AGRICULTURAL SECTOR FUNDING ISSUES:-STRATEGIC COUNTY POLICY & LEGAL INTERVENTION

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Introduction

- ✓ Smallholder producers who actually form the majority of farmers in Kenya have limited access to own or borrowed capital. Commercial banks regard them as risky borrowers and more often than not tend to shy aware from giving them loans–and to some extent for a good reason, namely; the relatively high risk of rain fed agriculture not just for smallholders but also medium to large farmers.
- ✓ While this is the prevailing situation, Government funding has not been commensurate with the sector's importance in overall national economic development. Indeed, sector ministries and other stakeholders have raised the issue of under-financing of the sector over and over again. But despite all this, the share of the national budget to the sector has remained unjustifiably too low. Yet, little has been done albeit the fact that various formal government pronouncements have acknowledged this undisputable fact. It is for this reason that counties are strongly encouraged to adopt strategic measures to improve the financing of agriculture. This section outlines the proposed strategies.

The Case For Establishing a County Agricultural Development Fund

Justification and Rationale

- ✓ With agriculture contributing about 24% directly to national GDP and 27% indirectly through its linkage with other sectors; accounting for 60% of total export earnings, providing 75% of industrial sector material needs; generating 45% of Government revenue; and employing 75% of the labour force besides providing livelihood to 80% of the Kenyan people, it is not doubt the driver of national economic growth. This is the underlying reason for the very strong correlation between agricultural growth and the rest of the economy.
- ✓ Agricultural growth in Kenya, and indeed all agricultural-based economies, has strong multiplier effects of stimulating economic growth in non-

agricultural sectors, which results in increased employment and reduced poverty. Sustainable economic growth particularly in poor countries is therefore not likely to occur without first addressing agriculture constraints (World Development Report 2012). While this is an undisputable fact, Kenya's agricultural sector still remains grossly under-funded. Numerous reports on this subject have emphatically concluded that the low levels of sector funding, in Kenya and indeed the entire Sub-Saharan Africa are insufficient for sustained growth and poverty alleviation.

- ✓ Past experience has clearly shown that agricultural sector funding through the normal Government budgeting process has been unable to adequately support the sector towards achieving its rightful and commensurate role in national development.
- ✓ The transfer of the agriculture function to counties means that the funding problems associated with the function have also been transferred. Counties should be very innovative. In this regard they should devise targeted strategies on agricultural financing It is on the basis that Counties are strongly encouraged to set up County Agricultural Development Fund (CADF).
- ✓ While establishing, operational sing, setting up the organizational and management structure of the CADF, full cognizance of the successes and challenges of similar funds at national level and the underlying reasons should be taken into account. It is worth noting findings by a recent study by KIPPRA which concluded that except for the Free Primary Education Fund which stakeholders considered to have had significant impact (with over 90% of the respondents reporting positive impact), the rest of the Funds were accorded very low ratings with 50% of respondents indicating low or no impact at all-with Local Authority Transfer Fund showing the worst results. A major contributory factor to this relates to mismanagement and corruption, which in the proposed Agricultural Fund should be safe-guarded by instituting transparent and accountable financial management systems.

Purpose and Objective of the Fund

- ✓ The overall purpose and objective of the Fund is to accelerate County agricultural sector growth. The initiative will be particularly focused on the dominant smallholder sector through support of strategic interventions with high potential for enhancing productivity, value addition, quality improvements and marketing.

Key Elements and Guiding Principles of Operating the Fund

- ✓ The following is a summary of the key elements and principles that will guide the scope and utilization of the proposed Fund.
    - The Fund will cover the mainstream agricultural sector (crops, livestock and fisheries) as well as other indirectly relevant sectors.
    - To ensure sustainability, ownership, alignment and harmonization of sector support the Fund primarily financed by the County Government, but donors willing to support and accord independence of the Fund will be welcome;
    - The Fund will not be a revolving fund but will be re-financed in full by the County Government of Kenya and other interested development partners every fiscal year or topped up in the event of under-spending which is not anticipated given the huge sector needs.

Eligible Interventions

- ✓ The Fund is intended to support strategic and high return interventions which directly and indirectly have the potential to trigger growth and sector-wide impact, with special emphasis on high value products given the increasing scarcity of land.
- ✓ In other words, it should be used in supporting innovative, high growth impact interventions that guarantee value for money. This may include but not limited to the following areas:-
    - Promoting county agricultural productivity and marketing through strengthening producer organizations, streamlining and facilitating bulk

supply of inputs to farmers, pastoralists and fisher folks including fertilizers, seeds, agro-chemicals, animal breeding, animal drugs and feeds, AI services and fishing gears among others;

- Gathering, packaging and dissemination of agribusiness-related information pertaining to key elements of the value chain across various sector enterprises including but not limited to agronomic and market information;
- Development of core and high impact irrigation infrastructure such as community boreholes, dams, shallow wells and water pans;
- Developing appropriate storage, bulking and market facilities in strategic areas with potential for increased agricultural production and or marketing;
- Core value- addition infrastructural development- e.g. electricity and water facilities;
- Rural feeder roads in strategic and high potential supply and demand areas-which will focus on spot improvements and bridges and not major road works;
- Occasional subsidization of key inputs such as seeds, agro-chemicals, fertilizers, AI services, animal drugs and vaccines whenever high and sudden price hikes are experienced such as recently happened with fertilizers
- Promotion of high value agricultural, livestock and fisheries products such as oil crops, newly emerging high value crops e.g. zero grazing, aquaculture and ornamental fish farming among others;
- Cluster soil testing services for information to local farmer organizations in general and not for individual farm owners;
- Conservation of crop, livestock, fishery, water resources, infrastructure and forestry products;
- On-farm and post harvest storage and conservation facilities;
- Catchment conservation and rehabilitation;
- Pest and disease control activities

- ✓ It is recognized that capacity building of actors and entrepreneurs in the agricultural sector is weak especially among smallholder farmers and their organizations. However, this will not be supported in isolation but will be embedded in all interventions to be supported under the CADF.

Non-Eligible Interventions

- ✓ The Fund should not be used to cover the following under whatever circumstances:
  - Sector department' budget deficits;
  - Social support- oriented interventions such as famine relief and disaster management;
  - Conventional extension services;
  - Imports of inputs and agricultural products;
  - Credit provision to farmers, livestock keepers and or fisher folks-as this will be in the form of grant to the sector.
  - Research activities;
  - Direct input and output subsidies;
  - Disaster management - e.g. disease and pests outbreak;
  - Direct market promotion-including exhibitions and trade fairs;

Eligible Beneficiaries

- ✓ While the wider agricultural sector and the rest of the economy will indirectly benefit from the Fund, direct beneficiaries will be as follows.
- ✓ Sector-wide agricultural sector stakeholders with any form of innovative proposal that demonstrates potential for high growth trigger and impact of the sector, who may include but not limited to the following:
  - Agricultural input manufacturers and distributors;
  - Specialized agricultural technology and market information providers;
  - Agricultural producers (crops, livestock & fisheries)- individually or in the form of organizations from across and pertaining directly or indirectly to the entire agricultural value chains, including but not limited to the following:

    - ❖ Individual agricultural-related entrepreneurs;
    - ❖ Agribusiness Organization and or Company;
    - ❖ Common interest groups (CIGs) or Commodity groups;
    - ❖ Farmers associations;
    - ❖ Cooperative societies; and
    - ❖ Community Based Organizations.
- Agro-processor organizations; and
- Agricultural Marketing Organizations.

Eligible Proposals

✓ For a project to be eligible for financing through the Fund, the proposal must meet at least the following criteria:

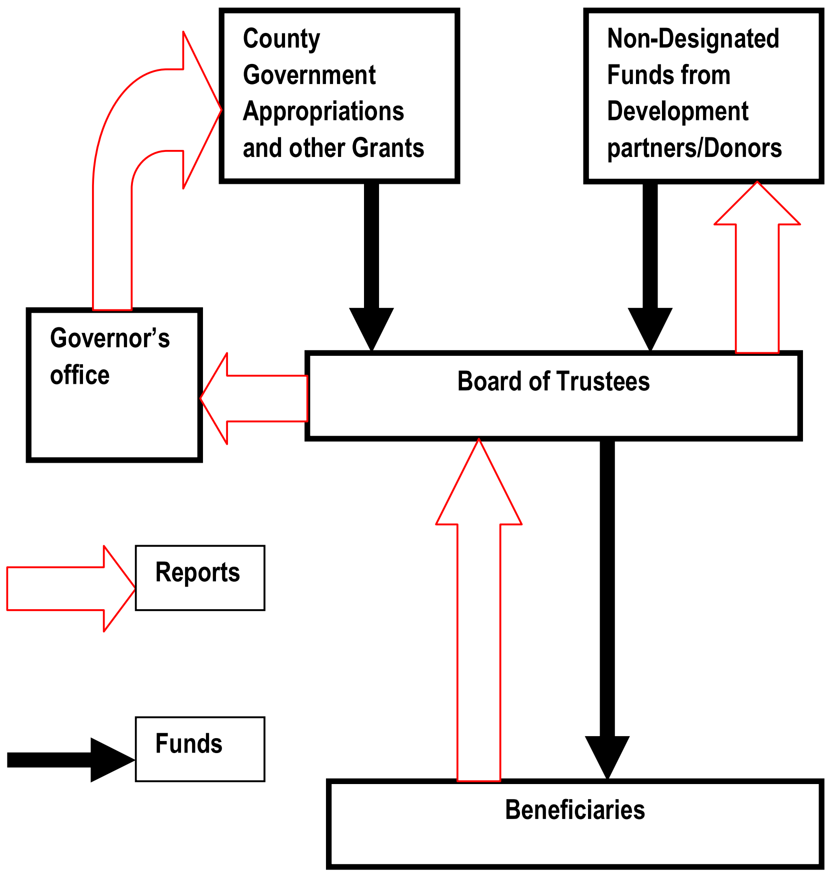
- Be innovative and demonstrate real potential triggering high and sustainable impact sector growth and welfare of the Kenya people locally or nationally;
- Be financially sound and technically feasible and demonstrates high value for money;
- Be from beneficiaries who have or can within a reasonable time acquire the necessary capacities to satisfactorily implement its activities;
- Have a coherent and effective design framework;
- Demonstrates the use proven and appropriate resource conservation practices and methods;
- Be based on reasonable inputs and unit costs;
- Be based on realistic economic and financial analysis;
- Have identified potential environmental impacts and include appropriate mitigation plans;
- Demonstrate sustainability of activities after project funding is completed.

Fund Size

✓ It is proposed that the size of the Fund be set at an average of 5 %of total County Government budget

Funding Mechanisms

- ✓ To ensure sustainability and ownership, the County Government will bear 100% responsibility of financing the Fund, but development partners and other well-wishers wanting to inject non-designated funds into the kitty will be welcome.
- ✓ The Fund will not be a revolving fund but will be re-financed in full by the County Government of Kenya every fiscal year or topped up in the event of under-spending which is not anticipated given the huge sector needs. The proposed funding mechanism is as depicted below:



Funding Thresholds

- ✓ The Board of Trustees of the Fund will have the discretion to determine the size of individual projects to be funded and whether the beneficiaries will be required to co-finance the projects.

- ✓ Application of such discretion will have to be equitable and transparent among all beneficiaries. At the inception of the fund, the trustees will prepare a project implementation manual that will highlight all the rules and procedures governing the fund.

Organization and Management Of The Fund

- ✓ In order to operationalise the fund the Governor should be appoint a Board of Trustees. The Trustees will set up the Fund Secretariat (FS), which shall manage the Fund as per mandate.
- ✓ Whilst the FS shall be based at the County Headquarters, it will establish an outreach system linked to the sub-county Structures to ensure equitable distribution of funded projects across the county.

Project Outreach

- ✓ The Fund cannot succeed without a thorough understanding by all actors involved of the existence and mandate of the fund. The Fund will therefore design an outreach program through to ensure that all eligible beneficiaries are reached.

The Board of Trustees

- ✓ The Board will provide strategic guidance and oversight for the Fund and ensuring funding activities are consistent with County Objectives. Besides, it will approve annual work plans and budgets. Moreover, it will review and approve projects submitted by the FS for funding. In addition, the Board will review and adopt reports prepared by the FS. Furthermore, the Board will review and adopt financial and operational audits and impact assessments (prepared by independent consultants]. Finally, the Board will address any major problem affecting the fund management

Sub-County Advisory Committee

- ✓ The Committee will undertake the following functions:-
    - Link between the Trustees and beneficiaries at the local level
    - Outreach and awareness creation of the fund mandate and eligibility criteria to local beneficiary communities

- Reviews project proposals as to whether they comply with basic eligibility requirements.
- Carries out technical reviews including technical recommendations to the FS
- Monitoring of project implementation at the local level
- Receive and review project progress reports.
- Follow up on any project implementation issues at the local level

Fund Secretariat

✓ The Fund Secretariat will have a lean structure and will be headed by a Chief Executive Officer appointed by the Governor. The FS will undertake the following tasks:

- Establish, based on the procedures manual the operational procedures for disbursing funds to the beneficiary institutions;
- Establish administrative procedures and controls, enabling effective funds monitoring and control;
- Screening the received applications and presenting a "scoring list" to the technical appraisal committee;
- Ensure that the review and selection process of projects are in accordance with procedures specified in this manual;
- Set up internal accounting and develop formats for financial and progress reporting, according to County requirements;
- Develop accounting and reporting instructions for grant beneficiaries;
- Disbursement of funds based on project progress and justification of expenditures made;
- Monitoring of activities, and support beneficiaries in expenditure accounting, financial and activity reporting;
- Internal auditing;
- Account for fund expenditures and prepare progress and expenditure reports as required;
- Financial management;

- Quantitative oversight of contracts for implementing projects; and
- Procurement of goods and services.

Application for Funding and Disbursement Procedures

- ✓ The County Agriculture Development Fund should be used to channel financial resources to implement project activities to be identified, prepared, and implemented by beneficiary groups, including farmers, community-based groups, as well as private sector operators.
- ✓ The fund is not a competitive fund and neither is it a social fund and funding will be based on technical feasibility of the projects and compliance with the eligibility criteria. From time to time the Trustees may set out application and eligibility rules as long as these rules are not prohibitive to accessibility of funds by eligible beneficiaries. Such rules should be widely publicized and be available for scrutiny by the public.

Financial Management Arrangements

- ✓ The FS would be responsible for project financial management, including the preparation and production of the annual financial statements, in accordance with internationally accepted accounting principles as well as making arrangements for their certification by a competent and experienced audit firm under terms and conditions acceptable to Auditor General.
- ✓ The FS would also monitor all disbursements under the project and ensure that they are made in conformity with procurement guidelines. Beneficiary groups would submit to FS annual and quarterly reports on the progress of implementation of their respective projects. The project financial management system would be reviewed in compliance with the established financial management systems. The financing modalities will be guided by the national financial regulations and procurement guidelines. Some general principles to be adhered to in financial management include:
  - The FS will enter into a contract with each beneficiary

- In case of lack of accountability, action in accordance with county procedures will be taken and further funding to beneficiary may be put on hold till the issue is solved.
- Financial management and administration responsibility will be held at the beneficiary level, where each beneficiary will be individually responsible for managing and accounting for the funds received.
- In disbursing funds to the beneficiaries, the FS will ensure that the conditions of the financing agreement are adhered to; and that the objectives of the Fund are being realized. It is necessary to ensure that these beneficiaries have financial management and administrative systems, including accounting and procurement systems that comply with accepted practices and standards.
- A pre-disbursement studyof the financial management capability of the beneficiary institutions will be carried out by the FS, with the objective to:
    - ❖ Assess the financial management and control systems, including accounting systems;
    - ❖ Assess whether procurement systems comply with best procurement practice; and

Monitoring and Evaluation Systems

- ✓ Monitoring is a process of systematic collection, analysis and use of data to improve project performance. Outputs and use of these data in the short term will serve as an important management tool to guide fund management and implementation at all levels.
- ✓ In the case of the CADF, it will be characterized by a rapid feedback from management to operational levels to address issues arising from the analysis of monitoring information.
- ✓ The highly decentralized implementation mechanism envisaged in the CADF requires a solid system for monitoring and evaluation. The sound monitoring system through systematized data collection and analysis would provide a

significant guide for the program implementation unit. The primary objectives of monitoring the implementation of CADF projects are:

- ❖ Systematic collection and analysis of project information which would help the implementation unit evaluate the progress vis-à-vis target indicators and enable timely intervention;
- ❖ To obtain adequate and balanced knowledge on the progress in the field which would provide a solid foundation for future planning; and
- ❖ To achieve efficient and effective use of project resources based on the accurate information on the field.

- ✓ In addition to the above, it is important to establish a solid system to ensure that the adequate environmental mitigation measures are set in place. Considering the long-term implementation period envisaged in CADF, a strong impact evaluation system is essential.

Proposal for the County Legal Framework

- ✓ Institutions are social constructions and as such they are very endogenous. They are constructed continuously through either conscious efforts, or unintentional events or both. For these reasons, there cannot be a universally applicable structure to all situations.
- ✓ However, there are certain common features which could be outlined based on the make-up of the project's setting, its institutions, and prevailing economic and social trends. There are some key features that must be borne in mind:
  - (a) the institutional framework must facilitate decision-making and co-ordination between individuals so as to reduce uncertainty;
  - (b) the institution should provide incentives;
  - (c) The institution should be explicit on how resources will be distributed because ownership and access to thereto influence how institutions act and develop.
- ✓ An institutional framework compatible with a sustainable and equitable agricultural intervention should have a well defined and transparent system

of allocating rights and responsibilities including procedures to monitor and enforce agreements, and an effective and efficient structure that has networks, coordinating bodies, and secondary organizations that facilitate collective action and reduce transaction costs.

- ✓ We need to bear in mind that institutions are not free goods. They are costly to establish, reform, monitor, and empower. There will be need for operational mechanisms to evaluate and compare the effectiveness and efficiency of the institutional arrangements. Regardless of the arrangements, it must be "validated" through some participatory system that ensures sustainability.
- ✓ Based on the foregoing premise, an appropriate institutional framework should avoid:-
  - costs of maintaining vast centralized bureaucracies,
  - costs resulting from duplication of efforts due to lack of co-ordination between programmes and sectors,
  - poor intervention targets,
  - paternalistic and authoritarian approach that may undermine the self-confidence of beneficiaries,
  - a fragmented and myopic conceptual approach that ignores the complementary and interdependent needs of the beneficiaries, and
  - Avoid a top-down approach that may create legitimacy problems for the institution.
- ✓ Since the process of formulating and implementing policy is complex, and more particularly in a sector as vast and yet critical as agriculture, attention must be given not only to the institutional structure, but also to the behavior of the social actors who will inevitably interact with these structures. It is such behavior that constitutes governance and governance is going to be a central concept that should be part of any institutional structure of CADF.
- ✓ Secondly in a sector that is as dynamic as agriculture, a legal structure for agricultural intervention should be capable of adjusting to circumstances and

must have consensus support. The policy formulation process itself needs to be open and transparent so that all those who will be affected in one way or other can express their opinion on decisions. It is greater transparency and a structure of clear rules instead of discretionarily that will address any governance concerns.

- ✓ It is for these reasons that the CADF institutional structures should:
  - **(a)** Be inclusive: any approach that ignores the key actors, their interests, conflicts and preferences will have difficulty achieving success.
  - **(b)** Respect for rural actors: intervention will primarily be in rural Kenya. The rural actors must be respected in the institutional set-up while at the same time observing and enforcing established rules.
  - **(c)** Have a network of organizations: that will facilitate collective action and reduce transaction costs between different actors.
  - **(d)** Reduce information asymmetry problems:since information will be crucial to building a more solid, effective and legitimate institutions with clear links between national and local arrangements.
- ✓ It will be indispensable that potential beneficiaries participate in the selection, design, preparation and implementation of specific intervention programmes/projects. This will ensure that the intervention actually addresses the specific needs and increases local ownership and responsibility for the actions undertaken.
- ✓ The mechanisms for intervention targeting should be explicit and verifiable and based on objective criteria. The institutional approach should seek to strike a balance between the need for flexible institutions that can adopt to the conditions of a particular environment, and the need for solid and stable institutions.
- ✓ Flow of information between the institution and the beneficiaries will undoubtedly alleviate any tension that might arise between flexibility and serious attention will need to be given to decentralization which I consider a response to not only democratization but also recognition that bodies at national level at times lack the capacity to deal with the challenges of rural

development. Transfer of responsibilities to regional and rural bodies will be justifiable in terms of efficiency and equity.

- ✓ Functions that can be carried out at less cost with higher quality and more participation should be preferred in the institutional set-up. Decentralization, both in fiscal realm and in regard to decision-making on intervention targets directed at regional/local level will be essential in order to ensure institutional management that is more efficient and more transparent to local beneficiaries.
- ✓ Decentralization must however be supplemented by measures and mechanisms to enhance co-ordination with the national bodies both to ensure consistency between national and regional/local policy, and also to prevent the risk of strategic local allocation based on local power structure working to the detriment of the target beneficiaries.