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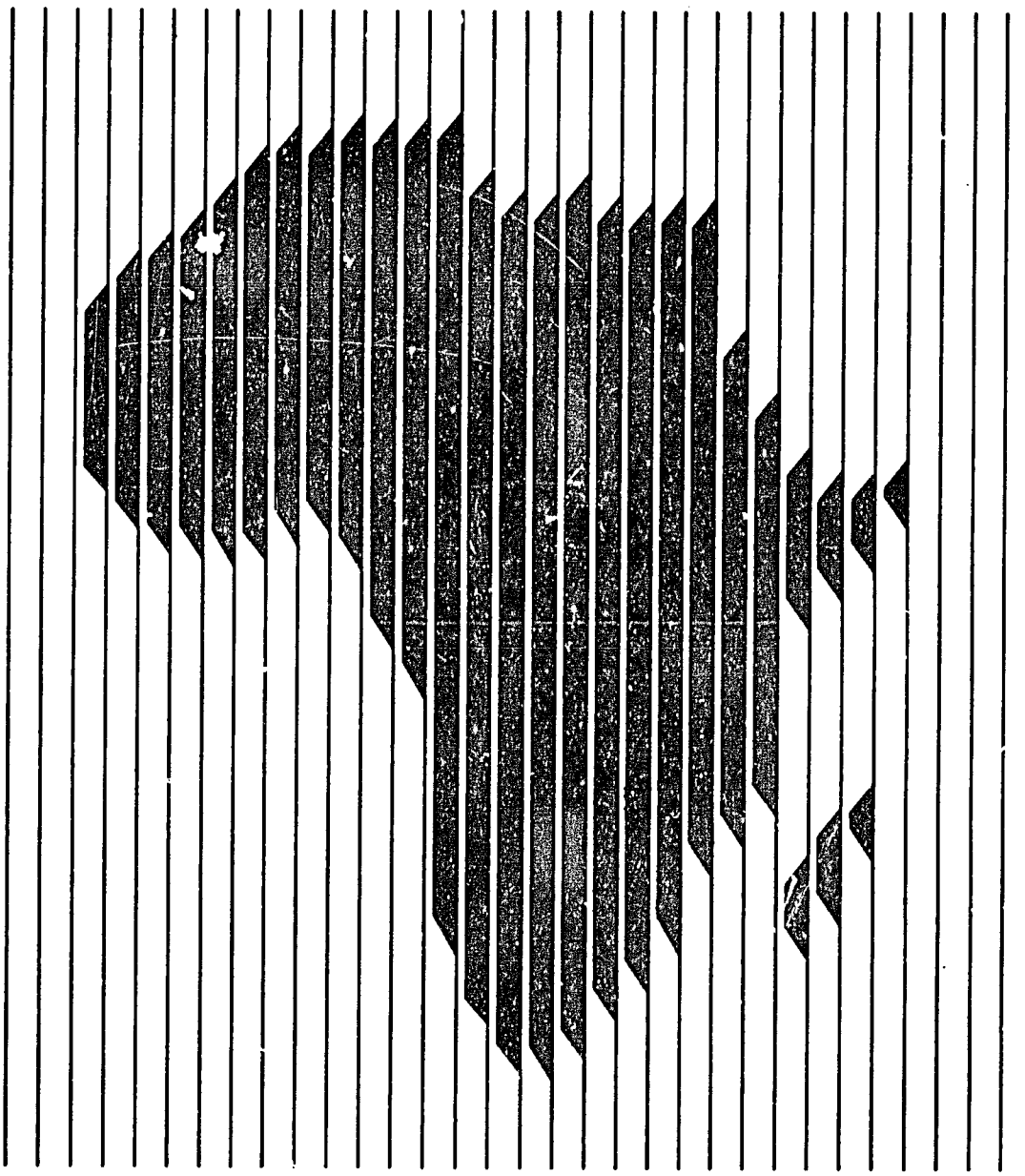
Development Fund for Africa

Impact Evaluation of the Kenya Agriculture Sector Loan I Project



Agency for International Development
Bureau for Africa
Washington, D.C. 20523

IMPACT EVALUATION OF THE KENYA

AGRICULTURE SECTOR LOAN I PROJECT

Prepared for the U.S. Agency for International Development under contract number PDC-5315-I-05-8101-00 by Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a joint venture agreement between DAI, IDA, and Research Triangle Institute (RTI).

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FOREWORD

In September 1988, the U.S. Agency for International Development's Africa Bureau (A.I.D./AFR) launched a three-stage exercise to assess the impact of assistance in the area of rural credit. This effort was carried out in collaboration with Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA), under a contract to provide technical assistance to the Agency.

The exercise was undertaken for three principal reasons:

- First, A.I.D. is responsible for ensuring that its assistance to governments in Africa is as effective as possible. This implies looking not only at the efficiency with which A.I.D. funds are channelled to recipients but also at the impact these expenditures have on the lives of people over time.

- Second, as a problem-solving organization with limited resources, A.I.D. must constantly be searching for better ideas. This implies periodic re-examination of experience to look for ways in which performance could have been improved.

- Third, in any particular sector such as that of rural credit, there are lessons to be learned from experience: theories to be disproved or refined, implementation alternatives to be tested, and unwanted effects to be avoided.

The first stage of this impact evaluation exercise was a review of project documentation and other pertinent literature. The results of this review are laid out in the document, "An Impact Evaluation of Rural Credit Projects in Africa: A Summary Review of the Literature."

The second stage of the exercise was a series of field assessments conducted by multidisciplinary teams in Cameroon, Malawi, Kenya, Lesotho, and Liberia in late 1988. Each team prepared a report of its findings, conclusions, and recommendations. These individual country reports form the basis of the final synthesis.

The last stage was the preparation of a final synthesis report, which has been issued as a separate document entitled "The Impact of Rural Credit Projects in Africa: A Synthesis Report."

February 1989

PREFACE

For this assessment of rural credit in Kenya, the Kenya Agriculture Sector Loan was evaluated by a team of five people, each of whom spent three weeks in the country. As credit specialist and team leader, Jean-Jacques Deschamps completed the analysis of the institutional and financial markets impacts of the project and drafted the main body of the report. Peter Castro was the team's sociologist/anthropologist and wrote the social analysis (Appendix D). Peg Clement looked at gender and cooperative training issues and wrote the section on impacts on women and also the case studies (Appendix F). As the agricultural economist, Richard Howes wrote the economic analysis (Appendix C). Michael Caughlin accompanied the team as an A.I.D. direct hire, participating in the survey work and writing Appendix E on the financial needs of project participants.

The first stage of the work of the Agriculture Sector Loan evaluation team involved a review of project documentation and other pertinent literature in Washington. The second stage called for a three-week field assessment conducted by the five-person team. As per the scope of work, the team analyzed project's institutional impact, its socioeconomic impact, and its effect on the functioning of Kenya's rural financial markets. In the field, the team drew data from a variety of sources, including project participants, implementing financial institutions, government officials, and other key informants. A description of the evaluation methodology will be found in Appendix B.

Chapter One describes the background to the project. Chapter Two looks at the commonality of objectives and strategies behind these projects, and summarizes key assumptions made at the planning and design phase. Chapter Three reviews the project impacts on the institutions meant to provide financial services to targeted groups. Chapter Four assesses effects on project participants -- their access to credit, use of the funds, production, income, and general quality of life. Chapter Five examines consequences on the overall functioning of rural financial markets. Each chapter concludes with a section drawing the implications of evaluation findings for policymakers, and contrasts these findings with original project design assumptions.

The team extends its thanks to Jim Gingerich and Jim Dunn of USAID/Nairobi's agricultural office for their assistance and support during the team's stay in Kenya. Special appreciation goes to Maria Mullei in that office for accomplishing a small miracle in getting clearance to undertake the field work in fewer than 24 hours. The team also would like to thank the numerous government officials, staff of financial institutions, and individual interviewees who made this evaluation possible.

Finally, the team is also grateful to Emmy Simmons, Cindy Clapp-Wincek, and others in the Africa Bureau who provided useful support before the team departed and valuable feedback after the team's return to the U.S.

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EXECUTIVE SUMMARY

The Kenya Agriculture Sector Loan I (ASL) Project was conceived in the mid-1970s to provide Kenya with needed balance-of-payments support, as the country was experiencing a painful short-term deficit due to the 1973 oil shock. The project was designed as a $13.5 million multi-objective sector loan to agriculture designed to: (1) finance the production of wheat, maize, and selected cash crops in the 1975-76 planting seasons; and (2) test new approaches for providing smallholders comprehensive production and marketing services over the 1975-78 period.

The project was plagued throughout by serious institutional weaknesses by two of the three implementing financial institutions. The Agricultural Finance Corporation was affected by political interference in lending decisions and by outright corruption. It failed to collect the majority of project-financed loans, and did not develop as expected a capacity to serve its constituency of mostly larger farmers. The Cooperative Bank of Kenya, which was to service smallholders, was dependent on the Ministry of Agriculture for the selection of farmers eligible for credit, and on local cooperative unions and societies for loan management and collection. This disastrous combination also led to very low repayment rates and to a distrust of the system that continued to affect the credit and savings societies as late as 1988.

By contrast, the former Kenya Farmers Association was quite successful in managing the $5.3 million of project funds which it directed to its membership of large farmers. The institution's performance under the project is an encouraging -- but all too rare -- example of a financial institution able to maintain high operating and financial performance while dramatically increasing its lending program through access to a donor-sponsored credit fund.

The economic benefits of the project were uneven. Without doubt, the large-scale farmers -- particularly those served by the Kenya Farmers Association -- reaped substantial benefits from ASL and were able to achieve impressive increases in agricultural production and income. Returns from the loans extended by the Agricultural Finance Corporation were on the other hand disappointing, due to poor borrower selection and misuse of funds.

The minority of smallholders who repaid their loans to the Cooperative Bank were in the most part genuinely committed to the adoption of improved agricultural practices hand-in-hand with the application of project-financed inputs. The majority of smallholders who failed to repay their ASL-financed

loans ended up receiving what amounted to a one-time grant transfer from the government. It is unclear whether this infusion of cash had a significant impact on production. Since most of the credit was provided in kind in the form of agricultural inputs, application of those inputs presumably led to higher yields the year they were applied. In subsequent years, however, it is likely that most of these farmers reverted to their former agricultural practices, thereby receiving few long-term benefits from the project. In any case, economic returns from those unpaid loans pale in comparison to the huge financial cost to the government from non-repayment and costs of managing the entire program.

The project's impact on the functioning of rural financial markets was minimal, and was limited to higher income and savings levels achieved by large farmers served by the Kenya Farmers Association. Beyond project-related transactions with the Cooperative Bank, few smallholders actually participated more actively in financial transactions as a result of the project.

All in all, the ASL project appears to have in the most part succeeded in boosting short-term production of key agricultural commodities as a result of the loans extended by the Kenya Farmers Association to large farmers. It failed to achieve its second objective, that of enhancing the socioeconomic status of smallholders through the provision of credit and other key services.

The key lesson to be learned from this failure to serve smallholders is that A.I.D. should pay much closer attention to institutional capacity and performance at the time of project design. Expectations that a financial institution will clean up its act in the process of handling large amounts of donor-sponsored funds is mere wishful thinking to be avoided at all costs.

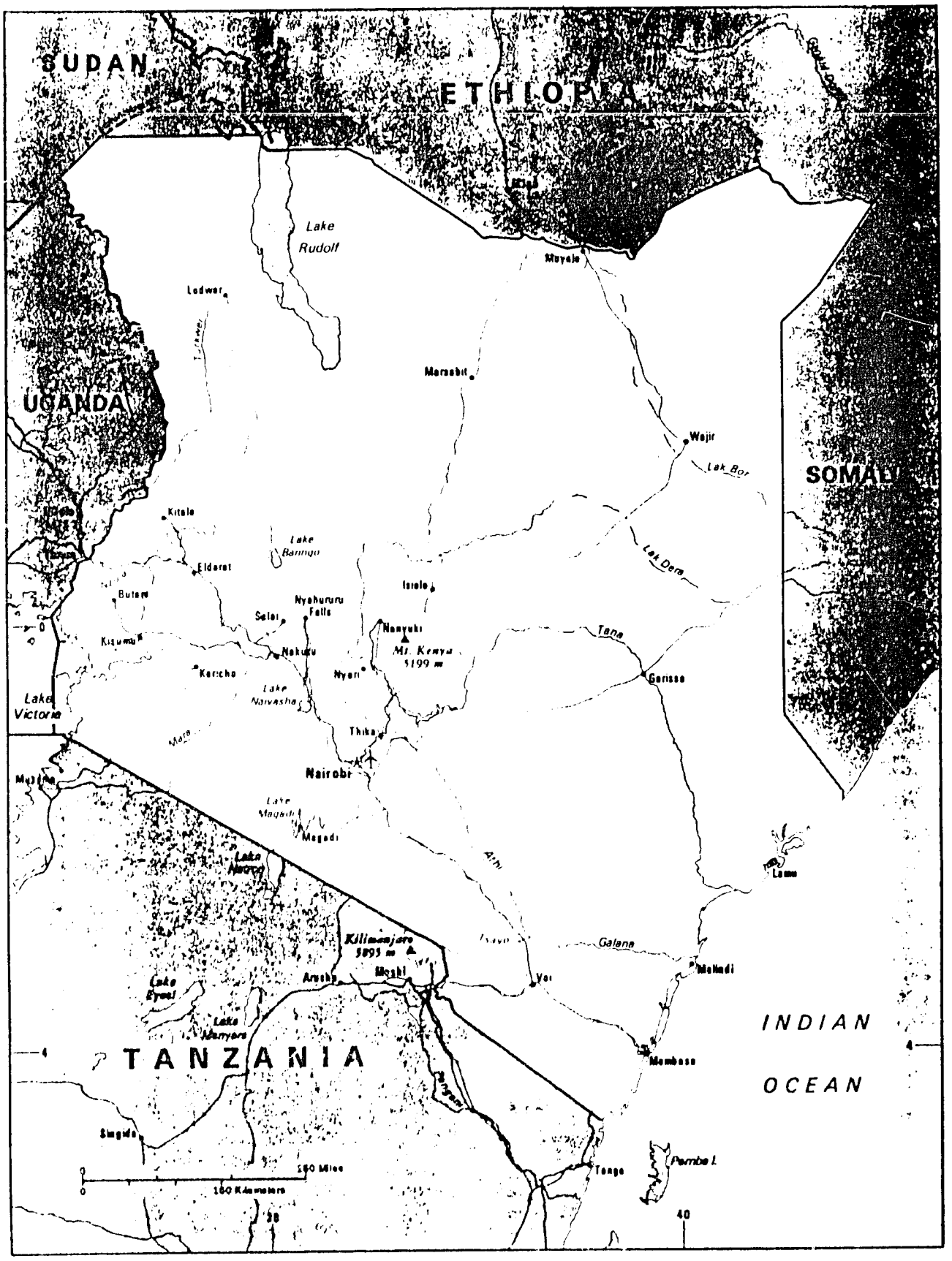
PROJECT DATA SHEET

Project Title	Agricultural Sector Loan I, Kenya
Project Number	615-0170/1
Dates	10 October 1975 - 1 August 1977
U.S. Funding	$13.5 million
Other Donors	Nordic Group, IBRD and DANIDA
Components	PART A: Large farmers, loans totalling $6.7 million
	PART B: Small, progressive farmers, loans totalling $3.4 million
	PART C: Subsistence farmers, a $3.4 million package of services including a $2.08 million loan component
Goals	PARTS A & B: To relieve balance of payment pressures by reducing wheat imports and producing an exportable surplus of maize.
	PART C: To improve the welfare of small farmers
Purposes	PARTS A & B: To increase food production
	PART C: To improve the infrastructure serving small farmers, particularly cooperative credit, training and education, input supply, marketing and storage facilities.
Impact Evaluation	Development Alternatives, Inc. (DAI) and the Institute for Development Anthropology (IDA) (1988).

ACRONYMS

AFC	Agricultural Finance Corporation
ASL	Agriculture Sector Loan
CAP	Capital Assistance Paper
CBK	Cooperative Bank of Kenya
CSFC	Cereals and Sugar Finance Corporation
JAA	Junior Agricultural Assistant
KFA	Kenya Farmers Association
SPSCP	Smallholder Production Services & Credit Project

Kenya



Railroad

Road

Airport

Mercator Projection

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I. PROJECT BACKGROUND

Project Setting and Rationale

The Agriculture Sector Loan I (ASL) Project was conceived in the mid-1970s to provide Kenya with needed balance-of-payments support, as the country was experiencing a painful short-term deficit due to the 1973 oil shock. Between 1973 and 1974, Kenya had moved from a modest balance-of-payments surplus of US $25 million to a deficit of $93 million. Although much of the deficit was financed through IMF drawings and other special assistance of $54 million, foreign exchange reserves had declined to only two months' worth of imports at the end of 1974.

At the time, agricultural exports represented nearly 60 percent of the country's total exports, and increasing the production of export crops appeared to be the most effective way to generate critical foreign exchange and reduce the trade gap. The macroeconomic constraints mentioned in the paragraph above thus provided USAID/Nairobi with the rationale for the design and funding of the agricultural sector loan.

Kenya's policy toward agriculture had not been particularly favorable to farmers in the preceding decade. Production of food and export crops had increased substantially during the 1966-73 period, benefitting large farmers but also a score of smallholders in the highlands. Nevertheless, these benefits had been more than offset by market weaknesses for traditional exports and by implicit government taxation of such crops through the setting of prices unfavorable to agriculture as a whole. However, a shift in attitudes towards agriculture occurred around 1973, and pricing of agricultural output was becoming more favorable to farmers.

By the mid-1970s, the Government of Kenya placed a high priority on increasing agricultural production, designed to provide food and raw materials for domestic consumption and exports. Although imports of food, live animals, and vegetable and animal oils had been increasing steadily in the early 1970s, it was believed that many of these products could be produced locally. Indeed, Kenya offered at the time good prospects for increased agricultural production.

Also, USAID was troubled by the fact that past efforts to promote agriculture had mostly benefitted well-established farmers with ready access to credit and other services. A second objective of the project was therefore added to the sectoral objectives: to help the traditional smallholder by improving access to these services. The ASL Project thus ended

up as a multi-objective sector loan to agriculture designed to: 1) boost domestic food production in 1975-76, and 2) improve the welfare of small farmers in the longer term.

Project Purposes and Description

Specific purposes pursued by the project were to: 1) finance the production of wheat, maize, and selected cash crops in the 1975-76 planting seasons, and 2) test new approaches for providing less-progressive small farmers comprehensive production and marketing services over the 1975-78 period.

The above purposes were to be achieved through the provision of credit and other services to farm enterprises of varying sizes. Credit was intended primarily for the purchase of required inputs for production of food -- and in some cases of cash -- crops. The Project had three components:

- A US $6.72 million credit program to provide seasonal credit for wheat and maize production to large commercial farms (Part A).

- A $3.36 million credit program for seasonal production loans to small "progressive" farmers (Part B). Progressive farmers were defined as farmers open to the use of new technologies; they were deemed for the most part, to be already familiar with the use of credit.

- A $3.4 million program designed to provide comprehensive production and marketing services to "subsistence" smallholders who had little or no access to such services in the past (Part C).

Of the $3.4 million allocated to this third component, $2.08 million was intended for seasonal credit, and most of the remainder for local expenses such as equipment and supplies, farmer training, staff costs incurred by farmer training centers and cooperatives, and storage construction.

All in all, the Project aimed at providing institutional credit to

- An estimated 1,500 large farmers with holdings of over 20 acres.

- An estimated 10,000 "progressive" small farmers, assuming an average holding of 6.6 acres.

- As many as 24,000 subsistence smallholders (7,800 per year for three years).

Implementation Arrangements

As per the Project Agreement, credit was to be channeled to project beneficiaries through a complex set of institutional "layers." The Project involved a $13.5 million loan from USAID to the Kenyan government. Of that amount, the local currency equivalent of $12.16 million was to be on-lent by the government to the Cereals and Sugar Finance Corporation (CSFC), a parastatal organization acting as an arm of the Ministry of Finance. The remaining $1.34 million was to be set aside to finance the provision of non-credit services to subsistence-type farmers (Part C). CSFC played the role of the "wholesale" financial institution, relending the funds to three principal "retail" lending institutions, namely:

- The Agricultural Finance Corporation, which was to receive the equivalent of US $2.52 million to cover subloans to large commercial farmers for seasonal production purposes, and $0.28 million for subloans to progressive small farmers.

- The Kenya Farmers Association (since renamed the Kenya Grain Growers Co-operative Union), which was to channel the equivalent of $4.2 million to large farmers and $1.12 million to progressive small farmers.

- The Cooperative Bank of Kenya, which was to on-lend the equivalent of $1.96 million to the small progressive farmers as well as the bulk of the $2.08 million component targeted to the subsistence farmer. The loan agreement allowed for the subsequent inclusion of other, unspecified agricultural credit entities as implementing institutions for the latter component.

The Loan Agreement with the government further specified that repayments to CSFC under the first two components of the Project would be deposited in a special account and reprogrammed for other agreed-upon activities such as additional credit and noncredit assistance to small subsistence as well as to progressive farmers.

II. THE INSTITUTIONAL QUAGMIRE

Where Did the Money Go?

The channelling of project funds to implementing financial institutions proceeded fairly well on target. The Kenya Farmers Association (KFA) received KSh 47 million ($5.76 million at the then exchange rate of KSh 8.16 to the dollar) from the Cereals and Sugar Finance Corporation in 1975. In 1976, the Agricultural Finance Corporation (AFC) received KSh 9 million ($1.1 million) to on-lend to large farmers, and KSh 2 million ($245,000) for progressive farmers. The Cooperative Bank of Kenya (CBK) received for its part KSh 32 million ($3.92 million) for progressive farmers, and KSh 7 million ($858,000) for subsistence-type smallholders. In 1976, it also received KSh 34.66 million ($4.25 million) from Parts A and B reflows. Excluding these reflows, a total of $11.88 million was thus on-lent by CSFC to the Project's three implementing institutions, in rough accordance with the $12.16 million specified in the Loan Agreement (the difference may be due to variations in exchange rate).

By April 1978, all loans made by CSFC to the KFA and to the AFC had been duly repaid. However, the Cooperative Bank was, due to collection problems outlined below, hard-pressed to honor its obligations to CSFC. Of the KSh 73.66 million it received (including reflows), it had managed to repay only KSh 47.37 million by 1984. The remaining KSh 26.29 million remained overdue in 1988, over ten years later.

Problems in the Cooperative Movement

The above institutional set-up was at the time the only alternative to reach the project's various target groups. The KFA and the AFC were, aside from a limited involvement by commercial banks, the only credit institutions to service large farmers country-wide. As for the Cooperative Bank, its involvement was justified by the overwhelming importance of Kenya's cooperative movement, through which an estimated 45-50 percent of the Gross National Product is marketed.

However, this set-up had some major flaws, and led among other things to the neglect of risk considerations and of lending responsibility amongst the various institutions involved. This applied particularly to loans extended by the Cooperative Bank, which reached the ultimate borrower through three successive institutional layers. In effect, the Cooperative Bank extended loans to cooperative unions, which in turn made them available to the cooperative societies which they served in their respective districts. Eventually, the farmer

received an individual loan from the society he/she belonged to. The set-up thus called for the signing of three successive loan agreements, namely between: (1) farmer and cooperative society; (2) cooperative society and union; and (3) union and Cooperative Bank.

Such layering was required by the fact that the Cooperative Bank did not at the time have a network of branches outside Nairobi and thus had to rely on the cooperative organization in each district to reach the small farmer. As a result, the Cooperative Bank was entirely dependent on unprepared and poorly staffed cooperative unions and societies for borrower selection, evaluation, and monitoring.

Loan eligibility criteria were in any case quite "soft:" the farmer was required only to become a member of a cooperative society and to attend a four-day training course on cooperative issues and credit management. But participation in such training courses was in many cases not enforced. Farmers ended up having poor understanding of their obligations towards the Cooperative Bank, and represented in most instances a bad credit risk for the bank. The Cooperative Bank's problems were compounded by the fact that small farmer selection was essentially performed by the Ministry of Agriculture's Junior Agricultural Assistants (JAAs) at the sub-location level. As the community-based government officers working directly with the small farmer, JAAs were entrusted with the responsibility of recommending farmers eligible for seasonal credit through the cooperative movement. Not surprisingly, these JAAs were often more concerned with the capacity of their client farmers to purchase recommended inputs than with the farmers' credit-worthiness and capacity to repay the loan.

As a consequence, many **societies** hastily enrolled farmers who had no previous history with the cooperative movement. In other cases, farmers were pushed into cooperative societies that were set up to service farmers involved in producing an entirely different crop than the core group of farmers. Most of these farmers remained inactive throughout the Project, that is, they did not market their products through the societies they had joined. Typically, coffee growers' societies in Machakos were asked to enroll cotton growers and eventually to provide them with seasonal credit. Whereas these societies were set up to collect loans from the farmers directly from the proceeds of coffee sales, they now found themselves at the mercy of a new group of farmers whom they did not know and whom they had no control over. This inadequate client selection mode led to the achievement of sub-par repayment rates.

Still other problems emerged at the **union** level. Participating unions were to play a key role as the Cooperative Bank's agents in the field. However, the management staff of the unions was at the time largely untrained in credit matters, as pointed out in the Capital Assistance Paper (the Project was to help train union staff in accounting and management,

which apparently did not occur). Secondly, as a result of poor loan documentation maintained by the societies and by the junior agricultural assistants, unions were not kept informed of actual loan activity under the Project's Smallholder Production Services and Credit Project ("SPSCP," or Part C) component. For example, the cooperative union in Machakos did not have a list of SPSCP loanees as late as 1980, that is four years after actual disbursement; at that stage, it took it upon itself to collect loan data -- which proved incomplete -- from the Ministry of Agriculture and from the village chiefs.

These serious problems at both the society and union levels made it all but impossible for the Cooperative Bank to lend prudently to the 30,000-odd small farmers targeted by the Project. In any case, the bank had little incentive to perform under SPSCP, since it was merely acting as a disbursement and collecting agent for the government, with the Ministry of Cooperative Development in effect bearing the lending risk.

Servicing the Larger Farms

Loans made by the Agricultural Finance Corporation to large and to progressive farmers[1] were also affected by weak management control and poor overall institutional performance. The Capital Assistance Paper (CAP) stated that, as early as 1971, "49 percent of the Agricultural Finance Corporation's small farm loans were in arrears for over a year and 23 percent were in arrears for two years or more." The CAP's claim that AFC's loan repayment record had improved by the time ASL was designed was more wishful thinking than reality. Also, AFC's lending activity was notoriously affected by both political patronage and corruption.

Of the three project implementing institutions, only the Kenya Farmers Association performed satisfactorily. It used project funds to extend more and larger loans to its traditional membership of larger farmers. Although no data on collection performance was available to the evaluation team, historical trends suggest that loan delinquencies were kept well below 10 percent. KFA's performance under the project is an encouraging -- and all too rare -- example of a financial institution managing to maintain high operating and financial performance when entrusted with a donor-sponsored credit fund.

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[1] Progressive farmers were defined in the Capital Assistance Paper as smallholders with a proven commitment to adopt improved agricultural practices. However, farmers who received loans under that category (particularly in the case of loans extended by the AFC) generally proved to belong to the medium- to large-scale category. Thus their classification under the "larger farmer" category.

Financial Consequences

As a result of the above shortcomings, neither the Cooperative Bank nor the AFC were effective in preserving the financial viability and long-term sustainability of the project. As of December 31, 1982, the Cooperative Bank had collected only KSh 11.7 million of the KSh 36.7 million loaned out (32. percent). The remaining 68 percent was overdue, with delinquency rates as high as 92.5 percent in Kisumu. Very few overdue loans have since been repaid. Since the Cooperative Bank has repaid over KSh 47 million to the government and only collected KSh 11.7 million from project participants, the ASL project entailed a net drain on the institution's resources and liquidity.

For its part, the AFC achieved repayment rates of only 27.4 percent on the KSh 3.4 million loaned out during the first year of the project (1975-76). Since the AFC has not repaid the government for the entire KSh 11 million received from the project, ASL also resulted in a substantial financial drain for the institution.

Weak performances by the Cooperative Bank and the AFC tended to compound the financial problems which these institutions already faced. Firstly, the tasks of managing ASL loans loaded these institutions with unduly heavy operating expenses. Project funds represented a substantial increase in lending activity for both institutions. As per CAP estimates, the AFC was scheduled to lend approximately $6 million out of its own resources in 1975. The $1.3 million received from ASL thus represented an increase of over 20 percent above normal lending activity.

The Cooperative Bank was extending less than $5 million in new loans yearly by the mid-1970s. The $4.8 million received from ASL thus represented a dramatic jump in new lending for the institution. The 1977 SPSCP evaluation team estimated loan administration costs to be close to 19 percent of loan amount at the union level alone. Although these costs were mostly covered by project grant support, they provide an order of magnitude of the costs of administration which the cooperative movement -- including the Cooperative Bank -- had to incur to continue servicing the project target group after project completion. One can assume that loan administration costs were somewhat lower for AFC, since it was dealing with substantially larger loans.

Secondly, the Project burdened both the AFC and the Cooperative Bank with an inordinate number of delinquent loans. Although neither institution bore the direct lending risk, administering these loans on behalf of the government indirectly jeopardized their long-term standing. This was particularly the case of AFC. Unable to secure new external funding either from the government or from international donors, the AFC was eventually

forced in 1983 to freeze all new loans funded from its own resources, and is now using only those funds collected from delinquent borrowers to fund the backlog of loans approved in previous years but never disbursed. The AFC is now attempting to survive in the face of a loan portfolio of which well over 50 percent is made up of overdue (and mostly uncollectable) loans.

Poor loan portfolio quality has also affected, and continues to affect, the Cooperative Bank. As in the case of AFC, the Cooperative Bank sorely needs to write off uncollectible loans and to start afresh. However, the government will not allow it to write off loans that the bank was merely "administering" on behalf of the government and which the latter considers as its own money. Although partially self-reliant financially through membership and income generated through the cooperative movement, the institution still depends on outside funding to meet credit demand by small farmers. Ten years after the completion of ASL's SPSCP (smallholder) sub-project, the Cooperative Bank remained deadlocked.

Of the three implementing institutions, the former Kenya Farmers Association appears in the final analysis to have been the most effective in selecting credit-worthy clients. In the final analysis, it is the only one of the three institutions to have drawn long-term benefits from the project.

Impact on Institutional Capacity

The ASL Project had little effect on the capacity of the implementing institutions to serve the project's primary target groups, namely the progressive farmer and the subsistence-type smallholder. Over the life of the Project, the Agricultural Finance Corporation made few strides in expanding its services to smaller farmers. Instead, it continued to serve the larger farmers, particularly those with political influence. Only recently has the AFC started to focus its attention on the small farmer, although its capacity to effectively service that group is unproven.

The Project did on the other hand contribute to the improvement of the cooperative movement's capacity to cater to the credit needs of smallholders. Because the Cooperative Bank had limited institutional capacity at its head office and no field offices to reach these farmers, the Project aimed at improving field operations by strengthening the management and administrative capacity of cooperative unions and societies. However, the unions were not overly successful in establishing effective credit sections and credit recording systems. The 1977 evaluation of ASL's SPSCP (Part C) component pointed out that "unions with existing or earlier credit projects had to sort out members who had earlier account numbers and possible outstanding debts with the union from existing or earlier credit schemes. This

was complicated further by lost membership identification, and by members using different names in past registration." The report goes on to say that "many of these problems originated at the society level where managers felt pressure from the loanees to disburse credit or miss the planting season."

The above findings are consistent with those of this evaluation team. In 1988, there appeared to be substantial variations in the administrative and monitoring capacity at both union and society levels, some unions having up-to-date loan records and others still having no accurate records of loan activity under the Project. Cooperative unions and societies have continued to experience the problems related to borrower selection already encountered under ASL. Such problems were inherent in the principle of free access and membership to cooperative societies by farmers. Only recently has the cooperative movement introduced more stringent eligibility criteria, limiting access to credit to members of the societies who have been "active" (that is, who have marketed their crops through the society) for at least three years.

The approval of loans to be disbursed by the **Cooperative Bank** also remained flawed well after Project completion. Again, the Junior Agricultural Officers recommended farmers for credit, with little consideration for their ability to handle credit responsibly. Endorsement of the loan application by the cooperative union was mainly a token step, since union management did not in most cases know the farmer personally or have the logistical means to visit the latter on the farm.

The loan approval process was changed only recently, with the country-wide establishment of District Loan Committees now responsible for approving loans to individual cooperative farmers. This committee, which is composed of the District Cooperative Officer, the District Commissioner's representative, the District Agricultural Officer, the union representative, and the CBK, has allowed for a simplification and acceleration of the loan approval process. In a way, the management weaknesses suffered during the ASL Project may have indirectly contributed to the revamping of the system. They may also have helped convince the CBK to open field offices to better cater to the needs of the small farmer. On the other hand, the present system is hardly satisfactory: the lending decision is still essentially taken by a committee including only one representative of the lending institution, and is thus out of the hands of the CBK per se.

Meanwhile, the former Kenya Farmers Association continued to serve its clientele of larger farmers, a role which it had been playing effectively since the 1920s. The Project appears to have had little effect on KFA. Since then, the government has attempted to gain control of this once-powerful institution, influencing more strongly its policies and lending decisions. This has already resulted in an unfortunate loss of autonomy and effectiveness.

Findings

1. ASL succeeded in expanding the KFA's capacity to serve large-scale farmers. On the other hand, it failed to improve the capacity of the Cooperative Bank and of the AFC to serve smallholders.

2. As a result of poor performance by the AFC and of the dilution of lending risk in the cooperative system, repayment rates were in the 28-32 percent range for Parts B and C of the Project. This contributed to the financial problems of both the AFC and the Cooperative Bank.

3. The problems encountered by the project at the institutional level are typical of those found in many targeted, production-oriented credit project, with the donor agency and the government encouraging implementing institutions to make loans as soon as possible, as fast as possible, but with little consideration given to loan collection.

Lessons Learned

1. The Project was based on the assumption that, although weak, implementing institutions would improve their internal capacity and their performance during project implementation. Such wishful thinking should be avoided. A financial institution should have a demonstrated capacity to effectively reach the intended target group **before** it is entrusted with the management of a credit fund.

2. On-going monitoring of the Project by USAID would have allowed for early identification of key implementation constraints. ASL's lack of such a monitoring system was a recipe for failure.[2]

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[2] One should note that project funds were disbursed with amazing speed in a period of less than twelve months. Under such conditions, monitoring of performance becomes a moot point, since USAID would have had no time to introduce amendments in the implementation arrangements. Slower disbursements schedules and "tranching" of these disbursements should in the future be a prerequisite for these types of programs.

III. SOCIOECONOMIC IMPACT

ECONOMIC BENEFITS

The Project correctly identified low input utilization as a key constraint to increased food production by large and small-scale farmers alike. The evaluation team generally concluded that conditions prevailing at the time ASL was designed and implemented provided strong economic and financial rationale for the Project.

The economic environment in which the Project was initiated was one of uncertainty. The prices of energy, fertilizer, and chemicals were rising rapidly, and it was feared that the resulting high cost of agricultural inputs would stifle utilization of such inputs and thus lower yields. This would in turn then lead to a decline in food production and increase food import requirements.

On the other hand, the Project benefitted from a favorable investment climate in agriculture. The prices of agricultural commodities that were targeted by the Project were set at high levels by the Maize and Produce Board during 1975, the year in which Project funds were first utilized. Prices of these commodities remained at high levels for the remainder of the 1970s, reinforcing the economic incentives for increased crop production that were provided by ASL.

Data gathered by the team did not allow for a quantitative estimate of the Project's impact on agricultural production.[3] However, there is little doubt that ASL had a positive impact on such production. Large-scale farmers who received in-kind loans from the Kenya Farmers Association benefitted from substantially higher yields as a result of the application of fertilizers and other inputs which they would otherwise have been unable to purchase. This is true of both the wheat and the maize growing areas which were the main focus of the project. Loans extended by the Agricultural Finance Corporation did not have similar impact, since most of the loans were granted on the basis of influence instead of appropriateness of economic return of individual activities. Luckily, the AFC received only KSh11 million from the project vs. KSh47 million for the KFA. Thus, the combined economic return from Parts A and B of the project was still largely positive.

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[3] Neither government agencies nor the three implementing institutions had accurate records of production figures in the mid-1970s, and -- not surprisingly -- interviewees had no precise recollection of production patterns twelve to thirteen years back.

Since large and "progressive" farmers were provided access to credit for only one year, the question remains as to whether the short-term economic benefits gained in the 1975-76 crop years were sustained in subsequent years. It appears in this respect that the higher levels of savings and income achieved during the short life of the Project allowed large-scale loan recipients to maintain high utilization of fertilizer and other inputs later on, making some of the financial and economic benefits of the project permanent.

Sustained economic impacts were also achieved by the minority of development-minded smallholders who adopted improved production systems and/or made increased application of agricultural inputs under the project's SPSCP(smallholder) component. This was a central objective of the Project, and the evaluation team determined that this objective was at least partially realized.

Unfortunately, such farmers may have represented a mere 20-30 percent of all subsistence farmers targeted by the Project, that is, a percentage similar to that of smallholders who actually repaid their loans. The majority of smallholders who failed to repay their ASL-financed loans ended up receiving what amounted to a one-time grant from the government. It is unclear whether this infusion had a significant impact on production. Since most of the credit was provided in kind in the form of agricultural inputs, application of those inputs presumably led to higher yields the year they were applied. In subsequent years, it is likely that most of these farmers reverted to their former agricultural practices, thereby receiving few long-term benefits from the project.

In any case, economic returns from those unpaid loans pale in comparison to the huge financial cost to the government from non-repayment and costs of managing the entire program. Moreover, most delinquent smallholders are now excluded from access to institutional credit, although some of them may be in a position to use credit effectively.

Findings

1. The ASL Project had a positive impact on agricultural production. All loan recipients achieved higher yields in the 1975-76 crop seasons. Large-scale farmers served by the Kenya Farmers Association were able to sustain these higher yields in subsequent years, thanks to higher income and savings levels and improved capacity to purchase critical inputs. The same applies to the minority of smallholders committed to adopting improved agricultural practices.

2. On the other hand, the majority of smallholders reverted to their former agricultural technologies once they were cut off from project-sponsored funding. Although they

also achieved higher yields the year they received credit, savings were generally applied to non-productive uses. In view of the huge cost involved for the government in terms of loan defaults and management costs, the economic rate of return of that component of the project was no doubt negative.

Lessons Learned

1. Although access to inputs was an important constraint for smallholders at the time of the Project, poor borrower selection prevented ASL from having a sustained impact on production levels. Careful attention should thus be paid to the process by which credit is provided.

2. Credit can only be effective if the smallholder has access to a package of effective services including inputs, technical assistance, and training. Only then can the smallholder be enticed to adopt more progressive production practices.

IMPACT ON BENEFICIARIES

Changes in Economic Status and Income

The project had limited impact on the economic status of subsistence smallholders. In many instances, the drought conditions which prevailed in 1975-76 were found to have reduced yields and annihilated the farmers' capacity to repay seasonal loans. Secondly, sectoral problems had a negative impact on farmer income. For example, institutional problems in the national and local cotton industry adversely affected the performance of beneficiaries in most cotton-growing areas. Thirdly, by its very nature, ASL furnished only a brief and generally small injection of capital to small farmers, insufficient to have a lasting impact on income levels. Finally, it appeared that some of the SPSCP subproject funds actually went to progressive smallholders living in the higher agro-economic potential areas of the beneficiary districts, instead of benefiting traditional farmers.

ASL funds still helped improve the economic status of a minority of progressive and subsistence smallholders. The key variable was not the presence of credit, but farmers' attitude in applying the funds. It was planning and labor that ensured the funds were put to effective use. Furthermore, farmers who repaid their loans often sought additional funds from official or private sources for farm development. Hence, for these families, the ASL project was one link in a chain leading to other sources of agricultural credit.

Few data were available on the relationship between holding size and access to ASL funds. Nevertheless, there was no evidence of project-induced changes in landownership among either beneficiary or non-beneficiary groups. Nor were any foreclosures identified among farmers in arrears.

IMPACT ON INCOME DISTRIBUTION

It appears that access to ASL funds was not equitably shared throughout the countryside. A significant proportion of the loans were issued to large-scale producers through the Kenya Farmers Association and the AFC. Many middle-level rural households also had access to ASL loans through the AFC and the Cooperative Bank. Political and economic influence played an important role in the distribution of funds to smallholders. There was little evidence in particular that ASL credit reached families with micro-holdings.

ASL apparently had a negligible impact on income distribution. Overall, it did little to alter the already substantial differences in income between large- and small-scale producers. The Project did not appear to narrow the gap in earnings between smallholders in ecologically-favored and ecologically-disadvantaged zones, nor was there evidence that ASL reduced income differences within rural communities.

It appears that a significant proportion of project loans were diverted to non-agricultural uses by smallholders. Development-conscious farmers who effectively used credit for farm improvement succeeded in extending the gap in earning power between themselves and their less progressive neighbors. However, development consciousness cuts across the spectrum of farm families: largeholders and smallholders; female and male-headed households; high, medium, and low potential regions; and different cash crop areas.

Findings

1. Sustainable impact on income was found for farmers who made effective use of their loans. Others got one-time income transfers only.

2. Impact of the Project on income distribution was minimal.

3. ASL had no discernable impact on land distribution.

Lessons Learned

The Project was hastily implemented, with little attention paid to the characteristics of target beneficiaries. Beneficiary motivations and attitudes towards credit need to be carefully analyzed at the time of project design.

IMPACT ON WOMEN

Perhaps not surprisingly, the Project -- designed in the mid-1970s -- made no provision for the specific targeting of women beneficiaries. Authors of the Capital Assistance Paper mention in an Annex their interest in encouraging women's participation in the Project by 1) ensuring training, 2) relieving the credit restrictions of land deeds, and 3) suggesting that the two Ministries involved target women for participation in cooperative management, record keeping, union leadership, and agricultural activities.

Interviews and observations revealed that women are heavily involved both in the physical labor and in the management of their farms. This certainly was the case of the few women the evaluation team was able to interview and observe in the course of this evaluation. In two instances, the woman had been a widow or divorcee during the credit scheme and had assumed full responsibility for borrowing the money, implementing agricultural changes, and repaying the loan. (One of these was manager of a 1,500 hectare farm in central Kenya.) In two other cases, the team observed women in positions of administrative responsibility within the cooperative that had received loans in the 1970s; they were aware and informed of the objectives of the Project.

It appears that in Kenya development projects are increasingly recognizing women's roles. Women are being incorporated in the "hard-core" revenue-producing activities of various development schemes as well as in the more traditional income-generating efforts such as basket making and handicrafts. The SPSCP component of the ASL Project may have contributed to this process.

Findings

1. It is believed that the project contributed to attitudinal changes toward women in rural Kenya, but the extent of such contribution is undetermined.

2. Loans were sometimes granted to women in name, but then handed over to their husbands' control. In later years, these women's names still appear on the books carrying their husbands' arrearages, even though they (the women) were not the actual

beneficiaries.

3. Credit was sometimes used by men borrowers to pay the bride wealth of a second or third wife -- an economic asset or prestige investment that he may not otherwise have been able to afford.

Lessons Learned

1. Credit projects such as ASL should specifically promote awareness of project activities among women borrowers to compensate for their usual lack of access to key information.

2. Credit projects such as the SPSCP must provide technical assistance in record-keeping, management, and marketing strategies to women to ensure their full participation in such schemes.

IV. EFFECTS ON RURAL FINANCIAL MARKETS

Introduction

Kenya has one of the better developed financial systems in sub-Saharan Africa, with a total of 19 commercial banks, eight public development finance corporations and 35 non-bank financial institutions. Commercial banks offer a good network of branches usually extending down to the district level, allowing them to be increasingly active in agricultural financing. In 1988, emphasizing the priority given to agricultural credit by the government over the previous 20 years, commercial banks operated under a non-binding Central Bank guideline requesting them to allocate at least 17 percent of their deposit liabilities to the agricultural sector.

Impact on Competition and Efficiency in the Financial Sector

The ASL Project does not appear to have led to increased **competition** in the financial sector. One reason it did not do so is that it focussed on a target group -- the small farmer -- which the commercial banks were not equipped or willing to serve. Competition in that sector was, and remains, minimal. Neither is there any evidence that the Project increased competition to lend to large farmers, since the Project reached few large farmers who were

not already clients of commercial banks.

It is also clear that the Project did **not** result in improved efficiency in the financial system. High lending costs and high default rates did not allow the institutional lenders involved to achieve viability and self-sufficiency under the program. These problems have hampered both the AFC and the Cooperative Bank for the past 20 years and are not specifically related to the Project, but there is no evidence that any improvement in institutional performance and efficiency was achieved during the life of the Project or as a consequence thereof. On the contrary, the Project tended to emphasize and confirm the inherent inability of publicly-controlled (AFC) or publicly-mandated (CBK) financial institutions to manage a credit program on a sound and financially viable basis.

Impact on Access to Formal Financial Services

As described in the Capital Assistance Paper, the Project was designed to provide institutional credit to approximately 1,500 large farmers, an estimated 10,000 progressive smallholders, and as many as 24,000 subsistence-type small farmers.

Although no data were available on the actual number of loanees under ASL, it is doubtful that the Project achieved the above targets. Loans extended by the KFA and the AFC to large and progressive (so-called "small") farmers tended to be substantially larger than envisaged in the CAP. But the main drawback of the Project was that, due to low repayment rates of around 30 percent, most farmers had access to institutional credit only once. One therefore **cannot** argue that the Project introduced a large number of farmers to institutional credit markets on a sustainable basis.

Many credit projects targeted to progressive-type farmers or entrepreneurs hold the hope that a number of them will eventually establish themselves as responsible, credit-worthy clients and thus "graduate" to commercial bank credit. The team found no evidence that project beneficiaries actually graduated, although some large farmers who were members of the Kenya Farmers Association may have done so.

The Project allowed thousands of small farmers to have access to institutional credit for the first time. Unfortunately, these are precisely the farmers that performed the worst in repaying their loans. Indeed, thousands of delinquent farmers are now black-listed by the AFC and the CBK, to the extent that the Project has indirectly led to the **exclusion** of those farmers from credit markets for the foreseeable future.

Impact on Savings Mobilization and Financial Deepening

The concept of financial depth is useful in analyzing the level of development of financial markets, that is, the relative importance of the financial sector in the overall economy. Typical of countries at similar levels of development, Kenya suffers from "shallow" financial markets, although the relatively high level of development of its bank network allows it to achieve levels of financial development found in countries of higher per capita income such as Nigeria or Thailand. However, no significant expansion of financial markets has occurred over the past decade, as indicated by the stagnation of financial depth ratios (M2/GDP fell slightly from 41.3 percent in 1981 to 40.2 percent in 1987).

Since no statistics are available on deposits and other monetary assets in rural as against urban areas, it is not possible to determine the extent to which the Project actually contributed to financial market development in rural Kenya. However, since financial deepening occurs through the accumulation of deposits and other liquidity (quasi-money) in the banking system, one may estimate the impact of the Project on rural financial markets by evaluating its impact on savings levels by the beneficiary (and eventually by other) groups.

In this respect, access to deposit/savings facilities remains elusive for most small farmers, including those that participated in the ASL Project. AFC is a non-bank financial institution and does not accept deposits. It therefore had little incentive in promoting savings among the project's beneficiary group. The Cooperative Bank does on the other hand take deposits from its members. However, ASL was implemented without much attention to savings mobilization, and most participants in the program thus did not benefit from improved deposit/savings services. Any Project impact on financial market development would thus have occurred only as a result of increased savings levels by the larger farmers with easier access to deposit facilities. One may assume that such increased levels of savings actually took place, although no survey data is available to determine the magnitude of net changes.

Impact on Financial Market Policies

Aside from operational objectives such as the strengthening of the Ministry of Agriculture's planning and implementation capacity, the Project did not call for policy reforms either related to the functioning of financial markets or other areas. It therefore had no direct impact on financial market policy as such. Its effect on interest rates applied to agricultural credit was likely close to neutral, since subloans were extended to farmers at a close-to-market rate of 11 percent (commercial bank rates were at the time several

percentage points higher).

On the other hand, the Project reinforced the tendency of the government to rely on externally-funded, targeted credit projects to reach priority target groups. Empirical evidence is that such credit allocation policies have only a marginal effect on targeted groups, but tend to introduce distortions in financial markets by reducing the incentive for financial institutions to mobilize their own resources locally and by negatively affecting the overall supply of funds to the economy. Although over reliance on such directed credit programs is now questioned by researchers and practitioners alike, their attractiveness to policymakers is still pervasive throughout the developing world.

Findings

1. The Project did not contribute to improved competition and efficiency in the financial sector.

2. It did not produce substantially higher savings levels for the target groups, particularly for subsistence farmers.

Lesson Learned

If not associated with strong incentives to save, credit projects have little impact on the financial intermediation process.

V. IMPLICATIONS FOR USAID/NAIROBI

Introduction

During the course of this evaluation, USAID/Nairobi asked the evaluation team to comment on USAID's future agricultural credit strategy. From its brief three weeks in country, the team was not in a position to recommend a comprehensive course of action to the mission. The following points should thus be interpreted more as an overview of credit constraints in agriculture than as a definitive statement on the subject. For simplicity, these comments will address issues related to smallholder production credit only, leaving aside other types of credit such as that related to land development, agribusiness, and so forth.

There are four types of arguments that may be used to justify USAID's present disinvolvement from smallholder production credit schemes:

- Poor investment opportunities in agriculture;
- A lack of institutional capacity to serve smallholders;
- A lack of demand for credit or an oversupply of credit for that target group; and
- Outright opposition to targeted credit programs, based on past research and empirical evidence.

A brief analysis of the applicability of each of these arguments to the Kenyan environment will be found below.

Investment Opportunities in Agriculture

As far back as its landmark 1973 Spring Review of smallholder farmer credit. AID determined that agricultural credit was not a solution per se, but that its effectiveness depended on the existence of good investment opportunities for the small farmer. Such opportunities are generally a factor of:

- The existence of appropriate, low risk technologies applicable to small farm production:

- Technical assistance, assured input supplies, and supporting agricultural services; and

- Attractive market opportunities for the crops.

The evaluation team has found at least partial evidence that profitable investment opportunities are available to the smallholder in selected areas of the country. There is little doubt that subsistence-type farmers can increase their yields through the adoption of improved farm technology, purchase of improved seeds, or application of modern inputs.

Whether the small Kenyan farmer has access to appropriate technical assistance and to other key services can be best answered by the USAID mission. Field interviews indicated that small farmers were generally satisfied with the technical advice provided by the Ministry of Agriculture's field agents, and that given the existence of other support services, they have been able to invest profitably in new farm activities.

The local market also appears to offer attractive outlets for farmers, at least for key export crops and primary food crops such as maize. Despite the existence of price controls and government monopolies on the marketing of key agricultural commodities, the pricing of agricultural commodities is not grossly skewed against producers.

Thus, there clearly are profitable investment opportunities in agriculture for the small farmer.

Institutional Capacity

Although commercial banks are actively financing the agricultural sector through a well-developed network of district-level and rural branches, they do not provide significant amounts of credit to smallholders. The task of servicing the smallholder thus falls on the two specialized financial institutions that have traditionally been serving that group: the Agricultural Finance Corporation (AFC), and the Cooperative Bank of Kenya (CBK).

Unfortunately, both institutions were plagued by serious management and operational problems in the 1970s and the early 1980s. These well-known problems included political interference in the allocation of resources, lack of financial and operational autonomy, lax lending policies, and mismanagement. The institutions' problems were compounded by their

squandering of donor funds. As a result, they found themselves cut off from both government and donor funding. Since both the AFC and the CBK are now burdened with unmanageable amounts of overdue loans, new lending is limited to the token amounts collected from delinquent borrowers.

Genuine efforts were made by each institution to improve internal efficiency and to resume lending activity on a financially sound basis. AFC is commended for its improved performance under the new management appointed in 1987. The World Bank is providing technical assistance to the AFC, while making available limited new lending resources. However, the AFC's ability to turn around and operate on a financially sound basis is still highly uncertain. Also, its capacity to effectively serve small farmers is unproven, despite its new mandate to concentrate on that target group. Until satisfactory answers are provided to these questions, it would be unwise for USAID to channel new resources through that institution.

As for the cooperative movement, it is still characterized by weak management, inefficient operational systems, uneven capacity at the level of the cooperative societies, and dilution of responsibility and lending risk between the CBK on the one hand, and the unions and societies on the other. It is recommended that USAID **not** consider channelling credit funds through the CBK until such internal inefficiencies are resolved.

Availability of Credit in the Agricultural Sector

Demand for seasonal and investment loans from smallholders appears to be high. This is a direct consequence of the availability of productive investments in agriculture (see above). Insofar as institutional lenders are able to carefully select creditworthy borrowers, the provision of credit to that target group thus appears to be justified.

This belief needs to be qualified in two ways:

- The evaluation team does not support the idea of providing seasonal credit to the subsistence farmer involved essentially in food crops. Such farmers consume most of the produce and operate essentially outside of the cash economy. It thus makes little sense to provide them credit when farm output will generate little cash resources to repay the loan.

- Credit should be made available only to development-minded farmers who are ready to adopt new farming techniques, including application of modern inputs. USAID should not consider programs aimed at providing seasonal credit to

subsistence farmers year after year, as such programs have no developmental effect in the long run. Such farmers may need subsidies or grants, but should not qualify for institutional credit.

Rationale for Targeted Credit Programs

Agricultural credit programs targeted to specific beneficiary groups have come under increasing criticism in the past decade, notably by Dale Adams at Ohio State and other researchers. The arguments presented against such programs can be summarized as follows:

- They create a disincentive for local institutions to mobilize their own resources for lending. In doing so, they weaken the entire financial intermediation process;

- They create distortions in financial markets by eventually reducing the total amount of loanable funds in the economy;

- They promote the financing of sub-optimal or capital-intensive investments; and

- If subsidized, they actually lead to the rationing out of the intended target group.

Each of these arguments has elements of truth. It is the team's belief that targeted credit programs still have a role to play in developing countries, and in most cases, they will still have to be carried out by much-criticized public development finance corporations such as AFC. However, policymakers have often over-relied on such programs, producing some or all of the counterproductive effects listed above.

Conclusion

All in all, one cannot make a strong case in favor of new smallholder credit programs in Kenya. Although there are as stated above strong investment opportunities in agriculture for the small farmer, there are also institutional constraints which would make new initiatives on the part of USAID unwarranted at present.

APPENDIX A

EVALUATION METHODOLOGY

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A rigorous impact evaluation of this type of project would have typically required six to eight weeks in the field. The three weeks available to this evaluation team clearly did not allow for the systematic sampling and interviewing of the approximately 100 farmers which a comprehensive evaluation would have entailed. Recognizing these time limitations, AID/Washington asked the team to determine project impact from unstructured data collection from both institutional and individual sources.

Interviews were held with a wide range of project and non-project participants, including present and former USAID staff, government employees, managerial and operational staff of the implementing financial institutions, members of the cooperative movement at all levels, as well as individual farmers.

Survey Site Selection

The first week in-country was spent in Nairobi. Aside from briefings and data collection with the USAID Mission, government agencies and financial institutions, the team proceeded with site selection for field work to be completed during Week 2. Since subsistence farmers were a key project target group, a number of districts where the SPSCP subproject took place were selected. For comparative purposes, selected sites were among those also evaluated by SPSCP's 1977 evaluation team. These sites included the districts of Machakos, Embu, Siaya, Busia, South Nyanza (Homa Bay), and Kisumu. The Cooperative Bank suggested adding Kirinyaga to the list, due to the area's high economic potential.

From the possible list of AFC branches, Kerugoya (Kirinyaga), Kimilili (Bungoma), and Eldoret (Uasin Gishu) were selected: Kirinyaga because an evaluation was also going to be made of its cooperative sector; Kimilili because it received the bulk of smallholder funds channeled through AFC; and Eldoret because it was a major recipient of funds for large farmers.

Field Research

The evaluation team split into various groups for the field work. One party travelled to Kirinyaga, Eldoret, Kimilili, and Homa Bay, while another group headed to Embu and Machakos. Later in the week, a third group visited Kisumu and Siaya.

Surveying and data collection followed a fairly standard pattern. In each district, meetings were first held with the district cooperative officer, who arranged meetings with the district cooperative union and with individual societies. The cooperative officials then helped the team identify appropriate beneficiaries for interviews.

Insofar as possible, the team avoided limiting its interviews to "model" loanees, attempting instead to meet delinquent borrowers. This did not prove overly difficult, since delinquent borrowers represented in most cases the vast majority of the beneficiary population. The team also attempted to survey farmers with units of various sizes (large, medium, and small producers) and of varying attitudes (progressive, open to improved techniques, or conservative minded), as well as female-headed households.

However, given time and logistical limitations, coupled in some instances with reticence on the part of local officials, interviews were usually limited to one to three farmers per district. Thus, the sample of interviewees was by no means random nor even representative of the beneficiary community as a whole. Generalizations about beneficiaries and the impacts of the project are therefore of limited accuracy. Nevertheless, the team was able to meet with an important cross-section of beneficiaries in terms of agro-ecological zones, landholding, scale of production, cash crops, family composition, and past involvement in ASL I. Appendix H provides a list of the 80-odd officials and individual farmers interviewed over the three-week evaluation period.

Methodology for Data Collection

Methodological issues had been discussed at a two-day workshop in Washington prior to departure. Appendix B contains a discussion of methodological issues provided at the workshop as well as proposed indicators to determine project impact at various levels. Additionally, the team met before heading to the field to discuss issues specifically related to this evaluation. Also, the team was able to draw useful lessons from a similar evaluation just completed in Malawi. For the most part, interviews conducted with farmers were open-ended.

Data Analysis

The team met for half a day upon returning from the field to discuss major findings of the evaluation. As a first step, each team member was asked to fill out a questionnaire on major findings and lessons learned. This exercise proved successful, as it allowed for a consensus to emerge on the various impacts of the Project. Team members then proceeded to summarize their findings in their respective appendices. The main body of the report was completed by the team leader, based on individual appendices. A debriefing was given at the USAID Mission on November 10, after which final write-up was completed.

APPENDIX B

ECONOMIC ANALYSIS

APPENDIX B

ECONOMIC ANALYSIS

Background

The general agricultural environment at the time the Project was undertaken was one of uncertainty, with the price of agricultural inputs rising dramatically, affected by the high price of oil. There was a fear that the high cost of energy and other agricultural inputs would negatively affect crop production, resulting in costly food imports and further depletion of Kenya's foreign exchange.

Farm prices for the grains covered by the Project were set at high levels during 1974 and early 1975, as large wheat and maize farmers and the small progressive farmers were completing farm plans for the long-rains growing season. Prices for targeted crops remained high for the remainder of the 1970s, during the time when small traditional farmers were the principal focus of this effort. The generally high farm prices for targeted commodities tended to support the objective of increased agricultural output by providing reinforcing economic incentives for producers.

Impact on Large Farmers

ASL's large farmer credit component targeted wheat and maize farmers with land holdings of over 20 acres. Some of the Project funds were allocated to the Kenya Farmers Association (KFA) and were used to provide in-kind loans to member farmers in the form of fertilizer, chemicals and fuel. Project funds supplemented a KFA program of seasonal credit that was already in operation. Other Project funds were channelled through the Agricultural Finance Corporation (AFC) mainly to large maize- producing farmers.

The evaluation did not uncover many specifics concerning the large-farmer component of the ASL-1. However, credit in this subproject was directed to farmers who were generally experienced in the use of production credit and for whom credit was often a constraint. The alleviation of this constraint through credit generally enabled farmers to expand their output beyond levels normally achieved in the absence of institutional credit. The Project, however, provided credit to the large farmers for only that one season. Thus, ASL did not lead to a lasting change in the output of large wheat and maize farms.

Impact on Progressive Small Farmers

This part of the Project provided short-term production credit for progressive, established small farmers who grew wheat, maize and other cash crops on holdings of less than 20 acres. KFA, AFC and the Cooperative Bank of Kenya (CBK) administered this part of the Project. KFA was involved with wheat and maize producers, the AFC with the maize producers, and the CBK with producers of passion fruit, beans, and sunflower seeds. The funds provided to KFA and AFC were supposed to be targeted to established small farmer clients while the funds that were provided to the CBK were on-lent to the cooperative unions and societies.

KFA and AFC loans often went to producers who were experienced in the use of seasonal credit and for whom credit was often a constraint. Field data indicated that these farmers usually employed the credit to apply more fertilizer and use more chemicals than they used before. This additional usage of inputs resulted in higher levels of output, notwithstanding the effect of unfavorable weather conditions.

On the other hand, farmers who did not have an established credit record often did not use credit for productive purposes. Rather, this group tended to divert the cash received to personal or household uses. A high proportion of first-time credit recipients who were interviewed did not pay back their loans. They claimed in particular that increase in production did not provide the necessary income. These farmers also admitted that household expenses took precedence over loan repayment.

The performance of the SPSCP subproject was thus uneven. Credit enabled some farmers familiar with the use of production credit to purchase more inputs and produce more. Other farmers in the group especially those who had no credit record, did not use the inputs as directed and often did not repay their loans.

Impact on Subsistence Farmers

The Smallholder Production Services and Credit Project (SPSCP) was the operational subproject for implementing this part of the ASL-1. Its focus was on small traditional farmers with no experience in the use of credit. The objective was to provide the target group with technical assistance, training and credit. Another objective was to strengthen intermediary institutions serving that group, particulary the CBK, the cooperative unions and the cooperative societies. SPSCP provided 75 percent of the credit in-kind, including seed, fertilizer and chemicals, and 25 percent in cash to cover such requirements as land preparation and weeding. Production input packages were offered in the various regions

for the production of maize, cotton, beans, sunflowers and potatoes. The field survey did not yield information about the input packages that actually were provided, but secondary data indicated that input packages increased production when used properly.

The Project assumed that small traditional farmers could improve their income and well-being by using credit to adopt modern farming techniques. This idea was based on the assumption that progress of the traditional farmer was constrained by the following factors: limited availability of modern farm inputs at the local level, limited availability of technology suited to and understood by the traditional farmer, and limited access to credit. The Project further assumed that credit constraints were worsened by conservative lending policies on the part of the cooperatives and the AFC, and by weaknesses in the cooperative unions and societies. The intent of the Project was to use SPSCP to alleviate these constraints and to introduce traditional farmers to modern agricultural technologies.

This is the only part of the ASL-1 that was designed to continue beyond the first year. If successful, it thus had the potential to permanently increase the production of food and cash crops. However, SPSCP only had a limited impact on production. Field data strongly suggested that the SPSCP target group included a wide spectrum of farmers, from the development-minded small farmer to the more typical subsistence farmer.

The development-minded farmer was indeed an appropriate target of the Project. He was ready to adopt modern agricultural methods, follow the guidelines that were provided with the various credit packages, and eventually repay the loan. He was also conscious that continued access to credit would lead to sustained increases in output and income. In addition, these farmers in many cases benefitted from an overall increase in production of other crops, as the farmer attained greater general understanding of underlying principles of crop production from the training provided and from interactions with extension workers.

However, the typical participant in SPSCP presented a different set of attitudes from the above. He saw the program as providing a source of badly needed cash in the short-term. On the other hand, he did not see the potential it provided for sustained increase in production, income and well-being. The typical participant in SPSCP was not prepared to make the immediate sacrifices that were necessary to achieve sustained change.

This farmer often diverted the cash portion of the loan to other uses. Therefore, operations needed for successful implementation of the crop packages, such as land preparation and weeding, were not carried out as well as they should have been, and the increase in crop production did not reach its full potential. Usually, these farmers did not repay their loans. The typical subsistence farmer therefore experienced no long-run increase in crop production, income or well-being as a result of SPSCP.

The Impact of Market Conditions

Adequate market conditions allowed for the satisfactory sale of wheat by large farmers, and of maize by both large and small farmers. Similarly, coffee and cotton farmers were able to market output through cooperative societies.

However, problems did develop in the marketing of beans and sunflowers produced by project beneficiaries. Field data indicated that farmers who grew these crops expected to market them through the cooperative societies where they normally marketed their cash crops. However, cooperative societies were unprepared to market these new crops. In the case of beans, farmers often left their produce at the cooperative society, assuming their accounts would be automatically credited upon sale. But in some cases the beans were never sold, depriving the farmer an expected source of income.

In the case of sunflowers, much publicity about the crop had been provided in the Kisumu area, where farmers had been told that it was going to be a profitable second cash crop. Farmers who grew sunflowers found themselves in much the same situation as the farmers who grew beans. Some farmers took their sunflowers to the cooperative and were told that they would receive credit based on the quantity delivered and a fair market price. However, farmers reported that they were informed, in some cases months later, by the cooperative society that they could come and reclaim the bags of sunflowers that they had delivered.

The field survey revealed that the above marketing problems caused serious hardship to a number of farmers. Some of them found themselves in a situation in which they had incurred a substantial debt to produce a crop which eventually generated no income. In this type of situation, the farmer had little opportunity to repay the loan because of marketing problems that were beyond his control.

Impact on Income

One-time increases in farm income were realized by large farmers and small progressive farmers when the 1975 crop was sold. With the typical traditional farmers there were probably minor one-time increases in farm income that resulted from the increased outputs of these farms. However, there was a perverse income effect of the SPSCP in that farmers who diverted cash payments and who sold Project inputs received a monetary windfall. Farmers who used the inputs productively but did not repay their loans also

received a monetary windfall. All of these increases in farm income were transitory and occurred within a year of the time credit was disbursed. The only long-run increase in income that resulted from the Project was the increased output that is attributed to the development-minded farmers that were served by SPSCP.

Impact on Employment

The field survey did not yield a large amount of information on employment. One can only speculate that large farmers targeted by the Project employed more workers in 1975 than they would have if the Project had not been implemented. Small farmers, both progressive and traditional, received money to pay for the preparation and cultivation of land. In some cases, they were found to have hired additional seasonal labor or outside contractors, which resulted in increased agricultural employment. These impacts were transitory and occurred shortly after the disbursement of the loan.

Conclusion

The agricultural sector sustained a substantial short-run production increase above that which would have occurred without the Project. Serious food shortages were avoided, and therefore, the need for unusually high levels of food imports was obviated. On the other hand, the Project had little sustained economic impact, aside from the impact related to a limited number of development-minded small farmers. This small sustained increase in production did not result in any changes in production or employment in industries which are upwardly or downwardly linked to the crop producing sector.

APPENDIX C

SOCIAL ANALYSIS

APPENDIX C

SOCIAL ANALYSIS

This Appendix describes and analyzes socioeconomic and cultural aspects of ASL I. But it is also concerned with the broader context of the demand and use of credit in contemporary rural Kenya. This approach is taken because of the well-known methodological difficulties associated with measuring specific impacts from credit programs (for example, see Adams 1988), a situation complicated in this case by passage of nearly a decade since the project ended.

The Appendix is divided into three parts. The first discusses variations in the local farming systems among project beneficiaries. The second explores the relationship between socioeconomic motivations, agrarian development, and the demand and use of credit by rural families. Part three describes socioeconomic and cultural aspects of access to credit.

Variations in Farming Systems

Agricultural Sector Loan I was implemented in a wide range of farming systems within Kenya. The demand for, and use of, credit varied according to the specific agrarian context. For present purposes, these farming systems can be categorized according to several criteria: scale of production, including landholding size; agro-ecological potential; incidence of cash crops; and farm management style.

Large-scale vs. Small-scale Producers

The project design explicitly divided funds between large-scale grain farmers and smallholders, the latter being subdivided between "progressive" and "subsistence" producers. In Kenya, a farm is often regarded as a largeholding if it exceeds 20 acres. However, as an official in the MOA pointed out, this classification sometimes breaks down because of differences in agro-economic potential between areas. Farms with more than 20 acres are commonly found in the dryland agriculture zone, where lack of water supply renders them less productive than smaller enterprises in the moist highlands. Such farms were often regarded as "smallholdings" for project purposes.

Fieldwork indicated that a wide range of landholding units received funds through the AFC and the cooperative system. Large-size enterprises were mainly, but not exclusively,

concentrated in Rift Valley Province. For example, a 1,400 acre farm near Eldoret in Uasin Gishu District obtained credit through the AFC. Local AFC officials reported that loan recipients ranged from "20 to 100 acres," though farms with higher acreages were also heavy borrowers. These enterprises engaged in mechanized commercial wheat and maize production.

There were also some large farms in the smallholder farming districts. An AFC loan recipient near Kimilili in Bungoma District had approximately 150 acres. Interviews indicated that several farms in the area exceeded 50 acres. Maize was the dominant cash crop around Kimilili, but some farms were involved in dairy and coffee production. Near Kerugoya, the largest AFC debtor was the Kirinyaga Technical Institute, which owned about 100 acres of land. It grew coffee, horticultural crops, maize, and beans. Institutional farms with large acreages are not uncommon in rural Kenya.

Small scale recipients were situated in all areas, including Rift Valley. However, one should emphasize that smallholders did not constitute a homogeneous group in terms of landholding. Instead, there was a range of holding sizes among them. Several of the interviewees had farms exceeding 10 acres, including 30 acres in Kirinyaga's dryland farming zone near Ndomba, Mwea; 18 acres in the cotton country around Homa Bay, South Nyanza District; and 22.6 acres held by a maize, coffee, and dairy producer from the Kimilili area. A family farm near Baricho, Kirinyaga, consisted of two parcels (each run by a co-wife) with a total of 11 acres. But other loan recipients in these areas owned less than ten acres. The AFC apparently used five acres as a cut-off point for loan eligibility, while there was no explicit lower limit for cooperative members. However, it was impossible to determine the extent to which funds were issued to households with micro-holdings, generally defined as land units too small to meet a family's subsistence requirements.

No data was available on the impact, if any, of ASL I on landholding. Some areas had thriving land markets, and several of the interviewed farmers had obtained, or intended to obtain, loans to buy property. Foreclosures on property were increasingly commonplace. For example, the AFC branch at Kimilili had nine foreclosed parcels for sale, ranging from small business plots to six hectare farms. But there were no reports of foreclosures having taken place because of failure to repay ASL I loans. In the cooperative sector, ASL loans were only secured by the crop to be marketed by the member. Moreover, there was no evidence of project-induced changes in landholding patterns between beneficiary and non-beneficiary groups.

Agro-Ecological Variations

The influence of environmental conditions such as rainfall on agro-economic potential has already been mentioned. The project was implemented in areas clearly differentiated by ecological conditions. A distinction can be drawn between ecologically favored and disadvantaged, or marginal, areas. A significant proportion of funds was channeled through AFC and the cooperatives to farmers in advantaged areas such as the fertile Uasin Gishu Plateau and densely populated but high potential parts of Central Province. Such areas have constituted the most dynamic agricultural areas in Kenya, being the centers of improved large- and smallholdings. By identifying the large producers and progressive smallholders as important beneficiaries of the loan, A.I.D. followed a strategy of "betting on the best" in terms of farming ability and agro-economic potential.

But A.I.D., undoubtedly influenced by the "New Directions" strategy of the 1970s, also attempted to reach smallholders in the ecologically disadvantaged areas. The SPSCP subproject was directed towards "subsistence" producers in selected districts of Eastern, Western, and Nyanza Provinces. However, interviews and observations in these areas revealed considerable variation in local agro-ecological conditions. For example, funds were channeled to farmers in the fertile and abundantly watered coffee zone of Embu District. On the other hand, loans were extended to some farmers living in the low rainfall areas of Embu, Machakos, South Nyanza, and other districts.

It appears that unfavorable ecological conditions in certain parts of the SPSCP districts were an obstacle to the effective utilization of credit. Several cooperative members in Eastern and Nyanza Provinces claimed that drought undermined their yields the year they received seasonal credit through SPSCP. These farmers said that crop failure did not allow them to repay the loan. In western Kenya sporadic outbreaks of tsetse fly reportedly thwarted efforts by some households to improve or even maintain their herds.

Cash Crops

Although ASL I was chiefly oriented towards increasing food production, it was implemented in areas where many families were cash-cropping. As was already mentioned, the large farmers in Rift Valley Province engaged in commercial maize and wheat production. The cash crops grown by smallholders varied according to local agro-ecological conditions, and included tea, coffee, cotton, sunflower, and horticultural vegetables and fruits. In addition, small farms often sold maize and other grains, as well as various legumes. Indeed, a significant number of the so-called "subsistence farmers" involved in the SPSCP subproject regularly marketed a portion of their food crops to obtain money.

In the context of ASL I, the distinction between cotton-growing and other cash-cropping zones became critical. The SPSCP included cotton production in its technical package for the dryland zone. During the mid-1970s, and continuing until recently, the Kenyan cotton industry went into disarray and decline. The problems of cotton production in Kenya are well-known and are only summarized here. Many of the difficulties centered on the exceptionally poor performance of the national cotton board, which exercised considerable authority over the production and marketing of the crop. Poor marketing arrangements, late payments to producers by the cotton board and the cooperatives, low prices, and high production costs associated with pesticides and other inputs steadily undermined grower confidence in the crop.

The institutional framework of cotton production and marketing created a disincentive for the repayment of loans by farmers. Cooperative officials pointed out that an act of Parliament had given the cotton marketing board extensive control over the crop "once it sprouted on the farmer's land." In contrast to coffee, societies could not require members to use their cotton crop as "an anchor" or security for loans. An official explained, "The crop belonged to the [Cotton] Board, not the farmer." Therefore, loans provided by the Cooperative Bank through the unions and societies for cotton production were not secured by land, a crop, or any other tangible asset. The result, as an official noted, was "the absence of an effective loan collection mechanism." Not surprisingly, defaulting by cotton producers has been commonplace.

The foregoing circumstances, combined with project-specific problems, resulted in very low repayment rates by SPSCP cotton growers. In particular, the subproject suffered from faulty or irregular procedures for selecting borrowers. The situation among Homa Bay cotton growers is illustrative. SPSCP seasonal loans were issued for cotton, maize, and bean production. MOA extensionists and cooperative officials were supposed to choose eligible cotton cooperative society members, but the selection process apparently broke down in the haste to dispense loans. According to a local official, "People joined the [cotton] societies overnight to obtain a loan." He added, "Some of them were not even farmers." A district official even claimed that, "People crossed the international border, went to the societies, registered, took the money, and left." Thus, screening of the loanees was carried out extremely poorly.

But officials admitted that foreigners alone were not to blame for the subsequent low repayment. They pointed out that several factors were involved. Many farmers, having lost confidence in the cotton board, marketed their crop through informal channels. Such farmers often "disappeared" with the proceeds, leaving the societies without any record of their earnings or ability to repay. A similar problem was encountered with maize and bean growers who marketed their crop outside the cooperative structure.

Yet, even when the crop was marketed through the societies, collection was ineffective. Officials claimed that cotton society leaders, who generally received big loans, "played tricks" (used political tactics) to obstruct repayment. Local chiefs, who were also loan recipients, lobbied to have the debts forgiven or ignored. An official said, "Chiefs... tried to protect their people. Politics came in." He added that "everyone took advantage of the confusion surrounding the crop. The union, societies, and members." There was, as an interviewee put it, "a chain of blame" that extended from the cotton board to the individual farmer.

Figures provided by South Nyanza cooperative officials revealed that 6,500 of 7,000 farmers had yet to repay their SPSCP subproject loans. Members of Rachuonyo Cooperative Union still owed KSh 7,945,556, including interest, while the outstanding balance of the members of Victoria Cooperative Union amounted to KSh 3,642,661. Both unions eventually sent notices to delinquent borrowers through the provincial administration, but very little money has been recovered. District and cooperative officials expressed doubts that any additional funds would be collected.

Farm Management Style

It became apparent during fieldwork that the individual management style of the farm family or household constituted another determinant that affected use of credit. People varied in their economic values or development consciousness, greatly influencing their willingness or ability to use credit productively for farm improvement. This appeared to be the case across the spectrum of farm families: largeholders; smallholders; female or male headed households; high, medium, and low potential regions; and different cash-cropping areas. The importance of farmer motivation as a key ingredient in the effective application of credit has been noted in other rural studies (see Von Pischke 1974).

Socioeconomic Motivations, Agrarian Development, and Credit

The issue of differences in farming style necessarily leads to the question of motivation. It was apparent that all the farms visited in the study, including the large-scale ones, were both economic units and households. But the families interviewed differed in their levels of material need, including the demand for cash. Finite production goals, reflecting limited material needs, were evident among the polygynous household near Baricho, Kirinyaga. Despite having a need for cash to pay school fees and obtain consumer or producer goods, family members did not perceive an economic incentive for maximizing their coffee yields, as some of their neighbors tried to do. Instead, for whatever personal

or cultural reasons, they were willing to settle for less and underutilize the productive capacity of their farm.

Similarly, it was apparent in other areas that households sometimes pursued customary cultural goals, such as increasing herds or obtaining additional wives. Such activities have traditional prestige values attached to them. These actions often have a dimension of economic rationality. For example, livestock can always be converted into cash or products for household consumption. Having multiple wives is a traditional way of augmenting household labor supply. "Traditional" culture or behavior was not necessarily an obstacle to development. But it appeared in some cases that credit may have been diverted to pursue such aims, particularly to obtain wives.

The ability of many, if not most, households to generate savings needs to be emphasized. Von Pischke (1974) has warned against taking a "hand-to-mouth" view of the smallholder. Official or commercial credit channels were not the only source of agrarian production capital. Household savings contributed a significant, though poorly documented, share of working and investment capital. For example, several farmers stated during interviews that they had self-financed their expansion into coffee production. Other aspects of household savings, which have defied precise computation include, for example, saving seed for the next planting season. Savings deposits kept in cooperative and commercial institutions, as well as postal savings, were utilized for farming and other activities. Several interviewees, including smallholders, had accounts with Barclays, Commercial Bank, the banking section of the cooperative societies or unions, and Postal Savings. There were also women's groups which carried out economic activities, including rotating credit societies and small-scale enterprises such as tea kiosks and pig projects.

The ability to generate monetary savings probably varied widely among farm families. There were significant differences in the ownership of productive assets and managerial ability within rural communities. Variations also occurred between regions, depending on local cash-cropping patterns. For example, cash flows in long-established commercial agriculture centers such as Eldoret or Kerugoya were clearly greater than in less prosperous areas such as Homa Bay or lower Embu.

The importance of nonfarm income in household agricultural development has been well documented in Kenya (see Haugerud 1984). Field interviews generally confirmed that "farmer-businessmen" (who combine agriculture with medium- or large-scale trading or other entrepreneurial activities) and "farmer-employees" (who combine agriculture with regular salaried employment) often had more favorable economic circumstances than families without such additional sources of money. Several people suggested that the relatively constant flow of income made it easier for them to obtain loans, especially from the

commercial bank.

Among the major social trends in rural Kenya is the growing need for cash incomes, and this has stimulated smallholder improvement. In particular, the desire to educate children so they can obtain high-paying salaried employment has greatly expanded the need for money to pay fees. Interviewees, including officials, were emphatic about the economic role of school fees. Although there is no nominal tuition for primary education, associated expenses such as books, school building, teacher house fees, desk fees, and so on add up for farm families. Even more expensive are fees associated with secondary education, especially when the student attends a private or *harambee* (entirely locally supported) school.

People in all areas where fieldwork was conducted indicated that school fees absorbed a significant share, sometimes even the majority, of a family's cash income. Hence, school fees acted as an economic incentive for farm families to generate cash, especially during the beginning of the school term. Additional expenses such as buying texts or paying for special funds also generated a need for cash during the school term as well. But school fees were a double-edged sword, since they also constituted a drain on individual family resources. They reduce a family's liquidity, often restricting its ability to engage in other economic activities. An unexplored issue is the impact of school fees on the availability of cash in the rural economy.

Given the current employment situation in Kenya, spending large amounts of money on children in the hopes that they will obtain formal sector employment is a gamble. However, an ever growing number of families are willing to take the risk. Families often need to borrow money in order to pay school fees, and cooperative societies frequently provide cash advances to their members for that purpose. Borrowing from kinsmen is also commonplace. In some families, older brothers and sisters who leave secondary school are expected to obtain jobs and pay the fees for at least one of their younger siblings.

The importance of educational expenses is not limited to smallholders. Prosperous large farmers acquire burdensome debts in their ambitious efforts to educate their children. Two large-scale farmers who received subsidized credit through AFC invested family savings in educating children abroad. A major unexplored issue is the impact of school fees on the allocation of capital, including credit, by rural households.

The demand for cash among rural families is also increasing because of the desire to improve living conditions around the homestead. The traditional mud hut with thatch roof has become a symbol of poverty. Prestige minded families aim for new and generally costly styles of dwellings: timber, brick, or stone houses with corrugated metal or tile roofs, plus

concrete foundations. Domestic water and electrical services are in high demand. In addition, people are increasingly seeking new consumer goods, including tables, chairs, dishware, radios, televisions, gas cookers, and other items.

Those interviewed often stated that they financed home improvements from their savings. For example, an elderly woman near Homa Bay who was an ASL I beneficiary said she used her "own resources" to improve her dwelling. Informal rotating credit societies among women, plus some institutional lenders, probably constituted major sources of credit for consumer spending. Interviews and field observations also indicated that agricultural credit was diverted to meet the need for consumer spending. However, the extent to which credit for agricultural production was used for homestead improvements remained unclear.

Impact of Socioeconomic Status on Access to Credit

Access to credit was influenced by a number of socioeconomic and cultural factors, including gender. Men appeared to be the main recipients of official credit, including funds issued through ASL I. But interviews indicated that women received some of the credit provided by the Project. This occurred for all sizes and types of farm enterprises. For example, a female-headed household in Eldoret received seasonal credit to produce maize and wheat on its 1,400 acre farm. A woman with eight acres in Kabare, Kirinyaga, reported receiving funds through AFC. Many women received credit through the cooperative sector. In some polygynous families loans were issued to the various co-wives. There was insufficient data to determine whether women differed from men in their use and repayment of credit.

It was apparent from interviews with officials and farmers alike that political and economic influence was another major variable affecting access to credit. Some AFC officers mentioned that "political pressures" were sometimes placed on them to grant loans or to ignore arrears. In addition, AFC loan eligibility requirements -- such as securing loans with title deeds or other property -- may exclude many smallholders from farm credit. For example, a 1980 government report from Kirinyaga District claimed that AFC loaning criteria were biased against all but the "well established large scale" commercial farmers. The report added that, "The common farmer does not stand a chance of getting a loan." If anything, AFC loan requirements have tightened during the 1980s.

A similar situation occurred in the cooperative sector. Although society members seemed to have easy access to cash advances for paying school fees or other contingencies, obtaining longer term or more substantial credits was often difficult for medium and poor smallholders. A long-time coffee society member stated with bitterness, "Loans go to those with big farms... Loans [here] are only given to the rich, rather than the poor so they can

catch up with the rich." Asked specifically who received loans in his area, he replied, "Usually people with 20 or more acres." In his part of the district, farms typically ranged from four to ten acres; hence, 20 acres constituted a large farm. Although access to credit was apparently skewed towards the wealthier or influential groups, it was impossible to determine what impact, if any, the ASL I project had on rural income distribution.

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APPENDIX D

SOCIAL PROFILES OF BENEFICIARY FARM MANAGEMENT

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The contrast in approach to farm management was evident in the comparison of two AFC beneficiary families in Kirinyaga District. Farming was taken "seriously" by a household owning 30 acres of land near Ndomba. The head of household had been an assistant chief during the colonial era, and lived on the farm with his wife and children. When they received their parcel following land adjudication around 1963, the area was regarded by officials and local people alike as being of medium to low potential. The owners said they received the land because their clan did not have any parcels for them in the higher potential parts of the district. They initially grew maize, beans, and cotton as cash crops, and kept cattle. Because of the problems encountered with cotton as a cash crop (see Appendix C), and the relatively low returns obtained from maize, the family sought alternative crops and farming patterns to raise their living standards.

The strategy selected by the Ndomba family was to mobilize personal savings and credit in a series of small-scale projects. This pattern of incremental farm development is typical of many progressive smallholders in Kenya. They obtained seasonal credit for maize and bean production from AFC in 1977, plus additional funds for four dairy cows, a milking shed, and fencing. Having repaid the seasonal and eventually the other loan, the farmer received AFC funds for establishing 3.5 acres of bananas. Officials commented that the family was "always ahead of repayment." The farmer also actively sought the advice of farm extension officers. More funds were obtained for digging a well and obtaining a sprayer. Family savings were used for planting coffee, establishing watermelons as a cash crop, and growing sorghum, legumes, sweet potatoes, citrus, and other crops. It bears mentioning that the farmer saw watermelons for sale in Nairobi and was impressed by its price-- KSh 6 per fruit. He obtained seeds and planted them, learning from experience the best way to plant and maintain the crop. The family realized KSh 40,000 from its last crop alone.

Credit clearly helped the family, but it was their planning and labor that allowed the farm to progress from a medium to a high potential enterprise. In contrast, another AFC beneficiary had 11 acres of land in the high potential coffee country near Baricho. It was divided into two farms of seven and four acres, each unit occupied by a co-wife. Given land pressures in that densely populated area, 11 acres is a fairly large amount of land. However, the most striking feature of both farms was how poorly they were maintained. The family's coffee, which constituted their major cash crop, was not well cared for. Other aspects of the farms gave the appearance of being poorly maintained and run-down. It was evident that farm capacity was underutilized, and few benefits from the credit that had been obtained

were visible.

Attributes of traditional culture such as multiple wives were not meaningful indicators of the "economic mindedness" of farm families. An impressive smallholding seen near Kimilili belonged to a family consisting of the head of household, his three wives, and his children. They owned 22.6 acres. The family had been an ASL I seasonal crop loan beneficiary through AFC, and had repaid the loan. Like the Ndomba family, the household pursued a strategy of incremental development using credit and personal savings. Its projects included obtaining oxen for plowing, acquiring grade cattle, fencing, and building an impressive dairying shed. In addition, the family self-financed the establishment of coffee. The family managed to carry out this development despite the costly obligation of paying school fees for three children in secondary school and eight children at the primary level.

Landholding size alone was not a distinguishing feature of farmers' development consciousness. There are many progressive smallholdings throughout Kirinyaga and other parts of Kenya which possess under seven acres (Heyer et al. 1976; Haugerud 1984; Castro 1987). In Kimilili, an AFC beneficiary with six acres was visibly putting credit and personal savings to good use. Known as a farmer who "always repays his loan," he was attempting to diversify his smallholding by planting coffee (self-financed) and citrus trees. He currently grew maize and sunflower as cash crops. The farmer also planned to obtain grade cows to enter dairy production. It was evident that such farmers had long-term plans, implanting them in increments in order to reduce risk and to properly marshall resources.

The two SPSCP subproject beneficiaries who were interviewed in Homa Bay, South Nyanza, did not appear to have the same dynamic farm management styles as the families from Ndomba and Kimilili. One of the persons was an elderly widow who possessed "about five acres." She had borrowed KSh 1,950 for seasonal credit. By the time she repaid the loan, interest had raised the amount to nearly KSh 3,600. The woman lived in a simple rectangular mud house with a fairly new corrugated metal roof. By local standards she was in the "middle" socioeconomic range.

Her relative lack of farm development was partly attributable to institutional and environmental factors: the chaotic cotton industry; and tsetse fly infestation. A noteworthy aspect of the interview was that her house was half-filled with cotton. She apparently planned to sell it outside of the cooperative marketing channels in order to obtain a high price and quicker payment. Tsetse fly had killed her livestock, and she expressed a desire to obtain cash so she could hire workers to help her. A drive for self-improvement was evident by her involvement in a local women's group. This group reportedly rented land, grew cotton, and sold it to private traders. The group has also purchased a kiosk and conducted small-scale trading.

The second beneficiary interview at Homa Bay was illustrative of the relationship between the difficulties in the cooperative sector and individual farm management. The interview was carried out at the homestead of the former chairman of the Victoria Cooperative Union, which handled SPSCP subproject funds (see Appendix B for details on the chaotic situation at the union). Both the former manager and his brother said they defaulted on the SPSCP loans. The brother said he did not repay "KSh 600" because the loan was issued late and the lack of inputs hurt his yields. The former chairman did not disclose his outstanding debt.

It was obvious that the former chairman and his brother were prosperous men. The chairman alone owned 18 acres, had several wives, a large and well-furnished (by local standards) stone and rock house. A television set and radio were in the living room. There was also a motorcycle and a small truck in the household compound. According to the chairman, these material goods were derived through self-financing. The extent to which the chairman's family benefitted from the SPSCP subproject is unclear. Events in Homa Bay during the implementation of the subproject suggested that he may have obtained substantial monetary benefits from it. Nevertheless, repaying his loan was not a major priority for him.

APPENDIX E

BENEFICIARIES' PARTICIPATION IN FINANCIAL MARKETS

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BENEFICIARIES' PARTICIPATION IN FINANCIAL MARKETS

The ASL Project occurred more than a decade before this evaluation. Even a cursory review of recent development literature on farm credit demonstrates that the identification of specific impacts associated with such programs is impossible (see Adams 1988). As a result, this Appendix attempts to broaden the analysis of the impact of the Project on the financial system to include broader changes in rural financial market operations in Kenya since 1975.

The evaluation team did not have a baseline count of the number and types of financial institutions operating in rural areas during the mid-1970s. Nevertheless, the present extent of the formal financial sectors penetration at the market-town level is impressive. Every site visited was serviced by multiple financial institutions, including private ones. For example, Barclays Bank, Kenya Commercial Bank, Central Finance Limited, and the banking section of the local cooperative union operated in Kerugoya, the administrative center for Kirinyaga District. According to the Embu District Socio-Cultural Profile, 25 private and public institutions are engaged in the mortgaging of land (EDSP 1986). Barclays Bank had a large branch serving Homa Bay in South Nyanza, and a mobile unit that regularly visited the small marketing center of Kimilili in Bungoma District.

Credit Requirements as Perceived by Project Target Group

In each of its interviews, the evaluation team asked the question, "Is credit a major constraint to agricultural production in Kenya?" Individuals surveyed included subsistence-oriented farmers, progressive farmers, and large-scale farmers. Others were teachers, agrarian bureaucrats of every stripe, and mid- and senior-level government, parastatal, and lending institution staff. In each case credit was identified as the most significant constraint to increased agricultural production.

These interviews revealed several characteristics that may explain why credit is so widely perceived as essential for agrarian development. Credit was viewed among interviewees at all levels as a panacea to the problems associated with financing agricultural production. As early as 1974, J. D. Von Pischke referred to this belief as "the need for credit creed." He noted that the creed was pervasive within both the international donor community and the Kenyan government. This need creed continues to fuel the extraordinarily high demands for agricultural loans that exist throughout Kenya.

There are several reasons why the need creed is as popular as ever. Experience with the ASL I in places such as Homa Bay revealed that for many farmers the loans became grants as a result of non-repayment. For example, approximately 7,000 Homa Bay cooperative society members received loans yet only 500 repaid them. Machakos and Embu cooperatives also recorded low repayments. In general, the cooperatives performed poorly under the SPSCP subproject, with diversions of funds and very low repayment rates being typical. A cooperative secretary manager stated that, "Farmers misused the money... buying other things [than farm inputs]." The need creed was not limited to the cooperative sector. AFC officials emphasized that they needed an injection of outside funds to continue doing business.

Another reason for the high demand for agricultural credit in Kenya is that it is subsidized. AFC interest rates are usually one to two percentage points lower than prevailing market rates. Cooperative sector rates also have been below commercial rates. Subsidized loans are cheaper for the borrower and often result in the funds being applied to less productive uses than would occur under normal market conditions. Officials at an AFC branch admitted that, "Farmers would go to commercial banks if the interest rates [between AFC and the private institutions] were the same." At the same branch, an official said that farmers had to be prevented from borrowing the cheaper AFC funds to repay their debts to commercial banks.

When credit projects take on the properties of income transfers and direct subsidies as discussed above, an insatiable demand for project funds (the need creed) is to be expected. An artificial financial environment that cannot be sustained without regular injections of "outside" money is created. In the absence of donor or government funds, credit dries up and institutions which specialize in subsidized lending become dysfunctional. This is demonstrated by the AFC current conundrum, with branches having slowed or ceased lending activities.

The need creed derives from the recipients' recognition that credit projects result in the transfer of income from the donor to them. It is questionable however whether agricultural credit is the major constraint to agrarian development. Rather, a major constraint to agricultural production is the absence of a dependable and regular flow of financial services.

Impact of Project on Farmer Liquidity

The USAID loan provided credit in kind and cash to targeted groups under what were to be supervised conditions. This type of credit scheme, where a majority (75 percent) of the credit was supposed to be allocated in kind, adds little liquidity to the market. The project was based on the belief that beneficiaries were incapable of making rational allocative decisions. As a result, liquid cash assets were withheld from participants. Many interviewees suggested that a greater proportion of the loan was issued in cash than planned in the original project design. Also, some of the in-kind inputs were reportedly converted to cash by farmers, who often sold them at a discount. Nevertheless, it appeared from available evidence that the project's impact on liquidity was negligible in most areas.

The conclusion reached from fieldwork was that the lack of liquidity at the farm level is the key constraint, not access to credit. Interviews with farmers and officials indicated that funds were diverted to (or substituted for) cash, as participants sought to become more liquid. As Dale Adams (1988) recently pointed out, "If one accepts the premise that most borrowers are economically rational, then additional funds provided by a loan will inevitably flow to activities that are high on the borrowers' list of priorities."

A major flaw of the ASL Project was to assume that participants were not economically rational. The project design treated the farmers as if they were incapable of making reasonable decisions regarding their own economic well-being. Instead of relying on the decision-making of individual farmers, the project depended on implementing institutions to supervise the allocation of resources.

Impact on Financial Intermediation

No explicit consideration was given to the mobilization of local savings in the original project design. This is consistent with Von Pischke's 1974 contention that credit projects assume the financial priorities of participants will not be significantly altered within the scheme's timeframe. According to Von Pischke (1974: 8), "The provisioning of saving facilities for example, is rarely part of rural development projects which include credit schemes. The old [assumptions about] hand-to-mouth patterns of resource allocation at the micro-level evidently are thought to persist in spite of the multitude of changes to be introduced and induced by the project, and the farmer remains with insufficient cash to meet the financial requirements of the changes envisaged." Thus, projects such as the Agricultural Sector Loan I essentially aim too low by failing to provide attractive saving deposit services for farmer participants.

Absence of a savings mobilization component thus constitutes the second flaw of the Project. For a formal financial market to operate, both the savings and lendings functions are essential. Financial institutions that only offer loans are not sustainable because they do not generate their own internal resources. This is the case with AFC today.

Dale Adams (1988) identifies three ways in which donor or credit projects lure financial intermediaries away from seeking or accepting saving deposits:

- Loans at concessionary interest rates may be lower than the expected rate of inflation. Because it is financially suicidal to pay rates of interest on savings that are higher than those charged on loans, most lenders participating in credit schemes [if they even accept deposits] pay low interest rates on deposits, thus making savings unattractive to the project's participants.

- It is almost a commandment for rediscount rates to be concessionary on lines of credit to participating financial institutions in credit schemes. Rediscounting thus often constitutes a cheaper source of funds to the institution than deposits, creating a powerful disincentive to mobilize deposits.

- Because credit projects often are funded by the government or the donor community, financial institutions lose sight of their principal clients. A critical change in management behavior occurs in which the depositors are treated as a nuisance and the government and donors are fawned over. The primary source of the loanable funds becomes the lending agency's client rather than the local depositors without whose support the institution is neither viable nor sustainable. For example, an interviewee in Kirinyaga claimed that institutional sources of credit, including the AFC and the cooperatives, were unresponsive to the needs of the "average" and "poor" farmer. "When you are poor, you fill out the forms and wait for months to hear from the offices," he stated. In contrast, he noted that the commercial banks speedily handled applications and did not differentiate as "to color," that is, economic standing, as long as the farmer had the ability to do business.

Impact on Financial Market Participation

The team did not have access to baseline data on use of formal financial services at the time the Project was implemented. However, it appears that farm families increased the number of savings accounts with various financial entities. For example, an interviewee from Homa Bay reported having Barclays Bank and Postal Savings accounts. In a large farm

family at Kimilili, the husband had an account with the cooperative bank while the wife had a savings account with Barclays Bank. A smallholder at Kimilili said he had savings accounts with Kenya Commercial Bank and Postal Savings.

The granting of title deeds has allowed farmers to seek mortgages on their landholdings. There appears to be reluctance on the part of some smallholders to allow their land to be used as security for a loan. In Kimilili, an interviewee stated, "Many farmers have not asked for loans because they fear losing their title deeds." A survey conducted at the recently adjudicated Kithunthire Registration Section in Embu revealed that 99 percent of the farms (1,654 of 1,669) did not have mortgages (EDSP 1986: 64). The survey analyst concluded that several factors contributed to this pattern: unwillingness to seek mortgages; the recentness of the issuing of land certificates in the area; the low value of land; and the possibility that some people were "unaware of the collateral value of land" (EDSP 1986: 64).

Still, it appeared that a growing number of smallholders were willing to risk their landholdings in order to obtain credit. The AFC now requires farmers to secure loans with tangible security, including title deeds to land. An indication of the growth in land mortgages emerges from a study in Kirigi Registration District in Embu. About 11 percent of the farms (306 of 2,805 holdings) had a single mortgage, while nearly ten percent (268) possessed two or more mortgages. The major sources of mortgages were AFC, Kenya Commercial Bank, and National and Grindlays Bank, which accounted for over 90 percent of the loans (EDSP 1986: 64).

The Project had a differential impact on financial market participation. Of those beneficiaries who repaid their loans, many returned to do business on a regular basis with the lender. Examples of this were recorded among farm families in Kimilili, Kirinyaga, and Eldoret. However, the bulk of the farmers did not repay their loans. Nevertheless, since the bulk of the non-paying farmers viewed the USAID loan as an income transfer, many are seeking additional sources of credit. With these conditions in mind, it is likely that the project helped increase market participation, or at least willingness to participate in financial market operations.

It appears that decision-making patterns in the cooperative movement limited the ability of their individual members to participate in financial markets. Despite the holding of general membership meetings, the control over cooperative resources is concentrated among a small group: the board of directors and the secretary manager, who is an employee of the cooperative union. Interviews indicated that they often form an elite group, pursuing their own interests rather than those of the members.

This was particularly applicable to investment decisions made by the board.

Coffee societies in Kirinyaga, for example, have used the funds of members to finance several real estate investments. Members were required to buy "shares" in these investments during the 1980s. There was agreement among the society members who were interviewed that no returns had been paid to them. A farmer stated, "We asked [the directors] about the profits, but we received no reply." Instead, the farmers recently were told to contribute another KSh 1,600 to the scheme.

The experience of such investments in Kirinyaga and elsewhere in Kenya is that cooperative members' funds are often spent on prestige and money-losing projects (Hyden 1973; Castro 1987). At times, these funds are diverted from the local area, where such capital is desperately needed to create employment opportunities and thus contribute to the liquidity of the local economy. For example, Kirinyaga societies have made real estate investments in Nairobi and Nyeri (Castro 1987). Thus, to the extent to which the cooperative movement absorbs the income of its members, it reduces their liquidity and ability to participate in financial markets.

Since the cooperative system prevents its members from making their own economic decisions, it inhibits the development of effective financial markets. Hence, this situation results in a less than optimal allocation of resources. In general, the greater the number of decision-making participants in the financial system, the greater its efficiency.

Similar issues emerged from discussions of the restrictive loan policies pursued by the AFC. Officials at one AFC branch admitted that farmers often could not be "honest" with them in seeking loans. The officials recognized that farmers frequently needed funds to invest in "commercial interests" outside farming. Yet, because of the AFC's "scarcity of capital" and policies, the agency could only consider loans for very specific agricultural activities. An official said, "The system looks very rigid to the farmer. He has to lie to qualify [for loans to meet his actual needs]."

APPENDIX F

CASE STUDIES

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CASE STUDIES

CASE STUDY #1: "THE HEADACHE"

He has two acres, two wives, 12 children, a small business in the marketplace, and a large headache. Mr. John, farmer and society member of the Boro Farmer's Cooperative Society, lives in the hills above that flat inland mirror of the endless African skies, Lake Victoria. We huddle in the cooperative's office, four to the bench, shoulders jammed conspiratorially together during the interview. It is raining a steady sheet of grey outside; a cat slouches desultorily against the door frame, watching.

John outlines his history with the Project for us: he borrowed the paltry sum of 460 shillings (then about $60) in cash the first year to pay laborers to prepare his cotton field for him. Next he received as an in-kind loan an undetermined amount of cotton seeds to plant his small farm of only two acres. It was his understanding, or perhaps the subject simply never came up, that these were being given to him free by the project. He then borrowed the even more negligible sum of 280 shillings (about $35) to pay the hired hands to weed his fields.

He received no explanation, education, or training related to his loans; neither did he get technical assistance from any quarter. Only once did he get a visit from the Chairman of his Farmer's Cooperative Society as some kind of a "check-up." Of the aggregate credit received (roughly 800 shillings, or $95), this man -- a survival farmer by any definition of the word -- managed to repay about 3/4 of it from cotton sale proceeds. What happened to the remaining 200 shilling debt (plus interest)?

The muggy air in our little room seemed to become perceptibly closer; old John was somehow hiding a rueful smile under his gnarled field-hardened hand while this question got translated and retranslated. The others answered for him: he had been able, with that extra cash, to pay the bride wealth of a second wife. In Siaya District at that time, 200-300 shillings was enough for that purpose, and in John's judgment, it apparently seemed the best thing to do. It soon afforded him a healthy labor force.

Whereas at the time of the loan John had one wife and one child, he now has two wives and 12 children. Was the loan a good thing for him? Yes, he said, but added without hesitation, "I took so little money from them, but it is giving me such a big headache now." Did he know how much he still owes, 12 years later? Remarkably, he answered within 100

shillings: the debt has now grown to 1,271.65 shillings (in today's currency about $70) or about once again what he originally borrowed. He is virtually unable to repay such an amount.

He blames his failure to repay on "the drought." Though he knows that some of his neighbors up the road succeeded in repaying their loans (perhaps the drought didn't affect them?) he says he just didn't. That's all.

Already he is burdened by his 12 children, six of whom are in primary school and needing books and uniforms. Soon they will require school fees for secondary school (which can amount to 1,200 shillings per child per year here -- or just about the sum total of his current debt) -- an unthinkable amount in John's case. To cope, he began a little market business which our team dutifully inspected. On a rough table, he had lain out his wares: a half dozen bars of soap, some small plastic sacks of oleo, a handful of match boxes, and some pitiful amount of maize kernels in a burlap bag. What caught our eyes in particular was a large glass bottle full of -- aspirin. Apart from this tiny enterprise, he says that he has no other income at all.

Despite these financial burdens -- and the heavy obligation he still owes to the cooperative bank -- John remains optimistic. When asked when he thought he could conceivably repay his debt, he cheerfully and undoubtedly with no small measure of bravura answered "within the year, if my cotton does well." Perhaps then, and only then, can he get rid of his big headache.

CASE STUDY #2: "MEDICINE AT THE GRAVESIDE"

We met him on the tarmac; he was nattily dressed in a brown khaki suit and, in unison with his friend astride the back, was bracing for the long uphill ride on his bicycle. We tooted; we needed to ask this lone couple out here amidst the rolling hills of the Kenyan countryside where we could find a farmer called Henry, former Chairman of the Farmers' Cooperative Society. We had been told that if we could locate this elusive Henry, he might have plenty of information for us on the SPSCP loan scheme of the 1970s.

"Henry? That's me, that's me," he called while hopping down from his bike. Contrary to our rather conservative expectations, he remembered with surprising detail the events and issues of the credit scheme introduced into his society. He even was able to describe the follow-on loan to SPSCP and how it had differed in its approach.

Henry owned about 20 acres at that time, and was considered by the project as a

"progressive" farmer - one willing to try new technologies and inputs, one with good prospects for the future.

He was accorded an SPSCP loan twice in the 1976 harvest year; it consisted of in-kind seeds (sunflower, bean, cotton, and maize), in-kind fertilizer (in Swahili: medicine), as well as cash credit for the preparation and weeding of his fields. The loan was granted at 11 percent interest, but he did not recall having signed any binding document at that time.

Agricultural extensionists apparently gave him some good advice on how to apply the inputs correctly; this occurred in a "classroom"-type setting as well as on his farm itself. He did not receive any education about what a loan is, how it works, what interest means in the long run, until almost a year and a half later.

The farmer stated that drought claimed his produce the first time around and nothing much harvestable was left; certainly the frequency of drought conditions in the late 1970s was an important variable in the agriculture equation. However, the second time around, concentrating on cotton, he harvested quite a good deal. But significantly, he had nowhere to sell the excess produce.

As his initial wariness to this white-man-parachutes-in-along-the-roadside interview began to wane somewhat, he began to answer more frankly. (It must be said, however, that he was fairly confident in his responses; after all he had repaid the loan in full and was still a member in good standing within the society. Other members of his society earlier had provided not only evasive answers, but outright lies about their involvement in the scheme. They, it turned out, were in arrears, and they knew it full well.)

Problems that Henry began to identify as having minimized his success with the scheme included:

- The **late delivery** of both the maize seeds and the fertilizer;

- A generalized **poor understanding**, on both the borrowers' and the lenders' sides, of the nature of the scheme;

- The **training**, which was provided almost 1 1/2 years **after** the loan was granted, and well after all the harvesting and marketing activities (this he stated rather eloquently was "like introducing medicine when the sick man is already at the graveside"). He offered that the training was mostly just "motivational" in nature, with little real depth of substance;

- **The fear of defaulting** that gripped his fellow cooperative members. Henry was able to repay only because he planted a good deal of cotton that year. Others had sown maize; their produce "rotted in their bags at the store" due to marketing failures.

The man was articulate and agriculture-savvy; when asked his general opinion of the project's impact in the area, he replied that there is a decline now in production probably due to a lack of inputs and the higher prices of fertilizer now. In other words, the loans provided a much-needed injection of outside resources, at a good rate, when they were needed. Production in the area was, in fact, boosted during the year or two of the project.

Henry is now out of cotton and has chosen to invest his resources in a few dairy cows. However, another attempt at cotton may be warranted next year. We were impressed with the utter crucialness of this decision for him, and with the market sensitivity and perception that he must possess to be able to make these critical decisions for himself and his family.

Still a member of the local Farmers Cooperative, this progressive Kenyan farmer is quite content with the services it provides him: it assists him in buying milk cans, in selling his milk, and in buying food for his family.

We kept asking our "one more question," and then "the final question," and eventually "the last question." Then apparently in keeping with the Kiswahili proverb, he said, "That is the end of the questions, and now it is time that I speak something." Chuckling jovially, not in the least inconvenienced by this bizarre and inopportune interrogation, he hoisted his fairly old yet limber frame into our already overcrowded Suzuki jeep and we carried him up the long hill to the meeting we had made him an hour late for.

APPENDIX G

LIST OF CONTACTS

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Nairobi

Agriculture Finance Corporation:
- Mr. David Riungu, Chief Planning Officer
- Mr. T.T. Azada, Advisor to the General Manager
- Mr. E. Muthuuri, Principal Management Accountant
- Mr. Ruel Kachula, Technical Services Manager

Cooperative Bank of Kenya:
- Mr. Peter Kosiro, Advances Officer
- Mr. D.N. Ngushu, Chief Manager, Loans and Advances
- Mrs. Rosemary Bichage, Advances Officer
- Mr. Bo Kristiansen, Nordic Adviser/Team Leader

Cereals and Sugar Finance Corporation:
- Mr. John Wahuria, Director

Kenya National Federation of Cooperatives:
- Mr. L.O. Sese, Secretary General

Ministry of Cooperative Development:
- Mr. J.B. Kiioh, Commissioner for Cooperative Dvlpt

Central Bank of Kenya:
- Mr. George Musoko, Research Department

Embu

New Kyeni Farmers Cooperative Society:
- Mr. Jefitha Nyaga, Secretary/Manager
- Mr. Ezekiel Njeru, Committee Member
- Mr. Jackson Ireri, Chairman
- Two Farmers

Agriculture Finance Corporation:
Mr. George Obiero, Branch Manager

District Government:
Miss Nyamo, District Cooperative Officer
Mr. Kanyatta, Credit Officer

Gathuri Farmers Cooperative Society:
(9 managers and farmers)

Kerugoya

Kerugoya Deaf School:
Mr. John Murigu

District Government:
Mr. J.K. Muangi, District Cooperative Officer
Mrs. Anisia Murage, Credit Specialist
Miss M. Wangari Ndia, Acting D.C.O.

District Cooperative Union:
Mr. D.M. Njagi, General Manager
Mr. Solomon Mwangi, Credit Assistant
Mr. Richard Mugo, Chairman

Inui Farmers Cooperative Society:
Mr. Ngatia, Secretary/Manager

Karia Coffee Factory:
One Farmer/Beneficiary

Agriculture Finance Corporation:
Mr. H.J. Mutegi, Branch Manager
Mr. Ngaru, Loans Officer

Karinyaga Technical Institute:
Mr. Maina, Acting Director

Three Farmers

Eldoret

Agriculture Finance Corporation:
Mr. P.M. Nyutu, Assistant Branch Manager

One Farmer

Nakuru

Kenya Grain Growers Cooperative Union:
Mr. K. Arap-Kirui, Financial Controller
Mr. Yaya, Ass't Financial Controller

Agriculture Finance Corporation:
Nakuru Branch Manager

Kisumu

Agriculture Finance Corporation:
Branch Manager

Cooperative Bank of Kenya:
Mr. Makori, Accountant
Mr. Wangila, Loans Officer
Mr. F.M. Ambatsa, General Manager

Siaya

District Government:
Mr. D.L. Ojiambo, District Cooperative Officer

Boro Farmers Cooperative Society:
One Farmer
Secretary/Clerk

Kimilili

Agriculture Finance Corporation:
Mr. Richard Mingocho, Acting Branch Manager
Mr. Festus Mukabi, Acting Area Manager
Mr. David Tunje, Loan Officer

Farmers: one small, one medium, one large

Machakos

District Government:
Mr. Kenduiwya, District Cooperative Officer
Mr. Anton, Accounts Officer

District Cooperative Union:
Mr. Richard Wamakau, General Manager

Cooperative Bank of Kenya:
Mr. Mwita, Accounts Officer (TDY from Nairobi)
Mr. Munane, Accountant

Wamunya Farmers Cooperative Society:
Former Chairman/Beneficiary

Homa Bay/Kisii

District Government:
Mr. Ochiengo, District Cooperative Officer
Mr. B.S Otiende, Credit Specialist

Victoria Farmers Union Society:
Mr. Okelo Akongo, Manager
One cotton farmer and former Union head

Cooperative Bank of Kenya:
Mr. Z.K. Chianda, Branch Manager

Mr. J.O. Onyango, Loans Officer

Other

World Bank/Nairobi:
Mr. Colin Smith, Agricultural Officer

USAID/Kenya:
Mr. Jim Dunn, Agriculture Development Officer
Ms. Maria Mullei, Program Officer/Agriculture
Mr. Jim Gingerich, Agriculture Office
Mr. Kiertisak Toh, Senior Economist

United Nations:
Mr. Soe Paing, Chief Technical Adviser, UNDP

DANIDA:
Ms. Barbara Steenstrup, Program Officer

REDSO/ESA:
Mr. Pat Fleury, Sociologist/Anthropologist

Field Research Assistants:
Mr. Kenneth Lusaka, University of Nairobi
Mr. John Wachaga, Makioki Language School
Mr. John Gathuri
Mr. Steven Kibera
Mr. Cyrus Kabingo
Ms. Susie Wangithi

Washington:
Mr. Ken Swanberg, Consultant to AID/W
Mr. David Lunberg, AID/W