Proposal for additional Bank/Trust Fund Budget for Poverty and Social Impact Analysis – FY06

Name of Proposal:   Reform of the Kenya Commodities Markets
Task Manager's Name:   Paul Francis, Madhur Gautam, Praveen Kumar
Dept/Div:    AFTS2 / AFTP1
Total Amount:   $60,000
Fund center (OUI #):  6571

A. Description of the policy reform for PSIA and rationale for selecting this reform

Objective of the work: The Kenya PRSC1 proposes selected reforms in the area of commodities markets. In particular, maize, pyrethrum and coffee are being considered for further liberalization measures to remove or reduce the role of remaining monopolistic entities, such as crop boards and cooperatives that control marketing in the sub-sectors. The goal is to remove market distortions to increase the efficiency of the sectors and remove interventions often times biased against small holder farmers.

To ensure an optimal design of the reforms as well as their political viability additional analytical work to inform the policy dialogue with the client government is required. It will be necessary to assess the roles of the various monopolistic entities functioning in the respective sectors, the potential impacts on the services they currently provide to farmers, and context of political economy in which the operate. For this purpose a PSIA of the potential reform areas is proposed. Specifically, the PSIA should:

♦ Evaluate the efficacy of the Kenyan coffee cooperatives, the services provided to farmers and the potential impacts of the liberalization of the sector (i.e. allowing farmers to sell to buyers of their choice) on the cooperatives and its broader implications for farmers. For this purpose, existing alternative but currently “illegal” marketing channels should be identified and assessed relative to the marketing services provided through the cooperatives. The assessment should look at the likely impact on farmer revenues, timing of delivery of payment to farmers, access to output and input marketing to farmers, and access to other services, such as advisory and credit. Finally, a stakeholder analysis should be conducted with the objective of ensuring the political viability of the reform.

♦ Evaluate the role of the Kenyan pyrethrum crop board, the services it provides to farmers and the potential impacts of the liberalization of the sector on the marketing and processing of pyrethrum, and its broader implications for farmers. In particular, it should be assessed what role the centralized processing and marketing structure has had in the recent reductions in pyrethrum exports and the potential advantages and disadvantages of a liberalized market on restoring exports.

♦ Evaluate the role of the National Cereal Producer Board (NCPB), the services it provides to farmers, and the potential impacts of the liberalization of the sector on the NCPB and its broader implications for farmers. Here it will be of particular
interest to assess regional and other biases (i.e. against smallholder farmers) in the NCPB’s interventions. It should be assessed who are the main beneficiaries and the main losers of the current arrangement. This part of the study will build on an existing study on the impact of NCPB on maize markets, in particular on maize prices and their volatility. The study findings are tentative given data limitations, but indicate that NCPB activities are likely raising market prices for maize. While good news for farmers, it is not so good news for consumers and small farmers who are net buyers. More generally, it is not evident as to who the main beneficiaries of the activities of NCPB are (large farmers or particular localities). It will be important for the PSIA to get a better understanding of farmer views as to the benefits or costs associated with NCPB activities.

**Government priority:**
These reforms are among the key areas for action under the government’s Strategy for Revitalization of Agriculture (SRA). SRA is the sectoral counterpart to the Economic Recovery Strategy and one of its main pillars for poverty reduction and broad based growth.

**B. Operational instrument to which PSIA would be linked (CAS, CEM, PRSC, PA, PER, etc.) and its TTL**

*The work is directly linked to the Kenya PRSC1 (TTL: Mr Frederick Kilby):*
The findings of these PSIAs will benefit the design and policy dialogue in the context of PRSC 1, now in preparation. This work will significantly complement the ongoing ESW on Agricultural Policy Review (TTL: Madhur Gautam), which is designed to identify key policy reforms and an action plan for the implementation of the Government’s SRA. These PSIAs are explicitly referenced in the Policy Review as being high priority for this year. The broader strategy for agricultural growth, including the key policy reforms and actions that underlie the growth strategy, will be a central theme of the upcoming CEM (TTL: Praveen Kumar) for Kenya, scheduled for FY 06. The budgetary implications from the reforms of the crop boards, currently a major part of the MOA budgets, will have significant implications for PE rationalization and will thus also feed into the sectoral and overall PERs.

**C. Description of proposed analytical work:**

* a. data, methodology, tools*
The proposed PSIA will have two main elements. First, a **stakeholder analysis** will identify the different groups that will affect and are affected by the reform of the coffee market. Second, a **social impact analysis** will be used to assist policy makers to identify impacts of the reforms on producers. The analysis will involve both qualitative data collection and analysis based on key informant interviews and focus groups as well as a limited quantitative survey that would be representative in the coffee, maize, and pyrethrum sectors. Data collection will be conducted in 4 districts and 3 sites per district. The social impact analysis will rely principally on primary data collection but will also benefit (especially in the case of maize) from the existence of large quantitative surveys on prices.
and marketing. The approach will involve collaboration and partnership with local authorities and stakeholders to ensure country ownership and capacity building.

b. timeframe

<table>
<thead>
<tr>
<th>Month</th>
<th>Activities</th>
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<tbody>
<tr>
<td>September 2005</td>
<td>Identification and contracting of consultants</td>
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<tr>
<td>October 2005</td>
<td>Bank mission to Tanzania to work with consultants to design quantitative and qualitative survey instruments, carry out related PSIA training, and meet with Government partners and other stakeholders Field work and data collection</td>
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<tr>
<td>November 2005</td>
<td>Data analysis Report writing</td>
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<tr>
<td>December 2005</td>
<td>Policy dialogue and validation of findings with Government partners and key stakeholders</td>
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<tr>
<td>January 2005</td>
<td>Finalization of report and policy options</td>
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D. Plans, if any, to involve local agencies

Throughout the study, the study team will liaise with the following Kenyan authorities and stakeholders: the Ministry of Agriculture; the Ministry of Cooperatives; the Ministry of Finance; Tegemeo Institute of Agricultural Policy and Development, Egerton University; University of Nairobi; Kenya Institute of Policy Research and Analysis (KIPRA); crop boards; producer and trader groups (including women’s organizations), community groups and Donors.

E. Planned activities to engage with national authorities and other national stakeholders (on selection of reform, choice of approach, dissemination of results, etc.)

The team will collaborate and partner with the above mentioned groups and stakeholders as appropriate on the design of the study, the review of the TORs, the discussion of the study findings, and the review of policy options. Groups of parliamentarians, whose constituencies have respective interests in the commodities concerned, will be engaged, in dialogue. The Bank team will contract the one of the research bureaus listed above to carry out the social impact analysis, as well as the preliminary stakeholder analysis, based on experience and capacity (several of them have worked on related commodity marketing work in the past).

F. Deliverables of PSIA by end-FY04 (clarify whether these deliverables are additional, or inputs to other VPU outputs)

- Three separate PSIA reports on coffee, maize and pyrethrum. These reports will examine the effects of removing services provided by cooperatives and crop boards and other impacts on farmers from potential liberalization measures.
### G. Detailed Budget Table for PSIA

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<thead>
<tr>
<th>Activity</th>
<th>Cost (in USD)</th>
<th>of which:</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>(A) Requested supplementary BB/TF</td>
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<tr>
<td>Local consultants:</td>
<td></td>
<td>(in USD)</td>
</tr>
<tr>
<td>Social Impact Analysis (quant/qual)</td>
<td>50,000</td>
<td>50,000</td>
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<tr>
<td>Stakeholder/ Institutional Analysis</td>
<td>10,000</td>
<td>10,000</td>
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<td>Bank staff:</td>
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<tr>
<td>Preparation of PSIA design (3 weeks)</td>
<td>15,000</td>
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<tr>
<td>Contracting and training of consultants (2 weeks/1 trip)</td>
<td>15,000</td>
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<tr>
<td>Data analysis/Report writing (3 weeks)</td>
<td>15,000</td>
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<tr>
<td>Policy dialogue (2 weeks/1 trip)</td>
<td>15,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>60,000</strong></td>
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