PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA48380

Project Name	National Agricultural and Rural Inclusive Growth Project (P153349)
Region	AFRICA
Country	Kenya
Sector(s)	General agriculture, fishing and forestry sector (60%), Sub-national government administration (20%), Agro-industry, marketing, and trade (10%), Public administration- Other social services (10%)
Theme(s)	Rural services and infrastructure (40%), Social Inclusion (30%), Micro, Small and Medium Enterprise support (30%)
Lending Instrument	Investment Project Financing
Project ID	P153349
Borrower(s)	The National Treasury
Implementing Agency	Ministry of Devolution & National Planning
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	11-Feb-2016
Date PID Approved/Disclosed	11-Feb-2016
Estimated Date of Appraisal Completion	12-Feb-2016
Estimated Date of Board Approval	28-Apr-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Although poverty rates in Kenya seem to have fallen, formidable challenges to reducing poverty remain, particularly in rural areas. Poverty reduction has been driven by solid growth across most of the sectors of the economy, together with some improvements in social safety nets targeting the poor and continuing migration to urban areas—especially metropolitan Nairobi—that offer better job prospects (albeit largely in the informal sector), as well as easier access to health and education services. Kenya’s poverty rate fell from 47 percent in 2005/06 to about 39 percent based on best estimates in 2012/13. But improvements in income are not evenly shared amongst people or regions, and inequality appears to be rising.

Revised poverty estimates indicate that nearly 4 in 10 Kenyans continue to live in extreme poverty. Poverty levels are highest in the Arid and Semi-Arid Lands (ASALs). In the remote, arid, sparsely populated northeastern parts of the country (Turkana, Mandera, and Wajir), poverty rates are above 80 percent. In ASALs, agro-climatic shocks impact vulnerable livelihoods that depend on livestock and low-productivity agricultural activities; and people's assets, including their educational opportunity and achievement, are very limited. The populations in the western and coastal parts of the country benefit from better natural resource endowments, but the poor remain especially prone to contracting insect- and water-borne diseases, and agricultural potential is limited by the effects of flood-induced land degradation in certain rural areas.

The scale of consumption poverty in Kenya is staggering, and is concentrated in rural areas. Based on the last national household budget survey, close to half of the population (nearly 17 million Kenyans) was poor in 2005. The vast majority of the poor lived in rural areas and were more likely to depend on income and consumption from crops and livestock as a source of livelihood. To successfully tackle poverty, the difficulties of low-income rural communities must be addressed as well as the distinct problems of urban poverty, which also encompasses secondary cities.

Vulnerable groups in rural areas bear the highest incidence of poverty, depending on how well they have been prepositioned to face shocks. Social exclusion creates vulnerability, particularly among women and youth. Lack of stable income, secure shelter, access to information and communication technologies (ICT), and knowledge and education as well as isolation from markets and job scarcity act as drivers of the social exclusion and lack of prosperity that rural families experience. In agriculture, women comprise more than 70 percent of the labor force, yet they own less than 5 percent of agricultural land titles. In terms of non-agricultural employment, only 29 percent of those earning a formal wage are women and female youth are twice as likely to be unemployed as female adults.

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In August 2010, Kenya adopted a new Constitution framed to provide a more equitable, prosperous, and inclusive future for its citizens. The Constitution is designed to address disparities and historical patterns of marginalization by creating a two-tiered system of central and county government. Under this system, the central government is devolving responsibility for multiple functions to 47 elected county governments, and providing a minimum of 15 percent of national revenues to counties to carry them out. Multiple functions were transferred to counties in the first six months of their existence (August 2013). The main functions for agriculture were transferred in August 2013.

The Constitution and the Government of Kenya's (GoK) ambitious devolution process bring new opportunities as well as challenges for: increasing agricultural productivity, employment opportunities, and food security; enhancing poverty reduction efforts; and improving governance. Counties now play the primary on-the-ground role in delivering agricultural services previously managed by the central government, while the latter retains a policy-making and research role. So far, the devolution process has yielded mixed performance, with some counties able to deliver on their mandates, while others struggle. However, this is not unexpected, given the speed and scale of Kenya's devolution relative to decentralization processes in many other countries. There is a major need, and window of opportunity, to support counties to put in place institutional structures, mechanisms, and human resources to deliver on their mandates. Many counties are looking for mechanisms, such as communi ty-led development programs, that can help to mobilize their citizens and deliver quality advisory services.

Sectoral and institutional Context

Agriculture is a major driver of the Kenyan economy and the dominant source of employment for roughly half of the Kenyan people. In 2013, the sector contributed almost 27 percent to the national gross domestic product (GDP). The crops, livestock, and fisheries subsectors contribute approximately 78 percent, 20 percent, and 2 percent to agricultural GDP, respectively (GoK 2013). The sector generates most of the country's food requirements, nearly two-thirds (65 percent) of merchandise exports, and roughly 60 percent of foreign exchange earnings. But with almost 91 percent of those exports in raw or semi-processed form, the country foregoes significant income by not adding value to its produce. The sector employs over four-fifths of Kenya's rural work force and accounts for more than one-fifth of formal employment. It therefore plays a key role in poverty reduction.

In Kenya, about 83 percent of land area is in the ASALs, which are mainly pastoral areas; only 17 percent (where 80 percent of the population lives) is classified as medium to high agricultural potential zone. Kenya's farms are small and for the most part are getting smaller, a major concern. Small farms face an uncertain and potentially untenable future, involving major dislocations, the steady migration of young people to urban areas, and increasingly frequent and severe poverty-related food crises. About 87 percent of farms operate less than 2 hectares; 67 percent operate less than 1 hectare. But the smallest 20 percent of farmers generate 57 percent of their income from farming activities. Thus agricultural intensification and diversification are necessary for sustaining growth. Agriculture is also an increasingly female domain, as greater numbers of women are managing farms on their own; and the sector is needed to provide livelihoods for a burgeoning youth population.

Overall, Kenya's agriculture sector performance has been highly volatile, with growth rates dipping into negative territory in nine years between 1980 and 2012. The agricultural growth rate averaged 3.4 percent between 1995 and 2003 and decreased to an average of 2.1 percent during the 2003-2011 period. After decades of lackluster performance, agriculture began to revive in 2005. Annual growth rates for agriculture between 2005 and 2012 averaged 4.27 percent. The greatest production growth over this period was seen in fresh fruits and vegetables and, to a lesser extent, maize and dairy. Most other commodities, including tea, coffee, livestock, sugar, and oilseeds, experienced sluggish growth, yet hold much potential. But recent years have witnessed increased volatility in agricultural growth rates, with debilitating impacts on rural households' incomes and employment, urban and rural food security, poverty reduction, and the country's overall economic growth. The sector's real gross value-added growth decelerated in 2013 to 2.9 percent from a revised growth of 4.2 percent in 2012. The lowest agricultural GDP growth rate and value-added agricultural GDP were noted in 2008, when Kenya experienced post-election violence following the country's 2007 general elections.

Kenya's structural food deficit, high food prices, poor food distribution systems (even in times of plenty), high level of exposure to the effects of climate change, and emerging social and demographic patterns contribute to food insecurity and poor nutritional outcomes. More than 40 percent of Kenyans lack sufficient food on a daily basis. At the same time, more than 60 percent of households are net buyers of maize (the national staple). At any given time, at least 10 million Kenyans are estimated to suffer from chronic food insecurity and poor nutrition. When natural disaster strikes, the number of people in need of food aid almost doubles. Children in rural areas and from poorer households are more likely to be malnourished. Thirty-five percent of children under five will have permanent physical and mental limitations because of stunting.

Management of natural resources, particularly soil and water, is critical to improving agricultural productivity and the well-being of rural communities. Kenya's growth prospects and main economic activities, especially agriculture, hydro-power generation, and water supply, are strongly linked to the country's environment and natural resource base. However, catchment areas in Kenya have undergone extensive environmental degradation, particularly due to poor farming practices and deforestation, resulting in the loss of nutrients/soil fertility, and siltation of rivers, reservoirs, and irrigation canals, which in turn exacerbates flooding and vulnerability. Pressures on land and natural resources across the ASALs, where 60 percent of livestock production is based, are increasing. Livestock productivity is also rapidly declining, but this trend could be reversed and livestock production could become more sustainable and stable through investments in sustainable land management (SLM) practices.

Low levels of private investment in primary production (subsistence commercial-oriented agriculture) and value addition, coupled with poor rural infrastructure such as small-scale irrigation, roads, marketing, and storage, are binding constraints to the sector’s growth. The country’s inland areas are largely arid, with two-thirds of the country receiving less than 500 mm of rainfall per year. Despite this, Kenyan agriculture is mainly rainfed (98 percent), and thus very vulnerable to increasing temperatures, droughts, and floods, which reduce agricultural productivity. Kenya also experiences extreme weather variability, which can result in more intensive rainfall over a shorter season and greater risk of soil erosion.

The proposed National Agricultural and Rural Inclusive Growth Project (NARIGP) aims at helping GoK to address the above main constraints to increasing agricultural production and productivity using community participatory and value chain approaches. Kenya has significant experience in supporting community-led agricultural and rural development, and citizen-centered governance gained from implementing the Western Kenya Community-Driven Development and Flood Mitigation Project (WKCDD&FMP) and the Kenya Agricultural Productivity and Agribusiness Project (KAPAP). These projects have demonstrated new approaches to mobilizing communities and organizing smallholder farmers to participate in agricultural value chains, respectively. Thus NARIGP is integrating and up-scaling the Participatory Integrated Community Development (PICD) and Contracted Extension Service Delivery Model & Value Chain Development (CESDM&VCD) approaches developed and successfully implemented under the WKCDD&FMP and KAPAP, respectively. Specifically, the PICD will help build community-level institutions by mobilizing smallholder farmers into self-selected common interest groups (CIGs) along their priority value chains (VCs); while the CESDM&VCD approach will provide technical, business, and financial advisory services, and will link CIGs to producer organizations (POs) for value addition and access to markets and rural finance or credit. Experience thus far suggests that unlike top-down approaches, effective community-level planning and execution encourages innovative development solutions that reflect local priorities.

II. Proposed Development Objectives

The proposed development objective is to increase agricultural productivity and profitability of targeted rural communities in selected counties.

III. Project Description

Component Name

Supporting Community-Driven Development

Comments (optional)

The overall objective of this component is to strengthen: (i) community-level institutions' ability to identify and implement investments that improve their agricultural productivity, food security, and nutritional status; and (ii) linkages to selected value chains (VCs) and producer organizations (POs).

Component Name

Strenghtening Producer Organizations and Value Chain Development

Comments (optional)

The objective of this component is to build producer organizations (POs) capacity to support member common interest groups (CIGs) and vulnerable and marginalized groups (VMGs) to develop selected priority value chains (VCs) in targeted rural communities. Under Component 2, CIGs and VMGs formed under Component 1 and facilitated to federate into POs will be strengthened to become viable and profitable, and attractive not only to existing and additional members, but also to business partners in input, output, and service markets.

Component Name

Supporting County Community-Led Development

Comments (optional)

The objective of this component is to strengthen the capacity of county governments to support community-led development initiatives identified under Components 1 and 2. This includes: provision of technical advisory services (e.g., public extension services); supervision of service providers (SPs); creation of an enabling environment for the private sector and public private partnerships (PPPs) to operate; and financing of inter-community (e.g., catchment or landscape-wide and larger rural infrastructure) investments based on priorities, as well as employment programs related to operations and maintenance (O&M) of these investments.

Component Name

Project Coordination and Management

Comments (optional)

This component will finance activities related to national and county-level project coordination, including planning, fiduciary (financial management and procurement) and human resources (HR) management, safeguards compliance and monitoring, development of the management information system (MIS), and information and communication technology (ICT), regular monitoring and evaluation (M&E), impact evaluation, and communication and citizen engagement. In addition, in the event of a national disaster affecting the agriculture sector, the project through this component would respond via a built-in contingency emergency response facility.

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IV. Financing *(in USD Million)*

Total Project Cost:	219.00	Total Bank Financing:	200.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
BORROWER/RECIPIENT	19.00
International Development Association (IDA)	200.00
Total	219.00

V. Implementation

Implementation of NARIGP will involve a three-tier institutional arrangement (national, county and community). Under the first-tier at national level, the NT will represent the Government, and the Ministry of Devolution and Planning (MoDP) will be the main implementing agency. Within the MoDP, the project will be anchored in the State Department of Planning and Statistics (SDPS). The second tier will be the county level, with the county governments as the executing agencies of the project. The third tier will be the community level, where beneficiaries will implement their community-led interventions. The three-tier institutional arrangement aims to: (a) lessen the approval layers for faster decision-making and efficient project implementation; and (b) utilize the constitutionally mandated governance structures at the national and county levels, to the extent possible. To enhance linkages and ownership of the project, the participating county governments will be fully involved in the decision-making process at the national level as they will be represented in the National Project Steering Committee (NPSC) and the National Technical Advisory Committee (NTAC) by the Chair of the Council of Governors (CoGs) and the Chief Executive Officer of CoGs, respectively. In addition, county governments through county steering committees will be responsible for the decision-making/approving micro-projects and providing oversight at county and community levels.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

Given the nature of the proposed interventions with specific micro-project designs and locations not known at the time of project preparation, the project will take a framework approach to managing safeguards. There are three framework reports that have been developed and disclosed by the Government of Kenya (GoK):

a) Environmental and Social Management Framework (ESMF);
b) Resettlement Policy Framework (RPF); and
c) Vulnerable and Marginalized Group Framework (VGMF).

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