CHAPTER SIX.

WORLD BANK FINANCING IN AGRICULTURAL AND INDUSTRIAL SECTOR IN KENYA.

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6.1. INTRODUCTION.

The link between agriculture and poverty reduction efforts seems to have attracted attention in the early years of the Bank and there is full awareness that both these aspects have an important bearing on food security. The history of World Bank assistance to the Kenyan agricultural sector is long, but its success and development effectiveness have been mixed. Therefore, the Bank focuses on mainstreaming all the problems related to poverty by ensuring food security [1]. The renewed interest in agriculture development in Kenya has been accentuated by a degree of disillusionment with the outcome of industrial growth. It has been recognized that industrial growth in Kenya has not succeeded in preventing rising poverty rates and unemployment for the great masses of people. The challenge for the World Bank in agricultural sector is to combine an acceptable rate of growth of production to mitigate poverty and unemployment of the 80 percent of poor who live in rural places and engaging in agricultural activities.

Since independence, Kenya has relied heavily on the agricultural sector as the base for economic growth, employment creation and generation of foreign exchange. The sector has also been a major source of the country's food security [2]. Kenya's highest capacity for industrialization is in agriculture based industries, although it is true that industrialization plays a vital role in poverty reduction, it is crucial to remember that such industrialization have to be supported by agriculture. The objective of this chapter is to analyze and understand the trend of the past and present level of agricultural and industrial sector lending operations by World Bank in Kenyan economy. Therefore we will assess and elucidate past performance and generate suggestions for improving Bank services to Kenyan agricultural and industrial sector. The Agricultural sector has been the major driver in the growth of the economy and the government recognizes that this sector is critical if it has to realize the primary goal of poverty reduction as it can be the source of employment and income for the majority of the poor who live in the rural areas. The improvement of quality of life in rural areas more often not results to quality of life in urban areas. It has been established that in most developing countries, the prevalent growth in poverty decline has occurred due to agricultural growth, this implies that agricultural growth is pro-poor (Ravallion and Datt, 1996)[3].

The agricultural sector still constitutes to be the backbone of the national economy in Kenya and was identified as the highest sector wise priority during the poverty reduction strategy paper (PRSP) consultative process. The role of agriculture in the Kenyan economy is very significant as about 80 percent of the population derive their livelihood from agricultural activities. Agriculture directly contributes 26 percent of GDP and 27 percent indirectly through linkages with manufacturing, distribution and other service related sectors. Approximately 45 percent of government revenue is derived from agriculture while the sub-sector contributes over 75 percent of industrial raw materials. Most important is its contribution to the achievement of national food security and foreign exchange earnings. The sub sector also acts as stimuli for creating off-farm income generating activities and employment. Poverty is a rural phenomenon in Kenya as 75 percent of the population in Kenya lives in rural areas; therefore in order to mitigate this poverty the World Bank projects should target the rural people.

Table 6.1: Average Annual Growth rates of real GDP (%)

Sector	1964-73 (%)	1974-79 (%)	1980-89 (%)	1990-95	1996-2000 (%)
Agriculture	4.6	3.9	3.3	0.4	1.1
Manufacturing	9.1	10.0	4.8	3.0	1.3
Finance real estate	9.8	12.4	6.7	6.6	3.6
Government services	16.9	6.5	4.9	2.6	1.0
GDP	6.6	5.2	4.1	2.5	2.0

(*Source Economic survey reports, various issues G.o.K. Kenya*)

Kenya's agricultural policy has gradually given more emphasis to small holder development in the post-independence period. The Kenyan agricultural production more than doubled between 1964 and 1979, growing at an average of annual of 4.5 per cent. Nevertheless, the output growth barely kept a head of demand since population was growing at over 3% per annum over the last 22-year period. The source in growth at the early years of independence was due to expansion of crop area, increases in yields and switches to higher value crops. To improve agricultural productivity Kenya had to partner with the World Bank so as to finance many projects, which focused in agricultural improvement. Aggregates are based on constant 2000 U.S. dollars. Agriculture includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production.

Table 6.2: Trends in agricultural growth rates and economic growth rates

Year	Agriculture growth rate (%)	Per capita income growth rate (%)	GDP growth rate (%)
1980	1.1	1.8	5.6
1981	5.9	-0.1	3.8
1982	7.4	-2.3	1.5
1983	1.9	-2.5	1.3
1984	-3.5	-2.0	1.8
1985	4.0	0.5	4.3
1986	4.9	3.3	7.2
1987	4.2	2.2	5.9
1988	4.6	2.6	6.2
1989	4.1	1.2	4.7
1990	3.5	0.8	4.7
1991	-0.7	-1.8	1.4
1992	-3.3	-3.9	-0.8
1993	-3.3	-2.6	0.4
1994	3.1	-0.3	2.6
1995	4.8	1.6	4.4
1996	4.5	1.5	4.2
1997		-2.0	4.2
1998	-3.1	0.9	3.3
1999		-0.03	2.3
2000	8.3	-1.6	0.6
2001	7.1	2.1	4.4
2002	-1.3	-1.7	0.4
2003	11.7	0.6	2.8
2004	-3.5	2.1	4.34

Source: World Development Indicators database, The World Bank, Agriculture, value

Alleviating poverty is a major goal of public policy in Kenya, a fact that is articulated by the recent emphasis on the formulation of Poverty Reduction Strategy Papers (PRSPs) by Kenyan government. This should not however create any impression that previous national policies ignored the noble efforts of reducing poverty. The fact of the matter is that all policies of the government since independence have focused on robust economic growth and reduction of poverty. Sustainable poverty reduction must be linked to agricultural sector as agriculture is essential to overall growth and food security. Available evidence contends that in the past, poverty-reducing growth has mainly resulted from agriculture. It is hard to imagine what would have been the position in agricultural sector without the financing of World Bank [4].

Our objective in this chapter is the assessment of the World Bank financing in agricultural sector. Therefore we will attempt to analyse the projects which the World Bank has financed and evaluate its efficacy of mitigating poverty through food security and alleviation of poverty in rural areas as poverty in Kenya is primarily a rural phenomenon.

Most research in Africa economic development echo the fundamental role of agriculture as the engine of growth in Africa. There can be no sustained growth and significant improvement of productivity without the broad based improvement of agriculture. Recent research has established that improving farm production helps spur non farm activities in the rural areas. Such non-farm activities are important in mitigating poverty. The concept of poverty eradication must commence with the idea of food security [5]. Achieving food security must be at the centre stage of development agenda. Food security ought to be assessed in wider perspective and need not be seen on capability to import food. We must take cognizance of the fact that it is not possible to achieve the status of a food secure Kenya, unless we produce more than sufficient to feed the population. This requires comprehensible focus on issues concerning agricultural production, agricultural research, high yielding and disease as well as pest resistant varieties crops.

Sub Saharan Africa where Kenya is included persists to pose a serious development challenge. Notwithstanding global growth and waning poverty rates, between 1981 and 2002, the number of people living in extreme poverty in Sub-Saharan Africa nearly doubled from 164 million to 303 million, almost half the total population. By 2015, the number of poor population is projected to rise still further to 336 million. Making substantial dent to this magnitude of poverty is unfeasible without the robust and vibrant agriculture. In the present efforts of the World Bank to alleviate poverty in Kenya, it is crucially vital that the Bank focuses on poverty reduction efforts to those regions of the country and population groups where poverty is concentrated. In the business of mitigating poverty, policy strategies should be targeted where they result in highest diminution in poverty. The share of rural population to total population is 79 percent but 84 percent of all poor live in rural areas. The rural areas account disproportionately for 92.3 percent of the total hard-core poor. The world bank is determined to poverty reduction in Kenya this can be achieved by focusing efforts on the rural areas, especially arid and semi-arid areas, women and children, street children, the landless and unemployed, single parents, women in polygamous marriages and slum residents. The hardcore poor those who stay trapped in food poor even after spending all their income only on food are consistently difficult to reach through the standard antipoverty strategies. *It is in the rural areas that we find most of the hardcore poor* (Mwabu et al., 2002).[6]

The women and children are the ones who bear the core burden of poverty. Therefore the World Bank's strategy in Poverty reduction is not only to target rural areas but should also specifically focus on these marginalized population groups. Our contention, which is in line with evidence from other countries, is that increases in female earnings have a larger impact in improving family welfare than similar increases in male earnings.

6.2 WORLD BANK FUNDING IN THE AGRICULTURAL SECTOR IN KENYA.

Kenya was fortunate in inheriting from its colonial past a relatively open and export oriented trading system in agricultural commodities and a favorable macroeconomic environment in which agriculture could develop. It also exhibited enthusiasm and inclination to give primacy to the development of a smallholder sector that produced both food crops and major export commodities. Starting in the early 1960s, the Bank provided funding for about 40 agricultural projects where by the first Bank mission was in 1953, however the nature of assistance has evolved substantially [7]. It has moved from resettlement and infrastructure to public-sector augmentation of agricultural services, from adjustment-policy-liberalization lending to institutional capacity building. The Bank, frequently in parallel with several donors was profoundly involved in facilitating agricultural development. Its economic advice and infrastructural investments facilitated developing marketing arrangements to address the requirements of the agricultural sector in general and of smallholders in particular. Although the Bank has provided only about 10 percent of official development assistance for Kenyan agriculture, it has probably had a disproportionately large influence because of its nearly constant engagement in economic and policy dialogue with the Kenyan government.

Agriculture in Kenya is highly diversified with cereals (predominantly maize) comprising 16 percent of agricultural GDP, industrial crops 52 percent and livestock about 42 percent. Clearly, there is quest to diversify production but industrial production is unlikely to be sustainable unless there is adequate domestic demand, which fundamentally requires rising incomes of the rural population. A highly changeable climate and the price instability in export markets for key commodities have hampered the sector from robust growth. The coffee price boom of 1976-77 illustrates this volatility [8].

Agriculture in Kenya accounts for approximately a third of gross domestic product 80 percent of the population lives in rural areas; agriculture employs 85 percent of the rural labour force. Rural labour force has been rising at 3.5 percent while agriculture has been growing at 2.6 percent. In Kenya's merchandise exports 70 percent are agricultural and 33 percent of manufacturing sector output is based on agricultural products (Pearson 1995)[9]. Enhancement of agricultural productivity is thus an imperative condition in eradicating rural poverty by increasing household food security and stimulating growth in non-farm activities. Between 1970 and 2002, the population was growing faster than the economy but the trend changed in 2003. This substantial growth was achieved due to remarkable performance of the agricultural sector since the new government came to power in 2002, as shown in table 47.

Export-oriented agriculture is an important direct source of rural employment and indirectly generates a large amount of economic activity in other rural occupations. Kenya's rural areas today employ over 75 per cent of the labor force and it is the rural economy that will have to create most of the several million new jobs that will be needed by young Kenyans in the next decade and during this 21st century.

Most of the World Bank lending in the 1950s went to irrigation schemes in keeping with the emphasis on agriculture. In 1960s the bank did lend on the basis of agricultural research and extension, rural credit and production of high yielding seeds and fertilizers. Till now the main aim of the World Bank in agriculture is to enhance productivity and guarantee food security for the populace in Kenya. The World Bank has without any doubt played a part in developing and propagating high yielding agricultural technologies and advancing agricultural research in Mexico, India, Philippines and Kenya. It is hard to visualize that this would have been accomplished without substantial investment from the World Bank and other donors.[10]

In 1973 McNamara, in his address to the Board of Governors at the annual general meetings in Nairobi, Kenya, he proposed a strategy for rural development with more emphasis on productivity of smallholder agriculture. He pledged that World Bank financing of development efforts were to be increased by 40 percent. The World Bank Programmes ranging from research and extension, irrigation schemes, construction of roads and initiating reforms in the agricultural sector are some of the efforts, which the World Bank has made in mitigating poverty in Kenya in the recent years.

The history of World Bank assistance to the Kenyan rural sector is extensive, however its success and development efficacy have been diverse. It is therefore a rich source of lessons that can be applied elsewhere and to future development of the sector in Kenya. The objective of this chapter is to analyze and interpret the progress and performance on the past and the current Bank operations pertaining to agriculture. The first Bank President, Robert S. McNamara in 1973 delivered in Nairobi a landmark speech committing the institution to a novel focus on unemployment and poverty eradication [11]. Then in December 1973, the Bank produced a report on the Kenyan economy that put those issues at the forefront of the development agenda. All the past and the present loans have implications for the way forward as the institution continues financing agricultural sector. This chapter therefore, unravels this intricate story to analyze the cumulative effect of Bank activities.

In launching the Strategy for Revitalizing Agriculture (SRA) a number of policy reforms were proposed first reviewing and harmonizing the legal, regulatory and institutional framework; (ii) Improving delivery of research, extension and advisory services; (iii) Restructuring and privatising non core functions of parastatals and ministries to bring about efficiency, accountability and effectiveness; (iv) Increasing access to quality farm inputs and financial services; (v) Formulating food security policy and Programmes and taking measures to improve access to markets. The strategy requires the Government to shift from inept roles and functions and define exit strategies for government and consent to the private sector to take a greater role. It calls for strong partnership and firm coordination amongst the three core agricultural ministries and recommend structures for enhancing coordination with other ministries key to sustaining agriculture. It will be critical for Kenya to move forward promptly and steadily on a range of activities under the Strategy for Revitalizing Agriculture[12.]

Table 6.3 Population of Kenya

Year	Population	Population Growth rate (%)	GDP Growth Rate (%)
1980	16282496	3.9	5.59
1981	16914982	3.9	3.77
1982	17573348	3.9	1.51
1983	18254942	3.8	1.31
1984	18956092	3.8	1.76
1985	19673480	3.7	4.30
1986	20405074	3.7	7.18
1987	21149240	3.6	5.94
1988	21903356	3.5	6.20
1989	22664636	3.4	4.69
1990	23430276	3.3	4.19
1991	24199826	3.2	1.44
1992	24971048	3.1	-0.80
1993	25737392	2.9	0.35
1994	26490784	2.8	2.63
1995	27225892	2.6	4.41
1996	27942268	2.5	4.15
1997	28642986	2.4	0.48
1998	29331140	2.3	3.29
1999	30011476	2.3	2.28
2000	30689332	2.2	0.60
2001	31363972	2.2	4.38
2002	32039836	2.2	0.40
2003	32733766	2.2	2.77
2004	33467328	2.1	4.34

Computed from various statistical abstracts, Kenya bureau of Statistics

Most World Bank financed agricultural projects sought to improve the productivity of the agricultural sector, which was seen as key for the economic development of the Kenya. Early Bank projects often focused on export industry development and more often have not succeeded in achieving their objectives. Emphasis then switched to integrated rural development projects that took up poverty-alleviation and food-security objectives through area development activities that involved a complex of infrastructural, social, and productive investments. Most of these projects had partially achieved its efficacy; notable failures resulted from a combination of poor design and inadequate ownership among shareholders, including some in government service. [13]

During the 1960 and 1970s the Bank supported 10 projects, which sought to extend production and to turn a portion of smallholder production to areas where Kenya had a proven comparative advantage. Training and Visit (T&V) extension, focused to move farmers toward the production frontier. The integrated rural development phase (1975 to mid-1980s) included several projects that reflected a new Bank development model. The strategy aimed on increase total food production, providing extension services, improved rural road and improving education and health services. Early 1980s to 1990s comprised two agricultural sector program loans in 1986 and 1991 intended to reduce fiscal deficits, rationalize the scope of public expenditure and get agricultural commodity prices better to reflect true values. Thus, to aid total factor growth, they were to move producers closer to the right place on the production frontier and thereby improve efficiency. During the structural adjustment phase program lending found a respectable developmental rationale, policy is more important than hardware. It was recognized that the returns to the country on investments will be low if price signals are distorted and regulations limit what can be produced, imported or exported. Accordingly, poor policies were thought to be adversely affecting total factor productivity by leading to production that fell well inside the frontier and that was focused on relatively unprofitable areas.[14]

The institution-building phase of late 1980s to present moment has involved refocusing on increasing productivity through increasing output and reducing transaction costs. The leading institution-building projects focused on better delivery of key agricultural services particularly research and extension. The economy has persistently depended on external resource with World Bank being one of important source of revenue. It is estimated that external assistance contributes about 70 per cent of the total development expenditure in the country. Donors resources in the form of loans and grants have often been used to supplement domestic savings facilitate the acquisition of equipment, training of personnel and institutional capacity development. A look at trends in the external resource flow shows that Kenya has experienced steady build up in nominal flows of Official Development Assistance (ODA) between the 1970 and 1996, rising from US$66 to US$743 million over the same period. This reached a peak in 1991 when Official Development Assistance (ODA) was 16 percent of the GDP and 45 percent of the Government expenditure. Since the 1990s there has been a slacking of donor support leading to a sharp decline in aid inflows; however more ODA was channeled through (Non Governmental Organisation) NGOs rather than the government during the period. This is in line of the argument that technical cooperation contributes to the social and economic development of the country. The reasoning is that it helps in building national capacity enhancing efficiency in performance and service delivery and fill resource gaps to achieve sustained social economic development. However one of the main development issues is coordination as well as development cooperation among the aid giving agencies is vital.

The economic policy reforms such as tighter monetary control and greater stability under recent Bank structural adjustment arrangements and greater competition among the new institutions resulted to a strong recovery on the market side of agriculture. Kenya has remained competitive in key markets for its growing high-value exports such as flowers. The engagement of smallholders in these specialized high-tech exports is inevitably limited but because they are labor-intensive they generate rural employment. The intense rains and floods in late 1997 and the washout of the coffee crop and damage to infrastructure in early 1998 were devastating. The latter is particularly debilitating as it affects the cost of moving agricultural produce to market. Agriculture's full potential has been hampered by decreasing farm sizes, inadequate use of appropriate technology, unreliable rainfall, poor marketing infrastructure, limited access to credit, high cost of farm inputs including agricultural machinery and lack of land use policy. However, the fiscal crisis and resulting shortfall in government finance have forced Kenya to rely heavily on assistance from donors and international financial institutions. The balance of payments depends heavily on the exports of coffee, tea, horticultural products, and tourism, and will continue to do so in the future. Meanwhile, donor funds have slowed, investment is stagnating, population and rural unemployment are growing rapidly, and poverty is inexorably increasing.

6.3. WORLD BANK FINANCING IN KENYA KEY AREAS OF AGRICULTURAL SECTOR.

(a) **Tea.**

The tea operations were both technically and economically successful. Built on the natural advantages Kenya has year-round plucking. They featured construction of such infrastructure as tea roads, which have been maintained. More than 3 million Kenyans, or about 10 per cent of the population, are directly and indirectly employed in the tea industry, the largest sub sector in the agricultural sector. [15] The first tea project was in August 1964 of $ 2.8 million, It was followed by $ 3 million tea roads project of June 1965, $ 2.1 tea project (02) June 1968, tea factory project worthy 10.4 million in1974 was financed.

(b) **Coffee.**

The Coffee Project (02) aimed to provide investments required to: improve 275 coffee factories construct an additional 65 in the cooperative sector, b) provide credit for agricultural inputs, finance the initial credit requirements and support an improved coffee payment system in the cooperative sector. The project also aimed to improve production and processing on 230 small estates, provide training and advisory services, and finally strengthen the management and implementation capacities of the key participating agencies. Finally the project aimed to raise the incomes of coffee smallholders, small estate owners and farm workers through increased productivity and quality improvements.[16]

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

(c) **Cotton.**

Cotton is grown in Kenya as a cash crop. There had been high hopes that it could advance economic activity in the more marginal drier areas where there were few beneficial cropping alternatives. Consequently the crop featured in early development projects. The government launched its Cotton Development Programme in 1975, which doubled output to about 30,000 metric tons by 1979, although many problems lingered. Bank sector work offered ample diagnosis of technology difficulties although too late for the variety constrains of the unfortunate Bura Irrigation Scheme. The government recognized few problems with ginning, storage, handling, and marketing and prepared a project to address them. Kenya asked the Bank to help and during 1981-82 it assisted with the preparation and appraisal of a project that became effective in May 1983 (Credit 1237). Many problems such as availability of suitable planting materials, pests, volatile export prices, marketing, ginning, drought, irrigation failures-severely compromised the future of cotton in Kenya. [17]

(d) **Sugar**

The Kenyan Sugar Industry provides direct employment to 35,000 workers. The industry is also a major income source to 100,000 small-scale farmers and supports over two million people in Western Kenya where most sugar cane farming takes place. Furthermore, local sugar industries contribute immensely to infrastructure such as roads, water provision and education. Promptly getting payments to growers has persistently been difficult and certainly contributed to scanty supply response. As of the mid-1990s onwards, Kenya has been importing about 200,000 metric tons of sugar each year, about 50 percent of domestic demand. Meanwhile the Bank has been pushing in its adjustment dialogue for privatization of the sugar factories, more transparent sugar legislation and better pragmatic consumer price for sugar. The first World Bank loan to sugar was in 1967, the sugar roads project of $ 5.3 sugar rehabilitation project of $ 72 million in 1978, south Nyanza sugar project of $ 25 million in 1977 are some of the major projects financed by the World Bank.[18]

(e) **Livestock.**

Administrative and institutional demands have been particularly problematic, as have the social dimensions of land and other open-access resource management issues. The latter included the conceptual problems with group ranching, dogged by droughts with stock losses, overgrazing, ownership, technical problems in maintenance of water and other improvements. Some progress was made in providing credit for ranching, especially through the Agricultural Finance Corporation, which improved marketing facilities, some development of veterinary services, meat processing; and rangeland development. Profound differences of opinion existed over price controls, profitability and the role of the government in marketing before 1987. Notwithstanding these difficulties and some disincentives due to high costs in the Kenyan Cooperative Creameries, liberalization of dairy pricing and marketing in the early 1990s brought fair progress in dairy development and supply of milk products. Livestock project (1) of US$3.6 in 1968, livestock project (2) of US$ 21.5 in 1974, animal health services rehabilitation project of US$ 15 million in 1987 are some of the major projects financed by the World Bank in Kenya.

(g) **Forestry**.

The forestry sub-sector in Kenya has enormous contribution and support to other economic activities such as agriculture, tourism, building, construction, herbal medicine and food security. In Kenya, it is estimated that forest products and services contribute about Kshs 7 billion annually to the economy and employ directly 50,000 and indirectly another 300,000 people. The timber industry alone is estimated to have investments of over Kshs 44 billion. In addition, over 530,000 households living within a radius of five kilometers from forest estates depend on forests for cultivation, grazing, fishing, fuel wood, honey, herbal medicine, water and other benefits. The gazetted forests managed by the Forest Department currently contribute 80 per cent of timber, 93 per cent of poles and posts and 25 per cent of fuel wood requirements. Sale of these products from gazetted forests generates about Kshs 320 million annually to the Exchequer. In addition, the value of the 24 million cubic metres of fuel wood materials sourced from farmlands is estimated at Kshs 4.8 billion. Sustainable utilization of these farmland resources would require improved extension support by the Forest Department, which is only possible through improved funding.

The pressure on the forests of Kenya has been growing for years. The demand for new agricultural land and for increasingly scarce fuel wood continues to put forests at risk. The government has sought to protect natural forests by banning commercial felling in these areas, but about 500 hectares of forest land is still lost each year. Policy has been to meet needs for round wood and industrial wood from plantations, which grow quickly in the high-potential regions of Kenya. The first two Bank-supported projects (1970- 81) extended plantation areas and were judged satisfactory operations. The third project included institutional development in the Forest Department, reforestation of previously felled areas, a program of rural afforestation with finance, rural roads, forest extension and land-use planning. The difficulties arose from problems that are common in Kenyan agriculture such as patchy management, under funding, and cost escalation. Much policy and institutional progress remains to be made in this sub sector, preferably with more effective community participation in social forestry activities as well as better agro forestry practices. The first World Bank project to forestry was $ 2.6 in 1969, $20 million in 1975, $ 37.5 in 1982 and $19.9 in 1990 was financed by the World Bank.

The 1982 Basic Economic Report (BER) assumed that the policy issue involved in the growth/equity debate had been settled in favor of distributing land to smallholders. A project was to be prepared to accelerate the regularization and rationalization of individual holdings on informally subdivided large farms. But rural labor markets are easier to organize for large estates than for smallholders, particularly for tea and coffee. Furthermore, much greater intensification is possible on estates than in smallholder production. Land registration in semi-arid and transitional areas has been slower, and still continues in World Bank funded operations. Ethnic and gender factors, corruption and weak enforcement of contracts also render the market much less than perfect. Bank-supported studies reveal that title deed is not critical where traditional rights yield similar levels of security.[19]

Other donors (the United States among them) have focused on developing elements of the financial sector such as credit unions for the formally employed. Although many smallholder members of producer cooperatives get market-priced credit, most smallholders have benefited relatively little from these operations, and the situation for the poorest farmers is grim. Access to credit continues to constrain development in the sector most smallholders must do with very limited credit from the informal markets. Perhaps the Bank has a role here but effective and non-distortion intervention is difficult enough to make the current slow pace of project identification appropriate.

The very first loan the Bank made for Kenyan agricultural development was for agricultural roads (Loan 256 in 1960). This indicates the fundamental role that roads play in an agrarian society. Some industrial development investments also involved road construction such as "tea roads." Rural roads have been vital for development in Kenya and are still the focus of donor operations. Many of the problems are; ineffective financing of maintenance work, inadequate delegation of responsibilities to local levels, and weak attempts to involve beneficiaries in financing roads.

(h) Irrigation.

There are five major irrigation schemes in Kenya namely Mwea, A hero, Perkera, Bunyala and West Kano irrigation schemes. By 2003 there was 29,662 hectares cropped and the gross value of the crop was valued Ksh 1511 million [20]. The World Bank financed Bura Irrigation Settlement Project of the 1970s which was worthy $ 40 million in 1977 however it was an expensive failure. The last cotton crop Bura produced was in 1991/92. Both donors and government must share the blame. The difficulties were manifold conceptual, insecure land tenure, technical especially variety pest and disease interactions, engineering, environmental, health, cotton marketing, infrastructure, financial and economic analysis. The failure means that there should be extreme caution in the irrigation sub sector in Kenya and more widely in what is a still challenging area of potential African development. High costs of reservoirs and irrigation system development imply that most new irrigation development will continue to be private based largely on groundwater and water harvesting. Kenya has only about 8,000 hectares under irrigation mainly in rice, although the potential area supposedly exceeds 100,000 hectares. It seems unlikely that any sizable portion of this could be developed in the near future if all the economic, social, and environmental costs involved were to be covered.

Kenya's agricultural development continues to rely heavily on rain fed agriculture. This has led to frequent food shortages occasioned by crop failures when rains fail. Overall rain distribution in the country is not reliable and the country has continued to experience food shortages necessitating importation of critical agricultural commodities like maize, wheat, rice, oil seeds and sugar to meet the shortfall. Irrigation is therefore crucial to the development of agriculture in the country (GoK 2002). [21]

(i) Maize

Maize is the main staple food of Kenya although production has fallen short of demand due to frequent draughts and low productivity. The area under maize cultivation has stabilized at about 1.5 million hectares (World Bank 2002) [22]. Maize in Kenya is produced nearly all over including in the arid and semi-arid agro ecological zones. Nevertheless, the high potential maize zones encompass mostly the Northern Rift districts of Nakuru, Uasin Gishu, Trans Nzoia, Kapenguria, and Nandi. Maize yields in the country throughout the favorable weather conditions fluctuate from 10 to 27 bags per acres (2.0 and 5.4 tons per hectare). Maize alone occupies 63 percent of the cropped land and accounts for 32 percent of the total crop revenue per acre. This implies that smallholders in Kenya put a high premium in producing their own food in their land allocation decisions.

The Bank has supported no maize projects but maize is the main crop if its production is strengthened it can provide food self reliant among small holders and generally enhance food security in Kenya. There were some successes through better agricultural services and some progress through maize market liberalization but much is yet to be done for this key sector to realize its potential. Given the diversity of agro ecological conditions in Kenya where maize is so widely grown, delivery of new cultivars suited to local situations will be vital to future productivity and should come efficiently from the reenergized research system.

(j) Horticulture

The cut flower industry in Kenya has witnessed an exponential growth within the last two decades. With an estimated annual growth rate of 20 per cent it has increased its export volume from 19,807 to 41,396 tons between 1992 and 2001, which was an increase of 108 per cent. This industry, which is labour intensive with predominantly youthful female workers, employs approximately 40,000-50,000 employees. Export-oriented agriculture is an important direct source of rural employment and indirectly generates a large amount of economic activity in other rural occupations. Kenya's rural areas today employ over 75 percent of the labor force and it is the rural economy that will have to create most of the several million new jobs that will be needed by young Kenyans in the present century.

Kenya's horticultural export sub sector, which grows and exports fruits, vegetables, plants, and flowers, has become a highly dynamic and internationally oriented business community with a mixture of both large and small farmers. Kenya has several of Africa's largest flower farms and is the single largest supplier to the Dutch flower market. Kenya has also become a premium fruit and vegetable grower for top supermarket chains throughout Europe. Local businesses grow, process, clean, trim, and package the produce--highly labor-intensive activities. One farm ships 180 tons of flowers weekly to Europe, employing over 2,000 staff either directly on the farm itself or indirectly in the supporting transportation, freight, and baking activities that support the business.[23]

Vegetables and horticulture is coming to dominate the new export crop industries. Fruit and vegetables are the leading elements of domestic agricultural growth. Bank involvement in these activities has only been indirect through supporting a relatively liberalized trading and technology-import environment as well as the provision of key agricultural services concerning input management and post-harvest issues. Kenya's horticultural export sub sector which develops and exports fruits, vegetables, plants and flowers has turned out to be a highly vibrant and internationally oriented business area with a blend of both large and small farmers. Kenya has furthermore become a prominent fruit and vegetable grower, (Mulugua, Rufus. 1994.)[24]

(k) Wildlife.

Agricultural sector work in Kenya seldom addressed wildlife development. One livestock project examined the viability of game ranching but dropped the enterprise because it was better suited to large-scale ranches which help the rich and not likely to help the poor. The government has conferred its wildlife policy high priority to exploit in order to enhance the opportunity to augment government revenues from tourism. The Bank has been supporting interventions to strengthen the Kenya Wildlife Service, which succeeded in bringing effective administration to this major economically significant rural-based activity. Wildlife and tourism project $ 17 million in 1976,protected areas and wild life services project $ 60.5 in 1992,Tana River Primate National conservation project $ 6.2 in 1996,Lewa wild life conservation project $0.75 in 2000 are some of the major projects in wildlife and tourism.[26]

Reform of the manufacturing sector involved eradication of inept firms and reducing the level to which protection allowed industrial sector to operate at the expense of agricultural. It suggested a change of emphasis from import substitution to resource-based export industries. Implementing a dynamic agricultural strategy posed problems, however. The overriding constrains on development of an integrated export-oriented, agro industrial sector was the absorptive capacity of the agricultural sector. The heart of the problem was a lack of planning capability in the Ministry of Agriculture and Livestock Development and Marketing (MOALDM) particularly the capacity to design large-scale productive programs for small-scale farmers. The report emphasized the importance of incentives to agriculture by reducing taxes, correcting interest rates and aligning domestic and world market prices.

Accompanying Mr. McNamara's speech was a renewed interest in having the Bank seen to be delivering project benefits to the poor. Explicitly addressing human development aspects such as health, nutrition, and education along with directly productive aspects of the agricultural environment were felt likely to be both socially vital and synergistically productive. Reaching the weakest and most remote members of society who seldom benefit from "trickle down" effects of broader interventions required unique effort. Participation for change processes by all potential beneficiaries was indispensable in order to move marginalized members of society from oppressive dependency structures. In Kenya, the main problem is the inherent difficulty of dealing effectively with complex projects. Special-purpose project implementation units, operations project implementation units outside the normal public service structure, cannot make up for weak local and central administrative capacity.

The relatively intensive provision of services in these circumscribed area projects created a subsequent need to reform some development services, such as extension. It also prompted preparation of what would become the first National Extension Project, with visits by officials to India to see training and visit (T&V) extension in action. In our analysis of the World Bank projects in agricultural sector many obstacles were identified, among them excessive reliance on expatriate technical assistance and a tendency to scale up projects before there was adequate pilot experience. Sound macroeconomic policy regime fosters robust economic growth more so when there is linkage to civil society. In our analysis from the World Bank evaluation reports it was established that local ownership was usually vague and fragile. Institutional commitments in the 1990s, such as the appointment of responsible offices in most resident missions, and implementation of rural development initiatives have emphasized close working arrangements with NGOs. This has also come with a sharpened understanding of the need for more decentralized approaches and administrative structures to engage effectively with communities in both design and implementation of rural development efforts. Generating greater local support for services is one useful approach. [27]

The 1982 Basic Economic Report (BER) on agriculture stressed the limited farming potential of the semi-arid and arid ecological zones. This was contrary to the prevalent perception that dry land farming could provide earnings and employment to a great deal of the growing population of Kenya. The BER also noted the effects of intensification on the fragile environment of several marginal areas, the high risks and limited land potential as well as the impact on traditional pastoralist of migration from densely populated regions. Therefore we conclude that development issues were complex, concerning different models for pastoralism and wildlife management diverse viewpoint on the effects of land titling, grazing fees, and community management in marginal agricultural areas. The 1982 BER argued that, the proportion of the Kenyan population below the poverty line had fallen between the early 1960s and the mid-1970s, although population growth had raised the absolute numbers of the poor. Over the period 1991-95 the Bank executed a UNDP pastoralist integrated development project and, over the period 1993-96, it had its own emergency drought relief project, which was an effective lead-in to the most recent World Bank operation in the sub sector mobile communities-have been embodied in the ongoing arid lands resource management.[28]

The 1997 rural development strategy of the World Bank took a broad and relatively decentralized approach to the development needs of the sector. The approach however ensured strong ownership of the program and presumably greater chance of locally appreciated success, which augur a better result for all parties. The experience in Kenya suggests that progress is slow if delegation is only partial. The assessment of the project we established that genuine ownership by local communities is, however, the vital element in achieving both favorable outcomes as well as sustainable institutional development. Apart from being already slow, progress in Kenya is further slowed by more responsive project design being sensitive to the donor consultative processes inherent in all World Bank projects. Lack of readily available technical packages for farmers in the semi-arid zones, limited opportunities to switch to higher value crops such as tea or coffee, import-substitution policies that favored industry at the expense of agriculture aggravated to poor performance of the agricultural projects. The priority areas for policy reform were liberalization of the grain market and the issuance of land titles both of which were later to become conditions for structural adjustment lending.

Structural adjustment loans after the coffee boom and second oil shock saw a considerable shift from project to policy lending. These loans were designed to liberalize agricultural pricing and to improve, economic efficiency in agricultural marketing. They also sought to boost project planning and management capacity as well as various land policy reforms. The impact of adjustment lending on agriculture and its exports was positive however the evidence of the assessment of the results shows that it was sketchy especially for smallholders. The operations signify something of a success, notwithstanding the weak proof for the influence on exports and the several ambitions that were not achieved or were achieved only very slowly.

Support by the Bank and other donors through the first National Agricultural Research Project 1987 (NARP I) managed to unite the elements of the former East African agricultural and veterinary research establishment-along with units of the MOALDM into an effective institution. The institution supports research for most export commodities, separate arrangements exist for coffee and tea. During the preparation of NARP I the Kenya Agricultural Research Institute (KARI) was given semi-autonomous status. This considerable institutional achievement meant that the salary system can recognize more explicitly the achievements of scientific progress. Consequently, the terms and conditions of employment within KARI have been sufficiently attractive to retain a skilled scientific staff. It is widely recognized as one of the best national agricultural research programs in Sub-Saharan Africa. Among the accomplishments is strengthened in-service and external training, the promising operation of an agricultural research fund to finance contract research and adaptive research has been reorganized into a system of Regional Research Centers focused on local needs and a system of

National Research Centers that addresses constraints to increasing productivity in the dominant agro ecological zones. Progress continues on strengthening the institutional environment for agricultural research in Kenya. It also involves a downsizing operation with major retrenchment (financed by donors) to yield a redefined and more effective KARI [29].

The achievement of cost recovery innovations, which were introduced, helped to reach a situation in which government support to agricultural research can be sustained even in times of stretched national budgets. We are of the opinion that rationalization of what has led to success in the Kenya agricultural research system may perhaps have value for replication in other parts of the continent where development has not been smooth.
Our objective of this chapter was to bring out clearly how the World Bank financing in the agricultural sector was performing, our proposition is that bank has done a satisfactorily job and there is a room for improvement.

The T&V extension system has attracted an intense debate in Kenya and the World Bank. The large influx of support funds and staff training lifted the morale of field staff and unleashed a high level of activity. The extension service has over the years given greater attention to horticultural pursuits such as onion growing and addressed such technical challenges as how best to provide zero grazing for dairy animals. 70 percent of households in the high-potential areas, and 30 percent elsewhere, have had some contact with extension in recent decades. The financing plan for NARP II, for instance, was approximately $70 million from the government, $60 million from donors, $40 million from IDA and $10 million from the private sector. Most government funding for extension in Kenya (more than two-thirds in recent years) goes to salaries. Research under KARI has done well and has good prospects, despite some criticism of poor government support. [30]

The 1990 report Kenya Agricultural Growth Prospects and Strategy Options concluded that high agricultural growth rates can be achieved if appropriate strategies to help large numbers of smallholders are effectively formulated and implemented to remove binding policy and institutional constraints. The 1990 report, echoing the findings of the Managing Agricultural Development in Africa (MADIA) study, noted that during the first 25 years of independence agricultural performance had been impressive compared to many other African countries but that cultivated area expansion had contributed about 60 percent of total growth of most agricultural commodities. With the progressive conversion of the more fertile areas (only about 4 percent of total agricultural land), the main source of future agricultural growth would have to be intensification. The World Bank programs have emphasized the significance of increasing agricultural output by supporting the agricultural productivity as 80 per cent of people in Kenya depend on agriculture. [31]

Table 6.4 THE WORLD BANK FUNDED PROJECTS IN KENYA IN THE AGRICULTURE SECTOR

NAME OF THE PROJECT	APROVAL DATE	COMMITMENT AMOUNT	MAJOR SECTOR
COTTON PROCESSING &MARKETING	APR 1982	22	AGRIC FISHING AND FORESTRY
AGRICTURAL TECHNICHNICACAL ASSISTANCE	JULY1982	6	AGRIC FISHING AND FORESTRY
NATIONAL AGRICULTURAL EXTENSION	JUN1983	15	AGRIC FISHING AND FORESTRY
AGRICULTURAL SECTOR MANAGEMENT	JUN1086	11.5	AGRIC FISHING AND FORESTRY
AGRICTURAL ADJUSTMENT CREDIT	JUN1986	20	AGRIC FISHING AND FORESTRY
ANIML HEALTH SERVICES REHARBILATATION	FEB1987	15	AGRIC FISHING AND FORESTRY
AGRICULTURAL RESEARCH	OCT1987	19.6	AGRIC FISHING AND FORESTRY
RURAL SERICES DESIGN	DEC1988	20.8	AGRIC FISHING AND FORESTRY
COFFEE PROJECT	SEP1989	46.8	AGRO-INDUSTRY
NATIONAL AGRICULTIRAL EXTENTION	DEC1990	47.9	AGRIC FISHING AND FORESTY EXTENSION &RESEARCH
FORESTRY DEVELOPMENT	DEC1990	83.8	AGRICULTURE,FISHING, FORESTRY
AGRICULTURE SECTOR ADJUSTMENT CREDIT	JAN1991	75	AGRIC MARKERTING AND TRADE INDUSTRY,AGRIC FISHING
AGRICULTURAL SECTOR MANAGEMENT	15DEC1992	19.4	PUBLIC ADM, AGRIC,FISHING, FOREST
EMERGENCY DROUGHT RECOVERY	FEB1993	36	AGRIC,FISHING, FORES,ROAD,WATER ADM1,HEALTH
LAKE VICTORIA ENVIRONMENT	JUL1996	19.6	AGRIC,FISHING, FORESTRY
LAKE VICTORIA ENVIRONMENT	JUL1996	26.9	,FISHING, FORESTRY
NATIONAL AGRICULTURE RESEARCH	JAN1987	39.7	FISHING, FORESTRY AGRICULTURE,FISHING, FORESTRY
ARID LANDS RESOURCE MANAGEMENT	JUN2003	77.9	FISHING, FORESTRY
KENYA AGRICULTURAL PRODUCTIVITY	JUN2004	80.37	FISHING, FORESTRY
WESTERN KENYA INTEGRATED ECOSYSTEM MANAGEMENT	MAY2005	7.65	AGRICULTURE

(*Source, World Bank Project Evaluation Department*)

6.4. PERFORMANCE OF SELECTED AGRICULTURAL PROJECTS FUNDED BY THE WORLD BANK.

The Kenya Agricultural Productivity Project (KAPP) contributed to the revitalization of agriculture. The cost of the project was US$ 80.37million while the World Bank commitment amount was US$ 40 million. The project achieved its efficacy through facilitation of sector policy and institutional reforms, learning pilots and capacity building. Supported facilitation of a consultative process for the establishment of a National Agriculture Research System (NARS) and funded the Kenya Agricultural Research Institute (KARI). The project funded financial credit institutions for farmers by supporting policy dialogue, consultation and capacity building.[32]

The Micro, Small, and Medium Enterprise (MSMEs) Competitiveness Project focused to increase productivity and employment in participating by strengthening financial, and non-financial markets to meet their demand, strengthening institutional support for employable skills and business management industry. This was achieved through performance based matching grants to assist a range of financial institutions build capacity to provide financial services to different segments of MSME sector. The project focused on matching grant fund, tools for business schools to better train managers, business plan competition to catalyze innovation, and entrepreneurship. It assisted in implementing the simplified taxation regime for micro and small businesses as well as reducing the cost of starting-up businesses through a one-stop shop approach.[33]

Arid Lands Resource Management Project Phase Two, was the consequent of the first phase ALRMP objective as revised during the mid term review to build the capacity of communities in the arid districts of Kenya to better cope with drought. The natural resources and drought management component focused to mitigate the risk posed by drought and other factors by strengthening and institutionalizing natural resources and drought management systems. This in turn was to reduce the vulnerability of the population in an area, which was characterized by frequent, acute food insecurity related to drought. The Community-Driven Development (CDD) fostered development capacity at the community level and below to empowered communities to take greater charge of their own development agenda and take responsibility for the development choices made. The support to local development component fostered enabling environment in the arid lands to allow the population to break out of the prevalent survival-relief continuum into a positive development agenda leading to economic growth and reduced dependence on outside intervention. Finally the project did bolster delivery of essential services, which enabled communities to diversify their economic activities and develop sustainable strategies by promoting the interests of the arid lands at the national level.[34]

National Agricultural Research Project (NARP) (02), its outcome was satisfactory and institutional development impact was substantial. Research should focus on the system of production within which commodities are produced as well as characteristics specific to the key commodities. Institutional changes key to the success of the project but potentially sensitive for political or other reasons should be agreed prior to project approval. Agricultural research without complementary and effective mechanisms for dissemination and adoption of technology will have low returns.[35]

Tana River Primate National Reserve Conservation Project, performed poorly and therefore it did not meet its efficacy. The fact that in this case the program for relocating those willing to move from the reserve was not agreed before the project became effective, handicapping the implementation of the whole community development component. Unless local communities believe that their interests are central to project design they are unlikely to actively support implementation. The design must look beyond the immediate area linked to project operations and must take into account those conditions in the wider region that can have a crucial impact on its success or failure.[36]

Lake Victoria Environment Project focused to maximize the sustainable benefits to Riparian communities from using resources within the basin to generate food, employment, safe water and sustain a disease free environment. Fisheries management, research, extension, water hyacinth control and municipal waste management were the priority of the project. The Project was sustainable, the institutional development impact was substantial and the Bank performance was satisfactory. Regional projects necessitate clarity of project objectives, frameworks which is easy to monitor at multiple levels and adequate mechanisms for governance. Environmental benefits must be strongly linked to improved livelihoods for local people and communities. Good education of the public and parliamentarians is critical for long-term sustainability and success.[37]

Micro and Small Enterprise Training and Technology Project focused to enhance entrepreneurial development in the private sector and, industry more specifically reduce constraints to employment promotion and income enhancement in the micro- and small enterprise (informal) sector in Kenya. The program included a micro and small enterprise training fund, a technology innovation and pilot infrastructure development. The project will make provisions for increasing women's representation in manufacturing through skills training and technology development suitable for upgrading their enterprises or bringing them into the sector. The Jua Kali Federation and Associations and employers were the primary agents to promote and implement the project. [38]

Agricultural Sector Management (02) Project developed key agricultural sub-sectors by fostering greater private sector involvement; reforms in the cooperative sector to make cooperatives more efficient. It supported the government's parastatal reform program by providing the technical, financial and institutional assistance required to improve resource allocation and increase production efficiency. The project financed technical assistance to strengthen the Department of Government Investment and Public Enterprises, (DGIPE) the entity which is responsible for the reform of public enterprises. [39]

Protected Areas and Wildlife Services Project financed development of Kenya Wildlife Service's (KWS) institutional capacity, rehabilitation of park and reserve infrastructure, establishment of a Community Wildlife Program and expansion of the wildlife education program. The project funded scientific research, maintenance of the effectiveness of the Wildlife Protection Unit, institutional strengthening, training, vehicles and equipment.[40]

Agricultural Sector Adjustment Operation (ASAO II) Project achieved most of its objectives, institutional development was partially achieved, sustainable and the performance of both the Bank and Borrower was satisfactory. The sustained impact of policy and institutional changes which are supported by adjustment operations and capacity building programs only become apparent in the long term and should be assessed in that timeframe performance contracts between Government and public sector agencies may be useful tools to clarify mutual obligations. Finally, inclusion of covenants must receive more upfront thought during project design and negotiations to ensure that covenants relate to critical policy and institutional change issues and implementation actions.[41]

Forestry Development Project's main objectives were to enhance conservation and protection of indigenous forest resources, alleviate the fuel wood deficiency and improve the efficiency of timber production and to establish a framework for the sub sector's long-term development. It promoted tree farming through intensified extension services to smallholders and rural communities by supporting nongovernmental organizations. It improved the physical and financial management of the existing industrial plantations, training, management support and upgraded forest research and technical forestry surveys.[42]

National Agricultural Extension (02) Projects funded investments, which strengthened the major extension service by expanding it to six new areas, strengthened and developed two prototypes in arid and semi-arid areas. Finally the project increased staff mobility and enable them to work with groups, office and training equipment, computerized monitoring system on a pilot basis was funded. Improved use of mass media, furnishing of farmer training centers, review of the curricula and operations of agricultural educational institution Training was funded.[43]

Coffee Project (02) Projects focused to raise the incomes of coffee smallholders, small estate owners and farm workers through increased productivity and quality improvements. The project financed investments to improve 275 coffee factories and construct an additional 65 in the cooperative sector, credit for agricultural inputs as well as coffee payment system in the cooperative sector. Productivity training, planning and management were strengthened.[44]

Agricultural Research Project supported by several donors aimed at restructuring of the Kenya Agricultural Research Institute (KARI) organization and management. The project funded including establishment costs, construction of a headquarters building, training and external expert assistance for research planning and management. IDA funded incremental non-salary operating costs, vehicles, equipment, civil works, and research training as well as consultancy services. [45]

Animal Health Services Rehabilitation Project's focus was on the rehabilitation of Kenya's animal health services, provision of a viable and sustainable institutional framework for animal health services which can be maintained over the long-term. The project developed specific management systems for the department of veterinary services and trained the staff to apply the newly designed management systems. In addition, it supported disease and pest control activities and supported livestock disease surveillance activities. Finally, the project financed the national tick control program clinical services and pilot trials for developing cheaper methods of control of tsetse flies and ticks. The project benefited pastoralists and smallholders who own 90 percent of the livestock of Kenya.[46]

In mid-1980s, unfavorable economic environment, limited arable land, stagnating use of fertilizers and HYVs, inadequate production incentives, falling agricultural investment, and problems with agricultural services due to weaknesses in government and parastatal institutions bogged down agricultural performance.

The SDR 5.4 million credit (Credit 1277-KE) for the agricultural technical assistance project was approved by the board on July 1, 1982, with the final disbursement on July 3, 1987. The IDA credit 1717-KE and African facility credit AF021-KE for the agricultural sector adjustment operation, in the amounts of SDR17.6 million and SDR35.2 million respectively, were approved on June 23, 1986. The credits were fully disbursed, and the last disbursement was on November 10, 1988. The operation was well supported also by a number of other donors. [47]

Cotton Processing and Marketing project's main purpose was to improve the post-harvest handling of cotton by improving the cotton collection and marketing system, rehabilitation and expansion of cotton ginning, strengthening the technical and financial management of the principal participating institutions. The project enhanced transport, marketing, developing facilities for seed cotton and lint storage, rehabilitating and expanding ginning facilities. Finally the project provided technical assistance, management services, trained its staff and strengthened its operations.[48]

Forestry Project (03) improved the Forest Department's operations through more efficient planting activities and better-cost recovery. It also supported new plantings of 6400 hectares per annum, maintenance of about 160,000 hectares of existed plantations and expansion of rural afforestation activities, particularly nurseries. The project also supported the improvement of forest roads and maintained vehicles and provided specialist staff. The project increased wood production and aimed to reduce pressure on Kenya's fast depleting indigenous forests in order to prevent disruption of water flow and soils in densely populated areas.[49]

Agricultural Credit Project's (04) main purpose of the Project was to strengthen AFC's institutional capability to serve the growing credit needs of Kenya's farmers more effectively. To achieve its efficacy the World Bank strengthened AFC's general management and administrative capabilities by establishing a corporate planning department, reorganized, increased the number of loan officers and improved AFC's branch services and facilities. This was accomplished by training and staff development by introducing programs for credit training, staff performance and career enhancement.[50]

Fisheries Project increased the incomes of fishermen by increasing marketed fish production post-harvest losses were minimized and fish quality improved by providing storage and preservation facilities. Improved fishing craft and gear enabled fishermen to increase fish catches and production. The pilot fish farming development center contributed to increase in marketed fish production. The project funded research, training, and studies. Beneficiaries' annual per capita incomes estimated to have augmented by about 50 per cent. The main risk the Project faced was that the ice plants and refrigerated stores would not be managed efficiently. [51]

CONCLUSION

The agricultural development projects funded by the Bank in Kenya have had broadly diverse efficacy and the outcome has been marginally reasonable. The lack of ownership and project relevance seldom met priorities of the government of Kenya therefore making it hard for the full efficacy to be realized in many cases. The ownership issue is mainly emphasized in World Bank negotiations with the Kenyan government. As for efficiency the utilization of Bank funds has sometimes been good but more often bad. The catastrophe though is the similar record that must apply to the use of meager government development resources. The overall sustainability of Bank-supported agricultural operations in Kenya has been unimpressive. While substantial institutional development occurred in some projects, the ratings for most of them were modest. Kenya clearly persists to require improved capacity in public agencies and has a fragile counterpart circumstances in various private and NGO organizations.

The government of Kenya performance has been unsatisfactory, particularly given its many broken or unmet lending conditions and its poor commitment to agreed actions. Bank performance has been somewhat better. The biggest single lesson in this chapter of World Bank financing in the agricultural and industrial sector is the ownership and sound economic policies which are vital to successful implementation and thus to development effectiveness. Such ownership has always featured in the Kenyan agricultural and industrial portfolio, and should receive sufficient attention from both the World Bank and the government.

In order to accelerate agricultural growth, food security, and promote sustainable natural resource management in continuing rapid population growth there must be increase of World Bank funding in this sector. These objectives along with the intention of having a rural strategy as a key element of the Kenya country Assistance Strategy (CAS) are consistent with current Bank policy in the region. Bank assistance cannot reasonably be claimed to have done the best that was possible. Sometimes staff charged with supervision duties lacked the necessary skills for their task, delayed timely release of funds have also been noted but given the enormous development challenge faced over the decades, the World Bank per formed moderately.

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

6.6. WORLD BANK FINANCING IN THE INDUSTRIAL SECTOR

Industrialization is a key factor in economic development of the most countries. It offers prospects of a growing availability of manufactured goods, increased employment, improved balance of payment and greater efficiency and modernization throughout the economy. Industrialization is characterized by technological innovation, development of managerial and entrepreneurial talent and improvements in technical skills, which lead to rising productivity. Improvements to living standards create a growing and highly elastic demand for manufactured goods. Consequently industry does not face the same market constrains which agriculture faces and presents prospect of a more rapid rate of growth than might otherwise be possible. When promoted along efficient lines, industrialization holds out the possibility of easing balance of payments problems through import substitution and the diversification of exports. Industrialization is not necessarily synonymous with economic growth nor can it be expected to propel a nation of technological obsolescence to material prosperity and full employment overnight. Therefore industrialization like other forms of development is slow and a complex process.

Kuznet established that the process of economic development was generally accompanied by shifting of the labour force from the low productivity agricultural sector to the high productivity industrial sector and argued that industrialization needs a higher rate of capital accumulation.[52] It will be virtually impossible to solve the problem of unemployment unless the population growth slows down. High and sustained rate of growth of nonagricultural employment will also be necessary in order to prevent a no tolerable strain on the agricultural sector.

Many of the African countries after gaining independence had a quest to industrialize in order to spur robust economic development. Initially in Kenya this was driven by import substitution policy and public enterprises were believed to deliver industrialization dream. In many economic planning policies this was emphasized but the recent economic literature has concluded that this misconceived policy failed miserably to industrialize Kenya. Industry in Kenya through the early to mid-1980s was inefficient as the result of misconceived industrial strategies based on import substitution, heavy protection, and anti-import bias. Parastatals, which supplied most of industrial output, performed dismally due to weak management, political interference and adverse macroeconomic policies. Industrial capacity was severely underused fundamentally for lack of foreign exchange with which to buy inputs. Sluggish growth of nontraditional exports and the heavy dependence on traditional cash crops and minerals compelled the Kenya to depend heavily on foreign borrowing to finance imports and budget deficits [53]. This situation exacerbated persistent external and internal payments imbalances and high external debt. It has faced low capacity utilization, declining productivity and limited technological advancement. The manufacturing sector that contributes 14 of GDP declined from a growth of 3.7 per cent in 1996 to -1.5 per cent in 2000.The growth of building and construction industry declined from 1.9 per cent to -1.5 per cent of the same period. A vital aspect of Kenya's industrial policy is to add value to our primary commodities. This will be achieved through promotion of local processors. Special emphasis will be put on cotton and textiles, leather products, paper and packaging beverages and alcohol, sugar and pharmaceuticals.

Table 6.5

Performance of industrial sector in 2004

Sub sector	Growth (%)
Motor vehicle	78
Dairy products	39
Bear production	34
Refined sugar	15
Oil refinery	5
Cement production	4

(Source, statistical abstract 2005 GoK)

The formal manufacturing sector only accounts for 14 per cent of GDP and, with the exception of the garment industry, has largely stagnated in terms of output, productivity and employment. By contrast the small-scale informal manufacturing sector appears to have expanded rapidly and is estimated to make perhaps a fifth of GDP. Using output volumes, the sector is estimated to have grown by 4.13% in 2004. Key sub-sectors boosting manufacturing growth in 2004 were motor vehicle (78% volume growth), dairy products (39%), beer production (34%), refined sugar (15.2%), oil refining (5%) and cement production (3.6%). The industrial sector has been operating below its full potential due to poor governance, poor infrastructure, high energy costs, high transactions costs, insecurity and problems in accessing foreign markets.

Table 6.6: Trends in Industrial and growth rates

(Industry, value added (annual % growth)

Year	Growth rate (%)	GDP growth rate (%)
1978	10.57	6.6
1979	3.53	6.3
1980	5.33	5.6
1981	4.00	3.8
1982	1.69	1.5
1983	0.47	1.3
1984	2.13	1.8
1985	5.87	4.3
1986	3.98	7.2
1987	5.29	5.9
1988	5.36	6.2
1989	6.18	4.7
1990	4.67	4.7
1991	2.53	1.4
1992	-0.05	-0.8
1993	0.20	0.4
1994	1.90	2.6
1995	3.53	4.4
1996	3.40	4.2
1997	1.19	4.2
1998	0.24	3.3
1999	-2.36	2.3
2000	-1.83	0.6
2001	5.50	4.4
2002	2.37	0.4
2003	6.14	2.8
2004	4.07	4.34

Source, computed from various economic survey reports

Kenya's Manufacturing Sector is performing below its potential and to expand its growth and employment generating capacity, the Government will focus on removing the barriers to investment and lowering the costs of doing business in the sector. This will include measures to further liberalize trade, deepen financial markets, enhance infrastructure, improve security, facilitate use of technology licenses, review mechanism for wage determination and improve access to quality trading.

6.7. PERFORMANCE OF INDUSTRIAL SECTOR PROJECTS FUNDED BY THE WORLD.

Export Development Project, Volume (1) was satisfactory it achieved most of its objectives, its impact on institutional development was modest and the performance of both the Bank and Borrower was satisfactory. First, the Kenyan experience demonstrates the critical importance of macroeconomic stability particularly fiscal policy to the success of export promotion. Second, private sector confidence is also crucial for investment. However, the Kenyan Government did not inspire such confidence because it failed to follow a consistent set of macroeconomic and financial policies compatible with the goal of trade promotion. The Government's willingness and ability to control the budget deficit and prevent further appreciation of the exchange rate will be the key to future investment and export growth. Third, careful design contributed to the ability of the KEAS component to focus on its very specific goal to provide support services to new and emerging exporters. The use of a cost-sharing arrangement ensured that the beneficiary enterprises would share the scheme's goals.[54]

Small Scale Industry Credit Project (02) funded training and management counseling through the Kenya Industrial Estates (KIE) to small-scale industries

(SSIs). The IDA credit involved a US$5 million line of credit to KIE for on lending to an estimated 200 small-scale industries and a technical assistance US$1 million. The technical assistance was US$0.9 million, which financed two advisors in supervision, entrepreneur training as well as continued funding of the finance manager position. The project funded US$0.1 million for entrepreneur training development and a survey to identify opportunities for small-scale industries to provide intermediate inputs to medium and large-scale industry.[55]

The outcome of the Export Development Project (EDP) for Kenya was marginally satisfactory. The project achieved some of its objectives; institutional development was negligible general performance of the project was moderate. The Export Development Project (EDP) suffered significantly from high turnover among task managers, resulting in inconsistent supervision. There should be training of task managers to enable them to execute their duties competently [56]. Industrial Development Bank Project (04) consisted of a line of credit of US$30.0 million of Bank funds to cover part of IDB's foreign exchange requirements, which financed medium and large-scale enterprises from mid 1980 to end 1982. The free ceiling for a sub project was raised from US$600,000 to US$800,000 (similar, in real terms, for the previous loans) and the aggregate free limit to US$7.0 million. Disbursements from the Bank's loan was to be made against 100 per cent of the foreign cost of direct imports, 65 per cent of the invoice price of goods previously imported into Kenya and 40 per cent of the cost of civil works. Sub-borrowers will carry on bearing the foreign exchange risk on foreign funds. [57]

Micro and Small Enterprise Training and Technology Project. The assessment of outcome is satisfactory, sustainability likely, with high institutional development impacts, although while the Bank performance was satisfactory, the Borrower performance is rated unsatisfactory, due to the shifting oversight among four Ministries, delays in effectiveness and implementation, high level of interference, inability to meet the conditions of effectiveness, and attempted fraud.

Table 6.7: THE FOLLOWING TABLE SHOWS THE LOANS WHICH THE WORLD BANK HAS GRANTED IN THE INDUSTRIAL SECTOR

NAME OF THE PROJECT	APROVAL DATE	COMMITMENT AMOUNT(US$ million)	MAJOR SECTOR
MICRO,SMALL&MEDIUM ENTERPRISE COMPETITIVENESS	13JUL2004	22	INDUSTRY AND TRADE
MICRO&SMALL ENTERPRISE TRAINING&TECHNOLOGY	5APR1994	24.2	TRAINING $TECHNOLOGY ,INDUSTRY AND TRAINING
EXPORT DEVELOPMENT	26NOV1991	49.2	INDUSTRY&TRADE
EXPORT DEVELOPMENT	20DEC1990	100	INDUSTRY AND TRADE, ADMINISTRATION
INDUSTRIAL SECTOR	13MAR1989	53.7	INDUSTRY AND TRADE
INDUSTRIAL SECTOR ADJUSTMENT	21JUN1988	102	INDUSTRY
SMAL SCALE INDUSTRY CREDIT	21OCT1986	6	INDUSTRY AND SMALL SCALE ENTERPRISE

Computed from various World Bank annual reports.

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