KENYA'S AGRICULTURAL POLICY AND SECTOR PERFORMANCE: 1964 to1996

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ABSTRACT

This paper reviews agricultural policy and the performance of the sector in Kenya for the period 1964 to 1996. The purpose is to provide an opportunity to learn from history: to identify the weak and strong points of the policies, and to help in providing policy options for future sustainable growth and development. From the review, agricultural policies used in Kenya can be divided into government controls and liberalised markets. However, the bipolar division of policies between full government controls and free markets has created problems in agricultural development.

During the era of controls, the government's domination of production and marketing activities stifled development of the private sector and because of the government inability to continuously support the activities financially and technically, there was a decline in agricultural growth and development as a whole. On the other hand, when the government started to off-load the activities to the private sector and let the free markets guide production and marketing activities, there was lack of harmony and co-ordination of the implementation process. This resulted in retarded growth and development of the agricultural sector because of the vacuum that existed as a result of a poorly developed private sector which also lacked the capacity to undertake the activities adequately.

It is clear from the analysis that rigidities exist in the following areas:

- marketing and pricing;
- investment policy in extension, research, animal health, irrigation and infrastructure;
- macroeconomic policies used;
- implementation of the policies.

The following are some of the policy options required to relax the rigidities:

1. Enhancing the workings of the free market by removing all direct or indirect controls and interference on the production and marketing of agricultural commodities. Market failures (externalities, natural monopolies and information asymmetry) should be corrected to create incentives for increased agricultural production.

2. Privatisation of agricultural services which promise to be appealing to private individuals and organisations (for example, production and distribution of agricultural inputs, mechanisation services and livestock clinical services) should be encouraged while the government should invest in services such as agricultural research and extension, and control of epidemic diseases and pests.

3. Public institutions dealing in production and marketing of products in this sector should be reformed to deal with regulatory and advisory functions rather than direct production and marketing activities.
4. Fiscal, monetary policies, international trade and domestic financing procedures should be able to allow producers and consumers to benefit from agricultural commodity prices prevailing in the world markets.

1 INTRODUCTION

Agriculture forms the backbone of most economies in sub-Saharan Africa. In Kenya, agriculture has remained the mainstay of the economy since independence in 1963. Although its contribution to the GDP decreased from 35 per cent in 1963 to 25 per cent in 1996, it employs about 75 per cent of the labour force, provides most of the food requirements for the nation and earns the country about 60 per cent of the foreign exchange (Kenya, 1997). Despite the importance of the agricultural sector in Kenya, and in most sub-Saharan African countries, the performance of the sector has been poor for most years since 1970 (World Bank, 1981; Chibber, 1988; Mosley and Smith, 1989). Much of the blame for the poor performance of the sector is attributed to the policies used, particularly government controls on agricultural production and marketing.

The turnaround from low to high growth in agricultural and economic development for most sub-Saharan African countries was seen to lie in reforming the policies under the structural adjustment programmes (SAPs) (World Bank, 1994). The SAPs, promoted by the World Bank and the International Monetary Fund advocated for both a reduction of governments' intervention in the economy and a liberalisation of economies whereby market forces and the private sector could play a dominant role. The transition from government-controlled policies to liberalised markets has been in operation for most developing countries since 1980, but the impacts of these policies on agricultural production are not clearly understood. This paper examines the policies which have been used and traces their impacts on agricultural production in independent Kenya since 1963. The objective is to show the effectiveness of policy changes in relation to agricultural output.

2 AGRICULTURAL POLICIES AND INSTITUTIONS

A diverse range of policies has been used to foster growth of the agricultural sector in Kenya. The first set of policies for the period 1964 to 1980 emphasized government intervention in nearly all aspects of agricultural production and marketing (Smith, 1976). This meant that the government had control on almost all the institutions involved in agricultural development. From 1981, however, there was a major shift from government controls to liberalized markets. The shift meant that the government had to reduce its control of agricultural production and marketing and provide an enabling environment for enhanced participation by the private sector.

Upon attainment of independence, agricultural policies were based on principles outlined in the *Sessional Paper No. 10* on African Socialism and its Implications to Planning in Kenya which emphasized political equality, social justice, and human dignity. These principles, following the example of the Soviet Union, were based on state control of the economy and defined the state as the entity that not only maintains law and order but also outlines and implements social and economic programs in a bid to remedy historical and social inequalities. The principles were reinforced by the failure of capitalism and markets after the Great Depression when state intervention—in the form of the Marshal Plan, the Keynesian demand management, and the welfare state—seemed to record one success after another (World Bank, 1997).

Under the principles, agricultural policies were founded on equitable income distribution, employment and self-sufficiency. The state played a paternalistic role with the citizenry having no role in policy formulation, design and implementation. For example, once the government decided on the most important commodity to promote, the government created incentive structures (such as pricing and marketing policies) favouring that commodity. The best examples of such decisions are the promotion of tea and coffee as export crops and maize as the major food crop in Kenya.

The responsibility of controlling the policies was vested in the Ministry of Agriculture but implementation of the policies was undertaken by a plethora of public institutions. Although farmers had their own institutions (such as the Kenya Farmers Union for purchase and distribution of farm inputs and marketing of outputs, the Kenya National Farmers Union for policy advocacy on behalf of farmers, and co-operative societies for marketing of outputs), in reality, the state controlled the commodity to be grown and how it was marketed through established statutory boards.

From 1980, however, there was a shift in economic policy towards a liberal state ideology in developing countries. This ideology emphasized a reduction of state intervention in the economy and free market operations. Part of the reason for the shift was the high cost of socialist development strategies which became clear with the failure of most publicly-owned enterprises. The liberal state ideology, which was strongly marketed through aid conditions set out by the World Bank and the International Monetary Fund in the 1980s and 1990s, emphasizes that the state's role should be limited to creating an enabling environment for individuals and associations to freely pursue their economic and social objectives, subject to obeying the law.

Most developing countries started curbing controls in production, pricing and trade and advocated market-friendly policies from 1980. The first attempt to introduce liberal policies in Kenya was indicated in the *4th Development Plan*, 1979-83, but it was not until 1982 that reforms gained momentum mainly because of the World Bank's requirement that distortions in the markets be removed as a condition for loan disbursement (Swamy, 1994). Official commitment to these reforms however was often lacking: in most cases, the reforms met with overt and covert resistance and tended to be patchy, intermittent and unstable.

The stages, based on the government's rigour and commitment, of the implementation of the reforms can be divided into two: 1980 to 1992 and 1993 to 1997. Initially, policy reforms in the agricultural sector emphasized a liberalisation of the grain market and a removal of price controls for all agricultural commodities. This emphasis was followed with proposals on a decontrol and relaxation of fertiliser import licensing systems, price decontrol and removal of obstacles in the marketing and distribution system. Detailed policy reforms for the whole economy were spelt out in *Sessional Paper No. 1 on Economic Management for Renewed Growth* (Kenya, 1986). The policies spelt out in the paper included a liberalisation of markets from government controls and a concomitant shift to open market operation and a removal of government support (subsidies) on most investments and services and a corresponding shift towards privatisation and cost sharing.

3. THE IMPACT OF POLICY SHIFTS

The shifts in policy have caused differences in the performance of the agricultural sector: the sector grew at 6.4 per cent per annum between 1963 and 1972, but its good performance dropped to 3 per cent between the mid-1970s and 1980. During the first phase of reforms (1980-1990), its growth ranged from 3.2 per cent in the early 1980s to 4.2 per cent in the late 1980s (Figure 1). This high growth path, however, was replaced by a downward trend in the early 1990s with the sector recording minus 4.2 per cent growth in 1993.

Source: Kenya, *Economic Survey* (various issues).

The rest of this section now gives a detailed discussion of the two policy regimes: eras of controls and policy reforms.

3.1 Era of controls

Government intervention in agriculture was more pronounced in marketing, although production controlled to some degree through restrictions on what types of commodities farmers in different regions could produce. The government controlled marketing through state institutions which were granted a monopoly status in the marketing of the commodities. Consequently, each of the commodities listed under scheduled crops and livestock products as essential for the country had a board or an authority responsible for its production and marketing: milk was governed by the Kenya Dairy Board and the Kenya Cooperative Creameries, tea by the Kenya Tea Board and the Kenya Tea Development Authority, coffee by the Coffee Board of Kenya and the Kenya Planters Cooperative Union, sugar by the Kenya Sugar Authority, and maize and other cereals by the National Cereals and Produce Board. These institutions, as well as others unlisted here, were used by the government to exercise outright production and marketing control over various agricultural sub-sectors.

The controls the government exercised worked somewhat well in the first decade after independence as shown in the produced and marketed selected commodities in Table 1 and Figure 2. During this period, there was a rapid increase in maize production and a steady one for the other crops. The marketed volumes of the food crops, however, fluctuated while there was a steadily rising trend for export crops. The fluctuation was mainly due to the existence of parallel marketing systems for food crops outside the formal marketing systems despite the government controls. This, however, did not occur for export crops. Overall, agriculture grew very rapidly with the export sub-sector outpacing the domestic one until 1978 when the former virtually stagnated (Table 1). The policies responsible for this performance were land reforms, agricultural pricing and marketing, and public investment in research, extension and other agricultural services.

Table 1

Gross Production('000MT) of selected crops in Kenya 1964-1986

YEAR	MAIZE	WHEAT	RICE	TEA	COFFEE	SISAL
1964	229.5	128.9	13	18	43.7	69.9
1965	187.7	143	11.3	20.2	37.2	63
1966	295.7	132.2	14.4	19.8	51.2	57.3

1967	403.2	179.1	13.9	25.4	52.2	51.3
1968	511.2	238.9	17.4	22.8	33.8	50.3
1969	619.2	222.6	18.7	29.8	45.6	49.8
1970	727.2	215.5	22.7	36.1	52.8	43.9
1971	835.2	176.9	28.5	40.2	54.9	44.8
1972	943.2	170.3	30	36.3	58.3	41.2
1973	1051.2	149.6	33.8	53.3	74.7	58
1974	1159.2	137.9	36.1	56.6	72	84
1975	1267.2	157.8	33.2	53.4	65.4	43.6
1976	1375.2	161.9	32.1	56.7	73.8	33.6
1977	1597.1	180.7	39.3	62	97.3	33.5
1979	1620	157.5	35.8	93.4	72.9	36.9
1980	1606.5	155.1	37.5	99.3	91	46.9

Source: Kenya, *Statistical Abstract* (various issues).

Table 2: Major turning points in GDP growth rates in Kenya, 1964-1982

Sector	1964-1972[a]	1972-1978[b]	1978-1982[b]
Agriculture	4.9	3.8	2.1
- Export crops[c]	6.3	5.6	1.5

- Domestic agriculture[d]	4.4	3.0	2.3
Manufacturing	8.0	11.0	5.1
Government	9.9	6.3	5.3
Total GDP	6.7	5.3	4.1

Source: Sharpley, 1984.

Notes:

a. 1964 constant prices.

b. 1976 constant prices.

c. Officially marketed production of coffee, tea, sisal, cashew nuts, wattle-bark, pyrethrum, and canned pineapples.

d. Calculated as the residual (total agricultural GDP minus export crops) and includes food and non-food crops, livestock and dairy products for consumption, and for sale in local markets and to official marketing boards.

A major land reform took place soon after independence when the government distributed considerable amounts of the former white settlers' farms in medium and high potential areas to small-scale farmers. This was done through programmes as the Million Acre Scheme where over 35,000 families were settled on 470,000 hectares and Haraka Scheme where 14,000 families were settled on 105,000 hectares. By 1976, about 1/3 of the large former white settlers' farms had been subdivided and given to small-scale farmers (Senga 1976). The result was a monetized small-holder sector that contributed significantly to the total agricultural production and marketed volume (especially in the cash crops—tea and coffee—which the Africans were prohibited from growing during the colonial era). Thus, by 1980, small-holders contributed about 50 per cent of the total production up from 37 per cent in 1964.

During the same period, the government, through the Ministry of Agriculture, devoted about 10 per cent of its annual budget to agricultural research. As a result, there were major breakthroughs in the release of high-yielding varieties of maize and wheat. Further, cash crops (coffee, tea, sugarcane, and cotton) enjoyed special research programmes funded through their respective parastatals. To ensure that research findings were adopted by farmers, the government expanded agricultural extension both in quality and quantity. For instance, there were 5500 Front-line Extensions Workers in 1973 compared to 3400 in 1963 (Heyer and Waweru, 1976), and the skills for the extensionists were increased through training at tertiary agricultural institutes and farmers' training centres.

The use of purchased inputs was also vigorously promoted through the licensing of distributors and input price subsidization. Wide distribution and provision of the inputs was encouraged through farmers' co-operative societies and crop-marketing boards and authorities (Heyer, 1976), both of which doubled as credit sources for farmers. On its part, the government extended subsidized credit to farmers through the statutory Agricultural Finance Cooperation, while commercial banks were required to allocate a proportion of their reserves to agricultural lending.

Source: Sharpley, 1984.

An important booster to agricultural production during this era were arrangements for marketing agricultural produce and controlled pricing. In this regard, most commodities were marketed through a number of statutory marketing boards. These boards provided ready-market outlets for export crops and, because of the existence of un-official parallel markets, were buyers of the last resort of cereals and livestock produced by small-scale producers (Wyckoff and Gitu, 1984, and Gordon and Spooner, 1992). With regard to commodity pricing, the government pursued pan-seasonal and pan-territorial pricing policy. The prices were usually set by the Ministry of Agriculture but were implemented by the marketing boards. The official producer prices were most favourable for export crops but were strongly biased against livestock products (Figure 3) due to a deliberate government policy of promoting the production of export crops and protecting consumers through low prices for food commodities.

Despite the success of the policies in the first decade after independence, agricultural growth started to decline in the mid 1970s. This was mainly due to inefficiencies in marketing, limited land expansion of small holder farming, limited development and use of new technologies, restriction on private trade and processing of commodities, and deteriorating infrastructure. These internal factors were compounded by the economic crisis caused by oil shocks of the 1970s and bad weather.

In marketing it became evident that too much government intervention had stifled the private sector and was forcing the government to do what the private sector would have done more efficiently. The parastatals, which enjoyed nation-wide monopoly, had failed to achieve the objectives for which they were set: price and income stabilization for farmers, efficient and inexpensive nation-wide distribution of commodities to consumers without government subsidies and buyers of last resort (Swamy, 1994). The pricing policy discouraged private sector investment in storage and transportation facilities for the food crops sector in particular. Further, the prices set by the government were generally lower than to world market ones (Table 3) owing, first, to the numerous deductions along the marketing channel in form of levies and, second, to the controlled exchange rate. The government investment pattern also changed: more incentives were directed towards industrial and commercial sectors compared to agriculture. The expenditure on agriculture, for instance, declined from 11 per cent in 1965/66 to about 8 per cent in 1979/80. Moreover, most of the funds allocated to the development budget remained unspent while those in recurrent expenditure were usually exhausted before end of the year.

Table 3
Nominal protection coefficients for selected agricultural commodities in Kenya, 1972-1980

Year	Maize	Sugar	Coffee	Tea
1972	0.67	0.94	0.85	0.82
1973	0.44	0.75	0.95	0.89
1974	0.43	0.26	0.92	0.92
1975	0.63	0.50	0.9	0.93

1976	0.82	1.08	0.93	0.99
1977	0.99	1.95	0.91	0.95
1978	0.99	2.20	0.89	0.99
1979	0.88	1.00	0.93	0.98
1980	0.89	0.75	0.92	0.97

3.2 Era of policy reforms

The era of liberalised market policies began in 1981 and it comprises of two distinct phases: between 1981 to 1992 (when there was documentation but limited and intermittent implementation of the reforms) and since 1993 (when a substantial liberalization of markets and implementation of the policy reforms began).

The implementation of policy reforms since their inception to late 1991 was not characterised by public controversy. However, the implementation record was unimpressive and was characterised by considerable official ambiguity and, covert and overt resistance (Ikiara et al., 1993). While the government gave the impression that it was not opposed to agricultural and other economic reforms, it made only half-hearted efforts to implement them. For example, regarding grain marketing, the reforms emphasised restructuring of the National Cereal and Produce Board to confine its role to being the buyer and the seller of the last resort, but the government insisted on some central regulation for food security reasons. As a result, there was an on-and-off removal of controls until 1993 when the sub-sector was fully liberalised.

Although there was a modest growth in agricultural production, averaging about 3.5 per cent per annum during the first period of implementation of the reforms (1980 to 1990), this growth was followed by a steady decline in the second phase ranging from minus 0.4 per cent in 1990-91 to the lowest level of minus 4.1 per cent in 1992-93. The reasons for the decline in agricultural growth included: poor implementation of the policies, bad weather, deteriorating terms of trade between agricultural exports and imports, rapid population growth and shortage of land in the high- and medium-potential areas of agricultural production, and a decline in public investment in agriculture in real terms which was about one third of the levels in the 1960s and 1970s (Nyangito and Kimenye, 1996). The withholding of external aid on the advice of the World Bank and the International Monetary Fund in 1991 and 1992 was also a factor which denied the country foreign exchange resources for financing imports of agricultural inputs and agricultural investment.

A substantial implementation of agricultural policy reforms towards liberalised markets was started in 1993. Coupled with good weather conditions, an upsurge in agricultural growth occurred and the first positive growth rate in the 1990s was registered at 2.8 per cent in 1993-94 followed by 4.8 per cent in 1994-95. Despite this development, controversies have arisen in the implementation of the reforms among various stake-holders. For example, in the coffee and tea sectors, there is a general dissatisfaction from stake-holders that the government is still holding onto some controls, mainly in the export market for the cash crops. The liberalisation of the dairy and maize sub-sectors (food sub-sector) has also raised controversies with respect to the reduced role of public marketing agencies and the poorly developed private sector which is exhibiting exploitative monopolistic tendencies. Further, privatisation and provision of some agricultural services to farmers at full-cost are being questioned, given that some of the services such as control of epidemic diseases are public goods.

The impacts of the policy reforms on the development of the agricultural sector are mixed. These are best seen through analysing the effects of the various policies on the performance of the main sub-sectors (food and cash) of the agricultural sector. The effects are manifested in the volumes of the commodities produced and marketed and the prices received by producers

• Food sub-sector

The production of the main food commodities which declined in the late 1970s and the early 1980s began to rise in 1984, reaching the highest levels in 1987 (Figure 4). Production, however, began to decline again for most food crops in 1988 except for sugar cane for which production started to decline in 1991. The decline in production is attributed to poor price incentives as a result of poor pricing and marketing policies, high input costs, low levels of use of inputs, and drought particularly in 1980-81 and 1983-84 seasons.

Source: Kenya, *Economic Survey* (various issues) and Gitu, 1992.

With the liberalisation of the pricing and marketing of the food sector in 1993, there was a dramatic producer price increase for all commodities except for rice, whose prices were still under the control of the National Irrigation Board. However, production volumes indicate a poor response to the price increase. This is explained by the fact that real producer prices fluctuated heavily while the terms of trade between the outputs and inputs worsened (Figure 5). Consequently, the profitability of growing food crops was low, and, therefore, the prices did not provide adequate incentives for an increased production of the crops.

Source: Kenya, *Economic Survey* (various issues).

The policy reforms have also led to a decrease in the volumes of marketed output through formal market channels for the main food commodities (maize, wheat, sugar, rice, and milk), but the reforms have bolstered participation by private firms and individuals in the trade of food commodities unlike in the past when public institutions dominated the trade. For example, the number of private firms involved in the processing and the marketing of milk have rapidly increased, and the private sector now accounts for about 30 per cent of the market share from zero before the policy reforms (Kenya, 1997). The number of private firms and individuals involved in the domestic distribution of sugar, rice, wheat, and maize have also increased unlike in the past when public institutions such as the Kenya National Trading Corporation and the National Cereals Produce Board had the monopoly of doing so. The liberalised trade of these commodities has also led to an increase in imports of foodstuffs mainly rice, wheat, and sugar (Table 4). Cheap imports, however, dampen the producer prices and create competition for domestic supplies thereby resulting in disincentives for increased domestic production.

An analysis of the impacts on the food sub-sector indicates that the policy reforms have yet to improve the profitability of producing the commodities because the real prices received are still low while the costs of inputs are high. Liberalisation, however, has created more income-earning opportunities in the private sector through increased trade and processing of food commodities.

Table 4
Imports of major foods crops 1980-1996 in '000 tonnes

YEAR	MAIZE	WHEAT	RICE	SUGAR
1980	323	48.5	1.2	3.1
1981	77.3	49.2	4.6	2.1
1982	89	139.3	11.9	2.2
1983	0	81.9	44.8	2.4
1984	405.4	149.9	0.5	1.7
1985	125.5	14.8	0.6	39.1
1986	0.7	115.3	61.7	126.3
1987	0	217.9	39.2	49.1
1988	0	75.6	10	42

1989	0	123.5	30	80
1990	0	322.6	28	64
1991	0	242.6	61.2	59.7
1992	414.9	100.8	58.9	153.8
1993	12.9	314.4	37.2	184.8
1994	650.4	353.1	93.5	256.1
1995	12	364	30.7	244
1996	0	486.9	47.9	65.8

~~*Source:* Kenya, *Statistical Abstract* and *Economic Survey* (various issues~~).

• Cash crops sub-sector

In the cash crops sub-sector, the impacts on the production of the crops have been mixed, as they show an increasing trend, followed by a decline, for coffee, an increasing trend for tea, and a decreasing trend for cotton and sisal (Figure 6). These trends may be explained by the price incentive structure, for there was a constant increase in producer prices for tea and coffee, while producer prices remained constant for sisal and cotton until 1992 when market reforms on exchange rates led to a rapid increase in prices (Figure 7). In real terms, the prices for cotton and sisal declined.

The upward trend of producer prices since 1992 continued for coffee, sisal and cotton but began to decline for tea from 1994 because of low world market prices. The producer prices for all the crops during the period were also below world market prices as indicated by the nominal protection coefficients which are less than one (Table 5). This was because of the various domestic taxes and the many deductions made in the domestic marketing chain. The price incentives were also influenced by the timing of payments. Payments for coffee and cotton were generally delayed when compared to tea payments and this partly explains the declining production trend for coffee.

Table 5
Nominal protection coefficients for selected export commodities in Kenya, 1982-1996

Year	Coffee	Tea	Sisal
1982	0.97	0.99	0.94
1983	0.98	0.88	1.01
1984	0.91	0.88	1.05
1985	0.90	0.99	0.93

1986	0.97	0.88	0.95
1987	0.94	0.97	0.99
1988	0.81	0.765	0.97
1989	0.82	0.82	0.9
1990	0.94	0.93	0.73
1991	0.90	0.89	0.74
1992	0.79	0.51	0.87
1993	0.79	0.93	0.37
1994	0.88	0.88	0.42
1995	0.97	0.82	0.73
1996	0.97	0.91	0.41

The impact of the reforms on the agricultural sector as a whole is further shown by the marketed output indices (Figure 8). Marketed output growth has fluctuated over the years since 1982. In general, only the export crops have shown, on the average, an increase in growth for the whole reform period. Levels of marketed output for food and industrial crops and livestock have tended to be below what was achieved in 1982, with the steepest decline occurring between 1990 and 1994. These fluctuations in growth can be explained by producer prices, inputs use, government expenditure in agricultural services, and drought.

Source: Kenya, *Economic Survey* (various issues).

Output producer price indices in nominal terms for agricultural commodities and for the whole sector increased by a relatively constant trend from 1982 to 1991 but there was a dramatic increase as from 1992 (Figure 9). The constant increase was a result of government's controls on pricing whereby producer prices were pegged to world market prices but with explicit and implicit taxes imposed to control returns received by producers. The dramatic increase, from 1993 for food crops, was due to a removal of price controls while, for export crops, was partly due to removal of foreign exchange regulations which led to higher prices.

Source: Kenya, *Economic Survey* (various issues).

Input use, particularly among smallholders who account for more than 60 per cent of the total farmed area, is generally low. The quantum index for all non-factor inputs has been almost constant since 1986, while the price index has been increasing (Figure 10). Input prices recorded a dramatic increase, reaching the peak of 427 in 1994, declining in 1995, but rising again in 1996. The rapid increase in the 1990s was attributed to inflationary conditions and the weakening of the Kenyan shilling.

Input prices are sensitive to exchange rate policies because most of the inputs are imported or have a large import content. In general, the high costs of inputs are partly responsible for their low levels of use. The constant quantum index can be explained by the fact that only a few farmers, mainly in the large-scale and plantation sectors, use purchased inputs at high levels because they can afford to do so. Hence, despite the increase in input prices, these farmers continue using the same amounts of inputs for as long it is profitable to do so, though this use is not the case for small producers.

Source of data: Kenya, *Economic Survey* (various issues).

With the onset of policy reforms, the government has reduced direct provision of production services, such as animal health clinical and tractor hire, but emphasised supportive services such as research and inspection services. Overall, the proportion of expenditure in the agricultural sector has declined from an average of 10 per cent during the era of controls to an average of 6 per cent between 1982-83 and 1996-97 (Table 6). The expenditure reached a high level of K£401 million in 1988-89 out of a total government expenditure of K£2.7 billion. There was, however, a decline in expenditure for the sector to the lowest level of K£18 million out of a total expenditure of K£5 billion in 1991-92 mainly because of the suspension of donor funding. The expenditure, however, began to increase in 1992-93 and reached K£561 million in 1996-97.

Table 6
Government expenditures for all sectors and agriculture in Million K£ 1982/83-1996/97

Year	Agriculture Recurrent	Agriculture Development	Total Agriculture	Total Public	Percent Share of Agriculture
1982/83	52.4	44.3	96.7	1190.7	8.1
1983/84	58.3	14.7	72.9	1242.4	5.8
1984/85	90.4	39.0	129.4	1521.7	8.5
1985/86	62.2	77.6	139.8	1628.4	8.5
1986/87	122.7	99.7	222.4	2063.1	10.7
1987/88	168.1	67.7	135.8	2198.9	6.1
1988/89	310.0	91.6	401.6	3101.9	12.9
1989/90	82.7	71.1	153.8	3156.0	4.8
1990/91	38.6	40.2	78.8	2815.7	2.8
1991/92	13.3	4.9	18.2	4926.7	0.4
1992/93	117.0	177.2	294.2	6064.7	4.8
1993/94	160.6	302.9	463.5	9007.7	5.1
1994/95	184.4	192.2	376.6	9205.6	4.1
1995/96	216.1	170.5	386.6	9170.4	4.2

1996/97	229.5	331.8	561.3	10147.8	5.5

Source: Kenya, Statistical Abstract (various issues)

The money spent on recurrent expenditure was higher than that spent on development services until the 1992-93 budget year. Since then, the budget on development expenditure has been higher than for the recurrent expenditure because of the fiscal reforms in which the government emphasizes a reduction of the government's recurrent public expenditure. More important perhaps, most of the development expenditure is funded by donors; for example, donors contribute about 67 per cent of the total agricultural research allocation. The problem with donor funding, however, is that it is unstable; it, therefore, is not a sustainable long-term strategy for agricultural development. The decline in public funding on agriculture and the unstable donor funding are factors which can partly explain the decline in agricultural growth.

4. SUMMARY AND POLICY IMPLICATIONS

The review of the different policies and their impacts on the agricultural sector in Kenya indicates that bipolar division of policies between full government controls and free markets can create problems in agricultural development. During the era of controls, the government's domination of production and marketing activities stifled the development of the private sector and its inability to continuously support agricultural activities financially and technically led to a decline in agricultural growth and development as a whole. When the government started to off-load agricultural activities to the private sector, and thereby let the free market guide agricultural production and marketing activities, however, there was lack of harmony and co-ordination of the implementation process. This resulted in retarded growth and development of the agricultural sector because the poorly developed private sector lacked the capacity to undertake the activities adequately.

4.1 Problems in agricultural policy and development

On the whole, it is clear from the analysis that the main problems in agricultural policy and development in Kenya lie in marketing and pricing, investment policies (extension, research, animal health, and irrigation), macro-policies (taxation, trade controls, interest rates, and credit), biased commodity policies, and implementation of the policies.

Marketing and pricing

After the first and second decades of independence the parastatals which were granted nation-wide monopolies had not achieved the objectives for which they were set, namely:

- price and income stabilisation for farmers,
- efficient and inexpensive nation-wide distribution of commodities to the consumer, and
- efficient buyers and sellers of the last resort.

The performance of these monopolies had remained poor due to both lack of competition and weak management. With the onset of policy reforms, the government has liberalised the pricing and marketing of most commodities. There is a general dissatisfaction, however, that the implementation of the reforms is not taking into account the interests of all the stake-holders—particularly farmers. Excessive market interventions affect private incentives and often add to transaction costs. And while government monopolies are in no better position to serve producers well, it is not beneficial to replace a government monopoly with a single private monopoly. This is because a private monopoly is certainly worse than a government monopoly in terms of allocative efficiency. In the circumstance, both the government and the private sector have a role to play to promote desired development. Selective government intervention to provide both an enabling environment and an incentive structure for the private sector to thrive in is a necessary requirement if market-based reforms have to be effective.

• Investment policies

Trends in investment spending during the controls period indicated that the government granted a lot more incentives to the industrial and commercial sectors than to the agricultural sector. This resulted in a deterioration of the terms of trade against the agricultural sector and made investments in the agricultural sector less profitable than in the other sectors of the economy. The implementation of policy reforms, particularly the requirement that the government reduces its fiscal deficit, has worsened the situation to the extent that limited resources are availed for investments in agricultural research and extension and development of infrastructure in rural areas. All this is likely to have a detrimental effect on agricultural development since these investments are major sources of agricultural growth. Here, the greatest role for the government is in investments in infrastructure, which, in its broadest sense includes physical, social and technological environment, educational, and financial dimensions. The investments are necessary for markets to develop and operate efficiently.

• Macroeconomic policies

Over the years, Kenyan farmers, like most farmers in sub-Saharan African countries, faced heavy rates of explicit and implicit taxation through unfavourable macroeconomic policies, especially in regard to over-valued exchange rates and inappropriate fiscal polices, which reduced the prices farmers obtained for their exports. Further, inflation and the government deficit rose, while interest rates became increasingly negative.

With the introduction of policy reforms, the government has effected changes, such as removal of foreign exchange controls and trade liberalisation, in macroeconomic management. Some of the reforms, such as the removal of exchange controls, have enhanced agricultural growth by providing incentives to producers in the form of high producer prices, while liberalised trade has had a dampening effect on agricultural production—particularly on the production of food crops. While custom duties and value added taxes have been revised continually, and generally downwards, tariff schedules on agricultural inputs seem to discriminate against smallholders and encourage machinery-intensive means of production in the large-scale sector. On the output side, tariffs are aimed at protecting producers but their use has been questioned due to lack of adequate law enforcement which has led to their mis-use. A removal of distortions created by macroeconomic policies will ensure that resources are efficiently allocated as guided by prices (for example, world prices) which reflect the opportunity costs of producing different commodities.

• Commodity-biased policies

Although government policy has been to diversify the production of agricultural commodities, there has been an overemphasis of increasing and expanding production of seven commodities as a basis for agricultural development: coffee, tea, maize, wheat, milk, beef, and horticulture. The focus on a few commodities, however, has led to neglect of some of the crops—particularly traditional food crops. This neglect has led to an over-reliance on maize as the staple food crop and created food insecurity in the country. Policies that do not overemphasise crops can allow the country produce commodities according to their comparative advantage in the country.

• Implementation of policies

In the 1960s and the 1970s, most of the policies were implemented adequately, possibly because of realistic policies and an abundance of government resources. These policies, were unlike those pursued from the mid-1970s onwards when over-ambitious policies, in face of a rapidly expanding population, increased the burden on the government's support of most services. At the same time, the government had limited opportunities to internalise the later policies, most of which resulted from dialogues between it and donors. Further, inappropriate timing and sequencing, such as liberalising maize marketing during the drought years, were another cause of poor implementation of policies. In this connection, proper timing, logical sequencing and co-ordination are some of the necessary requirements for an effective implementation of policies, while inadequate implementation of the policies is partly responsible for the poor performance of the agricultural sector during the eras of government controls and policy reforms.

4.2 Policy implications

Two decades after independence, the government's domination of the economy, that is, from production to marketing, stifled the development of the private sector. In this regard, the pan-seasonal pricing of important agricultural commodities such as maize discouraged private investment in storage. The government appears to have abdicated the duties it could perform well and instead engaged in activities in which it had no comparative advantage and in which the private sector, given incentives, could excel. During the era of policy reforms, the initial stop-go stance taken by the government on reforms appears to have created confusion and uncertainty on the part of the private sector. This led to the slow growth of the private sector and, as a result, when the government started to off-load the activities to the private sector there seemed to be a vacuum. This experience calls for the government to strive to support the development of the private sector before leaving the market to perform allocative functions. If the government does not do this, problems will continue to be experienced by producers, processors and consumers of agricultural products. At the same time, it will not be beneficial to replace the plethora of parastatal monopolies in the agricultural sector with single private monopolies, which will certainly be worse than government monopolies in terms of allocative efficiency.

The main policy concerns which need to be looked at for sustainable agricultural development should focus on:

- Enhancing the workings of the free market by removing all direct and indirect controls and interference on the production and marketing of agricultural commodities while correcting for market failures (externalities, natural monopolies and information asymmetry) to create incentives for production.

  In order to ensure that the producer prices received provide adequate incentives, the government should improve the workings of a free market through the development of:

  1. appropriate legal framework and institutions to enforce laws and regulations for an effective free market, and

2. infrastructure by the government to ensure fair competition among market participants.

- Privatisation of agricultural services which promise to be appealing to private individuals and organisations (for example, production and distribution of agricultural inputs, mechanisation services, and livestock clinical services) should be encouraged, while the government should invest in services, such as agricultural research and extension, and control of pests and epidemic diseases.

  In this regard, privatisation of agricultural services can be encouraged through investments in supportive services (which are public goods in nature) for agricultural production and marketing. The government needs to invest in agricultural research and extension and control of epidemic diseases for crops and livestock because the services have a large proportion of public goods component, whose returns accrue to the larger society rather than to individuals but which require large initial financial outlays while the gestation period before returns come in is long. As a result of this, they are unattractive to individual private investments—even though their returns are generally high and can easily compensate for initial investments when the services are well managed. Private investors who may be interested in investing in these services should be encouraged and initially given incentives like access to credit and tax rebates, and their products, particularly new research findings should be patented against piracy.

- Public institutions dealing in the production and marketing of products in agricultural sector should be reformed in order for them to handle regulatory and advisory functions only.

  In this connection, the public institutions are required for two main reasons:

  1. For export crops such as coffee, tea, horticulture, and pyrethrum in order to provide services such as training, extension and maintenance of standards for the production of high quality commodities (for example, Arabica coffee) or the processing of products; the marketing of these commodities, however, should be left to the private sector, and the small-scale farmers should be encouraged to form organisations to enhance their bargaining powers in the markets.

  2. For food crops (such as maize, wheat, and rice) and traditional crops the institutions are required in a bid to ensure fair competition in the domestic trade of commodities which are major food staples and most of which

are non-tradable (that is, domestically traded). Since world markets tend to be unstable for the major staples, public institutions should assist the private sector to maintain stability in prices and supplies of these commodities by being buyers and sellers of the last resort. This may be seen as the government's role in ensuring food security. In order to avoid incurring huge losses in maintaining food security, however, clear-cut policies such as maintenance of buffer funds for purchase of foodstuffs in case of domestic deficits or buffer stocks through storage of excess domestic surpluses are required.

- Fiscal and monetary policies, international trade and domestic financing procedures should allow producers and consumers to benefit from agricultural commodity prices prevailing in world markets.

The removal of monetary, fiscal and trade distortions on exchange rates, interest rates, and quantity controls ensures that domestic resources are efficiently allocated in the production of commodities. This is because the removal allows world market prices to guide efficient use of domestic resources because the prices better reflect opportunity costs of producing the commodities. Already, fiscal and monetary policies are liberalised but what may be required is enforcing the regulatory frameworks adequately.

As regards international trade, there are situations whereby world markets are distorted as a result of subsidies of various forms, such as deficiency payments and trade quotas. This has been the case in North America and Europe in regard to the production of food commodities (this is despite the General Agreements on Trade and Tariffs. Here, it may be necessary for the government to enforce controls on imports (particularly foodstuffs) through tariffs in an attempt to protect producers of such commodities or reduce the levels of taxes on exports to make them more competitive in the world market.

On financing agriculture, the government should provide incentives to credit providers to the agricultural sector, particularly to small-scale producers, the majority of whom are women. The incentives should be in the form of reduced taxes for investors or insurance schemes to cover borrowers in the agricultural sector. The incentives are necessary because the small-scale agricultural sector is not an attractive market for credit because of the high (economic and natural) risks associated with farming. However, because of the role this sector plays in terms of poverty alleviation to the majority of the population, there is a case for special targeted credit programmes which can avoid the problems previously experienced by institutions such as the

Agricultural Finance Corporation.

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