

## **Joint Statement of Development Partners for the Kenya Consultative Group Meeting**

### **Agriculture**

#### **Background and context**

Agriculture is one of the mainstays of the Kenyan economy, accounting for about 25% of GDP in 2002 (including forestry and fishing) and a similar share of formal private sector waged employment. At the same time, however, it is estimated that up to 80% of the population is directly dependent on agricultural activity for their livelihoods. The importance of improving agricultural productivity to the revival of the economy and improving livelihoods was a clear outcome of the PRSP consultations. This has been further elaborated in the ERS.

The sector grew steadily during the first two decades of independence, recording an average growth rate of 5.6% per annum. This declined to an average of 3.5% per annum during the 1980s to about 1% during the 1990s. This decline during the 1990s masks some quite divergent trends in key commodity sectors. For example, tea production and export earnings continued to rise during the 1990s, while coffee production and export receipts declined dramatically.

Land availability and quality are critical factors constraining further agricultural growth. The area under cultivation has effectively extended to its limits, while less than 30% of land is of high or medium potential and some 70% is of low potential, largely corresponding to the Arid and Semi Arid Lands. There are, nevertheless, several structural impediments to improved productivity growth, which, if addressed, could result in a revival in agricultural growth (see key challenges).

#### **Recent developments**

There have been three distinct attempts by the Government in recent years to articulate a comprehensive agricultural strategy. The previous Government began the task of elaborating an Agricultural Sector Investment programme (ASIP) in 1998 with the assistance of a group of donors. This process eventually stalled in mid-1999 when it became clear that there was an unwillingness to address some of the more fundamental structural imbalances that had emerged in the sector. The ASIP process nevertheless usefully highlighted the complexity of restructuring such a broad sector, the centrality of the budget and the need for rigorous economic justification of public expenditures, the value of close GoK/donor dialogue and the slow pace of the transition process.

A revived attempt to develop a stakeholder consensus on a sector-wide approach began in 2001 through the Kenya Rural Development Strategy. The elaboration of the KRDS took a decidedly participatory approach and involved consultations with all sectoral stakeholders. The KRDS was intended to build on the PRSP process that identified agriculture as the main priority.

With the advent of the Economic Recovery Strategy, the Government is currently exploring how to harmonise the KRDS with the ERS. This process is being undertaken with close donor dialogue.

The Ministry of Agriculture share of total expenditure has declined from 6 per cent of total ministerial expenditure in 1998/99 ministerial expenditure in 1999/00 to 3.4 per cent in 2001/02 (tables 24 and 48). This can be partially attributed to changes in portfolio, and liberalisation in the early 1990s that reduced the role of the state.

The Government's reform efforts in recent years have focused on regulatory issues in key commodity sectors (Coffee Act, Sugar Act, Tea Act, review of the Cotton Act etc.). In general, this has sought to limit the Government's role in marketing and sector and create stakeholder organised board structures. Most of the above-mentioned acts date from 2001 and it is of some concern that in some cases there are already calls for their wholesale revision.

Another key theme in the Government's recent efforts to improve agriculture-based livelihoods has been the promotion of food security. This takes as its basis the various successful pilot projects in demand-driven extension and technology transfer that have been undertaken throughout Kenya.

The 2003 Public Expenditure Review notes that the Ministry of Agriculture share of total expenditure has declined from 6 per cent of total ministerial expenditure in 1998/99 to 3.4 per cent in 2001/02. This can be partially attributed to changes in portfolio, and liberalisation in the early 1990s that reduced the role of the state.

At the start of the 2002/03 financial year the Ministry was responsible for 40 parastatals. In January 2003, 8 of these, including the regional development authorities, were transferred to the Office of the Vice President. Transfers to parastatals account 23.4% of recurrent expenditure in the 2002/03 budget. In general, many parastatals do not contribute significantly to the Ministry's core functions. A number have serious financial difficulties with periods when they struggle to pay salaries and default in the payment of statutory deductions, for example to the national Social Security Fund (NSSF).

The Government clearly recognises that decisive measures should be undertaken to revive the agricultural sector. Recent policy statements and announcements have, however, tended to follow populist solutions to some complex problems. The revival of the Kenya Meat Commission has been advocated as a solution to the problems of the livestock sub-sector, while the introduction of a Minimum Guaranteed Return has been promoted as a means of improving livelihoods for selected crop farmers. Furthermore, the lack of access to rural financial services has seen the Government explore the revival of the Agricultural Finance Corporation.

## **Key challenges facing the sector**

The revival in agricultural growth will require significant improvements in productivity that can only be achieved if a number of critical issues are addressed. These include:

- Land fragmentation. There are about three million small farms (less than 20ha) of which 80% are below 2 ha. Many of these small-holders suffer from high costs of production, lack of access to credit and markets;
- Weak extension services and technology adoption. This gives rise to sub-optimal crop development and husbandry;
- Highly variable seed quality. The lack of reliable seed certification introduces additional risk to agricultural activity and an associated lower yield in many crops;
- Inefficient marketing organisation and regulatory frameworks;
- Inefficient animal disease control systems

At the root of many of these problems is the poorly focused structure of the competent ministries' budgets and the corresponding lack of responsiveness of service providers at the local level to farmers' needs. This implies the need for a significant refocusing of competent ministries' activities in line with core functions and improved accountability.

## **Priority actions**

In order to lay the foundations for a well sequence and viable programme of reform that will lead to steady improvements in sector performance, the Government needs to address the following areas as matter of priority:

- **Articulation of a Government Vision for Agriculture**

With the development of the Economic Recovery Strategy, the Government is currently exploring how to harmonise the KRDS with the ERS. This process is being undertaken with close donor dialogue. This should build upon the relevant aspects of the Economic Recovery Strategy Paper, its Implementation Matrix, and consider how the current draft of the Kenya Rural Development Strategy fits in with this overall framework. If the KRDS needs to be adapted, this should be highlighted, and a way forward for developing a coherent vision and strategy for Agriculture and Rural Development should be mapped.

- **Encouraging a dynamic private sector**

Revitalisation of the agricultural sector will be determined in large part by the response of the private sector. More generally, there is substantial scope for further developing the regulatory structures of a number of commodities and staples, coffee, sugar, maize etc.. At the same time, however, it will be important to focus on the elaboration of framework legislation for the regulation of agricultural markets (the proposed Agriculture Act) as an alternative to a commodity-by-commodity basis. This could leave norms and standard setting to the competent ministry with implementation modalities to be elaborated by the appropriate sub-sector apex institution.

- **Reform of the Public Institutions with responsibility for Agriculture and Rural Development**

The 2003 Public Expenditure Review points to a substantial reform agenda in this area, including the restructuring of the Ministry budget, reviewing the functions and staffing of the Ministry, parastatal reform, consolidation of research functions and a review of their effectiveness, the appropriate public/private mix in extension services, prospects for devolution of service delivery responsibilities etc.

### **Donor harmonisation**

Policy dialogue has improved under the new Government. Meetings have been held with the Minister and the PS and an agreed working level structure has been elaborated based on three thematic groups covering 1) strategy and policy reform, 2) food security, and 3) extension and research. These groups are expected to provide a forum for the Ministry to explore its reform agenda.

It is clear that the challenging reform programme required to revive the sector also implies a substantial analytical agenda. This will require the mobilisation of all the available expertise within the Ministry, as well as inputs from other stakeholders in the sector. Donor support and dialogue can play a crucial supportive role in this respect, particularly in providing of long-term capacity building and short-term technical expertise.