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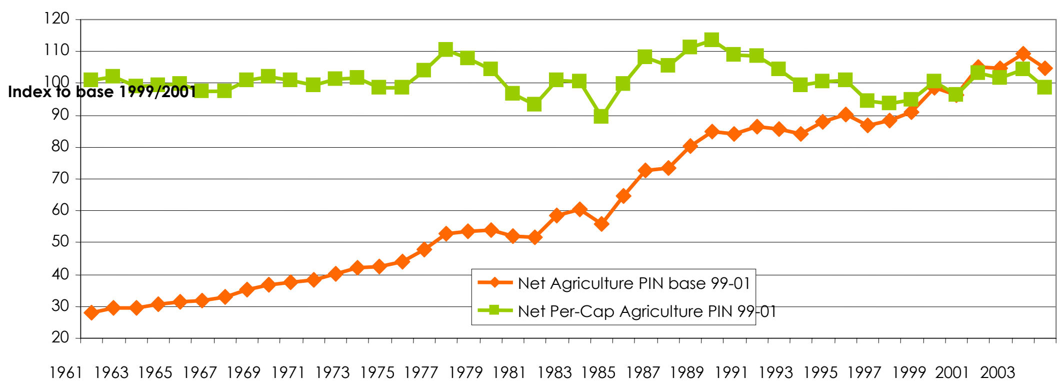
Agricultural development issues in Kenya

The context: flagging growth of farm production

The overall context is the alarming decline in the growth of farm output in Kenya over the last fifteen or more years. As Figure 1 shows, from the late 1980s the growth of agricultural production has stagnated and fallen behind population growth. Production per head of population is now slightly below what it was at Independence in 1964.

Figure 1: Kenya Agricultural Production Indices, 1961 - 2004



The modern Kenyan economy has been built on agriculture, starting with the development of large-scale commercial farms owned by white settlers in the first half of the C20. Following the Swynnerton Plan of 1954, a drive to develop the smaller holdings operated by African farmers began. For almost thirty years thereafter, before and after Independence in 1964, smallholder development in the higher potential parts of Kenya was successful — sufficient to drive agricultural growth ahead of the country's rapid population expansion. Smallholders increased notably their output of coffee, tea, pyrethrum, and cotton for export and produced large amounts of maize, beans, sugar, beef, and dairy for the domestic market.

Government played an active role, organising marketing boards or co-operatives for the major sectors with responsibilities for input supply and marketing; and funding research and extension. Titling of smallholdings began early in Kenya, from 1954 onwards.

But from the early 1980s onwards the model began to fail. Agricultural growth rates fell in the 1980s, and dropped still further in the 1990s, by which time the growth of farm output was lagging behind that of population. Increasingly staple foods had to be imported to make for shortfalls in domestic production. During this time, the few bright points seem to have been limited to horticulture and floriculture for export, and dairy production mainly for national consumption.

The current agricultural strategy

Since the NARC government of President Kibaki took over in late 2002, plans have been drawn up to accelerate the overall rate of growth of the economy, and to promote agricultural recovery in particular. In 2004 the *Strategy for the Revitalization of Agriculture* (SRA) was published.

The SRA has a vision of transforming agriculture into a more commercial and competitive sector, attractive to private investment, that will generate more jobs and incomes. Government's role is as clear as it is restricted to two major roles: to provide a limited range of public goods and services; and to regulate where private self-regulation and industry codes of conduct are not sufficient. In the short term, six 'fast track' activities have been identified:

1. To review and harmonise the legal, regulatory and institutional framework;
2. To improve delivery of research, extension, and advice;
3. To restructure parastatals and ministries for more effectiveness, efficiency and accountability, with non-core functions to be privatised;
4. To increase access to farm inputs and financial services;
5. To formulate food security policy and programmes; and,
6. To improve access to markets, both physical and institutional.

Subsequently more detailed plans have been prepared and a technical unit, the Agricultural Sector Co-ordination Unit (ASCU), established to co-ordinate across the three agricultural ministries — agriculture, livestock and co-operatives — and with others such as transport and water that have close links to the sector. ASCU currently has a director, six professional staff from the three ministries assigned to it, plus a seconded senior researcher from the Tegemeo Institute, and two advisers funded by donors.

The heart of the SRA is to enable the private sector in farming and agri-business to function. This entails at least thee major challenges, namely:

(i) Cutting through the thickets of regulation that surround Kenya farming. Government intervention and support for farming has, over the decades, been underpinned by a series of Acts of Parliament that establish the powers of state agencies and that set the rules. Few of these laws have ever been repealed: more than 130 remain on the statute books. There are numerous provisions for public monopolies of functions, as well as impediments to private enterprise operating in the supply chains. These are in direct antithesis to the SRA.[1]

The ideal would be to repeal the great majority of these acts, and replace them by a single piece of enabling legislation that would set out the limited role of government as seen in the SRA, define the power of the ministers, and allow them to decide on the details of policy. This has proved easier said than done. Parliament has for years been slow to pass legislation, hindered by a three-day working work and at times suspended for lack of a quorum.

(ii) Reforming the parastatals and the agricultural ministries. There are more than 30 public agencies set up in agriculture. Not only are many of their functions redundant in a market economy, but also many run deficits and drain the public purse.

For each agency, functions need to be scrutinised to leave only those that have to be in the public realm; and then plans made to close down, or sell off the parts that are not needed, as well as to make restructuring changes for improved delivery of remaining public roles.

At the technical level, this is a major undertaking. Politically it runs into two obstacles. One concerns the continuing debate on the market economy in Kenya. Notwithstanding the many

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[1] Some of the provisions of the existing laws are ignored in practice, particularly when the liberalising measures of the last decade or so come into conflict with them. But — and here is the devil — if someone in power wants to create problems for those in the agricultural supply chains, it is easy to resurrect the provisions of the law to stop them.

public pronouncements of the need to liberalise and reform, to create conditions for private enterprise, many of the senior civil servants and politicians in the country have barely internalised the message. Their experience and training has been in a world of interventionist government. They are, reportedly, fundamentally mistrustful that private enterprise in a free market will deliver growth and efficiency.

The other problem concerns the political economy. The many public agencies provide great scope for patronage, rent-seeking and for public employment. Were they to be pruned back as the SRA suggests they should, it would drastically reduce the opportunities for rewarding supporters of parties and politicians. The politics of Kenya, moreover, are not only about the distribution of state largesse (see Ng'ethe et al. 2004)[2]; but also about the state taking a leading role in economic matters. Ministers thus feel compelled to react to problems and complaints in the economy and to be seen to be doing something. This is a near universal problem of government, but it is acute in Kenya where the experience and expectations of almost all is of extensive and deep government intervention in economic affairs.[3]

The political economy of reform: the case of maize

The political economy of reform is every bit as difficult as may be imagined. Grain is perhaps the single most sensitive point. Why? Kenya, through the National Cereals and Produce Board (NCPB) pays its farmers one of the highest farm-gate prices in all of Africa — with prices of Kshs1,400 or more per maxi-bag of 90 kg. That is in excess of US$210 a tonne. Although this is not much more than import parity level — assuming supplies from international markets, and Kenya has been running a deficit on maize production for some years now; maize millers reportedly buy in their grain at Kshs900–950 a bag (US$140 a tonne).[4]

How valuable is this support price to maize growers? It should be possible to grow maize at a cost of US$90 a tonne or less. For the commercial maize growers of the Rift Valley, many of whom benefited from land redistribution in the years after Independence, there is thus a rent or producer surplus of US$100 a tonne. Thus a farmer with 20 hectares under maize, producing a modest 2.5 t/ha, would thus turn a profit of US$5,000. There are many growers who have ten times this area under hybrid maize: many of them well-connected business persons or politicians. It is easy to see why complete liberalisation of grain markets and the privatisation of the NCPB, a measure that donors have attached to three or more loan agreements, has been resisted.[5]

It is thus no surprise to hear that the maize producers' association holds regular meetings with the minister of agriculture.

The problems here are not limited to the parastatals: it concerns the central ministries as well. These have traditionally been leading players in agricultural development — organisers of supply chains, implementers of ambitious development programmes and projects — and not as facilitators. The first instincts of many technocrats is thus to intervene and direct. Getting the necessary change of culture in the ministries will be no easy matter.

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[2] Ng'ethe, Njuguna, Musambayi Katumanga & Gareth Williams, 2004, *Strengthening the Incentives for Pro-Poor Policy Change: An analysis of drivers of change in Kenya*. Summary report, May 2004

[3] These instincts are not without foundation. For those old enough to remember, the 1960s and 1970s represent a golden age of economic and agricultural growth; and one in which the state was active and interventionist. The 1990s, in contrast, can be seen as lost decade of economic decline as ill-considered liberalisation was imposed to satisfy the donors.

[4] Assume that millers are sourcing regional imports of maize at lower import costs.

[5] The cost to Kenya must be substantial. With domestic maize production at over 2M tonnes, assuming (a) that perhaps 25% of maize is marketed, and (b) that the NCPB pays US$50 a tonne over the odds, then the total cost would be US$25M a year.

(iii) Solving failures in the supply chains. It would be naïve to think that liberalisation will solve problems and not create some. Kenya has already seen that some functions can be left orphaned by the market: the provision of artificial insemination services being a case in point. Hence there is a public agenda of helping solve market failures in supply chains. In many cases, this means government playing a facilitating role, one for which the ministries have relatively little experience.

Kenyan agricultural reform: the state of play

Despite its importance, little progress has been made on implementing the SRA since its publication almost two years ago. ASCU, revamped in the last couple of months with a new director of greater experience and seniority than the previous one, has a plan of action but staff are clearly still uncertain about how to take matters forward. The immediate issue concerns the plan to have Thematic Working Groups (TWG) for each of the six key areas of the SRA — with those dealing with the legal, regulatory and institutional framework, and with research, extension and advisory support services, being selected for early action.

The TWG are intended to be fora where stakeholders can express their opinions: indeed, the private sector is meant to chair the Groups. But who should be on the groups, and how many? For efficiency and promptness, small groups are indicated — less than 10 members. But to reach consensus and to enlist broad support for difficult and contentious measures, a larger group would be preferred.

Other recent developments in agricultural policy

The three sets of actions outlined above would be difficult enough, but to complicate matters in the meantime everyday policy-making can run directly counter to the long run ambitions of the SRA. As might be expected in a government with no less than 80 ministerial posts, policy-making can proceed piecemeal.

In agriculture, yet more Bills for reforming particular commodities enter the pipeline while the SRA calls for umbrella legislation to reduce the 130 or more acts that govern the sector. There are two, apparently contradictory bills in the pipeline for cotton, with a private member's bill ahead of the official government bill.

At least three parastatals that had been effectively left to fade into the background in the later years of the Moi administration are apparently being revived. The *Kenya Meat Commission* (KMC) is expected to reassume its leading role in beef marketing and processing. The *Kenya Co-operative Creameries* (KCC), sidelined in the successful dairy market liberalisation of the 1990s, is to re-enter the market for milk competing, perhaps with the aid of state subsidies, with private buyers and processors in the same dairy catchments. The *Agricultural Finance Corporation* (AFC), nominally meant to channel funds to smallholders but which reportedly tends to led heavily to the more favoured farmers, is to get a substantial injection of public funds to expand its activities.

Drought has hit hard in the last year. In the drier parts of the country the short rains of late 2005 failed. In a familiar scenario, pastoralists are selling off their hungry livestock. Government is responding with food aid — should it be food-for-work? — shipments of hay, drilling of wells (Army), while there is clamour for KMC to buy up livestock. Oxfam ponder cash transfers for Turkana and the north. Concern is real and widespread: domestic donations have come from sources as diverse as the Safaricom cell phone company and prison inmates who have donated one meal.

Other developments could represent distractions from the central business of the reforming institutions. A new food security initiative, **Njaa Marafuku Kenya** (NMK, 'drive hunger out of Kenya'), has been launched by the President. The Ministry of Agriculture is to implement it through a unit that appears to lie outside the ASCU. NMK, to be sure, can be seen as the concrete realisation of the fifth set of priority actions in the SRA, those concerning food security, but it could draw political and administrative energies away from the central concerns of the SRA.

In similar vein the efforts of the **Millennium Development Group**, promoted through the Millennium Task Force could, while valuable in combating food security, take attention away from reforms. The Group thinks that, to achieve the MDGs for Kenya, a green revolution is essential to boost food production, including in some of the poorest parts of the country in Western Kenya. While the aim may be commendable, the concern is that so far the main device to achieve this is through large-scale public distribution of seed and fertiliser at considerable expense, potentially undermining efforts to develop private input supply, and creating a pool of resources for political patronage. These potential pitfalls can be avoided — by, for example, attracting external funds that would otherwise not flow to Kenya, by working with private dealers and traders, and by using rigorous systems to control and account for funds. Less easy to counter is a fourth danger: that the programme allows public agencies to withdraw from the challenging agenda sketched out for the SRA, and to revert to former operating modes with large-scale programmes of direct public measures to promote crop farming.[6]

[6] Setting up and implementing such programmes can be far more attractive than working on a agenda of reform and facilitation. The problems — largely those of logistics — are clearer, bounded, and more tangible. Progress is visible and measurable. For civil servants and politicians there are clear rewards of being seen to have done something. Reform, in contrast, involves messy problems with few boundaries, political risks, and where the relation of effort to achievement can be difficult to see.