Report No. 18088

The World Bank and the Agricultural Sector in Kenya
An OED Review

June 22, 1998

Operations Evaluation Department
Currency Equivalents

Currency Unit = Kenyan shilling (KSh)

Acronyms and Abbreviations

AGSECAL Agricultural Sector Adjustment Loan
ASIP Agriculture Sector Investment Program
BER Basic Economic Report
CAS Country Assistance Strategy
GDP Gross domestic product
IADP Integrated agricultural development project
IBRD International Bank for Reconstruction and Development
IDA International Development Association
IFAD International Fund for Agricultural Development
ILO International Labor Organization
KARI Kenya Agricultural Research Institute
M&E Monitoring and evaluation
MADIA Managing Agricultural Development in Africa
MOALDM Ministry of Agriculture, Livestock Development, and Marketing
NARP National Agricultural Research Project
NCPB National Cereals and Produce Board
NEP National Extension Project
NGO Nongovernmental organization
OED Operations Evaluation Department
QAG Quality Assurance Group
T&V Training and visit
TFP Total factor productivity
UNDP United Nations Development Program

Fiscal Year

Government: July 1 - June 30

Director-General, Operations Evaluation : Mr. Robert Picciotto
Director, Operations Evaluation Dept. : Ms. Elizabeth McAllister
Manager, Sector and Thematic Evaluations Group : Mr. Roger Slade
Task Manager : Mr. Jock Anderson
MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: THE WORLD BANK AND THE AGRICULTURAL SECTOR IN KENYA

Attached is the Operations Evaluation Department (OED) report entitled The World Bank and the Agricultural Sector in Kenya.

The report evaluates the performance of the Bank both in supporting projects financing investment and adjustment operations primarily targeted on the agricultural sector and in undertaking related economic and sector work. The report confirms the symbiotic relationship between country and sector work and effective lending operations. Based on lessons learned, the report indicates a number of areas in which emphasis should be placed in forthcoming activities.

[Signature]
The report was prepared by Jack Anderson, Team Manager, William Huldan (consultant editor).

1. Introduction

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Preface

This study is one of a new class of evaluations for the Operations Evaluation Department (OED). The aim of these evaluations is to expand assessment beyond the individual project or cluster of projects to analyze World Bank interventions in a specific sector and within the broader country context. By doing so we hope to attain an understanding of the cumulative effect of Bank activities and their contribution to achieving the development mission of the institution. The lessons derived from this exercise can then be used to inform the development of future Bank activities.

This report is based on a review of Bank files and documentation, a more general literature review, covering the agricultural and development experience in Kenya, discussions with Bank staff, the staff of other bilateral and multilateral aid agencies, and government officials, academics, representatives of civil organizations, and others in Kenya. It also draws upon the findings of previous OED evaluations. The evaluator made four field visits to Kenya in July and September 1997 and January and April 1998 to conduct interviews and visit project sites.

An Advisory Committee consisting of about 30 informed stakeholders in Kenya provided valuable assistance to the study. The participants included representatives of several ministries, as well as of other public, semi-public, and nongovernmental entities, and the private sector. A September 1997 meeting formally launched the committee. A closing workshop in April 1998, attended by the committee and additional stakeholders, finalized the involvement of the committee. The committee chairman was Mr. Harris Mule, previously Permanent Secretary, Ministry of Finance. Dr. Kang’ethe W. Gitu, Director of Planning, served as executive secretary. This participatory approach was selected for two reasons. First, it helped increase evaluation capacity in several key entities involved in Kenyan agriculture. Second, it engaged in the evaluation a diverse set of people who at various times had helped implement the Bank-supported program in the country. The contributions of the committee members are gratefully acknowledged.

The report was reviewed by the Advisory Committee, by Bank staff currently active in the region, by peers in OED, and in a Bank-wide one-stop management review on May 8, 1998. This report is a condensation of a fuller work, available from OED, that includes Bank documentation reviewed, project summaries, references, data tables, and membership of the Advisory Committee.
Executive Summary

1. The history of World Bank assistance to the Kenyan rural sector is long, but its success and development effectiveness have been mixed. It is therefore a rich source of lessons that can be applied elsewhere and to future development of the sector in Kenya. This study analyzes and interprets that history and comments on current and prospective Bank operations pertaining to agriculture.

2. Kenya was fortunate in inheriting from its colonial past a relatively open and export-oriented trading system in agricultural commodities and a favorable macroeconomic environment in which agriculture could develop. It also exhibited a willingness and readiness to give primacy to the development of a smallholder sector that produced both food crops and major export commodities. The Bank, usually in parallel with several donors, was heavily involved in facilitating agricultural development. Its economic advice and infrastructural investments helped develop marketing arrangements to address the needs of the agricultural sector in general and of smallholders in particular. Although the Bank has provided only about 10 percent of official development assistance for Kenyan agriculture, it has probably had a disproportionately large influence because of its nearly constant engagement in economic and policy dialogue with the Kenyan government.

3. The macro environment of Kenya was quite different from many other nations in sub-Saharan Africa. Its agricultural development was spared many of the problems associated with very high direct or indirect taxation of agricultural exports. Exchange rate overvaluation was modest. These circumstances helped make Kenya an outstanding agricultural exporter in its early days of nationhood and allow it to rely heavily on agricultural exports today.

4. Most Bank-supported agricultural projects sought to improve the productivity of the agricultural sector, which was seen as key for the economic development of the nation. Eras of Bank lending activity in Kenya are identifiable by the prevailing needs and opportunities of the agricultural sector. Early Bank projects often focused on export industry development and more often than not succeeded in achieving their objectives. Emphasis then switched to integrated rural development projects that took up poverty-alleviation and food-security objectives through area development activities that involved a complex of infrastructural, social, and productive investments. Most of these projects had unsatisfactory outcomes. The record in neither phase was uniform, however. Some notable failures resulted from a combination of poor design and inadequate ownership among shareholders, including some in government service.

5. The structural adjustment phase that followed saw a series of interventions largely designed to liberalize the agricultural economy. These interventions aimed to reduce transaction costs and get domestic prices to reflect scarcity values. Considerable effort went into freeing the domestic market for food staples such as maize. But progress was extremely slow and occasional reversals made matters worse. These reversals usually resulted from sequencing difficulties and impediments that one side construed as domestic political imperatives and the other considered disjointed donor pressures. As a consequence, the performance of Bank operations during this phase was disappointing, even though the conditions set in the program lending were less demanding than those for many other nations.
6. The mid-1980s also saw the introduction of interventions to raise managerial and administrative capacity, particularly in public entities. Here, progress should have been relatively easy, given that earlier Bank and donor activities had led to some well-qualified professional staffing in most of the key ministries. Instead, progress was (and continues to be) slow and partial. The main problem is attrition of skilled public sector staff who leave, in part, because of the often-discouraging professional environment of the civil service.

7. The Bank has focused considerable support for institutional development on the provision of agricultural services. Kenya has a long history of supporting agricultural extension and has tried a variety of models. Recent operations have featured implementation of a training and visit approach. This has proved to be an expensive enterprise that is difficult for the government to sustain, especially without external resources. Initially the system was too top-down and inflexible, but later adjustments made it more responsive to smallholder needs to diversify into such enterprises as dairy and vegetable production.

8. The Bank has also supported agricultural research in two standalone operations, and has recently launched a follow-up operation. These efforts have been relatively successful in their institutional development. Most agricultural research has now been unified within a semi-autonomous structure. The salary structure of the institution is competitive with the public service, though not internationally. Research products of the institution, such as improved cultivars, have achieved notable results. Even in something as mundane as the major staple, maize, the rate of yield increase has been about 8 percent a year from 1970 to 1994. Eventually, given their record, agricultural services are likely to provide public goods that will drive increased productivity throughout the sector and increase diversification into new and higher-valued export products. Transferring the research results to poor farmers remains a challenge, however. To date, Bank operations have not adequately addressed this issue, but it features in the plans for reforming the extension service and for honing linkages from the research services.

9. The Bank currently has one new agricultural operation under consideration, a sector investment program. This operation will combine several key elements, including consulting widely with stakeholders (especially during implementation), addressing the unfinished agricultural policy reform agenda, supporting a more efficient extension service, and fostering the continued privatization of those services that lend themselves to this (such as the delivery of veterinary services to smallholder livestock enterprises). Ultimately (perhaps in a second phase), it will link to an enhanced investment program for improving rural roads and a larger maintenance program for minor roads. A first phase will focus on restructuring in the Ministry of Agriculture, Livestock Development, and Marketing (MOALDM) to support better the liberalization efforts. Appraisal of the project to launch this program coincided with the final meeting of the Advisory Committee for this study, and several members of the appraisal team participated in some of the discussions. It was natural then to dwell on the issue of ownership that had come up so often in discussing the historical record.

10. Members of the Advisory Committee repeatedly cited lack of sufficient ownership as a weakness that had severely compromised developmental effectiveness of Bank-supported operations in Kenya. Ownership of Bank assistance needs to occur at several levels—from Bank staff to senior government officials involved in the negotiations, from civil servants concerned with implementation to the intended beneficiaries and those indirectly affected by an intervention. Consultation among either of the latter groups seems seldom to have been deep or wide. But even among those in government service most closely involved with identification,
preparation, appraisal, implementation, and completion, ownership of many projects in Kenya seems to have been wanting. Clearly, new Bank activities in Kenya must avoid this danger. Considerable effort has been made during the preparation and appraisal of the new Agriculture Sector Investment Program to gain acceptance of the objectives of the operation inside MOALDM. In addition, efforts have been made to engage a wide range of stakeholders in the community. Beneficiary consultation, though, will be a key activity during the first phase of the project. Perhaps, given political situation in Kenya and its mixed record of achievement on development projects, the slow appraisal process has been prudent.

11. Kenyan agriculture has recently been depressed through a combination of internal and external cost-price squeeze factors, and exogenous factors, most notably unfavorable weather, complex political developments, and a deteriorating macroeconomic and fiscal situation. Once macroeconomic stability is restored, however, the chances are good for a resumption of strong growth led by vigorous private enterprise. Having more effective Bank and other donor-support mechanisms in place to help the smallholders will aid the recovery. Special intervention needs will surely persist in densely populated semi-arid areas where local productive options are few, and thus where substantial out-migration (a reversal of recent trends) seems inevitable.

12. The Bank has been important in the agricultural development of Kenya, even if the record of project achievement has been somewhat discouraging. While about one-half of Bank operations have had a satisfactory outcome, too many were less than satisfactory. Further, few were of likely sustainability and in many cases institutional development was modest or less. Borrower performance, considering its broken or unmet conditions and poor commitment, has been unsatisfactory. The Bank too bears some responsibility, and its performance rating can be no more than satisfactory.

13. Kenya has also benefited from the assistance of bilateral donors. The Bank has often worked closely with these donors to achieve mutually perceived goals. It has also helped the government to coordinate donors’ efforts.

14. The Bank, especially through its non-lending services, has brought to the agricultural development of Kenya a holistic dimension that has mostly been helpful, relevant, and valued by the government. How well it can continue to do this through the current period of fiscal crisis and erratic policy reform is uncertain. Patience may be necessary while reform imperatives clarify, but opportunities for agricultural progress may be lost in the interim. The new Country Assistance Strategy (due in 1998) should provide an instrument and occasion to focus on ways to help Kenya further increase the growth of total factor productivity in agriculture.
1. Introduction

1.1 This report culminates a study of World Bank support of agricultural development in Kenya. The objective of this study was to analyze and understand past lending and non-lending operations. The report draws upon the study findings to assess and explain past performance and to generate suggestions for improving Bank services to Kenyan agriculture.

1.2 The year 1973 was a watershed for World Bank assistance to Kenyan agriculture. First, Bank President Robert S. McNamara delivered in Nairobi a landmark speech committing the institution to a new focus on unemployment and poverty. Then, in December, the Bank produced a report on the Kenyan economy that put those issues at the forefront of the development agenda. Following these events pressure built to speed up agricultural lending. As the new agenda went forward, though, quality was often left behind. In time about half of these agricultural operations were judged unsatisfactory.

1.3 The history of this long program alone might be enough to justify an examination of Bank work in the agricultural sector of the country, but there is much more to the story than that. Multiple threads of lending and non-lending work have brought the Bank to its current place in the sector and country. All of them have implications for the way forward as the institution continues towards its approval of an Agriculture Sector Investment Program (ASIP). This report, therefore, unravels this intricate story to analyze the cumulative result of Bank activities. The findings of the evaluation are intended to inform future dialogue on development effectiveness in Kenya.

Research Approach

Most Bank lending operations have been subject to formal evaluation, so a wealth of material is available from which to draw Bank and borrower views. Analyses of Kenyan agricultural development are also abundant: within the Bank is rich economic and sector work and the late 1980s work of the Managing Agricultural Development in Africa (MADIA) study; outside the Bank are studies from academe and elsewhere, especially in Kenya.

The research approach therefore was a metanalysis of the available literature and project documentation, including previous OED evaluations. The evaluator shared his findings with knowledgeable people—farmers, officials, NGO personnel, and researchers and academics—during four field visits to Kenya, which included visits to project sites. The discussions also included the deliberations of the Advisory Committee, during three full days of formal meetings, and informal conversations with several members of the committee. Bank Regional staff in the resident mission and in headquarters reviewed interim drafts of this report.


Country Setting

1.4 At independence, Kenya inherited a dualistic agricultural sector of large European-owned, export-oriented farms in the White Highlands, and African-owned subsistence-oriented farms. Some smallholders were involved in exports, particularly in coffee, reinforced by an earlier policy change. Under the colonial administration, up to 1954, export crops such as coffee, tea, and pyrethrum had been a perquisite of the European settlers.2

1.5 The commercial, transport, and research/extension systems were generally adequate for the needs of the agricultural sector, but it was clearly biased toward the settler sector. Unlike many other African countries, Kenya has not made a policy of taking over the existing structure; such takeovers as there have been have tended to be opportunistic and sporadic. Rather, the intent of policy has been to build on the existing structure and to correct for the large-farm bias in public investments, provision of services, and infrastructure. In doing so, however, it has exhibited a seemingly unshakable optimism about the ability of a highly centralized public administration to deliver the necessary adjustments, even at the local level.

1.6 In this context, and starting in the early 1960s, the Bank provided financing for about 40 agricultural projects (Table 2.1). Since the first Bank mission in 1953, the nature of assistance has evolved substantially. It has moved from resettlement and infrastructure to public-sector enhancement of agricultural services, from adjustment-policy-liberalization lending to institutional capacity building. Implementation experience has been correspondingly mixed, as shown in Table 2.1 and detailed in subsequent chapters.

Past Agricultural Growth

1.7 Agriculture in Kenya is highly diversified, with cereals (predominantly maize) comprising 16 percent of agricultural GDP, industrial crops 52 percent, and livestock about 42 percent. Production has been highly variable (Table 2.2) for two reasons: a highly changeable climate and the price instability in export markets for key commodities. The coffee (and tea) price boom of 1976–77 illustrates this volatility. Poor performance in 1991–93 had several causes, including distortions that reduced maize prices in the early 1990s. Market circumstances and liberalization of state-controlled functions to unprepared private entities exacerbated the cost-price squeeze.

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2. Chapter 2 of the background paper for this report charts a brief history of Kenyan agriculture.

3. Agricultural data in Kenya are highly unreliable. The study attempted to assemble a reliable data set on the sector but it must be treated cautiously, as sampling methods vary over time, by agency, and by source. This is an important area for future Bank assistance, as past and recent efforts have failed to solve the long-standing problems.
Table 2.1: Overview of Bank Operations in the Kenyan Agricultural Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan (L) or Project Name</th>
<th>Disbursement ($m)</th>
<th>Approval (percent)</th>
<th>Outcome</th>
<th>Sustainability</th>
<th>Institutional</th>
<th>Bank</th>
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<td>1964 C64 K Tea DA</td>
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<td>1978 L1636 Sugar Rehab</td>
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<td>1989 C2062 SH Coffee II</td>
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Rural Development Phase

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Program Lending Phase

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<td>1991 C2204 Ag.Secal. II/ASAO II</td>
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Institutional Development Phase

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<td>1960 L256 Ag. Roads</td>
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<td>1972 C344 SH Credit II AFC</td>
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<td></td>
</tr>
<tr>
<td>1980 C1051 Fisheries</td>
<td>0.2</td>
<td>2</td>
<td>HU UI Neg</td>
<td>U</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1981 L1995/C1443 Ag. Credit IV AFC</td>
<td>35.0</td>
<td>100</td>
<td>S Uc Mod</td>
<td>*</td>
<td></td>
<td></td>
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<tr>
<td>1982 L2098/C1213 Forestry III</td>
<td>24.6</td>
<td>66</td>
<td>U Uc Neg</td>
<td></td>
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</tbody>
</table>

Ratings: S=satisfactory, U=unsatisfactory, L=likely, UI=unlikely, Uc=uncertain, Mod=modest, M=marginally, H=highly, Sub=substantial, Neg=negligible
*operation not rated by OED
1.8 With deepening of the economic and policy reforms, such as tighter monetary control and greater stability under recent Bank and Fund structural adjustment arrangements, and greater competition among the new institutions, a strong recovery on the market side of agriculture now seems possible.\(^4\) Kenya has remained competitive in key markets for its growing high-value exports such as flowers. The engagement of smallholders in these specialized, high-tech exports is inevitably limited, but because they are labor-intensive they generate rural employment. Immediate growth prospects\(^5\) are discouraging, however, given the devastation wrought by intense rains and floods in late 1997 and the washout of the coffee crop in early 1998. Many fields have been severely eroded and infrastructure has been heavily damaged. The latter is particularly debilitating as it affects the cost of moving agricultural produce to market. Significant recovery may not be possible until 1999. Still-high marketing costs (of coffee, for example) are not helping.

<table>
<thead>
<tr>
<th>Period</th>
<th>Annual Change in Real GDP (percent)</th>
<th>Annual Change in Real AgGDP (percent)</th>
<th>Share of Agriculture in GDP (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963–72</td>
<td>4.5</td>
<td>4.7</td>
<td>40</td>
</tr>
<tr>
<td>1976–80</td>
<td>5.5</td>
<td>2.9</td>
<td>35</td>
</tr>
<tr>
<td>1981–86</td>
<td>3.2</td>
<td>2.2</td>
<td>33</td>
</tr>
<tr>
<td>1986–90</td>
<td>5.0</td>
<td>2.7</td>
<td>31</td>
</tr>
<tr>
<td>1991–95</td>
<td>2.2</td>
<td>0.3</td>
<td>28</td>
</tr>
<tr>
<td>1991</td>
<td>2.1</td>
<td>−0.7</td>
<td>30</td>
</tr>
<tr>
<td>1992</td>
<td>0.5</td>
<td>−3.3</td>
<td>28</td>
</tr>
<tr>
<td>1993</td>
<td>0.5</td>
<td>−3.3</td>
<td>27</td>
</tr>
<tr>
<td>1994</td>
<td>3.0</td>
<td>3.1</td>
<td>27</td>
</tr>
<tr>
<td>1995</td>
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<td>4.9</td>
<td>27</td>
</tr>
<tr>
<td>1996</td>
<td>4.8</td>
<td>4.4</td>
<td>25</td>
</tr>
</tbody>
</table>


1.9 The most recent Country Assistance Strategy\(^6\) (1996) is now rather dated for contemporary macro perspectives on agricultural policy issues. The strategy it outlined was to tighten fiscal and monetary controls, but the trading environment has resulted in a fiscal crisis and, with subsequent reform, cancellation of the Enhanced Structural Adjustment Facility of the IMF (on governance grounds). The stabilization arrangements\(^7\) were intended to help the nation benefit more in the future from upward commodity price swings than it has in the past, and to reduce the vulnerability of the economy to external and internal shocks. Liberalization, on the

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4. As charted, for example, in the 1995 Sector Memorandum of the Bank and followed up by the Kenyan government in its 1995 sector document “Kenya: Report on the Agricultural Sector Review and an Outline of the Tentative Investment Strategy,” and in regional case studies.

5. The poor agricultural performance of the 1990s, although not a major cause of the fiscal crisis discussed below, has been a contributing factor.


7. Besides further tariff reductions and containment of public spending, the Central Bank of Kenya was to act in foreign exchange interventions only to smooth fluctuations in the exchange rate (1996 CAS, p. 7). The government was determined to maintain tight control of expenditures, but fiscal control was seriously derailed by the salary determination made to end the 1997 teachers’ strike. The growing deficit is increasingly financed by domestic borrowing, and interest rates have been increasing rapidly.
other hand, has involved a range of activities, from trade and investment to financial. However, the fiscal crisis and resulting shortfall in government finance have forced Kenya to rely heavily on assistance from donors and international financial institutions. A recent Country Assistance Note\(^8\) provides a critical view of this experience. The balance of payments depends heavily on the exports of coffee, tea, horticultural products, and tourism, and will continue to do so in the future. Meanwhile, donor funds have slowed, investment is stagnating, population and rural unemployment are growing rapidly, and poverty is inexorably increasing.\(^9\) Policies that can help ameliorate the growing problems are clearly needed.

**The Pursuit of Total Factor Productivity Growth**

1.10 The agricultural interventions of the Bank can usefully be grouped by their intended effect on total factor productivity. The pursuit of TFP has been a constant theme in Bank dialogue on Kenyan agriculture. Given this focus, it is possible to identify four overlapping phases of Bank lending:

(a) During the *(export) commodity phase (1960 to late-1970s)* the Bank supported 10 projects. Five of these sought to extend production (largely by investment in processing capacity and crop area expansion) and to turn a portion of smallholder production to areas where Kenya had a proven comparative advantage. Where extension was included it was to move farmers toward the production frontier.

(b) The *integrated rural development phase (1975 to mid-1980s)* included several projects (five of 15 operations) that did not respond closely to Kenyan needs but, rather, reflected a new Bank development model. They aimed to increase TFP by moving smallholders toward the frontier of subsistence crop production. They also aimed to expand the frontier by supplying inputs, extension, and improved roads, and aimed to expand the frontier in the longer run by improving education and health services.

(c) The *program lending/structural adjustment phase (early 1980s to 1990s)* comprised two agricultural sector program loans (in 1986 and 1991) intended to reduce fiscal deficits, rationalize the scope of public expenditure, and get agricultural commodity prices better to reflect true values. Thus, to aid TFP growth, they were to move producers closer to the “right” place on the production frontier and thereby improve allocative efficiency. During the structural adjustment phase program lending found a respectable developmental rationale: policy is more important than hardware. It was recognized that the return to the nation on investments will be low if price signals are distorted and regulations limit what can be produced, imported, or exported. Accordingly, poor policies were thought to be adversely affecting TFP by leading to production that fell well inside the frontier and that was focused on relatively unprofitable areas. As Kenya had not engaged in systematic replacement of its inherited agricultural institutions it was in less need of structural adjustment than some of its

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neighbors. It had, however, created parastatal organizations to service agriculture and inefficiency in many of these generated a dire need for subsequent reforms.

(d) The institution building phase (late 1980s to present) has involved refocusing on increasing productivity through increasing Kenyan capacity, and reducing transaction costs. The leading institution-building projects concerned better delivery of key (along with withdrawing from some non-key) agricultural services, particularly research and extension. The former attempts to push the frontier outward, and the latter attempts to move farmers closer to the frontier.

Each of the four chapters that follow reviews the experience of one of these eras.

2. The Commodity Phase

Non-lending Services

2.1 In early post-independence the perception that export crops were required to spur economic development in Kenya was strong in both the nation and the Bank. This perception can be interpreted as a desire to extend the production frontier, by expanding the area in particular export crops and the processing capacity to serve the new production. The dialogue surrounding the operations presumed access to world markets in these commodities. Initially Bank economic and sector work supported these investments. But in the early 1970s Bank policy shifted to avoiding investment in beverage crops in countries receiving IDA assistance. The policy was repealed in 1993.¹⁰

2.2 In the 1960s and 1970s the Bank was struggling with its approach to development and poverty alleviation. In its country dialogue it concentrated on large economic studies, the results of which appeared in comprehensive reports (known as Basic Economic Reports) every several years. The work was usually updated in annual economic reports. Agricultural and other sectoral reports were issued every few years, largely to identify priority sectoral policy or strategy issues and projects, often with considerable external technical assistance. These reports evolved into assessments of proposed five-year lending programs presented in a country policy paper. Projects were then prepared, primarily by teams of consultants. The agriculture teams included consultants from the Cooperative Programme of the Food and Agriculture Organization or expatriate experts supported by donors or by technical assistance loans or credits to the appropriate ministries. This is the approach the Bank usually followed in Kenya.

Early Projects, Industry-Specific Activities

2.3 Tea. The tea operations (Table 2.1) were both technically and economically successful. They were developed in parallel with previous donors (notably the Commonwealth Development Corporation) and built on the natural advantages Kenya has such as year-round plucking. They

¹⁰ Restrictions by the Bank began with the January 1973 President's Memorandum to the Executive Directors on "Development Policy for Countries Highly Dependent on Exports of Primary Products" and its background paper. The history of the beverage-crop policy imposition, implementation, and repeal is detailed in OED Report No. 122110, Bank Lending Policy for Plantation Crops, June 29, 1993.
featured construction of such infrastructure as tea roads, which have been maintained. Bank
scaremongering on the need for Kenya to diversify, given the inelastic global demand (and thus
the Bank-wide policy on not lending for tea development), led to a cessation of activities in this
subsector. The last operation was approved in 1974. Ecological concerns about this form of land
use and the poverty focus of interventions, on growth versus equity and smallholder versus estate
management/production, were debated. Production is still growing in the mid-1990s, however,
and the industry is among the success stories of Kenyan smallholder agriculture and of Bank-
partnership assistance.

2.4 Coffee. Notwithstanding Bank policy on beverage crops, smallholder coffee projects
were implemented in 1979 and 1989, and some estates were assisted in the Group Farm
Rehabilitation Project that began in 1975. The most recent Smallholder Coffee II Project was
approved in 1989 and closed in June 1998. The coffee industry employs nearly 30 percent of the
rural workforce. The Bank interventions touched many aspects of production. They helped to
build many key institutions, such as the Coffee Research Foundation and the Coffee Board,
which maintains coffee grading and quality standards. At the most fundamental level, several
technological innovations were critical, such as the development and release of the disease-
resistant Ruiru II coffee varietal. A need to improve the quality of smallholder coffee led to an
emphasis on technology. Implementation of Bank-supported smallholder projects was only partly
successful because the Bank did not understand the complexity of the industry—especially the
payments system—and was slow to address issues that now constrain producers. These include
the high cost of marketing through the Coffee Board, which derived mainly from the high
processing costs of the many small coffee cooperatives. Hence greater competition and further
liberalization is needed in coffee marketing. Although the 1986 Sessional Paper produced by the
government was upbeat about possibilities for industry expansion, high interest rates and limited
availability of new high-quality land has constrained growth of coffee production. Just as for tea,
labor supply in peak periods of demand has also been a problem in processing.

2.5 Cotton. Cotton is a small industry with major agronomic and economic problems. There
had been high hopes that it could boost economic activity in the more marginal drier areas where
there were few profitable cropping alternatives. Hence the crop featured in early area
development projects. The government launched its Cotton Development Programme in 1975,
which doubled output to about 30,000 metric tons by 1979, although many problems remained.
Bank sector work provided ample diagnosis of technology difficulties, although too late for the
varietal problems of the ill-fated Bura irrigation scheme (see para. 2.14). The government
identified several problems with ginning, storage, handling, and marketing, and prepared a
project to address them. Kenya asked the Bank to help, and through 1981–82 it assisted with the
preparation and appraisal of a project that became effective in May 1983 (Credit 1237). Many
problems—availability of suitable planting materials, pests, volatile export prices, marketing and
ginning, drought, irrigation failures—severely compromised the future of cotton in Kenya, even
in an open economy. At midterm review the government and Bank agreed that the cotton industry
had to be reorganized, including state divestiture of the Cotton Lint and Seed Marketing Board.
The nature of the project also had to be changed from investment to adjustment and deregulation.
The project was ultimately judged unsatisfactory in most respects. Some of the blame for failure
clearly rests with the inadequate Bank analysis of the subsectoral prospects and with the
insufficient preapproval review of the project. Lately the Bank has encouraged the now nearly
completed liberalization of cotton pricing and marketing.
2.6 **Sugar.** In the 1960s, believing that there was a global surplus of sugar, the Bank restricted lending for development of the commodity to improving roads and general services in sugar areas. In the mid-1970s, the Bank became less concerned with a possible sugar surplus. Government involvement and control in the Kenyan sugar industry has been particularly heavy since 1972, largely through support (with help from the Bank) of parastatals and the Kenya Sugar Authority in the MOALDM. The many problems with outgrowers surrounding the nucleus estates proved difficult to address. There were even larger problems with the serious inefficiency and financial instability of some of the Bank-supported parastatal sugar mills, especially the South Nyanza factory at Awendo (in 1977). This further illustrates a tendency toward resolving design problems during implementation rather than confronting them at appraisal. The same difficulties and differences of opinion about pricing pervaded the Sugar Rehabilitation Project of 1978 (Loan 1636), which was also unsatisfactory to the Bank and especially to the government. An important aspect concerned the redistributive and regional development and political objectives in what has been a highly politicized industry in Kenya. These objectives were not well matched by sound economic forecasting and analysis, especially regarding the well-recognized risks (for most potential exporting countries) inherent in sugar developments. Promptly getting payments to growers has always been difficult and surely contributed to poor supply response. As of the mid-1990s, Kenya has been importing about 200,000 metric tons of sugar each year, about 50 percent of domestic demand. The domestic sugar industry is a medium-cost operation in international terms, but its politics and corruption have led to continued high import tariffs. This suggests that the original reluctance of the Bank to lend may have been justified. Meanwhile, the Bank has been pushing in its adjustment dialogue for divestiture of the sugar factories, more transparent sugar legislation, and a higher, more realistic, consumer price for sugar.

2.7 **Livestock.** This important sector saw several pioneering, though risky, operations. Since the first project in 1968, livestock has been extremely challenging. Its administrative and institutional demands have been particularly problematic, as have the social dimensions of land and other open-access resource management issues. The latter included the conceptual problems with group ranching, dogged by droughts with stock losses and overgrazing, ownership, and technical problems in maintenance of water and other improvements. The proposed conjunctive wildlife development activities, though minimal in achievements, indicated a breadth of policy dialogue. Some progress was made in providing credit for ranching, especially through the Agricultural Finance Corporation; improved marketing facilities; some development of veterinary services; meat processing; and rangeland development. But intrinsic complexity of implementation (especially from the social setting into which they were cast) was a major problem in all the projects in this subsector.

2.8 Profound differences of opinion existed over price controls, profitability, and the role of the government in marketing before 1987. Notwithstanding these difficulties and some disincentives due to high costs in the Kenyan Cooperative Creameries, liberalization of dairy pricing and marketing in the early 1990s brought fair progress in dairy development and supply of milk products.

2.9 **Forestry.** The pressure on the forests of Kenya has been growing for years. The demand for new agricultural land and for increasingly scarce fuelwood continues to put the its forests at

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11. Cane quality was one issue. Farmers also complained about late payment for their harvest. Parastatal management of this segment of suppliers was unsatisfactory.
risk. The government has sought to protect natural forests by banning commercial felling in these areas, but about 500 hectares of forest land is still lost each year. Policy has been to meet needs for roundwood and industrial wood from plantations, which grow quickly in the high-potential regions of Kenya. Despite land ownership difficulties, incomplete achievement of area targets, and “excessive” employment of forest service staff, the first two Bank-supported projects (1970–81) extended plantation areas and were judged satisfactory operations. They had a concrete impact. The third project was more complex. It included institutional development in the Forest Department, reforestation of previously felled areas, and a program of rural afforestation with finance, rural roads, forest extension, and land-use planning. Progress was slow and has continued to be so in the fourth project (closing in 1998). The difficulties arose from problems that are common in Kenyan agriculture: patchy management, underfunding, and cost escalation. Much policy and institutional progress remains to be made in this subsector, preferably with more effective community participation in social forestry activities, as well as better agroforestry practices. A planned reorganization of the Forest Department is yet to be tackled, commercialization/privatization of industrial plantations has yet to move ahead, and royalty collection continues to be inadequate. Such reforms would not seem to require Bank assistance—it is more a matter of government commitment to reform.

2.10 **Fisheries.** A 1980 Bank-prepared operation (Credit 1051) was disastrous in design, implementation, and ultimately, outcome. Supervision costs reputedly exceeded disbursement. The significance of this operation to Kenyan agricultural development is small, but it suggests a Bank keen to lend without full attention to implementation needs and to the wider development consequences of operations.
General Support Projects

2.11 Land. Since its first support to Kenyan agriculture in 1960, the Bank has encouraged initiatives to improve smallholder access to land by ensuring sufficient security of tenure to encourage investment in improvements. In the high-potential areas this was fairly successful, with virtually all the land registered (much of it by smallholders) by the mid-1980s. The 1982 Basic Economic Report (BER) assumed that the policy issue involved in the growth/equity debate had been settled in favor of distributing land to smallholders. The analysis implied that rural labor markets do not function well information flow and household relocation are limited in the rural sector. A project was to be prepared to accelerate the regularization and rationalization of individual holdings on informally subdivided large farms. But rural labor markets are easier to organize for large estates than for smallholders, particularly for tea and coffee. Furthermore, much greater intensification is possible on estates than in smallholder production. Land registration in semi-arid and transitional areas has been slower, and still continues in Bank-supported operations. Although an active land market has developed in Kenya, differential access to credit and an ineffectual Land Control Board have denied participation to some smallholders. Ethnic and gender factors, corruption, and weak enforcement of contracts also render the market much less than perfect. Bank-supported studies reveal that title is not critical where traditional rights yield similar levels of security. So this aspect of Kenyan agriculture is not as limiting to progress as is the limited availability of productive land.

2.12 Rural Credit. Farmer credit in Kenya has been mainly channeled through the Agricultural Finance Corporation, an agency frequently assisted in Bank operations. Commercial lending to the sector has grown progressively, especially through the Cooperative Bank of Kenya. Performance of the finance corporation has been very mixed; it has been very active in lending for dairy operations and it has initiated seasonal credit. Even after decades of support, it is still plagued by institutional problems such as costly but slow processing of applications. Moreover, it has persistently focused on larger-scale, mostly male, producers. This is even after three specialized rural credit projects and several others that targeted the poor. Ownership by recipients consisted of regarding loans as aid funds never to be repaid, and the portfolio was consequently non-performing. The Group Farms Project (Loan 1093/Credit 537), for instance, was a rural credit operation intended to help farm consolidation, but poor design and execution made it a failure, so it was closed in 1980. Bank emphasis by the late 1980s wisely switched to reform of the whole financial sector with a $120 million Financial Sector Adjustment Credit, but progress has been slow. Other donors (the United States among them) have focused on developing elements of the financial sector such as credit unions for the formally employed. Although many smallholder members of producer cooperatives get market-priced credit, most smallholders have benefited relatively little from these operations, and the situation for the poorest farmers is grim. Access to credit continues to constrain development in the sector; most smallholders must make do with very limited credit from the informal markets. Perhaps the Bank has a role here, but effective and non-distortionary intervention is difficult enough to make the current slow pace of project identification appropriate. The topic is not on the list of issues to be revisited in the first phase of the ASIP, but it should be reassessed eventually in such an operation.

2.13 **Infrastructure.** The very first loan the Bank made for Kenyan agricultural development was for agricultural roads (Loan 256 in 1960). This indicates the fundamental role that roads play in a less-developed agrarian society. Some industry development investments also involved road construction, such as "tea roads." Rural roads have been vital for development in Kenya and are still the focus of donor operations. Many of the problems are common to many countries: ineffective financing of maintenance work, inadequate delegation of responsibilities to local levels, and weak attempts to involve beneficiaries in financing roads. These matters are addressed as part of the wider discussion of integrated rural development in Chapter 3.

2.14 **Irrigation.** The Bank-supported Bura Irrigation Settlement Project of the 1970s was an expensive failure. The last cotton crop Bura produced was in 1991/92. Both donors and government must share the blame. The Bank should have known better from experience elsewhere. The difficulties were manifold—conceptual, insecure land tenure, technical (especially varietal pest and disease interactions), engineering, environmental, health, cotton marketing, infrastructure, financial and economic analysis, appraisal optimism generally, and re-learned lessons aplenty. The failure means ongoing extreme caution in the irrigation subsector in Kenya and more widely in what is a still challenging area of potential African development. High costs of reservoirs and irrigation system development mean that most new irrigation development will continue to be private, based largely on groundwater and water harvesting. Kenya has only about 8,000 hectares under irrigation, mainly now in rice, although the potential area supposedly exceeds 100,000 hectares. It seems unlikely that any sizable portion of this could be developed in the near future if all the economic, social, and environmental costs involved were to be covered.

2.15 The project clearly was inadequately identified and poorly designed and implemented. Weaknesses on the Kenyan side were considerable and the government was either reluctant or unable to consult widely in potential target communities. The failures to ensure (or even to seek) ownership of projects among beneficiaries were frequently mirrored by corresponding lack of ownership among members of the government, both political and administrative. In extreme cases only one or two officers had genuine enthusiasm for a project intervention. The special but largely unattended needs of women in microenterprise development were evident, particularly in the food processing sector.

2.16 Implementation difficulties abounded. Weak government capacity to implement was compounded by the imperative disbursement schedules of the Bank. Had design—especially sequencing—better recognized the capacity weaknesses, and had disbursement been more responsive to implementation realities, problems and tensions may have been fewer and achievements much greater. What flexibility existed seemed too often to have been used opportunistically by the Bank to redirect funds to meet disbursement targets (that were often unrealistic) rather than to press for overcoming implementation obstacles. Of course, not all design problems derived from local participatory issues: the Bura Irrigation Scheme was poorly designed by external authorities and subjected to a changing cast of responsible government agencies. Despite some attempts to link to local aspirations, the project gave short shrift to the special needs of women, especially those in female-headed households.

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13. Several donors, and their Kenyan counterparts, have sector work under way. These efforts use a participatory approach to road planning and explicitly grapple with equity issues in resource allocations. The "Roads 2000" program mainly involves low-level improvements to about 70 percent of the 64,000 kilometers of classified roads in Kenya.
An inadequate understanding of beneficiary situations has meant systematic ignorance of real needs and of the effectiveness of local institutions. Credit schemes predicated on security of land titles (where such were generally unavailable, and in any case not too significant) is a case in point. Some of the good intentions in projects appear to have been hijacked by intermediaries in parastatals or farmer organizations through what have aptly been termed “directly unproductive profit-seeking activities.”

Other Project Activities

The Bank has supported no maize projects, but the staple was key in many operations that fostered better self-provisioning among smallholder households and generally enhanced food security. There were some successes through better agricultural services, and some progress through maize market liberalization; but much is yet to be done for this key “industry” to realize its potential. Given the diversity of agroecological conditions in Kenya, where maize is so widely grown, delivery of new cultivars suited to local situations will be vital to future productivity growth, and should come efficiently from the reenergized research system. As liberalization of maize production proceeds, and as more smallholders have more diversified incomes, fewer farmers should have to grow their own maize.

Other crops. Kenya produces many minor crops, notably pyrethrum and exotic vegetables, but floriculture is coming to dominate the new export crop industries, and fruit and vegetables are the leading elements of domestic agricultural growth. Macadamia nuts may also prove to be a small export success. Bank involvement in these activities has only been indirect, through supporting a relatively liberalized trading and technology-import environment, as well as the provision of key agricultural services concerning input management and post-harvest issues.

Wildlife. Agricultural sector work in Kenya rarely addressed wildlife development. One livestock project examined the viability of game ranching, but dropped the enterprise because it was better suited to large-scale ranches and unlikely to help the poor. After early project intervention that was generally unsatisfactory, there has been growing recognition of the need to conserve declining wildlife resources. The government is giving its wildlife policy high priority to exploit better the opportunity to increase government revenues from tourism. The Bank-supported interventions to strengthen the Kenya Wildlife Service have succeeded in bringing effective administration to this macroeconomically significant rural-based activity. Recent civil disturbances have negatively affected demand for and revenues from tourism in Kenya, however.

14. Traditionally, producers in surplus areas were unable to transfer grain to other areas except through “official” parastatal channels.
3. The Integrated Rural Development Phase

Non-lending Services

3.1 The 1973 BER was a watershed in the World Bank-Kenya relationship. It not only followed on President McNamara's noteworthy Nairobi speech, it was also the first comprehensive report prepared following a decade of Kenyan independence. The BER also followed an influential report by the International Labor Organization and United Nations Development Program on employment, income, and equality in Kenya. The BER concluded that the performance of Kenya to 1973 had been remarkable in comparison with most other sub-Saharan countries, but that the need to expand employment and alleviate the poverty of the lowest income groups remained urgent. The report called for a change in the pattern of growth to increase employment intensity and for a change in the process of growth to increase the efficiency of resource use. This meant allocating a larger proportion of investment, foreign exchange, and skilled human resources to directly productive sectors such as agriculture, and to rural roads and low-cost housing.

3.2 The BER also saw 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. It recommended a switch of emphasis from import substitution to resource-based export industries. Implementing a dynamic agricultural strategy posed problems, however. The report recognized that the overriding constraint on development of an integrated export-oriented, agroindustrial sector was the absorptive capacity of the agricultural sector. The heart of the problem was a lack of planning capacity in the MOALDM, particularly the capacity to design large-scale productive programs for small-scale farmers. The BER emphasized the importance of incentives to agriculture by reducing taxes, correcting interest rates, and aligning domestic and world market prices.

3.3 The 1973 BER presented a reasonable diagnosis of the national economy and recommended an appropriate macroeconomic strategy whose many components interlocked. The increases in public investment in agriculture it called for were to be achieved primarily through large-scale integrated rural development projects rather than through a phased, sequential approach aimed at improving planning and implementing capacity in Kenya. Further, it assumed that new technologies would be available.

3.4 The 1973 Agricultural Sector Survey, on which the BER strategy was partly built, did not share this technological optimism. Apart from maize, for which hybrids had been successfully introduced in high-potential areas with assured rainfall, the 1973 survey was not optimistic about the prospects for new technologies either for maize in other areas or for most other crops. For grain marketing, the survey recommended loosening direct controls and opening opportunities for more private initiative by limiting parastatal activity to “implementing government price and stock management programs.” This implicit acceptance of the soundness of such programs left the tumor of interventionist policy unattended at a time when treatment may have been simpler than it became. On land tenure, it urged the government to encourage and facilitate the

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subdivision of large farms into smallholdings, giving land titles to those who had de facto ownership. 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 1973 BER.

Enter Rural Development

3.5 Many of the conclusions in Chapter 2 about the commodity projects—issues of ownership, design, implementation, and supervision—apply equally to the integrated rural development phase. The added difficulty for the two Kenyan Integrated Agricultural Development Projects (IADPs) was the problem of increased complexity.

3.6 Several basic concerns drove the new approach to rural development. The multiplicity of constraints smallholders faced, many felt, were inadequately addressed by projects that took a piecemeal approach to weaknesses in local institutions and infrastructure. Accompanying Mr. McNamara's speech was a renewed interest in having the Bank seen to be delivering project benefits to the poor. Explicitly addressing human development aspects such as health, nutrition, and education along with directly productive aspects of the agricultural environment were felt likely to be both socially vital and synergistically productive. Reaching the weakest and most remote members of society, who seldom benefit from "trickle down" effects of broader interventions required special efforts. Participation in change processes by all potential beneficiaries was necessary to move marginalized members of society from oppressive dependency structures. Designing project interventions to remove these constraints was difficult from the outset, dating from U.S. Agency for International Development efforts in North Africa and elsewhere in the 1950s and 1960s. Activity levels and project preparation among the donor community and the in Bank increased rapidly in the 1970s, when enthusiasm for broad-based projects of this type reached a high pitch.

3.7 Critical scrutiny of many aspects of implementation also grew rapidly in the 1970s, leading to a proliferating literature on design issues. Among the many concerns was underperformance in the monitoring and evaluation work planned for the projects; complexity in the scope of project activities, the argument went, led monitoring to be similarly complex, difficult, and expensive. With this history, it was inevitable that OED would review experience in this area of rural development; that study began in 1987. For Kenya, the main lesson is the intrinsic difficulty of dealing effectively with complex projects. Special-purpose project implementation units, operations project implementation units outside the normal public service structure, cannot make up for weak local and central administrative capacity.

Kenyan Integrated Agricultural Development Projects

3.8 The IADP loans and credits involved a mix of credit, rural infrastructure, information services, and strengthening of cooperatives, with a compounding of all their individual problems. Appraisal optimism was rampant and piloting infrequent. Although the first project (Loan 1303/Credit 650, approved in 1976) was to test the approach, the large successor operation of 1979, which extended the IADP I concept to the Rift Valley and Coast Provinces, started without full analysis of the lessons learned in the first project. Both IADP efforts were ultimately judged unsatisfactory. The relatively intensive provision of services in these circumscribed area projects created a subsequent need to reform some development services, such as extension. It also
prompted preparation of what would become the first National Extension Project, with visits by officials to India to see training and visit (T&V) extension in action. An effective agricultural research system was also clearly needed. Many lessons were also identified, such as the unsustainability of reliance on project implementation units rather than on line ministries with effective local administrative units.

3.9 The subsequent OED review of Bank rural development experience criticized many design elements. Among the identified shortcomings were excessive reliance on expatriate technical assistance and a tendency to scale up projects before there was adequate pilot experience.

3.10 Linkage to civil society was usually vague and fragile. This was especially true in the early projects, although subsequent project preparation (along with institutional commitments in the 1990s, such as the appointment of responsible offices in most resident missions), and implementation of rural development initiatives, has emphasized close working arrangements with NGOs. This has also come with a sharpened understanding of the need for more decentralized approaches and administrative structures to engage effectively with communities in both design and implementation of rural development efforts. Generating greater local support for services is one useful approach. For roads this can be done through forming users’ associations and fostering mechanisms for generating maintenance finances and perhaps also labor resources. Unfortunately, the road components of the Kenyan rural development projects gave such matters little attention.

Semi-arid Area, Drought, and Environmental Issues

3.11 Activism to “do something” for the extensive low-potential areas in the country has been an enduring feature of its agricultural sector. This concern is reflected in the 1979 government policy on arid and semi-arid lands. Early efforts to assist the semi-arid, remote-from-Nairobi areas, such as the 1978 Narok Area Development Project (Credit 858) were complex yet poorly designed and unsuccessful. The 1979 Baringo pilot (Credit 962) did not do much better. The 1982 BER annex on agriculture stressed the limited farming potential of the semi-arid and arid ecological zones. This was contrary to the widespread perception that dryland farming could provide income and employment to much of the growing population of Kenya. The BER also noted the effects of intensification on the fragile environment of many marginal areas, the high risks and limited land potential, and the impact on traditional pastoralism of migration from densely populated areas. The development issues are complex, involving different models for pastoralism and wildlife management and diverse perspectives on the effects of land titling, grazing fees, and community management in marginal agricultural areas. The government gives most responsibility for arid and semi-arid lands to the Office of the President and the Ministry of Land Reclamation, Regional and Water Development, and the Department of Relief and Rehabilitation at the national level. It has adopted a (highly decentralized) District Focus Strategy for implementing rural development initiatives, although fully functional delegation of authority has yet to occur.

3.12 Donor activity in the arid lands has been intensive; more than a dozen projects were active in the 1990s. Over the period 1991–95 the Bank executed a UNDP Pastoralist Integrated Development Project and, over the period 1993–96, it had its own Emergency Drought Relief Project, which was an effective lead-in to the most recent Bank operation in the subsector. The lessons learned—especially about the need to avoid excessive complexity in project design and to
mobilize communities—have been embodied in the ongoing Arid Lands Resource Management Project, which is performing satisfactorily.

3.13 The 1997 rural development strategy of the Bank takes a broad, relatively decentralized approach to the development needs of the sector. Again, though, in contrast to early rural development projects, it is to do so from careful assessment of the beneficiaries’ aspirations and needs. Given that needs assessment is not automatic—and may be both time-consuming and costly—this may mean slower and more costly development of the lending program. The approach should, however, ensure strong ownership of the program and presumably greater chance of locally appreciated success, which would augur a better result for all parties. The experience in Kenya suggests that progress is slow if delegation is only partial. Genuine ownership by local communities is, however, the vital element in achieving both favorable outcomes as well as sustainable institutional development. Apart from being already slow, progress in Kenya is further slowed by more responsive project design being sensitive to the donor consultative processes inherent in, say, the ASIP preparation. This planned program includes the progressive building of ownership through phased and adaptive implementation across districts.

4. **The Program Lending Phase**

**Non-lending Services**

4.1 The 1982 BER identified several fundamental structural problems: slowing agricultural growth, diminishing scope for import substitution, stagnating nontraditional exports, and unhelpful government interventionist policies. The slowdown in agricultural growth was ascribed to many factors: (a) reduced scope for expansion of agricultural production on new or underused 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 percent a year); (b) lack of readily available technical packages for farmers in the semi-arid zones; (c) limited opportunities to switch to higher-value crops such as tea and coffee; (d) excessive government intervention in agricultural pricing and marketing; (e) severe weaknesses in the management of vital programs and projects; and (f) pursuit of import-substitution policies that favored industry at the expense of agriculture. The priority areas for policy reform were liberalization of the grain market and the issuance of land titles, both of which were later to become conditions for structural adjustment lending.

4.2 Severe balance of payments problems in many developing countries (especially after the second oil shock of 1979) propelled donors, and thus the Bretton Woods institutions, into program lending. The timing coincided with growing appreciation among donors for the primacy of policy in effective development work. The high proportion of “unsatisfactory” projects led to an institutional search for generic reasons for poor performance. Policy was found to be the culprit. Combined with an impression that it was cogent policy rather than finance for investment that was in shortest supply in many countries, this was a major paradigm shift for the Bank.


Bank was much criticized at the time for, among other things, naively preparing fast-disbursing operations with unrealistic and excessive conditionality on “agreed” policy reforms. It also came in for trenchant criticism on unrealistic conditionality and the limited value of much adjustment lending.

4.3 Interaction of Poverty with Growth. The 1982 BER argued that, contrary to the general concern about employment and income distribution (based on assumed structural rigidities and poor intersectoral linkages), the proportion of the Kenyan population below the poverty line had fallen between the early 1960s and the mid-1970s, although population growth had raised the absolute numbers of the poor. The report acknowledged that rural incomes had become more unequal. Most of the gains had accrued to the 60 percent of smallholders with the highest incomes; the poorest 40 percent experienced no gains because adoption of cash crops was highly concentrated between and within regions. Nonfarm income earning opportunities, on the other hand, were fairly widespread; only about 20 percent of households did not enjoy nonfarm income or substantial sales of food. Differences in innovation and the use of purchased inputs were said to be related to availability of financing from nonfarm income and loans. Use of credit was in turn considered closely related to the level of nonfarm income, which appeared to influence 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 correlated with education.

Adjustment Lending

4.4 The wide range of adjustment lending to Kenya began with a response to the oil price shock of October 1973. Later, in the lead up to the second oil shock, the Development Plan for 1979–83 laid out a strategic plan for reform. The first Structural Adjustment Loan in 1979 provided the financial flexibility to get this process going, with corresponding reduction in investment project lending. Follow-on, similarly rationalized operations in 1982 (the Second Structural Adjustment Loan, which had agricultural conditionalities) and 1986 (the First Agricultural Sector Adjustment Loan [AGSECAL]) continued the process. The Bank had argued that poor project performance in the 1970s and 80s was due largely to the poor macroeconomic and domestic agricultural policy environment.

4.5 Needed structural adjustment after the coffee boom and second oil shock saw a significant shift from project to policy lending, first economy-wide in 1980, then in a series of operations with increasingly focused agricultural components. These operations aimed to liberalize agricultural pricing and to improve, if ever so slowly and uncertainly, economic efficiency in agricultural marketing. They also sought to boost project planning and management capacity, including some land policy reform. Successes such as liberalization of the maize market, while slow to achieve and uneven in intensity, have now been considerable, although controversial in some quarters regarding some of its impacts, especially on the poor.

4.6 A significant purpose of the adjustment lending was to “get prices right” so that the prices producers respond to would lead them to a more economically efficient part of their production frontier. The intentions in adjustment lending in Kenya were, however, more complex and typically involved a blend of reforms. The adjustment lending had three principal components: macroeconomic reform, agricultural marketing and pricing liberalization, and public sector reform.
4.7 Macroeconomic reform is probably the most straightforward and the easiest to evaluate. Further foreign exchange liberalization, easily done given the openness of the Kenyan economy, was a first step to cereal and fertilizer market reform.

4.8 Marketing and pricing liberalization aimed especially at cereals (where the National Cereals and Produce Board [NCPB] had monopoly power in the market and kept producer prices low) and fertilizer (monopoly controlled and subsidized). This component is less studied and therefore less open to ready analysis, especially of a secondary sort.

4.9 Public-sector reform included reformulation of the public sector to facilitate and expanded role for the private sector, followed by redesign of core public institutions. The 1986 AGSECAL I (Credit 1717) made a critical assumption that withdrawal of state institutions, particularly the NCPB, would be matched by expansion of the private sector. This process was significantly delayed, however, in part by inadequate infrastructure and high transaction costs in smallholder agriculture that limited profitability for the private-sector. Inconsistent implementation by the government of the policy reform has also contributed to hesitant sector participation. What was needed was careful monitoring of the impact of market liberalization, redefinition of government policy and a role beyond mere withdrawal, and clarity on how to reform existing public institutions and parastatals.

4.10 Not only was there no monitoring of what happened, there was no comparison of the instruments used in the reform process to determine their relative effectiveness. For example, conditionality on adjustment loans could have been compared with, say, project design around sector reform or with policy research and stakeholder engagement in the design of the reform process. The impact of the reform process sponsored through the AGSECALs and other adjustment loans is still not completely clear, but it seems to have helped market development. It surely helped the government stay afloat during some difficult times. If no backtracking occurs, the reforms will continue to generate benefits to the nation and to those farmers who are now more effectively linked to commercial markets.

4.11 The OED audit of the project observed a “notable refrain” in the completion reports for ASAO I (the first AGSECAL) and Agricultural Technical Assistance Project. “Those who prepared, appraised, and approved these projects,” it says, “misjudged the extent of political opposition to some of the reforms intended...even though their President’s Reports acknowledged the risks of such opposition” (p. viii). Misjudgment (seemingly shared by the cofinancing bilateral donors) persisted into the subsequent AGSECAL (Credit 2204).

4.12 In fact, the adjustment loans have been somewhat repetitive. If each is considered an opportunity to “buy” reforms, then they were “purchased” several times over while “paper reforms” slowly became real reforms: price controls on beef were lifted and maize marketing was liberalized, reducing restrictions on movement of maize from surplus production districts to those needing to import. Many factors held up progress. Among these were varied links to International Monetary Fund programs, slow but increasing government ownership of the reforms, inadequate attention to some of the consequences for the poor, operational complexity coupled with unrealistic implementation and disbursement schedules, and slow processing of financial flows through local banks and layers of government. The problems arising from the loss of skilled analysts from the civil service also doubtless contributed.
The Lending Phase in Perspective

4.13 Adjustment lending experience mirrored project experience, fragmentary ownership and inadequate stakeholder consultation significantly impeded success. The impact of adjustment lending on agriculture and its exports, while it appears to have been positive, was sketchy, especially for smallholders. The adjustment operations in the Kenyan agricultural sector have all been judged satisfactory, though perhaps optimistically so, since similar conditionality was used to justify successive adjustment operations. The operations represent something of a success, notwithstanding the weak evidence for the influence on exports and the several ambitions that were not achieved or were achieved only very slowly. Whether the gains were as large as they should have been is also moot. Given the slowness and partial extent of reform, and thus the not quite finished reform agenda, many benefits must have been lost to delayed improvement of incentives. The willingness of the Bank to go on lending after such slow compliance in Kenya must be interpreted as indicative of the institution coming to grips slowly with wider issues of governance.

4.14 One hypothesis that emerges from the contrasting experiences is that lending for infrastructure is intrinsically simpler than for policy reform in general and for the agricultural sector in particular. The difficulty with such generalizations is that the tightness of adherence to conditions is key to judging both ambition and success. A move by the Bank toward an institutional-development orientation was certainly understandable, particularly when the commitment of the government to substantive policy reform was neither clear nor sincere.

5. The Institution Building Phase

5.1 The most recent phase in the Bank quest for greater TFP growth in agriculture focused on building more supportive institutions to push out the production frontiers and to foster producers' attempts to produce closer to them. This was to be made possible through facilitating better access to inputs, to better information, and to new and more productive technology. Here we consider the topic at two levels: first for two key agricultural services, research and extension; and second for general managerial strengthening.

Non-lending Services Linked to Investment in Agricultural Services

5.2 Sector work continued in the 1980s following the 1982 BER with a series of subsectoral reports on such topics as grain pricing and marketing, land and credit policy, and input use. There was an Agricultural Portfolio Review in 1984 to resolve issues in ongoing projects, initial work in 1984 on agricultural research in an Initiating Brief, the Agricultural Credit Subsector Review of June 1985, and further work on land issues and agricultural inputs. The emerging directions were summed up in “Kenya: An Agricultural Strategy for the Bank,” October 4, 1985. It observed that “We are now concentrating much more on the critical services and policies from the perspective of the entire country, not just for individual regions or commodities...with emphasis on management, finance, design and donor coordination...with National Extension...as a good example of...the approach” (p. 3).

5.3 The 1986 Agricultural Sector Report identified issues similar to those discussed in earlier reports, except for a new stress among agricultural services on improving input supply (a topic on
which original work was done through field investigations of input pricing and distribution policies). The greater awareness by the Bank of the limited planning and implementing capacity of Kenya was also reflected in the emphasis on improving resource allocation and sector management, as well as restructuring the framework of incentives.

5.4 A focus of the early integrated area development projects was the better provision of services on a regional basis, including information about investment, better input use, and farm practices. More specialized national interventions have subsequently dealt with these matters. The two main services considered here are agricultural research and extension, with the former mainly moving out the production frontier and the latter helping farmers to produce closer to it. Other goods, such as veterinary services, are strong candidates for private provision. These have been addressed in ASIP preparation to get the government out of nonessential public services, although it is still supporting some staff and plant and equipment in such services.

5.5 Research. In colonial times, agricultural research was regional in its organization, based on a network of experiment stations throughout the British colonies in East Africa. Following independence, these arrangements were maintained through the offices of the East African Community that dealt with agricultural research relevant to crops as well as veterinary and epidemiological activities. After the collapse of the East African Community, it was clear that Kenya would have to develop its own agricultural research system. It proceeded to do so out of the fragments of the colonial system, several of which were headquartered in Nairobi. During the 1970s, several efforts sought to harmonize more effective institutional arrangements. The 1979 National Council of Science and Technology Act finally provided the legal framework for forging a national system. Progress was slow because of a range of departmental disagreements about the institutional coverage and scope of the research program. Support by the Bank and other donors through the first National Agricultural Research Project 1987 (NARP I) managed to unite the elements of the former East African agricultural and veterinary research establishment—along with units of the MOALDM—into an effective institution. The institution supports research for most export commodities; separate arrangements exist for coffee and tea.

5.6 During the preparation of NARP I the Kenya Agricultural Research Institute (KARI) was given semi-autonomous status. This considerable institutional achievement means that the salary/reward system can recognize more explicitly the achievements of scientific progress. Consequently, the terms and conditions of employment within KARI have been sufficiently attractive to retain a skilled scientific staff. In short, KARI is well managed, has good leadership, a productive ethos. It is widely recognized as one of the best national agricultural research programs in sub-Saharan Africa. The biggest staffing problem, apart from the delayed downsizing, has been the difficulty of retaining social-science researchers. These people command premium salaries elsewhere, particularly in private research institutes and commercial entities.

5.7 The accomplishments of NARP I have been continued and further strengthened in the ongoing NARP II. Among the accomplishments is strengthened in-service and external training. Another is the promising operation of an agricultural research fund to finance contract research. Finally, adaptive research has been reorganized into a system of Regional Research Centers focused on local needs and a system of National Research Centers that addresses constraints to increasing productivity in the dominant agroecological zones. A variety of collaborative arrangements with both international agricultural research centers and regional research networks have been put in place and are working quite effectively.
5.8 Donors have actively supported agricultural research in Kenya. The United States, Denmark, the Netherlands, Germany, and the United Kingdom, and now the European Union have provided consistent support. Initially the donors tended to operate independently of each other and even of the Kenyan national system. A key achievement within NARP I was harmonization of these efforts and a more rational allocation of research and resources issues within the national system. Consultation is regular and ongoing and the various donor-supported research programs now fit well into a broad, well-prioritized national research agenda.

5.9 The donor community has been important to and supportive of the scientific training that has underpinned the enviable human-capital situation of the KARI. Direct support through Bank operations for such training has been limited as bilateral donors have handled most of it. The Bank has thus assumed a gap-filling role seeking to support training in those areas that have not been among the highest priorities of the bilateral training arrangements.

5.10 Progress continues on strengthening the institutional environment for agricultural research in Kenya. This includes actively seeking greater cost recovery from those elements of national agriculture that lend themselves to this. It also involves a downsizing operation with major retrenchment (financed by donors) to yield a redefined and more effective KARI. Many donors have committed to fairly long-term support of parts of the national research program. The planning of the Kenyan authorities has come to count on continued donor support. The success of cost-recovery innovations being introduced, however, will help to reach a situation in which government support to agricultural research can be sustained, even in times of tight national budgets. Description of what has led to success in the Kenya agricultural research system may have value for replication in other parts of the continent where progress has not been as smooth.

5.11 The Bank also considers its support for agricultural research a relatively long-term commitment. The first and second national agricultural research projects (Credits 1849 and 2935) have provided such support and successor projects are expected.

5.12 Links to extension have been strengthened, but the recent funding crisis in the extension service has compromised the transmission of information to the rural community. Accordingly, this aspect has also been receiving careful scrutiny in ASIP preparation. Likewise the links of agricultural research to product processors and value-adding activities in the marketing chain may need further examination, especially in further cost-recovery initiatives.

5.13 Extension. Extension in Kenya dates from colonial times, when producers of export crops needed technical advice. The inclusion of extension in all the early Bank-supported commodity-specific projects (primarily oriented toward cash crops) was therefore natural. Extension was also integral to the area-development programs and the integrated agricultural development programs of the 1970s. Over time, with multidonor support, extension services increasingly targeted the needs of smallholders through independent efforts developed within the various departments serving agriculture (Agriculture, Livestock Development, and Veterinary Services). Part of the driving force for this massive growth of extension staff was the government policy, dating from the coffee boom of 1976, to hire all “eligible” graduates. The bloated extension arrangements that resulted lacked a consistent national strategy and, by 1982, were essentially a collection of ad hoc project components.

18. The financing plan for NARP II, for instance, is approximately $70 million from the government, $60 million from donors, $40 million from IDA, and $10 million from the private sector.
5.14 This proliferation of extension services was considered expensive, inefficient, and largely ineffective. Beginning in 1982, the Bank introduced the then still novel T&V system of management, through the first National Extension Project (Credit 1387, NEP I) in 1983. The project was to enhance the operational efficiency of the extension system by responding to the needs of smallholder clients. It was to make the service effective through a set of structured mechanisms for delivering agreed messages on a regular basis. It was also a design intention that there should be a flow of information from directly contacted farmers (later, contact groups) to other members of the rural communities. The cogency of messages was ensured through subject matter specialists, who would channel information (appropriate in timing and seasonality and up to date with research findings) from the research establishment to the extension workers.

5.15 T&V was progressively introduced throughout the country beginning with a quick pilot in two high-potential districts. The rapid expansion assigned priority to districts with the highest productive potential, which were also the most densely populated. Within three years the program expanded to cover 30 of 40 districts without thorough analysis of the pilot experience.

5.16 The large influx of support funds, the staff training, and the new paradigm lifted the morale of field staff and unleashed a high level of activity. But this was done at considerable cost. With time, the rapid expansion of the staff, initial rigidity of the system for delivering messages, and inefficiency in the flow of operational funds reduced the efficacy of the extension service.

5.17 Because the effectiveness of the T&V system was controversial, the Bank commissioned a study of it. The study estimated a marginal internal rate of return on the investment of more than 300 percent. This rate dispelled doubts among some Bank staff, despite the incredulity of many observers. The authors have since revised their estimate downward to about 150 percent, through discovered numerical errors in the analysis, but they stand by their qualitative assessments. OED continues to have serious reservations about the estimated returns.

5.18 Despite the commissioned study, the 1996 audit of NEP I by OED assessed the outcome to be only marginally satisfactory. This assessment was contested within the Bank, and disagreement over the rating has persisted, pending further investigation of the impact of the two Bank extension projects (NEP I and II) by OED. The main criticism leveled by the OED audit was that the system was too expensive for a resource-constrained ministry. While a unified (single “national”) system was organizationally tidy, it came at the cost of a large, top-down, centralized administrative structure. The bureaucratic orientation of the program at least initially also made the system unresponsive to client needs. The situation improved somewhat as more diagnostic surveys were used and extension workers engaged in more effective dialogue with farmers. After 15 years of operations, however, the system still concentrates on simple technical messages rather than the economic content of advice. The extension service has over the years given greater attention to horticultural pursuits such as onion growing and addressed such technical challenges as how best to provide zero-grazing for dairy animals. It still focuses on traditional low-value crops, however.

5.19 The T&V extension system succeeded in getting simple messages and some materials to many smallholders. Perhaps as many as 70 percent of households in the high-potential areas, and perhaps 30 percent elsewhere, have had some contact with extension in recent decades. The T&V

system as recently implemented reaches perhaps 5 percent of high-potential farms on a regular (monthly) basis. It may even have boosted the productivity of their subsistence crops and small-scale livestock. While the quantity of extension service may well have improved with the T&V system, the quality of advice rendered is increasingly being questioned.

5.20 The current extension structure is unsustainable. Most government funding for extension in Kenya (more than two-thirds in recent years) goes to salaries. The remaining funds are inadequate for extension workers to serve their clients as they are insufficient for training or travel allowances (fuel and per diems) for field work, let alone for the maintenance of vehicles. Even with external funds, the current financial arrangements create a perpetual lack of funds. The system is now in decline. It is ineffective in reaching the communities that need service and too expensive for the government to sustain despite support through another Bank operation (NEP II, Credit 2199).

5.21 Criticism of extension in Kenya has not been confined to OED. The donor and NGO communities have also expressed their discontent. Most agricultural donors are keen to see the extension system reformed to make it smaller, more client-responsive, and pluralistic. The Bank has been actively engaged in policy dialogue with donors in Kenya in preparation for the ASIP. Most donors and Bank staff would like to see the T&V system substantially changed. They would like it to be leaner, less “top-down,” more efficient in its service delivery, more focused on the clients who require a public service, more responsive to the needs of those clients, and to involve more client participation in setting the extension agenda. Changing the current system to accommodate such objectives will be a significant task, but it is inevitable and overdue.

5.22 Among the reforms to be considered should be more local administrative responsibility for the extension program. Decentralization of government functions will not be easy in many districts, where managerial capacity is slender and financial and accounting systems are rudimentary. The need to integrate farmers’ perspectives in each district administration will also be critical to success but may require considerable training of local staff.

5.23 In addition, the reach of extension into communities and its cost recovery must be revisited, especially for cash crops such as tea, sugar, and pyrethrum, where fees for service are most readily recoverable. These redesign issues are being addressed in the forthcoming ASIP. The links with research and with NGOs working in rural communities will also need assessment. The status and degree of training and education of extension personnel must also be reexamined in working toward development of a more efficient and affordable system.

5.24 Commentary. Research under KARI has done well and has good prospects, despite some criticism of poor government support early in NARP II in a 1998 Quality Assurance Group (QAG) review of the research portfolio. Extension has many problems and needs urgent attention. QAG recognized this in listing NEP II (Credit 2199) as a project in trouble. QAG has also criticized NARP II (Credit 2935) for its slowness in taking the agreed actions (to be largely paid for by donors) on downsizing its staff. But KARI is delivering a flow of the research

20. The MOALDM has recently prepared a draft (No. 3, dated April 6, 1998) proposal for a National Agricultural and Livestock Extension Program. The proposal, which is being crafted in part to underpin the ASIP preparation, addresses many of the issues noted in the text. The draft realistically assesses the diverse extension experiences of several bilateral donors, as well as the International Fund for Agricultural Development and IDA, including the past insufficient attention to gender and M&E in extension efforts.
products needed, including both improved cultivars of food and industrial crops and better methods of natural resource management. It is a well-managed and largely functioning organization, but further progress is needed, most notably in financial management and monitoring and evaluation, and in strengthening support to research in other agencies, especially the universities. The sustainability of productivity gains of the 1980s is at stake. Continued growth will depend on sustained investment in agricultural research. The Kenyan government seems to understand this, but delivering the required resources from the public coffers will clearly continue to be a struggle.

Management and Capacity Building

5.25 Non-lending Services. The 1990 report *Kenya: Agricultural Growth Prospects and Strategy Options* concluded that “high agricultural growth rates can be achieved if appropriate strategies to help large numbers of smallholders are effectively formulated and implemented to remove binding policy and institutional constraints” (p. iii). Reports of the previous decade had decried stagnating agricultural performance in Kenya and even compared it to that of neighboring Tanzania. The 1990 report, echoing the findings of the MADIA study, noted that during the first 25 years of independence agricultural performance had been impressive compared with many other African countries but that cultivated area expansion had contributed about 60 percent of total growth of most agricultural commodities. With the progressive conversion of the more fertile areas (only about 4 percent of total agricultural land), the main source of future agricultural growth, the study argued, would have to be intensification.

5.26 The report made seven recommendations for promoting smallholder-led growth. First, improve incentives and competitive marketing structures emphasizing improved payments by parastatals and cost reductions. Second, increase input availability and usage, particularly of fertilizer, by permitting private suppliers to enter the market. Third, improve efficiency in the allocation and usage of public investments and expenditures. Fourth, increase smallholder access to rural finance, including more efficient credit delivery (largely through cooperatives). Fifth, use more suitable smallholder technologies. Sixth, use productive land in the high- and medium-potential areas more efficiently. Seventh, ensure attention to the priority needs of large and medium-scale farmers when embarking on a widespread smallholder strategy.

5.27 The report sought to be helpful in enacting the Sixth Plan. It acknowledged that many of the recommended actions were old themes that built on reforms already initiated by the government. But it stressed the need for institutional strengthening and better implementation (such as tackled in the ASAO II then being prepared), emphasizing the clearly untidy and dysfunctional fragmentation of institutional responsibilities within the agricultural sector, then involving some seven line ministries.

5.28 Since 1990, the main sector work for agriculture in Kenya has been preparation of the institution-building projects and production of a Sector Memorandum ("Kenya: Report on the Agricultural Sector Review") and an Outline of the Tentative Investment Strategy in the mid-1990s that entered into the 1996 Country Assistance Survey formulation and led to the recent

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21. The main intentions the CAS outlined for agriculture involved accelerating agricultural growth by changing the cropping mix to include more high-value export crops, liberalizing the sector to enable greater private sector participation, restructuring marketing boards and commercializing NCPB, divesting public enterprises in the agricultural sector (such as sugar factories), and restructuring MOALDM to focus on core roles.
ASIP preparation. The government produced its own strategy paper after the 1995 Bank report, which again expressed concerns for growth and employment generation, and called for urgent progress on poverty alleviation.

5.29 Implementation Experience. The general capacity-building effort in Kenyan public agencies dates from before independence and has its own literature. The first intensive Bank-supported effort at institution building focused on the MOALDM. The 1986 Agricultural Sector Management Project (Credit 1718) had three areas of activity in three interrelated components. The first was the budget rationalization program, based on the separation of “core” and lower-priority projects. Second was the project monitoring system. The third was procedures for expenditure, accounting, and other elements of financial management, including a review of procurement and personnel policies. Although these components fell well short of expectations, the results could be judged marginally acceptable when assessed against the problems of pursuing any reform agenda in Kenya during that decade.

5.30 A diversity of experience and opinion exists regarding the virtues of different types of training, as well as the changing emphasis over time, and the varied effects these may have on retention of key skills in government service. For instance, the contemporary use of consultants (mainly local ones) for many mainstream central government tasks, especially in the preparation of projects for Bank financing, is a contentious issue. When the government pays higher salaries out of project funds than would be paid to public officials, it undermines the public service. The job satisfaction of remaining civil servants is reduced as contractors take over the more exciting and influential work. On the clearly delicate topic of retaining expensively trained individuals, the government should insist on adequate length of service upon return from training. Such insistence can only be justified, however, if the working environment provided is a productive one. More generally, for capacity building, Bank and donor efforts have probably focused excessively on the civil service, whereas effective development partnership must build capacity in many sectors of society. There seems to be a need, however, for novel mechanisms that boost the attractiveness of public service, perhaps through staff exchanges with more flexible entities such as universities and research institutes. But there also needs to be some serious rethinking of how to foster the development of a Kenyan senior professional service at a reasonable cost. One way to tackle this, at least at the senior civil service levels, would be to invoke David Leonard’s idea for an Africa-wide “grand corps.”

5.31 Capacity issues naturally touch wider matters of good governance. In 1997, with Board adoption of the report *Helping Countries Combat Corruption: The Role of the World Bank*, the Bank established new standards of governance that will underpin all new lending operations. Governance issues have long plagued project implementation in Kenya and sometimes resulted in project closure because of failures to comply with auditing and financial management requirements. Whether the newly created (1998) Anti-Corruption Authority of Kenya will be an effective instrument to implement publicly declared reform in this domain remains to be seen.

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22. Such as the works of Robert Bates and David Leonard.

23. This is a fundamental and systemic problem in Africa. A cadre of “senior civil servants” is urgently needed who can be retained in the public sector even if this requires significant salary adjustment.

6. Conclusion

Evaluative Overview of the Experience in Bank-supported Projects

6.1 The agricultural projects funded by the Bank in Kenya have had widely mixed records on outcome, sustainability, and institutional development. On balance, outcome has been marginally unsatisfactory. The lack of ownership belies, in many cases, claims of project relevance. Projects seldom matched the priorities of the borrower. The ownership issue came up repeatedly in discussions in Kenya. Members of the Advisory Committee for this study identified four projects25 as “Kenyan projects, financed by the Bank.” Many of the remaining projects were regarded as “Bank projects, implemented by Kenyans.” Clearly ownership26 has gradations from, say, the research-extension projects where Kenyans largely understood and “bought into” the research component, and others, such as integrated rural development projects, that were “foreign” and remained so. While the projects more consistently met the priorities of the Bank, those priorities changed and may have been too fluid to underpin a consistent program of lending. Projects also fell short on efficacy. When objectives were not changed or dropped, they were often missed. Frequently this was because project designs inadequately considered the limitations of Kenyan institutions. As for efficiency, the use made of Bank resources has sometimes been good but more often bad. The tragedy, though, is the similar record that must apply to the use of scarce government development funds.

6.2 The overall sustainability of Bank-supported agricultural operations in Kenya has been unimpressive. The sustainability of many operations was rated unlikely, few were rated likely, and most were rated uncertain. Institutional development has been similarly lackluster. While substantial institutional development occurred in some projects, the ratings for most were modest or, in some cases, negligible. Kenya clearly continues to need improved capacity in public agencies and has a fragile counterpart situation in many private and NGO organizations.

6.3 Borrower performance has been unsatisfactory, particularly given its many broken or unmet lending conditions and its poor commitment to agreed actions. Bank performance has been somewhat better.

Major Lessons from the Past

6.4 The biggest single lesson in this study is a familiar one: ownership is vital to successful implementation and thus to development effectiveness. Such ownership has not always featured in the Kenyan agricultural portfolio, and even today may receive insufficient attention from either

25. These were the 1961 Land Settlement I Project (Loan 303), the 1964 First Smallholder Tea Development Project (Cr. 64) (Tea I), the 1968 Second Kenya Tea Development Authority Project (Credit 119) (Tea II), and the 1987 National Agricultural Research Project (Credit 1849) (NARP I). Another project, the Second Agricultural Sector Management Project (Credit 2445), had a high degree of ownership within the implementing agency of the government (MOALDM), but lacked the depth of ownership other projects experienced at the wider stakeholder level. Both the Bank and borrower intend for the 1998 ASIP initiative to have a high degree of ownership, at least by early in implementation.

26. The OED scheme for formally assessing ownership is based on a four-dimensional rating system: (a) the locus of initiative resting with the borrower; (b) the level of intellectual conviction among key policy makers; (c) expression of political will by top leadership; and (d) the strength of efforts made to develop consensus-building among diverse constituencies. It captures well the ownership concept used in this study by the Advisory Committee.
side. It is critical to future operations to know if the government has the political will to carry through on the financial and civil-service reforms restarted in 1993.

6.5 The "approval culture" that led to projects being too lightly reviewed was not confined to the Bank. It was a common problem among the donor community active in Kenya, especially on government-funded projects. Even when preparing cofinanced projects the Bank showed a strong tendency to rush on. This generalization is supported by the similarity of Bank and donor experience reported in the Chapter 3 account of integrated rural development projects.

6.6 Several factors affect development effectiveness, but an overriding one is the resources the government can afford to deliver, and thus the realism and sustainability of the development timetable. Government counterpart funding in Kenya is chronically short. Too few funds are frequently delivered too late, and thus even potentially available funding often cannot be used. Donors should not insist on inputs that the government cannot readily provide.

6.7 While some lessons learned were seemingly forgotten in developing subsequent projects, some have been applied to good effect: the history of the NARP and the creation of KARI are notable. In these cases, a staged project design included clearly articulated long-term objectives and concrete short-run goals. The participatory processes of the project deeply involved both stakeholders and donors. The result has been significant institutional development. The combination of donor harmony and in-house design was particularly helpful in this instance.

The Agricultural Sector Investment Program

6.8 The broad objectives of ASIP are hardly new to Kenya, but they continue to be relevant, as was brought out in the 1990 Sector Report (and again in the 1995 Sector Memorandum): to accelerate agricultural growth, to ensure food security, and to promote sustainable natural resource management all in the context of continuing rapid population growth. These objectives, along with the intention of having a rural strategy as a key element of the Kenya CAS, are consistent with current Bank policy in the region. The ASIP appraisal was completed in mid-1998 following some 18 months of preparatory activity. As has been noted, several functions of MOALDM are to be reorganized to adjust to the liberalized environment. The reorganization will include redefined extension services, greater privatization of veterinary and livestock management services, and concrete steps to decentralize the planning and implementation activities of the agency.

6.9 The main components of the ASIP support restructuring of the MOALDM to focus on its core service and regulatory function, and to devolve more responsibility to districts as part of a wider decentralization initiative. The components include an institutional development and capacity-building effort to link policy and regulatory work, and an agricultural and livestock services effort to focus policy and (for identified core functions) strengthen the delivery of such services. The general plans for the ASIP are thus broadly in line with the 1997 report Rural Development: From Vision to Action, which emphasizes a supportive policy environment, mobilization of private-sector initiative, and a decentralized, participatory approach to local development activities.
Afterword

6.10 *Did the Bank do well by Kenyan agriculture?* With so many operations assessed as less than satisfactory, Bank assistance cannot reasonably be claimed to have done the best that was possible. Some difficulties arose from problems within the Bank, such as tensions between technical project staff and country-oriented staff keen to accord with government investment and borrowing priorities irrespective of unresolved technical problems. Sometimes staff charged with supervision duties lacked the necessary skills for their task. The counterpart problems on the Kenyan side, especially regarding timely release of funds, have also been noted.

6.11 The MADIA study concluded that there had been a rather weak connection between the initial macroeconomic and sectoral assessment of the Bank and the projects it financed in the 1970s. These projects, the report said, did little to alleviate the policy and institutional weaknesses that the Bank was later to identify in Kenya. Furthermore, the study argued that the shift to adjustment lending did not help to alleviate fundamental constraints to economic growth in the Kenyan economy. These included the strategic planning and implementing capacity of the government and its inability to control expenditures on activities with poor national economic returns.

6.12 *But given the development challenge faced over the decades, did the Bank do a fair job? Has it learned from its experiences?* The answer to both questions is that it could have done better. One reason for this qualified optimistic assessment is the favorable progress Kenya is making on exports of old and new high-valued commodities such as flowers, nuts, and exotic vegetables. Although Bank assistance for these newer developments has largely been indirect—information provision and the promotion and maintenance of a competitive and liberal marketing stance—at least Kenyan policy has not prevented such development. Growth has also been supported through agricultural research projects underpinned by the Bank and donors.

6.13 Agricultural sector work in Kenya was broadly consistent with emerging Bank thinking about a strategy for the sector. Perhaps the biggest failure was that realistic sector work was not integrated into the broader country strategic analyses. This phenomenon is common in many Bank-country dialogues and is addressed in *Rural Development: From Vision to Action*. Realism was evidently also a problem in implementing many of the projects that followed on the sector work. This suggests that the constraints under which the government was working were more severe than Bank staff or their counterparts in the government recognized.

6.14 The Bank changed its development model over time in various ways. The initial investment thrust was driven by conventional growth economics of the day, without fully recognizing the capacity limitations of the state in entrepreneurial activities. Increasing doubts about whether trickle-down effects helped the poor led to a switch to IADPs and rural development lending. The “get prices right” thinking and the perception of the primacy of policy helped to usher in the adjustment lending phase. The new institutional economics helped to set the scene for the switched emphasis to capacity building and sector investment operations. Many evaluations did, of course, point to the obvious needs for greater human-resource capacity in Kenya.

6.15 One thing that changed little over the years was the neglect of evaluation requirements in Bank projects. Some observers of Bank operations in Kenya have opined that it should have undertaken impact studies in the agricultural sector long ago, and as a matter of routine, along
with the effective implementation of monitoring and evaluation processes. Many project designs specified such requirements, but the requirements were rarely met. Kenya still has very far to go in institutionalizing monitoring and evaluation (M&E) capability and practice. The possibilities for contracting M&E functions could perhaps be explored to get things done more quickly and possibly with greater independence, although at the cost of reduced opportunities for working more vigorously toward a self-evaluation culture. M&E should be revisited and become a high-priority item for the government, and perhaps a key element in the ASIP policy dialogue and design.