960s when the Bank first commenced its operations in each of the three countries, we focus on the period of 1970 to 1986. This is because the bulk of the Bank's lending growth in East Africa, and its heightened concern with development, took place in the 1970s after Mr. McNamara's 1973 Nairobi speech.

The Bank deserves very high marks in its economic (especially basic and sector) reports for focussing attention on the central importance of the smallholder agricultural sector in the overall economic development of each of the three countries. It is in the translation of this concern into advice and investments that problems have occurred. This is in part a result of the aforementioned poor link between the Bank's macroeconomic and agricultural

sectoral work. Key general policy concerns through which we illustrate this problem are:

1. The Bank's treatment of equity issues, especially its approach to reconciliation of equity and growth in its policy analysis and project financing;

2. The Bank's treatment of international market prospects and domestic pricing issues in its economic and lending work;

3. The importance attached by the Bank to resource transfers vis-a-vis that attached to long term institutional and manpower development in order to increase the capacities of governments to utilize resources more efficiently;

4. The Bank's treatment of policy reform in the 1980's and the relationship of this treatment to issues identified by the Bank as being critical policy concerns in earlier periods.

B. Policy Advice to Kenya

1. Changes Over Time in the Overall Policy Context

We established in Part I that there are major differences in the agricultural policies and performance of Kenya, Tanzania and Malawi despite considerably commonality in the types of crops they grow. These differences partly result from the fact that Kenya's economy has not suffered from major (domestically induced) macroeconomic distortions like that of Tanzania. Most of Kenya's institutions have moreover been more stable and effective than Tanzania's. Kenya has also not evidenced the acute structural problems of Malawi. The primary focus of the Bank's attention in Kenya has therefore been on sectoral issues (although we argue that both structural and institutional

issues have nonetheless figured in the Bank's economic analysis to a greater extent in Kenya than in Malawi and Tanzania, perhaps due to the greater openness of the Kenyan government to examination of these issues in the 1970's).

Given Kenya's relatively more conducive policy and institutional environment, it is reasonable to expect that the Bank's financial assistance has been more effective in Kenya than in the other two countries. We will show that this has not been the case, and argue that the reasons lie more in the Bank's project selection and approval process, which succumbed to political pressures from the Kenyan government and pressure from the Bank's top management to expand lending to agriculture, rather than in Kenya's policy weaknesses. In Tanzania and Malawi, on the other hand, the important questions we will explore focus less on the effectiveness of the Bank's assistance -- which has been generally recognized to be low -- than on when the Bank detected major policy, institutional and structural weakness and how it interacted with the two governments to correct them; also how quickly this learning got reflected in the level and composition of lending, especially in the light of the way the governments reacted to policy advice.

We will argue that the Bank's 1974 Kenya Economic Report was more on target in identifying constraints to Kenya's development, and in integrating its analysis of agriculture's fundamental role in Kenya's economic development with the policies, institutions and investment strategy needed for the type of overall development the Bank was supporting, than was the case either in Tanzania or Malawi. In Kenya there were stronger conceptual links between the Bank's sectoral and macroeconomic strategy than in the other two countries. In spite of this, some of the most important prescriptions that emerged from

the Bank's economic analysis in Kenya are questionable in terms of their assessment of growth potential. Also the connection between the Bank's economic analysis and its agricultural portfolio has been weak. The projects financed in the 1970's were more a result of lending pressures within the Bank and political pressures emanating from Kenya than they were a product of Bank economic analysis. They were also influenced by the stance the Bank took at the time (worldwide) toward lending for expansion of tea and coffee. The cumulative result of these factors was a large agricultural portfolio which, with the exception of a handful of projects (credit for smallholder dairying in addition to the tea and coffee projects), contributed little to Kenya's agricultural development. Paradoxically, precisely because of the lack of a close connection between macropolicy advice and lending, the tea and coffee projects made a useful contribution.

- Kenya's macroeconomic difficulties in the second half of the 1970's were a blessing in disguise because they led to the closing down of a number of Bank-funded projects, which Kenya was clearly better off without. Attempts by the Bank to promote macro and sectoral policy reform in Kenya were, however, less successful than they were in Malawi, partly because its weak project portfolio had been accompanied by an attitude in the Bank that most of the problems with the projects in Kenya were almost exclusively the result of the policies and weaknesses of the Kenyan government. This strained relationships with the Kenyans at a time when Kenya was in economic difficulty. Also the timing for policy changes urged by the Bank, such as grain marketing liberalization, unfortunately turned out to be inopportune as this coincided with the emergence of a severe drought, a situation which made

the government less willing to incur any risks that might be entailed by policy change.

Budget rationalization is one major area in the 1980s in which a Bank sponsored lead in the agricultural sector appears to have had genuine impact as well as broader payoffs in other sectors. However, given the lack of any major macro or structural weaknesses in Kenya (in which the Bank had a clearly demonstrated potential to be of assistance), and given the government's lukewarm reaction to such proposals as grain marketing liberalization, the Bank appears to have returned to a strategy for agricultural development that focuses on agricultural research, extension, etc., as well as on institutional issues such as parastatal reform -- problems that were at the heart of the project difficulties experienced in the 1970s.

Import support funds have provided greater leverage for these reforms in the 1980's than did the vehicle of project lending in the 1970s. However, the legacy of the Bank's long-term involvement in Kenyan agriculture also neccesitates that it have a more precise diagnosis of the reasons for past failures. Here we find a mixed story. To the extent that the lessons of past project experience can serve as a guide, the Bank is on the right track. On the other hand, to the extent that future success depends on doing things differently, including radically altering Bank procedures, it is less clear that the Bank will be able to achieve its objectives in Kenya either alone or in collaboration with other donors.

2. The 1974 Basic Economic Report

While the Bank's operations in Kenya began in 1953 when the first economic mission was mounted, and two agricultural projects (focusing on

resettlement) were financed as early as the 1960s, the 1974 Basic Economic Report (BER) was clearly a watershed in the Bank's relationship with Kenya. It followed McNamara's famous 1973 Nairobi speech and was the first comprehensive report prepared after Kenya's initial decade of Independence. The time was considered right for assessing the economic performance of the first decade, and for designing a strategy for the second. Reflecting the high esteem and trust in which the Government held the Bank, it requested the Bank's input in the Third Plan (1974-78), which was then in draft form. Finally, the BER followed hard on the heels of the ILO/UNDP "Report on Employment, Incomes and Equality in Kenya". The ILO report's emphasis on the issues of unemployment and poverty had been reinforced by McNamara's Nairobi speech. It is therefore not surprising that these issues took center stage in the BER, which emphasized development of smallholder agriculture as fundamental to Kenya's overall development, a position the Bank has consistently adhered to over time.

The BER concluded that while Kenya's performance up to 1973 had been remarkable in expanding employment and alleviating the poverty of the lowest income groups, the Kenyan economy had reached a turning point. The task of mobilizing resources and using them efficiently was likely to become increasingly complex over the next decade. A fast pace of development might be harder to sustain, and the problems of widespread poverty and growing unemployment could worsen significantly, without a pronounced shift in the nature of the development process. (Summary and Conclusions, paras 2 and 3).

Stressing the emergence of constraints on the resources available for development and the need to enforce a "... harsher discipline on the economic choices facing Kenya", the report called for a change in the pattern of

growth, so as to increase employment intensity, and for a change in the process of growth, so as to increase the efficiency of resource use. This meant allocating a larger proportion of investment, foreign exchange and skilled manpower to directly productive sectors such as agriculture, and to rural roads, low-cost housing, etc. The report recommended that the average annual growth rate of agriculture should be raised from the 6.5% assumed in the Third Plan to 7.5%.[1/]

The BER also saw the strategies for agriculture and industry as highly complementary. Reform of the manufacturing sector involved eliminating inefficient firms and reducing the extent to which protection allowed industry to operate at the expense of agriculture and other sectors. A switch of emphasis from import substitution to resource-based export industries was recommended, a recommendation that we will document was not satisfactorily reflected in the Bank's lending program in the sugar and the cotton sectors. Implementing a dynamic agricultural strategy posed critical problems, however. The report recognized that the overriding constraint on the development of an integrated export-oriented, agro-industrial sector was the "absorptive capacity of the agricultural sector" (emphasis added). It observed that the heart of the problem was to "increase the sector planning capacity, and particularly the capacity to design large-scale productive programs for the mass of small-scale farmers, in the Ministry of Agriculture" (para 5.11).

1/ The relevant question according to the report was not "Is a high rate of agricultural development possible", but rather "What needs to be done to attain a high rate of development" (para 5.03 and footnote 1, p. 40).

While recommending improvements in the efficiency of project design and appraisal, the report stressed the need to avoid complex social costing in favor of simple techniques, since the former could be "spuriously used to justify unsound projects and thus to mislead the policymaker". In any case, shadow pricing and other social costing methodology were not to be regarded as substitutes for bringing actual prices into line with the real economic scarcity value of domestic and foreign resources" (para 5.30).1/ It also stressed the importance of improving incentives to agriculture by reducing taxes, correcting interest rates, and aligning domestic and world market prices. The public sector was also expected to become more efficient by using better project design and appraisal methods.

1/ The Report singled out other key elements of a resource mobilization strategy, as follows: (i) domestic savings should be encouraged by raising deposit rates of interest and reforming the structure and operations of financial intermediaries; (ii) although management of public finances had been good, there was scope for obtaining more revenue through direct taxation: wealth and land taxes were proposed; (iii) the report cautioned against reliance on foreign commercial loans: "... only a remarkably productive use of loans, combined with a package of really sound domestic policies, could justify such a course of action"; (iv) government should play an active role in identifying new opportunities for overseas investment and in seeking out potential investors; (v) it would be essential "to increase both the volume and effectiveness of official aid". Better coordination was needed, between technical assistance flows and capital aid, between different donors, and between competing domestic users. Greater attention was also to be given to identification, packaging and presentation of projects for external assistance; (vi) there was a need for donors to be "... much more flexible in their aid programs, and more willing to initiate and experiment and join with Kenya in risky ventures when the stakes are high enough." In addition, donors had to learn to cooperate.

a. Evaluation of the BER

The BER presented an excellent overall diagnosis of Kenya's economy and recommended an appropriate macroeconomic strategy whose many components interlocked, especially in terms of the linkages between agriculture and the rest of the economy. With hindsight, however, the report's recommendations for the crucial agricultural sector now seem flawed in several respects. First, the idea that the critical shortage of agricultural policy planning and implementing capacity could be remedied by simply shifting macro planners to work on agriculture was naive, and underrated the importance of technical expertise for managing a modernizing agricultural sector. Second, the major increases in public investment in agriculture it called for were to be achieved primarily through large scale Integrated Area Projects rather than through a phased approach aimed at improving Kenya's planning and implementing capacity, an approach that was recommended in the Bank's Tanzanian Agricultural Sector Report in 1974 (see below) and also in a study commissioned by the Bank at around the same time, based on an analysis of the experience of 20 agricultural and rural development projects.[1/]

The study of 20 projects had pointed out that integrated projects had been ineffective due to the demands they made on the limited planning and implementing capacity of recipient governments. Instead, it had recommended a sequential approach similar to that recommended in the Bank's 1974 Tanzanian Sector Report. A policy of financing Integrated Rural Development projects was simultaneously adopted by the Bank following Mr. McNamara's Nairobi

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1/ See U. Lele, The Design of Rural Development: Lessons from Africa. Baltimore: The Johns Hopkins University Press, 1975.

speech. Also, informal but well understood guidelines were instituted that required that 25 percent of the Bank's resources be committed to agriculture and rural development resulting in a substantial growth of commitments to this sector in all three countries (see Section V).

Third, new technologies were assumed to be available. This technological optimism had not been shared by the 1973 Agricultural Sector Report (ASR), which provided the basis for the BER's strategy. Apart from maize, for which hybrids had been successfully introduced in high potential areas of assured rainfall, the 1973 ASR had not been particularly sanguine about the prospects for new technologies -- either for maize (in other areas) or for several other crops. The Bank's subsequent economic and project work in Kenya has continued to be ambivalent on this important issue due to lack of systematic, extensive data based analysis of existing technologies within particular crops and areas.[1/] And while some limited farm management data certainly show high fertilizer response coefficients in selected assured rainfall areas, as in the case of the IADP earlier, the T and V project has involved expansion of geographical coverage to 30 districts (albeit with a focus on the high potential portions of these districts). This problem of expansion of projects to additional areas, without clear evidence that technologies appropriate for these areas are available, has plagued Bank projects everywhere in Africa.

1/ Thus, while the completion report of the IADP concluded that lack of adequate technologies was one major reason for the project's failure, the subsequent T&V project was premised on existence of profitable technologies (see Lele and Meyers, op cit).

The ASR on which the BER was based also had weaknesses of its own. While the projects it proposed constituted the basis of the Bank's lending to Kenya, none were envisaged for the development of technical crop packages, or for establishing a national agricultural research capacity (although such an effort had been mounted a decade earlier in Asia to address some of the same problems -- the IADP in India had not had any major impact until the new technologies became available for wheat and rice). Moreover, the investments proposed in the ASR were not prioritized even though the ASR acknowledged the government's limited planning and implementing capacity and the uncertain availability of technical packages. Finally, on its own admission, the ASR's analytical foundations were shaky. For example, some of its recommendations were rather vague, "Some type of integrated area based program is the best approach ... Such programs form the backbone of the development effort in many countries, as for example, the Lilongwe Project in Malawi and the package programs in Ethiopia."

Both pricing and marketing as well as land tenure issues, which were later to become major bones of contention between the government and the Bank, were addressed early on in the Bank's economic and sector work. With respect to grain marketing, the 1974 BER recommended loosening of direct controls and opening up of opportunities for more private initiative by limiting" ... parastatal activity in grain markets to implementing government price and stock management programs". On land tenure, it urged the government to encourage and facilitate the sub-division of large farms into smallholdings, giving land titles to those who had de facto ownership. It also urged the development of a competitive land market.

One additional important policy position at this time concerned the rather pessimistic view the Bank took of export market prospects for tea and coffee. It then advised and has continued to advise the government to diversify out of these two crops. It also adopted a policy in 1972 of not financing expansion of tea (and coffee) production except in situations where countries had no other options. We have shown earlier that Kenya's good agricultural performance in terms of reconciling agricultural growth with equity is explained mainly by its success in shifting to these two high value crops, actions which Kenya took in contradiction to the Bank's advice. Also, the effects of the Bank's lending with respect to this issue have ended up being inconsistent with the intent of its formal policy. Because the issue of expansion of tea and coffee production is currently of major importance for future growth in Kenyan agriculture, it is taken up below in the context of the Bank's more recent analysis and advice to Kenya.

3. Economic Policy Assessment in Subsequent Reports

Much of the policy dialogue on agriculture between 1974 and 1979 took place through project lending, which grew rapidly in line with the emphasis placed upon agriculture and rural development in McNamara's speech and the 1974 BER. (The growth of the lending portfolio and its generally poor performance is discussed in Section V). Until the early 1980s, annual economic memoranda served more to report on new economic developments than to spell out a strategy. For example, they commented intermittently on the extent to which the prices of particular agricultural commodities -- maize, milk or beef -- had been out of line with border prices from year to year, noted the problem of maize surpluses (and deficits), and endorsed various

government commissions' conclusions that the maize board should be the buyer and seller of last resort.

The Bank's treatment of the effects of weather, which caused great production and marketed surplus instability in Kenya in the 1970's, was, however, relatively casual and was in no way commensurate with the importance the government attached to food security. The reports tended to criticize the government for the fact that realized international prices had not been in line with those formulated by the government (formulated nearly 18 months prior to the time they were to take effect) even though prices projected by the Bank also often did not materialize. Bank investments based on price projections, and the government's response to Bank advice on prices for commodities in which Bank investments were involved, were later to be major bones of contention, e.g., in the case of sugar (these issues are discussed in Section V on lending experience).

The economic memoranda also commented on the lack of cost of production data (which hampered the government's ability to formulate agricultural pricing policies), the weak analytical capacity within the Ministry of Agriculture for policy formulation, and the need to draw more heavily on Kenyan professionals from IDS and the University of Nairobi for more basic analysis of the sector. These critical issues of creating analytical capacity in the government or of tapping the capacity that already exists in the University and the IDS have, however, not received priority in the Bank's program. The Bank's philosophy of capacity building contrasts with that of USAID, which has in many countries sought to strengthen indigenous analytical capacity by supporting research and analysis carried out by nationals. Also in contrast to the practices of USAID field offices, the Bank

uses few financial resources to finance local consultant input in economic and sector work.[1/] Instead much of the Bank's economic work is done in Africa by the use of expatriate consultants from Western universities.

The coffee boom in 1977 and 1978 and the second oil shock in 1979 ushered in a turbulent period for Kenya's economy. Another BER was therefore begun in 1978, but was not completed until 1982; it incorporated a review of macroeconomic developments and an evaluation of the policy reforms undertaken by the government.

By 1979 accumulating implementation difficulties had led to the classification of several loans and credits approved in the 1974-79 period as "problem projects" and the ensuing macroeconomic policy dialogue increasingly emphasized agricultural sector issues. Reflecting these concerns, the 1981 Country Economic Memorandum contained a separate annex on agriculture, and the 1982 Basic Economic Report contained substantial annexes on agriculture and poverty. The 1982 BER argued that poverty in Kenya was largely rural, and explored the relationship of both poverty and agricultural development to growth. A separate agricultural sector report was issued in draft form in 1983 and in final form in 1986. The latter was preceded by a series of subsectoral reports on grain pricing and marketing, land and credit policy, input use, etc.

4. Strategy Recommended by the 1982 BER

By 1982, the Bank had a policy mandate to consider structural adjustment loans. It is therefore not surprising that the 1982 BER stressed

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1/ See U. Lele and A. Goldsmith, op cit.

that Kenya's problems were not exclusively caused by external developments and identified several fundamental structural problems, including the slowing of agricultural growth, the diminishing scope for import substitution and the stagnation of nontraditional exports.

It ascribed the slowdown in agricultural growth to (i) the reduced scope for expansion of agricultural production on new or underutilized high potential land (a problem not fully recognized in the 1973 BER, which had projected an acceleration of the agricultural growth rate to 7.5% a year); (ii) the lack of readily available technical packages for farmers in the semi-arid zones; (iii) the limited opportunities for switching to higher value crops such as tea and coffee; (iv) government intervention in agricultural pricing and marketing; (v) severe problems in the management of vital programs and projects; and (vi) the pursuit of import substitution policies that favored industry at the expense of agriculture.

Recognizing that between half and three fourths of all additions to the labor force would have to find agricultural jobs, the report concluded that "the major constraints to achieving this are economic and policy related rather than technical and agronomic" (p. xvii). The priority areas for policy reform were identified as being liberalization of the grain market and the issue of land titling, both of which were later to become conditions for structural adjustment lending.

The 1982 BER also spelled out a number of ways to raise employment and output. If left unclear, however, to what extent Kenya's growth had been constrained by weak policies (as stated in the main body of the report), or limited by a whole range of technical factors (as suggested in the annex on agriculture). The Report also gave little indication of an appropriate

timeframe for dealing with the policy and technical problems outlined in the annex, thus leaving undefined the issue of optimum sequencing and phasing of proposed policy and technological reforms.

A comparison between the main report and the annex on agriculture aptly illustrates the conflict between principles and practice in the Kenyan context. The main text's recommendations for revitalizing the agricultural sector included "expanding the supply of agricultural land through irrigation, drainage, clearing of forest or dryland farming, switching cropping patterns to high value, high labor input crops such as tea and coffee, or intensifying land use through better farming practices and land redistribution" (p. xvii).

The annex, however, spelled out some of the formidable technical constraints involved in these and other proposed sources of additional output and employment. First, it expressed "skepticism about irrigation due to its high cost (by then the $25,000 per ha costs of the Bank financed Bura had made irrigation questionable -- see discussion of this in Part V) and the "technical and economic problems in some irrigation schemes" (p. 348). Second, on the drainage of valley bottoms, which the main report recommended as being cheaper than irrigation, the annex pointed out the externalities of drainage development, the need for a strong government role in its organization and the difficulties of apportioning the costs and benefits in view of the "little experience with drainage projects in Kenya" (p. 350). The latter concern was an implicit admission that establishing government capacity for planning and undertaking valley bottoms development would entail a long term effort though this was not explicitly acknowledged in the report.

Third, on the clearing of forest for crop development, especially for the expansion of tea, the annex noted "its highly controversial nature because

of its unknown ecological effects" (p. 350). In the specific case of tea, the main report said that the potential for tea expansion was limited. (The reasons were not spelled out but presumably centered on the Bank's long-standing concern with international market prospects). The annex observed however that "if, as claimed, 400,000 ha. of high potential (forest) land could be safely cleared, it would provide 800,000 jobs and K£200,000 million of gross output. In practice of course, it is highly unlikely that this amount of land could be planted to tea" (p. 351). The annex did not specify whether future development was expected to be impeded by the limited international market prospects, inadequate local planning and implementing capacity, competition from other crops, ecological problems associated with forest clearing, the loss of wildlife and tourist potential -- or a combination of several or all of these factors; the annex simply concluded that "There is little doubt ... that converting forest to permanent crop land could significantly increase output and employment. But as long as environmental effects ... remain unclear ... extensive clearing of forest cannot be permitted" (p. 351).

The question of whether tea production should be expanded is currently an important policy issue in Kenya. The Bank's position on this all important issue is not clear. In its 1986 Sessional Paper the government adopted a policy of expanding tea and coffee production -- a policy that it pursued with much success in the 1970s. Consistent with the policy it adopted in 1972, the Bank has continued to recommend diversification out of tea and coffee on grounds of limited world markets. On the other hand, at the operational level the Bank is currently actively participating in a review of the coffee subsector. In the case of tea, however, it has yet to address many of the technical problems of tea expansion associated with the reduction of

the forest land that were set forth in the 1983 BER. The Bank also continues to be against providing financing for expansion of tea and coffee production.

Fourth, on the semiarid and arid ecological zones, the annex stressed their limited farming potential "contrary to the widespread perception that dryland farming could provide income and employment to much of Kenya's growing population" (p. 351). It also noted the effects of intensification on "the fragile environment of many marginal areas, high risks and limited land potential and the impact of their development through migration of population from high potential areas on the traditional pastoralism". It is noteworthy, however, that the Bank has little basis for making recommendations to the government on the important issue of land utilization in a long term context. The Bank's project lending has dealt with the problems of semi-arid areas mainly by investing in area development projects, with relatively limited success (i.e., Baringo and Narok). Few systematic, in-depth studies of land tenure or soil degradation have been undertaken, especially studies that investigate migratory patterns, the nature of land markets and the factors affecting them, ethnic factors affecting land access, etc.

Fifth, as regards the high potential areas, the annex to the 1983 BER recognized the tremendous potential for shifting cropping patterns to high value labor intensive crops -- an issue, incidentally, that was not related in the BER to growing land pressures in semi-arid areas -- but the annex observed that the "most important limitation on changing cropping patterns is the need to fit into the farming system -- as peak seasonal labor requirements ... constrain production of some high value crops, (there are) high risks in complete specialization for low income small farmers due to weather and price induced risks, and (there is) the high degree of variability in the optimal

crop mix by farm size and region ... finally the supporting services are inadequate" (p. 360).[1/]

The contrasts drawn above between the general policy recommendations in the main text of the 1982 BER and the technical and sociopolitical problems identified in its annex on agriculture illustrate the dichotomy between the desirable and the feasible, or planning and implementation, that runs like a fault line through the structure of the Bank/Kenya relationship. Problems associated with the interaction of economic policy with technical and institutional issues have persistently plagued the Bank's agricultural policy dialogue with Kenya and its project portfolio. Thus, the failure to translate the general principles of policy into practical implementation mechanisms or to define a time horizon in which policy objectives could be realistically achieved has limited the Bank's success.

5. Interaction of Poverty with Growth

The attention devoted to the poverty issue has been far greater in the Bank's economic and sector work on Kenya than on Malawi although the problem of poverty is quite serious in Malawi due to the dualistic nature of the government's policies. In its project lending in Malawi in the 1970s, however, the Bank primarily financed smallholder projects designed to alleviate poverty. While several of the Bank-financed projects in Kenya (Bura

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1/ In spite of the impressive growth of smallholder tea and coffee, smallholder yields range from half to two-thirds of those on estates -- a phenomenon also found in Malawi that appears to result from the difficulty faced by small farmers in mobilizing additional labor. This constraint could have profound significance for Kenya's long term policy towards access to high potential land.

Irrigation, South Nyanza Sugar, AFC Credit, etc.) also were direct attempts at poverty alleviation, they benefitted relatively few of the poor. This was either because of the capital intensity of these projects or because some, such as the earlier AFC credit projects, excluded farmers with small holdings from eligibility altogether.

The BER's analysis of rural poverty contained a number of new insights but few clear policy conclusions of immediate relevance were drawn from these insights. Also there was little examination of the implications of the BER's findings for the Bank's already substantial program of lending to agriculture.

Using data from the Central Bureau of Statistics' Integrated Rural Surveys, the report argued that, contrary to the general concern about employment and income distribution (based on assumed structural rigidities and poor intersectoral linkages), the proportion of Kenya's population below the poverty line had fallen between the early 1960s and the mid-1970s, although population growth had increased the absolute number of the poor. The poorest 40% on average experienced no gains whereas most of the gains had accrued to the 60% of smallholders with the highest incomes. Further, adoption of cash crops was highly concentrated both among and within regions. Smallholder poverty was thus closely related to the level of innovation (as measured by adoption of cash crops, hybrid maize, improved livestock, and use of purchased inputs). Nonfarm income earning opportunities were, however, fairly widespread with only about 20% of households not enjoying nonfarm income or substantial sales of food.

The report's novel contribution related to the examination of intersectoral linkages in explaining these observed changes. Contrary to the

general view of agriculture as the engine of overall economic growth -- and also in contrast to the themes of the 1973 BER -- the 1982 BER argued that nonfarm income greatly influenced smallholder income.[1/] Differences in innovation and the use of purchased inputs were said to be related to availability of finance from nonfarm income and loans.[2/] The availability of loans was in turn seen as being closely related to the availability of nonfarm income, influencing both the ability and the willingness of smallholders to borrow. Finally, variations in nonfarm income depended on differences in the urban-based component of that income, which was in turn related to education.

One major (and presumably long-term) policy implication of this analysis stressed by the BER was the need to provide more formal sector, urban jobs for poorer smallholders, so as to facilitate rural innovation; wider access to education was also recommended. Given the Bank's criticism of Kenya's weak urban industrial policies, however, it is noteworthy that the BER had relatively little to say about the immediate operational policy implications of this analysis for agricultural policy. For instance, while it stressed the importance of finance as an explanation of agricultural innovation, the role of agricultural credit in alleviating poverty was not

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1/ Remittances from family members, earnings in urban employment or wages earned working for other agricultural enterprises together constituted three forths as large a source of income for the average smallholder as farm operating surplus and constituted 40% of household income.

2/ If the average poor smallholder were to increase his purchased farm inputs to the level of the mean for all smallholders out of direct income, the financial burden would require a reduction in household consumption of 25% (pp. 46-47).

mentioned -- even though the Bank had been actively involved in four self-contained agriculture credit projects and seven other projects involving credit and had achieved little success in reaching lower income farmers. Also, the report clearly documented the lower average incomes in Western and Nyanza Provinces compared to Central Province, but drew no policy conclusions about the former regions' differential potential for agricultural innovation nor implications for the development of suitable agricultural technology even though sugar and cotton, two of the most important crops in Western Kenya, are both crops with major technological problems in which research and agricultural services had been weak (facts that the Bank was aware as a result of its project lending experience). Thus the practical implications of this analysis for doing things differently were not made clear.

In line with the spirit of the report, general recommendations were made for raising agricultural prices and changing the terms of trade between agriculture and industry (through removal of protective QRs and uniform tariffs), although which crops and regions would benefit, what magnitude of price increases was required and how poverty would be alleviated were not made explicit. This lack of specificity in the Bank's recommendations in terms of particular policy and investment implications, including whom they might benefit in what time horizon, has been a continuous problem.

The report assumed the policy issues involved in the growth/equity debate had been settled in favor of distributing land to smallholders. It used regression analysis to indicate that "both output and employment per ha are closely linked to size of holding keeping soil quality constant." One implication of this analysis is that rural labor markets do not function well

because of intrarural structural rigidities in contrast to rural/urban flows.[1/]

Other recommendations for revitalizing the agricultural sector included preventing land concentration, encouraging subdivision, imposing a ceiling on holding size, a capital gains tax, restricting borrowing to discourage land purchases, raising interest rates and redistribution of large farms. A project was to be prepared to "accelerate the regularization and rationalization of individual holdings on informally subdivided large farms" (p. 101). As we shall show later, however, in practice rural labor markets have been easier to organize for large estates than for smallholders in the important cases of tea and coffee, and much greater intensification has been possible on estates than in smallholder production.

6. Recommendations of the 1986 Agricultural Sector Report

The issues identified in the 1986 Agricultural Sector Report were in substance quite similar to many of those discussed in earlier reports. One important exception was a new stress on increasing and improving input use (on which original work was done involving field investigations of input pricing and distribution policies). Many very useful recommendations were made. The Bank's increased awareness of Kenya's limited planning and implementing capacity was also reflected in the sector report. Otherwise, its subsectoral components essentially summarized information that already existed in Kenya or that was drawn from the Bank's project implementation experience. However, a

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1/ We indicate in Part V how these rigidities have influenced the supply of labor for tea, coffee and other crops.

large number of constraints were considered to be "key". The report conveyed little sense of priorities that the government should focus on (this was also a major problem in the Bank's lending to Kenyan agriculture in the 1970s). Proposed individual investments were viewed as a "window of opportunity" rather than as integral components of an overall strategy involving sequencing and phasing of the most important investments and elimination of those of lesser priority.

Although the changes the Bank has proposed in Kenyan agricultural policies and practices have generally been sectorally based (focussing on maize pricing, land policy, agricultural planning and budgeting, etc.), in the 1980s it has tended to look to the exchange rate policy for the desired realignment of inter - (and intra) sectoral incentives (e.g., see Annex to the CPP and CEM Initiating Memorandum of April 1985). Kenya's management of the exchange rate has, however, not been bad from a macroeconomic standpoint (see Figure 3 in Part I) and has received a stamp of approval from the IMF.

Two other weaknesses of the Bank's economic and sector work are worth highlighting in conclusion. First, there has been a relatively poor link between the Bank's examination of agricultural development concerns and its examination of other sectors, especially education and infrastructure, in light of their relationship to the development of agriculture. This narrow focus has tended to result in translating priority to agriculture into <u>lending</u> for agricultural projects, even though the lack of absorptive capacity in agriculture has been recognized as a problem (this has been an even more serious problem in Tanzania where both infrastructure and education are major constraints). Second, analysis of the industrial sector has generally

excluded the problems of agro-based industry, i.e., sugar, textiles, etc., and follows almost textbook recommendations on liberalization with relatively little attention to the fact that at least some of Kenya's inefficient industries, (e.g., sugar processing and cotton ginning) have been supported by the Bank's project lending.

The Bank's current agricultural strategy in Kenya represents a substantial improvement in addressing the above weaknesses, although it is perhaps not as fully articulated, nor considered in a long term and broad context, as it might be. The strategy involves emphasis on agricultural research, extension, credit and developing the planning and budgetting capacity of the Ministry of Agriculture. The Bank has also begun to formulate a number of pilot operations. Hopefully lending pressures will not, as has been the case in the past, lead to premature expansion of and increased funding for these pilot operations before their potential is adequately tested.

C. Policy Advice to Tanzania

1. The 1974 Agricultural Sector Report

The most striking difference in the Bank's treatment of agricultural issues in Tanzania and Kenya has been the general neglect of factors which promote intensification (i.e., the shift from low to high value crops) and the lack of awareness of the extent to which a variety of agricultural policies pursued by the Tanzanian government (discussed in Part I) were causing retrogression in the agricultural sector.

Although the Tanzanian agricultural sector and economy had done well in the 1960s, by 1969 Tanzania had begun to experience a trade deficit. Only tea and tobacco were showing (mild) growth. By 1972 the Bank observed that overall growth was clearly sluggish and uneven and attributed this at least partly to domestic policies in addition to the effects of poor rainfall and world prices. By 1974 the oil price shock and a drought had bought on the first of the two severe economic crises Tanzania was to encounter in the 1970s.

The 1974 Agricultural Sector Report (ASR) was a benchmark in the Bank's analysis of the sector in terms of the correctness of its diagnosis of Tanzania's problems. Observing that there had been negative growth, the report concluded that the country faced critical production problems and recommended a sequential (as opposed to integrated), production oriented approach with top priority to be accorded to those investments that would have an immediate production impact. The report observed that the governments' equity objectives were being achieved at substantial cost in terms of growth. It stressed the importance of feeder roads for crop production, laying stress on road maintenance, and decried the reduced private activity observed in the transportation sector. It recommended establishment of a transport authority to plan and coordinate road maintenance and transportation development.

On agricultural technology, the report based its argument on the assumption that farmers would first adopt improved technologies (use of modern inputs) and that improved husbandry would then follow, a phenomenon observed in much of North America, Europe and Asia. This approach was contrary to that followed in the Bank's National Maize Project approved in 1974, which focused

first on improving husbandry through an emphasis on extension to be followed by making increased amounts of inputs available to farmers.[1/]

The report supported the pragmatic recommendation of a 1969 (Krisel) expert committee not to overwhelm cooperatives with increased funding. It also argued against their rapid expansion.

Although Tanzania had abundant land, recognizing that areas of land pressure existed, the report recommended promotion of voluntary resettlement through investment in infrastructure in less populated, high potential areas as the way to relieve land pressure. It also stressed the adverse effects of villagization on producer incentives and soil fertility.

Adoption of the Bank's 1974 ASR recommendations by the government would have entailed a complete reorientation of the Tanzanian development strategy. When presenting the report to the government, the Bank was cautious not to raise basic questions of a change in strategy out of concern for Tanzania's national sovereignty.

Indeed, in compliance with of the tenor of the 1973 McNamara speech and contrary to the findings of the Agricultural Sector Report, as well as that of the study referred to earlier on the design of 20 agricultural and rural development projects, the Bank had at this time already begun to help in the preparation of the Kigoma Integrated Rural Development Project. This

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1/ This philosophy of emphasizing improvements in husbandry underlies T & V projects. Important untested hypotheses in the case of Africa concern the extent to which improved husbandry will by itself increase yields without major technological change and whether the returns to labor use provide adequate incentives for farmers to improve husbandry relative to the returns to labor in other pursuits.

project had been first mentioned in the Economic Report of 1972 as a way of tackling rural poverty through a multisectoral area based approach.

The ASR, it should be recalled, explicitly criticized the government's lack of focus on productivity gains and high potential areas. To capitalize on such productivity gains, the ASR had recommended a National Maize Project in areas of high potential to be followed by the National Agricultural Development Program (NADP). The National Maize Project approved by the Bank in 1975, however, did not give priority to high potential areas as, for political reasons, the government wished to spread coverage throughout the country. Also the government's policy of decentralization of the administration had greatly undermined the ability of the Ministry of Agriculture to implement "national" projects in the regions because its technical staff reported to the Prime Minister's office. The NADP concept was subsequently abandoned by the Bank as a consequence of this decentralization approach. Instead preparation was begun of rural development projects in Mwanza/Shinyanga and Tabora. The Bank's tendency to give in to Tanzania's political wishes was by then thus well established.

2. The 1977 Basic Economic Report

The 1977 Basic Economic report did not continue the tale of woes found in earlier reports. Indeed, despite agriculture's importance, the report did not contain any major new analysis of the agricultural sector. An annex, did, however, contain a very good synthesis of the existing knowledge on Tanzanian agriculture.

Given the small amount of attention to the agricultural sector in the BER it, is no wonder that the main body of the report lacked any treatment of

the strategic interaction between agriculture and macroeconomic development. For instance, the report considered the government's commitment to the idea of villagization a fait accompli and attempted to focus on how to make it work in practice. In the main report villagization was described as an important instrument to redress rural poverty in light of Tanzanian policymakers' views on the unwelcome trends of socioeconomic differentiation and neglect of broadbased rural development. Recognizing the problems of poor siting and overcrowding of villages, it recommended "satellite villages" but did not give an indication of what mechanisms might be used to establish them. Finally, the report cited Tanzania's demonstrated structural commitment to rural development as an indication of its bright future, while at the same time pointing out the great risks involved in a villagization program that was to depend for its success on undefined modern methods of cultivation rather than proven traditional ones.

3. Critical Issues of the 1970s

a. Equity versus Growth

It is evident from the above discussion that the Bank's economic reports in the 1970s were cautious not to challenge the means by which the government's equity objectives were being pursued or the extent to which equity objectives should be pursued at the cost of growth. For instance the 1974 Agricultural Sector Report had included a detailed discussion of the negative effects on efficiency of the "pan-territorial pricing" policy of the government whereas the 1977 Basic Economic Report simply observed that existing price policy was considered important by the government to alleviate rural poverty and suggested that considerations of increasing agricultural

output were secondary. Similarly, while the 1974 report supported the "model farmer" approach, the 1977 Economic report accepted the government's stance that differential access to extension in the 1960s had fostered inequity.

b. Public Versus Private Sector

On the role of the private and public sector, except for the case of private transport referred to earlier, the generally critical 1974 Agricultural Sector Report did not suggest any scaling down of parastatal activities; this in contrast to the more critical stance taken by the Bank in Kenya where it recommended liberalization of the grain trade as early as the 1973 Agricultural Sector Report, with repeated calls for this in subsequent economic reports. While the 1977 BER pointed out the need to increase competition and noted the government's 1976 policy of closing down private shops under "Operation Maduka", it did not make any negative comments about this policy. Also it noted that the government had abolished cooperative societies and unions as a way of holding down costs and that this had not been efficient. But it merely observed that if greater efficiency was not achieved, either a devaluation or subsidization of parastatals would perhaps be necessary. Only in 1981 did a CEM for the first time suggest the need to improve the efficiency of parastatals through management contracts and cutting down the range of parastatal operations. The 1983 Agricultural Sector report then explored this issue more explicitly.

c. Large Scale Agriculture

There was relatively little questioning in the Bank's reports of the government's treatment of large scale estates even though private estates were

being nationalized and public ones had begun to proliferate in the 1970s. The Bank did, however, observe that state farms would be highly dependent on trained manpower, which Tanzania did not have, and that expatriate management would be needed.

There was no treatment of the differential productivity of the private and public sector estates (e.g., in sisal and coffee). The 1983 Agricultural Report highlighted the greater productivity of the private sector despite the discriminatory treatment it had received in the 1970s. It stressed that export crop production was stagnating, as opposed to declining largely because private estates had maintained or increased their production even as smallholders and public sector farms retrenched into subsistence.

d. Weather

Weather had been a major cause of fluctuations in food supplies and food insecurity but was given little attention in the Bank's analysis of the maize issue (as was also true for Kenya). The Bank placed great reliance on rainfed agriculture and clearly came out against large scale irrigation though the government had attached priority to the latter in order to achieve food security. The 1974 ASR had identified the need for exploitation of high potential areas of assured rainfall. The 1983 ASR articulated this need even more strongly by identifying the Southern Highlands as an important potential area in which to stabilize production. The Bank, however, in general did not take up such long term strategic questions concerning how the government might meet its concern about food security at lower costs than were implicit in the government's irrigation proposals.

e. World Commodity Markets

Most economic reports in the 1970's took the view that Tanzania could live with commodity price fluctuations and could compete provided it paid attention to the quality of its produce (the latter had already begun to surface as a major problem by the mid-1970's especially with respect to exports). Toward this end, the Bank's tobacco processing and handling projects were directed at improving tobacco quality.[1/]

The 1972 Economic Report took a highly pessimistic view of the world market.[2/] Sisal and coffee were particularly singled out as commodities with poor prospects. The Bank recommended a program of diversification of sisal estates. Roughly 25% of the investments by the Tanzania Sisal Authority (a public sector parastatal) in the 1970's went into dairy farming, an activity which the Bank also financed (with disastrous effects). By the end of the 1970s the public sector sisal estates had been run down and a single multinational private company had become a major source of sisal exports from Tanzania.

The Bank was similarly highly pessimistic about the prospects for coffee, Tanzania's most important crop. Although non-quota markets had already become an increasingly important source of sales for Tanzanian coffee, the Bank did not explore their potential. The Bank also refused to finance investments in coffee due to its 1972 policy referred to earlier. (The EEC

1/ However, they focussed mainly on the marketing sector and overlooked the problems posed by poor handling of tobacco at the farm level.

2/ Note that this was the period when the Bank adopted a policy of not promoting expansion of tea and coffee production. Also world sisal prices had been unfavorable since 1969.

did finance the establishment of coffee in Southern Tanzania through a coffee improvement program). Tanzania has, however, mostly neglected its coffee export potential by adoption of a number of discriminatory policies discussed in Part I. As a result of its lack of involvement in the coffee sector, the Bank had relatively little knowledge of this most important sector until 1982 when investigations for the 1983 Agricultural Sector Report were undertaken.

Market prospects for cashews were also considered by the Bank to be poor. India had earlier been Tanzania's major buyer of raw cashews and Tanzania experienced considerable difficulty when the cashew trade was taken over by the State Trading Corporation of India in the late 1960s. The Bank argued that Tanzania's prospects would improve if further processing was undertaken. This led to the financing of two cashew processing projects. However, both suffered negative rates of return due to lack of adequate throughput caused by, among other things, laborers' increased walking distance to cashew groves as a result of villagization. The decline in Tanzania's cashew exports was so sharp that in the early 1980s India was offering Tanzania higher prices for raw cashews than those it received for processed cashews.

f. Industrial Policy

As we documented in Part I, the government's Basic Industrial Policy (BIS) was in strong competition with agriculture for budgetary resources and policy attention. However, the 1977 Basic Economic Report's recommendations were couched mainly in terms of the need for a gradual transition to the BIS. The Bank's lack of opposition to this policy is surprising but seems once again to have been a result of the Bank's concern with respecting

"Tanzanian sovereignty". Indeed, we will show later that Tanzania is the only country in the sample of MADIA countries in which the Bank's lending for industry represented the highest proportion of total lending compared to other sectors. The Bank thus reinforced rather than counteracted Tanzania's premature pursuit of industrialization.

4. New Policy Emphases of the 1980s

The sharp deterioration in Tanzania's macroeconomic situation following the coffee boom and decline in Tanzania's basic infrastructure resulting from a balance of payments crisis -- Tanzania's second economic crisis of the 1970s -- combined with the difficulties of project implementation in the late 1970s led the Bank to approve a balance of payments export rehabilitation credit in 1981. Providing foreign exchange was, however, clearly not enough to address Tanzania's fundamental economic problems. In March 1982 the Bank recommended that the government develop a major program of structural adjustment and financed an advisory group to help Government produce such a program. It also proceeded to prepare an agricultural sector report as a possible input to the government's structural adjustment program. This effort drew on the experience of the Bank's Projects and other in-house staff.

The 1983 Sector Report argued that Tanzanian policy needed to be reoriented away from an excessive focus on equity and government control toward a focus on growth to be achieved through increased private initiatives and institutional pluralism. The ASR made 39 specific recommendations for the short and long term. The short term recommendations fell into three broad categories: (i) the need for adjustments in Tanzania's exchange rate and in

producer and consumer prices; (ii) the need to improve the institutional framework for agriculture by reducing the role of the public sector; and (iii) the need to increase the share of foreign exchange resources going to agriculture by correcting the imbalance between agriculture and industry as well as correcting the imbalance in the allocation of budgetary resources between productive and social services in the rural sector.

We pointed out earlier that a problem with Bank reports has been the lack of consistency in strategies from year to year, this being determined to a large extent by the predilections of the staff involved in preparing individual reports. In keeping with the pattern of the 1970s and contrary to the 1983 Agricultural Sector Economic Report's focus, the Bank's 1984 Economic Report diluted the messages of the 1983 Agricultural Sector Report by focusing more on external shocks, the decapitalization of agriculture and Tanzania's lack of resources rather than on the need for a major restructuring of the economy that could benefit agriculture.

The greatest bottleneck to reform has been the lack of willingness of the government to adjust an excessively overvalued exchange rate. The government, however, did begin in the mid-1980s to allocate more foreign exchange to agriculture, expanded the foreign exchange retention scheme that had been introduced under the Bank's export rehabilitation credit, and, as an incentive to exporters, raised a number of producer and consumer prices. It liberalized the grain market in 1984/85 to some extent by increasing the amount of maize that could be moved on private account across administrative boundaries to 450 kgs. (5 bags), and began to bring the budget more under control (although this was made difficult by the lack of adequate adjustment in the exchange rate). Almost all donors had by this time shifted their

assistance away from projects in favor of import support. However, the Bank did not approve any agricultural projects after 1982 because it considered these reforms inadequate in the absence of an exchange rate adjustment.

In June 1986 the government made a relatively major adjustment in the exchange rate devaluing the Shilling to 40 to the US dollar and agreeing to eliminate overvaluation by 1988. This action by the government has been perceived in the donor community as a major new commitment to reform. The Bank approved a multisector Rehabilitation Credit in November 1986 involving a commitment of US$ 50 million from IDA and US 46.2 million from the Special African Facility.

Earlier balance of payments support by the Bank is now to be followed up by a series of Bank project loans in much the same way that Malawi has received fertilizer supply and agricultural research loans in conjunction with its SALs. However, the road to agricultural reform is likely to be more difficult in Tanzania than in Malawi. For instance, unlike in Malawi, the recent attempt by the Bank to appraise an input supply project (undertaken jointly with IFAD), stalled because of government disagreement with proposals concerning responsibility for importing inputs as well as for their internal distribution (currently restricted to a few parastatals). It is therefore not clear at this stage to what extent the government is willing to make the changes needed to bring about the resuscitation of a greatly rundown economy.

D. Policy Advice to Malawi

1. The 1960s

The Bank's initial rhetoric on Malawi indicated that the smallholder sector was the key to the development of the rest of the economy. Yet this

view was not reflected in economic analysis and sector reports until 1978. Malawi's low savings rate and balance of payments deficit appear to have led the Bank in its early analysis to focus mainly on these two macroeconomic indicators in judging Malawi's performance. Reports in the 1960s gave Malawi high marks for its GDP growth, investments and savings, and its effort at reducing its dependence on UK budgetary support. A shortage of skilled manpower was observed to be a constraint to development in the reports of 1967 and in 1973 1/ and the Bank's 1973 Economic Report argued for the need for increased investment in education and training. However, from our earlier discussion of Malawi's policies and performance in Part I, it is evident that this advice did not influence Malawi's overall allocation to education, (although the Bank provided greater support to this sector than in other countries -- see Section V.A).

2. The 1970s

The Bank's economic and sector reports of the 1970's clearly indicate that the Bank was aware of the dualistic nature of Malawi's agricultural sector and the extent to which there was competition rather than complementarity in resource use among the two sectors. However, as in the case of Tanzania, the Bank confined itself to reporting on government policies. Based on its exchange rate and trade regime, Malawi was characterized as a capitalist, private enterprise economy. Government was viewed as generally non-interventionist and as providing a domestic framework conducive to growth.

1/ However, as in Kenya and Tanzania, subsequent Bank-funded integrated projects such as the Lilongwe Land Development Program were highly dependent on lots of trained manpower.

The 1973 Agricultural Sector Review recognized that the smallholder sector represented an important source of financial capital for the estate sector as a result of the government's pricing and investment policies. The report noted that the marketing board, ADMARC, and its predecessor (FMB) had made substantial profits on crop trading in the early seventies (a total of MK14.7 million between the years 1969/70 and 1972/73). It was also noted that the corporation had made a number of investments unrelated to smallholder production. Some of these investments were not profitable and the report indicated that these had been written off. These observations notwithstanding, the constraints to smallholder agricultural development were characterized almost exclusively in terms of lack of credit, trained manpower and marketing outlets. Integrated projects were seen as a way of removing these constraints.

The conflict between estate and smallholder development was most clearly articulated in the 1975 Country Economic Memorandum:

> Two lines of agricultural development are being encouraged by Government--for smallholders and for estates--and a difficult balance will have to be struck in the next few years. Competition for land in the more densely populated areas is the most apparent constraint, which can only be resolved by the development of new land or by substantial increases in productivity among smallholders to release land for estate development. Competition between the two types of producers is not restricted to land, but also extends to land and medium-term credit, scarce inputs and managerial skills. Institutional constraints in offering credit for both estates and smallholders has involved competition for those funds available. The advantage in mobilizing credit has probably been with the estates due to their greater familiarity with modern business methods. Competition for credit can be seen, in particular, in the use of ADMARC surpluses to finance estate development. When inputs have been scarce, as in the case of fertilizer in the past year, the allocation of these inputs also presents a case where the two types of producers have differing interests. If the degree of competition between estates and smallholders increases in the future, it may be difficult to reconcile expansionary policies for both, and eventually may prove

> necessary to reappraise the extent to which the interests of either group should be traded-off against those of the other (para 61).

By 1978 the Bank's project work had produced abundant evidence that producer pricing was a major constraint to production increases.[1/] However, at this point the idea of the Bank's direct involvement in urging major policy reforms on basic issues such as producer pricing had not yet taken hold. Instead the Bank introduced a clause in the 1978 NRDP project agreement requiring consultation with IDA, and setting forth both marketing and pricing criteria and policies that Government was to adopt (agreements that the government did not keep).

Because of its lack of involvement in the estate sector, the Bank's understanding of the factors influencing the efficiency of the sector was

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1/ The audit report of the Karonga Rural Development Project (Phase I) issued in 1979 makes the following observation:

> Supervision missions raised the issue of unsatisfactory producer prices on numerous occasions, not only for the Karonga but also for the other Malawian rural development projects (Shire, Lilongwe). ...In their discussion with Government officials the missions found that due to the highly political nature of the official pricing policy a high level dialogue between the Government of Malawi and the Bank would be required. RMEA informed Bank headquarters accordingly, but no action was taken by the Bank until recently (para 28).

A similar criticism was made in the audit report of the Lilongwe Land Development Program (Phase III), issued in 1981:

> Despite the efforts of RMEA staff, the Bank made very slow progress in convincing Government to link operationally its production programs and targets to its price policy. In fact since price policy continues to be an issue in other development projects in Malawi (on-going or being prepared), it appears questionable whether Government is fully convinced of the seriousness of the negative effects on development programs of unfavorable price policies, and whether the Bank, despite the continuous dialogue with the country, has done all it could to assist Government in operationally shifting towards a more production-oriented price policy (para 22).

limited. This situation did not change until the preparation of an estate sector report in 1979.

3. The 1980s

It was only in the context of the 1981 Structural Adjustment Loan that the Bank became actively involved in examining the interaction of the smallholder sector with the rest of the economy. As a consequence, the quality of its analysis improved substantially. The 1981 Agricultural Sector report observed, for instance, that "the single most important factor in the phenomenal success of estate agriculture has been the Government's [low] wage policy ... which allowed the estates to lower the unit costs of production for each of the crops" (2.02). As indicated in Part I, while low wage costs have made Malawian estate tobacco production competitive on world markets, the success of the estate sector has also depended on continuation in the smallholder sector of policies towards pricing, marketing, land access and rights to grow certain crops, all of which have together reduced the returns to smallholder labor and increased the supply of labor to the estate sector (at a low minimum wage).

Pricing, which had become a concern well before the first SAL, was taken up in the 1981 First Structural Adjustment loan but largely at the methodological level. As was the case in Kenya the Bank was not well enough prepared to make major project recommendations since it had undertaken relatively little economic work in this area. Thus in 1981 Government and the Bank agreed only on a pricing methodology.

At around the time of the first SAL the government decided to raise the price of maize sharply so as to avoid the problem of severe drought and

subsequent food imports experienced in 1979-80. The Bank strongly criticized this decision, a concern that proved to be valid in view of the maize surpluses that stemmed from this action. As a result, the Bank delayed releasing the second tranche of the first SAL.

The government raised prices for export crops in March of 1983, several months before the second SAL was approved. While the issue of incentive pricing has therefore been addressed, the prohibitions on smallholder cultivation do not appear to have been a major issue in the Bank's policy dialogue, despite the Bank's support for increased smallholder tobacco production. For instance, the 1973 Agricultural Sector Review had recommended greater smallholder participation in production through the promotion of smallholder flue-cured tobacco production schemes. Yet little progress appears to have been made in this area.[1/]

The 1981 Agricultural Sector Report similarly observed that there are "no technical reasons why burley should not be grown on customary land provided sufficient supervision is given in the initial stages" (6.06). Proposals for the lifting of legal restrictions on smallholder burley production were, however, made contingent on analysis of the world market prospects for burley. A tobacco study was carried out to examine this issue. The Bank, however, did not push the issue during negotiations, on grounds that restrictions on burley production were being relaxed and that the

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1/ CDC-funded Kasungu Flue-Cured Tobacco Authority efforts had demonstrated some success but were curtailed in 1979-81 due to unprofitability.

Government needed to strictly enforce regulations on production levels as increases in burley production had already led to a sharp drop in price, given Malawi's 26% share in the world market.

The world market prospect, however, is not the only factor which has constrained expansion of burley production. Malawian policymakers have argued that scale economies are more favourable for largeholder production. Evidence from Kenya on tea, coffee and sugar indicates this is certainly the case with respect to the financial and organizational costs of servicing the smallholder agricultural sector. Also yields in the smallholder sector have tended to be lower due to labor constraints. Yet in Tanzania a technological change in the curing barns reduced the cost of curing flue-cured tobacco by small farmers and production expanded rapidly in the smallholder sector in the 1960's (when government services for tobacco were then well organized, as they currently are for smallholder tea in Kenya). Indeed, as a result of their success, the Tanzanian smallholder tobacco schemes were the focus of considerable study in the early 1970's.[1/]

We have documented that in the Kenyan case, even with the relatively impressive organization of smallholder services, increasing yields per ha. can be more difficult in the smallholder sector than in estates as a result of the labor intensity of crops such as tobacco and tea and the labor constraints faced in the smallholder sector (due to the competing demands of food crop production, the lack of simple labor saving technologies and the lack of cash for payment of laborers). Yet relatively little primary analysis has been

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1/ See U. Lele, op cit; also M. Wahid, "Production of Burley Tobacco in Tanzania." Paper prepared for MADIA study.

done to identify the precise factors which could improve smallholder yields, thereby reducing growth/equity tradeoffs.

The duality issue is, however, not only of interest from the viewpoint of income or factor productivity differences among the small and largeholder sectors but also because of the disparities in asset distribution that it generates over time, and the consequences of this maldistribution for the pattern of long term growth. From this viewpoint the Malawian government's practice of licensing of new estates in the face of considerable underutilization of estate land is a particularly serious issue. The Bank's 1985 Land Policy Study reinforced the finding of the earlier tobacco study on this matter, i.e., less than 20 percent of the land on established flue-cured estates is utilized. Also, licensing of new estates appears to be progressing rapidly even though there is substantial land pressure in the smallholder sector. There is considerable cause for concern that the traditional system of the rights of chiefs to distribute land in a relatively equitable manner may be breaking down because there are financial incentives for chiefs to declare land as surplus.

The greatest long term effects of duality are therefore likely to occur in the pattern of overall economic growth. In this context the contrasts between Kenya and Malawi are already striking. Kenya shows signs of much more rapid and broadbased growth in effective demand for goods and services, in the growth of a smallscale entrepreneurial class, and in a pattern of development in which employment effects can become self-sustaining.[1/] Malawi on the other hand shows all the signs of pursuing

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1/ As is outlined in Mellor's "new economics of growth" strategy. See Mellor, op cit.

the bimodal strategy that Johnston has so decried.[1/]

As in the case of the right to grow estate crops, however, the Bank has been hesitant to emphasize the land distribution issue despite the findings of the Land Policy Study. In contrast in Kenya the Bank has been considerably more vocal on the land issue for some time.[2/]

Despite the above shortcomings, through the SAL process the Bank has focused on improving its understanding of some of the most import structural constraints to Malawi's agricultural and overall growth including:

1. The slow growth of smallholder exports. Apart from the policy constraints discussed above, this has resulted from the narrow geographical coverage of Bank (and other donor) financed agricultural projects, despite their repeated attempt to "spread" services.
2. The need for diversification of both smallholder and estate production. The Bank has over time become more keenly aware of the non-price (technological and government expenditure pattern) issues that influence this issue.
3. Distortions in welfare benefits caused by the government's resource mobilization process and expenditure patterns. This has led to attention being directed to the question of subsidies as well as expenditures. We argue that in the case of the fertilizer

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1/ Johnston and Kilby, op cit.

2/ Though the analysis of the process by which land alienation is taking place has been perhaps less systematic than in Malawi, thus prompting few recommendations on how government might intervene.

subsidy removal, a more careful analysis of the fertilizer price output price ratios in Malawi combined with the other factors would have led the Bank to go slower on fertilizer subsidy removal (see Section V.D)

4. Deterioration of the financial position of the parastatals as a result of the government's ad hoc pricing policies.

5. Inefficiencies in ADMARC's operations. We argue that the Bank was too favorably disposed toward ADMARC for too long despite the fact that ADMARC's policies and operations (including its increased monopsony role through abolition of the Asian trade) were not very different than those of its counterparts in Kenya and Tanzania.

6. Failure to vigorously push for privatization of domestic trade especially with respect to the participation of Asians in this process.

The Bank's handling of these issues is taken up in Section V.D in connection with the discussion of the Bank's lending program.

V. BANK LENDING TO KENYA, MALAWI AND TANZANIA

A. Overall Lending Patterns

As of the end of fiscal year 1986 the Bank had approved 74 operations in support of agriculture (67 agricultural projects and 7 nonproject loans or credits) in the three MADIA countries in East Africa involving a total commitment of $1435 million. Kenya received commitments for 29 operations (of $721 million), Tanzania for 25 operations ($371 million) and Malawi for 20 operations ($342.7 million).

Table II.1 shows the number of agricultural projects approved and

Table II.1

LENDING TO AGRICULTURE (Millions of $US)

KENYA

	1965-69	1970-74	1975-79		1980-86			TOTALS Projects	TOTALS M or S*	TOTALS TA	GRAND TOTAL
NUMBER OF OPERATIONS	4	4	9	1	7	2	2	24	3	2	29
TYPE OF OPERATION	Projects	Projects	Projects	M or S*	Projects	M or S*	TA				
AMOUNT APPROVED	13.50	40.50	257.00	30.00	172.00	190.90	17.50	483.00	220.90	17.50	721.40

MALAWI

	1965-69	1970-74	1975-79	1980-86		TOTALS Projects	TOTALS M or S*	TOTALS TA	GRAND TOTAL
NUMBER OF OPERATIONS	2	3	4	8	3	17	3	0	20
TYPE OF OPERATION	Projects	Projects	Projects	Projects	M or S*				
AMOUNT APPROVED	11.47	24.52	50.40	84.30	170.00	172.69	170.00	0.00	342.69

TANZANIA

	1965-69	1970-74	1975-79	1980-86		TOTALS Projects	TOTALS M or S*	TOTALS TA	GRAND TOTAL
NUMBER OF OPERATIONS	2	5	11	6	1	24	1	0	25
TYPE OF OPERATION	Projects	Projects	Projects	Projects	M or S*				
AMOUNT APPROVED	7.54	76.91	140.70	95.80	50.00	320.95	50.00	0.00	370.95

CAMEROON

	1965-69	1970-74	1975-79	1980-86		TOTALS Projects	TOTALS M or S*	TOTALS TA	GRAND TOTAL
NUMBER OF OPERATIONS	2	2	9	9	1	22	0	1	23
TYPE OF OPERATION	Projects	Projects	Projects	Projects	TA				
AMOUNT APPROVED	28.16	17.00	124.00	206.10	4.50	375.26	0.00	4.50	379.76

NIGERIA

	1965-69	1970-74	1975-79	1980-86		TOTALS Projects	TOTALS M or S*	TOTALS TA	GRAND TOTAL
NUMBER OF OPERATIONS		2	15	8	1	25	0	1	26
TYPE OF OPERATION		Projects	Projects	Projects	TA				
AMOUNT APPROVED		27.20	355.00	1015.50	47.00	1397.70	0.00	47.00	1444.70

SENEGAL

	1965-69	1970-74	1975-79	1980-86			TOTALS Projects	TOTALS M or S*	TOTALS TA	GRAND TOTAL
NUMBER OF OPERATIONS	1	5	6	4	2	1	16	2	1	19
TYPE OF OPERATION	Projects	Projects	Projects	Projects	M or S*	TA				
AMOUNT APPROVED	10.43	20.79	47.5	55.9	124	4.9	134.62	124	4.9	263.52

*Macro or sectoral

amounts committed by five-year periods for individual MADIA countries. Kenya showed a sharp rise in the volumes committed after Mr. McNamara's Nairobi's speech in 1973. The number of agricultural projects increased from 4 to 9 and the amounts increased even more sharply from $40.5 million to $257 million. In Tanzania, the number increased from 5 to 11 from 1970-74 to 1975-79, and amounts doubled from $76 million to $140.70. In Malawi the build up, both in amounts and the number of projects, was more gradual. The number of projects approved increased to 4 in the 1975-79 period from 3 in 1970-74 with the amounts only doubling to $50 million from $24.5 million. In the 1980-86 period the number of projects approved declined in Kenya and Tanzania to 7 and 6, respectively, but increased in Malawi to 8. Malawi and Kenya received 3 non-project lending commitments each of $220.9 million and $170 million respectively while Tanzania received only one of $50 million.1/

Table II.2 shows the intersectoral breakdown of the cumulative IBRD and IDA lending operations to the three MADIA countries in relation to total commitments to the East and West Africa regions.2/ The share in total commitments for the three East African countries that went to agriculture and rural development was similar to the average for the Eastern Africa Region and met the McNamara guideline of 25% to agriculture almost to the last decimal (25% in Kenya, Tanzania and Malawi compared to 24.4% in all of East Africa).3/ These percentages are noteworthy since such high shares were

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1/ These figures for Kenya exclude SAL I which had only minimal emphasis on agriculture.

2/ Countries are listed by their respective regions on p. 52.

3/ In the West Africa region the commitments to the MADIA countries for agriculture and rural development were a far higher 42.9% of the total compared to 29.5% for the region.

Table II.2

COMBINED IBRD AND IDA CUMMULATIVE LENDING OPERATIONS BY SECTOR AND REGION
AS OF JUNE 30, 1986
(millions of $US)

SECTOR	EAST AFRICA			WEST AFRICA			OVERALL		
	MADIA	ALL	MADIA'S SHARE	MADIA	ALL	MADIA'S SHARE	MADIA	ALL	MADIA'S SHARE
1. AGRICULTURE AND RURAL DEVELOPMENT	976.6	2885.4	33.8%	1954.6	3112.0	62.8%	2931.2	5997.4	48.9%
---)percentage of total	25.0%	24.4%		42.9%	29.5%		34.7%	26.8%	
2. BASIC INFRASTRUCTURE	1343.7	4699.2	28.6%	1306.3	3595.7	36.3%	2650.0	8294.9	31.9%
---)percentage of total	34.5%	39.7%		28.7%	34.1%		31.4%	37.1%	
3. INDUSTRY	344.0	1291.5	26.6%	312.4	902.6	34.6%	656.4	2194.1	29.9%
---)percentage of total	8.8%	10.9%		6.9%	8.6%		7.8%	9.8%	
4. OTHER INFRASTRUCTURE	282.3	674.6	41.8%	460.3	865.0	53.2%	742.6	1539.6	48.2%
---)percentage of total	7.2%	5.7%		10.1%	8.2%		8.8%	6.9%	
5. HUMAN RESOURCE DEVELOPMENT	342.4	1004.5	34.1%	254.1	677.4	37.5%	596.5	1681.9	35.5%
---)percentage of total	8.8%	8.5%		5.6%	6.4%		7.1%	7.5%	
6. NON PROJECT LENDING	540.9	1070.4	50.5%	204.0	1136.9	17.9%	744.9	2207.3	33.7%
---)percentage of total	13.9%	9.0%		4.5%	10.8%		8.8%	9.9%	
7. TECHNICAL ASSISTANCE	69.5	211.4	32.9%	60.0	251.3	23.9%	129.5	462.7	28.0%
---)percentage of total	1.8%	1.8%		1.3%	2.4%		1.5%	2.1%	
GRAND TOTAL	3899.5	11837.0	32.9%	4551.7	10540.9	43.2%	8451.1	22377.9	37.8%
	100.0%	100.0%		100.0%	100.0%		100.0%	100.0%	

Sources: World Bank Annual Report, 1986, and Jones, 1985.

World Bank Categorization of African Countries by Region

Eastern	Western
Botswana	Benin
Burundi	Burkina Faso
Comoros	Cameroon
Djibouti	Cape Verde
Ehiopia	Central African Republic
Kenya	Chad
Lesotho	Cote d'Ivoire
Madagascar	Equatorial Guinea
Malawi	Gambia, The
Mauritius	Ghana
Mozambique	Guinea
Rwanda	Guinea-Bissau
Seychelles	Liberia
Somalia	Mali
Sudan	Mauritania
Swaziland	Niger
Tanzania	Nigeria
Uganda	Sao Tome and Principe
Zaire	Senegal
Zambia	Sierra Leone
Zimbabwe	Togo

reached despite poor domestic absorptive capacity, as is documented later in Section V on lending experience.

The proportion spent on basic infrastructure in the Eastern Africa MADIA countries was slightly lower than the regional average for Eastern Africa (34.5% compared to 39.7% for the entire Eastern Africa Region). Kenya stands out in terms of the share of total Bank commitments going to basic infrastructure (38.7%) (see Table II.3). Transport received 20.4% compared to 13% in Tanzania. It is important to recall that Kenya's better performance in the smallholder sector compared to Tanzania's and Malawi's is partly the result of a better developed network of physical infrastructure to service smallholder agriculture, especially in the high potential tea and coffee areas.

The Bank's commitments to the industrial sector, on the other hand, stand out in Tanzania (as high as 20% -- Table II.3 -- of the total compared to 8% in Nigeria and 9% Senegal). This funding obviously helped reinforce the government's Basic Industrial Policy. It is noteworthy that both Kenya and Malawi, which experienced high agricultural growth, received little Bank financing for industrial development (4.6% of total financing in Kenya and only .8% in Malawi).

It is also worth recalling that prior to the Nairobi speech the Bank was largely an infrastructure oriented institution. Commitments to infrastructure in all MADIA countries constituted 54% of the total in the 1965-69 period and remained at about that level in the 1970-74 period but took a sharp downturn coincident with the rise of the agricultural and development emphasis (Table II.4). The former's share declined to 23% in 1975-79 and then increased again to slightly less than 30% in 1980-86 period.

Table II.3

COMBINED IBRD AND IDA CUMMULATIVE LENDING OPERATIONS BY SECTOR
AS OF JUNE 30, 1986
(millions of $US)

SECTOR	KENYA	MALAWI	TANZANIA	CAMEROON	NIGERIA	SENEGAL	TOTAL
1. AGRICULTURE AND RURAL DEVELOPMENT	483.00	172.69	320.95	375.26	1444.70	134.62	2931.22
--->percentage of total	24.0%	26.2%	26.1%	37.3%	50.0%	20.6%	34.7%
2. BASIC INFRASTRUCTURE	778.45	167.89	397.40	483.13	611.96	211.21	2650.04
--->percentage of total	38.7%	25.5%	32.4%	48.1%	21.2%	32.3%	31.4%
3. INDUSTRY	92.00	5.00	247.00	18.00	237.00	57.40	656.40
--->percentage of total	4.6%	0.8%	20.1%	1.8%	8.2%	8.8%	7.8%
4. OTHER INFRASTRUCTURE	194.30	26.00	62.00	46.00	373.80	40.50	742.60
--->percentage of total	9.7%	3.9%	5.0%	4.6%	12.9%	6.2%	8.8%
5. HUMAN RESOURCE DEVELOPMENT	160.17	115.33	66.90	67.87	126.69	59.51	596.47
--->percentage of total	8.0%	17.5%	5.4%	6.8%	4.4%	9.1%	7.1%
6. NON PROJECT LENDING	275.90	170.00	95.00	0.00	80.00	124.00	744.90
--->percentage of total	13.7%	25.8%	7.7%	0.0%	2.8%	18.9%	8.8%
7. TECHNICAL ASSISTANCE	28.00	2.50	39.00	14.50	18.00	27.50	129.50
--->percentage of total	1.4%	0.4%	3.2%	1.4%	0.6%	4.2%	1.5%
GRAND TOTAL	2011.82	659.41	1228.25	1004.76	2892.15	654.74	8451.13
1984 POPULATION (millions)	19.54	6.83	21.35	9.87	96.49	6.38	160.45
PER CAPITA LENDING ($/person)	102.96	96.52	57.54	101.76	29.98	102.69	52.67

Source: Jones (1985), IBRD's "Statement of Loans" (9/86) and IDA's "Statement of Credits" (10/86), and World Bank Annual Report, 1986.

Table II.4

MADIA: WORLD BANK LENDING OPERATIONS BY SECTOR (Millions of US$)

SECTOR	Fiscal Years 65-69 Commitments			Fiscal Years 70-74 Commitments			Fiscal Years 75-79 Commitments			Fiscal Years 80-86 Commitments			TOTALS (FY1965-86)		
	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED
AGRICULTURE AND RURAL DEVELOPMENT	18.40	52.70	71.10	74.50	132.42	206.92	613.70	360.90	974.60	1285.80	392.80	1678.60	1992.40	938.82	2931.22
---)percentage of total	19.98%	29.16%	26.06%	11.32%	42.33%	21.[illegible]%	38.59%	46.05%	41.05%	42.14%	22.04%	34.73%	36.95%	30.69%	34.68%
BASIC INFRASTRUCTURE	62.70	85.49	148.19	405.25	111.00	516.25	403.00	140.70	543.70	959.90	482.00	1441.90	1830.85	819.19	2650.04
---)percentage of total	68.08%	47.30%	54.31%	61.59%	35.48%	53.18%	25.34%	17.95%	22.90%	31.46%	27.05%	29.83%	33.96%	26.78%	31.36%
INDUSTRY	6.00	0.00	6.00	18.60	8.00	26.60	261.80	77.00	338.80	256.80	28.20	285.00	543.20	113.20	656.40
---)percentage of total	6.51%	0.00%	2.20%	2.83%	2.56%	2.74%	16.46%	9.83%	14.27%	8.42%	1.58%	5.90%	10.07%	3.70%	7.77%
OTHER INFRASTRUCTURE	5.00	0.00	5.00	8.30	8.00	16.30	225.00	63.00	288.00	329.80	103.50	433.30	568.10	174.50	742.60
---)percentage of total	5.43%	0.00%	1.83%	1.26%	2.56%	1.68%	14.15%	8.04%	12.13%	10.81%	5.81%	8.96%	10.54%	5.70%	8.79%
HUMAN RESOURCE DEVELOPMENT	0.00	42.56	42.56	71.30	53.41	124.71	27.00	110.30	137.30	64.10	227.80	291.90	162.40	434.07	596.47
---)percentage of total	0.00%	23.55%	15.60%	10.84%	17.07%	12.85%	1.70%	14.07%	5.78%	2.10%	12.78%	6.04%	3.01%	14.19%	7.06%
NON PROJECT LENDING	0.00	0.00	0.00	80.00	0.00	80.00	60.00	15.00	75.00	135.90	454.00	589.90	275.90	469.00	744.90
---)percentage of total	0.00%	0.00%	0.00%	12.16%	0.00%	8.24%	3.77%	1.91%	3.16%	4.45%	25.48%	12.20%	5.12%	15.33%	8.81%
TECHNICAL ASSISTANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.80	16.80	19.00	93.70	112.70	19.00	110.50	129.50
---)percentage of total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.14%	0.71%	0.62%	5.26%	2.33%	0.35%	3.61%	1.53%
TOTALS	92.10	180.75	272.85	657.95	312.83	970.78	1590.50	783.70	2374.20	3051.30	1782.00	4833.30	5391.85	3059.28	8451.13
PERCENTAGES	33.75%	66.25%		67.78%	32.22%		66.99%	33.01%		63.13%	36.87%		63.80%	36.20%	

OURCE: Adapted from Jones (1985), and IDA's "Statement of Development Credits" (10/86) and IBRD's "Statement of Loans" (9/86).

The share devoted to human resource development also declined from 15.6% in 1965-69 to a low of 5.78% in 1975-79 (Table II.4). Thus, basic "public goods", which have important externalities in the development of agriculture, received less support from the Bank.[1/]

The proportion allocated to nonproject lending was higher in the Eastern Africa MADIA countries compared to the regional average for all of East Africa (13.9% in the three MADIA countries compared to 9% in the Eastern Africa Region) -- see Table II.2. Nonproject lending was very heavily weighted by the amounts going to Malawi and Kenya. As noted earlier, Tanzania received no project or nonproject loans or credits in support of agriculture between 1982 and 1986.

The share of nonproject lending was lowest at 7.7% ($95 million) in Tanzania compared to 25.8% in Malawi ($170 million) and 13.7% in Kenya ($276 million) -- Tables II.3. Tanzania continued to receive commitments for other non-agricultural sectors of its economy -- most of these were for basic infrastructure (i.e., port, power and highway rehabilitation, petroleum exploration, education etc., as well as supplementary loans for the Mufindi pulp and paper mill and urban water supply).

An ironic effect of conditionality in the Bank's agriculture and macroeconomic lending in Tanzania has therefore been to further reinforce the bias of the Bank's lending against agriculture. Had the lending strategy been carefully related to the soundness of the recipient's <u>overall</u> development

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1/ Part of this reduction, however, resulted from a shift in the composition of lending for infrastructure with more funding going to construction of rural feeder roads than to (more expensive) highway construction.

strategy, then all aspects of the lending program rather than only that going to the agricultural sector would have been affected.[1/] In the Tanzanian case such an approach would have included rehabilitation of basic infrastructure but not lending for large scale industry that competes with agriculture.

Table II.5 shows the intersectoral breakdown of IBRD versus IDA lending to MADIA countries and to the East Africa regions by sectors. Table II.6 provides the same information for East Africa countries over time. IBRD commitments declined in East Africa MADIA countries in the 1980s over the previous two five year periods due to increased debt service problems (see Table II.6). A smaller proportion of IBRD resources was committed to agriculture in MADIA East Africa countries (17.4%) than of IDA resources (30.5%),[2/] although

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1/ In such a situation lending strategies might have two components, namely, "baseload" lending and "variable" lending. Countries that do not have policy environments conducive to development would be eligible only for "baseload" lending for investments essential to long term growth.

2/ In the West Africa region, however, the proportion of IBRD resources was greater (45.4% of the total IBRD commitments went for agriculture; 86.3% of the IBRD commitments to agriculture and rural development made in West Africa were to MADIA countries. This is because Nigeria and Cameroon, both oil exporting countries, ceased to receive IDA loans in the early 1970s and 1982, respectively, as a result of having achieved too high per capita income levels. Not being able to qualify for the softer IDA loans in the agriculture and rural sector continues to be an issue between the Bank and Cameroon. This in turn influences the types of projects the Cameroonian government is willing to accept funding for from the Bank. Thus, for instance, it was very reluctant to accept a research project that involved a long gestation lag and was particularly concerned about the level of technical assistance that it would have to borrow for on hard terms.

Table II.5

IBRD AND IDA CUMMULATIVE LENDING OPERATIONS BY SECTOR AND REGION
AS OF JUNE 30, 1986
(millions of $US)

	EAST AFRICA						WEST AFRICA					
	IBRD			IDA			IBRD			IDA		
	MADIA	ALL	MADIA SHARE	MADIA	ALL	MADIA SHARE	MADIA	ALL	MADIA SHARE	MADIA	ALL	MADIA SHARE
1. AGRICULTURE AND RURAL DEVELOPMENT	283.4	479.0	59.2%	693.2	2406.4	28.8%	1709.0	1979.5	86.3%	245.6	1132.5	21.7%
--->percentage of total	17.4%	10.6%		30.5%	32.9%		45.4%	30.2%		31.2%	28.4%	
2. BASIC INFRASTRUCTURE	775.7	2353.9	33.0%	568.0	2345.3	24.2%	1055.2	2162.7	48.8%	251.2	1433.0	17.5%
--->percentage of total	47.6%	52.2%		25.0%	32.0%		28.0%	33.0%		31.9%	35.9%	
3. INDUSTRY	244.0	771.6	31.6%	100.0	519.9	19.2%	299.2	691.1	43.3%	13.2	211.5	6.2%
--->percentage of total	15.0%	17.1%		4.4%	7.1%		7.9%	10.5%		1.7%	5.3%	
4. OTHER INFRASTRUCTURE	148.3	287.2	51.6%	134.0	387.4	34.6%	419.8	625.3	67.1%	40.5	239.7	16.9%
--->percentage of total	9.1%	6.4%		5.9%	5.3%		11.2%	9.5%		5.1%	6.0%	
5. HUMAN RESOURCE DEVELOPMENT	10.0	194.1	5.2%	332.4	810.4	41.0%	152.4	241.9	63.0%	101.7	435.5	23.3%
--->percentage of total	0.6%	4.3%		14.6%	11.1%		4.0%	3.7%		12.9%	10.9%	
6. NON PROJECT LENDING	165.9	412.9	40.2%	375.0	657.5	57.0%	110.0	760.7	14.5%	94.0	376.2	25.0%
--->percentage of total	10.2%	9.2%		16.5%	9.0%		2.9%	11.6%		11.9%	9.4%	
7. TECHNICAL ASSISTANCE	1.0	13.6	7.4%	68.5	197.8	34.6%	18.0	92.0	19.6%	42.0	159.3	26.4%
--->percentage of total	0.1%	0.3%		3.0%	2.7%		0.5%	1.4%		5.3%	4.0%	
TOTAL	1628.3	4512.3	36.1%	2271.2	7324.7	31.0%	3763.5	6553.2	57.4%	788.1	3987.7	19.8%

Sources: World Bank Annual Report, 1986, and Jones, 1985.

Table II.6

EAST AFRICAN MADIA COUNTRIES: WORLD BANK LENDING OPERATIONS BY SECTOR (Millions of US$)

SECTOR	Fiscal Years 65-69 Commitments			Fiscal Years 70-74 Commitments			Fiscal Years 75-79 Commitments			Fiscal Years 80-86 Commitments			TOTALS (FY1965-86)		
	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED	IBRD	IDA	COMBINED
1. AGRICULTURE AND RURAL DEVELOPMENT	0.00	32.51	32.51	34.00	107.93	141.93	188.70	259.40	448.10	60.70	293.40	354.10	283.40	693.24	976.64
--->percentage of total	0.00%	29.73%	26.75%	18.20%	50.97%	35.61%	22.77%	45.90%	32.15%	10.11%	21.19%	17.83%	17.40%	30.52%	25.05%
2. BASIC INFRASTRUCTURE	12.20	55.66	67.86	139.50	63.98	203.48	253.00	78.20	331.20	371.00	370.20	741.20	775.70	568.04	1343.74
--->percentage of total	100.00%	50.91%	55.83%	74.68%	30.22%	51.06%	30.53%	13.84%	23.76%	61.77%	26.73%	37.33%	47.64%	25.01%	34.46%
3. INDUSTRY	0.00	0.00	0.00	5.00	8.00	13.00	184.00	74.00	258.00	55.00	18.00	73.00	244.00	100.00	344.00
--->percentage of total	0.00%	0.00%	0.00%	2.68%	3.78%	3.26%	22.20%	13.09%	18.51%	9.16%	1.30%	3.68%	14.98%	4.40%	8.82%
4. OTHER INFRASTRUCTURE	0.00	0.00	0.00	8.30	0.00	8.30	133.00	60.50	193.50	7.00	73.50	80.50	148.30	134.00	282.30
--->percentage of total	0.00%	0.00%	0.00%	4.44%	0.00%	2.08%	16.05%	10.70%	13.88%	1.17%	5.31%	4.05%	9.11%	5.90%	7.24%
5. HUMAN RESOURCE DEVELOPMENT	0.00	21.17	21.17	0.00	31.83	31.83	10.00	72.10	82.10	0.00	207.30	207.30	10.00	332.40	342.40
--->percentage of total	0.00%	19.36%	17.42%	0.00%	15.03%	7.99%	1.21%	12.76%	5.89%	0.00%	14.97%	10.44%	0.61%	14.64%	8.78%
6. NON PROJECT LENDING	0.00	0.00	0.00	0.00	0.00	0.00	60.00	15.00	75.00	105.90	360.00	465.90	165.90	375.00	540.90
--->percentage of total	0.00%	0.00%	0.00%	0.00%	0.00%	0:00%	7.24%	2.65%	5.38%	17.63%	25.99%	23.47%	10.19%	16.51%	13.87%
7. TECHNICAL ASSISTANCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00	6.00	1.00	62.50	63.50	1.00	68.50	69.50
--->percentage of total	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.06%	0.43%	0.17%	4.51%	3.20%	0.06%	3.02%	1.78%
TOTALS	12.20	109.34	121.54	186.80	211.74	398.54	828.70	565.20	1393.90	600.60	1384.90	1985.50	1628.30	2271.18	3899.48
PERCENTAGES	10.04%	89.96%		46.87%	53.13%		59.45%	40.55%		30.25%	69.75%		41.76%	58.24%	

SOURCE: Adapted from Jones (1985), and IDA's "Statement of Development Credits" (10/86) and IBRD's "Statement of Loans" (9/86).

the proportion of IBRD commitments to agriculture in the three East Africa MADIA countries was higher than the Eastern Africa regional average (17.4% compared to 10.6%) and that of IDA lower (30.5% compared to 32.9%) -- see Table II.5.

The higher proportion of "hard" IBRD loans in MADIA East Africa countries resulted from loans that went to a number of commercially oriented agro-processing projects in both Kenya and Tanzania as well as an irrigation and credit schemes in Kenya. Projects in direct support of smallholder production, i.e., integrated rural development projects, were funded with IDA resources.

IBRD loans in agriculture helped to meet the Bank's overall lending targets for IBRD in each of the countries, while simultaneously meeting the McNamara guideline of allocating 25% of all resources to agriculture and rural development. Thus, the selection of parastatal agro-processing projects in Kenya and Tanzania and capital intensive irrigation, or credit projects, such as those financed in Kenya helped to create the impression that poverty was being alleviated because funds were being directed to the agricultural sector. In reality, however, the Bura irrigation project at a realized cost of $25,000/ha. (or even at its originally estimated cost of $13,500/ha.) was very capital intensive but created relatively few jobs. The same applied to the South Nyanza sugar project. The AFC agricultural credit projects provided little benefit to the poor because AFC's credit guidelines in the mid-1970s meant those farmers whose holdings were less than 15 ha. were ineligible for seasonal credit. The Bank was able get this limit reduced to 5 ha. by the beginning of the 1980s, but this still excluded the vast majority of small

farmers. The Group Farms Project in Kenya similarly did not benefit many small farmers and much of the credit was cancelled due to faulty project design.

It is noteworthy that as a result of human capital development having been given low priority in the 1970s, nonproject lending in the 1980s entailed significantly increased amounts of technical assistance. The share of self standing technical assistance projects increased from nil in the 1970-74 period to 2.3% for all MADIA countries in 1980-86 (Table II.4) and 3.2 for East African MADIA countries (Table II.6). In this regard, although the recent policy focus of the Bank is a welcome one, the Bank's demonstrated willingness to address the problems of basic institutional and human capacity -- which likely require fewer financial resources but greater nurturing -- appears to be still quite low. The Bank continues to opt in favour of measures such as technical assistance, which serve secondarily to prime the pump of lending. We believe more flexible policies concerning the levels and composition of assistance to countries are essential if the current problem of neglect of institutional and human capital development is to be adequately addressed.

B. Lending to Kenya

The types of projects the Bank financed in Kenya and Tanzania in the 1970s were fairly similar.[1/] They fell into two basic categories:

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1 The Annex provides brief descriptions of World Bank agricultural crop projects in each country -- sources of finance, crop focus, project purpose, etc.

(i) smallholder integrated area development projects and (ii) parastatal operated projects directed mainly towards agro-processing of export (or import substitution) crops -- tea, coffee, sugar, tobacco, pyrethrum and cashews, etc. In addition, the Bank also financed a number of miscellaneous other projects in Kenya -- a large scale irrigation project, a series of four agricultural credit projects, a group farms project and projects in semiarid areas.

These projects did not evidence a clear sense of priorities derived from an analytical perspective with respect to the types of investments needed to modernize smallholder agriculture in the early stages of development. They therefore did not reflect the concern for appropriate sequencing and phasing of activities that such a framework necessarily implies. Such a view would likely have stressed development of national capacity for agricultural research and extension and improvement of the policy, planning, budgetary, monitoring and evaluation capacity in the ministries of agriculture (including substantial investment in the training of nationals as well as in improving incentive systems in the governments in order to retain qualified staff). These emphases were to become priorities of the Bank in Kenya in the early 1980s but only after the generally poor implementation experience of an overextended 1970s project portfolio.

1. Agro-Processing Projects

The number of agro-processing projects was greater in Tanzania (8)

than in Kenya (4).[1/] Bank projects took the role of the public sector as given, especially in Tanzania, and indeed reinforced its role through substantial investments in parastatals. The growing number of parastatals served as vehicles for channelling relatively large scale, centralized investments in a reasonably short period of time. Indeed, it would have much more been difficult to provide this magnitude of resources to a decentralized, small scale agro-processing sector.

There were, however, other reasons for supporting public sector agro-processing. Due to scale economies dictated by the lack of alternative technologies, large investments are required for processing some crops.[2/] In the absence of a well-developed indigenous private sector, the development of public sector agro-processing was deemed necessary.

The tea and coffee projects in Kenya represent probably the best example of Bank agro-processing projects in Africa. The first two tea

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1/ Of the 29 agricultural operations financed in Kenya with total funding commitments of $721.4 million (see Annex for more complete project descriptions), three were for the development of smallholder tea (two for establishing smallholder production in the 1960s and one for establishing tea factories in 1974), one for improvement of already established smallholder coffee production including processing (in 1979), two sugar projects (one involving a new factory in 1977 and another rehabilitation of existing sugar factories in 1978), a cotton processing project in 1982, a fisheries projects, two livestock projects (involving the development of ranches in 1969 and 1974), three forestry projects, four agricultural credit projects, one group farm project, one irrigation project, two integrated agricultural projects, one extension project, two semi-arid areas projects, two technical assistance projects and three structural/sectoral adjustment operations.

2/ This appears to be more true for coffee and tea than for flue cured tobacco, although in Malawi the government has promoted large scale estate production of flue cured tobacco because of the belief that smallholders cannot affort the costs of investments in processing. (See forthcoming paper by U. Lele on estate versus smallholder production strategies).

projects, funded in collaboration with CDC, helped establish smallholder production.[1/] In addition, the provision of tea processing facilities through a third loan in the 1970s alleviated a major constraint to the otherwise well organized tea sector. The Bank also made a very important contribution to the analysis and resolution of KTDA's financial problems that resulted from the exchange rate losses that followed unanticipated devaluations.

The Smallholder Coffee Project financed by the Bank in 1980 also alleviated an important constraint to the development of smallholder coffee production by providing assistance for the rehabilitation or construction of cooperative factories. Coffee cooperatives in Kenya have on the whole been impressive in providing effective servicess to smallholders. The Bank contributed to this excellent performance by addressing the important problem of delays in coffee payments to producers.

The experience with the remaining agro-processing projects has been less positive. Sugar processing projects in Kenya have had many problems. The South Nyanza sugar project was located in a drought prone area and inadequate production services were provided to the outgrowers by the sugar factory. The factory also experienced substantial cost overruns due to unanticipated exchange rate adjustments at the same time that world sugar prices collapsed, thus making imports more competitive.

The South Nyanza project stresses the particular vulnerability of projects that at the outset are only marginally profitable only to have world market prices move in the opposite direction to that predicted. The South

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1/ CDC deserves much of the credit for creating KTDA's impressive institutional capacity. See Lele and Meyers, op cit.

Nyanza project -- as were several other projects in Kenya -- was funded partly in response to the government's concerns about regional income distribution. When shortages in cane throughput were encountered by the factory, the Bank recommended that the Government of Kenya raise its entire sugar price structure in order to improve producer incentives. However, this occurred in a situation where producer prices were already above import parity. Other sugar factories in Kenya had much lower cost structures and therefore could potentially earn considerable rents from increased prices.[1/] Efforts by the Bank to also assist in the rehabilitation of the sugar sector in Kenya were undermined by the government's reluctance to engage in subsidiary financing agreements with the private sector and thus this project also did not achieve its objectives.

a. Other "Marginal" Projects

The Bank's agricultural portfolio in Kenya in the 1970s had the effect of contributing to a level of expenditures in agriculture beyond the government's financial and administrative capability as well as increasing the marginality of the overall investment portfolio. It can be argued that the Bank ought to undertake high risk, difficult to implement projects while leaving those investments with higher and more certain returns to the government. Accepting this argument, the question then is one of whether in undertaking such risky investments the Bank's involvement helps reduce future risks for similar investments; also whether its investments represent the most

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1/ See Chapter IV, Lele and Meyers, op cit.

cost effective approaches. On both these grounds, the Bura Irrigation Settlement Project receives low marks.

When begun, the Bura project was by the Bank's own admission quite costly but this cost was justified on the basis of the government's keenness to invest in irrigation in order to relieve land pressure and create employment opportunities. A project of this magnitude should, however, arguably have never have been financed as Kenya had little experience in irrigation. There were many problems with soils and with the design of the irrigation system as well as with settling the target population in an inhospitable area.

Certainly once it became clear that cost escalations would be very high (total base costs in 1982 were 187% of appraisal estimates), the economics of the project should have appeared questionable and the government should have been persuaded to stop the project before the construction of the dams began. However, this did not happen. Several other projects in Kenya were similarly of questionable value when approved, e.g., the Group Farms Project, 2nd IADP and at least two phases of the AFC credit projects. All performed poorly. For instance, considerable skepticism was voiced by technical staff in the Bank about the viability of the Group Farms Project and yet it was approved. As a consequence much of the credit had to be cancelled because of farmers lack of interest in group farming.

The first AFC agricultural credit project was quite successful in increasing the production of smallholder dairying, though this result was not one that had been anticipated in the project's design. Subsequent credit operations, however, expanded credit provision well beyond the institutional capacity of AFC and, although AFC's institutional weaknesses were quite

obvious, continued to be approved. By 1986 the Bank was forced to consider alternative mechanisms to AFC for provision of credit.

The Cotton Processing and Marketing project was also a failure because of a host of problems not adequately anticipated in project appraisal. These included the lack of adequate research findings on cotton, institutional weakness of the cotton marketing board, the volatility of climate and gloomy world market prospects.

The Integrated Agricultural Development Projects (IADPs) were found to be too complex. In the first IADP 13 institutions and 5 ministries were involved and project coverage extended over four provinces, two of which suffered from problems of weak cooperatives, inadequate extension services and questionable technical packages. Once again the Bank agreed to finance the first IADP partly to oblige the government in meeting its politically important regional income distribution objectives. What is puzzling, however, is that a large follow-on second phase of IADP was financed even though the first phase was encountering major difficulties.1/

The generally poor performance of the Bank's portfolio is shown in Table II.7 which categorizes projects by re-estimated economic rates of return. Since a number of projects would have very low ERRs but are still on-going (Bura, Baringo) or are ones for which PCRs either were not done (AFC III) or have not yet been officially issued (Sugar Rehabilitation), the overall picture is even less positive.

1/ The above review has contained only very brief highlights from the Bank's project experience. A detailed project by project treatment is found in Lele and Meyers, op cit.

Table II.7

PROJECTS' RATES OF RETURN* (Millions of $US)

	0% ≥ ERR			10% > ERR > 0%			20% > ERR ≥ 10%			ERR ≥ 20%		
	Projects	#'s	Amounts	Projects	#'s	Amounts	Projects	#'s	Amounts	Projects	#'s	Amounts
KENYA		3		(None)				1			3	
	IADP		20.00				1ST SMLLHLDR CRED.		4.19	TEA DEVELOPMENT		3.26
	GROUP FARMS		15.00							2ND TEA DEV.		2.12
	SOUTH NYANZA		25.00							2ND SMLLHLDR CRED.		6
MALAWI	(None)				3			2			2	
				LILONGWE II		7.41	SHIRE II		10.5	SHIRE I		4.3
				KARONGA I		6.61	KARONGA II		9.2	LILONGWE III		8.5
				SHIRE III		10.70						
TANZANIA		7			1			2		(NONE)		
	KIGOMA RD		10.00	KILOMBERO SUGAR		18.00	FLUE-CURED TOB.		9.07			
	NATIONAL MAIZE		18.00				SMLLHLDR TEA DEV.		10.84			
	TABORA RD		7.20									
	GEITA COTTON		17.50									
	CASHEWNUT DEV.		21.00									
	TOBACCO PROC.		8.00									
	TOBACCO MAND.		14.00									
EAST MADIA TOTAL		10	155.70		4	42.72		5	43.80		5	24.18
CAMEROON		1			1			5			2	
	COCOA		6.50	CAMDEV II		15.00	CAMDEV I		20.26	SEMRY RICE		3.7
							SOCAPALM I		7.9	SECOND SEMRY RICE		29
							NIETE RUB. EST.		16			
							SOCAPALM II		25			
							2ND HEVECAM		31.5			
NIGERIA		3			2			4			1	
	ONDO OIL PALM		17.00	LAFIA ADP		27.00	GUSAU ADP		19	WESTERN COCOA		7.2
	BENDEL OIL PALM		29.50	AYAMGBA ADP		35.00	GOMBE ADP		21			
	RICE		17.50				FUNTUA ADP		29			
							2ND COCOA		20			
SENEGAL		1			2			2			2	
	SINE SALOUM		14.00	RIVER POLDERS		4.50	2ND AG. CRED.		8.2	TERRES NEUVES		1.37
				SECOND SEDHIOU		6.30	2ND TERRES NEUVES		2	CASAMANCE RICE		3.72
WEST MADIA TOTAL		5	84.50		5	81.50		11	197.86		5	41.27
GRAND TOTAL		15	240.20		9	124.22		16	241.66		10	65.45

*Projects which have not been completed, or for which ERR's were not estimated, are not included.

SOURCE: Jones (1985), and various PCR's and PPAR's.

3. Issues Raised By The Bank's Project Lending Experience

The problems encountered in the Bank's project portfolio in Kenya suggest several general observations about the factors that have limited its success as well as factors that might contribute to increased success in the future.

a. Comparative Advantage and World Market Prospects

The first issue arises from the Bank's tea and coffee projects. It has to do with the type of advice and financing the Bank should provide for crops with limited world market prospects in situations where countries producing these crops have a strong comparative advantage in their production. In the case of manufactured goods the Bank has consistently supported the principle of dynamic comparative advantage. In the case of tea or coffee, however, due to perceived conflicts among its various borrowers (e.g., Sri Lanka and India vis-a-vis East African countries) and the likely decline in their individual incomes from aggregate expansion of production, the Bank has stressed intensification of existing production and processing rather than area expansion.1/ Fungibility, of course, means that it does not particularly matter which investments the Bank finances. It is the marginal investments made possible by such financing that are of interest. In the Kenyan case the financing provided by the Bank for processing facilities for

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1/ The policy, has however, allowed for considerable flexibility in its implementation based on the consideration that countries with no alternative crop opportunities should be allowed to receive support from the Bank. The Bank therefore undertook a tea project in Tanzania, which established 15,000 ha. of tea, whereas in Kenya it restricted its financing to the establishment of factories.

tea and coffee provided a strong incentive for smallholders to expand the area under cultivation, especially given Kenya's positive incentive price policies and effective services to smallholders. However, intensification of production (i.e., increased yields per ha), which the Bank did seek to promote, has not materialized in either tea or coffee.1/

b. Factors Influencing Decision Making at the Farm Level

The factors influencing intensification and how the government might assist in this process from the perspective of fostering both short and long term growth are areas that require detailed analysis. Indeed, the lack of farmer uptake in a number of the Bank's projects (e.g., the Narok, AFC and Group Farms projects) suggests a more general point, namely, that despite the Bank's substantial investments in smallholder agriculture in Kenya, relatively little is known concerning the factors that influence small farmer decision making. Similarly, despite the Bank's substantial investments in tea, relatively little systematic knowledge exists of the factors affecting resource allocation in tea production.2/

c. Influence on Allocation of Capital

The third issue relates to the Bank's influence on resource allocation decisions made by the government. Bank-supported projects in the 1970s, though undertaken to assist the government in achieving regional equity

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1/ See forthcoming paper by Lele on estate versus smallholder production.

2/ The Bank is, however, currently carrying out a major review of the coffee subsector.

objectives, nonetheless absorbed disproportionately large shares of scarce Kenyan public sector financial and administrative resources for activities that achieved low rates of return. This diversion of resources has had both a human capital and a financial dimension. The former is hard to quantify, but is reflected on the one hand in the demands made on scarce administrative and manpower resources and, on the other, in the postponement of necessary investments in agricultural research, rural physical infrastructure and human capital.

The problem of misallocation of resources can be succinctly and graphically illustrated in numerical terms. Bank-sponsored activities in just four subsectors -- Bura, Sugar, IADP and AFC, all of which were marginal projects -- accounted for at least half of the MOA's development expenditure budget during the 1977/78 to 1982/83 period. Total gross budgetary expenditures by MOA increased by 46% in these five years or at an annual rate of 9.2% in nominal terms. Irrigation expenditures, of which Bura represented the major portion, reached a peak of KSH 9 million or 28.4% of the development budget in 1981/82, and sugar accounted for KSH 7.5 million (18.6%) in 1982/83. Together these two activities alone accounted for just over 40% of the development budget in 1981/1982 and 1982/83.

d. Riskbearing

A related issue concerns risktaking behaviour by the Bank. The relatively poor record of the Bank's agricultural portfolio in Kenya in comparison to Kenya's overall agricultural performance can be explained only to a limited extent by the Bank's willingness to be innovative and take risks. The poor performance of the portfolio in the 1970s stemmed more from a

tendency to acquiesce to the government's political objectives and to undertake quite risky marginal projects. Moreover, subsequent phases of these projects (IADP, AFC, etc.) were approved even though the earlier phases had not demonstrated effective results.

Undue risks were also undertaken when evidence indicated that projects were unlikely to be feasible and yet strong actions were not taken to stop such projects. E.g., when major cost escalations for the Bura irrigation dam became evident, the Bank took a far more optimistic posture toward the expected internal rate of return than the evidence from the project appraisal or subsequent supervision experience would appear to have warranted. Thus the government ended up having to provide financing for a substantially greater investment than was originally envisaged.

As a result of the above problems, the overall quality of the Bank's portfolio suffered. Moreover, the anticipated long term gains in country relations that were to have resulted from maintaining or increasing lending levels did not materialize.

The Bank's shift to a tougher posture after the late 1970s, at a time when Kenya was facing serious macroeconomic difficulties, was, of course, justified on grounds of Kenya's overcommitments. But the contribution of the Bank's poor project portfolio to this situation tends to be overlooked -- as does the possibility that this factor affected Kenya's receptivity to Bank overtures during the SAL process and subsequently.

Despite the above problems, it is important to point out that there has been a significant change in the Bank's approach to the agricultural sector in the last four years -- much of it in the very desirable direction of improving agricultural research, extension, credit and marketing capacity on a

subsectoral basis. In this connection, we believe it is necessary for the Bank to use its considerable influence in its policy dialogue with the government to press for development of Kenya's own planning and analytical capacity. This will involve getting the best Kenyan manpower to work on the problems of agriculture as well as engineering a larger supply of such manpower -- as opposed to continuing reliance on the short term palliative of external technical assistance.1/

Any comprehensive effort to address the above analytical and management constraints will obviously require a dialogue between the Bank and the government about setting up mechanisms by which the best Kenyan minds can be deployed (and retained) to work on Kenya's policy problems on a long-term basis. It will also mean the Bank will need to seek help from other donors, e.g., the U.S., in achieving this objective as the Bank does not have a comparative advantage in providing long-term financial support to Kenya's university and research institutions that are engaged in agricultural and social-economic research. It will require investment in increasing the supply of Kenyans with post-graduate training in disciplines that are important for formulating and implementing effective agricultural policies.

1/ Success in achieving these objectives will obviously depend on the government's willingness to adopt measures to strengthen governmental capacity. This might be prompted by providing assistance with which to give long term (five year) contracts to Kenyan foreign trained university and research personnel with advanced degrees in economics, sociology, etc., who are now in relatively abundant supply in Kenya and who swell the ranks of consulting firms that serve foreign donors. However, this would require considerably change in the government's current stance toward use of highly trained non-civil servants.

4. Structural Adjustment Lending

Increasing economic difficulties in the second half of the 1970s led Kenya to seek support from IDA and the IMF. This resulted in the financing of the first Structural Adjustment Loan (SAL). The first SAL did not involve an agricultural component. Instead the Bank began an increased program of sector work on agriculture in the early 1980s. The second SAL (US$ 130.9 million) included components designed to address "key" constraints in the agricultural sector. Specifically, the program was to support: 1) reforms of pricing and marketing policies; 2) regularization of land subdivision; and 3) removal of budgetary and management bottlenecks.

Relatively little policy action was forthcoming from the government in the above three areas, suggesting that the Bank and GOK were not equally committed to the set of reforms specified in SAL II. It is also likely that commitment to these objectives varied within the government. The one exception to this has been the progress made in the area of planning and budgetting in the Ministry of Agriculture, which has in turn has led to similar reforms in other government ministries.

The Bank has recently moved towards a broader approach to agricultural development in Kenya. In support of general economic and agricultural reforms, in 1986 it approved two operations that demonstrate a more comprehensive vision of future agricultural development in Kenya, namely, the Agricultural Sector Adjustment Operation (US$ 20 million) and an Agricultural Sector Management Project (US$ 11.1 million), both using IDA funds. The latter involves a technical assistance project designed to support the strengthening of major agricultural institutions in the public sector

while also providing support for reforms promoted by the Agricultural Sector Operation.

The Agricultural Sector Operation involves an import support component to fund fertilizers, pesticides and chemicals, agricultural machinery and spare parts, veterinary services, seeds, petroleum and transport equipment for the sector. In addition to the inputs component, the Sector Operation contains a further set of ambitious objectives for its short (two year) time frame. It seeks to (i) improve production and investment incentives with a focus on prices, marketing and private sector development; (ii) implement programs of parastatal reform including divestiture and rehabilitation: (iii) support futher restructuring of the public investment and expenditure program; and (iv) increase the flow of credit to smallholders.

The initiatives contained in these two new efforts are clearly steps in the right direction. In light of the problems noted earlier in the Bank's past lending program, the question needs to be raised whether they involve too many initiatives spanning too many institutions within too short a time period. They also convey great optimism about the extent to which, and the pace at which, the government will be willing to significantly alter past policies. The experience of the past twenty years demonstrates that the Bank has been consistently unduly optimistic about proposed policy changes.

Finally, we note that after 26 years of involvement in Kenya, the Bank is now considering financing an agricultural research project. We very much support an effort to improve Kenya's agricultural research capacity.

However, we also recognize that this is a formidable task in which success will only be realized over the long term.1/

D. Lending to Tanzania

Although the Bank provided some assistance to the Tanzania Rural Development Bank for on-lending of agricultural credit, lending to Tanzania has been mainly concentrated in two areas: (i) support for crop parastatals and (ii) support for regional integrated rural development projects.2/

1. Support for Crop Parastatals

IBRD and IDA have provided loans and credits of $261 million in support of various crop parastatals handling tea, cotton, cashews, sugar, tobacco, pyrethrum and grains (see Annex). The total costs of these investments were, however, even larger in that the government and other donors also provided funding for these projects (see Annex).

1/ See Lele and Goldsmith, op cit.

2/ In Tanzania there were 25 operations including two tea projects: three tobacco projects, one involving (smallholder) production and two involving processing and handling of tobacco; two cashewnut processing projects involving the establishment of cashew factories; one smallholder cotton production project; one sugar project involving financing of a sugar factory and nucleus estate production; one smallholder maize production project and one project in support of the national milling corporation that handled the marketing, storage, milling and sale of maize on a monopsony basic; one smallholder pyrethrum production and processing project; one coconut production project; two livestock ranching and one dairy development projects; one fisheries project; two forestry projects; two credit projects; three integrated area development projects; and one Export Rehabilitation Credit in support of macro and sectoral policy reform.

The objective of the first tea project (in 1972) was to improve tea processing, handling, marketing, extension and cooperative services. As in the case of the tea factory project in Kenya (financed in 1974), the project in Tanzania focused on intensification of smallholder tea. However, as was also true in Kenya, the result was largely an increase in the area under cultivation rather than increased intensification. This was followed by the financing of a smallholder tea consolidation project in 1980 (we indicated in Part I that smallholder tea is one of the few crops which has shown positive growth -- 13.7% annually -- in production in Tanzania). The tobacco processing (1976) and handling (1978) projects were aimed at improving these functions in the tobacco subsector. The Kilombero Sugar Project in 1974 (like the South Nyanza project in Kenya) financed the construction of a sugar factory and the establishment of a nucleus sugar estate as well as services for outgrowers.

The two cashew processing projects in 1974 and 1978 financed the mechanical processing of cashews. The 1980 Pyrethrum Project financed improvements in smallholder production of pyrethrum. Finally, the Grain Storage and Milling Project was, despite its name, undertaken primarily to address the problem of inefficiency in the grain marketing board (NMC), which had accumulated financial losses of TSh 3 billion by the end of the 1970s.

The above agro-processing projects in Tanzania generally did poorly because of crop production failures. Project appraisals in the 1970s did not fully anticipate the full effects of the government's policies towards the smallholder sector (outlined in Part I of this paper), which led to either stagnation or decline in the production of most export crops.

The Bank, moreover, did not question the monopsony functions of the parastatals involved in agroprocessing. In fact by channelling nearly half of its total commitments to the agricultural sector directly to the parastatals, it inadvertently reinforced their already dominant position. By 1983, however, the Bank's Agricultural Sector Report concluded that "due to overwhelming institutional and national problems this assistance [to parastatals] has had little positive effect" (p. 70).

Tanzania has the highest number of projects with zero or negative rates of return among all MADIA countries (see Table II.7). Of the (10) Tanzanian projects audited by OED only two (Flue Cured Tobacco and Smallholder Tea Development) had economic rates of return over 10 percent, one (Kilombero Sugar) had a rate of return of 8% and 7 (Kigoma, National Maize, Tabora, Geita, Cashewnut, Tobacco Handling, Tobacco Processing) had negative rates of return. The audits were done soon after completion of these projects and the situation in these crops has deteriorated further since then. It is doubtful if the Kilombero Sugar or the Tobacco Projects would now show a positive rate of return. In view of the fact that 22% of the total $133.6 million borrowed for these projects was on IBRD terms, it is clear that Tanzania would have been better off if it had not borrowed for these projects.

2. Support for Regional Development Projects

The projects which received the most attention in Tanzania in the mid-1970s were the rural or regional integrated development project (RIDEPs) While the RIDEPs in Kigoma (1974), Tabora (1977) and Mwanza/Shinyanga (1978) varied in emphasis, they had in common a multisectoral approach to the development of a geographical area.

Government actively pursued donor financing for RIDEPs. As in Kenya, it viewed these projects as a vehicle for spreading development assistance throughout the countryside, especially to the traditionally poorer, neglected regions. The idea was appealing to the Bank (and to other donors) for both developmental and pragmatic reasons. Given the decentralized governmental system in Tanzania, donors were able to channel resources to several sectors at once, rather than having to deal with different central ministries. Also the number of beneficiaries "reached" through these agricultural and rural development projects increased, giving the impression that the donor poverty alleviation mandates of the 1970s were being met. By the end of the 1970s most regions were covered with RIDEPs funded by various donors (i.e., France, UK, EEC, USAID).

Most of these projects were prepared and implemented through the provision of technical assistance. Given their complexity, the government had insufficient capacity to plan and implement such projects. The government was less willing to accept technical assistance for World Bank RIDEPs than for those of other donors, e.g., France and USAID, on grounds that IDA resources were "expensive" compared to those acquired with grant money. Also the bilaterals recruited their own TA whereas the Bank policy was to minimize its involvement in administering TA.

The RIDEPs often included social welfare components that only marginally contributed to economic productivity (i.e., water supply, schools, health clinics). The projects were also frequently not located in the areas of much agricultural potential, e.g., Kigoma, Mwanza, Tabora. They were often justified on grounds on improving interregional equity. However the crops they frequently focused on (usually foodcrops) were not the ones with the

greatest income earning possibilities. For instance in Tabora few resources were devoted to the development of tobacco or to cotton in Mwanza/Shinyanga in much the same way that donor funded projects in Africa in the 1960s had completely overlooked concern for food crops and had concentrated solely on export crops.

Performance in these projects was so far below expectations that the Mara RIDEP, a project the Bank had already appraised and negotiated in the early 1980s, was not presented to the Bank's Board for approval. Due to the macropolicy and sectoral policy environment in Tanzania discussed in Part I of this paper, the RIDEPs also suffered from lack of trained Tanzanian manpower, frequent institutional changes and shortage of recurrent financing, fuel and spare parts. Officials also frequently commandeered vehicles and equipment provided by the Bank for Party or personal use.

The difficulties of implementing complex multisectoral projects, even in the absence of macro and structural constraints, had already become evident by 1974. A World Bank-initiated study of African rural development designed to suggest lessons for Bank operations had documented this evidence.[1/] The findings of the study were endorsed by the Bank and were reiterated in an agricultural and rural development sector study on Tanzania at around the same time.

The interesting question is why these integrated projects were financed in light of the evidence of the study. It is evident in retrospect that the spirit of Mr. McNamara's Nairobi speech was congruent with the spirit

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1/ Uma Lele, op cit.

of Mr. Nyerere's Arusha Declaration. Both contributed to the Bank's decision in 1973 to go ahead with the Kigoma project. Once begun the momentum developed by these projects was difficult to curtail. Also, as we pointed out in Section IV on policy analysis, the Bank was slow in facing up to the consequences of the policy failures that were increasingly becoming obvious in Tanzania.

3. Structural Adjustment Lending

By the end of the 1970s Tanzania's domestic economic crisis had been accentuated by the break up of the East Africa community, the Ugandan war, the second oil shock and the drop in the commodity prices following the coffee boom. Project implementation was hampered by a shortage of foreign exchange for recurrent costs, spare parts and fuel. The government therefore approached the Bank in 1981 for balance of payments support.

As in the case of Malawi and Kenya, little systematic macroeconomic or sectoral analysis existed in the Bank on constraints to growth. Thus there was insufficient knowledge that could be used to stipulate the conditions necessary for government reform, although the project lending experience in all sectors had certainly provided abundant evidence of the existence of various constraints to growth. The Bank's broad mandate to use structural adjustment lending to obtain macroeconomic and sectoral policy reform had also not yet been agreed to by the Bank's major shareholders. Thus the 1981 Export Rehabilitation Credit of $50 million was from the Bank's perspective fairly conservative in terms of the conditions it sought to have GOT agree to. It appeared quite radical to the government, however, which was not ready to consider such drastic reforms.

The major objective of the credit was to increase the allocation of scarce resources to the agricultural sector and to improve incentives for export production through a foreign exchange retention scheme for exporters as well as increases in producer prices. These reforms were, however, too puny in relation to the extent of overvaluation of the currency and greatly overexpanded government expenditures. The Bank's export rehabilitation credit therefore had relatively little positive impact although it perhaps served to avert to some minor extent further decline in Tanzania's export agriculture.

In 1984/85 the government adopted a number of reform measures including the devaluation of the shilling from TSM12 to TSM17. However, the shilling still remained hopelessly out of line with the market rate, which was 5 to 10 times the official rate. Official producer and consumer prices and prices of inputs were also raised sharply to reduce budgetary subsidies. The National Milling Corporation was declared to be the buyer and seller of last resort. Cooperatives were reintroduced as the primary agents for procurement, storage and delivery of export crops. Marketing boards were created to undertake the remaining responsibilities of crop authorities. Several public enterprises in the agricultural and the industrial sector were dissolved and the number of ministries was reduced from 22 to 15. The foreign exchange retention scheme introduced under the Bank's export rehabilitation audit was expanded. Discrimination against the agricultural sector, however, continued in the foreign exchange retention scheme as only 10 to 15% of the foreign exchange could be retained by traditional mostly agricultural exporters whereas 50% to 100% could be retained by non-traditional mostly manufacturing exporters.

The effect of the above reforms was rather shortlived. Once again in 1985/86 the lack of adequate adjustment in the exchange rate (nil) and only small adjustments in producer prices (20%) weakened the effectiveness of these measures given the domestic inflation rate of 30%.

Aid coordination meetings had come to a halt in Tanzania after 1977. The government did not want to provide a forum in which the donors could "gang-up" against it to press for policy reforms. The so-called "friendly donors", i.e., Sweden, Denmark, Norway and the Netherlands, shared the government's concern on this matter.

In November 1986, after a hiatus of five years in Bank funding to the agricultural sector, the Bank approved an IDA loan of US$50 million and a special African Facility loan (US$46.2million) for a multisector rehabilitation effort.

In June 1986, however, the first Consultative Group meeting was held for Tanzania in nine years based on a number of measures the government had already undertaken or proposed to undertake. For example, the government announced the devaluation of the shilling to 40 US$ and stated its intention to eliminate overvaluation by 1988 by devaluing at a rate equal to or greater than 1% per annum in real terms. It proposed to dismantle quantitative restrictions and to switch to tariffs. It indicated its intention to reconsider foreign exchange retention rates so as to eliminate discrimination against agriculture, to impose limits on borrowing by the six major crop marketing boards and NMC, to reduce budgetary deficits, to restructure the public investment program, and to undertake a study of parastatal efficiency. Price controls were also to be reduced from a total of 400 down to 47 (over 1000 prices were controlled in 1981). The practice of confining

imports of goods to specific parastatals was to be dismantled. Lastly, in agriculture producer price levels were to be 60% to 70% of f.o.b. prices (or to result in at least a 5% increase in real terms, whichever was higher).

Grain trade from farmgate to consumer was liberalized. NMC as well as individuals were permitted to move up to 450 kgs. (five bags) across regional borders without a permit. However, permits would still be needed for interregional trade although even these were to be abolished by March 1987.[1/] The quality of produce was to be improved by giving premiums for higher grades.

Private estates were to be allowed to undertake their own exports. Cooperative unions and other producers also were going to be encouraged to undertake exports, as well as to import and distribute seeds and fertilizers. Studies were to be undertaken of seed, fertilizer and crop marketing.

There is once again much excitement in the donor community (similar to that noted after Mr. Nyerere's famous speech 10 years after the Arusha Declaration) about the potential change that will result from the above announced intentions. Aid commitments have already begun to increase in response to these statements. However, the history of policymaking in Tanzania is one where a strongly entrenched and highly ideological political party has wielded a great deal of influence over policymaking (much more than in Kenya and Malawi where technocrats play a greater role). Also, Tanzania has in the past shown greater willingness to introduce controls than to

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1/ It is noteworthy that Government of Tanzania had gone further in liberalizing grain trade by 1985/86 than had Kenya.

implement new policy reforms. Thus, before large aid commitments are once again flowing, it will be important to have clear agreements with the government on specific reforms that will be implemented, to carefully monitor this implementation and to stand ready to stop lending if reforms are not implemented in good faith.

E. Lending to Malawi

1. Integrated Rural Development

In Malawi the Bank focussed almost exclusively on the problems of smallholder production by funding integrated area development projects. The Lilongwe Development Project was the showpiece. Started in 1967, the Lilongwe project was the forerunner of a series of integrated rural development projects (IRDPs) in Malawi and elsewhere in Africa.[1/] Eleven integrated area development projects (see Annex) were approved in Malawi. These included Shire in 1968, a second Lilongwe in 1971, the Karonga and Shire projects in 1972, a third phase of Lilongwe in 1975, followed by a second phase of Karonga in 1976 and a third phase of Shire in 1978. IDA, IBRD and government commitments to these eight projects totalled $70.8 million. It is noteworthy that $62.5 million or over 88% of these resources came from the Bank.

Three additional projects were financed when the Bank began to shift away from an intensive area development approach in 1978 and the first National Rural Development Program (NRDP) was begun. The NRDP involved a modification of the IRDP approach with greater emphasis on provision of

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1/ See U. Lele, op cit. Also Lele, Oyejide, Bumb and Bindlish, "Nigeria's Agricultural Policy and the World Bank's Role". Paper prepared for MADIA Study.

agricultural inputs and farm services and less on intensive staffing and on infrastructure. The cost of NRDP I, $66.0 million, was, however, similar to that of earlier area development projects ($56 million of which was financed by a number of donors -- IDA, CDA, CDF, U.K., Germany). Subsequent phases of NRDP were financed by the Bank in 1981 and 1983.

The above IRDP projects sought to increase the productivity of smallholder crops such as maize, groundnuts, tobacco, cotton, rice, beans and potatoes, and also livestock. Their emphasis was on group credit, input supply and extension. The initial Lilongwe projects involved a much heavier emphasis on improvement of physical infrastructure (i.e., roads and soil conservation) than did the subsequent area or national projects.

The most important weakness of these projects concerned the lack of attention to sequencing and phasing of investments. Large investments in physical infrastructure, office buildings and expansion of the agricultural service staff were undertaken without first developing profitable technical packages for crop production.[1/] This occurred despite the fact that project implementation experience repeatedly demonstrated the poor performance of technical packages.

One consequence of these expenditures on infrastructure was a substantial growth in government capital and recurrent budgetary commitments in the agricultural sector once Bank funding was phased out. However, without

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1/ Jones' analysis of World Bank project cost data shows that Malawi had the highest allocations to physical infrastructure (13%) of all project component costs compared to any other MADIA country -- 9.8% in Nigeria; 8.2% in Cameroon; 6% in Tanzania; 3.9% in Kenya; and 3.8% in Senegal. See C. Jones, "A Review of World Bank Agricultural Assistance to Six African Countries". Paper prepared for MADIA Study, May 1985.

an increase in productivity or in production growth, it was difficult to sustain these expenditures. It is also important to recall that, as we indicated in Part I of this paper, much of the benefits from these expenditures were being captured by the government through a producer pricing policy and were being invested in the rapid expansion of the estate sector.

The Bank was relatively slow in the 1970s in recognizing that technological along with price constraints were inhibiting the growth of smallholder production, although IRDP project evidence had pointed in this direction since 1972. The Audit Reports for selected projects make this abudantly clear -- Shire Valley Phase I: "The maize component was just 'thrown in' at the last minute ... no varieties of maize existed that were suitable for the project area" (p. 3); Shire Valley Phase III: "... there was no proven technology available to be extended to farmers" (PCR, 4.5.5). Yield targets for maize and sorghum were not achieved due to unavailability of drought resistant seeds. (PCR, 4.6.5.); Lilongwe Phase I: "Maize yields showed no sustained increase and groundnut yields decreased. Poor weather may have been partially responsible. There is no discussion of the viability of the technical packages" (PPAR, pp. ii and 10); Second Karonga Rural Development Project: "Survey evidence showing that the percentage of farmers following extension advice declined for most part in the second phase of the project. Data suggest that the second phase project failed to introduce new technology to additional farmers" (PPAR, 10-11).

While the Bank was obviously aware of the problem of poor adoption of technical packages, later phases of preparation of Lilongwe and NRDP continued to emphasize improving infrastructure and extension and marketing services. When it became evident that investments in area development projects were too

expensive in terms of the manpower and finances required for reproducing this approach on a country-wide basis, NRDP consolidated its coverage and the projects provided services on a less intensive basis. The emphasis nevertheless still continued to be on extension, which along with credit was to take up 40% of the costs; other costs were road construction (26%), credit (12%), health (6%) and forestry (5%).

The problem of slow adoption of improved maize is to date still a significant one. Thus, in spite of 11 separate Bank-funded rural development projects with commitments of close to $104.3 million, only six percent of acreage in Malawi is currently under improved maize compared to 60% in Kenya.

A willingness to ask searching questions about underlying technical problems occurred only in the 1980's. The lack of growth of smallholder agricultural production from investments in the area development projects in Malawi in the 1970s led to two new types of financing. On the one hand a number of functional projects were financed in support of agricultural research, fertilizer distribution and extension, all designed to alleviate the constraints that had been identified by the area development projects. On the other hand, the SAL's addressed the issues of agricultural prices, subsidies and public expenditure patterns.

One of these new initiatives, the Bank's 1985 Agricultural Research Project resulted from high quality work undertaken by Bank staff in Malawi on analysis of local technological requirements. It would appear that the issue of technological constraints is at last receiving the attention it deserves.

2. Overall Project Impact

Smallholder agriculture in Malawi has not suffered from rapid changes in institutions serving agriculture nor from macropolicy distortions to the degree that has been the case in Tanzania. However, as in other two countries, area development projects suffered from technological optimism conceived without socio-economic review and were dependent upon planning and implementing resources on a scale well beyond what Malawi had available. There has therefore been a heavy reliance on expatriate manpower for planning and implementation for an even longer period than in Kenya and Tanzania. Malawi's institutions have, however, generally been well run and a surprisingly large number of well trained Malawians have taken over agricultural management and, increasingly, policymaking despite the extent and length of the expatriate presence.

The above relatively favorable macro and administrative environment has meant that project implementation has been generally carried out satisfactorily. This may partly explain the fact that of the seven agricultural projects audited by OED in Malawi not a single project was estimated to have had negative rates of return, two (Lilongwe II and Karonga I) had ERRs of 8% and 6% respectively, three (Shire II, Shire III and Karonga II) were estimated to have ERRs of 13%, 15% and 14%, and (Shire I and Lilongwe III) ERRs of 25% (see Table II.7). One, of course, must qualify these estimates somewhat given that in most cases the data were not adequate to precisely calculate benefits, especially in light of the subsistence nature of food crops and the weather fluctuations involved. Also ERRs were calculated immediately upon completion of these projects and sometimes reflected a degree of optimism concerning their achievements based on marketed food production

that has not being borne out in other data on Malawi's agricultural performance. Recall also the earlier observation that Malawi's nutritional levels are still some of the lowest in Africa.

In spite of the above qualifications, the quantifiable impact of the Bank's project involvement has undoubtedly been greater in Malawi than in Tanzania. One of the main causes of the nonetheless relatively limited impact has been the Bank's excessive focus on investments while not devoting adequate attention to matters of implicit and explicit agricultural taxation, technological constraints, land access and smallholder participation in export crop production. The Bank has taken measures to address at least two of these, namely, agricultural taxation and technologies (although it is not clear that major technical breakthroughs will occur relatively quickly in rainfed crops like cotton and groundnut). A major lesson of the Malawian experience is the need to take a holistic view of agricultural development. Otherwise critical issues such as land access and rights to grow export crops are lost sight of.

3. Structural Adjustment Lending

There have been three SALs; a fourth is under negotation. The first SAL in 1981 did not contain many policy conditions as the Bank had not undertaken sufficient background sector work for this when the first SAL was approved. The second (1984) and third (1985) SALs have had substantial agricultural components. Important emphases affecting agriculture stressed in these SALs include the following: improving producer prices for smallholders, estate diversification, restructuring of Press (Holdings), ADMARC's asset rationalization, improved cost recovery, improving the operational efficiency

of parastatals, abolition of fertilizer subsidies, increasing allocations to agriculture, health and education, and reducing expenditures on government buildings.

Progress achieved by the SALs in four major areas critical to long-term growth are summarized below. We also indicate several areas in which additional progress would be desirable.

a. Slow Growth of Smallholder Exports

We pointed out in Section IV that the SAL process has resulted in a significant restructuring of producer incentives for export crops, especially with respect to their relationship with the price of maize (the latter was raised by 61% in 1981 leading to substantial accumulation of stocks at the cost of decreased export crop production). SALs II and III have progressively aimed at bringing smallholder producer prices for cotton, groundnuts and tobacco closer to export parity.

The above correction of price incentives has, however, not resulted in as significant a price response as had been expected. This has prompted a recognition that the factors underlying the slow adoption of improved practices are not well understood (albeit somewhat belatedly given the project experience of the 1970's and the emphasis in the early 1980s on the need for improvement in the fertilizer import and distribution system, and the agricultural extension and research systems). The Bank's current agricultural diversification study is expected to lead to an increased understanding of these factors. It should be stressed again, however, that the Bank has been slow (in all three countries) in recognizing the need for long-term,

systematic collection and analysis of farm management data in order to acquire an understanding of basic micro level constraints.

b. Diversification of the Export Base

The Bank has emphasized the importance of diversification of the estate sector. However, investments also will have to be made in the smallholder sector to encourage diversification of production of export crops. Smallholder export crop development cannot occur without public investments in rural infrastructure marketing and processing such as occurred in Kenya. While there has been some growth in smallholder tea and coffee production in Malawi (only 12% of tea is produced by smallholders in Malawi), on the whole the Bank has not addressed the issue of diversification of smallholder export crop production. Also, the issue of licensing of smallholder production of tea, coffee, burley and flue cured tobacco will need to be addressed in order for there to be future expansion of export crops in the smallholder sector. The current emphasis on increasing the efficiency of estates (medium and long-term credit, management training, extension, etc.) may be diverting attention away from this basic issue, which will have a profound effect on the nature of future project investments in Malawi.

c. Budgetary Considerations

We pointed out earlier that the Bank's agricultural project investments contributed to the expansion of Malawi's recurrent budgetary expenditures. While the Bank became aware of the budgetary implications of its own investments through carrying out an excellent analysis in the context of the NRDP Review in 1982, this did not result in a reduction of project

financing until the emphasis in the Bank's dialogue shifted from project lending to SAL's.

Budgetary concerns in the SALs have focussed on the issue of intersectoral resource allocation (e.g., pleas for increased budgetary resources for agriculture, education and water supply as well as for reducing the government's share of expenditures on the construction of government office buildings). One result of the focus on improved resource mobilization through increased cost recovery has been the removal of fertilizer subsidies. This is understandable on budgetary grounds, especially in view of increased producer prices for smallholder crops, but it is nevertheless somewhat ironic in view of the fact that the Bank had in the course of its project lending persuaded a reluctant Malawian government to introduce subsidies, based on the rationale that the process of fertilizer use was still in the early stages in Malawi. (Also, as we noted above, slow adoption has been a persistent problem to date).

While cost recovery considerations are indeed important, they must be balanced against other considerations such as incentives for technology adoption. Nearly 80% of fertilizer use in the smallholder sector in Malawi is on relatively low value maize compared to Kenya where the majority of the fertilizer use is on high value export crops. Yet only 6% of the area under maize in Malawi is planted with improved varieties compared to 50% in Kenya. Provided the Bank continues to stress the need to develop a solid understanding of farming systems constraints, the removal of fertilizer subsidies may not be a serious problem. Nevertheless, it is important to view this issue and technology adoption in Malawi in general, from a comparative

perspective in order to fully appreciate the extent of Malawi's less advanced technological progress.

d. Parastatal Financing

The Bank's concern with ADMARC's efficiency in the course of SALs has led it to focus on three aspects: (i) day to day operations; (ii) those resulting from ADMARC's investments in Press (Holdings); and (iii) those arising from government pricing policies.

The lack of earlier Bank attention to the issue of ADMARC's efficiency appears in restrospect to have been partly a result of the fact that, unlike its counterparts in Kenya and Tanzania, ADMARC has had ample surpluses with which to operate without needing to be strictly cost effective -- a fact the Bank overlooked. Indeed, until quite recently, the Bank regarded ADMARC as a relatively efficient organization. The Bank's new position on ADMARC's efficiency seems to result partly from the fact of losses stemming from its having to finance accumulated maize stocks, which resulted from a government policy decision to raise maize prices by 61% in 1981 -- a decision over which ADMARC had no control.

An additional concern arises from ADMARC's loans and equity in Press, an issue the Bank also overlooked in the 1970s. The Bank's 1975 Economic Report described estates as privately owned and benefitting from favorable tobacco prices, liberal trade and payment arrangements and relatively modest taxation. Competition between use of ADMARC's resources for estate versus the smallholder sector, especially for credit, were noted in the same report but this was not followed up on. The restructuring of ADMARC's finances in the course of the SALs has involved efforts to reduce ADMARC's financial role in

Press. This has proven to be a lengthy process although much progress has been achieved.

ADMARC's need for strengthened financial management and increased efficiency stemmed in part from the serious liquidity problems it has faced due to the sharp fall in the export price of tobacco in 1985 and less than expected maize exports. The restructuring of ADMARC has also involved efforts to enable its management to concentrate on its primary marketing function, selling off of entities that have no direct bearing on its agricultural marketing operations (including swapping of assets with the Malawi Development Corporation), and assessment of its monopsony position in marketing in order to determine the potential for involvement of private traders in smallholder marketing. Efforts were also to be made by Government to improve smallholder producer and output pricing taking into account the effect of these on ADMARC's financial health.

e. Land Policy

Lastly, in light of our analysis in Part I of the effects of policies toward land allocation in the smallholder and estate sectors, we would once again call attention to the critical importance of land distribution in Malawi for future growth. Despite the very useful Land Policy Study carried out by the Bank, to date structural adjustment lending has not exerted a major influence in this essential policy area. We would support recent proposals, suggested as part of the preparation for SAL IV, that call for three studies of land issues. These are a nationwide land use and soils capabilities study, a study of pilot efforts to register land titles under the Customary Land Act (security of tenure, effect on productivity and conservation, etc.), and a

study to measure the comparative efficiency of the smallholder and estate sectors in their utilization of the factors of production and adoption of technologies. Given the continuing expansion of land under estates, few policy issues are more urgent and more important to the structure of future agricultural growth in Malawi than that of land policy.

CONCLUSION

This paper has examined the extent and patterns of agricultural growth in Kenya, Malawi and Tanzania since the mid-1960s. Part I described the contributions of macroeconomic and sectoral policies to agricultural growth in each. Using the analysis of performance and policies presented in Part I as the background, Part II has reviewed the World Bank's economic and sectoral analysis and advice in each country as well as its experience with project and structural adjustment lending. In short, this paper has examined two basic questions: 1) where has agricultural growth occurred in the three countries and what factors serve to explain this growth? 2) what has been the particular role of the World Bank in contributing to this growth?

Country Policies and Performance

Part I, briefly summarized, indicates that Kenya and Malawi have done quite well in terms of growth of export crop production but Kenya's performance has been far superior in reconciling growth with equity. Tanzania has done least well on growth of export crops, including those grown by smallholders. Tanzania's efforts to sustain policies to promote equity have been severely hampered by lack of economic growth. Malawi's strong export growth has diverted attention from examination of basic structural constraints to increased smallholder production as well as attention to technological constraints that have adversely affected smallholder performance.

Kenya's and Malawi's macroeconomic policies have been far more conducive to growth than those of Tanzania. These two countries have also provided a more stable institutional environment for development than

Tanzania. Kenya built on its admittedly superior institutional base inherited at Independence to broaden smallholder access to institutional services. Malawi maintained a narrow base in favor of the estate sector at the cost of incentives and investment opportunities for the smallholder sector. Tanzania's experiments with different institutional arrangements destabilized the environment for smallholder production resulting in substantially reduced production of most cash crops, including critical export crops.

The Role of the World Bank

Descriptions of specific Bank contributions in individual countries have been set forth in Part II in some detail. This brief conclusion abstracts from that discussion a number of observations about the Bank's operations that are more general and cross-cutting.

The Bank's consistent focus on the importance of the smallholder sector for overall economic growth has been noteworthy in all three countries. In spite of this, the achievements, with the exception of those in smallholder tea and coffee in Kenya, have been relatively limited. We have argued that the Bank's greatly expanded lending for agricultural and rural development in the 1970s resulted from broad policy initiatives from top management as well as from external factors such as the general international economic environment of the 1970s. These factors had a significant influence on the character of the Bank's development assistance for agricultural development -- even more so than did country specific constraints, the Bank's rich operational experience and the substantial expertise of its staff. In light of these considerations, it is not surprising that the Bank's assistance

was not particularly effective in achieving equitable growth, especially where the policy and institutional environments were not favorable.

A further consequence of this "investment approach" stems from the fact that agriculture is a poor direct absorber of capital at the early stages of development. Its ability to use capital efficiently is highly dependent on the complementary development of other sectors, especially the infrastructure and education sectors. Lack of attention to complementary investments in these sectors also helps explain the limited success achieved in smallholder agriculture in East Africa.

In light of the Bank's concern with smallholder agriculture, and given the somewhat similar natural resource and political/institutional endowments of the three countries as well as considerable commonality in the crops they grow, one would have expected that the Bank's treatment of each country would have been fairly similar. Yet the analysis in Part II indicates that the Bank's treatment of each was quite different. In some sense each country dealt with a different Bank because there was not a consistent approach to fundamental agricultural development questions that was applied to each (it is in this respect that the point made early in Part II about the influence of individual Bank staff perspectives has particular relevance). There was a kind of accommodation between the Bank and each individual country in which to some extent the policy advice, and especially the composition of the lending portfolio (at least in the 1970s), was strongly influenced by the policy predispositions of policymakers in recipient countries. In particular there was a mutuality of interest between the Bank's objectives concerning resource transfers and recipient governments' sociopolitical objectives -- regional income distribution, food security, etc. While the reasons for this

mutuality of interest are understandable, the paper argues that, when operationalized in projects, it frequently did not result in increased agricultural growth (Kenya and Tanzania). Or it led to a pattern of growth that, despite the Bank's best intentions, was not broadbased (Malawi).

The Bank's focus on policy reform in the 1980s has gone a long way toward confronting the problem of country policies that discourage growth or that have led to patterns of growth that are insufficiently broadbased. Nonetheless, two caveats must be made about the achievements of this recent policy based emphasis. First, the Bank's ability to encourage countries to do things that they have been particularly reluctant to do has been fairly limited, e.g., grain market liberalization in Kenya, exchange rate adjustment in Tanzania (until very recently), and limiting the licensing of land for estates in Malawi. Perhaps in no area is this more the case than with respect to the thorny political question of land policy. Yet our analysis in Part I suggests that in both Kenya and Malawi this policy issue is of fundamental importance to long term agricultural growth. While we recognize that this is an extremely sensitive and difficult political area, we also believe that its importance argues for the Bank attempting: 1) to search for creative and more effective ways to insinuate this issue into its policy dialogue with the two countries; and 2) making available the highest quality analytical support with which to do the analysis that can serve as a basis for implementing potential reforms.

A second area that in our view has received and continues to receive insufficient attention in the Bank's policy reform thrust of the 1980s is that of building the capacities of recipient countries for agricultural policy formulation and implementation. The analysis in this paper has repeatedly

called attention to the fact that a major contributing factor to the poor performance of the Bank's agricultural portfolio in the 1970s was the lack of analytical and administrative/management capability in each of the three countries. This will continue to be a major bottleneck to significantly improved agricultural performance. The Bank has not been particularly sensitive to this problem to date nor is it clear that the Bank has a comparative advantage in developing this capability. We would nonetheless argue that at a minimum the Bank needs to exert its considerable influence as a coordinator of donor assistance to encourage those bilaterals with demonstrated comparative advantage in this area to capitalize on these comparative strengths.

The lessons of our analysis of the Bank's portfolio in East Africa suggest that the essential fine tuning of policies and programs necessary to promote agricultural growth will require action in three major areas. These are: 1) a substantial investment in human capital that can create a much larger reservoir of trained manpower to undertake critical analytical and implementation functions; 2) building and/or strengthening institutions that can provide the full range of agricultural services necessary for a thriving agricultural sector; and 3) creating considerably more capacity for data collection and analysis efforts that can provide essential indigenous knowledge on which to base more informed and effective agricultural policies and programs.

Since the mid-1980s the Bank has moved toward a more judicious blend of policy reform and investments than was true earlier when one was emphasized to the exclusion of the other. Our detailed analysis of the Bank's lending experience over two decades suggests that to meet the requirements for

modernizing smallholder agriculture the Bank will need to do more to:

- understand the social, political and ethnic factors that motivate government policies and that in turn have a significant influence on Bank's ability to realize Bank-funded project objectives;

- understand and assess the relative importance of microeconomic factors that influence producer decision making in the context of Bank-funded projects;

- address the problem of the risks and uncertainties of international markets -- risks and uncertainties that, as we have documented, have not been adequately reflected in the Bank's policy advice and investments;

- better determine how to advise countries with strong comparative advantage in primary commodities that have poor prospects in the global market;

- adopt a longer term perspective (15 to 20 years) for articulating with the recipient government the requisite components and the necessary sequencing of an agricultural development strategy for a given country.

Finally, we note that in the last several years in both Kenya and Malawi the Bank has begun to move in the direction of addressing a number of fundamental constraints that have limited its success in the period reviewed in this paper. Efforts to improve the quality of agricultural research systems and extension, credit and marketing services all focus on problem areas that have plagued the effectiveness of Bank programs in the past in East Africa. This renewed focus on some old problems, coupled with an emphasis on the importance of appropriate policies and a new (and sustained) emphasis on a strengthened human resource and institutional base, will hopefully allow the Bank to, over the long term, make a significantly increased contribution to future agricultural development in East Africa.

Annex

Description of World Bank Agricultural Crop Projects 1/

1/ The material in this Annex is taken from Table 9 in C. Jones, "A Review of World Bank Agricultural Assistance to Six African Countries." Paper prepared for MADIA Study. May 20, 1985.

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DESCRIPTION OF WORLD BANK AGRICULTURAL CROP PROJECTS

Project (Date of Approval)	Financing ($US Millions)		Crop Focus	Target Group	Executing Agency Functions	Comments
. African Agriculture and Roads (5-24-60)	IBRD Govt	5.6 16.9 22.5	Cash crops, food crops, livestock	Smallholders (primarily Central Province and Nyanza)	The agricultural component of the project would be executed by the Ministry of Agriculture and African Affairs. 1. Land consideration would be the responsibility of the Ministry of African Affairs. 2. The Ministry of Agriculture would provide extension services and would appraise loan applications and provide credit.	
. Land Settlement and Development (11-28-61)	IBRD U.K. Col. Dev. & Welf. Fund CDC Govt	8.40 6.50 3.95 4.20 .50 23.55	Cash crops, food crops, livestock	Assisted owners (50 acres each) & smallholders (15 acres each) in high potential areas	The Land Development and Settlement Board would have principal responsibility for coordinating and executing the project. The Department of Agriculture, acting as agent of the Settlement Board, would be responsible for farm development. 1. The Settlement Board would extend credit and grants to settlers for purchase of land and its development and for purchase of livestock. 2. On-farm would initially be provided by Settlement Officers and and then by the Extension Service of the Department of Agriculture.	
3. Kenya Tea (7-21-64)	IDA CDC KTDA Govt	2.8 2.7 1.3 .7 7.5	Tea	Smallholders	The project would be implemented by the Kenya Tea Development Authority (KTDA) established in 1960. KTDA establishes and finances tea nurseries for the production of planting material sold to smallholders for cash or on credit and it supervises smallholders' planting and cultivation. It collects the green leaf and makes arrangements with the factories for the processing of smallholders' green leaf. The project would finance the construction of additional factories to be owned and operated by KTDA. KTDA is a monopsony buyer of tea leaf.	
4. Agricultural Credit (5-09-67)	IDA Govt & AFC Benef.	3.6 1.4 1.0 6.0	Cash crops, food crops livestock	Smallholders (farms in the high potential areas where holdings has been consolidated and registered)	The Agricultural Finance Corporation (AFC) would have primary responsibility for administration of the credit program with the assistance of the Ministry of Agriculture. The agricultural extension services would be responsible for drawing up of farm plans, technical appraisal of loan applications, and supervision of farmers during the loan period.	
5. Second Kenya Tea Development (6-11-68)	IDA CDC Benef.	2.1 1.0 5.1 8.2	Tea	Smallholders	KTDA (see above)	

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roject Date of Approval)	Financing		Crop Focus	Target Group	Executing Agency Functions	Comments
Second Smallholders Agricultural Credit (11-14-72)	IDA Govt. Farmers	5.88 1.82 1.54 9.24	Cash crops, food crops, maize	Smallholders	AFC (see above).	
Kenya Tea Factory (5-14-74)	IBRD CDC Govt.	10.4 6.3 6.0 22.7	Tea	[tea processing]	KTDA (see above).	
Group Farms Rehabilitation (3-11-75)	IBRD IDA Govt. Govt., EAA or other Coffee Mgt. Cos.	7.5 7.5 3.7 4.5 23.2	Coffee, mixed farming (maize, wheat, livestock)	Large-scale farms (3 districts in Rift Valley Province and 2 districts in Central Province)	AFC would have specific responsibility for Project implementation under the direction of a steering committee. 1. AFC would establish a Large Farm Management Section with overall responsibility for project implementation and management. It would be responsible for approval and supervision of individual farm managers, ensuring that the development plan prepared for each farm is implemented, and for the provision of credit to the large farms. 2. The Ministry of Agriculture would provide general extension services to the large farms.	Mixed farm component costed at US$6.8 million; coffee estate component at US$12.6 million.
Integrated Agricultural Development (7-09-76)	IDA IBRD BADEA Govt. Farmers	10.0 10.0 5.0 6.0 4.7 35.7	Cash crops, food crops, livestock	Smallholders (14 districts in Eastern, Central, Nyanza and Western Provinces)	The Ministry of Agriculture would have overall responsibility for the project. Aspects of the project involving the Cooperative Bank, the Kenya National Federation of Cooperatives, and Cooperatives Unions and Societies to be carried out by the Ministry of Cooperative Development. 1. The supply of inputs would be organized by the Program Unit. Most inputs would be procured by the Kenya National Federation of Cooperatives (KNFC) which would distribute the inputs to cooperative unions. 2. Credit for farm inputs would be channeled through either the Cooperative Bank and unions or to a lesser extent through AFC. The project will strengthen these credit institutions. 3. Extension services would be provided by the MOA. 4. The project would improve the marketing and storage capacity of the Maize and Produce Board (MPB), the national monopsony buyer of most food crops.	
). Third Agricultural Credit (3-29-77)	IDA Bank Govt. Farmers	20.0 5.0 7.3 7.7 40.0	Cash crops, food crops, livestock	Small-scale and medium-scale farmers (20-400 ha farms) and input suppliers (28 districts)	The project would be implemented by the AFC. Extension staff of Land and Farm Management Division of the Ministry of Agriculture will prepare farm budgets and provide extension services to project farmers.	

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Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
Smallholder Coffee (5-22-79)	IDA CDC Co-op Societies Govt. taxes	27.0 15.0 11.5 8.7 62.2 0.2	Coffee	Smallholders (all coffee growing areas)	The project will be managed and implemented by the existing IADP Management Unit within the Ministry of Agriculture. Those aspects of the project which involve the Cooperative Bank of Kenya (CBK), unions and societies would be carried out by the Department of Cooperative Development. 1. The project would strengthen the coffee extension services of the MOA. 2. The project would provide medium-term credit through the Co-operative Bank of Kenya to farmers to rehabilitate their holdings. 3. The project would construct 14 new factories and rehabilitate 400 more. The factories are owned by local cooperative societies, membership in which is compulsory for all coffee growers. The Coffee Board of Kenya (CBK) monopsony purchasing rights to all coffee produced.	
IADP II (12-04-79)	IDA IFAD Govt. Farmers taxes	46.0 17.0 16.4 5.0 91.7 7.3 91.7	Cash crops, food crops, livestock	Smallholders (15 districts in 6 provinces)	Overall responsibility for IADP implementation would rest with the newly created Project Management and Evaluation Division of MOA. 1. The KNFC would be the principal supplier of inputs to its members. It would be strengthened under the project. 2. The operations of the CBK and the AFC would be strengthened to enable them to on-lend the additional funds provided by the project. 3. The extension services of the MOA would be strengthened. 4. The storage and transport facilities of many of the cooperative unions and societies are expected to be insufficient to market the increased production projected to occur under the project. The project would provide additional storage and transport facilities. It would also increase the storage and marketing facilities of the Maize and Produce Board (MPB). 5. The project would consolidate the Cotton Lint and Seed Marketing Board (CLSMB) post-harvest activities.	
Baringo Pilot Semi-Arid (12-11-79)	IDA Govt taxes	6.5 2.1 8.6 0.2 8.8	Livestock, drought staples	Smallholders (Baringo District)	The Project would be organized and managed within the framework of the existing institutions of the Baringo District Administration. A Project Coordinating Committee would be established to supervise and coordinate the project. Project is a pilot effort designed to test a number of different packages as the basis for designing a development program for the area. Little investment is aimed at immediate increases in agricultural production.	

KENYA

Project (Date of Approval)	Financing		Crop Focus	Target Group	Executing Agency Functions	Comments
1. South Nyanza Sugar (3-29-77)	IBRD	25.0	Sugar	Estate/ smallholder outgrowers (Nyanza District)	This project would be executed by South Nyanza Sugar Company Ltd. The sugar company would furnish all production inputs to outgrowers and recover its costs upon delivery of farmers' cane to the factory, which would be financed under the project. The Company would also provide extension services to outgrowers.	The project would develop 2,650 ha nucleus estate sugarcane and 7,050 ha outgrower sugarcane.
	Supplier's Credit:					
	Germany	6.8				
	India	6.2				
	KIB	13.2				
	E. Africa Dev. Bank	2.4				
	Eximbank	2.6				
	ADB	5.5				
	Govt	23.7				
	Mehta Group	1.2				
	Company Self-generated funds	8.7				
		95.3				
	Taxes & Duties	10.0				
		105.3				
12. Bura Irrigation (6-07-77)	IBRD	34.0	Cotton, groundnuts, maize, cowpeas	Smallholders contract farmers (Tana River District)	The National Irrigation Board (NIB) would have overall responsibility for carrying out the project. 1. The NIB would purchase inputs required by farmers. Cost of the inputs and the operative and maintenance costs of the irrigation system would be repaid by the farmer from cotton sale proceeds. 2. Extension services would be provided by NIB. 3. NIB would have monopsony purchasing rights to tenants' seed cotton, which would be processed in the ginnery owned and operated operated by NIB, and financed under the project.	
	IDA	6.0				
	EDF	12.0				
	Netherlands	8.8				
	UK (ODM)	8.5				
	CDC	8.5				
	Govt.	20.6				
		77.8				
13. Narok Agricultural Development (12-05-78)	IDA	13.0	Wheat, rapeseed, livestock	Medium-scale farmers (more than 20 ha) (Narok District)	The project would be implemented through the district level services normally responsible for the various activities concerned under the Director of the District Agricultural Office, who would be designated as project coordinator. 1. The project would provide improved extension services. 2. Seasonal and medium-term credit would be provided through the district office of AFC, which would be strengthened under the project.	
	CIDA	1.4				
	Govt	3.4				
	Farmers	1.0				
		18.8				
	taxes	0.1				
		18.9				
14. Sugar Rehabilitation (12-05-78)	IBRD	72.0	Sugar	Nucleus estates/ smallholder outgrowers (Nyanza Sugar Belt and Ramisi Sugar Zone)	The project would rehabilitate and expand four sugar companies which would would execute the crop development and processing components of the project. 1. The sugar companies would finance outgrower operations through outgrower loans and would deduct loan repayments from the farmers' cane sale proceeds. 2. The sugar companies would process the cane in their factories, which would be rehabilitated and expanded under the project.	
	ADB	6.0				
	GOK	3.5				
	Sugar Cos.	46.9				
		128.4				
	taxes	9.6				
		138.0				

KENYA

Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
8. Fourth Agricultural Credit (5-19-81)	IBRD IDA Govt taxes	25.0 10.0 12.0 47.0 3.0 50.0	Cash crops, food crops, livestock	Not specified (national)	The Project would finance technical services to improve AFC's operating capacity and a line of credit to assist in financing AFC's lending program.	
9. Cotton Processing and Marketing (4-27-82)	IDA Govt taxes	22.0 7.3 29.3 4.1 33.4	Cotton	[Improvement of post-harvest handling of cotton]	A Project Coordinating/Steering Committee would be established. CLSMB would continue to be the main institution responsible for for implementing Government policies in the cotton sector. 1. CLSMB buying teams for seed cotton operate in areas where cooperative movement is judged too weak to undertake marketing functions. Project would support activities of CLSMB buying teams. 2. "In the short-term, however, the present disorganization of the ginneries coupled with poor backward linkages to the buying and transport system would make transport of seed cotton to the ginneries prohibitively expensive, as waiting time at buying centers and at buying centers and ginneries would discourage private truckers from carrying out their tasks at affordable prices. Therefore, CLSMB would during the project period be responsible for organizing and coordinating transport of seed cotton from buying centers to ginneries either in its own trucks or in those owned by cooperatives or by private truckers." (SAR, para. 3.08). 3. The project would improve CLSMB's storage facilities for seed cotton and cotton lint. 4. The project would rehabilitate and expand cooperative and CLSMB ginning facilities.	
20. National Extension (6-14-83)	IDA IFAD Govt taxes	15.0 6.0 2.5 23.5 5.1 28.6	Maize, beans, cotton, coffee, sugarcane, potatoes	Smallholders (national)	Overall responsibility for Project implementation would be with the Ministry of Agriculture. Under the project, Kenya's Agricultural (crop) extension services would be reorganized and intensified following the training and visit system approach.	

NZANIA

Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
. Agricultural Credit (11-23-65)	IDA Co-ops, NDCA, NDC, & private technical partners	5.0 2.1 7.1	All major agricultural products	Smallholders (national in scope)	NDCA (National Development Credit Agency) is the implementing agency. The project will provide short-term credit in the form of fertilizers and pesticides, medium-term credit for farming, dairying and fishing equipment, and long-term credit for tea and sisal smallholder development and light agricultural processing facilities. The project would lend to and through farmers' cooperatives.	
'. Flue-Cured Tobacco Project (10-06-70)	IDA Tobacco Board Govt.	9.00 .88 4.85 14.73	Tobacco	Smallholders (Tabora and Mbeya Regions)	National tobacco development is the responsibility of the Ministry of Agriculture, Food, and Cooperatives in which a Tobacco Section is to be established to coordinate activities. A Tobacco Project Group would be set up in Tabora to oversee all flue-cured tobacco development in the project area. 1. Credit provided under the project to farmers, cooperatives, TTB (Tanganyika Tobacco Board), and TTPC (Tanzania Tobacco Processing Company) would be channeled through the NDCA. NDCA would be responsible for procuring farm inputs. 2. Extension services provided by the Tobacco Project Group. 3. TTB has monopsony purchasing rights to tobacco crop. 4. Project will construct central storage, processing, and auctioning facilities. Processing is carried out by the TTPC under the control of the TTB, which is responsible for tobacco marketing.	
3. Smallholder Tea (3-03-72)	IDA NORAD Govt.	10.50 1.86 3.72 16.08	Tea	Smallholders (areas of Bukoba, West Usambara, Rungwe, and Lupembe)	The project would be executed by Tanzania Tea Authority (TTA). 1. TRDB is the credit channel for loans to TTA and the cooperatives. To TTA it will make available credit for the processing equipment, leaf collection services, office equipment, and the establishment of nurseries. To the cooperatives it would make available for on-lending to project growers the funds required for financing tea stumps and fertilizer. A fixed sum would be deducted by TTA factory for repayment of TRDB loans to cooperatives for purchase of planting material and material land fertilizer. TTA would remit the proceeds of cess directly to TRDB. 2. Extension services provided by TTA. 3. TTA's leaf collection and processing capacity would be increased under the project.	The National Development Credit Agency was renamed Tanzanian Rural Development Bank (TRDB).

NZANIA

Project (Date of Approval)	Financing		Crop Focus	Target Group	Executing Agency Functions	Comments
. Geita Cotton (1-08-74)	IDA Govt.	17.5 6.5 23.8	Cotton, maize	Smallholders (Geita District in Mwanza Region)	Project Unit with headquarters at Geita would be set up as a semi-autonomous division of the Tanzanian Cotton Authority (TCA). Cotton and maize marketing are handled by statutory marketing agencies. . 1. Project would provide for a procurement officer to be attached to TRDB to handle procurement in this and other IDA projects. 2. Project will provide credit in kind for the purchase of seasonal inputs for cotton and maize, the hire of tractor services, and the purchase of tractors. Credit would be channeled through the TRDB. Project will provide cooperative credit supervisors. Cooperatives would deduct credit repayments from farmers' cotton sale proceeds. All cotton growers would be required to register with the cooperative to which they would sell their cotton. Only cotton growers would receive credit for maize inputs.	
5. Cashewnut Development (5-21-74)	IBRD CATA Govt.	21.0 4.7 4.6 30.3	Cashewnuts	Smallholders (Lindi and Mtwara Regions and the Tunduru District of Ruvuma Region)	The project would be implemented by the Cashewnut Authority of Tanzania (CATA), an independent statutory body set up in 1973, designated to coordinate all aspects of production, processing and marketing of cashewnuts. 1. An extension and grading service would be set up within CATA. 2. CATA has monopsony rights to purchases of raw cashewnuts. 3. Project would finance CATA processing and storage facilities for Cashewnut Shell Liquid.	
6. Kigoma Rural Development (8-06-74)	IDA UHCDF Govt.	10.0 1.5 1.8 13.3	Maize, beans, cotton, groundnuts	Smallholders (Kigoma Region)	The Regional Development Director would be responsible for overall project planning and implementation. 1. The Regional Cooperative Union (Union) would submit a loan request to TRDB to cover the requests for seasonal inputs by villages approved by the union. The Union would also borrow medium-term credit from TRDB for its own transport needs and for on-lending to villages for production infrastructure. TRDB would procure the inputs for approved loans and arrange for their shipment to Kigoma. The Union would arrange for distribution to the villages. 2. Union would buy and collect village crops from which seasonal credit charges are deducted. 3. The cooperatives act as marketing agents for the parastatals. The marketing of maize, beans, cotton and groundnuts is controlled by parastatals with monopsony purchasing rights.	

NZANIA

Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
7. Kilombero Sugar (9-05-74)	IBRD IDA Dutch Govt Danish Govt Govt	9.0 9.0 11.0 17.3 9.5 55.8	Sugar	Nucleus estate/ smallholder outgrowers (Kilosa District in Morogoro region)	Kilombero Sugar Company Ltd. (KSC) would have overall responsibility for managing the project. 1. Cost of land development and extension services provided by KSC would be recovered from outgrowers by deductions from cane sales. 2. Project would finance the construction of a sugar factory.	Development of 7,300-acre sugar estate. Development of 2,400 acres for outgrowers. Expansion of 2,200 acres of existing outgrowers land. Estate and outgrower program costed at US$23.0 million; the factory component costed at US$32.80 million.
8. National Maize Project (12-23-75)	IDA AREDIA Govt Farmers	18.0 5.0 11.1 4.0 38.1	Maize	Smallholders (national)	A Project Servicing Unit (PSU) would be established in the Crop Production Division of the Ministry of Agriculture. 1. The PSU would be responsible for procuring and distributing maize production inputs sold for cash at subsidized prices. 2. PSU would provide technical support to regional agricultural staff. 3. In most regions the primary cooperative societies would purchase maize at the village level, acting as agents of the regional cooperative union, which in turn would act as agent for the National Milling Corporation (NMC). In regions where the cooperative system is unable to market maize efficiently, the NMC would purchase directly from project villages.	
9. Tobacco Processing (9-07-76)	IDA TAT TTPC	8.0 0.8 2.5 11.3	Tobacco	[Tanzania Tobacco Processing Company, Ltd. (TTPC)]	Tobacco Authority of Tanzania (TAT) would have overall responsibility for project implementation. TTPC would have specific responsibility for the expansion of processing facilities' capacity and for the construction of storage and infrastructure at the plant. TTPC is a wholly owned subsidiary of TAT.	TAT directly responsible for all facets of the tobacco industry including: supervision of growers; research on cultivation, processing and marketing; control over transport and processing; and the regulation of marketing.

NZANIA

Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
1. Tabora Rural Development (4-26-77)	IDA Canada ODM (UK) Govt Benef. Total	7.20 4.80 5.60 5.26 0.64 23.50	Cotton, groundnuts, sorgum, paddy	Smallholders (Nzega and Igunga Districts in Tabora region)	The Regional Administration would have overall responsibility for the project. The project would be executed through the Regional and District functional units or parastatals as appropriate under the direction of the Regional Planning Officer assisted by a project coordinator. 1. The crop component would be administered by the Regional Agricultural Development Office (RADO). 2. For the cotton villages, TCA would continue to be responsible for the distribution of improved seed and inputs for cotton, sorghum and groundnuts. The Ministry of Agriculture and Cooperatives would arrange to provide improved seed for paddy, sorghum and groundnuts to the paddy-cultivating villages. Other inputs for paddy villages would be provided by TCA.	
11. Second Cashewnut Development (5-16-78)	IDA Govt. NBC Total	27.5 6.6 2.2 36.3	Cashewnuts	[Cashewnut Authority of Tanzania]	The project would be implemented and managed by the Cashewnut Authority of Tanzania. The project would finance the establishment and related infrastructure of three cashewnut processing facilities and the extension of port storage facilities for CNSL.	
12. Tobacco Handling (5-16-78)	IDA Govt. Total	14.0 6.5 20.5	Tobacco	Smallholders	Tobacco Authority of Tanzania (TAT) would have overall responsibility for project implementation. 1. TRDB would provide seasonal credit to smallholders for the purchase of polythene bulking bags and medium-term credit to villages for the construction of baling and grading centers. 2. The project would also include some ancillary investments in existing TAT processing and storage facilities and services.	
13. Mwanza/Shinyanga Rural Development (5-23-78)	IDA IFAD Govt. Benef. Total	12.0 12.0 4.8 1.7 30.5	Maize, sorghum, cassava, livestock, cotton	Smallholders (Mwanza and Shinyanga regions).	Implementation of the agricultural component would be under the overall responsibility of the respective Regional Agricultural Development Officers. 1. The Tanzania Cotton Authority or other relevant agencies would be responsible for transporting to the villages the improved seeds and dressing, provided by the project. these inputs would be sold in cooperatives. 2. Extension services would be the responsibility of the District Agricultural Development Officers.	

TANZANIA

Project (Date of Approval)	Financing (SUS Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
14. Tanzania Rural Development Bank (3-04-80)	IDA Govt TRDB	10.00 1.98 .80 12.78	All crops	Smallholders	The project would strengthen TRDB as an institution and provide US$6.0 million in credit for on-lending, primarily to villages for rural development activities. Credit is generally recovered through crop parastatals, which are authorized to deduct a certain percentage out of the proceeds of village accounts at the time of crop purchase.	
15. Pyrethrum Project (4-20-80)	IDA Govt	10.0 2.7 12.7	Pyrethrum	Smallholders (Mbeya and Iringa regions)	The Tanganyika Pyrethrum Board (TPB) would have responsibility for implementation of the smallholder production component of the project. 1. TPB would produce and distribute improved planting material free of charge and provide extension services. 2. TPB has monopsony on purchase of dried pyrethrum flowers, which it purchases through licensed buyers.	
16. Grain Storage and Milling (5-06-80)	IDA Govt	43.0 14.4 57.4	Grain	[National Milling Corporation]	The project would improve management practices and strengthen the institutional capacity of NMC to procure, transport, store and mill food crops.	
17. Smallholder Tea Consolidation (6-03-80)	IDA NORAD Govt	14.0 1.6 4.2 19.8	Tea	Smallholders (Rungwe, Njombe, Bukoba, and Lushoto districts)	The project would be implemented by Tanzania Tea Authority (TTA). 1. See First Smallholder Tea Project for a description of TTA's activities. 2. The second phase would finance only a marginal area planting program of about 200 ha and would focus on increasing TTA's collection, processing and storage capacity.	
18. Coconut Pilot (10-07-80)	IDA Govt	6.8 1.7 8.5	Coconuts	[Primarily an agricultural research project]	The Ministry of Agriculture would be responsible for the project. The German Agency for Technical Cooperation, which is financing the pilot phase of the National Coconut Development Project, would be contracted to implement the project. The project would assist in the formulation of a technical package for improved production of coconuts and train local staff to carry out projects related to the rehabilitation of the coconut industry. It has no direct smallholder production component.	

MWI

Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
. Lilongwe (2-01-68)	IDA Local	6.0 1.0 7.0	Maize, groundnuts, tobacco	Smallholders	This project, and the other area development projects, would be executed by Program Organizations set up under the Agricultural Development Branch. The Agricultural Development Branch was established within the Department of Agriculture to assume responsibility for major agricultural development schemes (the Department of Agriculture was later upgraded to the Ministry of Agriculture and Natural Resources). 1. The Farmer's Marketing Board (renamed ADMARC in 1970) would purchase all inputs and distributes them through its markets. 2. Program staff will issue purchase orders for goods; credit repayment is collected by FMB through deductions from crop sales to FMB. 3. Extension would be provided by Program Staff. 4. FMB has monopsony purchasing rights to cotton, groundnuts, and tobacco; it is the buyer of last resort for maize.	
. Shire (2-01-68)	IDA Local	3.70 .94 4.64	Cotton, maize	Smallholders		
3. Lilongwe-II (5-04-71)	IDA Govt Farmers	7.25 .94 .40 8.59	Maize, groundnuts, livestock, tobacco	Smallholders		
4. Karonga (1-18-72)	IDA Govt Farmers	6.6 0.8 0.4 7.8	Rice, maize, cotton, groundnuts, livestock			
5. Shire-II (3-20-72)	IDA ADMARC Govt	10.5 1.3 1.7 13.5	Cotton, maize sorghum, groundnuts, rice, cocoa	Smallholders		
6. Lilongwe-III (3-20-75)	IDA UNCDF Govt Farmers Dzalanyama Ranch ADMARC	8.5 1.6 1.0 0.2 0.2 0.6 12.1	Maize, groundnuts, tobacco, livestock	Smallholders		

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Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
. Karonga-II (6-15-76)	IBRD ADMARC Govt.	9.2 0.8 2.1 12.1	Rice, maize, cotton, groundnuts, livestock	Smallholders		
. Shire-III (6-06-78)	IDA Govt.	10.7 1.9 12.6	Cotton, maize, sorghum, millet, rice, groundnuts	Smallholders		
. NRDP-I (Consolidation of Lilongwe) (11-18-78)	IDA CIDA CDF UK Germany ADMARC Govt.	22.0 2.6 13.1 11.7 6.6 1.5 8.5 66.0	Maize, groundnuts, tobacco, livestock	Smallholders	The Ministry of Agriculture and Natural Resources would have the responsibility for implementing the NRDP program. The country is divided into eight Management Units (MU) which will administer one Agricultural Development Division (ADD). On average, each ADD will be divided into five Development Areas (DA). The MANR and ADMARC would continue to execute the same functions as under previous development programs.	
. NRDP-III (Karonga-Chitipa) (10-31-81)	IDA Govt.	7.3 1.3 8.6	Rice, maize, cotton, beans, livestock, burley tobacco	Smallholders		
. NRDP-IV (Dedza Hills and Lilongwe East Development Areas) (4-5-83)	IDA Govt.	10.6 1.9 12.5	Maize, groundnuts, wheat, beans tobacco, potatoes	Smallholders		
2. Smallholder Fertilizer (4-26-83)	IDA IFAD Govt. ADMARC	5.00 10.28 2.76 11.93 29.97	Cash, food crops	Smallholders (national in scope)	ADMARC would be responsible for the physical implementation of the fertilizer procurement program.	"Sole institution involved in funding procurement and distribution of fertilizer to smallholders. For the medium term it is considered unlikely that any other institutional arrangement would be able to provide a comparatively effective distribution service."

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Project (Date of Approval)	Financing ($US Million)		Crop Focus	Target Group	Executing Agency Functions	Comments
13. NTL Agric. Research (2-19-85)	IDA USAID Govt. Total	23.8 9.2 16.9 49.9	--	--	Project helps the Department of Agricultural Research improve its planning, management and technical efficiency and to prioritize the research program.	
14. Agricultural Extension (9-19-85)	IDA USAID Govt. Total	11.6 6.2 2.4 20.2	--	--	The project supports an institutional development process aimed at (a) improving the Ministry of Agriculture's analytical and long-term planning capability; (b) strengthening the national extension system; and (c) upgrading the managerial, administrative and technical skills of the Department of Agriculture and Planning Division staff.	
15. Industrial & Agric. Cred. (12-19-85)	IBRD Local Other Total	7.8 2.2 4.3 14.3	--	--	The project consists of three components: (a) US$3.0 million for financing commercial and industrial investments through INDEBANK; (b) US$4.5 million for providing credit to agricultural estates through INDEBANK, NBM and CBM; and (c) US$0.3 million in technical assistance funds for helping INDEBANK strengthen its institutional capabilities.	

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