AFRICAN DEVELOPMENT BANK GROUP

KENYA

AGRICULTURAL SECTOR ADJUSTMENT OPERATION II

Project Performance Evaluation Report (PPER)

OPERATIONS EVALUATION DEPARTMENT
(OPEV)

2 July 2001

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CURRENCY EQUIVALENTS

Currency Equivalents

Period Average	Kenya Shillings/US $	Kenya Shillings/SDR/UA
1987	16.5	21.34
1988	17.7	23.79
1989	20.6	26.41
1990	22.9	31.07
1991	27.5	37.63
1992	32.2	45.35
1993	58.0	80.99
1994	56.1	80.32
1995	51.4	77.97
1996	57.1	82.90
1997	58.7	80.77
1998	60.4	81.93
1999	70.3	96.12
2000	76.2	100.5

Source: International Monetary Fund, International Financial Statistics Yearbook, 2000

FISCAL YEAR

July 01 to June 30 of the Following Year.

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
ASAO II	:	Second Agricultural Sector Adjustment Operation
CBK	:	Central Bank of Kenya
CBS	:	Central Bureau of Statistics
CSRP	:	Cereal Sector Reform Programme
DPD	:	Development Planning Department
EPCP	:	Economic Prospects and Country Programming
EEC	:	European Economic Commission
GOK	:	Government of Kenya
IGAD	:	Inter-Governmental Authority for Development
KCC	:	Kenya Co-operative Creameries
KDB	:	Kenya Dairy Board
KMDP	:	Kenya Market Development Board
MOA&RD	:	Ministry of Agriculture and Rural Development
MOFP	:	Ministry of Finance and Planning
MOLD	:	Ministry of Livestock Development
MPDE	:	Matrix of Policy Design and Evaluation
MTEF	:	Medium-term Expenditure Framework
NCPB	:	National Cereal and Produce Board
NPEP	:	National Poverty Eradication Plan
PBL	:	Policy-based Lending
PCR	:	Project Completion Report
PEC	:	Poverty Eradication Commission
PER	:	Public Expenditure Review
PPER	:	Post-Performance Evaluation Report
PS	:	Principal Secretary
PRSP	:	Poverty Reduction Strategy Paper
SAR	:	Staff Appraisal Report
SECAL	:	Sector Adjustment Loan
TAF	:	Technical Assistance Fund
UA	:	Unit of Account
WMS	:	Welfare Monitoring Survey

PREFACE

1. This is a Programme Performance Evaluation Report (PPER) of the Second Agricultural Sector Adjustment Operation (ASAO II) of Kenya. ASAO II was intended to consolidate and further advance the policy frontier in the agricultural sector already started through ASAO I and several other programmes. GOK, therefore, in 1990 requested the African Development Bank Group along with other donors for financial assistance in support of the policy actions, and the capacity building initiatives in the area of policy formulation and management.

2. ASAO II's main objective was to provide balance of payments assistance to support the government's efforts of promoting agricultural growth by removing policy constraints, stimulating investment and supporting institutional development. The policies focussed on: (i) improving incentives to maize and dairy producers, with emphasis on greater market competitiveness, (ii) minimising maize stocks, compatible with market needs, (iii) improving the supply and availability of fertiliser at the farm gate and promote its efficient use, (iv) improving the selection and management of public investments within the sector, (v) developing targeted measures to address poverty and protect vulnerable groups, and (vi) building capacity policy planning, sector management and implementation in the agricultural sector.

3. The overall external financial requirements for the ASAOII was projected at UA 232.11[a] million (US$300 million) for the period 1991 – 1993. However, it is only UA 107.52 million, about 46% of the estimated programme requirements that was pledged by the external donors: ADB Group – UA 24.43 million; World Bank (IDA) – UA 58.03 million (US$75 million); Netherlands – UA 3.25 million (GLD 10 million); UK – UA 11.20 million (GBP 10 million); and KfW – UA 10.61 million (DEM 29 million).

4. ASAO II was approved in February 1991. The ADB and ADF loans and the TAF grant agreements were signed on 28 November 1991. The TAF grant was declared effective in April 1992, a little over four months after date of grant signature, while the ADB/ADF loans were declared effective in July 1992 – seven months after date of loan signatures. After three extensions, the programme came to an end in December 1998. At the time of closure, 100 percent of the BOP/budgetary support and about 45 percent of the TA grant had been disbursed. A PCR was prepared in October 1999. The PCR provided useful information on the TAF component and implementation aspects of the operation.

5. The PPER is based on the findings of a Bank mission to Kenya in January-February 2001, and a review of secondary data and selected literature on Kenya. While in Kenya, the mission held discussions with Kenyans inside and outside government.

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[a] Used Monthly Exchange rates for March 2001

BASIC PROGRAMME DATA

1.	Loans Numbers	:	ADB Loan No. B/KEN/ASAP/91/20 ADF Loan No. F/KEN/ASAP/91/14 ADF Grant No. KEN/GR-IS/ASAP/91/4
2.	Borrower	:	Government of the Republic of Kenya
3.	Guarantor	:	NA
4.	Beneficiary	:	Government of the Republic of Kenya
5.	Executing Agency	:	Ministry of Finance & Planning and Ministry of Agriculture & Rural Development

A. LOAN / GRANT

	LOAN / GRANT		APPRAISAL ESTIMATE	ACTUAL
	ADB Loan No.	**:**	**B/KEN/ASAP/91/20**	
1.	Amount (UA)	:	12,000,000.00	12,000,000.00
2.	Interest Rate	:	Variable lending rate	Variable lending rate
3.	Commitment Charge (%)	:	1.00	1.00
4.	Repayment Period	:	20 years	20 years
5.	Grace Period	:	5 years	5 years
	ADF Loan No.	**:**	**F/KEN/ASAP/91/14**	
1.	Amount (UA)	:	11,052,624.00	11,052,624.00
2.	Service Charge (%)	:	0.75	0.75
3.	Repayment Period	:	50 years	50 years
4.	Grace Period	:	10 years	10 years
	TAF Grant No.	**:**	**KEN/GR-IS/ASAP/91/4**	
1.	Amount (UA)	:	1,381,578.00	627,531.78
2.	Interest Rate	:	N/A	N/A
3.	Repayment Period	:	N/A	N/A
4.	Grace Period	:	N/A	N/A

			B/KEN/ASAP/91/20	**F/KEN/ASAP/91/14**	**KEN/GR-IS/ASAP/91/4**
5.	Date of approval	:	26/02/91	26/02/91	26/03/91
6.	Date of signature	:	28/11/91	28/11/91	28/11/91
7.	Effective Date	:	07/07/92	08/07/92	14/04/92
8.	Date of Final disbursement				
	Initial	:	01/02/93	01/02/93	30/06/95
	Revised	:	30/06/96	31/12/96	31/12/96
			31/12/96	30/06/00	31/12/00
			31/12/98		

B. PROGRAMME DATA

1. Total Cost : UA107.67 million
2. Financing Plan

Loan Amount	ADB	:	UA 12.00 million
	ADF	:	UA 11.05 million
	TAF	:	UA 1.38 million
Other Sources	IDA	:	US$ 75 million (UA 58.03 million)
	Netherlands	:	GLD 10 million (UA 3.25 million)
	UK	:	GBP 10 million (UA 11.20 million)
	KFW	:	DEM 29 million (UA 10.61 million)
	Govt. of Kenya	:	UA 0.15 million

3. Effective Date of First Disbursement : July 1992 for ADB/ADF Loans
Jan. 96 for TAF Grant
4. Effective Date of Last Disbursement : 31 December 1998 for ADB Loan
30 June 2000 for ADF Loan
31 December 2000 for TAF Grant

C. **PERFORMANCE INDICATORS**

1. Cost Overrun/Underrun : NA
2. Time Overrun
   - Slippage on Completion Date : 166%
   - Slippage on Last Disbursement : 166%
   - Number of Extensions of Last Disbursement : 3
3. Project Implementation Status : Completed
4. List of Verifiable Indicators and Levels of Achievement : See Annex 5
5. Institutional Performance : Satisfactory
6. Contractor Performance : NA
7. Consultant Performance : Fair

		Appraisal	PCR	PPER
8.	IER (%) :	NA	NA	NA
9.	IFR (%) :	NA	NA	NA

D. **MISSIONS**

Type	No. of Persons/Composition	Man-days
Identification		
Preparation		
Appraisal	4 (Economist, Agronomist, Loan Officer and Agric. Economist)	80
Follow-up	1 (Agric. Economist)	2
Mid-term Review	2 (Agric. Economist, Inst. Spec.)	30
Supervision	5 (Financial Analyst, Forester, Agric. Economist, Disb. Officer, Manager)	10
	3 (Agric. Economist and Forester)	15
PCR	3 (Policies and Institutions Expert, Financial Analyst, Agronomist)	60

E. DISBURSEMENT

1.	Total disbursed	ADB	:	UA 11.99 million (100%)
		ADF	:	UA 11.05 million (100%)
		TAF	:	UA 0.63 million (46%)
2.	Unused Balance	TAF	:	UA 0.75 million (54%) as of 31/03/01

EVALUATION SUMMARY

1. Introduction

1.1 The Second Agricultural Adjustment Operation (ASAO II) was ADB's first policy-based lending (PBL) for Kenya. The overall objectives of the Programme were to promote economic growth in Kenya and reduce rural poverty through (i) accelerated agricultural growth by smallholders' production, and (ii) improved food security. Several donors, including the World Bank financed ASAO II. The ADB Group, on its part, made available a total blend financing of UA 24.43 million, of which UA 12 million and UA 11.05 million were from ADB and ADF, respectively. An additional ADF of UA 1.38 million from TAF resources was provided as a grant for technical assistance.

1.2 ASAOII aimed to address outstanding agricultural reforms in six major policy areas, and to consolidate those reforms already started through previous operations by other donors. The first policy area was reforming agricultural marketing (particularly maize), and the new role of the National Cereal and Produce Board (NCPB). The PPER examined the trend in (i) real price of maize (in relation to prices of goods that farmers purchase and the prices of fertiliser), and (ii) NCPB's sales margin. The second policy area was in the dairy sector. The PPER reviewed the trends in the real price index of livestock products. The effectiveness of the policies in the fertiliser sub-sector -- the third policy area – is shown by the trends in the uptake of fertiliser. Policies to improve the effectiveness of public expenditures constitute the fourth policy reform area whereby the report provides a review of recent experience in public expenditures based on data the mission was able to assemble during its stay in Kenya. The fifth policy area was conducting studies to assess the impact of ASAO II and other economic policy changes to food security and poverty in Kenya. The PPER reviewed the trends in agricultural production and poverty assessments conducted in recent years. The last area was the institutional support, and the PPER reviewed the number of training programs, and from the discussions held with the participants, inferred the effectiveness of the TA and capacity building component.

2. Implementation Performance

2.1 ASAO II was approved in February 1991. The ADB and ADF loans and the TAF grant agreements were signed on 28 November 1991. The TAF grant was declared effective in April 1992, a little over four months after date of grant signature, while the ADB/ADF loans were declared effective in July 1992 – seven months after date of loan signature. After three extensions, the programme came to an end in December 1998. At the time of closure, 100 percent of the BOP/budgetary support and about 45 percent of the TA grant had been disbursed.

2.2 The programme ran into some major problems that delayed its start-up. The first was GOK's reversal on the policies relating to the interregional movement of maize. Between 1991 and 1992, the liberalisation of the maize market (including the reduction of NCPB's role) proceeded steadily. As a result the Bank Group's 1st tranche of ASAO II was released in July 1992. However, in November 1992, GOK reneged on its policies and re-introduced the controls on the movement of maize. In December 1992, the World Bank withdrew from the programme and cancelled over 50% of the loan on the grounds of non-compliance with financial covenants, and GOK's reluctance to implement policies relating to NCPB. It was only in December 1993 that the market was fully liberalised, and donor confidence regained. Secondly, it took almost two years to recruit and bring the technical assistants on board. Third, political events leading to the 1992 elections caused fiscal slippage to hold-up implementation further.

2.3 Although the former Ministries of Finance (MOF) and of Agriculture (MOA) were designated as the implementing and executing agencies, the monitoring and reporting on the progress of ASAOII was not up to the Bank's requirements. Furthermore, the PPER mission failed to establish whether the National Steering Committee, which was to be responsible for overseeing the implementation of the policy reforms under the programme, was ever instituted at all.

3. Performance Evaluation and Ratings

3.1 ASAO II was consistent with and relevant to the objectives of GOK's policies, and was also in line with ADB's policies and lending programme as elaborated in the Economic Prospects and Country Programming (1989-91), which had earmarked close to a third of the lending for a PBL in the agricultural sector. Based on the verifiable performance indicators that were used to demonstrate the degree to which the policy targets for each of the six policy areas of ASAOII were met, i.e. to show the changes before (1987-89) and after the programme (1996-98), ASAOII's performance is rated overall unsatisfactory. Although GOK implemented the reforms in maize and dairy marketing and pricing, both of which triggered off favourable incentives in the sector (i.e. TOT and other relative prices), the price incentive did not go far enough to generate an intended and effective supply response. Production of maize was lower in the second half of the 1990s than in the late 1980s. In addition, the growth rate in agricultural GDP and aggregate GDP were lower in the latter period. In spite of donors' efforts to carry out reforms in several areas, GOK's agricultural policy stance still remains unclear in some important areas and implementation has been weak in some others. Three areas are of particular concern; namely, the role of NCPB, the role and status of the co-operatives, and the capacity of the Ministry of Agriculture and Rural Development (MOA&RD) (ref. para.4.6).

3.2 In the area of food security, the adverse effect of increases in consumer prices has been minimised (or averted). Considerable household data collection has been underway and the analytical capability has been improved to understand the magnitude of poverty, food insecurity, and overall deprivation and their evolution. MOA&RD has trained several professionals but would need to exploit the analytical potentials developed to improve the effectiveness of resources allocated to the sector.

3.3 The sustainability and ownership of reforms and Kenya's growth prospects have become a question of serious concern. Therefore, ASAO II sustainability is rated unsatisfactory. Economic policy-making and implementation has followed an "on-and-off" path interspersed by some reversals. Agricultural policies have historically been highly politicised, and the policy outcomes have reflected the interests of major political groups. While explicit policies have been for liberalisation, dealing with NCPB and determining its role continues to pose major challenges. Unless the private sector has a clear view of the policy stance in the medium- to the long-term, it would find it difficult to invest in machinery (e.g. maize dryers) and storage facilities to take over the marketing task in full. The current situation portrays a general lack of political will and commitment.

4. Lessons Learnt and Recommendations

4.1 Lessons Learnt

(a) Although price incentive created by market liberalization is a necessary condition for positive supply response, it is not sufficient condition to effect a substantial increase in output. In addition to improving the incentive framework, a positive response will depend on the degree to which the agricultural economy is developed. Adequate rural infrastructure (irrigation, roads and transport, power, telecommunications), input availability, research, credit, and farmer education and health are all conducive to agricultural development. Where these are seriously deficient, even getting the right policy reforms in an ideal enabling environment will not suffice to get a positive supply response (ref. para.4.2.2, 4.2.8).

(b) Performance contracts that are signed between governments and regulatory bodies should be designed to be more binding on both parties. ASAOII aimed at, among others, removing the distortions in the market by reducing the role of NCBP through a performance contract between GOK and NCBP. In this way, GOK provided incentives by allowing market forces to determine prices of agricultural products. Unfortunately, the contract was not honoured (ref. para. 4.2.2, 4.5.1).

(c) The experience of maize market liberalisation in Kenya (and several other SSA countries) underlines the importance of understanding the political economy of reforms before hand in the design of such operations (ref. para. 4.5.1). Such an understanding would facilitate determining how fast the reforms could move, the most effective sequence(s), and firmly establishing the irreversibility of the reforms from the outset.

(d) Government interference, in otherwise effective institutions such as co-operatives, can cause disastrous credibility damage, which becomes difficult to reverse in a short time in agricultural societies (ref. para. 4.6.1). The co-operative movement in Kenya has a long history. For example, Kenya Co-operative Creameries (KCC in dairy sector) and Kenya Farmers Association (KFA for farm inputs) were set up in the early 1930s to procure and/or market produce. Until the mid-1980s, these co-operatives operated effectively and without major interference from the GOK. In the mid-1980s, however, GOK started to interfere in their operation in a major way, including appointing members of Boards of Directors. Although co-operatives would still have beneficial role to play, their credibility has been damaged so much so that it would not be possible to regain the previous performance and confidence in a short time. Henceforth, these institutions should be allowed to operate independently and to be managed more professionally.

(e) Combining components with different life cycles (time horizons), as was done in the case of ASAO II, could be detrimental to the entire operation (ref. para. 4.8.8). In the case of PBL (or governance-related operations), in particular, since the Bank may be forced to suspend (or cancel) the entire component, a capacity building could also be affected unintentionally.

4.2 Recommendations and Follow-up Action

- Maize, NCPB and Food Security: GOK should take a clear stand and implement its policy to limit the role and status of NCPB to maintaining and managing the strategic grain reserve (SGR) of 3 million bags, and remove NCPB's intervention in the maize market (ref. para.4.2.2, 4.5.1), and also discourage it from distribution of agricultural chemicals. The issue of what to do with the storage facilities, which would not be used for SGR, would need to be addressed. Resolution of the constraints in maize marketing would need an amendment of the relevant bills as well as removing the unnecessary storage facilities away from NCPB.

- In order to create conducive and enabling environment for complete market liberatization (i.e. create competitive local markets), the GOK should improve on the quality of the market information on prices and quantities (e.g. production, stock, goods in transit, etc. in great detail) that it provides to businessmen and to the public at large, on a regular basis. The information gathering, synthesis and dissemination need improvement and co-ordination.

- Dairy Sector: Government should stop its interference, in otherwise effective institutions such as co-operatives. Such interference can cause disastrous credibility damage, which becomes difficult to reverse in a short time in agricultural societies (ref. para. 5.2.4). Improvements in marketing, including measures to increase the shelf life of milk and conversion into other dairy products, are warranted. As the regulatory body, KDB would need to be strengthened to play a more supportive role in a liberalized market environment.

- In order to improve on programmes' quality at entry, the Bank Group should, prior to programmes' formulation, carry out economic and/or sectoral baseline studies, which would, among other things, underpin opportunities and constraints in the sector that would determine the scope to the programme's operations (ref. para. 4.1.3).

- ASAO II contained two components that had different length in their life cycles (i.e. policy reforms and institutional strengthening). As a result, implementation had a slow start-up, and the credit had to stay open for a long time to allow the institutional aspect proceeds until it reached some conclusion (ref. para. 3.1.3). It would, therefore, be beneficial to separate these types of operations and present them into distinct operations.

- In order to keep the portfolio clean and current, The Bank Group should not allow more than two extensions (one year each) of the closing date of the credit provided that there is good chance of success to carry out the policies within the remaining period. Otherwise, it would be better to close the credit even if there were a substantial undisbursed amount.

- Public Expenditure Reviews: Regular review of public expenditure would facilitate better management of existing resources, improve their effectiveness, and present a stronger case for the agricultural and rural sector (ref. 4.5.4). The current MTEF exercise provides a promising opportunity for a holistic review and the MOA&RD should take the challenge. Equally important, in a situation where financial resources are fungible, what is important to monitor is the use of the aggregate resource envelope rather than the Bank's projects/programmes in isolation.

- It would be useful both for the borrower and the Bank if the number of conditions (i.e. mutually agreed policy actions) are limited to a few most critical areas. Too many conditions would be difficult to monitor for the client and to supervise for the Bank (ref. para. 4.8.8).

Summary of Ratings

Evaluation Criteria	PCR	PPER
Relevance	**Satisfactory**	**Satisfactory**
Achievements of objectives “Efficacy”	**NA**	**Unsatisfactory**
Efficiency	**NA**	**Unsatisfactory**
Institutional Development Impact	**Satisfactory**	**Satisfactory**
Sustainability	**Unsatisfactory**	**Unsatisfactory**
Aggregate Performance Indicator	**Satisfactory**	**Unsatisfactory**
Borrower Performance	**Satisfactory**	**Unsatisfactory**
Bank Performance	**Satisfactory**	**Unsatisfactory**

1. PROGRAMME BACKGROUND

1.1 Country and Sector Economic Context

1.1.1 The agricultural sector in Kenya is composed of smallholder farms, large mixed farms, plantations (or estates), ranches and pastoralists (mainly in the arid and semi-arid regions). The smallholder sector, accounting for over 95 percent of holdings (using a threshold of 12.5 hectares), is the most dominant. About 8.6 million hectares (i.e. less than 20 percent) of land is considered to be of high or medium potential. Of this about 2.8 million hectares are under crop production, 2.4 million hectares are under dairy farms, and the remaining 3.4 million hectares under extensive grazing and national parks.

1.1.2 About 85 percent of Kenya's population live in rural areas. Arable land is scarce and the problem is compounded by rapid population growth. According to a survey in 1986/87, the mean holding size in the smallholder sector was estimated to be 1.8 hectares. With further fragmentation, this figure does not stand too far from one hectare now. The phenomenon of landlessness or near landlessness is becoming common. As a result, many rural households depend on non-agricultural sources for a disproportionate share of their income.

1.1.3 Maize is the staple food crop of Kenya. Area under maize averaged 1.4 million hectares (or about 50 percent of area under crops), and total production in recent years has hovered at around 25 million 90-kg bags (2.25 million metric tons) – lower than the figure of 30 million bags commonly reported. The dairy sector has been under extreme stress. Recorded annual milk production declined from a level of 350-400 million litres in the late 1980s and early 1990s to 100-200 million in the late 1990s. This shortfall is partly offset by the increasing un-recorded production (private sectors including hawkers), but the quantities are not yet significant.

1.1.4 Despite policy and structural problems, the agricultural sector in Kenya has been among the most dynamic and well-diversified in Sub-Saharan Africa. Between 1960 and 1970 the sector grew at 4.7 per cent per annum, faster than the rate of population growth. During this time, agriculture, on average, accounted for a quarter to a third of GDP depending upon the impact of weather conditions and trend in the terms of trade, and the performance of other sectors. It was during this first decade after Independence that Kenya enjoyed rapid economic growth mainly predicated on the performance of the agricultural sector. However, between 1970 and 1982 the sector growth rate declined to only 2.7 per cent as the actual production per capita fell to 1.2 per cent per annum (ref. SAR, para. 3.2.1); and the sector fared badly and its share declined closer to a quarter of the country's GDP[1]. During the 1980s, the sector growth rate showed gradual improvement, from 3.4 per cent per annum between 1980 and 1984, to 4.3 per cent between 1985 and 1988. Although the sector showed impressive improvement in its growth rate during the second half of the 1980s – due principally to the expansion in the area cultivated by the smallholders, policy and structural constraints continued to impact negatively on the agricultural production.

1.1.5 Having recognised that it had not yet come to grips with the basic structural issues,

[1] Kenya has not had an agricultural survey for a long time. Estimates of production are made on the bases of parameters established in the 1980s. A survey however is scheduled in the next 5 years work plan.

the GOK initiated, in the Fourth and Fifth Development Plans (1979 – 83) and (1988 – 88) respectively, the process of changing the incentive structure by phasing out quantitative import restrictions and evening out the structure of tariff protection. This was coupled with a fairly comprehensive agricultural sector adjustment operation (ASAO) whose Phase I started in 1986.

1.1.6 The Second Agricultural Adjustment Operation (ASAO II) of Kenya was appraised in December 1990 to address the major policy constraints to agricultural growth in the country. These policy constraints were (ref. SAR, para. 3.4) the insufficient incentives to farmers due to delayed payments and high cost of marketing (resulting from low competition). This had lowered effective prices received by producers. The inter-regional movement of maize was highly controlled, deterring farmers from taking advantage of regional price differences, and acting as a disincentive to growth. Moreover, the demand for fertilizer was dampened due to the producer lower prices, delayed payments, inadequate technical packages, and inaccessibility and shortage of credit. Ineffective allocation in government expenditure and failures in the rural infrastructure and public services compounded the problems. To tackle these constraints and meet the objectives of faster agricultural growth and food security, the GOK outlined strategies to intensify food production and diversification (ref. SAR, para. 4.1.3). The agriculture sector policies were reinforced by the implementation of sound macroeconomic policies that included liberalisation of the exchange and credit markets. ASAO II was designed under such macroeconomic and sector performance and policy stance.

1.1.7 ASAO II aimed to address these outstanding policy concerns and to consolidate reforms already started through previous operations by several donors. By the late 1980s, the World Bank had concluded ASAO I (1986-88) – the precursor to ASAO II – which started policy reform in the delivery of agricultural inputs and credits, producer incentives and agricultural parastatal divestiture and restructuring. The former European Economic Commission (EEC) sustained the reforms between 1988-91 through the Cereal Sector Reform Programme (CSRP), focussing on restructuring of the National Cereal and Produce Board (NCPB), opening grain marketing to the private sector, and setting up a revolving fund for crop purchases. In May 1990, USAID financed the Kenya Market Development Programme (KMDP) which focussed on promoting more efficient maize and bean marketing system and providing better price incentive to producers. The studies conducted during this period and the experience gained by these diverse institutions provided the genesis for ASAO II.

1.2 **Programme Formulation**

1.2.1 ASAO II was prepared and appraised in December 1990, and was approved in February 1991. The loan was planned to be disbursed in two tranches over a 24-months period. The first tranche amounted to UA 15 Million, and was disbursed in July and September 1992, leaving the remaining (other than the TAF) UA 9 million for the second tranche, which was disbursed in October and November 1996. Ten and twelve conditions were attached for the release of the first and second tranches, respectively. There were four conditions relating to the TAF grant.

1.2.2 Since a Logical Framework (MPDE) was not drawn at Appraisal, a retrospective Log-Frame has been constructed for the PPER (ref., Annex 2). As it is clear from the MPDE, the policy reforms (conditions) are shown as inputs (or activities) since they constitute the instruments over which the Government and the Bank had control. These policy measures were expected to produce the Outputs (in the next hierarchy) provided that the assumptions hold (or risks are avoided). In addition, plausible indicators, and possible sources of data are indicated.

1.3 Objectives and Scope at Appraisal (Logical Framework)

1.3.1 The objectives of the Programme are provided in the retrospective Methodology of Project Design and Evaluation (MPDE, ref. Annex 2). According to the MPDE the overall objectives of the Programme were to promote economic growth in Kenya and reduce rural poverty through (i) accelerated agricultural growth by smallholders production, and (ii) improved food security.

1.3.2 Towards achieving these objectives, ASAO II (ref. SAR, para. 4.1.3) aimed at (i) improving incentives to maize and dairy producers, with emphasis on greater market competitiveness, (ii) minimising maize stocks, compatible with market needs, (iii) improving the supply and availability of fertiliser at the farm gate and promote its efficient use, iv) improving the selection and management of public investments within the sector, (v) developing targeted measures to address poverty and protect vulnerable groups, and (vi) building capacity in data collection, policy planning, sector management and implementation in the agricultural sector (ref. MPDE: Annex 2).

1.4 Financing Arrangement – Bank Group and Others

1.4.1 Several donors financed ASAO II. Although the overall external financial requirements for ASAOII were estimated at US$300.00 million (UA 232.11 million), the final pledges from donors fell far short of the estimated requirements. The World Bank extended an IDA credit of US$ 75 million (UA 58.03 million), of which about US$67 million (UA 51.84 million) was allocated for agricultural inputs and other supplies, while the remaining US$ 8 million (UA 6.19 million) was destined to capacity building[2]. The Federal Republic of Germany (KfW) pledged DEM 29 million (UA 10.61 million); United Kingdom (former ODA), GBP 10 million (UA 11.20 million); the Netherlands, GLD 10 million (UA 3.25 million; and GOK, UA 0.15 million. The total pledges from sources other than the World Bank (including ADB's) were estimated at UA 49.64 million.

1.4.2 The Bank Group made available a total blend financing of UA 24.43 million, of which UA 12 million and UA 11.05 were from ADB and ADF, respectively. An additional TAF of UA 1.38 million was provided as a grant for technical assistance.

2. EVALUATION

2.1 Evaluation Methodology and Approach

2.1.1 The report is based on a two-man mission that visited Kenya for two weeks starting end of January 2001, to consult with relevant government officials, and other agencies that were concerned with the programme implementation, in an effort to seek their views on the programme performance. The mission also collected data and information for the post-performance evaluation. There was ample information on the TA and capacity building component. The mission reviewed the number of training programs, and from the discussions held with the participants, inferred the effectiveness of the component.

2.1.2 During the evaluation at the Bank headquarters, the mission used simple ratios and graphs to

[2] The World Bank, Report and Recommendations of the President…, Second Agricultural Sector Adjustment Operation, Report No. P-5415-KE, December 14, 1990. The proposed credit amounted to SDR 52.2 Million.

demonstrate the degree to which each of the policy targets of ASAO II were met. A long-term trend is provided in Annexes 8 - 15. These have been summarised within the retrospective Logical Framework (MPDE in Annex 2) to show the changes before ASAO II (1987-89) and after ASAO (1996-98).

2.2 Performance Indicators

2.2.1 The PPER identified plausible indicators and constructed the necessary parameters for each of the five policy areas. In addition, since no targets had been set a priori, the PPER compared the time trends in the indicators identified. Where possible, the data series went back to the second half of the 1980s (i.e. the pre-ASAO II period) to serve as benchmarks to pass judgement on the success (or the lack there-of). These are supplemented by whatever parameters the PPER team was able to find in the review of the documents collected during the mission. With this disparate information, the PPER aimed to shed light on the effectiveness and impact of ASAO II.

2.2.2 The first policy area was reforming agricultural marketing (particularly maize) and the role of the National Cereal and Produce Board (NCPB). The PPER examined the trend in (i) real price of maize (in relation to prices of goods that farmers purchase and the price of fertiliser), (ii) quantity of purchases and sales of NCPB in relation to total production, and (iii) NCPB's sales margin. The second policy area was the dairy sector. Although data was scarce, the PPER reviewed the trends in recorded milk and meat production based on secondary sources, and inferred from this data improvements made in the sector over the last 10 to 15 years. Indirect inference was made from the relative fertiliser-maize price about the effectiveness of the policies in the fertiliser sub-sector -- the third policy area. This was supplemented by the trends in the uptake of fertiliser and a review of studies on the relationship between fertiliser up-take and production in Kenya. Policies to improve the effectiveness of public expenditures constitute the fourth area. A comprehensive Public Expenditure Review (PER) had not been done for the agricultural sector, and getting access to data was problematic. Anyhow, a review of recent experience based on data that the mission was able to assemble during its stay in Kenya, is provided. The fifth policy area was conducting studies to assess the impact of ASAO II and other economic policy changes to food security and poverty in Kenya. The PPER reviewed the findings of the three poverty assessments and tried to link them to the policy changes that have taken place.

3. IMPLEMENTATION PERFORMANCE

3.1 Loan Effectiveness, Start-up and Implementation

3.1.1 ASAO II was approved in February 1991. The ADB and ADF loans and the TAF grant agreements were signed on 28 November 1991. The TAF grant was declared effective in April 1992, a little over four months after date of grant signature, while the ADB/ADF loans were declared effective in July 1992 – seven months after date of loan signatures. After three extensions, the programme came to an end in December 1998. At the time of closure, 100 percent of the BOP/budgetary support and about 45 percent of the TA grant had been disbursed.

3.1.2 There were three major causes for the delay in start-up. The first was GOK's reversal on the policies relating to the interregional movement of maize. Between 1991 and 1992, the liberalisation of the maize market (including the reduction of NCPB's role) proceeded slowly but steadily. As a result the Bank Group's 1st tranche of ASAO II was released in July 1992. However, in November 1992, GOK reneged on its policies and re-introduced the controls on the movement of maize. In December 1992, the World Bank withdrew from the programme and cancelled over 50% of the loan on the grounds of non-compliance with financial covenants, and GOK's reluctance to implement policies relating to NCPB. It was only in December 1993 that the market was fully liberalised, and donor confidence regained. Secondly, it took almost two years to recruit and bring the technical assistants on board. Third, political events leading to the 1992 elections caused fiscal slippage to hold-up implementation further.

3.1.3 At design, the capacity building and technical assistance component (CBTA) was made an integral part of the credit/policy reform component. The technical assistance component delayed the implementation of the entire program by several months, and was marred by several problems. The TAF Grant became effective in April 1992 but disbursement did not start until January 1996. The main reason for the delay was that it took more than two years for GOK to procure the required consultancy services. As per SAR, an international institution was to be recruited to supervise the whole technical assistance and training component. However, since the successful bidders could not reach an agreement with GOK on the budget, a contract could not be signed. It took time to procure local advisors in replacement. Finally local advisers were recruited in September 1994. Once the consultants came on board, additional problems were experienced. They did not get paid from the Bank until January 1996 mainly because the required disbursement documents were not properly prepared by GOK (ref. PCR, para.3.3.5 & 3.3.6). In addition, the high turnover of senior staff at Development Planning Department (DPD) of MOA&RD, which was the major beneficiary of the training program, and the core Ministry implementing (following up) the policy reforms further impacted negatively on work progress of the programme implementation.

3.2 **Disbursement and Financial Management**

As mentioned above, the 1st tranche of ADB and ADF loans was released in July and September 1992. The recruitment of the technical advisors did not materialise until September 1994, and the disbursement of the TAF Grant did not commerce until January 1996 – about 16 months after the experts came on board. Since the experts were not paid during this time, the delay in payment has had serious adverse effect on their effectiveness (ref. PCR, para. 3.3.6). The 2nd tranche of ADB and ADF loans were disbursed in October and November 1996, respectively. At closing date of 31 December 1998, there were still pending payments regarding TAF grant that had not been settled and for which GOK had requested a fourth extension (ref. PCR, para. 3.3.7). At the time of the PPER mission in January – February 2001, it seemed that these outstanding payments had not been resolved.

3.3 **Reporting, Monitoring, and Evaluation Achievements**

3.3.1 The former Ministry of Finance (MOF) was designated as the implementing and executing agency (ref. SAR, para. 5.4.4). A National Steering Committee (NSC), chaired by the Principal Secretary (PS) of MOF, was to be responsible for overseeing the implementation of the policy reforms under ASAO II.[3] NSC was to be assisted by a

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[3] The Committee consisted of the PSs of Ministries of Finance; Agriculture; Co-operative Development; Supplies and Marketing; Livestock Development; Lands and Housing; and Reclamation and Development of Semi Arid and Waste Lands; and the National Cereals and Produce Board and Kenya Creameries Co-operative.

technical committee. Both were supposed to meet quarterly. The management of the TAF was delegated to the Ministry of Agriculture (MOA) (ref. SAR, 5.4.5). Another Steering Committee consisting of members from the beneficiary organisations was to be set up to provide supervision and guidance.

3.3.2 There is no record either within the Bank or in the country to indicate that the different above-mentioned Committees had ever been set up. As a result, hardly any progress report was submitted to the Bank on the progress of the implementation of the policy reforms. The PPER mission's request to MOF and MOA&RD for minutes of the three committees and/or copies of any reports on the performance ASAO II was not fruitful. On this issue the PCR concluded (ref. PCR para. 3.4.1) that "It is obvious that the overall monitoring and reporting system of ASAO II was not up to the requirements of the Bank."

3.3.3 A Project co-ordinator was appointed by GOK in June 1997, among other assignments, to oversee and speed up the implementation of TAF. Reporting on TAF had improved since then. Despite the Bank's request, no Government PCR was ever submitted (ref. PCR, para.3.4.1 & 3.4.2).

3.3.4 Having discussed with relevant GOK officials, and reviewing the PCR, the PPER mission identified two main factors that had militated against regular reporting on progress. The first was the restructuring of several ministries, including Finance and Agriculture, and the quick turnover of personnel responsible for ASAO II (ref. PCR, para. 3.3.3). The second was the lack of response from the Bank on previous reports (ref. PCR, 3.4.2). Lack of response from and difficulties in communication with the Bank are common problems. Accordingly, if the Bank does not respond the first few times, the client would assume that its report would not be read, leave alone to be responded to. As a result, in the next round, the client would stop to submit reports on the pretext that it did not obtain response for the first report. This lack of response from the Bank creates serious credibility gap particularly when there is a condition that reads " … submit a report for the Bank's review and comment … " and the Bank fails to respond. Such cases are not uncommon.

4. PERFORMANCE EVALUATION AND RATINGS

4.1 Relevance of Goals & Objectives and Quality at Entry

4.1.1 ASAO II is rated **satisfactory** on the basis of relevance (ref. Annex 4). ASAO II was consistent with the objectives of Sessional Paper I and the Sixth Five-Year Plan. Considering that agriculture is an important sector in terms of its contribution to GDP, exports, food security and employment, the emphasis put on removing the policy constraints in the sector was appropriate, but ASAO II focussed most on food crops, particularly maize, to the neglect of other cereal and root crops and the export products of agricultural origin. ASAO II was also in line with ADB's policies and lending program as elaborated in the Economic Prospects and Country Programming (1989-91)[4]. The lending program for 1989-91 had earmarked close to a third of the lending to the agricultural sector. It also demonstrated a favour for a quick disbursing instrument rather than the traditional project financing (ref. EPCP, paras. 5.4 – 5.5).

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[4] ADB, Kenya: Economic Prospects and Country Programming (1989 – 1991), July 1989.

4.1.2 Government intervention in the maize market has a long history in Kenya. ASAO I and II, and similar operations launched by other donors, aimed at liberalising maize marketing so that the private sector would receive progressively higher role in the procurement, transport and distribution of maize. Given the land constraint, ASAO II also gave attention for intensification of agricultural production through the liberalisation of the fertiliser market and a more appropriate choice of fertiliser that would fit the agro-climatic conditions of Kenya better.

4.1.3 The programme quality at entry was compromised by the lack of Bank's prior experience and sectoral baseline studies, which would have underpinned the opportunities and constraints in the sector that would shape future operations (ref.para.4.8.2). Furthermore, since at the design stage, the capacity building and technical assistance component (CBTA) was made an integral part of the credit/policy reform programme, the quality of the programme at entry and the impact of the training opportunities would have been greatly enhanced if the training component had been supported by sound preparatory work and implementation framework. On the preparatory side, it would have been useful if a needs assessment had been conducted and the training geared towards meeting those skills in short supply. Second, the selection of beneficiaries needed to be institutionalised thereby recruits for ASAO and for other similar programmes were chosen in a transparent manner.

4.2 Achievement of Objectives and Outputs: "Efficacy"

4.2.1 The achievements of ASAO II are rated **unsatisfactory** as the anticipated growth in maize and dairy production and agricultural GDP did not materialise (ref. para. 4.2.8). The performance indicators, on the basis of which the operation is judged, are provided in the Retro-MPDE (ref. Annex 2) and the accompanying tables and graphs (Annexes 8 to 15). The Retro-MPDE provides comparative indicators for key parameters for 1987-89, pre-ASAO II period, and 1996-98, the PPER period. The accompanying tables and graphs provide trends for most of the years since the second half of the 1980s.

4.2.2 Relative Prices of Maize: Positive agricultural supply response depends on several factors including favourable changes in relative prices. Towards that goal, GOK aimed at, among others, removing the distortions in the market by reducing the role of NCBP and improving its performance through a performance contract, and in this case GOK provided incentives by allowing market forces to determine prices of agricultural products. These policies succeeded in changing the domestic terms of trade (TOT) slightly in favour of the agricultural sector (ref. Annex 9)[5], increasing the real producer price of maize, and raising the relative maize-fertilizer price (ref. Annexes 8 & 10). As shown in the Retro-MPDE, the average TOT for 1996-98 increased slightly over the level in 1987-89 (ref. Annex 2). Likewise, the real producer price of maize increased from about KSh 110 per bag to over KSh 200 in the mid 1990s. Maize price made significant gains in relation to the price of fertilizer as well (ref. Annex 2 & 8). For instance, in the late 1980s (i.e. 1987-89), a 90-Kg bag of maize could fetch, on the average, 21 kg of DAP. The corresponding purchasing

[5]The TOT is computed as a ratio of the agricultural and non-agricultural GDP deflators. This would show the relative returns to agriculture and the degree of its attractiveness for investment and other resources. A ratio of 1 and higher would be favourable for agriculture. The non-agricultural GDP deflators are used to convert nominal prices into real prices.

power in the 1996-98 period had risen to 38 kg of DAP. In summary, combining these different ratios, it could be concluded that the reform efforts in maize marketing and pricing had caused favourable incentives in the sector.

4.2.3 Relative Price of Dairy Products: The policy of the GOK in the dairy sector has been maintaining self-sufficiency in milk supply, mainly through intensification. To realise this goal, the Government provided different types of subsidies and maintained producer prices fairly high. In the 1970s and 1980s, Kenya was awash with milk, and the share of the dairy sector had risen to about 10 percent of GDP. To absorb the increase in the milk production, school-feeding programs were launched and exports were encouraged. With the reforms under ASAO II however explicit and implicit subsidies were removed, and services previously provided by the Government for free, such as artificial insemination and veterinary services, were privatised. While milk prices remained constant or declined due to the competition, the cost of maintaining and feeding the cattle increased. As a result, the real price of dairy products declined. For instance, the nominal price index of livestock and allied products (proxy for price of milk) increased from 197.9 in 1990/91 to 497.7 in 1998/99 – by over two and half times (ref. Annex 12). However, due to the much faster change in the prices of non-agricultural goods, the index of real price was unfavourable in the early 1990s. It improved a bit towards the mid-1990s but remained below parity. It deteriorated again in the second half of the decade.

4.2.4 Fertilizer Supply and Uptake: The importation, distribution (wholesale and retail) and pricing of fertilizer were liberalized in 1992/93. At present, there are close to 50 firms (including end-users) importing fertilizer. About 10 are regular importers and account for a significant share of the market – over 95 percent in the late 1980s but their dominance has declined in recent years. GOK handles only in-kind aid it receives from donors. The volume of in-kind fertilizer aid has declined to about 10 percent in recent years from over half of the national supplies in the late 1980s (ref. Annex 11). This fertilizer is auctioned and distributed by the private sector. The Bureau of Standards ensures that quality standards are met.

4.2.5 The uptake of fertilizer, although erratic (ref. Annex 11) has risen. Annex 2 shows that the annual average uptake between 1987-89 had been about 245,000 tons. This magnitude increased to an annual average of 274,000 tons between 1996-98. Regionally, fertilizer is most intensively used in four agro-climatic areas in the Western and Central regions; namely, western transitional, high maize potential, western highlands and central highland areas. These areas enjoy high level of moisture, which is a prerequisite to make fertilizer application meaningful. These are the maize belts of Kenya with 40-60 percent of the land area devoted to maize.

4.2.6 Private Sector Participation in Agricultural Marketing: Despite the difficulties in providing concrete data in the case of maize and dairy marketing, anecdotal evidence show that the share of the private sector in agricultural input and output marketing has risen. As a result of severe competition with the private sector, NCPB's margins have declined considerably -- from an average of about 52 percent in 1987-89 to about 19 percent in 1996-98 (ref. Annex 2)[6]. The share of Kenya Co-operative Creameries (KCC) in the dairy market has dropped significantly, leaving the Creameries with considerable excess capacity.

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[6] Gross margin is defined as the difference in the purchase and sales price as a percentage of the former.

4.2.7 Government Expenditure in Agriculture: Given that poverty is a rural phenomenon and that most of the poor operate in the agricultural and related activities in rural areas, adequately funding the sector and improving the effectiveness of the funds allocated to the sector would facilitate faster poverty reduction. Agriculture received 4-6 percent of total expenditure between 1992-96. The data assembled by the PPER mission (ref. Annex 13) shows a share of 3-4 percent for 1998-99.[7] These amount to a real expenditure in agriculture of KSh 300-400 (or US$30-40) per farming household[8]. Of the total amount about US$7 was devoted for operations and maintenance – items that matter for service delivery most. Looked differently, public expenditure per civil servant in the MOA&RD amounted to about US$2200 for O&M alone – not an inconsequential amount[9]. To improve the effectiveness of the resource allocated to MOA&RD, however, the policy and the institutional issues discussed in the early 1990s still remain important.

4.2.8 Impact on Production and Growth: Despite carrying out the policy reforms reasonably well and their positive effect on the incentive framework (i.e. TOT and other relative prices), the intended supply response did not materialise. As shown in Annexes 2 and 8, production of maize was lower in the second half of the 1990s than in the late 1980s. In addition, the growth rate in agricultural GDP and aggregate GDP were lower in the latter period. This makes it clear that the price incentive did not generate positive response because of the weaknesses in complementary policy measures to improve rural infrastructure and institutions, in addition to unfavourable weather conditions and a lack of conducive environment (insecurity, ethnic strife, etc.). This demonstrates that price incentives are a necessary but not a sufficient condition for positive supply response. Supply response depends on several factors, such as developed physical infrastructure, well established information system, research and extension, and weather condition, other than price incentive. Even if the relative prices moved in favour of agriculture, the combined effect of the other factors could generate a negative, more than offsetting impact.

4.2.9 It is known that some of the conditions for a thriving agricultural sector were not there. For most of the 1990s, the weather condition had not been favourable particularly in the arid and semi-arid areas. The security condition in some rural areas had deteriorated to make farming and cattle raising very risky. This was exacerbated by the overall political situation in the country. Traditionally strong rural institutions that supported farmers in the procurement of inputs and marketing had been in turmoil. The dairy and farming co-operatives have not yet recovered from the damages that government intervention caused

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[7]The mission's data are assembled from the Budget books. It is not clear whether these are actual or budgeted expenditures. Since Co-operatives, and Rural Development were separate ministries, the data used in the analysis add up to the total expenditure in these two ministries together with those of Lands & Settlement, and Agriculture proper. But expenditure on Natural Resources and Environment are excluded.

[8]The corresponding expenditure per rural household in Tanzania was about US$8-10.

[9]In 1995/96, there were 23,435 civil servants in the former Ministry of Agriculture, Livestock Development and Marketing. We assumed that about 22,000 remained in the service around 1997-98. GOK, Report of the Public Expenditure Secretariat, 1997 Public Expenditure Review, October 9, 1997. The Review focussed on civil service reform (including wage bill, retrenchment, etc) and budgetary management.

to their operational health. The fact that NCPB has not yet completely withdrawn from marketing continued to create additional uncertainties. In addition, the Government's policy reversal on grain marketing liberalisation in 1992 undermined the credibility of its commitment to policy reforms. These issues will have to be addressed concurrently to elicit positive response and regain Kenya's historical lead in maize production and agricultural growth.

4.2.10 Poverty Monitoring and Intervention: With concern about the adverse impact the economic reform program and other exogenous factors could cause, the GOK agreed to monitor the impact and implement the action plan to improve food security and nutrition levels. At the moment, several Kenyan and regional organizations, including the Central Bureau of Statistics, monitor different aspects of poverty, food insecurity and malnutrition, and factors that determine the levels and changes in these measures of deprivation. In addition, the Treasury houses a strong analytical unit that shapes the dialogue and policy formulation for poverty reduction. In March 1999, a Poverty Eradication Commission (PEC) was set up under the Office of the President to assist in operationalizing the poverty reduction effort and implement the National Poverty Eradication Plan (NPEP). Despite disagreements in the approaches to poverty reduction between the PRSP team and staff at PEC, currently there is a lively dialogue on the issues.

4.2.11 The data and analysis have demonstrated that the challenge for poverty reduction is mounting instead of abating. In 1972-74, there were 3.7 million in poverty. The number of poor increased to 11.5 million in 1994, 12.5 in 1997 and over 13 million at the end of 1998. Rural poverty is most pronounced in Coastal provinces, Nyanza, Western and Eastern regions. Although most of the poor live in rural areas, poverty in urban areas is increasing at an alarming rate. For instance, the proportion of the urban population living under poverty was about 29 percent both in 1992 and 1994, but the figure shot to almost 50 percent in 1997. The graph (Annex 14) further reinforces the deterioration in living conditions in urban areas. Sixty four percent of Kisumu and 50 percent of Nairobi were poor in 1997.

4.2.12 TA and Capacity Building: The TAF grant component faced several problems particularly in the technical assistance sub-component. Because of the delay in recruiting the foreign technical experts, the TAF component was significantly delayed. The delay was caused by the inadequate funding compared to the amount the foreign experts demanded. After decision was made to use local experts instead, they came on board quickly, but due to delays in effecting payment their contribution was frustrated. The start-up of the training program and effectiveness were further limited by similar delays in effecting payment and the high turnover of senior staff at Development Planning Department (DPD) of MOA&RD, which was the major beneficiary of the training program, and the core Ministry implementing (following up) the policy reforms. This obviously impacted negatively on the work progress and consultant's performance (ref. para.3.1.3).

4.2.13 Nevertheless, the technical experts provided stop-gap services in policy analysis and advice. Ten training modules were developed and conducted at Egerton University. Several staff of the former Ministry of Agriculture and Livestock Development, Ministry of Cooperative Development, and Monopolies and Price Commission (MOFP) participated in the training. The training has been instrumental in providing orientation to fresh recruits joining the civil service into the Government's policies and programs. In addition, 11 short-term and 8 long-term external training programs and several study tours were undertaken (ref. Annex 15).

4.3 **Efficiency**

4.3.1 To identify the cost of the reforms and the magnitude of the adverse effect requires a more thorough research based on household data and a Social Accounting Matrix (SAM). This is beyond the scope of the current evaluation. However, based on the review of the available literature, three classes of losers could be identified. The first are producers – small and big alike as part of the reduction in consumer prices was borne by them[10]. This should not be surprising. The Kenyan elite, owning large maize farms, kept on resisting the reforms and abolition of NCPB precisely because it knew that the demise of the Board would lead to a loss of rent. Second, the big millers (with roller mills) also lost as a result of competition from small hammer mills. In 1993, 66 percent of the maize meal was sifted (via roller mill), and about 34 percent was posho (whole) flour (via hammer mill). In 1995, the conditions had progressively changed in favour of posho millers, which accounted for 46 percent of consumption. Considerable excess capacity was therefore created in the roller mills. The third class was transporters[11]. After liberalisation, hammer mills were set-up all over the country, including urban residential areas. Therefore, maize did not have to be transported to a few centralised big mills and back to consuming areas again. Now, consumers could buy their maize and take it to the neighbourhood mill for grinding, thereby avoid excessive outlays on transportation.

4.3.2 Based on the apparent or assumed adverse effect on smallholder, who are among the poor in Kenya, the operation is rated **unsatisfactory** (ref. Annex 4).

4.4 **Institutional Development Impact**

4.4.1 In spite of several weaknesses, ASAO II is rated **satisfactory** for its impact on institutional development (Annex 4). The technical assistants, despite their frustration at the way the component was managed, are said to have provided much needed technical support at the crucial period of the reforms. The participants and the relevant authorities viewed the local orientation seminars at Egerton University as being valuable. Participants of the study tours have not produced on their experience and the relevance of the tour that allow judgement on this sub-component. However, some of them present great potential that need to be harnessed. For post-training, the participants should have been assigned tasks that were identified to be accomplished in support of ASAO's implementation.

4.4.2 Nine short term (3 months each) and eight long-term (8-12 months, including Masters Programme) foreign training programmes were provided. Most of the beneficiary staff is still in Government (except one who moved to a parastatal and another who left the service). This is a critical mass of professional cadre. The potential to carry out sound sector planning, policy analysis, and project monitoring and evaluation is in place, and this potential would have to be deployed in undertaking sound analysis and generating sector policies.

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[10]To protect producers, an import tariff on maize was introduced in 1996. Refer to Tschirley, Jayne and Others;

[11] Ibid., Argwings-Kodhek and Jayne. These researchers assert that "The reduction of food marketing costs does more than reduce food prices for consumers. More Importantly, lower marketing costs are partially passed along to producers, …". This essentially means the cost of adjustment was borne mainly by millers and transporters.

4.4.3 The position of DPD is filled now and it is expected that stability would be maintained so that more guidance and leadership would be provided to staff to make better use of the capability created (ref. para. 3.1.3). At the same time, it is anticipated that more co-ordination among various Departments in MOA&RD and teamwork would be encouraged and maintained to realise the goals of the sector. It will particularly be useful if the participants of the programme are engaged in budgeting, financial control, public expenditure reviews and management, and crop-specific studies.

4.4.4 However, financial transparency is still lacking despite the existence of working FMIS at Treasury. Project financial statement (showing inflows and outflows) was not available for ASAOII. The status of the anti-corruption agency was precarious at the time the mission visited the country and the relationship between the GOK, on one hand, and IMF, World Bank and UNDP, on the other hand, was at low ebb.

4.5 Sustainability

4.5.1 Economic policy-making and implementation has followed an "on-and-off" path interspersed by some reversals. On the bases of the experience so far and what is going on in Kenya right now, the sustainability of the reforms and Kenya's growth prospects have become a question of serious doubt. Therefore, sustainability of ASAO II reforms is rated **unsatisfactory** (ref. Annex 4). Observers of the Kenyan scene attest that agricultural policies have historically been highly politicised, and the policy outcomes have reflected the interests of major political groups. During ASAO II, while the explicit policies have been for liberalisation, dealing with NCPB and determining its role posed major challenges. Of course, positions taken on one or the other issue occurred under the guise of some economic justification. NCPB still plays major role and causes great uncertainty for the private sector. Unless the private sector has a clear view of the policy stance in the medium-to the long-term, it would find it difficult to invest in machinery (e.g. maize dryers) and storage facilities to take over the marketing task in full. The dialogue has now become cyclical. It is said that NCPB is in the maize marketing business because the private sector is not capable to handle the crop; and the private sector is not expanding because policies on NCPB – in content and practice -- have not been consistent. These portray lack of political will and commitment from the GOK.

4.5.2 MOA&RD would need to work more to regain Kenya's historical position in technologic leadership and production in the maize and dairy industries. The problem is not one of personnel -- there are highly qualified people – but one of institutional and conduct of work. First, the current MOA&RD is an amalgam of, in full or in part, five Ministries[12]. In the process of merger, some positions may have been cut or downgraded. Often such measures cause institutional problems since each one of the staff would want to maintain their historical institutional character and tend to be less malleable for shaping a new character. An example is the monitoring and evaluation systems. Crop production (under the former Ministry of Agriculture - MOA) had adopted one monitoring software package, while livestock development (under the former Ministry of Livestock Development – MOLD) had a different system. Since the two merged, there have been efforts to come up with one unified and coherent system to serve both of them. So far, it has not been possible to resolve the issues. Second, proper co-ordination and teamwork would need to be developed. For instance, the Planning staff should co-ordinate their work with that of the Monitoring Unit(s)

[12] Includes the former Ministries of Agriculture; Livestock Development; Supplies and Marketing; Co-operative Development; and Rural Development.

and the Finance team in order to generate some of the data that they would need to report on sectoral problems or progress. The third factor impacting sustainability is tenure of the senior management of the MOA&RD (and a few other key Ministries). This role is currently assumed by experienced and competent Kenyans temporarily drafted from international organisations. When their tenure comes to an end, a vacuum would be created. It is also unlikely for Kenya to pay them at international level to keep their services. It may also be difficult to maintain different benefit packages for the same positions for long without disenfranchising the rest. The experience from other African countries shows that this type of arrangement could be workable for a very short-term to address specific tasks. Otherwise, it could be harmful if it is stretched out much.

4.5.3 On the other side, the agricultural sector is not resilient to external shocks yet. Changes in weather condition still cause severe blow to agricultural production. For instance due to prolonged drought, the current food supply situation in Northern, Eastern and Coastal areas falls short of demand. It is estimated that Kenya would be over 500,000 tons short in maize supplies this year alone[13].

4.5.4 So far, not much attention has been given to public expenditure issues at the MOA&RD. A review that reflects the current institutional changes is highly important. GOK has started a Medium-Term Expenditure Framework (MTEF). One of the Sector Working Groups (SWG) is agriculture and rural development. To take advantage of the new framework, the SWG's work needs to be reinforced by a strong expenditure analyses. In fact, a public expenditure review should be launched shortly to feed into the next update of MTEF. Such a PER, together with the Poverty Reduction Strategy (PRSP), would provide a forum for representative of the agriculture and rural development SWG to exchange ideas on sectoral priorities and to improve their efficient and command sufficient budget allocations to delivery services in the sector.

4.5.5 The long-term sustainability of economic reforms, including those supported by ASAO II, depends on the commitment of GOK and its ability to regain the confidence of its development partners. At the time of the PPER mission, the Government's stance on the most current policy issues had become contentious and its vigilance on corruption and good governance highly questionable. Yet, continued donor support and success of reforms is highly predicated on the progress on this front.

4.6 Aggregate Performance Rating

4.6.1 Overall, ASAO II is rated **unsatisfactory** (ref. Annex 4). Although GOK implemented the reforms in maize marketing, the reforms are incomplete, as the role of NCPB still needs a clear and irreversible definition. NCPB's role in agricultural marketing, particularly maize (the staple crop), is very confusing and its relationship with the GOK is characterized as being not only economic. Its ambiguous status and role has left the private sector in considerable uncertainty. Although some private operators exist in the procurement and marketing of maize, under the circumstances, it would be very difficult for the private sector to make major investments and partake in the market in a significant way. In theory, the market is fully liberalized and no explicit price control exists at either the producer or consumer end. However, NCPB still wields significant market power. It owns and operates most of the storage facilities and it is the only commercial provider of maize-drying services. GOK officials assert that the role of NCPB is limited to maintaining the Strategic Grain Reserve

[13] The East African, Are the Rains a Blessing or a Curse for Hungry Kenyans?, February 5-11, 2001.

(SGR) and famine relief. To the contrary, the NCPB still engages in the commercial activities of procurement and marketing of maize.

4.6.2 GOK has also implemented the reforms in the dairy sector, but excessively intervened in the operation of KCC to cause considerable damage to the outfit and the co-operative sector supplying milk. Co-operative movements have a long history in East Africa, more so in Kenya. Kenya Creameries Co-operative (KCC) and Kenya Farmers Association (KFA) were set up in the early 1930s. KCC procured, processed and marketed dairy products, while KFA procured agricultural inputs and distributed them to its members. As a result, co-operatives played significant role in agricultural (including livestock) input procurement and/or marketing. Until the mid-1980s, these co-operatives were owned and operated by members without major interference from the GOK. In the mid-1980s, GOK started to interfere in their operation in a major way, including appointing members of Boards of Directors. At the same time, the economic focus of the co-operatives became diluted as they were called upon to play other non-economic roles.

4.6.3 However, the private sector has taken the opportunity to save the sector from complete collapse. In recent years, the functions that Co-operatives played have been partly replaced by the private sector. For example, fertilizer is mainly distributed through the private sector. The implementation of reforms in fertiliser pre-dated those in maize. As a result, considerable achievement has been mustered in fertiliser procurement and distribution. Currently, the domestic price of fertiliser reflects international prices. As mentioned above, the private sector is slowly coming into maize marketing, and several private dairy procurement, processing, and marketing agencies have emerged. In spite of these developments, co-operatives would still have beneficial role to play, if they are properly managed, and operated without interference from the Government in their day-to-day operations. GOK recognizes the importance of co-operatives. But it has damaged their credibility so much for them to regain their role in a short time.

4.6.4 In the area of food security, the adverse effect of increases in consumer prices has been minimised (or averted). Considerable household data collection has been underway and the analytical capability has been improved to understand the magnitude of poverty, food insecurity, and overall deprivation and their evolution. MOA&RD has trained several professionals but would need to exploit the analytical potentials developed to improve the effectiveness of resources allocated to the sector.

4.7 Borrower Performance

4.7.1 The borrower performance is rated **unsatisfactory** (ref. Annex 5). Indeed, in the mid-1980s, GOK did a commendable job of identifying the economic problems of Kenya and laying a pro-growth strategy driven by the agricultural sector. Sessional Paper I and Sixth Five-Year Development Plan provided the impetus for ASAO I as well as ASAO II. At the same time, the macroeconomic policies were put on sound footing. The foreign exchange and credit markets have been liberalised since the early 1990s and the exchange and interest rates now are market determined. However, fiscal slippage has been recurrent and the domestic borrowing of the public sector keeps interest rate high and crowds out the private sector.

4.7.2 The managerial input, particularly at the sector level, has been limited. The policy component was hardly managed[14]. The success of ASAO II was attributed mainly to the

[14]Ibid. Kimuya, Wagacha and Abagi emphasise implementation weaknesses in agricultural

removal of Government controls and intervention, in full or in part, from the marketing of agricultural inputs and outputs. There is no record indicating whether the Inter-Ministerial and Technical Committees were set up and met to discuss the policy issues under ASAO II. The input of the technical experts is said to have been useful but it encountered several implementation problems both internally and externally (ref.para.3.1.3). A Co-ordinator was designated to manage the training and capacity building component but this came very much late.

4.7.3 Neither the technical experts nor the participants of the training program produced the analytical and progress reports that were required by ASAO II (ref. PCR, para. 3.4.1). In spite of all the effort in capacity building, the borrower was unable and/or unwilling to prepare its version of the project completion report. The beneficiaries of the training programme still need strong leadership and guidance to make use of their potential. Problems persisted in the submission of audit reports as well. The only procurement that needed to be done by ASAO II were the technical experts and computers, these did not pass without major problems (which have not been resolved so far - ref. PCR, para. 3.5.1 – 3.5.2). Of course, the procurements under the budgetary support would need a separate and complete evaluation[15]. In general, the experience did not portend ownership and commitment to the objectives of ASAO II.

4.7.4 Monitoring of the changes in the agricultural sector is still weak or non-functional due to conflict between different Departments and the lack of cross-Departmental collaboration (ref. para. 4.5.2). Quick turnover of key personnel in the Development Planning Department (DPD) has been a serious problem. Transparency is generally lacking and information is shared with development partners, such as ADB, very selectively (e.g. unwillingness to share the Dairy Development Policy of 1999 with the Bank' mission; and inability/unwillingness to generate an inflow and outflow table of the proceeds of ASAO II).

4.8 Bank Group Performance

4.8.1 The performance of the Bank is likewise rated **unsatisfactory** (ref. Annex 6). The efforts exerted on the up-front tasks, such as programme preparation and appraisal, are sound and adequate. ASAO II was consistent with GOK's development strategy, and the Bank Group's policies and strategies for agricultural and rural development, and overarching themes such as poverty reduction, gender and the Bank's Economic Prospects and Country Programming (EPCP 1989-91). The components were relevant and timely.

4.8.2 ASAO II, however, was neither based on the Bank's prior experience nor sectoral studies underpinning the components[16] (ref. Para. 4.1.3). ASAO II was essentially adapted

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policies.

[15] Reforms at the Central Tender Board are being addressed in the latest PBL. ADB, Kenya: Proposal for an ADF Loan of UA 28.25 Million to Finance the Structural Adjustment Loan, ADF/BD/WP/2000/147, 28 September 2000.

[16] On the part of the World Bank, ASAO II was a follow-up to ASAO I. At the time of Appraisal, it had concluded its completion report of ASAO I. Furthermore, ASAO I had supported several studies to understand the opportunities and constraints in the sector that would shape future operations. At the same time, it benefited from the studies carried out and the experience gained from the work of the former EEC and USAID which had

from the World Bank's operation in the same name. However, the close harmony in the two operations is not explicit in SAR. The only difference was ADB's extension in the scope of policies to the dairy sector (again without any basis). Furthermore, the Bank Group's involvement in agricultural policy issues unfortunately stops with ASAO II despite the several policy issues that were still outstanding.

4.8.3 More generally, it must be realized that harmonizing ADB's operations (such as ASAO II) and maintaining the same policy actions as those of the World Bank has both positive and negative aspects. On the positive side, such an effort allowed (and would allow) ADB to take advantage of the information base and knowledge accumulated by the World Bank. Secondly, considering the critical capacity constraint within the Governments of borrowing countries to monitor and report on donor operations, the approach would minimise the need to prepare several reports, thereby saving the government's capacity for other tasks. Thirdly, it would make it easier for the Bank to obtain regular reports and benefit from the supervision efforts by others.

4.8.4 On the other hand, uncritically adopting the same policy measures, as the World Bank, may not be always right. First, as the leading African development institution, the Bank would need to bring its African experience to light and shape policies differently that fit the African (in this case the Kenyan) situation better. Second, based on sound studies, the Bank must engage other donors, bilateral as well as multilateral, in dialogue to articulate a different vision to benefit the people of Africa. Third, the approach is risky. If the Bank does not identify a niche for itself or add-value to the policy debate, it would raise questions on its usefulness.

4.8.5 To avert such a situation, the Bank would need to invest some resources into adaptive research (i.e. economic and sector work that would convert the existing knowledge into Bank policies and strategies that fit its Vision better). Otherwise, Bank staff would be forced to add one or two new ideas to an otherwise World Bank operation. This effort (has led) leads to proposing the inclusions of one or two ideas without any analytical underpinning.

4.8.6 A thorough and independent review of the agricultural sector, including an understanding of the political economy of agricultural sector reforms in Kenya, for instance, would have revealed that several promises had been made and broken in the past. This would have made it clear that anything short of changing the legislation governing agricultural (particularly maize) marketing would only be temporary and partial. The fact that the legislation has not been changed still poses a challenge to implementation of the policies, although the overall position is in favour of reforms.

4.8.7 The rationale of ADB's Appraisal staff for including dairy is not clear. However, ADB's presence would have been used to keep the reforms in the dairy sector alive, as it was the only actor in the sector. Unfortunately, the Bank did nothing other than including some conditions. If an active stance was taken, the Bank could have saved Kenya Co-operative Creameries (KCC), one of the institutions covered under ADB's package, from mismanagement and financial bankruptcy.

4.8.8 From a more mundane design point of view, two additional issues have to be pointed out. The first is that the conditions in ASAO II were too many. There were 26 conditions (including four relating to the TAF), and many other sub-conditions in the SAR.

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operations to improve the marketing of maize and other food crops.

These were too many to monitor and to accelerate disbursement. Second, combining an adjustment operation (SECAL) – a short-term cycle instrument -- with capacity building component -- essentially with long-term cycle -- was inappropriate. The policy aspects and the capacity building aspects should have been separated into two operations and staggered in such a way that the TA-cum-capacity building component preceded the SECAL. The fact that they were lumped together caused major difficulties at start up.

4.8.9 Supervision of ASAO II was inadequate. Only three supervisions (including the mid-term review) were conducted over a period of 8 years. First, the number of supervisions and time on the field (11 staff weeks in total) was inadequate, considering that the period was so tumultuous[17]. In addition, since the World Bank withdrew in December 1992 (ref. para.3.1.2), the responsibilities of monitoring progress were on ADB's shoulder entirely. Secondly, the supervision missions (excluding the mid-term review) focussed on the TAF component. Reading through the Aide Memoires of 1996, 1998, and 1999, one would not get an idea that ASAO II was a policy-based operation.

4.8.10 The Bank Group's rationale to continue with the programme after GOK's policy reversal and the World Bank's subsequent withdrawal from the programme in December 1992 is questionable. The Government's policy reversal on grain marketing liberalisation in 1992 undermined the credibility of its commitment to policy reforms. Government "ownership" or commitment to the reform programme is a key determinant of successful adjustment. The Bank Group should have stopped lending where commitment was inadequate and where the risk of failure was high; or at least should have launched a special supervision mission to establish the basis for continuing to disburse. Their continued support for ASAOII shows that there was inadequate aid co-ordination and lack of consultations with other donors, particularly with the World Bank, which was the leading creditor of the programme and responsible for its design.

4.9 **<u>Factors Affecting Implementation Performance and Outcome</u>**

4.9.1 <u>External Factors:</u> Several exogenous factors affected ASAO II's implementation performance and outcome (ref. Annex 8). Since the early 1990s, the international prices of Kenya's major export products, such as coffee and tea, were low particularly in the late 1980s and early 1990s. Changes in the TOT however favoured Kenya, thereafter. The Eastern and Southern African region also suffered from adverse weather changes. In Kenya, recurrent drought has been a major problem. Even this year, Kenya would fall short in maize production due to the impending drought condition.

4.9.2 Delay in the recruitment of the external consultants, and then the reversion to the recruitment of local consultant, held back the start-up of the TAF component. Moreover, the Bank and the borrower both managed the TAF poorly. This caused considerable amount of uncertainty on the part of the consultants.

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[17] Just to provide some indicators, the World Bank had used up 139 staff weeks for supervision before the Operation was cancelled at the end of 1992. Other inputs were 282 staff weeks for preparation and appraisal, 10 staff weeks for negotiation, and about 12 staff week for completion report. These data exclude other economic and sector work that fed into the design of the operations. The corresponding ADB figures were 16 for preparation and appraisal, 11 for supervision and 22 for completion report.

4.9.3 Factors internal to Government: Most of the factors have had adverse effect on performance and outcome of ASAOII. The positive impact of the liberalisation of exchange rate and financial markets was blunted by fiscal and monetary slippage, which accelerated inflationary pressure, crowded out the private sector, and deprived real adjustment in key macroeconomic parameters. At the same time, GOK reneged, at least temporarily, on the reforms to liberalise the maize market.

4.9.4 The degree of commitment to the reforms was mixed since different echelons of Government were differently disposed to the policy reforms. Interest groups who favoured the reforms at the start changed their stance when they realised the impact, while another interest group stood in their favour. For example, in October 1992, GOK reversed the policy reform relating to liberalisation of the inter-regional movement of maize. The overall economic and political environment was also in an uncertain situation due to the resistance to the popular request for democratisation. Consistency in implementation of reforms and financial accountability was lax. In addition, the former Ministry of Agriculture went through far reaching reforms that merged several ministries under the current Ministry of Agriculture and Rural Development. This was exacerbated by significant retrenchment of staff and frequent changes in key personnel (e.g. DPDs)

4.9.5 Factors internal to Executing Agencies: Internal factors had mixed effects. The technical experts provided advice that was appreciated by the borrower. The local training program was useful to orient new recruits to the policies and practices of GOK. The foreign training program has created high calibre professionals whose potential waits to be put to use.

4.9.6 Until a Co-ordinator was designated to follow-up the TAF, implementation was slow. On the other side, no staff was designated to follow implementation of policies. The absence of record on progress and the weakness in monitoring and evaluation has already been alluded to, and needs no repetition.

4.9.7 Factors Affecting Implementation: Combining the TAF and policy reforms created considerable problems for the operation. From the outset, it should have been clear that the TAF was unlikely to be implemented in two years even without the difficulties of start-up (ref. para. 3.1.2 & 3.1.3).

5. CONCLUSIONS, LESSONS LEARNT AND RECOMMENDATIONS

5.1 Conclusions

5.1.1 Based on the verifiable performance indicators that were used in the MPDE to demonstrate the degree to which the policy targets for each of the six policy areas of ASAOII were met, i.e. to show the changes before (1987-89) and after the programme (1996-98), ASAOII's performance is rated overall **unsatisfactory**. The centerpiece of ASAO II was reforming the entire procurement and distribution system of agricultural input (i.e. fertilizer) and output (i.e. maize and dairy products) marketing and pricing. Together with these reforms, it aimed at improving public expenditure allocation and project screening and performance monitoring in the former Ministry of Agriculture. To help the

Government of Kenya (GOK) carry out these policy reforms and conduct regular policy analysis, ASAO II provided a grant for TA and capacity building in three relevant Ministries (ref.para.4.2.13). Several bilateral and multilateral donors including the World Bank supported the reforms. In fact, some of the donors started involvement in the agricultural sector reforms in the mid-1980s and continued their engagement well into the 1990s.

5.1.2 Although GOK implemented the reforms in maize and dairy marketing and pricing, both of which triggered off favourable incentives in the sector, the intended supply response did not materialize. Hence, the anticipated growth in maize and dairy production and agricultural GDP remained subdued (ref.para.4.2.8). In spite of donors' efforts to carry out reforms in several areas, GOK's agricultural policy stance still remains unclear in some important areas and implementation has been weak in some others. Three areas are of particular concern; namely, the role of NCPB, the role and status of the co-operatives, and the capacity of the Ministry of Agriculture and Rural Development (MOA&RD) (ref.para.4.6).

5.1.3 In the area of food security, the adverse effect of increases in consumer prices has been minimised (or averted). Considerable household data collection has been underway and the analytical capability has been improved to understand the magnitude of poverty, food insecurity, and overall deprivation and their evolution. MOA&RD has trained several professionals but would need to exploit the analytical potentials developed to improve the effectiveness of resources allocated to the sector (ref. para .4.6.1).

5.2 **Lessons Learnt**

5.2.1 Although price incentive created by market liberalization is a necessary condition for positive supply response, it is not sufficient condition to effect a substantial increase in output. In addition to improving the incentive framework, a positive response will depend on the degree to which the agricultural economy is developed. Adequate rural infrastructure (irrigation, roads and transport, power, telecommunications), input availability, research, credit, and farmer education and health are all conducive to agricultural development. Where these are seriously deficient, even getting the right policy reforms in an ideal enabling environment will not suffice to get a positive supply response (ref. para. 4.2.2, 4.2.8).

5.2.2 Performance contracts that are signed between governments and regulatory bodies should be designed to be more binding on both parties. ASAOII aimed at, among others, removing the distortions in the market by reducing the role of NCBP through a performance contract between GOK and NCBP. In this way, GOK provided incentives by allowing market forces to determine prices of agricultural products. Unfortunately, the contract was not honoured (ref. para. 4.2.2, 4.5.1).

5.2.3 The experience of maize market liberalization in Kenya (and several other SSA countries) underlines the importance of understanding the political economy of reforms before hand in the design of such operations (ref. para. 4.5.1, 4.8.6). Such an understanding would facilitate determining how fast the reforms could move, the most effective sequence(s), and firmly establishing the irreversibility of the reforms from the outset. In Kenya, for instance, as long as the bill governing agricultural marketing, is not amended, the sustainability (or irreversibility) of the policies would remain questionable.

5.2.4 Government interference, in otherwise effective institutions such as co-operatives, can cause disastrous credibility damage, which becomes difficult to reverse in a short time in agricultural societies (ref. para. 4.6.1). The co-operative movement in Kenya has a long history. Kenya Co-operative Creameries (KCC, dairy sector) and Kenya Farmers Association (KFA, farm input) were set up in the early 1930s to procure and/or market produce. Until the mid-1980s, these co-operatives operated effectively and without major interference from the GOK. In the mid-1980s, however, GOK started to interfere in their operation in a major way, including appointing members of Boards of Directors. Although co-operatives would still have beneficial role to play, their credibility has been damaged so much so that it would not be possible to regain the previous performance and confidence in a short time. Henceforth, these institutions should be allowed to operate independently and to be managed more professionally.

5.2.5 Combining components with different life cycles (time horizons), as was done in the case of ASAO II, could be detrimental to the entire operation (ref. para. 4.8.8). In the case of PBL (or governance-related operations), in particular, since the Bank may be forced to suspend (or cancel) the entire component, a capacity building could also be affected unintentionally.

5.3 Recommendations and Follow-up Action

(i) For the Borrower

5.3.1 Maize, NCPB and Food Security: GOK should take a clear stand and implement its policy to limit the role and status of NCPB to maintaining and managing the strategic grain reserve (SGR) of 3 million bags, and remove NCPB's intervention in the maize market (ref. para. 4.2.2, 4.5.1), and also discourage it from distribution of agricultural chemicals. The issue of what to do with the storage facilities, which would not be used for SGR, would need to be addressed. Resolution of the constraints in maize marketing would need an amendment of the relevant bills as well as removing the unnecessary storage facilities away from NCPB.

5.3.2 The GOK should implement the above policy (ref. para. 5.3.1) in order to encourage and build the confidence of the private sector to invest more in grain (maize) marketing – storage facilities, drying, etc. and in distribution of agricultural chemicals (ref. para. 4.2.6).

5.3.3 In order to create conducive and enabling environment for complete market liberatization (i.e. create competitive local markets), the GOK should improve on the quality of the market information on prices and quantities (e.g. production, stock, goods in transit, etc. in great detail) that it provides to businessmen and to the public at large, on a regular basis. MOA&RD is currently assembling and providing some of this information on an ad hoc basis. The system of data collection at the Ministry is not adequate; data is not reconcilable with that from the Central Bureau of Statistics; the data storage facilities at Marketing and Fertilizer Units are old; there is no budget for publishing the data regularly; thus price and quantity information is not regularly broadcast on the radio (or other mass media). The information gathering, synthesis and dissemination need improvement and co-ordination.

5.3.4 Currently food security is limited to the production of maize and the maintenance of the SGR, thereby not much attentions seems to have been given to non-cereal food items (such as roots and tubers), and to improving storage at the farm level. More attention would need to be geared towards this direction.

5.3.5 Fertilizer: Several policy issues advanced through ASAO II are still relevant (ref.para. 4.2.4/5). Identifying fertilizer types that match specific soil conditions of Kenya would need to move from the research stage at Kenya Agricultural Research Institute (KARI) to actual farm-level application; quality assurance tasks of the Bureau of Standards would need to be strengthened (including testing held in stock); the fertilizer market needs to be monitored to avoid the emergence and adverse effect of monopolistic or oligopolistic tendencies, as well as further promoting economies of bulk purchases; and the supply of smaller package fertilizer (e.g. 5 Kg, 10 Kg, etc. bags) should be encouraged.

5.3.6 Dairy Sector: Government should stop its interference, in otherwise effective institutions such as co-operatives. Such interference can cause disastrous credibility damage, which becomes difficult to reverse in a short time in agricultural societies (ref. para. 5.2.4). More research is required on the production and yield of fodder, to even out the seasonal fluctuations in supply, provision of market information, and improving quality control. Government would need to review its policy stance on veterinary services, thereby identifying those that are purely private and those that have a public good nature (ref. para. 4.2.3). To ensure more equitable distribution of private veterinary clinics, more incentive should be availed to those service providers that decide to re-locate to otherwise poorly served areas. Improvements in marketing, including measures to increase the shelf life of milk and conversion into other dairy products, are warranted. As the regulatory body, KDB would need to be strengthened to play a more supportive role in a liberalised market environment.

(ii) For The Bank Group

5.3.7 In order to improve on programmes' quality at entry, the Bank Group should, prior to programmes' formulation, carry out economic and/or sectoral baseline studies, which would, among other things, underpin opportunities and constraints in the sector that would determine the scope of the programme's operations (ref. para. 4.1.3). This would save the Bank's operations from being ad hoc, and the same time, it would provide the context within which an operation is designed, how to interpret whether conditions have been satisfied, and adapt them to changing circumstances.

5.3.8 Although the Bank has, in recent years, increased resources for project formulations in order to improve on the project quality, more resources are still needed in order to prepare more seasoned operations. For example, the Bank's current preparation and appraisal missions are still, in many cases, combined and are not much more than 2-3 weeks. This is insufficient to understand the economic and social conditions in country and design operations that are credible and will have an impact on the life of the people to be served. The time is more insufficient if private sector, NGOs, or beneficiaries have to be consulted in a participatory approach and staff within collaborating Ministries has to be involved. More than one mission might be required for formulating complex projects. What many preparation/appraisal missions fail to do up-front, they will be forced to address them in ad hoc and incomplete manner during implementation.

5.3.9 ASAO II contained two components that had different length in their life cycles (i.e. policy reforms and institutional strengthening). As a result, implementation had a slow start-up, and the credit had to stay open for a long time to allow the institutional aspect proceeds until it reached some conclusion (ref. para. 3.1.3, 4.8.8). If the policy aspect had to be scrapped for some reason (as it happened to the World Bank operation), the institutional component would have been held captive unnecessarily. Therefore, it would be beneficial to separate these types of operations and present into distinct operations.

5.3.10 More synergy and complementarity would be necessary between the PBLs and the project (programme) lending. This would help avoid the current ad hoc and isolated stature of PBLs, and thus project and PBL lending would reinforce each other for effective and better result.

5.3.11 Not only the number but also the effectiveness of supervision requires further strengthening. Although three supervision missions were carried out, none of them was complete. All the missions reviewed the capacity building and technical component, which was really tangential to the main operation – the policy reforms. Had staff reviewed the SAR, determined the composition of the mission and assigned each other to look into specific aspects, a complete coverage would have been made (ref. para. 4.8.9). Also missing were issues relating to finance management (including the BOP and budget support aspects), status and review of audit reports, overall management (or lack there-of) of the operations.

5.3.12 In order to keep the portfolio clean and current, The Bank Group should not allow more than two extensions (one year each) of the closing date of the credit provided that there is good chance of success to carry out the policies within the remaining period. Otherwise, it would be better to close the credit even if there is a substantial undisbursed amount.

5.3.13 The Bank was viewed by the borrower as unresponsive during the implementation of the programme. There are several aspects to this issue. Letters were not responded to fast (at all). It is difficult to get the telephone line in the first place and to conclude business over the phone; mutually agreed solution between staff and Government are reversed once staff returns to the Bank Headquarters; staff cannot make even minor decisions on the ground; staff on mission is not helpful if asked for help in some other issues ("… It is not in my terms of reference" is a common response.). These issues need to be addressed.

(iii) **For the Borrower and Bank Group**

5.3.14 Public Expenditure Reviews: Regular review of public expenditure would facilitate better management of existing resources, improve their effectiveness, and present a stronger case for the agricultural and rural sector (ref. 4.5.4). The current MTEF exercise provides a promising opportunity for a holistic review and the MOA&RD should take the challenge. As public expenditures are central for the macroeconomic issues, poverty reduction, institutional strengthening, governance, etc., the Bank should start to play an active role. This would facilitate the understanding and guidance of resource flows to varies key sectors and socio-economic groups to meet the combined goal of growth, stability and poverty reduction goals. Equally important, in a situation where financial resources are fungible, what is important to monitor is the use of the aggregate resource envelope rather than the Bank's projects/programmes in isolation.

5.3.15 TA and Training Components: More concrete targets, supported by a skill needs assessment, will have to be established for such components. Hiring experts and sending staff abroad is the easiest part in the process of capacity building. The most crucial is what they accomplish as a result of the effort (technical skills) and other factors such the incentive structure and working environment. Technical experts, in addition to policy papers (and the like), they have to deliver, should be given specific targets to ensure that they impart sufficient skills to their counterparts, so that the latter would be able to function independently upon the departure of the experts. Targets should also be set for training participants in terms of the quantity and quality of analytical work they would carry out. In this endeavour, the borrower and the Bank should be working together (ref. para.

4.2.12/13).

5.3.16 It would be useful both for the borrower and the Bank if the number of conditions (i.e. mutually agreed policy actions) are limited to a few most critical areas. Too many conditions would be difficult to monitor for the client and to supervise for the Bank (ref. para. 4.8.8). At the same time, it would hold up disbursement and the macroeconomic feasibility of the entire program. This is because the financing gap which PBLs are aimed to bridge is time-bound. If the injection does not occur within the specified time, some other macro-variables will have to adjust (e.g. the exchange rate, or interest rate.

5.4.17 Certain conditions such as " … send a report for comments and review by the Bank" hold both on the borrower and the Bank. Past non-response by the Bank has now created a problem (ref. para. 3.3.4). Since the Bank may have failed to respond in the past, the borrower is not sending reports now on the grounds that they are either read or acted upon. To avoid the recurrence of such problems, the Bank would need to be more responsive, as alluded to above. It is also the responsibility of the borrower to submit the reports, which it has agreed to deliver. It could raise the difficulties it might encounter in preparing the reports at the time of negotiation, but once the agreement has been signed, it is incumbent on the borrower to submit the agreed on reports. The Bank should also be vigilant in dealing with failures to submit reports (and documents). In recurrent cases, it should consider to stop disbursement on all operations if agreed on reports, particularly audit reports, are not received by a particular date(s).

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Retrospective MPDE (Log Frame)					
Heirarchy of Objectives	**Verifiable Indicators**			**Means of Verification**	**Risks/Assumptions**
		Appraisal	PPER		
Overall Goal Economic growth & poverty reduction	GDP growth rate; sectoral distribution Real GDP per capita Urban -- KSh Real GDP per capita Rural -- KSh	1987 4.9 1988 5.1 1989 5.1 1987 11042 1988 10816 1989 10628 1987 1360 1988 1390 1989 1415	1996 4.6 1997 2.4 1998 1.8 1996 8658 1997 8428 1998 8144 1996 1364 1997 1364 1998 1371	CBS Treasury Office of the President – Food Security Unit	
Development Objectives i. Agricultural growth accelerated (maize; dairy) ii. Food security improved;	Growth in Agr. GDP Calorie supply (including imports, non cereals)	1987 4.2 1988 4.6 1989 4.1 1987 na 1988 na 1989 na	1996 4.5 1997 1.2 1998 1.6 1996 na 1997 na 1998 na	CBS MOA&RD Treasury	Growth in other sectors maintained Stable external TOT
Outputs i. Relative producer prices improved (Maize & Dairy products)	Agr TOT,	1987 1.03 1988 1.03 1989 1.01	1996 1.12 1997 1.03 1998 0.96	MOA&RD data base Central Bureau Statistics	Adequate storage (incl. Farm level) ensured; Draying,milling capacity availed

	DAP fert Kg per bag of Maize	1987 23.4 kg 1988 22.4 kg 1989 17.3 kg	1996 25.0 kg 1997 45.1 kg 1998 43.0 kg	(CBS) Famine Early Warning System (FEWS) Kenya Revenue Authority (KRA)	Education in nutrition provided Limited crop substitution in production; Post-harvest credit existed
	Real price Livestock (Index, 1982= 1.0)	1987 na 1988 na 1989 na	1996 0.94 1997 0.70 1998 0.82		Non-farm income increased Labor shortage avoided Physical and institutional infrastructure rehabilitated
	Maize prod Million bags	1987 na 1988 29 1989 25	1996 24.0 1997 24.6 1998 27.0		
ii. Private participation in maize, dairy, fertilizer marketing increased;	NCPB's Margin (% of of sales price)	1987 51 1988 59 1989 45	1996 48 1997 –3 1998 13		
iii. Uptake of fertilizer increased;	Fertilizer uptake (000 tons)	1987 233.8 1988 202.8 1989 298.7	1996 313.9 1997 254.0 1998 255.0		
iv. Efficiency and effectiveness of Public exp improved	Public Exp in agri	1987 na 1988 na 1989 na	1998 2.4 1999 4.1 2000 3.0		
Activities (Inputs) i. NCPB & Maize sector reforms ii. Dairy sector reforms iii. Fertilizer sector reforms iv. Improving public exp. allocation & efficiency v. studies on food security, nutrition, impacts of reform; & action plan to mitigate impacts vi. Capacity Building & TA for several agencies, incl. MOA&RD	No. of studies conducted No. of short & long term training (Foreign) Local training	UA 23.05 Million credit UA 1.38 Million TAF	UA 23.05 million UA 0.61 million 9 people 8 people 15 people	ADB records BOT records MOA&RD records Treasury Records	Good weather condition assured Stable domestic & international prices maintained Stable political conditions prevailed Commitment to/ownership of policy reforms by GOK Consultants recruited & put in place on time Training participants selected on sound criteria

RECOMMENDATIONS AND FOLLOW UP ACTIONS MATRIX

Policy Area	Key Recommendations	Follow Up Actions	Responsibility
(i) Improve Incentives to maize and dairy producers through market liberalisation, and through more improved and better co-ordinated gathering, synthesis and dissemination of market information.	(i) GOK should take a clear stand and implement its policy to limit the role and status of NCPB to maintaining and managing the strategic grain reserve (SGR), and remove NCPB's intervention in the maize market. (ii) Government should stop its interference, in otherwise effective institutions such as co-operatives. (iii) As the regulatory body, KDB would need to be strengthened to play a more supportive role in a liberalised market environment.	(i) Resolution of the constraints in maize marketing would need an amendment of the relevant bills as well as removing the unnecessary storage facilities away from NCPB. (ii) Co-operatives such as Kenya Co-operative Creameries (KCC in dairy sector) and Kenya Farmers Association (KFA for farm input) should be allowed to operate independently and to be managed more professionally. (iii) KDB should review its policy stance on veterinary services, thereby identifying those that can be provided by private sector, and those that have a public good nature.	GOK, MOA&RD, NCPB, KCC, KDB
(ii) Improve the supply and availability of fertiliser at the farm gate and promote its efficient use.	(i) Fertilizer private market should be more encouraged but carefully monitored in order to avoid the emergence and adverse effect of	(i) Importers should be encouraged to purchase in bulks in order to enjoy economies of scale. However, local distributors should supply to farmers	MOA&RD, KFA, KARI

	monopolistic or oligopolistic tendencies. (ii) Identifying fertilizer types that match specific soil conditions of Kenya would need to move from the research stage at Kenya Agricultural Research Institute (KARI) to actual farm-level application.	in affordable smaller packages, say, of 5 or 10 Kg-bags.	
(iii) Improve the selection and management of public investments within the sector	(i) Public expenditure should be reviewed regularly in order to facilitate better management of existing resources, improve their efficiency and effectiveness, and improve resource allocation within sectoral priorities. (ii) A public expenditure review for the sector should be launched shortly to feed into the next update of MTEF.	(i) MOA&RD should take an active role in the next country update of MTEF. (ii) MOA&RD should intensify internal co-ordination in resource allocation and promote more effective collaboration with other sectors. (iii) Regularly monitor the progress in the effectiveness of collaboration	MOA&RD,
(iv) Develop targeted measures to address poverty and protect vulnerable groups.	(i) RMCs should monitor the impacts of reforms and implement the action plan to mitigate the negative effects, and improve food security and nutrition among the vulnerable groups. (ii) Co-ordinate with and embrace national agencies (other than the executing/implementing agency) that are either affected by the programme or are responsible for poverty monitoring and intervention.	i) Identify all vulnerable groups likely to be affected by the reforms and determine how they are impacted and the degree of the impact (positive as well as negative). ii) Make them aware of their involvement (i.e. that they are impacted and the extent of the impact). iii) Solicit their reaction and co-operation	**GOK** **OCDs**
(v) Develop institutional capacity in data collection,	(i) More concrete targets supported by skill needs assessment should be	(i) Technical experts, in addition to policy papers that they have to deliver, should be given	RMCs **OCDs**

policy planning, sector management and implementation in the agricultural sector.	established.	specific targets to ensure that they impart sufficient skills to their counterparts. (ii) Targets should also be set for training participants in terms of the quantity and quality of analytical work they would carry out. In this endeavour, the borrower and the Bank should be working together.	
(vi) Policy Actions (conditions) which are mutually agreed between the borrower and the Bank should be limited to a few most critical areas	(i) Design and specify conditions in adjustment and other lending operations.	i) Limit the number of effectiveness and second tranche conditions (5-7 conditions) ii) Define the policy conditions very precisely; e.g. what constitutes meeting conditions, what should government produce to show that a particular condition has been met, which department in government is responsible for meeting that condition, etc. iii) use "side notes" that would form an integral part of an Appraisal reports and Loan Agreements to spell out the details of the conditions as in (ii) iv) shift from promises to actual performance for tranche releases	**CLEG** **OCDs** **OCOD**
(i) Economic and/or sectoral baseline studies do improve programmes' quality at entry.	(i) To improve on programmes' quality at entry, prior to programmes' formulation, economic and/or sectoral baseline studies should be carried out.	(i) Identify and define opportunities and constraints in the sector that would determine the scope of the programme's operations.	**RMCs** **OCDs**

EVALUATION CRITERIA

{PRIVATE} No.	**Component Indicators**	**Score (1 to 4)**	**REMARKS**
1	**Relevance and quality at entry assessment**	**3**	**Satisfactory**
i)	Consistency with country overall development strategy	3	Consistent with objectives of Sessional Paper I and Sixth Five Years Plan; but ASAO II focussed most on food crops.
ii)	Consistency with Bank Assistance Strategy	3	Policies and lending program in EPCP (1989-91) indicates that agriculture would be one of the sectors to be targeted. Bias in favour of a quick disbursing operation is demonstrated.
iii)	Macro-economic Policy	3	Exchange and credit markets liberalized; Central Bank fairly independent. Price stability central in policy.
iv)	Sector Policy/Poverty Reduction	3	Three quantitative and two qualitative poverty assessments done; Poverty (welfare) monitoring system in place
v)	Environmental Concerns	3	Given land constraint, agric. policy emphasizes intensification.
vi)	Human Resources/Institutional Development	3	Provided grant for TA and capacity building in policy analysis, and project evaluation. For 3 Ministries; Instrumental in orienting new recruits of GOK to its policies and practices.
vii)	Private Sector Development	3	Liberalized maize marketing; aimed to increase volume of inter-regional crop movement by private sector.
viii)	Quality at entry (including demandingness, complexity, riskiness, etc.)	2	GOK has a long history (since 1944) of policy reversals in agricultural marketing policy. Policies were again reversed during ASAO II to delay entry by over a year.
2	**Achievement of objectives &**	**2**	**Unsatisfactory**

	Outcomes ("Efficacy"		
i)	Agricultural & ASAO II Policy Goals	2	NCPB still plays major role in maize marketing in spite of policy statements to the contrary. The co-op sector has almost collapsed due to GOK's interventions; by default, the private sector is taking more share; Fertilizer market has been liberalized, but sectoral monitoring is weak; weak public expenditure review in MOA&RD; Despite the introduction of MTEF, more PER work is required. Many GOK institutions involved in poverty reduction and food security work, but situation has worsened.
ii)	Institutional Development Objectives National, Sectoral & Executing Agencies Capacity	2	TA provided some immediate input into policy design and advice; Several local and short- and long-term training provided; trainees not effectively used otherwise; ASAO II not properly monitored and reports submitted mainly on grant component; very limited report on policy implementation.
iii)	Social Objectives and Targets	2	Although Welfare Monitoring System is in place, adequate analyses done, and Poverty reduction Strategy Paper done, all these have not had any effective impact on absolute poverty, which, instead has increased in both rural and urban areas since the mid-1990s.
iv)	Private Sector Development Objectives	3	Fertilizer procurement and distribution is in private hands; Despite lukewarm support, there are more private merchants in the maize sector; By default (bankruptcy of KCC), more private sector involvement in dairy sector.
3)	**Efficiency**	2	**Unsatisfactory** Fertilizer policy has had positive fiscal policy. Competition has reduced prices. However, policies in maize marketing and pricing are uncertain for the private sector to

			make long-term commitments. Dairy policies and management have been ruinous to co-ops and the sector.
4	**Institutional Development Impact (ID)**	**3**	**Satisfactory**
i)	National Capacity	2	Financial transparency is still lacking despite the existence of working FMIS at Treasury. Project financial statement (showing inflows and out-flows) was not available for ASAO II. Lack of good governance appears on the papers regularly, and one cannot avoid hear about it. The status of the anti-corruption agency was precarious at the time mission visited Kenya. Relationship between IMF, World Bank, UNDP and other donors was at ebb.
ii)	Executing Agency	3	TA and training provided to three government agencies; study tours conducted; but the impact on sector planning, policy analysis, and project evaluation and monitoring are yet to be seen. More guidance and leadership would need to be provided to otherwise potentially capable participants of the training programs. Co-ordination among Departments and team-work is lacking in MOA&RD. Several re-organizations have taken place affecting the agricultural sector. The orientation aspect of the local training was commendable. Budgeting, financial control, public expenditure management is still weak. Trainees in Monopolies and Price Commission (Treasury) are used in studies pertaining to regulations.
5	**Sustainability**	**2**	**Unsatisfactory**
i)	Technical Soundness (including O&M facilitation, availability of recurrent funding, spare parts, workshop facilities etc.)	3	GOK has started a MTEF. This has provided a forum for official to debate on sectoral priorities and budget allocations. Interim PRSP has been issued, and is said to

			provide the framework for budget allocation. Full fledged PRSP is scheduled to be issued in April/May 2001.
ii)	Continued Borrower Commitment (including legal/regulatory framework)	1	GOK's record and commitment has become contentious.
iii)	Socio-political Support (including beneficiary participation, vulnerable groups protection, political stability)	1	Agricultural sector policies have historically been politicized. While explicit policies are for liberalization, NCPB still plays major role in practice. Stop-and go and policy reversals have been common in the past.
iv)	Institutional arrangements (organizational and management)	2	The current MOA&RD is an amalgam of 4 Ministries, but co-ordination is lacking among the different Departments; relationship seems to be less than harmonious. The co-op sector has been disenfrachised, and co-ops are in precarious situation. Senior management team in MOA&RD (and a couple other Ministries, including Finance) is temporary.
v)	Resilience to exogenous Factors	2	Impact of weather is severe. Current food supply in Northern, Eastern and Coastal areas falls short of demand. Kenya expected to be over 500,000 tons short in maize supplies.
6	**Aggregate Performance Indicator**	**2**	**Unsatisfactory**

Summary of Ratings

Evaluation Criteria	PCR	PPER
Relevance	**Satisfactory**	**Satisfactory**
Achievements of objectives "Efficacy"	**NA**	**Unsatisfactory**
Efficiency	**NA**	**Unsatisfactory**
Institutional Development	**Satisfactory**	**Satisfactory**

Impact		
Sustainability	**Unsatisfactory**	**Unsatisfactory**
Aggregate Performance Indicator	**Satisfactory**	**Unsatisfactory**
Borrower Performance	**Satisfactory**	**Unsatisfactory**
Bank Performance	**Satisfactory**	**Unsatisfactory**

Annex 5

BORROWER PERFORMANCE

{PRIVATE }**Component Indicators**	**Score (1 to 4)**	**Remarks**
1. **Quality of Preparation**: Ownership, Beneficiaries participation Macroeconomic & Sector policies Institutional Arrangements (counterpart funding)	3	Sessional Paper 1 and Sixth Five Years Devt Plan provided the impetus for ASAO II. Macroeconomic policies were sound at Appraisal and on a sound footing now. Foreign exchange and Bank supervision were in bad state in the intervening period.
2. **Quality of Implementation** Assignment of Key Staff Managerial Performance of Executing Agency Use of Technical Assistance Adherence to time schedule & costs	2	The Policy Components were not managed well. There is no record indicating whether the Inter-Ministerial Committee and Technical Committee met to discuss the policy issues under ASAO II. Minutes of discussions they held were not availed. TA has been useful but encountered problems both internally and externally (with ADB practices). A Co-ordinator had been designated for the TA and capacity building. Long delay in start-up due to reversal of policies.
3. **Compliance with Covenants**	1	Problems in submission of audit & progress reports. Similar problems in procurement. How the budgetary support was used is not known; Treasury was unable to produce showing the inflows/outflows of the budgetary support.
4. **Adequacy of Monitoring & Evaluation and Reporting**	2	ASAO II was hardly monitored; M&E at MOA&RD are non-functional due to conflict between different Depts. And lack of cross Departmental collaboration.

		Reporting to the Bank was limited. Quick turn-over of key personnel. Transparency is lacking and information is shared selectively. E.g. unwillingness to share the Dairy Devt Policy of 1999 with the Bank.
Overall Borrower Performance	**2**	**Unsatisfactory**

Annex 6

BANK PERFORMANCE

{PRIVATE }**Component Indicators**	**Score (1 to 4)**	**Remarks**
At Identification/Preparation/Appraisal	3	ASAO II was essentially adapted from the World Bank's operation by the same name. The only difference was ADB's extension to the dairy sector. ASAO II was consistent with GOK's development strategy, and ADB's Agricultural & Rural Devt., Poverty Reduction & Gender strategies, and also the EPCP (1989-91. Relevant to Bank support and timely, but operations lacked sectoral studies underpinning the components. Conditions were relevant but have not gone far enough in the case of NCPB and KCC. Conditions were too many. Combining SECAL (a short-term horizon) with capacity building (long-term) was in appropriate; The two should have been separated and staggered with TA/Cap building preceding the SECAL.
At Supervision	1	Supervision was inadequate – 3 supervisions (including mid-term review) over a period of 8 years. No. of supervision was

		inadequate considering that the period was tumultuous. World Bank withdrew (cancelled over 50 percent of the loan) on the grounds of non-compliance with financial covenants, and GOK's reluctance to implement policies relating to NCPB.
Overall Assessment of Bank Performance	**2**	**Unsatisfactory**

FACTORS AFFECTING IMPLMENTATION PERFORMANCE AND OUTCOME

Factors affecting positively (+) or negatively (-) the implementation and achievements of major objectives

Factors	Substantial	Partial	Negligible	N/A	Remarks
1. Not subject to Government Control					
1.1 World Market prices	-				Depressed world prices for major exports items.
1.2 Weather Conditions	-				Drought
1.2 Bank Performance			-		Delay in the start-up of TAF; Outstanding issues still unresolved.
1.3 Performance of contractors/consultants		-			TAF poorly managed by the Bank; Long delay in implementation. Problems still not resolved. Issue caused problem for the mission; would still affect Bank/GOK relationship.
2. Subject to Government Control					
2.1 Macro policies	-				Liberalization of exchange rate and financial markets started; but inflation worsened as a result of fiscal slippage & monetary expansion.
2.2 Sector policies			-		GOK reneged on the liberalization of maize market.
2.3 Government commitment			-		Commitment was lacking; GOK ‘s stance on the popular request for democratization, consistent implementation of reforms and lack of financial accountability caused major problems.
2.4 Appointment of			-		Several changes in the Ministries

key staff					working on agriculture – partitioning & merger; frequent change in key personnel (e.g. DPDs)
3. Subject to Executing Agency Control					
3.1 Use of technical assistance		+			Technical experts provided advice; Local training useful for orientation; foreign training potentially useful.
3.2 Monitoring & Evaluation (Incl. Programme Management)	-				Only TAF was staffed with a Co-ordinator; No staff was designated to follow implementation of policies; No record on meeting of Committees. Proper M&E were not provided.
4- **Factors Affecting Implementation**					
4.1changes in project scope/scale/design			-		TAF affected a bit by such changes.
4.2 Unrealistic implementation schedule	-				TAF and policy should have been separated. TAF was unlikely to be implemented in two years even without difficulties of start-up.

4.6 quality of management including financial management	-				Audit reports were not submitted regularly. Supervision reports did not examine financial matters. Treasury was unable to produce table of cash inflow/outflow for the project.
4.7 Delays in selecting staff/consultants/ contractors and in receiving counterpart funds	-				Opted for foreign TA first; then local TA. Long delay in getting consultants on board. Problem compounded by Bank's slow response.
4.8 Inefficient procurement and disbursement		-			No record on the adequacy of procurement practices.

procedures					

Annex 8

PERFORMANCE INDICATORS

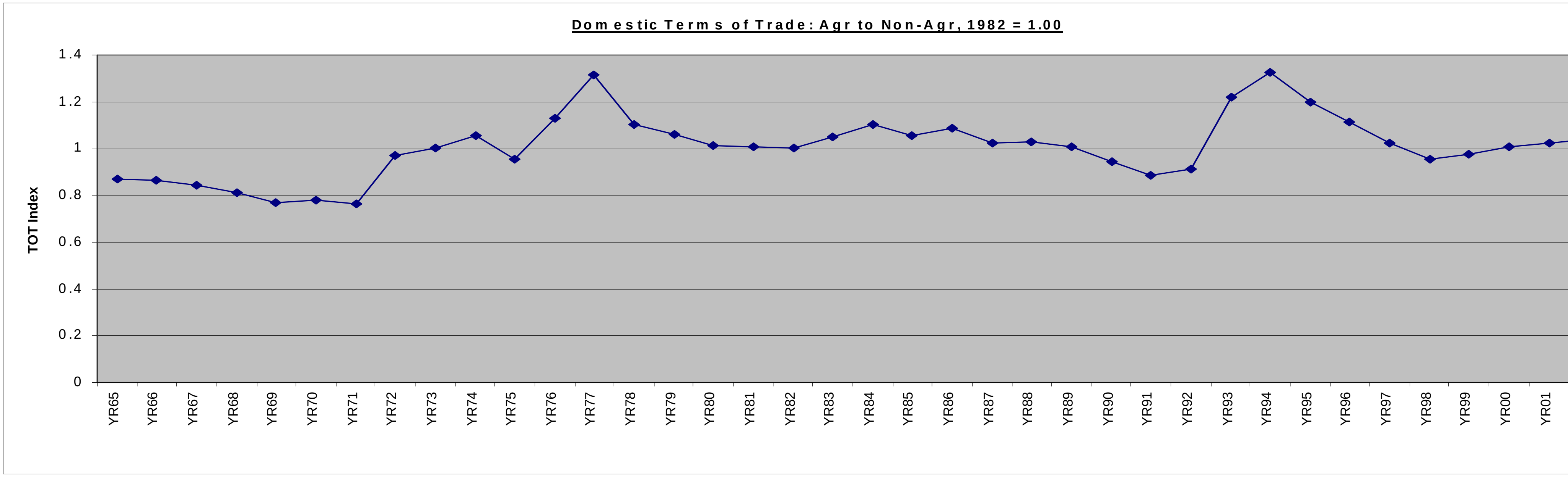
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Maize													
Producer Price (NCPB) - 90 Kg. Bag	188	201	221	250	360	600	862.5	920	600	1127.35	1162.4	1009.1	1200
Selling Price (NCPB) - 90 Kg. Bag	284	320	320	320	415	670	892.5	1280	887.4	1099.55	1318.53	1208.6	1436
Producer Price (PCR)/1 - 90 Kg. Bag	188.10	194.50	247.00	235.50	275.00	427.23	729.36	855.00	720.00	949.50	1235.88	1155.96	
Price of Fertilizer (DAP), - 50 Kg. Bag	401.54	449.57	637.37	825.09	1014.90	1301.36	1130.00	1380.10	1199.73	1249.89	1350.24	1100.08	
Saler Margin (Percent)	51.06	59.20	44.80	28.00	15.28	11.67	3.48	39.13	47.90	-2.47	13.43	19.77	
Non-Agric. GDP Def.	1.74	1.92	2.15	2.45	2.85	3.27	3.73	4.20	4.85	5.62	6.10	6.38	19.67
Real Producer (NCPB)	107.98	104.83	102.60	101.84	126.33	183.21	231.52	219.00	123.78	200.77	190.42	158.16	6.66
Real Producer (PCR)	108.03	101.44	114.67	95.94	96.51	130.46	195.78	203.53	148.54	169.10	202.46	181.18	
Kg of DAP per bag of Maize/2	23.41	22.35	17.34	15.15	17.74	23.05	38.16	33.33	25.01	45.10	43.04	45.86	180.26
NCPB Purchases, Mil Bags	5.3	7.1	6.1	2.6	3.5	5.4	5.1	5.9	1.1	0.7	2.6	1.1	
Sales, Mil Bags	6.6	6.7	5.5	8.2	8.1	2.8	5.6	1	4.5	2.3	0.2	1.3	
Production, Mil Bags (MOA&RD)													
(Calendar Yr, 1988/89 = 1989)		29	25	26	27	19.5	34	30	24	24.6	27		2.4
Production, Mil Bags (Econ. Survey)				25.44	22.05	23.4	18.87	29.99	24	24.6	27.3	25	1.6
As a proportion of Production Data from MOA&RD													
Proportion of Purchases in Prod.(Percent)		24.5	24.4	10.0	13.0	27.7	15.0	19.7	4.6	2.8	9.6		
Proportion of Sales in Prod. (Percent)		23.1	22.0	31.5	30.0	14.4	16.5	3.3	18.8	9.3	0.7		
Dairy Products													
Price Index: Livestock & Products (Proxy)				197.6	211.6	276.7	321.5	409.6	457.7	393.9	500	497.7	
Index of Real Prices (1982 = 1.00)				0.80	0.74	0.84	0.86	0.98	0.94	0.70	0.82	0.78	

/1 Data given per 100 Kg in Source; converted to 90 Kg bag. Provided in PCR, Table 4.10, No source cited.

/2 At NCPB's Prices.

Source: NCPB, Data provided to the Mission (prices, and quantities of purchases and Sales), MOA&RD, Production Data & Price of DAP;
Economic Survey, as reported in PCR for 1990/91 - 1993/94, and Central Bureau of Statistics, Economic Survey - 2000, for data beyond 1993/94.

Annex 9



Domestic Terms of Trade: Agr to Non-Agr, 1982 = 1.00
TOT Index
1.4
1.2
1
0.8
0.6
0.4
0.2
0
YR65
YR66
YR67
YR68
YR69
YR70
YR71
YR72
YR73
YR74
YR75
YR76
YR77
YR78
YR79
YR80
YR81
YR82
YR83
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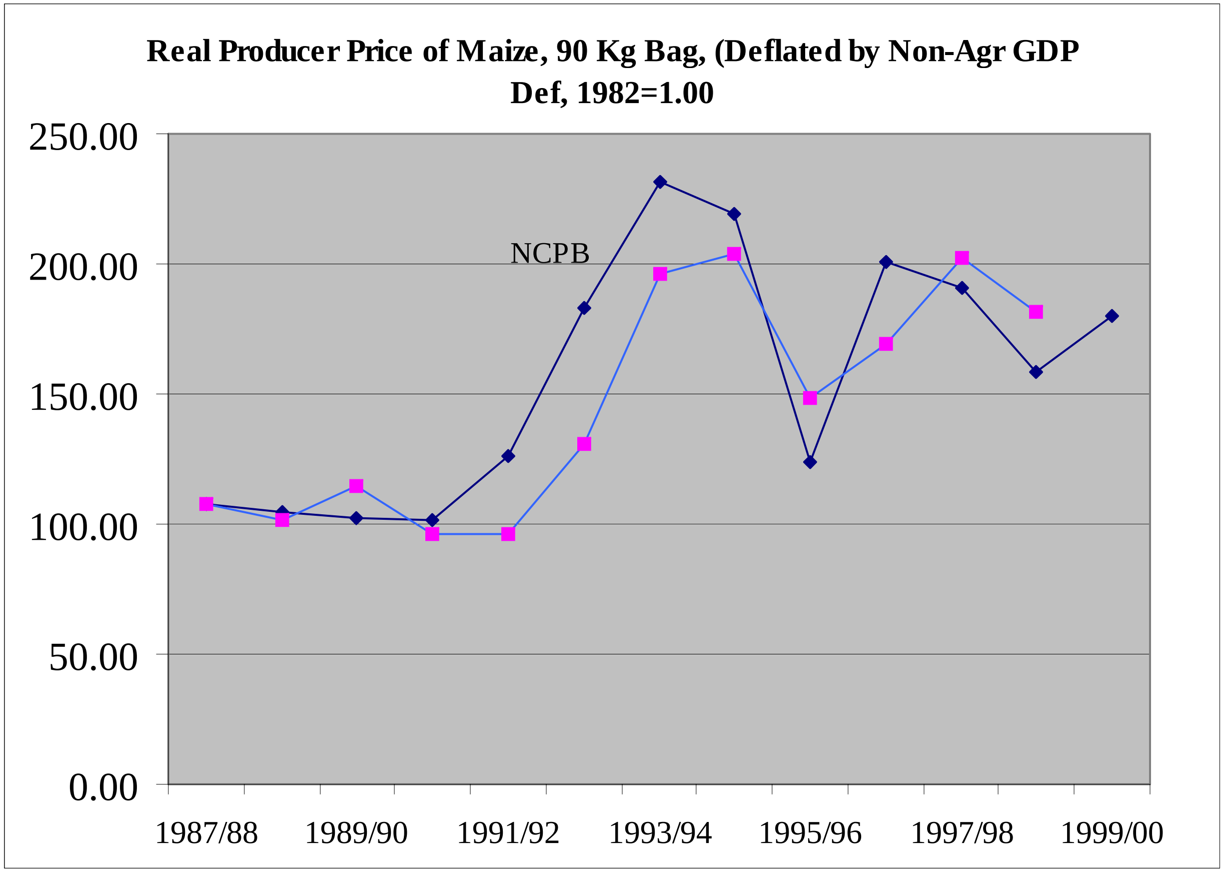
YR00
YR01

Annex 10


Real Producer Price of Maize, 90 Kg Bag, (Deflated by Non-Agr GDP Def, 1982=1.00
NCPB
250.00
200.00
150.00
100.00
50.00
0.00
1987/88
1989/90
1991/92
1993/94
1995/96
1997/98
1999/00

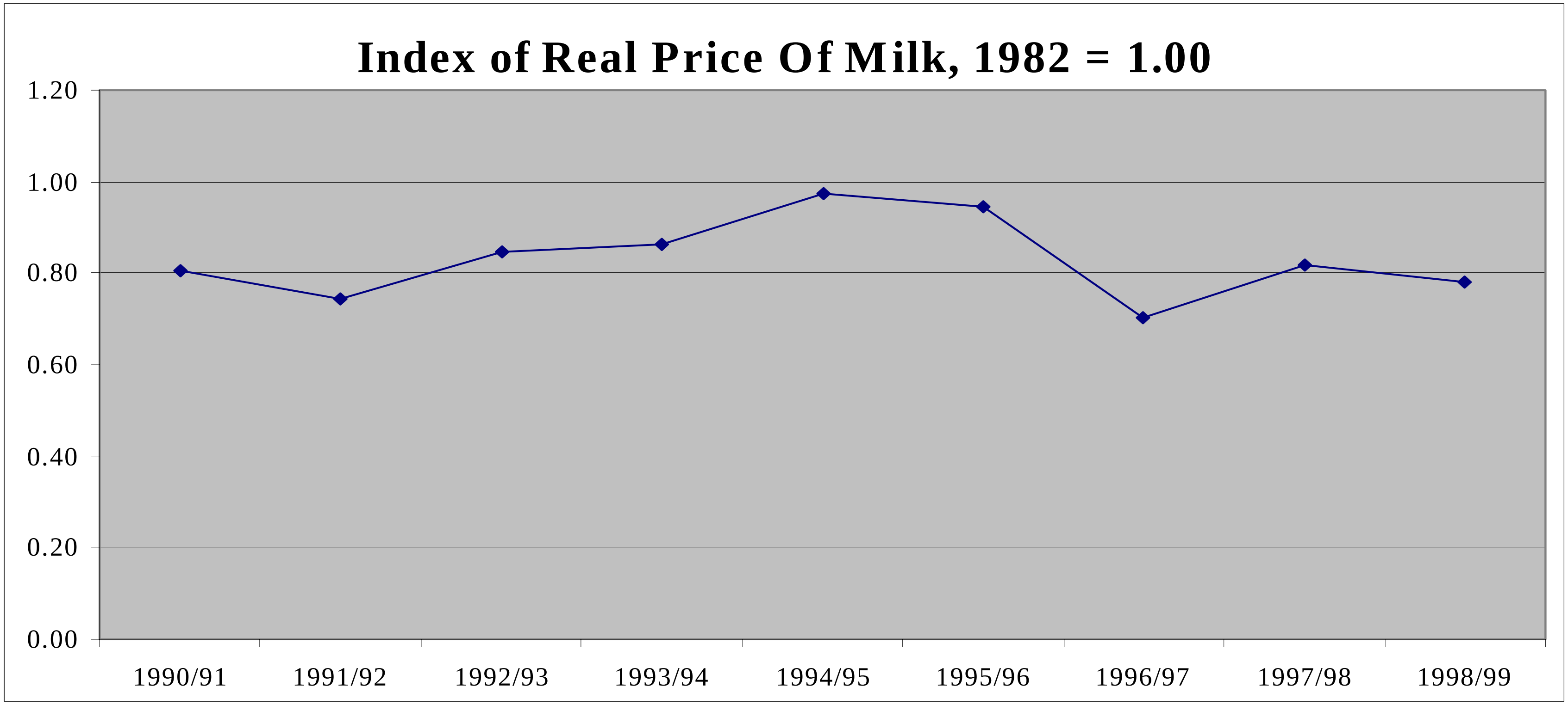
Annex 11

FERTILIZER UPTAKE: DONOR VS COMMERCIAL IMPORTS, 1982 – 2000 (FERTILIZER MATERIAL) IN METRIC TONNES

Year	Commercial Imports	Donor	Total	% Donor
1982/83	150500	54671	205171	26.6
1983/84	188160	25148	213308	11.8
1984/85	133324	73100	206424	35.4
1985/86	199552	451589	345141	42.2
1986/87	166849	67000	233849	28.7
1987/88	65403	137362	202765	67.7
1988/89	134077	164640	298717	55.1
1989/90	101119	109769	210888	52.1
1990/91	116550	106912	223462	47.8
1991/92	174965	69100	244065	28.3
1992/93	175673	72143	247816	29.1
1993/94	205713	104000	309713	33.6
1994/95	252772	24000	276772	8.7
1995/96	261168	52756	313924	16.8
1996/97	228044	25978	254022	10.2
1997/98	233414	21630	255044	8.5
1998/99	240786	24186	264972	9.1
1999/2000	337524	21120	358644	5.9

Source: MOALD&M

Annex 12


Index of Real Price Of Milk, 1982 = 1.00
1.20
1.00
0.80
0.60
0.40
0.20
0.00
1990/91
1991/92
1992/93
1993/94
1994/95
1995/96
1996/97
1997/98
1998/99

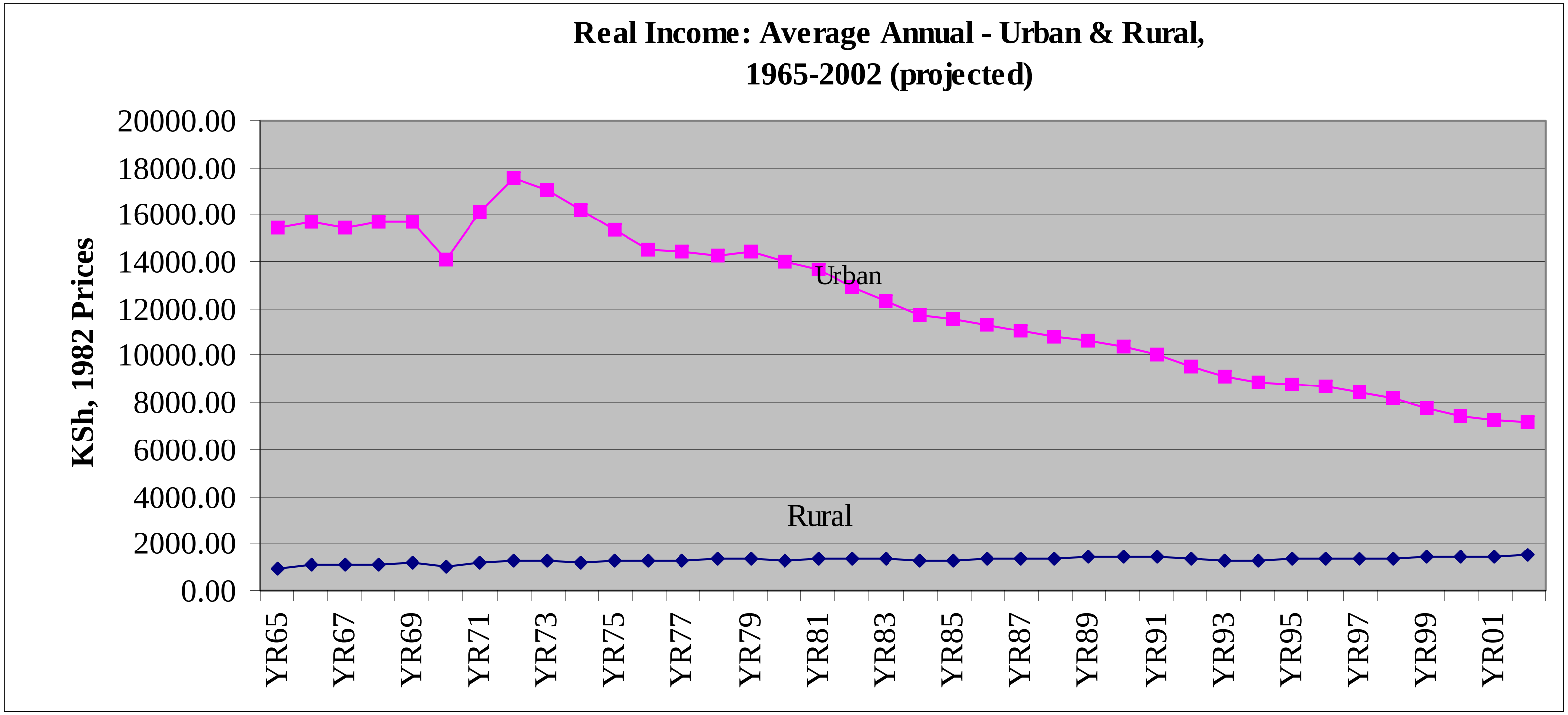
Annex 13

RECURRENT & DEVELOPMENT EXPENDITURE: AGRICULTURAL SECTOR

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
Recurrent – Agriculture	5278	5014	6043.8	5533.6	6427.7	6764.1
MOA&RD			5204.5	5533.6	6427.7	6764.1
MOA	3652	3634				
MCD	360	306				
MRD	396	388				
MOL&S	870	686	839.3			
Development - Agriculture		3436	2159.6	1719.9	5562.9	5203.9
MOA&RD			2144.6	1655.9	5562.9	5203.9
MOA		3288				
MCD		50				
MRD		78				
MOL&S		20	15	64		
Total Discretionary (Recurrent)	108214	105400	111526.7	134642.1		
Non-Discretionary (Recurrent)	114662	88444	117514.9	116264.6		
Total Development		14684	13001.1	15305.2		
Grand Total	222876	208528	242042.7	266211.9		
Total : Agriculture	5278	8450	7349.1	7189.5	11990.6	11968
As % of Total	2.37	4.05	3.04	2.70		

Source: Republic of Kenya, Estimates of Recurrent and Development Expenditures, Several Volumes,
(1999 to 2000), 1998-99 in Mil K£, Mil KSh thereafter.

Annex 14


Real Income: Average Annual - Urban & Rural,
1965-2002 (projected)
KSh, 1982 Prices
20000.00
18000.00
16000.00
14000.00
12000.00
10000.00
8000.00
6000.00
4000.00
2000.00
0.00
Urban
Rural
YR65
YR67
YR69
YR71
YR73
YR75
YR77
YR79
YR81
YR83
YR85
YR87
YR89
YR91
YR93
YR95
YR97
YR99
YR01

Annex 15

SHORT AND LONG TERM TRAINING

No.	Name of Trainee	Duration of Training	Subject of Training	Name of Training Institution	Sending Agency	Current Position of Trainee	Remarks
1.	Mr. O. Kenani	3 months	Project Management	Harvard Institute	MOA&RD	Chief Economist Office of the President	Still in Service
2.	Mr. Rastus Onyuna	3 months	Economics	Economic Institute Colorado	MOA&RD	OP	Still in Service
3.	Mr. Kenagi	3 months	Poverty Alleviation	Bradford University	MOA&RD	Treasury (MOA&RD)	Still in Service
4.	Mr. Gesora	3 months	Poverty Alleviation	Bradford University	MOA&RD	Min. of Lands & Settlement	Still in Service
5.	Mr. Sika Oywa	3 months	Poverty Alleviation	Bradford University	MOCD	OP	Still in Service
6.	Mr. Mbum	3 months	Poverty Alleviation	Bradford University	MOCD	MOA&RD	Still in Service
7.	Mr. S. K. Cheboi	3 months	Economics	Bradford University	Treasury MPC	Power & Lighting	Currently in a Parastatal
8.	Ms. L. K. Mukorona	3 months	Economics	Manchester	Treasury MPC		
9.	Ms. D. W. Keana	3 months	Project Appraisal	Bradford University		Treasury	Still in Service
LONG TERM							
10.	Mr. B. C. O. Nyakwana	1 year	Economics	Economics Institution & Brander's University	MOA&RD	MOA&RD	Still in Service
11.	Mr. J. Mairgin	1 year	Information Management	University of New York	MOA&RD	Retrenched	Still in Service
12.	Mr. F. W. Babu	1 year	Economics	Brander's	MOA&RD	MOA&RD	Still in Service

				University			
13.	Mr. F. W. Musonah	1 year	Economics	Economic Institute / Denver University	MOA&RD	MOA&RD	Still in Service
14.	Mr. S. I. Muiruri	1 year	Economics	Economic Institute	MOA&RD	MOA&RD	Still in Service
15.	Mr. Komen	8 months	Project Appraisal	Bradford University	MOCD	MOA&RD	Still in Service
16.	Mr. Muriilthi		Project Appraisal	Bradford University	MOCD	MOCD	Still in Service
17.	Mr. Kagumei Mari		Economics	Williams College	Treasury MPC	Treasury MPC	Still in Service

Annex 15

LOCAL TRAINING MODULE

No.	Name of Trainee	No. of Modules Attended	Sending Agency	Current Position	Remarks
1.	Mr. S. I. Muiruri	5	MOA&RD	Economist	Performing Well
2.	Mr. J. Kones	4	MOA&RD	Statistician	Performing Well
3.	Ms. Agnes Kamoni	6	MOA&RD	Economist	Performing Well
4.	Mr. P. Ndungu	3	MOA&RD	Economist	Performing Well
5.	Mr. H. Onserio	3	MOA&RD	Assistant Economist	Retrenched
6.	Mr. E. Sigeri	7	MOA&RD	Economist	Performing Well
7.	Mr. Muriilthi	8	MOCD	Economist	Performing Well
8.	Ms. Sarah Muni	9	MOCD	Senior Economist	Performing Well
9.	Mr. Njuguna Wanjonike	9	MOCD	Economist	Performing Well
10.	Mr. Joseph Gichimu	8	MOCD	Economist	Performing Well
11.	Mr. Methews Oluga	4	MPC/Treasury	Economist	Performing Well
12.	Mr. Godfred Kanuki	4	MOA&RD	Economist	Performing Well
13.	Ms. Francisca	2	MOA&RD	Principal Economist	Performing Well
14.	Mr. Gesora	3	MOA&RD	Economist	Performing Well
15.	Mr. Rastus Onyma	3	MOA&RD	Economist	Performing Well