

AFRICAN DEVELOPMENT BANK GROUP



KENYA

**EVALUATION OF BANK ASSISTANCE TO THE
AGRICULTURE AND RURAL DEVELOPMENT SECTOR**

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

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ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
AFC	Agricultural Finance Corporation
AIDS	Acquired Immune Deficiency Syndrome
ARD	Agriculture and Rural Development Sector
ASAL	Arid and Semi-Arid Lands
ASAOII	Second Agricultural Sector Adjustment Operation
CPRR	Country Portfolio Review Report
CSP	Country Strategy Paper
EAC	East African Cooperation
EPCP	Economic Prospects and Programming Paper
ERR	Economic Rate of Return
ERS	Economic Recovery Strategy
ESW	Economic and Sector Work
FAO	Food and Agriculture Organisation of the United Nations
FRR	Financial Rate of Return
GDP	Gross Domestic Product
GOK	Government of Kenya
HQ	Headquarters
HIPC	Highly Indebted Poor Countries
ICR	Implementation Completion Report
IDA	International Development Association
IFAD	International Fund for Agriculture Development
IMF	International Monetary Fund
LBDA	Lake Basin Development Authority
KGGCU	Kenya Grain Growers Cooperative Union
KFA	Kenya Farmers Association
MD	Managing Director
MOA	Ministry of Agriculture
MOARD	Ministry of Agriculture and Rural Development
MOF	Ministry of Finance
MOU	Memorandum of Understanding
M&E	Monitoring and Evaluation (System)
MDG	Millennium Development Goals
MTEF	Medium-Term Expenditure Framework
NARC	National Rainbow Coalition
NEPAD	New Partnership for African Development
NEAP	National Environment Action Plan
NEMA	National Environment Management Authority
NCPB	National Cereals and Produce Board
NGO	Non-Government Organisation
NIB	National Irrigation Board
OPEC	Organisation of Petroleum Exporting Countries
OPEV	Operations Evaluation Department
PICU	Project Implementation & Coordination Unit

PCU/PMU	Project Coordination Unit/Project Management Unit
PCR	Project Completion Report
PPER	Project Performance Evaluation Report
PRSP	Poverty Reduction Strategy Paper
PTC	Project Steering Committee
SAR	Staff Appraisal Report
UNDP	United Nations Development Programme
KARI	Kenya Agricultural Research Institute
KIRDI	Kenya Industrial Research Development Institute
DANIDA	Danish International Development Agency
SIDA	Swedish International Development Agency
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

1. Objective, Scope and Methodology of the Evaluation

1.1 This evaluation report assesses the effectiveness of the Bank Group's lending strategy in supporting Kenya's agriculture and rural development (ARD) sector policies to maximize its efforts in generating economic growth and reducing poverty. The evaluation covers four completed projects, one terminated project, and two completed studies and draws lessons that may be applied to improve current and future Bank Group's operations in Kenya, and to contribute to the overall country's assistance evaluation that is planned in the near future. Three new projects, two of which were approved within the last two years and one recently appraised, are also reviewed for lessons in recent project designs that embrace pro-poor policies and strategies.

1.2 The findings of the evaluation are based on the review and analysis of data and information collected from relevant project documents and other literature relating to Bank Group's and Government of Kenya (GOK) policies, strategies and operations. A field mission to Kenya was undertaken from 19th May to 12th June, 2005 to collect additional data and information, and to consult with the officials of GOK, the implementing agencies and development partner organizations. Visits were made to selected project areas and sites to observe current operating conditions and seek the views of farmers, traders, local communities, and provincial and district administration officials.

2 Macro-economic and Sectoral Context of the Evaluation

2.1 Kenya's overall economic performance was already on a declining path by the time the Bank Group began lending to the ARD sector in the mid-1980s. The GDP growth rate, which had averaged about 7% annually in the 1960s, had declined to about 5% in the 1970s and to 4% in the 1980s. In the 1990s GDP growth declined further to 2.4%, and in the five years 1998-2002 it was growing at only 1.1% per year. The agricultural sector performed dismally, falling from 3.9% per annum in the late 1970s to 3.3% in the 1980s and to a very low of 0.4% in the five years 1990-95. Although there was some improvement in growth during 1996 to 2000 to 1.1%, the overall sector performance was erratic thereafter – marginally rising to 1.3% in 2001 but declining to 0.7% in 2002, then rising substantially to 2.7% in 2003 before falling to 1.4% in 2004. The decline in economic performance was accompanied by declines in the level of investments that reduced the country's growth potential. From the early 1990s until the early 2000s the Bank Group, which is one of the major financiers of the Kenyan economy, reduced (along with other development partners) its level of new commitments to the country. In the ARD sector, the Bank Group made no new commitments after 1993 until 2003.

2.2 The poor performance of the economy as a whole and of the agricultural sector in particular, had a considerable negative impact on the country's poverty situation, which continuously worsened from the mid-1980s. The poverty rate (% of the population living below the poverty line) rose from 48.4% in 1990 to 52% in 1997 and further to 55.4% in 2001 and was 56.8% in 2003. This high national poverty rate hides the extremely skewed nature of poverty distribution in the country where, in some regions, poverty rates are as high as 65% or more while as low as 30% and below in parts of the Central Region. Poverty rates are particularly high in the districts of the ASAL region where poverty levels reach 80% - 90% in some districts. Factors that contributed to the increase and intensification of poverty in Kenya included frequent unfavorable weather conditions, deteriorating physical infrastructure, and poor governance and security.

2.3 The NARC government which took power in 2002 recognized the debilitating impacts of these constraints on the economy and launched the *Economic Recovery Strategy (ERS) for Wealth and Employment Creation* in 2003 which, among other priorities, emphasized the revitalization of the agriculture sector as the engine of the economy. The ERS's three key pillars are: accelerating economic growth; promoting equity and poverty reduction; and enhancing good governance. In the context of the ERS, the Strategy for Revitalizing Agriculture (SRA) was formulated in 2004 to provide a policy and institutional environment that is conducive to increasing agricultural productivity, promoting investments, and encouraging private sector involvement in agricultural enterprises and agribusiness development.

3 Bank Group Assistance and Impacts

3.1 Historically, the Bank Group focused its assistance on the transport, industry and public utility sectors and the agriculture and rural development sector occupied a relatively low position, with only 16.5% of total committed resources going to the sector on a cumulative basis as at June 30, 2005. The main intervention areas have been in crop production, livestock development, and natural resources and environment management. These interventions were relevant to the needs of the country and were consistent with the plans and priorities of the government as set out in the various development plans of the time.

3.2 The portfolio did not, however, evolve smoothly and coherently overtime, and was below the optimal level in terms of targeting of sub-sectors and in terms of the importance and role of the ARD sector in poverty alleviation in Kenya. On the whole, the portfolio did not achieve its major immediate and development objectives. The immediate objectives related to the establishment of the institutional structures for project management and implementation (which were not achieved except for the Nyayo Tea Zones Development Corporation), while the development objectives related to increased and sustained agricultural outputs – rice, pigs and pig meat, smallholder horticulture, etc.. Again the exception was Nyayo Tea Zones Project, which achieved increases in tea plantings and output, wood plantations, etc.

3.3 The portfolio's use of resources was highly inefficient. The assistance was characterized by over-extended implementation periods resulting in cost over-runs and/or cut-backs on outputs, idle and/or under-utilised capacity, low project disbursements, and low credit utilizations and recoveries. The projects' contribution to institutional development was also not substantial despite some successes in ASAO II and Nyayo Tea Zones Project. The main reasons were: (a) inadequate project preparation and poor quality at entry; (b) inadequate attention to establishment of effective project management systems in advance of project start-ups; and (c) inadequate articulation of the roles of the PCUs vis-à-vis line ministries and of the roles and functions of collaborating institutions.

3.4 In their current state, the sustainability of project results (where any exist) are unlikely, except for Nyayo Tea Zones Project which will be sustained through the newly appraised Green Zones Development Support Project, whose original scope has been expanded to incorporate local communities and other stakeholders as direct participants. There are opportunities for reviving the West Kenya Rain-fed Rice Project if substantially redesigned and if farmers and private sector millers are fully incorporated. Some components of the Pig and Horticulture Projects are being or likely to be continued in the ASAL-based Livestock and Rural Livelihoods Project and Smallholder Horticulture Development Project, respectively. These projects are, however, being implemented in areas of the country different from the original locations.

4. Conclusions, Lessons and Recommendations

4.1 Several factors contributed to the poor performance of the completed projects, but the most significant ones related to: a) ineffective institutional arrangements for implementation which resulted in process-related failures – e.g. poor procurement, disbursement, fulfillment of covenants, etc; and b) inadequate preparation, appraisal and selection of appropriate strategies and technological packages which resulted in, among other things, low or poor responses from the farmers.

4.2 The key lessons that emerge from these principal failures are: (a) that successful implementation of development assistance and the achievement and sustainability of its long-term development objectives is predicated upon: (i) initial satisfactory relevance and quality at entry; (ii) substantial institutional and human resource capacity development at all critical levels, including at beneficiary levels; (iii) government commitments through institutional and financial support; and (b) that appropriate choices of technology, through rigorous analysis and assessment of different strategic options, can enhance the relevance and rapid acceptance of projects by local communities. Proper choice of technologies is enhanced where detailed analyses are made of the constraints, potentials and options available to farmers. Conversely, farmers' responses can be vastly improved: i) through an early and active involvement in the project identification and promotion, and ii) by focusing on the problems, constraints and opportunities that relate to their basic agriculture needs as a priority, with diversification into other (or new) enterprises to increase or stabilize income sources as appropriate.

4.3 These lessons are familiar and generic and have already been largely incorporated in the design of current or recently appraised projects. They are re-iterated here for purposes of emphasis and to under-score the fact that insufficient attention to them was largely responsible for the past poor performance of Bank Group's assistance to the ARD sector. The Bank Group needs to ensure that, in designing its assistance to the ARD sector in Kenya or elsewhere, the factors of success that are implied in the above lessons are in-built into the assistance design.

1. BACKGROUND

1.1 Objective, Scope and Methodology of the Evaluation

1.1.1 A three-man mission from the Operations Evaluation Department (OPEV) evaluated the Bank Group's assistance to Kenya's Agriculture and Rural Development Sector (ARD) during May to July 2005. The overall objective was to assess the effectiveness of the Bank Group's assistance strategy in supporting Kenya's ARD policies and priorities so as to maximize the effectiveness of its efforts in generating economic growth and reducing poverty. The specific purpose was to draw relevant lessons that would contribute to curving out more effective and efficient strategies for future Bank Group assistance to Kenya, and to provide input for the overall country assistance evaluation that is planned for the near future.¹

1.1.2 The evaluation findings are based on assessment of four completed projects, two completed studies, and three recently approved projects which are at various stages of implementation. The evaluation notes that the Bank Group at some time in the past approved the financing of three projects in the sugar, livestock and environment sub-sectors which were subsequently not implemented and therefore aborted. These projects are not covered by this evaluation. Details of the Bank Group ARD sector portfolio are given in Annex 1, Table 1 and in Annexes 2 and 3.

1.1.3 The evaluation was undertaken in two phases. The first phase consisted of a field mission to Kenya from 19 May to 11 June 2005 during which data and other information was collected: (i) from project documents and other relevant literature and from consultations with the officials of the Government of Kenya (GOK), implementing institutions and development partner agencies; and (ii) during visits to selected project areas to observe current operating conditions and seek the views of farmers, traders, local communities, and provincial and district administration officials. Initial data analysis and evaluation of projects was also carried out during this phase. The second phase of the evaluation was carried out at the Bank Group's Temporary Location Headquarters in Tunis where additional documents were reviewed and further consultations were carried out with relevant Bank Group Task Managers, policy makers and experts to obtain additional information and complete the evaluation and ratings of projects.

1.1.4 The evaluation findings are presented in chapters 3, 4, and 5, and are preceded by chapters 1 and 2 which provide the background and context of the evaluation. Chapter 6 discusses the implementation performance of the Bank Group and the Borrower/Executing Agencies, while chapter 7 presents a summary of key lessons learned and recommendations for follow-up actions.

¹ The country assistance evaluation will cover the period from 1994 to 2004, during which time the Bank Group produced three Country Strategy Papers (1996-1998, 1999-2001, and 2002-2004) to guide its lending strategy in the country.

1.2 Country Macro-Economic Context

1.2.1 Kenya occupies 587,000 km² in East Africa², where it stretches along the Indian Ocean Coast in the east, and from the borders of Tanzania in the south to the borders of Ethiopia and Sudan in the north. Kenya is also bordered by Somalia in the east and Uganda in the west. With an estimated population of 33.6 million in 2004, the national average population density on the land works out to 58 people per km². However, natural ecological factors have influenced the location of settlements and production, resulting in very wide variations in the regional and/or local distribution of population densities. Thus, in the high and medium potential land (HMPL) area, which is found in the humid and semi-humid zones and constitutes only 16% of the land surface, population densities are 400 people per sq km or more. On the other hand, in the arid and semi-arid land (ASAL) area, which constitutes 84% of the land surface, population densities are as low as below 10 people per sq km.

1.2.2 Approximately 80% of the Kenyan people (most of whom are small-scale farmers) live in the rural areas where they directly or indirectly depend on agriculture for a living. Poverty and unemployment levels are high and have been rising. Reports of the government's Welfare Monitoring Surveys (WMS) show that the number of the poor increased from 11.3 million (or 48.4% of the population) in 1990 to 15 million (or 52% of the population) in 1997, and by 2001 the number was estimated to have reached 17.1 million or 55.4% of the population, and has further risen to 56.8% in 2003. Poverty is more widespread and intense in the rural areas (63%) than urban areas (49%) and there are wide variations in its regional and/or local distribution, with Central Province at 31% and Nyanza Province at 65%. Rural poverty varies with the ecological zones and is more dominant among smallholder farmers and pastoralists who constitute over 50% of the poor. In the humid and semi-humid areas where population densities are highest, decreasing farm sizes contribute to poverty while landlessness is also on the increase. In the ASAL areas, poverty rates are more than 70%, and as high as 84% in some districts. Limited access to new technologies, inputs and markets is a major factor in the pervasiveness of poverty and is especially serious in the ASAL regions.

1.2.3 Among the major reasons for rising poverty in Kenya has been the decline in overall economic performance in the past two or three decades. From the long-term historical perspective, Kenya's GDP growth fell from an annual 7% in the 1960s to 5% in the 1970s and further to 4% in the 1980s and 2.4% in the 1990s. More recently, the economy (real GDP) grew by 4.3% in 2004 (compared to 2.8% in 2003 and 0.2 in 2002). The sectors that registered the highest growth were tourism and hotels (15%); transport and communication (9.7%); and retail trade and repairs (9.5%). Employment in the formal and informal sectors registered modest growth (6.5%) while real wages rose by only 4.4% against the backdrop of an annual inflation rate of about 12% that has since surged to about 15% in April 2005. Interest rates rose gradually and more than doubled towards the end of the year 2004 as the Kenya Shilling remained stable against most major currencies (ending the 2004 at Ksh79 per US\$ compared to Ksh76 at the end of 2003). The trade deficit rose to Ksh 149 billion compared to Ksh 99 billion in 2003 due to a large import bill that rose only marginally.

1.2.4 The poor economic performance has been attributed to : (a) frequent unfavorable weather conditions which have had adverse impacts on the productive sectors, especially the agricultural sector

² The total surface area of 587,000km² includes about 11,000 km² of open water, leaving 576,000 km² as land area (GOK – Strategy for Revitalizing Agriculture, March 2004 p.5). However, other figures by World Bank: African Development and World Development Indicators, ADB, etc show different figures ranging from 580-583,000 km².

whose performance has been below the level necessary to sustain adequate food security; (b) the deteriorating physical infrastructure and high energy costs which substantially raised the cost of doing business; and (c) poor governance and security that reduced investor confidence and deterred resource flows from bilateral and multilateral donors. The NARC government which took power in 2002 recognized the debilitating impacts of these constraints and launched the *Economic Recovery Strategy (ERS) for Wealth and Employment Creation* in 2003 which, among other priorities, emphasized the revitalization of the agriculture sector as the engine of the economy. The ERS outlines the government's policies and strategies, based on the principles of democracy and people's empowerment, and is under-written by the *ERS Investment Program Action Plan (ERS IPAP)* which articulates a results-based programme of priority actions to meet the medium-term objectives of the ERS. The ERS/IPAP focuses on three key pillars, namely: accelerating economic growth; promoting equity and poverty reduction; and enhancing good governance.

1.3 Agriculture and Rural Development Sector Context

1.3.1 Apart from sustaining most of the rural population through subsistence, agriculture makes a major contribution to GDP, export earnings and government revenue. During the years 1996-2000, agriculture contributed about 24.5% of the GDP and directly employed 51% of the workforce (Kenya, 2002). The percentage share of agriculture's contribution to GDP, however, declined from 32.6% in 1980 to 19.9% in 2000 and is currently estimated at 23.7% (Kenya, 2005). The sector thus continues to play a significant albeit declining role in the Kenyan economy.

1.3.2 The agriculture sector growth declined as the overall GDP performance declined, from an annual average of 3.9% in the 1970s to 3.3% in the 1980s and to a very low of 0.4% between 1990 and 1995. During the past decade sector growth has not only been below optimal levels to match population growth but has also been erratic. From an annual average of 1.1% between 1996 and 2000, the sector's growth rate increased to 1.3% in 2001 before declining to 0.7% in 2002, then performed better in 2003 at 2.7%, but fell again to 1.4% in 2004. This must have impacted negatively on the GDP growth considering the important linkages that this sector has with other sectors such as processing and transport. Except for maize (the main staple cereal in the food security equation) whose output declined from 2.5 million tons in 2003 to 2.1 million tons in 2004 due to poor rains in the main growing districts, most other agricultural enterprises (wheat, tea, horticulture, sugar cane and dairy) performed well. Commodity prices fluctuated, and while those of coffee and maize increased by 50% and 29%, respectively, those of pyrethrum and livestock (beef and pigs) declined.

1.3.3 The poor economic performance has impacted adversely on agriculture and hence household incomes, and the country now faces the twin challenge of reducing poverty and achieving sustainable economic growth as envisioned in the *Economic Recovery Strategy for Wealth and Employment Creation (ERS)*. The desire to alleviate poverty arises from the realization that economic growth, although necessary, is not a sufficient condition to guarantee poverty reduction. Economic growth and poverty alleviation are inextricably linked to agricultural sector performance and, more specifically, to the smallholder agriculture.

1.3.4 The main concerns and challenges of the ARD sector can thus be summarized as: a) low agricultural productivity (production intensification and value addition); b) poverty and food and nutrition insecurity; c) low capacity for employment creation; d) poor rural infrastructure; e)

environmental degradation; and f) HIV/AIDS and its impacts on agriculture. Transformation of the ARD sector, and hence the tackling of these concerns, is a continuing process requiring policy reforms in several key areas including agricultural policies, food security, access to input and commodity markets, industrialization, small and micro-enterprises, and regional and global markets. In the context of the ERS these priority reforms are being addressed through the Strategy for Revitalizing Agriculture (SRA), the main objective of which is to provide a policy and institutional environment that is conducive to increasing agricultural productivity, promoting investments, and encouraging private sector involvement in agricultural enterprises and agribusiness development.

1.4 Bank Group's Historical Relationship with Kenya

1.4.1 The Bank Group's activities in Kenya had an inauspicious beginning, first with a small loan for the road sector in 1967 and then other small loans extended during the 1970s. By the end of that decade the total portfolio was only UA 45.14 million, all of it in the transport, industry and utilities sectors. The portfolio expanded rapidly during the 1980s and the early 1990s, but slowed down during the latter part of the 1990s until the turn of the millennium. During the last two years of the CSP programming cycle 2002-2004, the Bank Group approved new projects totaling UA 93.87 million in all key sectors except the transport sector and the multi-sector, signifying a new surge of interest to boost its overall portfolio standing. By 30 June, 2005 the total cumulative country portfolio stood at UA 657.40, of which UA 211.33 million was from the ADB Window, UA 431.95 from ADF Window (loans and grants), and UA 14.71 million from the Technical Assistance Fund (TAF). The loans have supported thirty-six projects, five lines of credit and four policy-based operations, while the Technical Assistance Fund (TAF) has supported seven studies and three institutional support programmes (Annex 1, Table 2).

1.4.2 The historical trend of lending shows, firstly, that the Bank Group focused its assistance on the transport, industry and public utility sectors right from the beginning and, secondly, that the main lending instrument for these sectors was the ADB Window – out of 22 ADB loans extended to Kenya, 21 were for projects in these three sectors while one financed the Agricultural Sector Adjustment Operation. Most of these loans were extended during the 1970s and the 1980s when the Kenyan economy was regarded as robust. While this is not entirely true today, it was a reasonable bet at the time. The Kenyan economy grew at about 7% in the 1960s, and although it slowed down to 5% during the 1970s and to 4% during the 1980s it was still relatively prosperous. The Kenyan economy also had a relatively strong manufacturing sector unlike most of the countries in Sub-Saharan Africa. In the Bank Group's lending strategy Kenya qualified for both the ADB and ADF Windows.

1.4.3 The agriculture and rural development sector, on the other hand, has occupied a relatively low position in the Bank Group's lending to Kenya, with only 16.5% of total committed resources going to the sector on a cumulative basis as at 30 June, 2005.. The first active sector involvement began in 1987 but there was no steady build-up of the portfolio except during the period 1991 to 1993 when four new projects were approved. For ten years from 1993 to 2003 the Bank Group made no new project commitments to the sector although it approved and financed two studies – the Ewaso N'giro River Catchment and Water Resource Development Study in 1997, and the Kimira-Oluch Small-holder Irrigation Development Study in 1998. In December 2003 the Bank Group approved the ASAL-based Livestock and Rural Livelihoods Support Project and in April 2005 the Ewaso N'giro North Natural Resources Conservation Project. Together with Kimira-Oluch Small-holder Irrigation Project which is

awaiting appraisal and the Small-holder Horticulture Project now under preparation, these projects represent a new resurgence of interest by the Bank Group in the sector.

1.4.4 The main areas of Bank Group interventions have been in crop production (rice, tea horticulture and traditional food crops), livestock development and natural resource and environment management. The completed portfolio performed poorly and did not achieve their intended objectives and one project was terminated before it was fully implemented. Among the fully implemented projects only one was successful while the others registered failures. The portfolio was affected by, amongst other things, general and project-specific disbursement sanctions against the country during most of the 1990s. Sanctions were imposed mainly on account of management and accounting problems and were a sign of poor relationships between the lender and borrower, which were exacerbated by poor communication.

2. BANK GROUP'S ASSISTANCE TO THE AGRICULTURE SECTOR

2.1 Government's Policy Reforms and Strategy for the Agriculture Sector

2.1.1 In the period after independence, the Kenyan Government adopted a policy of heavy controls in both production and marketing. Kenya also pursued an import substitution strategy that put emphasis on foreign exchange savings and national self-sufficiency especially in food production. During the 1980s and the 1990s, the Kenyan economy declined substantially due to, amongst other things, poor economic management and poor governance, inefficient public sector and weak institutional capacity, unfavorable business environment, and deteriorating infrastructure. These factors combined to stifle the development of the private sector and reduced the growth potential of the economy including that of the agricultural sector which, in addition, suffered from frequent unfavorable weather conditions, poor marketing infrastructure and poor access to financial services.

2.1.2 Although the government responded to these problems with several policy measures, it was not until 1986 when, with the launch of a comprehensive structural adjustment programme in "*Sessional Paper No. 10 of 1986 on Economic Management for Renewed Growth*," it committed itself to liberalize the economy and adopt a more open and outward looking development strategy. The key reforms included trade liberalization which, at the macro-level, was expected to contribute towards improvement of real GDP growth by enhancing competitiveness, productivity and a shift towards value addition. The era of liberalization has, however, been marked by lack of harmony and poor coordination of the implementation process. Furthermore, because of lack of full commitment on the part of the government the reforms were initially unsuccessful, particularly with respect to liberalization of domestic prices and the external sector. This was compounded by the general lack of fiscal discipline and the poor performance on governance issues. The donor community became increasingly dissatisfied with the pace of the reforms and suspended balance of payments support in 1991.

2.1.3 In *Sessional Paper No.1 of 1994 on "Recovery and Sustainable Development to the Year 2000"*, the government made renewed efforts towards economic recovery by implementing reform measures including strict macro-economic management. The policy reform agenda for the period 1996-1998 was set out in the Policy Framework Paper (PFP) in which the IMF agreed to provide financial support under the Enhanced Structural Adjustment Facility (ESAF). But the reform programme was dogged by government's difficulties in meeting some of the conditionalities laid down by the donors, and eventually collapsed when ESAF was cancelled in 1997. With the collapse of the PFP objectives, there was little further progress until the government came up with the *2000-2003 Interim Poverty Reduction Strategy Paper (I-PRSP)*, whose objectives were similar to those identified under the PFP and therefore was a re-newed effort to implement the PFP programme.

2.1.4 The current government strategy, which is enshrined in the *poverty reduction strategy paper (PRSP)*, aims at eradication of poverty through employment creation and increased productivity especially in the rural sector where the majority of the population lives and derives their livelihood. Closely following the PRSP, two other strategic documents were published during the transition to the new government in January 2003: the manifesto of the incoming NARC government (NARC, 2002) and a strategy for Economic Recovery (Kenya, 2003). These documents, and several others, state the overall policy objectives of the government to tackle the problems of food insecurity, poverty, and poor access to clean water and sanitation facilities and broad goals of industrialization. To specifically address poverty among smallholder farmers and pastoralists, the government launched in March 2004 the Strategy for Revitalizing Agriculture (SRA, 2004-2014). The SRA has identified five critical areas for public action to facilitate agricultural transformation. These are: (i) reform of the legal and regulatory framework for agricultural operations; (ii) reform of the extension services; (iii) promotion of research and development; (iv) establishment and development of a market-based agricultural credit and inputs system; and (v) promotion of domestic agro-processing for value-addition.

2.1.5 The development of the agricultural sector is given top priority in the process of poverty reduction and the ERS has set a specific sector growth target of 3.1% during 2003 - 2007, reaching 5% by 2007. In the medium to long-term, the sector targets are: (a) to reduce the proportion of the population below the basic poverty line from 56% in 2000 to 26% by 2010; and (b) to reduce the number of people who are food-poor from 48.4% to 23.5% in 2008 and below 10% in 2015. Prospects for achieving these growth and poverty reduction targets will depend heavily on: (i) the revival of the coffee, cotton, pyrethrum, cashew nuts, bixa and sugar-cane sub-sectors; (ii) improved performance of maize, tea, domestic or export horticulture, wheat, potatoes, oilseeds, and dairy and beef products; and (iii) the introduction of other high value crops like oil palm, vanilla and aloe vera.

2.1.6 Certain advantages which Kenya can exploit to build a robust and dynamic agricultural sector have been identified to include (i) the capacity to provide quality research in crop and animal production technologies using its fairly well developed network of research institutions; (ii) a relatively well developed human resource capacity including training institutions; and (iii) its location along a major sea front and a combination of sea and air routes that provides opportunities to exploit the benefits of regional and international trade. Kenya has ambitious programs for industrialization, commercialization of agriculture, and development of small and micro-enterprises. Investment in education and information, rehabilitation and development of rural infrastructure, and institutional reform and capacity development are other areas identified as constituting principal opportunities for enhancing agricultural growth.

2.1.7 For decades Kenya has tried to enhance its food security through the maintenance of a strategic grain reserve, but the policy was unable to achieve its target of 3 million bags of maize and a reserve of US\$ 60 million of foreign exchange. The Ministry of Agriculture placed more emphasis on production at the expense of markets and relied on poorly managed and inefficient agricultural marketing institutions. The failure of food security policies that rely heavily on food retention strategies, and the need for alternative policies that rely on efficient markets, has been recognized and there is now a paradigm shift towards a better recognition of the role of markets and value addition. Improving access to input and commodity markets has therefore become a strategic policy area for reforms.

2.2 Bank Group's Sector Strategy - Congruence to Government Strategy

2.2.1 The evolution and congruence of Bank Group's assistance to the ARD sector in Kenya can be traced from 1986 with the approval of West Kenya Rainfed Rice Development Project. As noted earlier (para 1.4.3), the portfolio did not evolve smoothly and coherently overtime. As it began with a relatively large rice project the Bank Group had not accumulated sufficient previous country experience to go by³. Moreover, it had not as yet developed its own country-specific sector lending strategy and guidelines. In these circumstances, the Bank Group relied on the Government's request and preparation to finance the West Kenya Rain-fed Rice Project. The project supported the key government's policy of increased agricultural production with emphasis on achievement of food self-sufficiency. Both the 5th Five-Year Development Plan 1984-88 and Sessional Paper No 10 of 1986 articulated this policy.

2.2.2 Following the launch by the government of its 6th Five-Year Development Plan 1989-1993, the Bank Group launched its first Economic Prospects and Country Programming (EPCP) document for Kenya in July 1989. Among the objectives of the five-year plan were the creation of a more competitive environment for agricultural production by phasing out import restrictions and rationalizing the tariff structure. The liberalization of the maize and fertilizer markets were among the key objectives of the government, which also included increased agricultural and livestock production with continued emphasis on food self-sufficiency and increased export earnings. The Bank Group appraised and approved three projects during this period, namely: (i) the Agricultural Sector Adjustment Operation II (February 1991); (ii) Nyayo Tea Zones Improvement and Forest Conservation Project (May 1991); and (iii) Kenya Livestock (Pig) Project (June 1992). Although the Bank Group developed its first Africa-wide Agricultural Sector Policy in 1990, it had limited use in guiding the lending program because the projects were either already identified or appraised when the policy was rolled out.

2.2.3 The major objective of the Bank Group's lending program for the period 1993-1995 was to support the government's adjustment, growth and development priorities as operationalised in the series of macro-economic and sector adjustment programs of the time. At the same time the Bank Group intended to finance selected projects that were consistent with overall growth and development priorities of the government as contained in the Public Sector Investment Plan (PSIP). The lending strategy was to concentrate on: (i) agricultural development especially small-scale farming and agricultural extension services; (ii) promotion of small-scale trade and exports; and (iii) poverty alleviation. Although UA 150 million was envisaged for the program of which UA 50 million or 30%

³ The Bank Group's earlier attempts had aborted (Ramisi Sugar Rehabilitation in 1978, and Sheep and Goat Project in 1985).

was for the agriculture sector, only UA 40.69 million or 27.1% of the indicative allocation was approved for Kenya. This included UA 9.21 million for the Horticulture and Traditional Food Crops Project which represented only 18.4% of the total earmarked for agriculture. This large shortfall in secured resources was due to the delays in concluding ADF VI replenishment.

2.2.4 The Horticulture and Traditional Food Crops Project was the last commitment by the Bank Group in the 1990s, except for two studies which were approved in June 1997 and November 1998 (see para 1.4.3). During this period the Bank Group prepared and laid down its lending strategies in three Country Strategy Papers: (a) the 1996-1998 strategy was built on the government's 1994 Sessional Paper and the 1996-1998 Policy Framework Paper, but as seen earlier (para 2.1.3), that program collapsed when Government's relationship with the donors deteriorated - in the agriculture sector the Bank Group portfolio had been assessed as performing poorly and was in fact deteriorating; (b) during the CSP period 1999-2001, the Bank Group strategy was to assist the government in pursuing its poverty alleviation strategy through the development of selected sectors that accelerate economic growth - in the agriculture sector the strategy would support rural infrastructure including irrigation, with special emphasis given to the ASAL areas.

2.2.5 The three agriculture and rural development projects that were targeted during the 1999-2001 CSP period, namely Ewaso N'giro River Catchment Development Project, Kimira-Oluch Small-holder Irrigation Development Project, and National Livestock Development Program did not materialize because: (i) the studies for the first two had not been completed until December 2002 and June 2003, respectively; and (ii) the appraisal of the National Livestock Development Program which had been prepared by FAO Investment Centre in 1999 was not completed until September 2003. Thus, all the CSP 1999-2001 planned interventions were carried forward to CSP 2002-2004. The CSP 2002-2004 strategy for the ARD sector, like the 1999-2001 strategy, focused on the ASAL areas in order to support the government's policy of mainstreaming the hitherto neglected area into the national economic systems. It also supported the ERS pillar of improving equity and reducing poverty.

2.2.6 The above assessment of the evolution of the Bank Group's intervention strategies reveals, firstly, that the Bank Group's strategies were congruent with the government's strategies. The Bank Group ensured this as a matter of policy as well as procedure. The Bank Group's approach and operational procedure (especially during 1999-2001 and 2002-2004) was to ensure that it was in consonance with the government at each stage of the project cycle. This was especially illustrated in the ASAL-based Livestock and Rural Livelihoods Project where three appraisal missions visited the country in the space of two and half years to ensure that any changes in government's priorities were reflected as they occurred overtime. Secondly, the Bank Group put emphasis on studies during the recent years, which reflected the fact that: (i) it placed a premium on the quality of projects, (ii) it had changed its approach from merely taking projects from the government's priority lists to involvement in the technical, economic, financial and socio-political analysis of projects; and (iii) there has been increased participation of stakeholders at the grassroots.

3. BANK GROUP'S LENDING ACTIVITIES

3.1 Description of Lending Activities - Composition and Status

3.1.1 This section presents the findings and the evaluation results of the completed lending activities of the Bank Group, which consists of four completed projects, namely: a) West Kenya Rain-fed Rice Development Project, b) Agricultural Sector Adjustment Operation II, c) Nyayo Tea Zones Improvement and Forest Conservation Project, and d) Kenya Livestock (Pig) Project. These projects account for 55.5% of funds approved for project lending in the ARD sector to-date, inclusive of environment, and for 98% of funds disbursed for projects. They have been financed with one ADB loan, four ADF loans and one TAF grant. The Horticulture and Traditional Food Crops Development Project, which was terminated after only one disbursement of UA 0.22 million (2.39% of approved loan), has not been evaluated but relevant experiences and lessons from the efforts put into it have been appropriately incorporated into the findings. Annex 1, Table 1 provides details of approved and disbursed funds for the completed and terminated projects, Annex 2 summarizes basic project information for all projects, and Annex 3 presents evaluation ratings for four completed projects.

3.1.2 The evaluation also discusses as a group (Annex 3: Addendum Notes on New Projects), three recently approved or appraised projects that might provide useful lessons on the way the Bank Group currently identifies and designs projects that focus on poverty eradication, taking into account lessons from the past. These projects are: the ASAL-based Livestock and Rural Livelihoods Project (ALDP), Ewaso Ng'iro North Natural Resources Conservation Project (ENNNRCP), and Kenya Green Zones Development Support Project (KGZDSP). Basic information on these projects is summarized in Annex 2 together with other projects.

3.2 Relevance

3.2.1 The Bank Group's assistance to Kenya's ARD sector, although narrowly focused and lacked some coherence, was relevant to the country. The assistance covered three main areas: a) increased crop and livestock production (rice, horticulture, traditional food crops, tea, pigs); b) natural resources conservation (forests); and c) policy reforms and capacity building for policy analysis and economic planning. These areas were consistent and congruent with the government's goals and priorities for increased food production and food self-sufficiency (rice, maize, pigs/pig products, traditional food crops) and increased foreign exchange earnings through export promotion (horticulture, tea) and import substitution (rice, pig products).

3.2.2 The Bank Group's assistance demonstrated some strengths as well as weaknesses that were especially highlighted in the individual projects. The strengths related to the appropriateness of the conceptions and intentions that ensured consistency with the priorities of the government. Thus, *West Kenya Rain-fed Rice Development Project* was, for instance, conceived to respond to the country's need for increased food production and the government's priorities for food self-sufficiency, which was a key objective of the Five Year Development Plan 1984-1988, while *Nyayo Tea Zone Improvement and Forest Conservation Project* addressed the country's needs for natural forestry conservation since Kenya's forests have dwindled considerably due to encroachment by people seeking more agricultural land. Both the *Kenya Livestock (Pig) Project* and the *Horticulture and Traditional Food Crops Development Project* were similarly conceived by the government to address

identified needs – in the case of the former it was the need to supply the requirements of the tourist and hotels industry with pig products, and in the case of the latter it was to tap into the expanding export market for horticulture products following the success with the growing and selling of Asian vegetables. All projects, except Nyayo Tea Zones, had novel concepts of involving small-scale producers as beneficiaries and of modernising traditional food production and processing and improving food security.

3.2.3 The Bank Group's completed projects had two principal weaknesses that related to the inadequacy of the strategies and the institutional machinery to achieve the objectives and targets set for them. Firstly, the Bank Group's ARD sector portfolio lacked a strategic coherence and sub-sectoral focus towards poverty eradication. The disparate nature of the portfolio reflected the fact that the projects were mainly centrally driven and the Bank Group responded according to the Government's "shopping list" of priorities. An important contributory factor was the fact that the completed projects were appraised and approved during the time when: a) the Bank Group had not accumulated sufficient experience with the situation in the ARD sector in Kenya; and b) it had not yet developed its own guiding policies and strategies towards the sector and therefore relied almost entirely on following government's policies and priorities. The top-down planning approach did not facilitate adequate assessment of the various alternative strategies or options to guide the interventions, especially in terms of the basic technical and institutional requirements for successful project implementation. Secondly, the Bank Group's interventions were not adequately backed by thorough analyses of the socio-economic and production constraints and the potentials of the farming communities, including the fact that the technological requirements for the new enterprises might call for substantial local adaptation.

3.2.4 One of the consequences of these weaknesses was that the Bank Group's ARD portfolio during the past two decades has been below the optimum level in terms of targeting of the sector's goals and objectives as well as in terms of volume of assistance. Although the Bank Group and the GOK showed keen interest in identifying and preparing agricultural projects and programmes, very few were implemented as a number of these initiatives were aborted for several reasons just prior to implementation or during the early years of implementation. Another consequence was that some of the projects had unclear or exaggerated targets. In the case of West Kenya Rice Project, for instance, the target number of farmers (21,600) and the target crop area (21,600 ha) and yields were exaggerated at appraisal. The over-optimistic annual paddy production target of 54,000 metric tons led to costly investments in a rice mill complex (24,000 metric tons of paddy per year) that is now an idle *white elephant*. A more realistic assessment, undertaken by LBDA later, down-sized the potential area for rice production to about 10-12,000 hectares.

3.2.5 The projects also did not garner sufficient response from producers and small/medium-scale processors during implementation despite considerable amount of sensitisation and promotion. As already noted, the projects were mainly identified and designed from the centre but the promoters did not immediately follow up with involving farmers in the early stages to ensure their early acceptance and commitments, and there was no follow up with the necessary feasibility and preparation studies that would have identified the technical, economic and financial viabilities of the proposals as well as the socio-economic and other constraints of farmers.

3.2.6 The Nyayo Tea Zones project should, however, be seen in a rather different light among the Bank Group's completed projects. The project had a simple but effective design strategy to create buffers between the local communities that encroach on the government forests and the forests to be protected. Tea plantations provided such an effective barrier. In addition, fuel wood plantations were planted which basically supplied energy for tea processing factories but also, as a side benefit, aimed to meet the needs of the local population by supplying branches and cuttings. Another side benefit was employment in tea plantations for job seeking members of the local communities. But, despite these good attributes, the project should be seen as directly meeting the needs of the Government to protect the central forest estate while providing a commercial/business enterprise opportunity – the growing and selling of green-leaf tea and fuel-wood to tea factories - for Nyayo Tea Zones Development Corporation (NTZDC). This symbiotic relationship, which appears to have been a success, did not consider or place the real needs of the local population into the equation – the real reasons they encroached on forests, e.g. the high demand for agricultural land, the need for income generating enterprises, etc. Hence, the project design was too narrowly focused and the only real beneficiaries were the government and its parastatal institution.

3.3 Achievement of Objectives (Efficacy)

3.3.1 On the whole, the Bank Group's completed aid portfolio in the ARD sector did not achieve its short or long-term development objectives and is therefore assessed as **unsatisfactory** in this respect. The immediate objectives related to the creation of the institutional structures for project operations, for instance training and institution capacity building, research and extension, credit management arrangements, infrastructure (rural roads), etc, most of which were not achieved. Some exceptions were the Nyayo Tea Zones Project which strengthened institutional capacity of the Nyayo Tea Zones Development Corporation, and the West Kenya Rainfed Rice Project which established substantial infrastructure in the project area - the rice mill complex, warehouses, zonal stores, housing units, etc.

3.3.2 Long-term development objectives related to increased and sustained agricultural outputs – rice, pigs and pig meat, horticulture by small farmers, tea / fuelwood plantations - with a view to achievement of sector goals of increased incomes and improved food security. Only Nyayo Tea Zones Project satisfactorily achieved its objectives (see Annex 2 for details of achievements), while the Horticulture and Traditional Food Crops Project never made a real start towards actual production. The number of farmers that participated and benefited from the pig project (about 280) fell short of the target of about 530 at appraisal, while the number of pigs actually produced was about 50% of the target of 140,000 pigs. The project also targeted 6 processors but only 3 were identified of whom only one actually obtained the credit. In the West Kenya Rain-fed Rice Project and in the other projects the M&E system did not capture data on the number of farmers and the actual acreage of rice on a systematic basis. The information from the PIUs and LBDA and from Bank Group Supervision Reports, however, indicates low response by farmers and the objective of increased rice production was not achieved. Reported yields were about 10 bags per acre instead of 15-20 bags estimated at appraisal, and the total area under rice did not probably exceed 5,000ha. At the rice mill, the highest amount ever processed was 5,575 metric tons and the mill achieved only 23% of its capacity.

3.3.3 With regard to sector and social goals of increased incomes, improved food security, equity and employment, it is noted that: (a) rice production in Western Kenya actually fell during the project period and continued to decline after the project ended; (b) farmers' incomes did not rise and risks were not minimized as they were paid rather erratically by the project before they switched to

middlemen; (c) an increase in the number of small pig butcheries with pork joints attached indicate that the consumption of pork (outside the tourist circle) had increased - the number of pigs slaughtered increased from 84,000 in 1990-92 to 113,000 in 1995-98, and to 171,000 in 2002-04, which was attributed to the campaign by the farmers, assisted by extension staff and propelled by market dynamics; d) the project promoters appeared not to have considered sufficiently the socio-cultural aspects of the project area where dairy and coffee farming has a higher priority over pigs; and (e) while evidence of achievement of equity and employment goals were hard to come by in most of the projects⁴, the Nyayo Tea Zones Project created at least 5,000 local jobs in tea plantations (mainly plucking green leaf) and the incomes so derived contributed to improved welfare of sections of the local communities.

3.4 Efficiency

3.4.1 The only projects for which the PCRs assessed financial and economic rates of return (FRR and ERR) are the Nyayo Tea Zones Improvement and Forest Conservation Project and the Livestock (Pig) Project. In both cases the basis and/or assumptions for the recalculation of those measures of efficiency were changed from those used at appraisal. Other projects had no PCRs/PPERs with similar assessments. This evaluation has, therefore, not used these indicators for assessment of the efficiency of Bank Group's assistance. Instead, the evaluation has looked at indicators of cost effectiveness and implementation efficiency in terms of time-lags, procurement and disbursement management, cost over-runs, under-utilisation of infrastructure, etc. The analyses of these indicators, which are discussed below, leads to the conclusion that the projects' use of resources was inefficient.

3.4.2 Over-extended implementation periods characterised all the projects – 8 years for the pig project, 10 years and 6 months for the Nyayo Tea Zones Project and 13 years 2 months for the West Kenya Rainfed Rice Project. The estimated implementation periods of these projects were five years. Therefore, these projects were delayed by 3 years to 8 years, or by an average 5.3 years. A significant component of the delay was from approval to first disbursements which averaged 49 months or 4 years for three projects (Nyayo, Pigs and Horticulture) and 22 months for West Kenya Rice Project. The overall impacts of these lengthy delays were escalation of costs and related cost over-runs (as in West Kenya Rice and Nyayo Tea Zones), and abandonment or reduction of some project components (as in the Horticulture, Nyayo Tea Zones and the Pig Projects), and under-achievement of targets (all Projects). The reason for these delays was the Borrower's difficulty in meeting conditions of effectiveness and conditions precedent to first disbursements.

3.4.3 Closely related to the above were seemingly complex procurement and disbursement procedures which the implementing institutions often found difficult to adhere to. Without initial training of the PIU staff in these procedures, the door was opened for mismanagement and even diversion of resources, which often led to problems in accounting for resources and subsequently poor audit reporting. While all projects suffered from these problems, they were particularly highlighted in the Horticulture and Pig Projects. In the former, the process that involved recruitment of the PCU staff, setting up appropriate funds disbursement and accountability systems, and project management procedures took about 47 months from the date of signature to the date funds were first accessed by the

⁴ Farmers interviewed in the rice growing areas (West Kenya Rice) claimed inequalities and lack of transparency in accessing credit that was being disbursed by the project.

project. This lengthy process was largely due to inefficiency of management and, coupled with inadequate accounting, resulted in cancellation of the loan after only 2.39% was disbursed. In the latter project (pigs) inefficiency in procurement led to cancellation of the institutional support and technical assistance components.

3.4.4 Under-utilisation of capacity is serious in the West Kenya Rainfed Rice Project where the rice mill complex never attained levels of production more than 10-15% of its capacity during the years it operated. Considerable storage capacity was also established, both at the rice mill and at the Zonal Centres, which either is idle now or is being used for purposes other than those intended for the project.

3.4.5 Credit provision and utilisation was a major component of the West Kenya Rice and the Pig Projects. The success and sustainability of these projects was predicated on the full and efficient utilization of the credit, which in the case of West Kenya constituted the second largest component of FUA 5.26 million or Kshs 526 million. Only Kshs 16.4 million of the total credit was disbursed (31%) and only Kshs 2.3 million (14% of the amount disbursed) was recovered. In the case of the pig project, only UA 1.86 million or 54% of the credit (UA 3.43 million) had been disbursed to farmers and processors. While AFC's lending and collection of repayments from small producers was good, one single processor had seriously defaulted and there were unanswered queries relating to the selection of this particular processor. Besides, AFC was neither maintaining nor operating the revolving credit fund which was intended to sustain lending to pig enterprises. The failure of the credit programmes was mainly due to the poor choice of the institutional machinery for management.

3.5 Institutional Development Impact

3.5.1 The contribution of the completed portfolio to institutional development in the ARD sector was not substantial in terms of overall achievements and impacts. This is despite some successes recorded in the ASAO II and Nyayo Tea Zones Projects. In the case of ASAO II, the PPER, which was carried out in 2001, rated the institutional development impact as satisfactory, mainly due to: a) the development of 10 training modules by consultants, covering various aspects of planning and policy analysis, which were successfully used at Egerton College for local training and seminars – about 150 officers benefited from these seminars and about 80% of them are still in the civil service; and b) 8 long-term and 14 short-term overseas courses which were organized by the project. About 40 – 45 economists were reported to have been trained in all key ministries that participated in the programme but the majority of them were not retained in the government service due to poor remuneration⁵. A computerized M&E system which was intended to be established for the agricultural sector did not materialise due to the failure of the concerned Ministries to agree on one M&E system as each went ahead to develop its own system. The current M&E systems in the Ministries are therefore neither computer-based nor unified⁶.

3.5.2 In the Nyayo Tea Zones Improvement and Forest Conservation Project, the real institutional players were the government and Nyayo Tea Zones Development Corporation. Beginning with an unstable management, the PIU stabilized quickly and became a good example of how a Corporation

⁵ The evaluation team found only six economists in the Ministry of Agriculture.

⁶ The M&E system and the computerization programme were supported by the World Bank, while the Bank Group supported the policy and capacity building component.

Board can take advantage of a development programme to build up its capacity for business growth. The PIU staff were fully absorbed into the Corporation to continue the project activities on a routine basis. The institutional capacity has been substantial for the Corporation, but evidence was not available to assess the impact on the capacity of the Ministry of Agriculture under which Nyayo Corporation falls.

3.5.3 The contribution to institutional development by the other projects was negligible. Both the Pig and West Kenya Rice projects had little institutional development impact. In the Pig Project the PCU was not fully established to properly direct the project, and there were such long delays in the procurement of the support equipment that most of them were delivered after the project was closed. In terms of training, only the Production Officer obtained an MSc degree in UK in Pig Production, while 6 other staff attended short courses in the Netherlands. There was no evidence that these staff were still serving the pig industry. The project suffered from poor coordination between the various agencies – between the Ministry of Agriculture and Rural Development and AFC, and between the Ministries of Agriculture and Finance. Overall, the project was being implemented under a difficult political and economic environment which reduced the chances for positive institutional and human capacity building. The project suffered major set-backs with the cancellation of the training and breeding component and the technical assistance component.

3.5.4 The overall achievement and impact of the West Kenya Rice Project was likewise unsatisfactory. The LBDA was the executing agency on behalf of the government. But from the beginning LBDA appeared to have had no overall control over the major institutional arrangements for implementation of the project. Conceptually, the key cooperating institutions, namely KGGCU and NCPB, would have been instrumental in implementation, but KGGCU collapsed while NCPB never really came on board. LBDA had therefore an unworkable arrangement on hand and had to go back to the drawing board and start to organise farmers groups and cooperatives, and lost valuable time in the process. The project suffered from institutions that had ill-defined roles and linkages, which led to overall institutional failure. However, during the project period, LBDA itself appears to have relied exclusively on Bank Group funding and indeed still is accommodated in office structures built under the project. It also benefited from other infrastructures such as irrigation weir (even though this was to be a rain-fed rice project) and transit stores (one built in each project zone). But due to external or macro-economic factors, LBDA failed to capitalize on the opportunities that the project funding availed.

3.6 Sustainability

3.61 The likelihood of sustainability of Bank Group's completed assistance has been assessed on the basis of: a) technological, operational and maintenance factors; b) financial and human resources; and c) exogenous factors. With the exception of Nyayo Tea Zones Improvement and Forest Conservation Project, all projects were assessed as unlikely to be sustainable under current circumstances. The main contributory factors are discussed under each project below.

3.6.2 *West Kenya Rainfed Rice Project:* The project was closed in December 1999 but is currently in a state of limbo – i.e. nothing appears to be moving forward. In this state the sustainability of the

project is *unlikely*. The new MD's vision⁷, if adequately supported and if accompanied by mobilisation of farmers along cooperative groups, offers an opportunity for revitalisation of the project and there is potential for a positive turn-around if carefully restructured. The evaluation noted that farmers have organized themselves into cooperative groups long after the project closed, and are now demanding for the services of LBDA which previously they did not respond to mainly for reasons of institutional failure in project management. The farmers are adopting, as best they can, those rice varieties developed by LBDA and KARI but which were released after the project closed. A new strategy could exploit the current resurging interest among the farmers in the project area, and also incorporate the private sector roles in the processing and marketing of rice.

3.6.3 Initially, Government's commitment may have wavered due to the then prevailing macro-economic circumstances, but the LBDA project is not the only large project that did not fare well in Western Kenya - the molasses project and construction of provincial HQ in Kisumu and the collapse of NIB rice schemes in Ahero and West Kano are typical examples and so was the construction by GOK of the LBDA HQ that is still at the foundation level. The rice project was a technically misplanned project in some instances: the technology package of rice varieties, access to fertilizer, and credit, extension education, capacity of project implementing units, labor and equipment for water control were all sub-optimal; while the large rice mill complex exaggerated the real potential of paddy production in the area. Finally, the stakeholders such as NCPB, input and credit suppliers, millers and transporters did not participate in the project design and hence did not buy in or own the project.

3.6.4 *Kenya Livestock (Pig) Project*: Livestock in general, and pigs in particular, was not a priority area for the government at the time; this project was therefore not sustainable. But its lack of viability must also be attributed to lapses in design, supervision and a lot of adverse externalities at the time (the latter relating largely to bad politics, and terrorism attacks in 1998 that led to market failure). Poor design was because the appraisal failed to consider the forces of supply and demand as well as cultural factors that influence production and consumption in relation to other substitutes and competing enterprises, and hence unrealistic production estimates. Policy changes in the pig sub-sector should not have ignored constraints for example in the feed industry (the country is structurally cereals deficient). The foregoing factors therefore cast serious doubts on the project's financial and economic sustainability. The current developments in prices and revival of the tourist industry suggest prospects for the pig industry but a proper feasibility study would be a prerequisite for maybe a carefully piloted project. Consumers in the rural areas too are changing their tastes and pigs are openly seen in rural butcherries: this is positive development that a new project may wish to capitalize on.

3.6.5 *Nyayo Tea Zones Improvement and Forest Conservation*: The sustainability of the project benefits and further developments towards forest conservation and tea development are likely on account of two factors: a) the institutional capacity of the corporation to plan and manage the enterprise on a business basis has been enhanced; in fact, the project has established an income-generating activity for the Corporation (provided the current positive management business attitude continues); and b) the follow-up Green Zones Development Support project has broadened the field of stakeholders by bringing into full participation: (i) the local communities; (ii) the forestry department; and (iii) the local councils. These corrective measures may reduce the real pressure on natural forests that would have built-up overtime as the local people seek sources of economic livelihoods and

⁷ The new Managing Director who has been in place only for one and a half month is desirous of getting things moving, at least the mill component.

poverty alleviation. The government may also be committed to this project because it is now independent financially through tea production but in the long run one has to consider the original goal of poverty reduction (not fulfilled as employment impacts are marginal) and environmental conservation (that is likely to be achieved in the short run because the communities are kept off the forest). In the long run, unless productivity is sustained in the surrounding areas, the pressure on forests either for resource extraction or for cultivation (resettlement through political machinations and private ownership), and pressure on the forests will persist. The team observed that there is intense pressure on the non-project lands and that there is discernible land degradation on the steep slopes and that the cultivation techniques are inappropriate hence abetting soil erosion. Environmental resilience will thus be a major concern.

3.6.6 *Agricultural Sector Adjustment Operation II (ASAO II)*: The sustainability of agricultural sector reforms under this programme was assessed by the PPER which made a very pertinent point that economic policy-making and implementation in Kenya had followed an “on-and-off” path interspersed by some reversals. On the basis of the experiences of what was happening in Kenya then, the PPER doubted the sustainability of the reforms and Kenya’s growth prospects. It further observed that, because agricultural policies were highly politicized, the policy outcomes mostly reflected the interests of major political groups. These observations have been largely borne out by the events. The PPER was, however, carried out in 2001 and covered the period 1996 – 1999. A new (NARC) government has since come to power in 2002, on the wings of a popular pluralistic vote and an agenda with commitment to reforms. The evaluation team noted a strong determination within the government system to reform its operations based on results-based management. All key appointments are subject to performance contracts renewable based on achievement of targets. It was also observed that, rather than outright closure or disbandment of some key parastatals, Kenya has chosen the path of reforming them through rigorous restructuring. New management teams are being put in place with new visions and strategic plans for their organizations that are expected to deliver on the government’s promise to the people.

3.6.7 The main conclusions arising from the above assessment of sustainability of the individual projects are that: a) the initial poor quality at entry of most of the projects – which relate to design issues – significantly reduced the likelihood of sustainability of most of the projects (Pig, West Kenya); b) the institutional failure in most projects further reduced chances of sustainability; and c) government commitments have been a key to the success of projects such as Nyayo Tea Zones Improvement and Forest Conservation.

3.7 Overall Rating

3.7.1 The ratings of the four completed projects show unsatisfactory performance, on the overall. This is despite the satisfactory performance of Nyayo Tea Zones Improvement project. The projects are rated on a scale of 1 to 4 for each of the five evaluation criteria analysed in the above sub-sections (3.2 to 3.6), where 1 represents highly unsatisfactory, 2 unsatisfactory, 3 satisfactory and 4 highly satisfactory. The ratings are summarized in the following Box Table.

Box: Evaluation Ratings of Four Projects					
Criteria	Projects				Total
	West Kenya	ASAO II	Nyayo Tea Zones	Livestock (Pig)	
Relevance	2	3	2	2	2

Efficacy	2	2	3	2	2
Efficiency	1	2	2	1	2
Inst. Devpt. Impact	2	3	3	2	3
Sustainability	2	2	3	2	2
Aggregate	2	2	3	2	2

Source: Annex 3; Note: Figures have been rounded up to the nearest integer.

3.7.2 The ratings indicate the relative significance of relevance (which must include not only consistency with government and Bank Group strategies but also addressing the real needs of the people), efficacy and efficiency in determining the overall outcome of the Bank Group assistance to the ARD sector. It is clear that unsatisfactory performance in the three benchmarks resulted in overall unsatisfactory outcome of Bank Group's assistance in the ARD sector. It was noted earlier (sub-section 3.2) that while the projects were relevant to the country's needs and priorities at macro or sector levels, this was often not translated at operational and/or impact levels through appropriate strategies. As a consequence, the projects did not achieve both the immediate and long-term objectives they were set out for which substantially reduced the efficacy of the development assistance. The problems encountered in the implementation of the project were in most cases similar and related to processes, which were manifested in both the Government's and the Bank Group's working procedures. Non-adherence to agreed covenants and non-compliance to rules and regulations governing the specific agreement of each of the projects were some of the fundamental reasons for projects' failure to achieve their objectives or for their termination in the course of implementation.

3.7.3 The Bank Group needs to put special emphasis on timeliness of implementation to secure better use of resources. Institutional development impact, though satisfactory at 3, was not substantial in terms of: a) creation of effective project management systems (which should contribute towards national development planning and management); b) effective institutional linkages in Ministries, executing agencies and cooperating agencies; c) promotion of self-sustaining institutions, especially among farmers and other categories of stakeholders; and d) innovation in best institutional practices, especially the culture of active participation; transparent management of resources, and monitoring and evaluation (good reports, data collection, follow-up of issues in the field etc.).

4. BANK GROUP NON-LENDING ACTIVITIES

4.1 Description of Non-lending Activities

4.1.1 The Bank Group defines non-lending activities in Kenya to comprise capacity building, studies and economic sector work (ESW). In addition, aid coordination and resource mobilization are included in the category of non-lending activity. In the ARD sector in Kenya the Bank Group has financed two studies, namely: (i) Ewaso N'giro River Catchment and Water Resource Development Study which was approved in June 1997 (UA 1.10 million) and implemented during 2001-2002, and Kimira-Oluch Small-holder Irrigation Development Study which was approved in November 1998 (UA 1.35 million) and implemented during 2002-2003. These studies were financed with TAF grants which involved formal agreements with the Kenya Government. The agriculture sector review, on the other hand, was undertaken within the Bank Group's planning framework and was the first and only economic sector work undertaken by the Bank Group. The Bank Group also financed several capacity building activities under ASAO II and under the recently approved projects (ALDP and ENNRCP) but these

were in the context of the lending programs for those projects and therefore are not considered as non-lending activities.

4.2 Studies

4.2.1 The Bank Group commissioned the two above mentioned studies in the late 1990s to improve and strengthen its interventions in natural resources management in the ASAL region and irrigation planning and development in the Lake Basin area. The ASAL region was a subject of many studies and activities by NGOs, donors and bilateral and international agencies, but most of them did not address the specific problems of degradation in the Ewaso N’giro North River Basin Catchment. The Bank Group selected this area for detailed study following a request from the Government of Kenya in 1996. The objective of the study - the Ewaso Ng’iro River Catchment and Water Resources Development Study – was to analyze the potential for water resource development of the Ewaso N’giro North River Catchment and formulate a comprehensive and integrated water resources development plan, with detailed projects identified for specific actions. Although the study was approved in June 1997, it took three years to become effective and another two years before it was completed in December 2002. But despite the long delay it was satisfactorily implemented and has resulted in one of the major Bank Group’s recently approved projects (April 2005) called “Ewaso Ng’iro North Natural Resources Conservation Project (ENNNRCP)”.

4.2.2 The objective of the second study – Kimira-Oluch Smallholder Irrigation Development Study (KOSHIDS) – was to undertake detailed feasibility and irrigation designs of Kimira and Oluch irrigation schemes which had earlier been identified by a Japanese reconnaissance mission in 1985 as part of the Integrated Development Master Plan for the Lake Basin Region. The study was carried out from March 2002 to June 2003 by a consortium of three consulting engineering firms. This was immediately followed by a Project Preparation Report by the same consortium. The feasibility study report and the preparation report have been accepted by the government and the Bank Group and are expected to form the basis for appraisal of the Oluch-Kimira Smallholder Irrigation Development Project. If approved, it will be the second most significant project financed by the Bank Group in the Lake Basin region and under the execution of Lake Basin Development Authority. The study has been successful, despite the long period from approval to project completion which was five years.

4.3 Kenya Agriculture Sector Review, 2002

4.3.1 The Kenya Agricultural Sector Review, 2002, was commissioned to a Swedish firm (SwedFarm) which carried out the exercise in 2002. The purpose of the review was to provide analytically based information about the agricultural development conditions, constraints and prospects for poverty reduction in Kenya. The consultants, in carrying the review, built on the existing policy documents and work already available⁸. The review assessed developments and prospects in key sub-sectors of food crops, livestock, commercial crops, fisheries, forestry, water, wildlife, environment and food security. The process involved individual and focus group discussions, on-site visits and discussions with government officials, donors, private sector and other interest groups and was capped by a workshop of stakeholders.

⁸ The Kenya Rural Development Strategy (KRDS), the Poverty Reduction Strategy Paper (PRSP) and the Government Action Plan for the Implementation of the PRSP (GAP/PRSP).

4.3.2 The review made considerable effort to focus on the issues of poverty and to relate them to the context of natural resource endowments of the different ecological zones of the country. It noted that the causes of poverty vary with the ecological zone, and its recommendations that the Bank Group should focus assistance on the 10 ASAL and 6 HMPL districts that have the highest levels of poverty were useful in confirming the Bank Group's recent shifts in the strategy for lending to Kenya in the medium term. The review scores well in recognizing the agro-ecological zones set the parameters for the rural production systems and form a useful basis for analysis of the constraints and potentials in the country.

4.3.3 Although the sector review can be considered as having laid the base for any such future undertaking by the Bank Group, it was incomplete and inconclusive and also lacked depth of analysis especially of key sub-sectors that constituted the main sources of growth and potentials for smallholder agricultural development. The Bank Group's attempt in this exercise has largely been abortive and unsatisfactory, considering that it was the first and remains the only sector work in the country.

4.4 Aid Coordination, Co-financing and Resource Mobilization

4.4.1 The number of donor funded projects in Kenya is overwhelming and calls for a strong coordination machinery and a public sector institutional capacity to respond to numerous and diverse requirements relating to project proposals, financial reporting deadlines and procurement. At the national level, the government has established a Debt Management Committee which monitors the overall debt situation and donor assistance. There is also an Inter-Ministerial Committee which liaises with donors on progress and problems of implementation of donor-assisted projects. At the international level, the Consultative Group meets every two or three years to evaluate and pledge overall assistance. CG meetings are usually far in between, and the most recent one was in April 2005 after a long spell of time. At sector level the government has established sector coordination units which oversee the implementation of donor-assisted projects. These coordination units hold monthly informal meetings to discuss issues pertaining to on-going projects in the different sectors; however, not all sectors are currently covered by this arrangement.

4.4.2 One of the problems of aid coordination in Kenya is that donors seem to be locked into their own particular development niches that lend themselves readily to their technological comparative advantages or ideological inclinations of the management of the donor agencies. The modus operandi is that, given a stated preference area (that may be implicit or explicit in the donor's documents), the country develops the project to meet those requirements and it is not surprising that some of the projects are donor-driven. For the Bank Group this raises issues of collaboration with other donors. For instance, analysis of the distribution of aid from different donors for the period 2003/2004 shows that the Bank Group is currently one of the most important financiers in the ARD sector, but the donor activity matrix for the ARD sector does not reflect the presence of the Bank Group (as per the version of February 2005).

4.4.3 This broad overview of aid coordination and resource mobilization arrangements brings out some specific points that impact on Bank Group's position. Firstly, the Bank Group is putting a lot of attention to ASAL (smallholder irrigation and livestock development, for example) where many other actors are already very involved and this will demand for an active coordination effort with donors such as IDA, Federal Republic of Germany and IFAD that are also in the general area of developing

arid lands, smallholder irrigation and community development. Secondly, there are indications that the Bank Group collaborated with other donors in the past in co-financing arrangements: for example with OPEC in the rain-fed rice project in Western Kenya; with IFAD in the horticulture and traditional crops; and with the World Bank and others in financing ASAO II. Questions arise whether coordination arrangements existed between the Bank Group and these donors; and more importantly, whether there were prior meetings among the donors and Kenyan government or line ministries to identify key areas of collaboration and comparative advantage, and during project implementation to review progress and make amendments where necessary.

4.5 Overall Assessment of Bank Group's Non-lending Activities

4.5.1 The studies component of Bank Group's non-lending activities can be rated as highly satisfactory. Though few and delayed (from approval to completion) the studies were efficiently carried out – utilization of resources was more than 90% - and have yielded bankable projects for the Government and the Bank Group. One of the projects was approved in April 2005 (Ewaso N'giro North Natural Resources Conservation Project) while project preparation of the other (Kimira-Oluch Small-holder Irrigation Development Project) was completed in June 2004 and is awaiting appraisal.

4.5.2 The Bank Group's performance on sector work and aid coordination, on the other hand, has been unsatisfactory. The only effort at the former was inconclusive but the Bank Group made no further effort to resuscitate it. In the case of aid coordination, while it is really an issue for GOK and the donors as a whole, the Bank Group' experience in those projects where it had co-financing or possible collaborative arrangements was poor. Overall unsatisfactory performance assessment on the basis of studies, sector work and aid coordination combined would not be a fair reflection of the Bank Group, however. More weight is given to studies and less to aid coordination because the latter is a wider national problem in which the Bank Group can only have an input.

5. IMPACTS ON CROSS-CUTTING THEMES

5.1 Impact on Poverty

5.1.1 The majority of the Bank Group projects implicitly targeted poverty but for reasons given in other sections of this report they failed to deliver. The PCR for the pig project only makes a general remark to the effect that incomes of the credit beneficiaries improved and that there were some spill-over effects that had positive impacts on pig production even in non-project areas and hence producers' incomes must have been raised, albeit not in a significant and sustainable way considering the market failure due to a slump in the tourism industry. The current situation in the project areas is that AFC is no longer operating the revolving fund to sustain or promote lending to the pig enterprises, which thus limits the prospects for contribution to poverty reduction. The situation for other projects is similar. It is unlikely, for instance, that the West Kenya Rain-fed Rice Project made any impacts on poverty for, among other reasons: (i) only a small proportion of the approved funds were disbursed to farmers (Ksh 16.7 million compared to a budget of over Ksh 500 million); (ii) the project could not sustain itself financially; and (iii) the rice mill had hardly operated. The horticulture and traditional crops project was terminated prematurely and hence did not have any income improving impacts.

5.1.2 The Nyayo Tea Zones Improvement Project, on the other hand, has been rated highly in terms of sustainability and fulfillment of its physical objectives but the one area where it can be faulted is on impacts on poverty. It does relatively well compared to other Bank Group assisted projects and is rated as having created employment opportunities; for instance in 2000 the project employed a total of 400 permanent employees and 5,000 regular casual workers whose incomes helped other family members, with a multiplier factor of 5. The Corporation also states that informal surveys showed that the communities were being helped to improve their livelihoods, construct better dwellings, send their children to school and initiate other commercial projects. But these benefits accrued largely to those fortunate enough to get employment in the project tea plantations without indicating, first, the proportion of the community that is not benefiting, and secondly, efforts being made to improve tea production, improve technological transfers, and tree planting in the surrounding smallholder farms. The other problem is that there were other regions with high incidence of poverty that were more deserving of intervention and that the Bank Group funds would have achieved more value for money in these rather than in the forest areas where the project is located: this relates to relevance of the project to the big poverty picture in the country. As already mentioned, this is the one project that scores satisfactorily in terms of making some impacts on poverty alleviation.

5.1.3 Poverty has been a major concern of the government and its eradication especially in the ASAL areas has proved elusive as the economy continued to perform poorly. Even at the best of times, translation of economic growth into welfare improvements has been difficult particularly for female headed households and the increasing number orphans spawned by the HIV/AIDS scourge. The recent Economic Surveys and Welfare Monitoring statistics indicate that the incidence of poverty is still highest in ASAL areas and large parts of Western and Nyanza provinces. The problem of poverty is thus very wide and the Bank Group's assistance, if ever it was successful, could only contribute towards its eradication.

5.2 Impact on Gender

5.2.1 It is the Nyayo Tea Zones project that reports some degree of parity in the employment of men and women. In addressing the issue of gender, there is always a misconception that the term is synonymous with *women* and the Appraisal Report for this project, for example, confines itself to the matter of women in development and in so doing implicitly alludes to gender concerns. The Appraisal Report states that 50% of the tea pickers were women, a fact reiterated by the PCR document received from the Corporation. Gender issues, however, relate to the different roles that family members play and this includes the roles of men, school children and women. The idea that the project's fuel wood plantation would ease the work load of women and children ought to have been reinforced by ensuring that families established their own plantations and they would no longer be a threat to the gazetted forests. The evaluation team was informed that the community members still go into the forest to fetch fallen woods at a nominal fee, meaning that as long as they don't have their own source of fuel wood they will continue walking the same long distances and they will continue to be a threat to the government's conservation efforts.

5.2.2 For the pig project, little was achieved in terms of gender balancing: only about 14% of the 328 producer loans were women and this is hardly surprising considering that women often lack the collateral base required by lending institutions. Traditionally, women have been more risk-averse than their male counterparts, and AFC did not push hard enough to lend to women groups/societies. Gender

balancing in the ASAO II was no better: only 2 ladies out of a total of 17 received short or long term training, while 3 out of a total of 15 were trained on modules locally. There were no records to ascertain impacts on gender on horticulture and rice projects but one can safely make a general statement that it would be unrealistic to expect impacts on gender if this dimension was not part of the project design and the majority of the Bank Group projects did not explicitly cater for gender impacts.

5.3 Impact on the Environment

5.3.1 There were no significant environmental dimensions in the design of the rice project but from an operational perspective, the mill was certainly going to require an environmental audit as stipulated by the National Environmental Management Authority (NEMA). However, the mill has been idle since completion and hence could not have had any adverse effects on the environment. Although the rice was to be produced under rain-fed conditions, the operations would have involved extensive construction of furrows to guide water in the selected wetlands. The reclamation (through draining and routine cultivation) of such wetlands would of course entail impacts on the flora and fauna, apart from the adverse effects on the water quality and levels in the aquifers. During the team's field visit to the Ombei/Masogo site (in Muhoroni constituency), residents stated that there may be both positive and negative externalities of agricultural activities in the neighboring Nandi hills (fertilizer run-off and pesticides) that could increase inorganic loads and hence endanger animal life in the river and swamp waters they use for rice production in the project area. The positive effect was that the fertilizer run-off benefits their crop production. These impacts as well as other water borne diseases that would afflict workers in the rice fields had not been anticipated in the project.

5.3.2 The other project with direct environmental impacts was the one undertaken by the Nyayo Tea Zones Corporation. The country PCR states that the project met its target of planting 1640 ha of fuel wood by June 2001 and that reforestation with indigenous trees covered 620 ha while both management and supervisory staff of the Corporation were trained in forest conservation principles and technical skills. As already stated under the section on gender, sustainability of the conservation strategies will hinge strongly on the establishment of fuel wood plantations on the small holdings of the surrounding communities and general alleviation of poverty through viable agricultural and commercial ventures. The evaluation team noted during the field visit to the Kiambu site that, due to population pressure, the neighboring farmers were employing inappropriate techniques to cultivate sloppy lands and hence exacerbation land degradation. This is one aspect that has to be looked into if a stable alliance (for example through increased smallholder tea production and diversification into other enterprises such as horticulture) is to be forged between the project and the surrounding communities. It would be futile to conserve the gazetted forests while high population land pressure is leading to an escalation of land degradation just next door.

5.4 Impact on Regional Integration

5.4.1 None of the Bank Group funded projects touched on regional integration. Regional integration is seen as a means to increasing competitiveness and hence a boost to production and marketing efficiency especially for Kenya's agro-business enterprises. But in order to capitalize from the emerging markets, productivity (marketable surpluses) must be raised through adoption of improved technologies, lowering of costs of production, improved infrastructure, regional policy harmonization and reduction of unnecessary bureaucratic bottlenecks to trade. Value addition is also seen as a means of not just of production diversification but also of accessing non-traditional markets. Tea production offers potential for regional integration especially in terms of auction markets but for this the Corporation would simply be slotting itself into already existing institutional structure of KTDA. Value addition would have been the innovation that the Bank Group should have been promoting rather than merely using a state corporation to produce more tea that was already being done rather well by the private sector; tied to value addition would have been alternative strategies for marketing branded tea within the region and in foreign markets.

5.4.2 The other project that appears to have potential for regional integration especially through LBDA private sector links, is the rice project, particularly its idle mill that is currently being eyed by one of the large millers in Kisumu (United Millers Ltd has stated through personal communication with the MD that it would be willing either to buy the mill or to lease it in order to raise its rice milling capacity). There would also be opportunities for importing paddy from the neighboring countries to mill at the project mill but this requires a feasibility study on costs, production potential and the required policy reforms to ease cross-border commodity flows. Rice from the mill would have markets across the border in Uganda, DRC, Rwanda, Burundi and Sudan since milling capacities in these countries are still underdeveloped. These are missed opportunities for regional integration.

5.4.3 Even ASAOII and the horticulture projects had missed regional integration chances that could have been built into the project, the former for example in relation to analysis and dissemination of market information (as well as early warning mechanisms) at the regional level. The other aspect that is currently a major weakness in public as well as regional integration bodies such as the EAC and COMESA is the policy analysis capacity and general limitations and inexperience in international trade negotiations at the global fora such as the WTO. These training weaknesses were probably not apparent at the time ASAOII was being formulated but this sort of broad based regional dimension should have been incorporated into the capacity building project, and indeed, the Bank Group should have been at this cutting edge in terms of the scope of its funded projects.

5.4.4 The regional aspects of the horticulture project have to do with market information and harmonization of phytosanitary regulations and common strategy on adaptive research on new genetic planting materials. ECAPAPA/ASARECA has in the past brought together stakeholders, both private and public, to harmonize trade in high yielding seed varieties and such efforts have direct relevance to the Bank Group's new initiatives on horticulture development in Kenya. These aspects were not built into the horticulture project that was terminated yet marketing is one of the main constraints in the industry.

5.4.5 Because of the above weaknesses and omissions, the general impact on cross-cutting themes of the Bank Group portfolio in the agriculture sector is rated as unsatisfactory.

6. CONTRIBUTORS' PERFORMANCE

6.1 The Bank Group

6.1.1 The performance of the Bank Group was **unsatisfactory** towards contribution to improving agricultural development. The major contributing factors can be summarized under the key areas of (i) relevance and the quality of project identification and preparation; (ii) loan conditionalities, procedures and processes; and (iii) aid coordination. In terms of the first group of factors, while the Bank Group's ARD portfolio was relevant on the whole, its diversity was too narrow in terms of the strategy for tackling poverty and food security problems in Kenya. The completed projects covered the broad categories of capacity building and conservation and three commodity areas, namely horticulture, livestock (pigs) and tea. This was inadequate targeting in many respects, especially the missing out of localities of high poverty and food insecurity incidence, and the limited scale of operation country-wide.

6.1.2 The Bank Group over-relied on consultants from outside the region and country for its project appraisals thereby missing out on some socio-economic and political factors that were likely to impact adversely on project success. The Nyayo Tea Zones project, for example, was appraised at a time when state corporations had gained notoriety for being conduits for diverting public resources to private political causes and run against the grain of wisdom among the donor community that was pushing for privatization and divestiture especially from the loss making corporations. Similarly, the horticulture project had a production thrust while the main concerns in the industry related to marketing and limited freight capacity in the export segment. By and large the industry was functioning well except for its monopolistic tendencies which precluded benefits for small producers. In the pig project there were lapses in design such as neglect of cultural sensitivity to pigs in some regions and sectoral linkages (especially with cereals and dairy) that foreign consultants totally failed to detect. Inclusion at appraisal of local experts more familiar with the local conditions and production/marketing structure should have pointed out these weaknesses.

6.1.3 The Bank Group's procurement procedures were too laborious and the PIUs and their coordinators were not given autonomy, implying that even very trivial decisions had to be referred to the Bank Group. While there were conflicts between the procurement procedures of GOK and the Bank Group, it was stipulated that the latter took precedence. This problem led to delays in acquiring goods and services and although the Bank Group undertook training of staff on procurement procedures for some of the projects such as the Horticulture and Pigs, institutional rigidities and instability of the PIUs did not ease funds disbursement to the project sites. The insistence of the Bank Group on channeling its project funds through bureaucratic government machinery and compelling (expecting) the government to yield to the Bank Group's procedures impacted adversely on the success of the earlier projects on Horticulture and Pigs. Effective disbursement methods and channels were not selected and put in place.

6.1.4 This problem was exacerbated by lack of a field presence by the Bank Group which contributed to delays in communication and resolving even minor issues. Literally, all the Bank Group funded projects lamented the poor communication between PIUs and the Bank Group headquarters in Abidjan (now Tunis). In some cases, despite huge project funding, the PIUs lacked simple communication gadgets like phones, computers for e-mailing and fax machines and hence had to rely on postal and

courier communication that took too long. The Bank Group's Task Managers took unduly long periods to respond to queries; for example, the Pig project reports in its PCR that in 1995, it took 3 years to revise the list of goods and services.

6.1.5 Other factors related to processes and procedures that impacted unsatisfactorily on Bank Group's overall performance included imposition, in some cases, of unrealistic loan conditionalities. For example in the pig project, there was a requirement that AFC be transformed into an autonomous, commercially oriented institution, a demand that would have required lengthy legislative procedures from the host country and technical assistance. Other projects had, likewise, similarly difficult and incoherently assembled conditionalities, while others like ASAO II had as many as 12 conditions.

6.1.6 In the area of aid coordination, there are no records or evidence that indicate that the Bank Group took the initiative to collaborate with other donors on given projects in the agriculture and rural development sector in Kenya. In the few instances such as horticulture and rice projects where other donors were involved, there does not seem to be any records of joint assessment or evaluation meetings or inputs of the other donors in the project completion (termination) reports.

6.2 The Government and Executing Agencies

6.2.1 *The Government of Kenya (GOK):* While acknowledging the usual government bureaucracy, inherent inefficiencies and political machinations that lead to subdued goodwill for certain projects (in certain regions or sectors), its performance in relation to the Bank Group's assisted projects is nevertheless rated as satisfactory. However, government's liability could have arisen from the rigidity of its institutional structures and lack of congruence between its procurement procedures with those of the Bank Group. GOK, at the time, could also be faulted for promoting projects such as the Nyayo Tea Zones that did not tally with its stated commitments to empower the private sector rather than proliferating state corporations that had proved financially unmanageable in the past. The government also failed to deliver in the case of AFC (delayed setting of a special account), and the rice scheme where office building structures that it initiated as part of the loan agreement and hence ensure a conducive environment for the executing agency, to-date remain at the foundation level while procedures for commercializing the rice mill remain shrouded in mystery.

6.2.2 Lack of sustainability of the ASAOII and other projects that had limited training components, particularly with regard to retention of trained staff was attributed to the poor remuneration packages in the civil service vis-à-vis what is offered to project workers and other comparators in the private sector to which such staff invariably migrated (e.g. deputy horticulture project coordinator moved mid-stream to Center for Business Information in Kenya; one of the ASAOII beneficiaries moved to a Danida project, and others to project based employment in other ministries). It is however unrealistic to expect a government to change its structures to suit the requirements of a donor or for that matter, improve its salary and benefit structures to match opportunity costs in the private and international job market.

6.2.3 *Executing Agencies:* The real weaknesses in project implementation are to be attributed to the executing agencies: LBDA in the case of west Kenya rice project; Ministry of Livestock (in earlier stages of the project, Livestock Division in MARD) and Agricultural Finance Corporation (AFC) for the pigs project; Horticulture Division of the Ministry of Agriculture for the horticulture project; and

the Nyayo Tea Zones Corporation (conservation and tea production). The very first general problem had to do with the instability of government structures that particularly involved the Ministry of Agriculture and Rural Development (MARD) in which the livestock/pigs project was housed under Livestock Division, the latter later being hived off as a full fledged ministry. The separation of livestock from crops made no functional logic and discussions with senior staff in both ministries confirmed this view: at the smallholder farm level, the two enterprises are inseparable from the food security and financing (or resource utilization) perspectives. Running a project on livestock without input from the Ministry of Agriculture is a clear recipe for failure. Although a project steering committee (PSC) of the ministry and AFC staff (chaired by the Permanent Secretary) had been mooted to instill some degree of multi-disciplinarity into the project, the Bank Group's PCR states that the PSC met no more than once during the project's life. Coordination between AFC and technical staff of the Ministry remained poor and links with the project districts even worse: the latter was to help in screening loan applicants.

6.2.4 AFC was at the time already in financial problems, and from 1997 through 2003 when the new government decided to bail it out by regular budgetary allocations and write-off of loan arrears it was in the brink of insolvency; indeed during that period it was kept afloat by only one source of loanable funds – the Bank Group. Under the circumstances, AFC did not stick to its obligations as stipulated under the project; for example the revolving fund was not loaned to pig producers. Although part of the problems of AFC were due to unrealistic interest charges (12-14% compared to market rates of 28-30%) that the project demanded, there were avoidable macroeconomic factors that contributed to its below average performance in the pig project, at least in the long run. In the short run (during the project), the corporation redeemed itself somewhat through its above average loan recovery, about 70%, and in lending to many pig producers (numbering 328).

6.2.5 The horticulture project under the Ministry of Agriculture (Horticultural Crops Division) exhibited several problems that included: start-up delays that have been attributed to difficult loan conditions; slow set up of the PIU and its instability during implementation; conflicts in procurement procedures between those of government and the Bank Group; accounting (reconciliation) difficulties which ultimately led to premature termination of the project; mistrust between PIU staff and their regular civil service counterparts - the latter were apparently bent on frustrating the former out of malice (arising from salary and allowance differences) and payment vouchers would 'disappear' within the Ministry; and field level policy conflicts between the Bank Group and IFAD sub-projects whereby the latter entailed cost-sharing while the former did not. A number of these problems were beyond the control of the Horticultural Crops Division. Discussions with the former PIU staff (the Coordinator, two Deputies and others members) indicated that a lot of effort was made to make the project a success. Similarly, despite all the lapsed years, most of the records were availed to the evaluation team. This agency is therefore rated as having performed satisfactorily.

6.2.6 The performance of LBDA, on the other hand, is rated as unsatisfactory for a number of reasons. Firstly, there was poor record keeping despite the fact that the evaluation team met most of the former PIU staff, including the Project Coordinator. Secondly, there was a very poor and incoherent account of events especially those surrounding the lending procedures, loan recovery through collaborating institutions such as NCPB, list of beneficiaries. There was also no proper account of the different roles of government vis-à-vis the donors, the Bank Group and OPEC - for example, the building foundation that was to be part of the government's counterpart contribution, the inability of

LBDA to utilize over KSh 500 million meant for credit to rice producers, and the circumstances leading to diversion of the credit funds to construction of an irrigation weir.

6.2.7 Thirdly, the LBDA made no efforts to utilize the idle rice mill, for example through leasing to the private sector. LBDA was unable to use the Bank Group project as leverage for developing projects that could be funded by other donors, and considering the wide spread poverty status of the Lake region that it represents and the abundance of resources (lake water and fisheries, for example), it was inconceivable that the Authority could not mention any large development project touching on the region's comparative advantage (cotton, maize, cassava sorghum, sugarcane, fish, irrigated horticulture, improvement of the livestock herd, and handicrafts) other than this Bank Group one that, for all practical purposes, must be rated as a failure. According to the Economic Survey for 2005 total rice output in the region for the year 2003 stood at a mere 228 metric tons compared to the project target of about 11,000 tons from 21,000ha (assuming a modest yield of 0.5 metric tons/ha). One cannot therefore say that the capacity of LBDA was raised both individually and from an institutional perspective. Save for some extraneous factors that may be political in nature, this executing agency narrowly escapes a rating of highly unsatisfactory.

6.2.8 The Nyayo Tea Zones Corporation's poor showing in certain cross-cutting issues (such as gender, private sector development, promotion of tea and tree planting on farms neighboring the project area, and infrastructure development (including construction of tea factory) is more than compensated by achievement of many of its physical targets in the area of tea production, forest conservation and establishing of fuel wood plantation. There was a palpable improvement in the capacity of staff and in ability of the institution to use the Bank Group project as a ladder for developing other related projects and hence achieving long run financial sustainability (minimum support from the Treasury). This agency is therefore rated as having performed satisfactorily.

6.3 Other Donors – Co-financiers

6.3.1 In the ARD sector the Bank Group co-financed two projects with other donors and attempted to implement a third one in parallel with IFAD. The co-financed projects were: (a) the West Kenya Rainfed Development Project in which the Bank Group contributed 70% of the total cost while the OPEC Fund and GOK respectively contributed 18% and 12%; and (b) the Agricultural Sector Adjustment Operation II (ASAO II) in which the Bank Group was one of the principal co-financiers contributing 23% of the total resources – the other co-financiers were IDA (54%), the UK and KFW (10% each), and the Netherlands Government (3%). Efforts to co-finance the Horticulture and Traditional Food Crops Development Project with IFAD failed and both agencies ended up running two separate but similar projects in parallel in the same districts, albeit in different locations. The Bank Group component was, however, terminated before it was fully implemented.

6.3.2 Written records (e.g. supervision reports, quarterly reports, etc) of the detailed working of the co-financing arrangements or agreements between the Bank Group and the other partners were not readily available. But from discussions with the staff of the various PIUs and officials of GOK it was apparent that very little coordination ever existed among the partner agencies. This underscores the point made in paragraph 4.4.2 that donors, despite apparent interest in pooling resources together to finance a major undertaking, were driven more by their individual interests. There were no records that the donors initiated close coordination of their activities. On the contrary, in the horticulture and

traditional food crops project, for instance, certain conflicts in policies and implementation strategies (one was based on cost-sharing while the other was not) arose that would have sunk both parties had the Bank Group not shifted to establishing new irrigation schemes. The Bank Group component was terminated and this seems to have been a blessing in disguise for the IFAD component in terms of lessons learned and avoidance of conflicting messages to farmers. The performance of co-financiers was unsatisfactory.

7. LESSONS LEARNED AND RECOMMENDATIONS⁹

7.1 Lessons Learned

7.1.1 Several lessons have emerged from this evaluation of Bank Group's assistance, but the most important that relate to the overall outcome is that successful implementation of development assistance, and the achievement and sustainability of its long-term development objectives, is predicated upon: (i) initial satisfactory relevance and quality at entry enhanced by appropriate choices of strategy and technology; (ii) substantial institutional and human resource capacity development at all critical levels, including at beneficiary levels; and (iii) government commitments through institutional and financial support. The relevance and rapid acceptance of development assistance is enhanced where detailed analyses of the constraints, potentials and technological options available to farmers are made.

7.1.2 Farmers' active involvement is crucial during the early stages of project design and appraisal for long-term sustainability and poverty reduction because, even where projects fail for one reason or the other to attain their immediate objectives, the indirect impacts may still be significant. The lesson from the West Kenya Rice and the Pig Projects shows that farmers watch out for any development opportunities offered by the interventions in their areas, but because they were not sufficiently involved in the beginning they saw the failure of the projects as missed opportunities. At the close of projects the farmers were willing to pick up the pieces on the basis of their own experiences and perceptions. This time-lag between the end of project implementation and the adoption by farmers of its positive aspects is a natural process of rural development.

7.1.3 The converse of the above is that farmers' responses can be vastly improved: a) through an early and active involvement in the project identification and promotion, and b) by focusing on the problems, constraints and opportunities that relate to their basic needs (basic agriculture needs) as a priority, with diversification into other (or new) enterprises to increase or stabilize income sources as appropriate. Focusing on the real needs of farmers can substantially raise the level of farmers' response and participation in projects, but it is important to provide targets of some indicative thresholds for meaningful participation rates.

⁹ This section provides only the summary of key lessons and recommendations relating to overall outcome of the Bank Group's assistance in terms of relevance, efficacy, efficiency, institutional development impact and sustainability. Additional lessons are found in section 4.

7.1.4 From an institutional view point, farmers' involvement in development assistance can best be fostered through their organizations. Farmers' cooperatives and women groups, for instance, can be key avenues for channeling credit funds and other services to farming communities, but it is critically vital that they are first educated on management of loans and that the conditions on the ground are conducive: the farmers must have a demonstrated need for loans or that external capital is a binding constraint to production and marketing.

7.2 Recommendations for Feedback

7.2.1 To ensure current and future sustainability of development assistance outcomes, both the government and the Bank Group should incorporate into the project designs: a) satisfactory relevance and quality at entry; b) substantial institutional and human capacity development at all levels including beneficiary level; and c) government commitments through technical, institutional and financial support.

7.2.2 Development interventions should be based on a thorough understanding of not only the macro-economic policy and political environment, but above all, of the socio-economic conditions, constraints and potentials of the local population. Hence, interventions must be backed by adequate feasibility study and preparation to enhance relevance and quality at entry.

7.2.3 In efforts to achieve congruence of the Bank Group's and government's strategies, both the Bank Group and the Government should assess alternative options for achieving sector goals and objectives to verify that the chosen strategy or strategies are the most appropriate in the circumstance.

7.2.4 Projects that address poverty eradication should focus on modernization of traditional or basic agriculture of the people as a minimum, with diversification into other enterprises to stabilize and increase income opportunities as appropriate. This in turn requires that the farmers (and/or the poor) must be involved in the initial identification, preparation and design of the strategies so that they can own and implement them and, together with the government, assume responsibility for the overall outcomes.

7.2.5 Institutional and human resource capacity building should be a part of the project design and implementation in order to assure: (a) adequate project preparation and quality at entry; (b) adequate attention to establishment of effective management systems in advance of start-ups; (c) adequate articulation of the roles of the PCUs vis-à-vis line ministries; and (d) adequate articulation, in advance, of the roles and functions in collaborating institutions.